



SUPPLEMENT TO AGENCY COST-BENEFIT ANALYSIS

Section 859-a of the General Municipal Law of New York State requires the New York City Industrial Development Agency (the "Agency") to hold a public hearing with respect to each proposed project and the financial assistance being contemplated by the Agency for such project. The Agency is also required to provide an opportunity for the public to review the project application and an analysis (an "Analysis") of the costs and benefits of the project. On September 12, 2006, the Agency's Board of Directors adopted a resolution requiring the Agency to supplement each Analysis with a description of the assumptions and methodologies used in the Analysis. This "Supplement" will serve as the Board-required description for most Agency projects. If this Supplement is not appropriate for a particular project, the Agency will append a more tailored description to the Analysis for that project.

In reviewing this Supplement, please note that, because the Analysis is meant to demonstrate only the costs and benefits to The City of New York (the "City"), it does not describe the costs or benefits to either the State or Federal governments.

Before offering financial assistance to any project applicant, the Agency performs an Analysis to determine the net fiscal impact on the City of providing the benefits requested. As described in greater detail below, the analysis begins with a forecast of the costs to the City of the financial assistance to be provided by the Agency (the "City Costs"). The Agency then forecasts the additional economic activity in the City that will be generated by the project. Finally, the Agency forecasts the additional tax revenue the City will receive from the additional economic activity generated by the project (the "City Benefits"). If the City Benefits are greater than the City Costs, the project is considered to have a "positive net fiscal impact" on the City. If the City Costs exceed the City Benefits, the project is considered to have a "negative net fiscal impact" on the City.

I. CALCULATION OF CITY COSTS

The City Costs are composed of savings provided to the project applicant (i.e., taxes that are not paid to the City) through (i) real property tax exemptions and abatements ("Real Property Tax Exemption Cost"), (ii) mortgage recording tax exemptions ("MRT Exemption Cost"), (iii) sales and use tax exemptions ("Sales Tax Exemption Cost"); and (iv) personal income tax exemptions with respect to interest payable to City taxpayers who purchase Agency bonds ("Agency Bond Cost"). Because the project applicant is required to pay certain fees to the Agency in order to receive the foregoing savings, the value of these fees is netted out of the calculation of City Costs.

Set forth below is a description of how each of the City Costs is calculated.

a. Real Property Tax Exemption Cost

In order to calculate the Real Property Tax Exemption Cost, the Agency first projects the full real estate taxes that would be paid on the project property in the absence of financial assistance from the Agency ("Full Real Property Taxes"). This is done on a year-by-year basis for the entire benefit term. The Agency then projects the Payments in Lieu of Taxes ("PILOTs") that project applicants will be required to pay under the benefits agreement with the Agency over the same period. In each year of the benefit term, the difference between the projected Full Real Property Taxes and the projected PILOTs constitutes the Real Property Tax Exemption Cost.

A more detailed description of the calculation of Full Real Property Taxes and PILOTs is provided below.

i. Calculation of Full Real Property Taxes

Real property taxes are made up of land and building taxes. In order to project what the future land assessed value ("AV") and taxes would be in the absence of Agency assistance, the Agency assumes that the current land AV will increase at 3.5% per year for the entire benefit term (roughly the historic average). This AV is then multiplied by the tax rate applicable at the time of the calculation, which the Agency assumes will remain constant throughout the benefit term.

To estimate what the future building AV and taxes would be in the absence of Agency benefits, the Agency first projects what the increase in the AV of the improvements on the project property that exist prior to the project will be. As with land AV, the increase is assumed to equal 3.5% per year for the entire benefit term. Next, the Agency projects what the initial AV of the improvements to be constructed in connection with the project is likely to be. This is established by multiplying the projected construction costs of the project, by 45% (a figure that is used because the full construction costs are assumed to equal the market value of the new construction and, by State law, the City's Department of Finance determines a property's AV using an assessment ratio equal to 45% of such property's market value). The AV of these improvements is then assumed to increase at 3.5% per year for the remainder of the benefit term. To forecast the full taxes on the improvements, the Agency finally multiplies each year's AV by the tax rate applicable at the time of the calculation, which, again, the Agency assumes will remain constant throughout the benefit term.

ii. Calculation of Payments in Lieu of Taxes

Having established the Full Real Property Taxes, the Agency next projects the PILOTs that the project applicant will be required to pay under the benefits agreement, if any. As with taxes, PILOTs have both a land and building component.

In connection with industrial and manufacturing projects, during the benefit period (except for the last four years, when the savings over full taxes are phased out at 20% per year), the payment in lieu of land taxes is set at a level equal to full land taxes (calculated as set forth above), minus \$500 per employee of the applicant at the time of its application (or per forecast employee in year three after the benefit is to be granted, in the case of applicants that are start-ups). In the event that, in any year, the calculation described in this paragraph results in a negative figure, the payment in lieu of land taxes is set at \$0.

Payments in lieu of building taxes for industrial and manufacturing projects are set, during the entire benefit period (except for the last four years), at an amount equal to the "stabilized improvement taxes" (or the taxes on the pre-project improvements). In each of the last four years of the benefit period, the "non-stabilized improvement taxes" are phased back in at a rate of 20% per year, so that these payments equal full taxes at the end of the benefit term.

For projects other than industrial and manufacturing projects, payments in lieu of land and building taxes are customarily negotiated on a case-by-case basis with the project applicant in order to minimize the City Costs while maximizing the City Benefits.

b. MRT Deferral Cost ¹

The MRT Deferral Cost represents the cost to the City of providing a full or partial exemption from mortgage recording taxes to a project. The MRT Exemption Cost is calculated as the difference between the City's share of mortgage recording taxes that would be due on a fully or partially exempted mortgage absent Agency assistance, and the payments in lieu of mortgage recording taxes that will actually be due to the Agency on such mortgage. The City's share of full mortgage recording taxes equals (a) the amount secured by the applicable mortgage, times 1.5%, for mortgages up to \$500,000, or (b) the amount secured by such mortgage, times 1.625%, for mortgages greater than \$500,000. To the extent that the Agency grants an applicant an exemption on mortgage recording taxes, the Agency does so by permitting the applicant to exclude from the foregoing calculation all or a portion of the amount secured by his or her mortgage. The mortgage recording taxes that will actually be due on the applicable mortgage, therefore, are projected by the Agency by applying the foregoing formula to the portion of the amount secured by the mortgage that is not to be exempted.

c. Sales Tax Exemption Cost

The Sales Tax Exemption Cost represents the cost to the City of providing a full or partial exemption from the City's sales and use tax to a project. The Sales Tax Exemption Cost is calculated as the difference between the City's share of sales and use tax that would be due from the project applicant in connection with the project expenditures absent Agency assistance, and the City's share of sales and use tax that will actually be paid on such expenditures factoring in Agency assistance.

The City's share of full sales and use taxes in connection with project expenditures are calculated by the Agency to be equal to the applicant's anticipated expenditures on goods that would be subject to the sales and use tax, times the 4% City sales and use tax rate. For purposes of its calculation, the Agency assumes that the relevant expenditures consist of (a) hard construction and renovation costs attributable to project materials, and (b) the cost of project machinery and equipment.

To the extent that the Agency grants an applicant an exemption on sales and use tax, the Agency does so by permitting the applicant to avoid paying such tax on all or a portion of the expenditures that would otherwise be subject to it. The sales and use tax that will actually be paid on such expenditures, therefore, is calculated by the Agency to be equal to the portion of the applicant's expenditures that is not exempted from the sales and use tax, times 4%. The difference between the full tax and the reduced tax calculated pursuant to this section represents the Sales Tax Exemption Cost.

It should be noted that, when the breakdown between hard and soft costs is not specifically provided by the applicant, the Agency assumes that hard project costs represent 80% of total project construction costs, while "soft" costs make up the remaining 20%. Additionally, if not specifically enumerated by the applicant, the Agency assumes that 50% of hard costs are for materials, while labor costs make up the remaining 50%. Soft costs and the labor portion of hard costs are generally not subject to sales and use taxes.

d. Agency Bond Cost

To calculate the Agency Bond Cost for tax-exempt bonds, the Agency must estimate the income tax that the City would have collected from the investors who are likely to purchase the triple- and double-tax-exempt bonds had the Agency not issued such bonds and the investors, instead, purchased taxable debt and thus earned interest income on which the City

¹The MRT benefit offered by the Agency is referred to as a deferral because, while MRT is not required to be paid on the portion of the original principal amount of the mortgage as to which MRT is deferred during the Agency assistance period (which may be equal to the entire original principal amount), payments in lieu of mortgage recording tax ("PILOMRT") are required to be paid on any amount of such original principal that is outstanding at the end of the period.

could collect taxes. In order to do so, the Agency first estimates what taxable investments City residents are not investing in, because they are instead investing in the applicable tax-exempt bonds (the “Displaced Taxable Investments”). The Agency then estimates the City income taxes that would have been collected on these Displaced Taxable Investments (that is, the taxes that City would have collected if the applicable tax-exempt debt had not been issued). This lost City income tax represents the Agency Bond Cost.

i. Share of Bonds Held by City Residents

To determine the dollar value of the Displaced Taxable Investments, the Agency must start by estimating the percentage of the Agency bonds that are held by City residents. This is relevant because, even if the Agency were to assume that non-City residents would invest in taxable bonds if the applicable tax-exempt debt were not issued, these non-City residents would not be required to pay income tax to the City on these alternate investments.

Generally, the Agency estimates that 35% of Agency bonds are, over the long-term, held by City residents, with the remainder held by mutual funds, large financial institutions, New York State residents who are not City residents, and non-New York State residents. While the exact share of Agency bonds ultimately held by City residents cannot be directly measured, the 35% assumption used in this analysis was derived from discussions with investment banking professionals and government regulatory bodies such as the Federal Reserve Bank and the Agency believes them to be both reasonable and conservative.

ii. Forgone Investment Income Tax

Having estimated the share of the applicable bonds that are held by City residents, the Agency is then able to derive the value of the Displaced Taxable Investments. This equals the aggregate principal value of the applicable tax-exempt debt, times 35%.

With this figure established, the Agency then estimates how much interest income would have been earned from the Displaced Taxable Investments. The Agency assumes that the interest rate on these Displaced Taxable Investments would have been the interest rate to be paid on the Agency bonds plus the then applicable spread between taxable and tax-exempt bonds. This spread exists because, in order to compensate the investor for having to pay income tax on the interest income from the hypothetical Displaced Taxable Investments, the interest rate on these investments would have to be higher than the rate paid on the Agency bonds. To estimate the income tax foregone by the City in connection with this interest income, the Agency finally multiplies the interest income from the Displaced Taxable Investments by 3.65%, or the City tax rate applied to investors in the highest tax bracket (again, a conservative estimate).

e. Agency Fee

Finally, in calculating City Costs, the Agency nets out the amount that the Agency collects up-front in the form of its “Closing Fee.” This fee can be calculated using Agency published fee schedules which can be found at its website: <http://www.nycdc.com/Web/FinancingIncentives/NYCIDA/ApplicationProcess/ApplicationProcess.htm#Fee%20Schedules>.

II. CALCULATION OF CITY BENEFITS

In addition to estimating City Costs, each Analysis estimates City Benefits derived from the applicable project. To estimate these City Benefits, the Agency must estimate the new economic activity that takes place in the City that would not have taken place but for the benefits provided. This new economic activity is measured for both the project applicant as well as for other entities in the City that are affected by the project applicant’s increased

economic activity. This new economic activity is then used to generate the increased taxes that the Agency forecasts will accrue to the City as a result of the project.

There are two categories of economic impacts that give rise to City Benefits: Direct Impacts and a composite category of Indirect Impacts and Induced Impacts. To calculate these impacts, the Agency uses the Regional Input-Output Modeling System ("RIMS II"), prepared by the United States Bureau of Economic Analysis ("BEA"), which is updated annually and customized for the New York City economy. The RIMS II input-output system quantifies the extent to which each industry requires goods and services from other sectors in order to produce its own products.

a. Direct Impacts

The City Benefits generated directly by a company are called Direct Impacts. These include tax revenues, or payments in lieu thereof, generated from the economic activity of the project applicant (business income taxes, real property taxes, sales taxes from purchases made in the City and employee income taxes).

Even though, in many cases, land would generate tax revenue even if a project were not to move forward, the Agency does factor certain additional land taxes into its City Benefit estimates because each project that goes forward with the inducement of Agency assistance decreases the supply of land in New York City immediately available for redevelopment. This lowering of supply will, in turn, increase both commercial/industrial land values throughout New York City and taxes collected on all such land.

b. Indirect Impacts/Induced Impacts

City Benefits generated by the economic activity of other entities within the City that were themselves triggered by the project applicant's construction spending and business activities are called Indirect Impacts. These include taxes that various vendors incur in the course of providing goods and services to the project applicant (and, in turn, the vendor's vendors and so on).

For example, a tool and dye operation requires inputs from metals suppliers and industrial machinery producers to do its work. In turn, the metals suppliers require inputs from the mining sector, which produces the raw ore. The RIMS II model allows the Agency to estimate how additional economic activity of the tool and dye operation leads to greater economic activity on the part of metal suppliers (some percentage of which are located in the City and thus further contribute to the City economy). In turn, the impact of the increased activity of the metal suppliers on the mining sector (a smaller percentage of which are likely located in the City and thus affect our local economy and tax receipts) is measured.

Induced Impacts refer to the City Benefits associated with the household spending of those residents whose employment depends on the project applicant either directly (the new employees of the tool and dye operation) or indirectly (the increase in the City-based employment of the metal supplier, industrial machinery producer and mining sector that is attributable to the project applicant's new demand for goods and services). Induced household spending is based on project specific employment and payroll information and includes spending for food, clothing, shelter, child-care and other expenses related to living in the City.

III. NET FISCAL IMPACT

Using the above methodology, City Costs and City Benefits are calculated for every year of the project term. These annual amounts are then discounted to the project start date in order to reflect the estimated cost and benefit to the City at the time the project investment decision is made. The discount rate used to determine this net present value is adjusted from time-to-time based on market conditions, but is currently 6.25%.