

DRAFT FOR DISCUSSION PURPOSES ONLY
DATED: JULY 13, 2020

MEMORANDUM FROM 620 HUDSON HOUSE, LLC
David Kessler, Sole Member

To: Members of the City of Hudson Industrial Development Agency
Date: July 14, 2020
Subject: 620 Hudson House, LLC Project
PILOT Proposal

Introduction

Thank you again for the opportunity to present this proposal for our Project. We have been working diligently over the past several months to obtain the initial approval of the overall design and scale of the project from HPC as well as addressing potential issues raised by City Planning and, obviously, dealing with the impacts of the COVID-19 pandemic. As you can imagine, the COVID -19 pandemic has had a significant impact on financing projects in general, and on the current business operations of the hospitality industry and the financing of hospitality projects in particular.

However, we want to state unequivocally to you that we are moving forward with the Project, and fully expect to begin construction in January 2021 and to be open for business 18 to 24 months thereafter.

In order to undertake the Project, as we have indicated from Day 1 in our discussions with the City of Hudson Industrial Development Agency, we need the assistance of the Agency in the form of the exemptions from sales and use taxes and mortgage recording tax, and a 10-year fixed payment in lieu of taxes schedule (collectively, the "IDA Assistance"). The fixed payment schedule is critical in that it will provide commercial certainty regarding future payments, which will in turn provide us with the ability to underwrite the Project by demonstrating financial feasibility.

While the focus of some members of the Agency and the general public has been on the amount of the proposed IDA Assistance, we would like to respectfully describe to the members of the Agency the local benefits we are proposing in connection with the undertaking of the Project, and compare those benefits to the requested IDA Assistance.

Local Benefits

The local benefits can be described as follows:

1. We are investing approximately \$14,000,000 in the City of Hudson. The Project is one of the largest capital projects undertaken in the City in the past 10 years, and is moving forward despite the global pandemic. The Project is being financed without any federal or state financing.
2. The Project will be locally owned and operated. The principal of 620 Hudson House, LLC has moved to the City of Hudson and is a local resident. We expect that the Project will be independent and locally focused; we will not be working with a large hotel chain/flag.

3. Despite having worked with a team of professionals from NYC for many years, we have hired local professionals (architecture, engineering, contracting, and legal) to assist in the undertaking of the Project. The list of professionals includes the following:

- Michael Phinney - Phinney Design Group (Troy & Saratoga Springs): Architect of Record
- Dale Schafer - Wagner Hodgson (Hudson): Landscape Architect
- Chad Lindburg & Andy Didio – Taconic (Chatham): Site, Civil, & Structural Engineer
- Andy Howard - Freeman Howard (Hudson) & Joseph Scott - Hodgson Russ (Albany): Legal
- Josephine Proul – Local 111 (Philmont): F&B Consultant For Initial Kitchen Design
- TJ Hezner – Hezner (Albany) – MEP Engineer
- Aaron Smith - RAPPCM (Hudson) – Contractor For Preconstruction Services To Date

4. While we have not selected the construction manager yet, the contractor we engage will commit to the consideration of hiring local workers in connection with the undertaking of the Project.

5. We have committed to the following employment levels, and such levels will be committed to for the duration of the PILOT Agreement:

Total Permanent Employment Level	30 FTEs
Permanent Employment Level consisting of City of Hudson Residents	14 FTEs

6. In connection with the permanent employment levels, we have committed to the following:

- a. Local listing for jobs
- b. Local job fairs for hiring
- c. Coordination with Columbia Greene Community College re hiring and training
- d. Internal training programs for employees at the Project
- e. Hiring an intern from within the Construction Technology / Preservation Carpentry Certificate Program at Columbia Greene Community College

7. The Project will provide significant local revenues that will benefit the City of Hudson. See below which represents the estimated amount of revenue to be collected by the City

of Hudson from the Project in the first year of stabilized operations (2024). See Schedule A attached for more information.

	Benefit	Estimated Amount to City of Hudson in 2024
1.	NY State Sales Taxes from Hotel Operations	\$22,441 ¹
2.	NY State Sales Taxes from Outside Spending	\$32,539 ²
3.	Local Lodging Taxes	\$118,625 ³
4.	Parking Revenue	\$8,469 ⁴
	TOTAL	\$182,074

8. The benefits described above are significant and these benefits are in addition to the significant PILOT payments described in the schedule contained below. In year 2024, adding the 2024 PILOT payment of \$49,877 to the revenue received by the City that is described above, the total revenue collected by the City of Hudson in 2024 as a result of this Project is approximately \$231,951. Further, we understand and agree that we are committing to the benefits in a claw-back agreement to be entered into with the Agency. Therefore, these benefits represent an actual contractual commitment by us.

Requested IDA Assistance

Under the Agency’s Uniform Tax Exemption Policy, the Agency offers real property tax abatements in a manner similar to the benefits offered under Section 485-b of the Real Property Tax Law (i.e., the “485-b Program”). Namely, a 50% abatement in Year 1, diminishing by 5%/year over a 10-year term. The 485-b Program is an as of right program under NY law.

As part of our structuring of a real property tax abatement proposal, we needed to get information and background regarding the potential assessed value of the Project. We had extensive discussions with Agency staff and City officials on the issue. In connection with such discussions, the Agency staff retained Conkra Appraisal Associates to prepare an Appraisal Report for the Project.

The appraisal report was completed in early June 2020 by Conkra Appraisal Associates for the Agency, and the value placed on the Project was \$3,150,000.

We then reviewed possible structures, and, in connection with our review we also considered the PILOT Agreement entered into for The Wick. We further recognized that we should not reduce the amounts currently payable with respect to the Project site. The amount

¹ Computed based on estimated stabilized total gross revenue times 4% sales tax (County portion) times 13% (City portion).

² Computed based on Oxford Economics Study regarding amount of outside spending per lodging spending times 4% sales tax (County portion) times 13% (City portion).

³ Computed based on estimated stabilized gross room revenue times 4%.

⁴ Computed based on 31 permits at a cost of \$250/year, assuming a 3% per annum escalator.

currently payable in real property taxes regarding the Project site is approximately \$41,000 per annum.

Accordingly, we took in consideration the following in preparing a proposed real property tax abatement schedule:

- a. An assessed value for the Project of \$3,150,000.
- b. A starting payment no less than \$41,000, reflecting the current real property tax payment.
- c. A set of fixed PILOT payments (similar structure as The Wick)
- d. A 10-year term (similar to The Wick and consistent with the Agency's Uniform Tax Exemption Policy).
- e. An abatement schedule that starts at 50% which is consistent with the Agency's Uniform Tax Exemption Policy and which is more that The Wick PILOT Agreement (and takes into account the construction and ramp-up period for the Project).
- f. The NPV over the 10-year term for our proposed abatement schedule (or \$348,316) is approximately the same as the NPV for The Wick (or \$349,642).
- g. The NPV over the 10-year term per room (or \$6,966) is approximately the same as the NPV over the 10-year term per room (or \$6,357) for The Wick.
- h. We modified the abatement schedule so that the abatement schedule reduces by 10%/year every other year (rather than 5%/year as set forth in the Agency's Uniform Tax Exemption Policy). The starting PILOT payment at \$41,000 is significantly higher than the starting payment for The Wick.

Based on the above considerations, we would propose the following PILOT structure:

620 Hudson House					The Wick	
Tax Rate		Assessment				
County	5.24			\$3,150,000		\$1,760,000
City	7.59			\$1,000		
School	13.56			\$3,150		
Total	26.39		Rooms	50		55
Assessment Per Room				\$ 63,000		\$ 32,000
Year	%	Assessment	Tax Rate	Tax Payment		
1	50%	3,150,000	26.39	\$ 41,564		\$ 20,000
2	50%	3,150,000	26.39	\$ 41,564		\$ 25,000
3	50%	3,150,000	26.39	\$ 41,564		\$ 34,375
4	60%	3,150,000	26.39	\$ 49,877		\$ 43,750
5	60%	3,150,000	26.39	\$ 49,877		\$ 53,125
6	70%	3,150,000	26.39	\$ 58,190		\$ 62,500
7	70%	3,150,000	26.39	\$ 58,190		\$ 71,875
8	80%	3,150,000	26.39	\$ 66,503		\$ 81,250
9	80%	3,150,000	26.39	\$ 66,503		\$ 90,625
10	90%	3,150,000	26.39	\$ 74,816		\$ 100,000
11	100%	3,150,000	26.39	\$ 83,129		\$ 100,000
Total				\$ 631,777		\$ 682,500
NPV 10%				\$ 348,316		\$ 349,642
10 Year Total Tax Per Room				\$ 12,636		\$ 12,409
NPV 10% Per Room				\$ 6,966		\$ 6,357

Conclusion

We appreciate the opportunity to present this proposal. We ask that as you consider our proposal you recognize that undertaking the Project in the current environment involves significant risk. And, that we are willing to move forward with little or no change in the Project from what was originally proposed. And, with respect to the amount of IDA Assistance, the amount is similar to that offered to The Wick in a much more favorable business environment⁵. Lastly, and significantly, our proposal includes substantial local benefits in the form of job levels, local hiring and local training. There were no such local benefits being offered by The Wick to the City of Hudson in connection with their proposal.

cc: F. Michael Tucker, President and Chief Executive Officer

⁵ We note further that The Wick benefitted from a CREDC grant, NYS Historic Preservation Tax Credits, and very favorable land acquisition costs/basis and loan terms, all in a business environment that did not include the COVID-19 pandemic.

SCHEDULE A
LOCAL BENEFITS

	2020	2021	2022	2023	Stabilized 2024	2025	2026	2027	2028	2029	2030	2031	
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Total
Hudson IDA Application Fee (Paid 2/11/20)	\$ 500												\$ 500
Hudson IDA Fee (Paid 4/17/20)	\$ 2,500												\$ 2,500
Hudson IDA Fee (To Be Paid By 12/31/20)	\$ 117,200												\$ 117,200
Hudson Real Property Taxes	\$ 41,564												\$ 41,564
Hudson PILOT		\$41,564	\$41,564	\$ 41,564	\$ 49,877	\$ 49,877	\$ 58,190	\$ 58,190	\$ 66,503	\$ 66,503	\$ 74,816	\$ 83,129	\$ 631,777
Hudson Sales Taxes- Spending At Hotel	\$ -	\$ 5,610	\$ 11,221	\$ 22,441	\$ 23,114	\$ 23,808	\$ 24,522	\$ 25,258	\$ 26,016	\$ 26,796	\$ 27,600	\$ 27,600	\$ 216,386
Hudson Sales Taxes - Spending Outside Hotel	\$ -	\$ 8,135	\$ 16,269	\$ 32,539	\$ 33,515	\$ 34,520	\$ 35,556	\$ 36,623	\$ 37,721	\$ 38,853	\$ 40,019	\$ 40,019	\$ 313,750
Hudson Lodging Tax Rev	\$ -	\$29,656	\$ 59,313	\$118,625	\$122,184	\$125,849	\$129,625	\$133,513	\$137,519	\$141,644	\$145,894	\$145,894	\$1,143,822
Hudson Parking Rev	\$ -	\$ 3,991	\$ 8,222	\$ 8,469	\$ 8,723	\$ 8,984	\$ 9,254	\$ 9,532	\$ 9,817	\$ 10,112	\$ 10,415	\$ 10,415	\$ 87,519
Total	\$ 161,764	\$41,564	\$88,957	\$136,589	\$231,951	\$237,413	\$251,352	\$257,147	\$271,428	\$277,576	\$292,221	\$307,056	\$2,555,018
NPV AT 10%	\$1,420,000												