

**ANALYSIS OF PROPOSED KIRBY COMMONS
SUBSTANTIATION OF NEED AND SIZING OF FINANCIAL ASSISTANCE PACKAGE**



VILLAGE/TOWN OF
MOUNT KISCO

NEW YORK



Rendering of As-Complete Mixed-Use Development

PROJECT/APPLICANT

Kirby Commons
Gotham Organization, Charter Realty and Development

LOCATION

North and South Moger Lots
Village of Mount Kisco, NY

PROJECT DESCRIPTION

\$130.5 million mixed-use, mixed-income transit-oriented development

REQUESTED FINANCIAL ASSISTANCE

Contributed Ground Lease

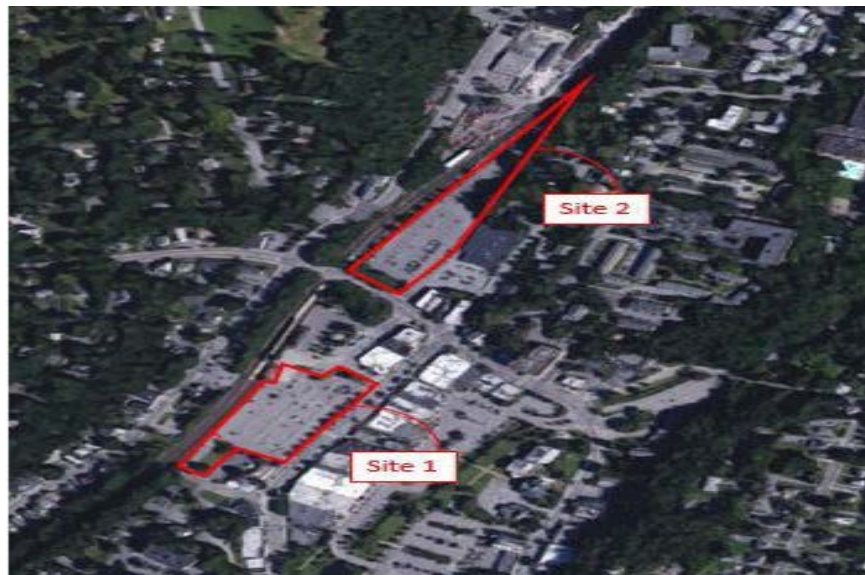
30-year Payment of Lieu of Taxes
Exemption on Sales Tax of Building Materials
Exemption on Mortgage Recording Sales Tax

July 9, 2020

The National Development Council (“NDC”), a national non-profit economic development and housing advisory company that works on behalf of municipalities and public benefit corporations, entered into a limited engagement with the Village of Mount Kisco (the “Village”) to review the redevelopment proposal for municipally owned land and provide a written report on its understandings and findings. NDC works exclusively on behalf of municipalities, local development corporations, and not-for-profit organizations. It routinely reviews development programs and financial models submitted to its client communities to assist in determining the need and appropriate sizing of financial incentives as part of a public-private partnership.

A. PROJECT SUMMARY AND OVERVIEW

The Gotham Organization (Gotham) and Charter Realty and Development (Charter), collectively referred to herein as the “Developer,” “Applicant,” or “Venture” responded to the Request for Proposal (RFP) issued by the Village of Mount Kisco (issued in August 2018) for the Village-owned properties totaling 7.4 acres along the east side of the Mount Kisco Metro North railroad station. The Village views the development opportunity as a means to invigorate the central business district with new residents, commercial activity, and civic amenities.



Aerial view of development sites

The Applicant consists of two widely experienced and accomplished real estate development companies, both of which possess an impressive portfolio of comparable mixed-use developments throughout the NY metropolitan region. The Applicant contracted with master planning and design firm Beyer Blinder & Belle Architects and Planners (BBB), also widely experienced planning and design firm with extensive experience “placemaking” developments. The proposed development plan is well-aligned with the objectives of the Village’s 2018 Comprehensive Plan and the Community Planning Principles outlined in the RFP.

The proposed “Kirby Commons” is a +/- \$130.5 million lifestyle-focused residential and retail transit-oriented development. It consists of high-end residential, modern placemaking retail and engaging public outdoor spaces. It is intended to attract the expanding number of empty nesters and millennials who seek

quality amenity-filled rental options in a walkable and engaging community. The development features 217 residences spread between two mixed-use buildings, approximately 50,000 SF of retail, 3,100 SF of community space, and supportive structured parking.

The residential unit mix includes 25 studios, 126 one-bedroom units, and 66 two-bedroom units between the two buildings. Fifteen (15), or 7%, of the residential units shall be set aside for households at 90% of the Westchester County Area Median Income (AMI) and will be spread proportionally between the North and South Moger lots.

The development will provide experiential food and soft retail offerings for residents and the Mount Kisco community. The retail element of the development, while critically important to the placemaking, carries a higher risk profile than the residential. It is the reason why Gotham sought out Charter as its joint venture partner due to latter's expertise in attracting the right retail tenant mix for placemaking developments.

The development will include a total of +/- 896 parking spaces split between two garages at the North and South Moger lots. The garages will have +/- 590 municipal parking spaces, including replacement of 366 existing commuter parking spaces.



Rendering of Kirby Commons



Rendering of Kirby Commons

The Applicant requests the Village's support for its application to the Westchester County Industrial Development Agency (IDA) for a payment in lieu of taxes (PILOT) schedule as well as exemptions from sales tax and mortgage recording tax. The Applicant requests an \$8 million (Applicant-assigned land value) leasehold interest in the 7.4-acre development parcel, a contribution intended to partially offset the Applicant's construction of two structured parking garages. The Venture also requests \$4 million in public grant assistance as an additional cost basis reduction to achieve target financial returns.

NDC has conducted a thorough review of the program and financial model. NDC finds that the above-referenced development incentives are necessary as a means of creating financial feasibility and offsetting the investment for the structured parking and civic space. NDC estimates that the public benefit, including the tax increment from the PILOT, the contribution of the structured parking for the municipal parking,

one time fees and recurring fees, as well workforce housing, valued at \$44.3 million, exceeds the aggregate proposed financial incentive package for the project by \$7 million, as detailed in Section D of this report.

The following sections summarize relevant information necessary to determine the need for and the sizing of the financial package.

- Section B** Review of the Sources and Uses
- Section C** IDA Benefits Package.
- Section D** Summary of NDC Financial Analysis
- Section E** Summary of Private and Public Benefits

B. SOURCES & USES

Sources and Uses					
USES OF FUJNDS	\$	Per Unit	Per GSF	Per NSF	%
Acquisition	\$8,000,000	\$36,866	\$19	\$23	6%
Construction	\$69,237,333	\$319,066	\$166	\$195	53%
Municipal Parking	\$20,720,689	\$95,487	\$50	\$58	16%
Hard Cost Contingency	\$3,385,864	\$15,603	\$8	\$10	3%
Soft Costs and Professional Fees	\$14,244,699	\$65,644	\$34	\$40	11%
Finance Costs	\$9,831,706	\$45,307	\$24	\$28	8%
Developer Fee	\$5,092,037	\$23,466	\$12	\$14	4%
TOTAL	\$130,512,328	\$601,439	\$312	\$367	100%
CONSTRUCTION SOURCES					
	\$	%			
Loan	\$81,373,131	62%			
Contributed Leasehold	\$8,000,000	6%			
Public Grant	\$4,000,000	3%			
Deferred Fee	\$2,897,089	2%			
Equity	\$34,242,108	26%			
TOTAL	\$130,512,328	100%			
PERMANENT SOURCES					
Permanent Loan	\$91,083,062	70%			
Leasehold Payment	\$8,000,000	6%			
REDC Funds	\$4,000,000	3%			
Private Equity	\$27,429,266	21%			
TOTAL	\$130,512,328	100%			

The development cost is \$130.5 million, equivalent to \$601K per unit and \$312/SF. While the per unit costs seems high, the cost “per unit” metric is distorted as the development budget includes the considerable commercial space (50,000 square feet) and the 896-space parking garage. The costs attributed to the parking garages is approximately \$29.6 million and \$20.7 million is attributable to the +/- 597 municipal parking, including +/- 366 to replace the current commuter surface spaces.

Parking Summary							
	North Lot		South Lot		Total		
	Spaces	Cost	Spaces	Cost	Spaces	Cost	
Residential	119	\$4,561,487	180	\$4,427,035	299	\$8,988,522	
Municipal	409	\$15,447,724	188	\$5,272,965	597	\$20,720,689	
Cost	528	\$20,009,211	368	\$9,700,000	896	\$29,709,211	

The development will be financed mostly with a conventional debt (62%) and equity (28%) capital structure. The applicant has received bank letters of interest for the debt from a few lenders and term sheet from Goldman Sachs Urban Investment Group. The financial partners condition participation on a PILOT in order to establish predictability and reasonableness of payments. The +/- 10% balance of the funds are proposed to be the public grant (\$4 million) and the contributed land leasehold interest, estimated to be \$8 million, equivalent to approximately \$37,000 per residential unit. The \$4 million grant has not been identified. A likely targeted source would be Empire State Development Corporation (ESDC).

The Ground Lease is proposed as “triple net,” meaning the Venture will pay all operating expenses, including but not limited to PILOT payments, insurance, repairs, utilities, capital repairs / maintenance and other operating expenses. The Venture has also agreed to pay the Village a parking maintenance fee of \$100,000 (escalating at 2% annually) during the PILOT term. The Village will also retain all revenue from the municipal parking.

C. IDA BENEFITS PACKAGE

It is the Venture’s intention to seek a PILOT, sales tax exemption on building materials, and mortgage recording tax exemption through the Westchester County IDA.

The Venture seeks the support of the Village for a 30-year PILOT. The tax benefit summary requested of the IDA summarized is as follows.

TAX BENEFIT SUMMARY		
IDA RELATED PROPERTY TAXES		
Current Taxes		\$0
As Complete Full Taxes		\$1,725,795
PILOT schedule		30-year
PILOT over Term		\$35,021,596
Savings over term		(\$34,990,593)
Increment over Savings		\$31,003
MORTGAGE RECORDING TAX		
Construction Loan		\$81,555,423
Mortgage Recording Tax Exemption %		0.675%
Value of Exemption		\$550,499
SALES TAX EXEMPTION		
Construction Cost		\$93,343,886
Value of Building Materials	50%	\$46,671,943 *
Sales Tax		8.375%
Value of Exemption		\$3,908,775
<i>* estimate on \$ for building materials. Not detailed in IDA Application.</i>		

The property is owned by the Village of Mount Kisco and is tax-exempt given its use as a municipal parking lot. The Village Assessor has reported “as complete” full taxes at \$1,725,795. The improvement assessment does not include the structured parking garages. This is equivalent to \$7,953 per unit. The development is not considered financially feasible with starting taxes at this level, as the Venture would not be able to attract the requisite debt and equity to cover the development costs. A PILOT is needed as a means of creating financial viability. The predictability of the PILOT is an important risk mitigant for the financial partners. The real estate tax burden in Westchester County is often regarded as an impediment for private investment.

NDC supports the 30-year term as the full tax estimate is very high for the proposed development to absorb. It is necessary to have a long term to stretch the phase-in period until the development could support full taxes. The PILOT schedule is included on Exhibit 1 on page 10.

The summary of the PILOT is as follows;

- The property remains tax-exempt during the construction period
- PILOT commences at \$200,000 with 5% escalators years 21 – 30
- The improvements are assumed to have a 2% escalator
- The PILOT phases into full taxes years 11 – 30
- During the PILOT term, the average annual PILOT paid is approximately \$1.2 million on land that has historically been tax-exempt and not contributing to the taxing jurisdictions
- Also included in the schedule is the \$100,000 annual “parking maintenance” contribution made by the Venture to the Village. This fee escalates 2% annually.

The PILOT schedule provides predictability with payments and provides a gradual transition to full taxes. While the tax savings are considerable at \$35.0 million, the aggregate tax increment (\$35.1 million) exceeds the developer savings benefit, a common threshold objective with PILOT policy with comparable developments.

D. SUMMARY OF NDC ANALYSIS TO SUBSTANTIATE NEED FOR FINANCIAL INCENTIVE PACKAGE

NDC based its analysis on the revenue, expense and costs assumptions provided by the Venture in the RFP response. For consistency with other reviews, NDC adjusted the pro forma provided by the Venture with the following assumptions:

- Permanent loan assumptions that are in line with the current market for similar projects
 - 30-year amortization
 - Rate of 5.00%
- Adjusting revenue growth to 3% annually
- Adjusting expense growth to 3% annually
- Projecting terminal value of project using a 5.5% cap rate

The starting rents for the market units, ranging from \$3.25 - \$4.25/SF monthly, or an average rent of +/- \$3,000 per unit monthly, are priced relatively in range with residential units that are being placed into service in Westchester County communities.

The workforce rents will be affordable to households and individuals earning less than 90% of area median income (AMI). These rents will average approximately \$2,000 based among the studio, one-bedroom and two-bedroom units.

The 50,000 square feet of commercial space will lease at approximately \$30/SF.



The stabilized operating pro forma on next page has operating expenses, exclusive of real estate taxes, at \$8,300 per unit annually, justified based upon the fact that it also includes maintenance of the ground, common area, and commercial space.

STABILIZED OPERATING PRO FORMA (Assumed to be 3rd year of operations)						
		WITHOUT PILOT		WITH PILOT		Comment
		\$	PER UNIT	\$	PER UNIT	
Gross Market Income		\$7,812,468	\$3,223 per month			
Gross Workforce Income		373,121	\$2,073 per month			
Gross Residential Income		8,185,588				
Commercial Income		1,654,236	\$33 /SF			
Parking Income		343,332				
Ancillary Income		164,846				
Gross Total Income		10,348,003				
Less Residential Vacancy	5.00%	(409,279)				
Less Commercial Vacancy	5.00%	(82,712)				
Less Parking Vacancy	10.00%	(50,818)				
Effective Gross Income		9,805,193		9,805,193		
Operating Expenses Excl Taxes		(1,807,791)	\$8,331 per unit annually	(1,807,791)	\$8,331 per unit annually	
RE Taxes		(1,725,795)	\$7,953 per unit annually	(220,500)	\$1,016 per unit annually	
Total Expenses		(3,533,586)	\$16,284 per unit annually	(2,028,291)	\$9,347 per unit annually	
Net Operating Income		6,271,608		7,776,903		
Debt Service		(5,253,686)		(5,253,686)		
Cash Flow		\$1,017,922		\$2,523,217		
						Market Expects
Debt Coverage Ratio		1.19		1.48		> 1.25
Yield to Cost		5.29%		6.56%		> 6.00%
Leveraged Internal rate of Return (IRR)				12%		> 10%

The above analysis substantiates a previously stated observation that the development is not financially feasible without the PILOT. Full “as complete” taxes are estimated to be almost \$1.8 million by the Village Tax Assessor. With full taxes, the project falls far short of debt coverage ratio (DCR) requirements of lenders and the yield to cost (YTC) and internal rate of return (IRR) return thresholds of investors.

The proposed financial package, one that includes the PILOT schedule that is outlined on page 10, creates financial feasibility. With the proposed PILOT schedule and the balance of the financial incentive package, returns from the project meet the developer’s required threshold, specifically a stabilized yield on cost of 6.25%. The leveraged Internal rate of return (IRR) measured over the 20-year term is 12%.

The financial incentive package is structured to establish feasibility and there is not undue enrichment to the Applicant as the return metrics are consistent with market

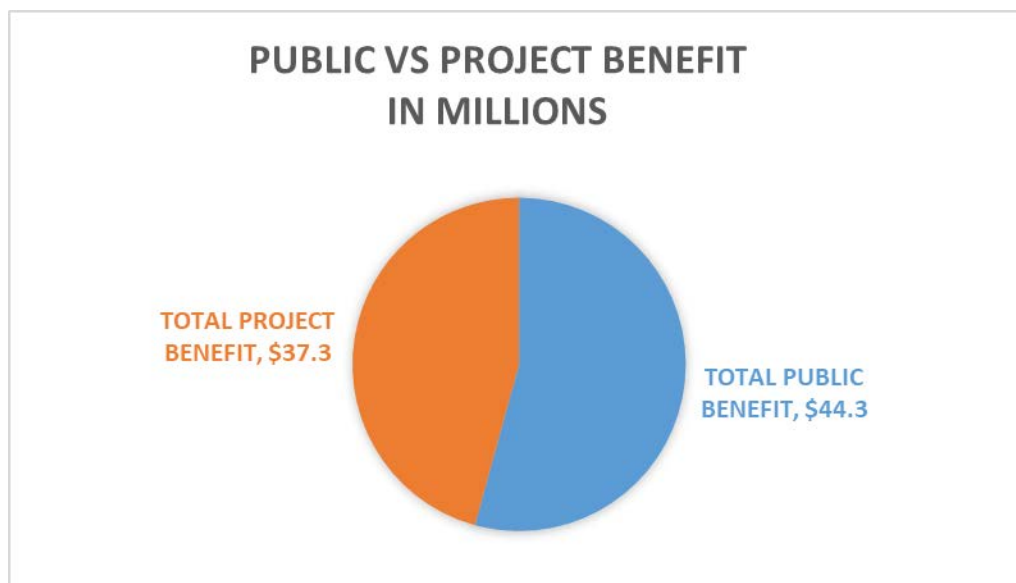
E. COST / BENEFIT ANALYSIS

The public financial benefits exceed the benefits provided to the Venture. While the Venture will realize a net present value (NPV) of benefit of \$20.8 million in savings during the 30-year PILOT term, the aggregate PILOT payments on a NPV basis are estimated at over \$12.8 million over the term. The payments and savings were present valued by using a 5% discount rate, equivalent to the assumed current capitalization rate.

Other Benefits for the public are the

- municipal parking costs borne by the Applicant,
- one-time fees (building fees and utility fees)
- a share of a refinancing or disposition fee, should the developer refinance or sell prior to the term of the PILOT
- 15 units of affordable housing were valued by determining the annual income differential between market and affordable units and capitalizing such by the capitalization rate. The methodology for valuing the affordable units are featured in Exhibit 2 on page 11

Public Benefits		Project Benefit	
NPV of PILOT over Term (5% discount rate)	\$12,581,982	NPV of PILOT Savings (5% discount rate)	\$20,834,688
		Mortgage Recording Tax Exemption	\$550,499
North Municipal Parking Costs	\$15,447,724	Sales Tax Exemption	\$3,908,775
South Municipal Parking Costs	\$5,272,965	IDA Benefits	\$25,293,963
Total Municipal Parking Costs	\$20,720,689		
NPV of Parking Maintenance Fee Over Term	\$1,936,306	Contribution of Land Leasehold	\$8,000,000
NPV of Parking Revenue to Village Over Term	\$3,372,662	Public Grant	\$4,000,000
One Time Fees to Village *	\$1,715,810	Public Contributions	\$12,000,000
NPV of Refinancing and Disposition Fee	\$184,797		
Total Fees and Income	\$7,209,575		
Value of Affordable Housing (15 units)	\$3,763,994		
TOTAL PUBLIC BENEFIT	\$44,276,240	TOTAL PROJECT BENEFIT	\$37,293,963



In addition to the above public financial benefits, the Venture estimates 500 temporary construction jobs and one-hundred and eighty-seven (187) full-time equivalent jobs for the development, the latter to be



realized mostly from the commercial and parking elements of the development. The mixed-income development maximizes the land use for what has been an underperforming site, adds considerable disposable income for the Village of Mount Kisco to assist the retail base, and will likely catalyze additional development and investment. The development will also deliver 15 much-needed workforce housing units for the Village.

The development will recreate the Mount Kisco market well for its future. It is well positioned to achieve the Village's stated goal of "active, pedestrian friendly environment with a vibrant safe, civic space as well as stronger connections between the train station and Moger Avenue."



EXHIBIT 1: PILOT SCHEDULE

30-YEAR PILOT Kirby Square							
Taxes At Full Assessment		\$1,725,795	\$7,953 per unit				
Escalator		2.00%					
Residential & Retail SF		255,000					
Full Taxes/SF		\$6.77					
				5.00% discount rate	5.00% discount rate		5.00% discount rate
Year	Base Taxes	Improvement Taxes	Abatement	PILOT Benefit	PILOT Payment	Real Estate Tax Increment	Parking Miantenance Fee
Construction	\$0	\$0	0	\$0	\$0	\$0	\$0
Construction	\$0	\$0	0	\$0	\$0	\$0	\$0
1	\$0	\$1,725,795	88.4%	\$1,525,795	\$200,000	\$200,000	\$100,000
2	\$0	\$1,760,311	88.1%	\$1,550,311	\$210,000	\$210,000	\$102,000
3	\$0	\$1,795,517	87.7%	\$1,575,017	\$220,500	\$220,500	\$104,040
4	\$0	\$1,831,427	87.4%	\$1,599,902	\$231,525	\$231,525	\$106,121
5	\$0	\$1,868,056	87.0%	\$1,624,955	\$243,101	\$243,101	\$108,243
6	\$0	\$1,905,417	86.6%	\$1,650,161	\$255,256	\$255,256	\$110,408
7	\$0	\$1,943,525	86.2%	\$1,675,506	\$268,019	\$268,019	\$112,616
8	\$0	\$1,982,396	85.8%	\$1,700,976	\$281,420	\$281,420	\$114,869
9	\$0	\$2,022,044	85.4%	\$1,726,553	\$295,491	\$295,491	\$117,166
10	\$0	\$2,062,485	85.0%	\$1,752,219	\$310,266	\$310,266	\$119,509
11	\$0	\$2,103,734	80.8%	\$1,699,817	\$403,917	\$403,917	\$121,899
12	\$0	\$2,145,809	75.0%	\$1,609,357	\$536,452	\$536,452	\$124,337
13	\$0	\$2,188,725	72.0%	\$1,575,882	\$612,843	\$612,843	\$126,824
14	\$0	\$2,232,500	69.0%	\$1,540,425	\$692,075	\$692,075	\$129,361
15	\$0	\$2,277,150	66.0%	\$1,502,919	\$774,231	\$774,231	\$131,948
16	\$0	\$2,322,693	62.0%	\$1,440,070	\$882,623	\$882,623	\$134,587
17	\$0	\$2,369,147	57.0%	\$1,350,414	\$1,018,733	\$1,018,733	\$137,279
18	\$0	\$2,416,530	52.0%	\$1,256,596	\$1,159,934	\$1,159,934	\$140,024
19	\$0	\$2,464,860	47.0%	\$1,158,484	\$1,306,376	\$1,306,376	\$142,825
20	\$0	\$2,514,157	42.0%	\$1,055,946	\$1,458,211	\$1,458,211	\$145,681
21	\$0	\$2,564,441	37.0%	\$949,230	\$1,615,211	\$1,615,211	\$148,595
22	\$0	\$2,615,729	32.0%	\$837,033	\$1,778,696	\$1,778,696	\$151,567
23	\$0	\$2,668,044	27.0%	\$720,372	\$1,947,672	\$1,947,672	\$154,598
24	\$0	\$2,721,405	22.0%	\$598,709	\$2,122,696	\$2,122,696	\$157,690
25	\$0	\$2,775,833	17.0%	\$471,892	\$2,303,941	\$2,303,941	\$160,844
26	\$0	\$2,831,350	10.0%	\$283,135	\$2,548,215	\$2,548,215	\$164,061
27	\$0	\$2,887,977	8.0%	\$231,039	\$2,656,938	\$2,656,938	\$167,342
28	\$0	\$2,945,736	6.0%	\$176,744	\$2,768,992	\$2,768,992	\$170,689
29	\$0	\$3,004,651	3.5%	\$105,163	\$2,899,488	\$2,899,488	\$174,102
30	\$0	\$3,064,744	1.5%	\$45,971	\$3,018,773	\$3,018,773	\$177,584
		\$70,012,188		\$34,990,593	\$35,021,596	\$35,021,596	\$4,056,808
		\$33,416,670.87		50%	50%		
					\$1,167,387 annual avg.		
				\$20,834,688 NPV	\$12,581,982 NPV	\$12,581,982	\$1,936,306 NPV

EXHIBIT 2: VALUE OF WORKFORCE HOUSING

Value of Workforce Housing	
Avg Market Rate Rent	\$3,038
Avg Workforce Rent	\$1,992
Delta	\$1,046
Units	15
Months	12
Annual Delta	\$188,200
Cap Rate	5.00%
Value of Affordable Units	\$3,763,994
Units	15
Per Unit	\$250,933

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"):

The National Development Council is not a Registered Municipal Advisor as defined in Dodd-Frank and the Exchange Act and therefore cannot provide advice to a municipal entity or obligated person with respect to municipal financial products or the issuance of municipal securities, including structure, timing, terms or other similar matters concerning such financial products or issues.

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