Primary Office:
120 West Avenue, Suite #303
Saratoga Springs, NY 12866
Phone: 518.899.2608
Fax: 512.777.5045

MEMORANDUM

To: Kimberly Baptiste, Bergmann Associates
From: Victoria Storrs, Michael N'dolo
Date: 2/6/2018
Re: Village of Lyons Falls - Financial Feasibility Analysis

Camoin Associates has prepared financial feasibility analyses for the development of three strategic sites within the Village of Lyons Falls Brownfield Opportunity Area (BOA). These sites include the Lyons Falls School, the Train Station Depot, and the Pulp & Paper Mill property.

Feasibility Tests

When considering the financial feasibility of a project, it must be examined from the perspective of both developer (source of risk equity) and the bank (source of financing).

Developer: The internal rate of return (IRR) is a formula used to calculate the rate of return for investments that create different amounts of annual cash flow. It is a good measure of the developer's return-on-investment for undertaking a project (on a pre-tax basis only). Depending on the risk profile of a project, the minimum benchmark IRR will change but is typically at least 6%.

Bank: The debt service coverage ratio (DSCR) is a measure of the resources available to pay debt service (calculated as the ratio of net operating income to debt service payments). It is a test to determine if traditional lenders would be interested in the project based on the ability of the developer to make debt payments. The minimum DSCR varies with each project and its associated lending environment but a DSCR of 1.10 is typically the absolute lowest allowable.

As part of this analysis, a project that was not initially feasible was tested to determine whether a grant would provide additional incentives by boosting the IRR. The table below shows that the Resort scenario is feasible without this additional support, the School-to-Apartment and Depot redevelopment projects are feasible with grant money, and the redevelopment of the Pulp & Paper Mill for industrial use is not feasible even with a grant.

Project	Base Case IRR	Grant to Boost Feasibility	IRR with Grant
Resort Hotel at Pulp & Paper Mill	6.02%	Not needed	N/A
Apartments at Former School	2.09%	$300,000	6.68%
Commercial Use of Former Depot	-0.90%	$40,000	6.18%
Industrial Bldg. at Pulp & Paper Mill	Deeply negative: cannot be calculated	None found: operating cashflow too low to support any but a small portion of the capital costs	N/A

Pulp & Paper Mill Site Option 2: Resort Development

Under this option, we model the financial feasibility of redeveloping the Pulp and Paper Mill as a resort with a 30-room main hotel building, 12 outbuilding cabins, and a restaurant with 100 seats.

Financial Assumptions

- **Land Acquisition Costs** – $500,000
- **Cleanup Costs** – $1.5 M
- **Building Improvement Costs** - $8 M
- **Site Improvement Costs** - $5 M
- **Brownfield Tax Credits** – We assumed the project is not eligible for the site preparation credit and the tangible asset credit through the New York State Brownfield Cleanup Program.
- **Occupancy** – We assumed 45% lodging occupancy in Year 1 growing to 60% average annual occupancy by Year 4 and maintaining through Year 10. We assume that restaurant seat occupancy will be 25% in Year 1 growing to 40% by Year 4 and maintaining through Year 10.
- **Room Rates and Restaurant Meals** – We assumed an average annual room rate of $125/night for rooms in the main hotel and $150/night for the cabins. We assumed each restaurant seat will generate on average $25 per day.
- **Property Taxes** – Property taxes were calculated based on estimate assessed value[1] and total property tax rate for the village. Total property tax rate for the village includes village, town inside village, school, and county taxes. It is assumed that 65% of all taxes would be abated, resulting in aggregate foregone revenue, including all jurisdictions, of approximately $1.7 million.
- **Operating Expenses** – Operating Expenses are estimated at 25% of estimated gross income for lodging and 75% of gross income for restaurant operations
- **Financing** – We assumed a loan amount of 70% of the development cost, with an interest rate of 5.85% amortized over 23 years, based on current national rates.
- **Equity Contribution** – 30% of construction cost
- **Capitalization Rate and Sale** – We assumed an 8.0% capitalization rate (the rate of return based on the expected net operating income the property will generate) which is used to calculate sale proceeds. At the end of year 10, we assume the property is sold for $15.1 million, and this pays off principal of approximately $8 million and a sales commission of approximately $453,000, generating net sale proceeds of approximately $6.6 million.

[1] Future assessed value was estimated based on project net operating income (NOI) and a capitalization rate of 8%.

Feasibility Tests

Developer: The IRR is 6.02% for the scenario modeled above provided the project is approved for a 65% property tax abatement on the property over 10 years. This IRR exceeds the estimated minimum threshold of 6.00% and therefore the project is likely to be feasible from a developer perspective.

Bank: The minimum DSCR of 1.09 is achieved in Year 4 and increases each subsequent year indicating that traditional private-sector lenders would be interested in this project.

Apartments at the former Lyons Falls School

Bergmann and Camoin created an illustrative redevelopment concept for the Lyons Falls School site to be redeveloped into a multi-family residential complex consisting of 8 two-bedroom apartments (1,200 SF each), 8 one-bedroom apartments (800 SF each), and common space (300 SF).

Financial Assumptions

Assumptions that went into this analysis were developed based on information provided to Camoin Associates by Bergmann Associates, accompanied by additional market research conducted by Camoin Associates. A complete list of these assumptions is provided in the attached tables, with key assumptions crucial to the financial feasibility analysis below:

- **Land Acquisition Costs** – The cost of acquisition was assumed to be $1.
- **Cleanup Costs** – Cleanup costs for the site are not expected. However, a full environmental assessment has not been conducted and therefore remediation needs are unknown.
- **Development Costs** – Site work costs are estimated at $500,000, and construction costs at approximately $2.0 million. Total development costs for the project, including land acquisition, environmental remediation, site work, and construction are approximately $2.5 million.
- **Brownfield Tax Credits** – We assumed the project is not eligible for the site preparation credit and the tangible asset credit through the New York State Brownfield Cleanup Program.
- **Absorption** – We assumed an absorption of 50% of units in year 1 and an incremental increase through year 3 to 100%.
- **Rental Rates** – Each two-bedroom apartment is projected to rent for $1,300 per month and each one-bedroom apartment is projected to rent for $900.
- **Vacancy Allowance** – We assumed a vacancy allowance of 5% of the incoming rents (based on the absorption and the lease per SF per year). The lease rate per SF per year is anticipated to rise each subsequent year based on an income growth rate of 3%.
- **Operating Expenses** – Operating expenses excluding property taxes are estimated to equate to 30% of effective gross income (EGI).
- **Property Taxes** – Property taxes were calculated based on estimate assessed value[2] and total property tax rate for the village. Total property tax rate for the village includes village, town inside village, school, and county taxes. It is assumed that 65% of all taxes would be abated, resulting in aggregate foregone revenue, including all jurisdictions, of approximately $240,000.
- **Financing** – We assumed a loan amount of 70% of the development cost, with an interest rate of 5.00% amortized over 30 years, given current rates nationally. The remaining 30% of the project would come from the equity contribution of the developer.

[2] Future assessed value was estimated based on project net operating income (NOI) and a capitalization rate of 8%.

- **Capitalization Rate and Sale** – We assumed an 8.0% capitalization rate (the rate of return based on the expected net operating income the property will generate) which is used to calculate sale proceeds. At the end of year 10, we assume the property is sold for $2.2 million, and this pays off principal of approximately $1.5 million and a sales commission of approximately $67,000, generating net sale proceeds of approximately $635,000.

Feasibility Tests

Developer: For this project, we have assumed a benchmark of 6% as the minimum IRR a private investor will accept, given minimum acceptable returns being accepted be developers nationally. In order for the developer to achieve this minimum IRR, the project would require a 65% property tax abatement on the property over 10 years. This amounts to a total cost of approximately $240,000 to the various taxing jurisdictions over this period.

An IRR of 2.09% is achieved with the financial assistance of the tax abatement. This is not likely to be feasible from a developer perspective

The project reaches a feasible IRR of 6.68% if a grant in the amount of $300,000 is awarded.

Bank: For this project, a minimum DSCR of 1.10 would be required. Based on the assumptions for this project, and with the financial package of tax abatement and $300,000 grant, the DSCR is 0.53 in the first year of income generation and increases annually as absorption increases reaching above the 1.10 threshold by year 3. Therefore, it appears that the project would be feasible from a private financing point of view.

Train Station Depot Site

Bergmann and Camoin developed a redevelopment concept for the Train Station Depot site to be developed for adaptive commercial use including possible retail, restaurant and office space.

Financial Assumptions

A complete list of these assumptions is provided in the attached tables, with key assumptions crucial to the financial feasibility analysis below:

- **Land Acquisition Costs** – We assumed $1 for land acquisition.
- **Cleanup Costs** – We assumed there are no cleanup costs for the site. However, a full environment assessment has not been conducted and therefore remediation needs are unknown.
- **Development Costs** – Site work and vertical construction costs are estimated at $250,000. Total development costs for the project, including land acquisition, site work, and construction are $250,001.
- **Brownfield Tax Credits** – We assumed the project is not eligible for the site preparation credit and the tangible asset credit through the New York State Brownfield Cleanup Program.
- **Absorption** – We assume a single tenant and therefore, 100% absorption beginning in year 1.
- **Commercial Space Rental Rates** – Gross rents for general commercial space are projected at $9 per SF.
- **Operating Expenses** – Operating Expenses are estimated at 25% of estimated gross income.
- **Property Taxes** – Property taxes were calculated based on estimate assessed value[3] and total property tax rate for the village. Total property tax rate for the village includes village, town inside village, school, and county taxes. It is assumed that 65% of all taxes would be abated, resulting in aggregate foregone revenue, including all jurisdictions, of approximately $24,000.
- **Financing** – We assumed a loan amount of 70% of the development cost, with an interest rate of 5.5% amortized over 30 years, based on current national rates. The remaining 30% of project costs would come from the equity contribution of the developer.
- **Capitalization Rate and Sale**– We assumed an 8.0% capitalization rate (the rate of return based on the expected net operating income the property will generate) which is used to calculate sale proceeds. At the end of year 10, we assume the property is sold for approximately $209,000, and this pays off principal of approximately $155,000 and a sales commission of approximately $6,000, generating net sale proceeds of approximately $48,000.

Feasibility Tests

Developer: For this project, we have assumed a benchmark of 6% as the minimum IRR a private investor will accept, given minimum acceptable returns being accepted be developers nationally. In order for the developer to achieve this minimum IRR, the project would require a 65% property tax abatement on the

[3] Future assessed value was estimated based on project net operating income (NOI) and a capitalization rate of 8%.

property over 10 years. This amounts to a total cost of approximately $24,000 to the various taxing jurisdictions over this period.

A negative IRR of -0.90% is achieved with the financial assistance of the tax abatement. This is not likely to be feasible from a developer perspective

The project reaches a feasible IRR of 6.18% if a grant in the amount of $40,000 is awarded.

Bank: For this project, a minimum of 1.10 would be required. Based on the assumptions for this project, and with the financial package of tax abatement and $40,000 grant, the DSCR is 0.93 in the first year of income generation and increases annually as revenue increases reaching above the 1.10 threshold by year 6. Therefore, it appears that the project would likely be feasible from a private financing point of view. It is possible that a bank would negotiate for additional security or reserves to mitigate the risk of the weak DSRF in years 1 through 6.

Pulp & Paper Mill Site Option 1: Industrial Redevelopment

Under this option, we model the financial feasibility of redeveloping the Pulp and Paper Mill site for industrial use, with a single 30,000 square foot building.

Financial Assumptions

- **Land Acquisition Costs** – $500,000
- **Cleanup Costs** – $500,000M
- **Building Improvement Costs** - $1.8 M
- **Site Improvement Costs** - $2.5 M
- **Brownfield Tax Credits** – We assumed the project is not eligible for the site preparation credit and the tangible asset credit through the New York State Brownfield Cleanup Program.
- **Absorption** – 100% absorption in Year 1
- **Industrial Space Rental Rates** – $4 PSF
- **Operating Expenses** – Operating Expenses are estimated at 5% of estimated gross income.
- **Property Taxes** – Property taxes were calculated based on estimate assessed value[4] and total property tax rate for the village. Total property tax rate for the village includes village, town inside village, school, and county taxes. It is assumed that 65% of all taxes would be abated, resulting in aggregate foregone revenue, including all jurisdictions, of approximately $190,000
- **Financing** – We assumed a loan amount of 70% of the development cost, with an interest rate of 5.25% amortized over 30 years, based on current national rates.
- **Equity Contribution** – 30% of construction cost
- **Capitalization Rate and Sale** – We assumed an 8.5% capitalization rate (the rate of return based on the expected net operating income the property will generate) which is used to calculate sale proceeds. At the end of year 10, we assume the property is sold for $1.6 million. This is insufficient to pay off principal of approximately $3.3 million and a sales commission of approximately $49,000, resulting in a net loss of approximately $1.7 million to enable the owner to sell the property.

Feasibility Tests

Developer: For this project, we have assumed a benchmark of 6% as the minimum IRR a private investor will accept, given minimum acceptable returns being accepted be developers nationally.

Average net operating income from this building is estimated at $117,000 per year. After payment of annual debt service this results in *negative operating income in all years.* An IRR cannot be calculated for

[4] Future assessed value was estimated based on project net operating income (NOI) and a capitalization rate of 8%.

this many years of negative cash flow but is assumed to be negative, and the project not feasible from a developer point of view.

Grant amounts were tested to determine what threshold might make the project feasible and no amount was found. The operating cash flow is too small to support the capital costs.

Raising the rent above $4/sf is not feasible in Lewis County; even rent of $10/sf, which would not be feasible, simply reduces the negative cash flows so that a *negative* IRR can be calculated at -4.14%.

Bank: For this project, a minimum of 1.10 would be required. Based on the assumptions for this project, and with the financial package of tax abatement, the DSCR is 0.37 in the first year of income generation and never exceeds 0.50, indicating that at best the project would cover half of the debt service costs. Therefore, it appears that the project would be not feasible from a private financing point of view.