

Scobie Industrial Partners, LLC Cost-Benefit Analysis

Prepared by:



Prepared For:
City of Newburgh IDA

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Executive Summary

The City of Newburgh Industrial Development Agency (the “Agency”) received an application for financial assistance from Scobie Industrial Partners, LLC (the “Applicant”) related to a proposed project located at 5 Scobie Drive in the City of Newburgh (the “Site”). The proposed project includes the construction of a 125,000 square foot speculative Class A industrial warehouse building on 15 acres of land (the “Project”). The Agency requested an economic and fiscal impact analysis from MRB Group to assess the benefits and costs of the Project on the City of Newburgh (the “City”) and other jurisdictions as part of the Agency’s deliberations.

MRB Group assessed the Project for both one-time construction impacts and ongoing impacts of operations. The economic impacts considered in this analysis include direct and indirect changes to jobs, wages, and sales associated with the construction of the industrial building. There will also be ongoing economic impacts associated with the anticipated employment at the proposed Site. The fiscal impacts of the Project include one-time and ongoing new tax revenue as well as the presumed costs of the financial assistance under consideration by the Agency.

Using an estimate of locally-sourced labor and materials, we were able to assess the one-time economic impact.¹ The construction phase of the Project will produce approximately 23 direct, on-site local construction jobs and 12 indirect jobs. Combining direct and indirect impacts, the construction phase of the Project will create 35 jobs that generate \$2.9 million in wages. Using anticipated on-site employment estimates provided by the Developer, we estimate the operations of the Site will result in 24 jobs earning \$1.9 million in wages on an annual basis.

Summary of Economic Impacts

	Direct	Indirect	Total
Construction Jobs	23	12	35
Construction Wages	\$2,132,893	\$729,938	\$2,862,830
Ongoing Jobs	20	4	24
Ongoing Wages	\$1,600,000	\$277,622	\$1,877,622

Source: Lightcast, MRB

In terms of fiscal benefits, we estimate that that County will benefit from additional, one-time sales tax revenue of \$18,787 associated with the construction wages earned during the Site’s renovation and construction. Upon completion of the Project, we estimate the County will benefit from the additional sales tax revenue of \$220,955 over the 15-year PILOT term related to the new wages being earned from

¹ Note that the direct and indirect “Construction Jobs” and “Construction Wages” shown are with respect to Orange County (the “County”), as such jobs tend to be pulled from a larger labor shed. The direct and indirect “Ongoing Jobs” and “Ongoing Wages” shown are with respect to the City.

ongoing jobs. Under the proposed PILOT terms, we estimate the Project will generate an increase of \$1.7 million in additional property tax revenue over the current taxes for the County, City, and school district.

In terms of costs of the Project, the Applicant has requested a sales tax exemption and a mortgage recording tax exemption. The estimated cost of the sales tax exemption is \$914,625, the local portion of which is \$422,135. The cost of the mortgage recording tax exemption is \$212,310, the local portion of which is \$101,100.

The proposed PILOT schedule includes net total exemptions of \$2.4 million over 15 years based on a 2.5% escalation rate.²

Summary of Fiscal Benefits, Local Government

Source	Total
Sales Tax, Construction, One-time	\$18,787
Sales Tax, Operations, 15 Years	\$220,955
Increase in Property Tax Revenue, 15 Years	\$1,652,754

Source: Lightcast, Applicant, MRB

Summary of Exemptions, Local Government

	Total
Cost of Sales Tax Exemption, One-Time	\$422,135
Mortgage Recording Tax Exemption	\$101,100
PILOT Exemption, 15 Years	\$2,395,955

Source: Lightcast, Applicant, MRB

² These costs are theoretical by nature as the Applicant has stated the Project will not move forward absent IDA assistance.

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Introduction

The City of Newburgh Industrial Development Agency received an application for financial assistance from Scobie Industrial Partners, LLC related to a proposed project located at 5 Scobie Drive in the City of Newburgh. The proposed project includes the construction of a 125,000 square foot speculative Class A industrial warehouse building on 15 acres of land. The Agency requested an economic and fiscal impact analysis from MRB Group to assess the benefits and costs of the Project on the City of Newburgh and other jurisdictions as part of the Agency's deliberations.

MRB Group assessed the Project for both one-time construction impacts and ongoing impacts of operations. The economic impacts considered in this analysis include direct and indirect changes to jobs, wages, and sales associated with the construction of the industrial building. There will also be ongoing economic impacts associated with the anticipated employment at the proposed Site. The fiscal impacts of the Project include one-time and ongoing new tax revenue as well as the presumed costs of the financial assistance under consideration by the Agency.

Economic Impact Analysis

The Project would have economic impacts on the County and City in several ways. Economic impacts include one-time effects on jobs, earnings and sales during the construction phase of the Project, which we estimate for the entire County. It also includes ongoing impacts related to the operations of the Project, which we estimate for the City.³

Methodology

Both one-time, construction-phase impacts and ongoing, operation-phase impacts have "Direct" and "Indirect" components. For the construction phase:

- Direct: Jobs, wages, and sales that occur on-site related to labor and materials used in the construction of the Project.
- Indirect: Jobs, wages, and sales caused by the Direct impacts, and result from business-to-business purchases (e.g., a contractor buying a piece of equipment from a dealer) and from employees spending a portion of their wages locally.

For the operation phase:

- Direct: Jobs, wages, and sales created from the operations of the Project (e.g., on-site employment).
- Indirect: Jobs, wages, and sales caused by the Direct impact, such as business-to-business purchases and employees of such businesses spending a portion of their wages locally.

To estimate the Direct and Indirect impacts, MRB Group employs the Lightcast⁴ economic modeling system. We used data from the Applicant and publicly available and proprietary data sources as inputs to the Lightcast modeling system. Where needed, we adjusted the Lightcast model to best match the Project specifics. We then reported the results of the modeling.

³ By their nature, construction-related impacts tend to be somewhat more diffuse, which is why we report them as County-level impacts. City-level impacts are measured based on ZIP code 12550, which is the closest approximation available of the City. A map of ZIP Code 12550 in relation to the City's boundaries is included in the Appendix.

⁴ Lightcast, formerly "Economic Modeling Systems, Intl.," uses data from the US Bureau of Labor Statistics, the US Bureau of Economic Analysis, the US Census, and other public data sources to model out economic impacts.

Construction Phase

The Project will require approximately \$22.5 million to construct the Site into the proposed industrial facility.⁵ According to the Developer, approximately 25% of the total, or \$5.6 million, in materials and labor will be sourced within Orange County.⁶

We estimate construction spending of \$5.6 million (direct “Sales” in the second table) in Orange County as an input into the Lightcast economic modeling system. In our Lightcast model, this level of local spending will yield approximately 23 direct construction jobs earning \$2.1 million direct earnings. We then modeled indirect impacts from direct sales, resulting in an expected 12 new indirect jobs, \$729,938 in new earnings, and \$2.2 million in sales. Combining direct and indirect impacts, the total one-time construction-phase impacts would be 35 jobs, \$2.9 million in wages, and \$7.9 million in sales.

Local Construction Spending

	\$ Value	Local Spend %	Local Spend
Materials & Labor	\$22,500,000	25%	\$5,625,000

Source: Applicant, MRB

Economic Impact of Construction Phase, One-Time

	Direct	Indirect	Total
Jobs	23	12	35
Earnings	\$2,132,893	\$729,938	\$2,862,830
Sales	\$5,625,000	\$2,233,943	\$7,858,943

Source: Lightcast, MRB

⁵ Total project costs of \$26.3 million less land acquisition, engineering, and financing costs.

⁶ The Developer has indicated a preference to source local materials and labor to the full extent possible. For purposes of being conservative, the Developer currently estimates 25% of materials and labor costs will be spent in the County.

Operation Phase

An essential distinction between construction and operation phase impacts is the geographic level at which impacts are measured. Primarily driven by ongoing employment at the Site, operational impacts are more localized relative to the County-level construction impacts. Because of this, we consider the economic impact of the operation phase at the City level. In this case, we used ZIP code 12550 to approximate the City’s boundaries, as ZIP codes are the smallest unit of geography considered in our economic modeling system (see Appendix.)

Ongoing Employment

Because the Project is a speculative build, the Applicant provided an estimate of anticipated employment at the Site based on industry-standard averages of square feet-per-employee for recent comparable developments. Given the size of the Project, the Applicant anticipates at least 20 full-time employees earning an average of \$80,000.

Ongoing Employment at the Site

Jobs	Count	Average Salary	Total
Full-Time	20	\$80,000	\$1,600,000

Source: Applicant

We used salary estimates and job counts provided by the Applicant to estimate \$1.6 million in annual earnings paid to the 20 FTE employees. Our Lightcast model estimated the total impact of the Project would be 24 jobs, \$1.9 million in earnings, and \$3.9 million in sales.

Economic Impact of Onsite Employment

	Direct	Indirect	Total
Jobs	20	4	24
Earnings	\$1,600,000	\$277,622	\$1,877,622
Sales	\$3,200,924	\$735,936	\$3,936,860

Source: Lightcast, MRB

Fiscal Impact Analysis

The Project would also have fiscal impacts in terms of various new tax revenues as described below.

PILOT Schedule

The table on the following page displays the Applicant's proposed PILOT schedule. The Applicant is proposing a 15-year PILOT term that abates 100% of the Project's improvement value for the first two years, then abates a decreasing portion of the improvement value until the Property is fully taxable in Year 16. The Site is currently assessed at \$791,800 which is used to calculate the "Base Taxes." The Future Assessed Value of the Site was estimated to be \$7.6 million, according to a local assessor. The "Improvement Value" is the difference between the current and future assessed value. The "Improvement Taxes" are the taxes generated with respect to the abated portion of the improvement value. The PILOT payments are the sum of the "Base Taxes" and the "Improvement Taxes." Over 15 years, under the proposed PILOT terms, the Project will generate \$1.7 million property tax revenue.

Proposed PILOT Schedule

Year	Current AV	Future AV	Improvement Value	% Abatement	Tax Rate	Improvement Taxes	Base Taxes	PILOT
Year 1	\$791,800	\$7,600,000	\$6,808,200	100%	33.0518	\$0	\$26,170	\$26,170
Year 2	\$791,800	\$7,600,000	\$6,808,200	100%	33.8780	\$0	\$26,825	\$26,825
Year 3	\$791,800	\$7,600,000	\$6,808,200	85%	34.7250	\$35,462	\$27,495	\$62,957
Year 4	\$791,800	\$7,600,000	\$6,808,200	85%	35.5931	\$36,349	\$28,183	\$64,531
Year 5	\$791,800	\$7,600,000	\$6,808,200	85%	36.4829	\$37,257	\$28,887	\$66,145
Year 6	\$791,800	\$7,600,000	\$6,808,200	75%	37.3950	\$63,648	\$29,609	\$93,258
Year 7	\$791,800	\$7,600,000	\$6,808,200	75%	38.3299	\$65,239	\$30,350	\$95,589
Year 8	\$791,800	\$7,600,000	\$6,808,200	75%	39.2881	\$66,870	\$31,108	\$97,979
Year 9	\$791,800	\$7,600,000	\$6,808,200	65%	40.2703	\$95,959	\$31,886	\$127,845
Year 10	\$791,800	\$7,600,000	\$6,808,200	65%	41.2771	\$98,358	\$32,683	\$131,041
Year 11	\$791,800	\$7,600,000	\$6,808,200	65%	42.3090	\$100,817	\$33,500	\$134,317
Year 12	\$791,800	\$7,600,000	\$6,808,200	55%	43.3668	\$132,862	\$34,338	\$167,200
Year 13	\$791,800	\$7,600,000	\$6,808,200	55%	44.4509	\$136,184	\$35,196	\$171,380
Year 14	\$791,800	\$7,600,000	\$6,808,200	55%	45.5622	\$139,588	\$36,076	\$175,665
Year 15	\$791,800	\$7,600,000	\$6,808,200	45%	46.7013	\$174,873	\$36,978	\$211,851
Total						\$1,183,468	\$469,285	\$1,652,754

Source: Applicant; MRB

Increase in Property Tax Revenue

The table below estimates the increase in property tax revenue the Site will generate under the proposed PILOT terms compared to the current taxes. The Site is currently owned by the Agency and does not generate property tax revenue. Therefore, the increase in property tax revenue is equal to the PILOT payments. We estimate the requested PILOT abatement would generate \$1.7 million in property tax revenue over 15 years.

Increase in Property Tax Revenue

Year	Improvement Taxes	Base Taxes	PILOT
Year 1	\$0	\$26,170	\$26,170
Year 2	\$0	\$26,825	\$26,825
Year 3	\$35,462	\$27,495	\$62,957
Year 4	\$36,349	\$28,183	\$64,531
Year 5	\$37,257	\$28,887	\$66,145
Year 6	\$63,648	\$29,609	\$93,258
Year 7	\$65,239	\$30,350	\$95,589
Year 8	\$66,870	\$31,108	\$97,979
Year 9	\$95,959	\$31,886	\$127,845
Year 10	\$98,358	\$32,683	\$131,041
Year 11	\$100,817	\$33,500	\$134,317
Year 12	\$132,862	\$34,338	\$167,200
Year 13	\$136,184	\$35,196	\$171,380
Year 14	\$139,588	\$36,076	\$175,665
Year 15	\$174,873	\$36,978	\$211,851
Total	\$1,183,468	\$469,285	\$1,652,754

Source: Applicant; MRB

Sales Tax Revenue, Construction Phase

As our economic impact analysis states, we anticipate approximately \$2.9 million in direct and indirect earnings in the County will be generated during the Project's construction phase. We assume 70% of the newly generated earnings will be spent in Orange County. From there, we estimate that 25% of that spending amount will be subject to the sales tax. Applying the County's sales tax rate of 3.75%, we conclude that the construction phase earnings will lead to approximately \$18,787 in County sales tax revenue over the duration of construction.

Sales Tax Revenue - Construction Phase

Line	Value
Total New Earnings	\$2,862,830
% Spent in County	70%
\$ Spent in County	\$2,003,981
% Taxable	25%
\$ Taxable	\$500,995
County Sales Tax Rate	3.75%
\$ County Sales Tax Revenue	\$18,787

Source: MRB

Sales Tax Revenue, Operation Phase

Using a similar methodology, we estimate the sales tax revenue generated from the new earnings stemming from on-site employment. We estimated \$1.9 million in total new earnings occurring annually within the County during the operation phase. Given the projected earnings and spending levels, we estimate the Project will result in \$12,322 in annual sales tax revenue to the County. Escalated at 2.5% per year for 15 years, this totals \$220,955 in revenue over the term of the proposed PILOT.

Sales Tax Revenue - Operation Phase

Line	Value
Total New Earnings	\$1,877,622
% Spent in County	70%
\$ Spent in County	\$1,314,336
% Taxable	25%
\$ Taxable	\$328,584
County Sales Tax Rate	3.75%
\$ County Sales Tax Revenue	\$12,322
Revenue Over 15 Years	\$220,955

Source: MRB

Cost of Property Tax Exemption

The table below displays the difference in estimated property tax revenue under the proposed PILOT and 'Full Taxes' absent an exemption (i.e., the "Cost of Abatement"). We calculate the fiscal cost of the abatement to be approximately \$2.4 million over the life of the PILOT. However, this cost is theoretical by nature, as the Applicant has stated that the Project would not move forward absent an incentive.

Cost of Abatement - Full Taxes vs. PILOT Revenue

Year	PILOT	Tax Rate	Future AV Post Construction	Full Taxes	Cost of Abatement
1	\$26,170	33.0518	-	\$26,170	\$0
2	\$26,825	33.8780	-	\$26,825	\$0
3	\$62,957	34.7250	\$7,600,000	\$263,910	(\$200,953)
4	\$64,531	35.5931	\$7,600,000	\$270,508	(\$205,976)
5	\$66,145	36.4829	\$7,600,000	\$277,270	(\$211,126)
6	\$93,258	37.3950	\$7,600,000	\$284,202	(\$190,945)
7	\$95,589	38.3299	\$7,600,000	\$291,307	(\$195,718)
8	\$97,979	39.2881	\$7,600,000	\$298,590	(\$200,611)
9	\$127,845	40.2703	\$7,600,000	\$306,055	(\$178,210)
10	\$131,041	41.2771	\$7,600,000	\$313,706	(\$182,665)
11	\$134,317	42.3090	\$7,600,000	\$321,549	(\$187,231)
12	\$167,200	43.3668	\$7,600,000	\$329,587	(\$162,387)
13	\$171,380	44.4509	\$7,600,000	\$337,827	(\$166,447)
14	\$175,665	45.5622	\$7,600,000	\$346,273	(\$170,608)
15	\$211,851	46.7013	\$7,600,000	\$354,930	(\$143,078)
Total					(\$2,395,955)

Source: MRB

Cost of Other Exemptions

The Applicant has requested an exemption for construction-phase sales and use tax valued at \$914,625. This is composed of County sales tax revenue (with a rate of 3.75%), state sales tax revenue (4.0%) and the MCTD sales tax revenue (0.375%). Isolating out the cost to just the County ("County Exemption") from the total amount reported, we arrive at local cost of \$422,135.

The Applicant has also requested a mortgage recording tax exemption (MRTE) valued at \$212,310. This amount is composed of a state portion (0.5%), a County portion (0.5%) and an MCTD portion (0.05%). Isolating out the cost to just the County (County Exemption) from the total amount reported, we arrive at a local cost of \$101,100.

Cost of Sales Tax Exemption, County

Line	Value
Sales Tax Exemption	\$914,625
County	3.75%
State	4.00%
MCTD	0.38%
County Exemption	\$422,135

Source: Applicant; MRB

Cost of MRTE, County

Line	Value
MRTE	\$212,310
County	0.50%
State	0.50%
MCTD	0.05%
County Exemption	\$101,100

Source: Applicant; MRB

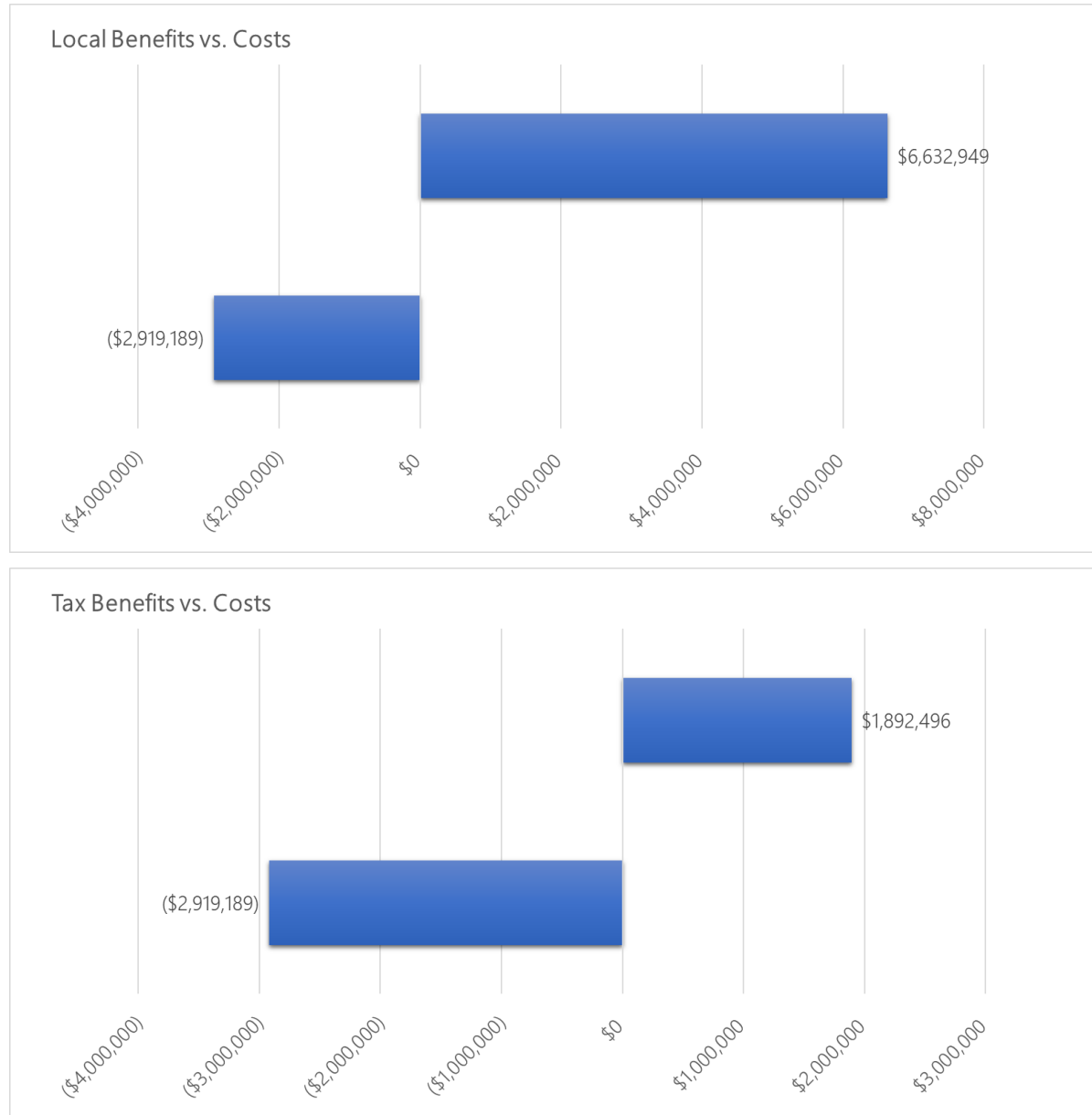
Cumulative Impact of the Project and Benefits-to-Costs Ratio

Cost/Benefit Analysis - Cumulative Local Impact

Local Costs (Construction - Year 15)	\$2,919,189
Sales Tax Exemption	\$422,135
Mortgage Tax Exemption	\$101,100
Real Property Tax Exemption	\$2,395,955
Local Benefits (Construction - Year 15)	\$6,632,949
Sales Tax, Construction, One-time	\$18,787
Sales Tax, Operations, 15 Years	\$220,955
Increase in Property Tax Revenue, 15 Years	\$1,652,754
Sub-Total Tax Benefits	\$1,892,496
Total New Earnings - Construction	\$2,862,830
Total New Earnings - Operations	\$1,877,622
Sub-Total (New Earnings)	\$4,740,453
Benefits to Costs Ratio	2.27
Tax Benefits to Tax Costs Ratio	0.65

Source: Applicant, MRB

Benefits vs. Costs Graphs



City of Newburgh ZIP Code Approximation

