TO: Gwen O'Shea
CDC of Long Island

FROM: Kevin F. Gremse KFG

DATE: August 26, 2020

SUBJECT: Port Jefferson Crossing

CC: Robert Loud, Conifer Realty
Joanna Cuevas, Conifer Realty

The National Development Council ("NDC") has been requested to review an application for tax assistance for the above referenced project as part of its submission requirements to the Town of Brookhaven Industrial Development Agency (IDA). NDC is a national non-profit development finance advisory company that works on behalf of municipalities and not-for-profit organizations throughout the country to evaluate the need for and determine the appropriate mix and sizing of economic development financial incentives. The purpose of this memo is to describe NDC's project understanding and findings.

PROJECT SUMMARY

Port Jefferson Crossing is a proposed mixed-use, mixed-income, transit-oriented development in the Uptown section of the Village of Port Jefferson. It will be developed by a joint venture general partnership (the "applicant" or the "developer") between Conifer Realty and CDC of Long Island. The two highly accomplished organizations have collaborated previously to complete several other affordable and workforce housing developments on Long Island. The proposed development meets the objectives of the Village of Port Jefferson 2030 Comprehensive Plan and its Urban Renewal Plan. It will provide 45 units (38 1-BR and 8 2-BR) of workforce housing and 3,100 square feet of ground floor retail space, likely to be a restaurant. The three-story 70,000 square foot wood-framed building will be constructed on a site which is currently occupied by two highly underutilized and blighted commercial buildings on Main Street. The building is designed with many energy efficient design standards. There will be 49 on-site covered parking spaces, laundry facilities, a community room, and a gym. The development will also include several civic and public improvements along Main Street.

SOURCES & USES

The project's budget is $24.3 million. This is equivalent to $540,000/unit and $486/SF. Both are high. The developer reports high costs being attributed to;

- High land costs, equivalent to $65,000/unit
- Structured parking garage for 49 spaces
- Additional civic and public improvements along Main Street built into budget
- Higher construction costs due to escalating building material costs
- A capitalized developer fee included in the development budget, as is customary with low income housing tax credit (LIHTC) deals

The development will be financed with a multi-tiered capital structure that includes commercial debt, equity from the sale of both federal and state housing tax credits, funding from the NYS Homes and Community Renewal (HCR) as well as subordinated soft funding from Suffolk County.

The developer appears to have maximized all sources of funding. The debt and equity have been sized based upon standard underwriting consistent with the market. The developer has received competitive pricing on the sale of the federal housing tax credit ($.98/$1) and state housing tax credits (.70/$1).

Due to restricted rents and the lower cash flow associated with low-income housing tax credits (LIHTC) developments, the developer's main financial incentive for these types of developments is the capitalized developer fee, normally 10 – 15% of development costs less acquisition cost. In this instance, the developer fee is $2,361,782, approximately 10% of development costs. The developer is deferring $1,098,021, 46% of the developer fee. It will have to earn this out of residual cash flow in the first fifteen years.

USES OF FUNDS	Amount	%	Per Unit	Per SF
Acquisition	$2,950,000	12%	$65,556	$59
Residential Construction Costs	$13,554,106	56%	$301,202	$271
Commercial Construction Cost	$646,387	3%	$14,364	$13
Soft Costs	$3,644,655	15%	$80,992	$73
Contingency	$778,239	3%	$17,294	$16
Developer Fee	$2,361,782	10%	$52,484	$47
Working Capital and Reserves	$352,737	1%	$7,839	$7
TOTAL	$24,287,906	100%	$539,731	$486

SOURCES OF FUNDS	Amount	%	Per Unit
Commercial Loan	$3,690,791	15%	$82,018
Housing Trust Fund	$4,500,000	19%	$100,000
HCR Middle Income Program	$700,000	3%	$15,556
HCR Community Investment Fund	$619,908	3%	$13,776
Suffolk County	$600,000	2%	$13,333
LIHTC Equity	$8,975,102	37%	$199,447
SLIHC Equity	$3,904,084	16%	$86,757
Empire State Development	$200,000	1%	$4,444
Deferred Developer's Fee	$1,098,021	5%	$24,400
TOTAL	$24,287,906	100%	$539,731

ANALYSIS OF OPERATIONS

NDC based its analysis on the revenue and expense assumptions provided by the Developer in the IDA application. NDC adjusted the pro forma provided by the developer with the following assumptions:

- Permanent loan assumptions that are in line with the current market for similar projects
  - 30-year amortization
  - Rate of 5.0%
- Adjusting revenue growth to 2% annually
- Adjusting expense growth to 3% annually

The projected stabilized operating pro forma is presented below. There are two sets of projected operations, one without a PILOT (full taxes) and one with a PILOT. The projected "full taxes" column assumes first year rents and expenses, stabilized vacancy rate, and first year full taxes. The "With PILOT" column assumes first year rents and expenses, stabilized vacancy rate, and the PILOT.

As previously mentioned, the development program includes a tiered affordability structure w unit being affordable to households earning less than30, 60%, and 95% of area median income (AMI). The average affordable rent is $1,228 per month and the average workforce rent is $1,698 per month.

STABILIZED OP PROFORMA								
			WITHOUT PILOT				WITH PILOT	
			Amount	*Comment*			*Amount*	*Comment*
Gross Affordable Income (<60% AMI)			$589,620	*$1,228 avg. mo. rent*				
Gross Workforce Income(<90% AMI)			$101,856	*$1,698 avg. mo. rent*				
Gross Residential Income			$691,476					
Gross Commercial Income		$10						
Other Income			$9,600					
Less Vacancy		*5.00%*	($34,574)					
Effective Gross Income			$666,502				$666,502	
O&M			($258,398)	*$5,742 per unit*			($258,398)	*$5,742 per unit*
Utilities			($38,712)	*$860 per unit*			($38,712)	*$860 per unit*
RE Taxes (PILOT)			($225,000)	*$5,000 per unit*			($65,276)	*$1,451 per unit*
Total Operating Expenses			($522,110)	*$11,602 per unit*			($362,386)	*$8,053 per unit*
Reserves			($18,000)	*$400 per unit*			($18,000)	*$400 per unit*
Net Operating Income			$126,392				$286,116	
Bank Debt Service	*30*	*5.00%*	($237,756)				($237,756)	
HCR Debt Service		*0.50%*	($29,100)				($29,100)	
Commercial Debt Service								
Cash Flow			($140,463)				$19,261	
DCR w Senior Debt			-0.53 /1				1.20 /1	
DCR w Sub Debt			-0.47 /1				1.07 /1	

If the project were to pay taxes at full assessment, estimated to be $5,000 per unit, the development would not be financially feasible as the cash flow would be negative and fail to meet lender's and investor's financial thresholds

With the proposed PILOT being sized at 10% of shelter rent (gross residential income less utilities), lender underwriting ratios are met and investor's returns are reasonable to establish financial feasibility.

Gross Residential Rent	$691,476
Less Utilities	($38,712)
Shelter Rent	$652,764
Shelter Rent Multiplier	10.00%
Shelter Rent PILOT	$65,276

The PILOT is sized at 10% of shelter rent establishes a positive increment over current taxes and permits the developer a chance to earn its deferred developer fee over the first fifteen years. Failure to earn the developer fee within the first 15 years could result in tax credit recapture provisions from the IRS.

This IDA financial package does not create undue enrichment for the applicant.

A more detailed 15-year operating pro forma is included in **Exhibit 1 on page 6**.

SUMMARIZED BENEFITS PACKAGE

The proposed benefit package is summarized below.

BENEFIT SUMMARY					
MORTGAGE RECORDING TAX			SALES TAX EXEMPTION		
Mortgage	$3,690,791		Construction Cost		$14,200,493
Mortgage Recording Tax	1.05%		Value of Bu	50%	$7,100,247
Transit District Exclusion	-0.30%		Sales Tax		8.625%
Mortgage Recording Tax Savir	0.75%		Value of Exemption		$612,396
Value of Exemption	$27,681				

Current taxes on the properties that comprise the development are reportedly $37,904.

PILOT SUMMARY			
YEAR	CURRENT TAXES	PILOT	INCREMENT
	2% escalator	*2% escalator*	
1	$37,904	$65,276	$27,372
2	$38,662	$66,582	$27,920
3	$39,435	$67,914	$28,478
4	$40,224	$69,272	$29,048
5	$41,029	$70,657	$29,629
6	$41,849	$72,070	$30,221
7	$42,686	$73,512	$30,826
8	$43,540	$74,982	$31,442
9	$44,411	$76,482	$32,071
10	$45,299	$78,011	$32,713
11	$46,205	$79,572	$33,367
12	$47,129	$81,163	$34,034
13	$48,071	$82,786	$34,715
14	$49,033	$84,442	$35,409
15	$50,014	$86,131	$36,117
16	$51,014	$87,853	$36,840
17	$52,034	$89,611	$37,576
18	$53,075	$91,403	$38,328
19	$54,136	$93,231	$39,095
20	$55,219	$95,095	$39,876
21	$56,323	$96,997	$40,674
22	$57,450	$98,937	$41,487
23	$58,599	$100,916	$42,317
24	$59,771	$102,934	$43,164
25	$60,966	$104,993	$44,027
26	$62,186	$107,093	$44,907
27	$63,429	$109,235	$45,805
28	$64,698	$111,419	$46,722
29	$65,992	$113,648	$47,656
30	$67,312	$115,921	$48,609
	$1,537,692	$2,648,138	$1,110,446

As noted above, taxes at full assessment are estimated at approximately $5,000 per unit annually, higher than what the project could absorb in the early stabilization years and throughout the 30-year rent restriction period. The above PILOT schedule commences at $65,276, equivalent to $1,451/unit, based upon the 10% shelter rent formula, with 2% escalators during the term.

Based upon the IRS Section 42 regulations that regulate the use of low-income housing tax credits (LIHTC), the rents escalate by very modest amounts, typically 2% annually during the 30-year affordability period. The above PILOT term is 30 years during which there will be rent restriction imposed on the units.

BENEFIT ANALYSIS

Besides the approximately $2.6 million in PILOT payments, a $1.1 million increment above current taxes, over the PILOT term, the project would also result in the following additional benefits;

- Replacement of vacant, underutilized and blighted property with a well-designed new building with enhanced curb appeal
- Production of 45 highly needed workforce and affordable units
- Job Creation: 45 short term construction jobs and 10 full-time equivalent jobs
- Additional disposable income from the 45 households new to the central business district will help retail trade in the Village and surrounding area.

APPENDIX 1: 15 YEAR OPERATING PRO FORMA

	Escalator	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Gross Affordable Income (<60% AMI)	2.00%	589,620	601,412	613,441	625,709	638,224	650,988	664,008	677,288	690,834	704,650	718,743	733,118	747,781	762,736	777,991
Gross Workforce Income(<90% AMI)	2.00%	101,856	103,893	105,971	108,090	110,252	112,457	114,706	117,001	119,341	121,727	124,162	126,645	129,178	131,762	134,397
Gross Residential Income		691,476	705,306	719,412	733,800	748,476	763,445	778,714	794,289	810,174	826,378	842,905	859,763	876,959	894,498	912,388
Gross Commercial Income	2.00%		0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Income	2.00%	11,027	11,248	11,472	11,702	11,936	12,175	12,418	12,667	12,920	13,178	13,442	13,711	13,985	14,265	14,550
Less Vacancy		(34,574)	(35,265)	(35,971)	(36,690)	(37,424)	(38,172)	(38,936)	(39,714)	(40,509)	(41,319)	(42,145)	(42,988)	(43,848)	(44,725)	(45,619)
Effective Gross Income		667,929	681,288	694,914	708,812	722,988	737,448	752,197	767,241	782,586	798,237	814,202	830,486	847,096	864,038	881,318
Operating Expenses	3.00%	(258,398)	(266,150)	(274,134)	(282,358)	(290,829)	(299,554)	(308,541)	(317,797)	(327,331)	(337,151)	(347,265)	(357,683)	(368,414)	(379,466)	(390,850)
Utilities	3.00%	(38,712)	(39,873)	(41,070)	(42,302)	(43,571)	(44,878)	(46,224)	(47,611)	(49,039)	(50,510)	(52,026)	(53,586)	(55,194)	(56,850)	(58,555)
RE Taxes (PILOT)	2.00%	(65,276)	(66,582)	(67,914)	(69,272)	(70,657)	(72,070)	(73,512)	(74,982)	(76,482)	(78,011)	(79,572)	(81,163)	(82,786)	(84,442)	(86,131)
RR Reserve	3.00%	(18,000)	(18,540)	(19,096)	(19,669)	(20,259)	(20,867)	(21,493)	(22,138)	(22,802)	(23,486)	(24,190)	(24,916)	(25,664)	(26,434)	(27,227)
Total Op Expenses		(380,386)	(391,145)	(402,214)	(413,601)	(425,316)	(437,369)	(449,770)	(462,528)	(475,654)	(489,158)	(503,053)	(517,349)	(532,058)	(547,192)	(562,763)
Net Operating Income		287,543	290,143	292,700	295,211	297,672	300,079	302,427	304,713	306,932	309,079	311,149	313,137	315,038	316,846	318,555
Bank Debt Service		(224,408)	(224,408)	(224,408)	(224,408)	(224,408)	(224,408)	(224,408)	(224,408)	(224,408)	(224,408)	(224,408)	(224,408)	(224,408)	(224,408)	(224,408)
Other Debt Service		(29,100)	(29,100)	(29,100)	(29,100)	(29,100)	(29,100)	(29,100)	(29,100)	(29,100)	(29,100)	(29,100)	(29,100)	(29,100)	(29,100)	(29,100)
Commercial Debt Service		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash Flow		34,035	36,635	39,192	41,703	44,164	46,571	48,919	51,205	53,424	55,571	57,641	59,629	61,530	63,338	65,048
Deferred Developer Fee		1,098,021	1,063,986	1,027,351	988,160	946,457	902,293	855,722	904,641	853,436	800,012	744,441	686,800	627,171	565,641	502,303
Deferred Developer Fee Earned		(34,035)	(36,635)	(39,192)	(41,703)	(44,164)	(46,571)	48,919	(51,205)	(53,424)	(55,571)	(57,641)	(59,629)	(61,530)	(63,338)	(65,048)
Balance		1,063,986	1,027,351	988,160	946,457	902,293	855,722	904,641	853,436	800,012	744,441	686,800	627,171	565,641	502,303	437,255
Debt Coverage Ratio (DCR)		1.13	1.14	1.15	1.16	1.17	1.18	1.19	1.20	1.21	1.22	1.23	1.24	1.24	1.25	1.26

STANDARD DISCLOSURE

Standard disclaimer regarding NDC's compliance with Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") and amended Section 15B of the Securities and Exchange Act of 1934 ("Exchange Act"):

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