

Examples of Nassau County IDA Financial Incentives

The Nassau County Industrial Development Agency welcomes the opportunity to introduce you to the various types of financial incentives that may be available to your business. Benefits are available for eligible proposals that involve the creation, expansion, improvement or retention of property and facilities within Nassau County by companies moving to or remaining in the County.

Projects supported by the Nassau County IDA are keyed to the creation and retention of jobs and to economic development within Nassau County, an attractive, increasingly diverse, safe and highly educated suburban community with a talented and ambitious workforce, extraordinary primary and secondary education, world-class recreational and leisure venues, and a robust transportation network enjoying direct links to a virtually limitless set of destinations within the US and around the world, as well as immediate proximity to the incomparable business and cultural vibrancy of New York City.

In carrying out its mission, the Nassau County IDA can extend substantial tax incentives to eligible projects, including among other things abatements on future real estate tax payments covering a number of years and the use of lower-cost, tax-advantaged bonds.

The Nassau County IDA can undertake a wide variety of projects extending beyond traditional smokestack businesses suggested by the term “industrial.” These include projects such as headquarters or other commercial facilities or research facilities, in addition to traditional projects such as manufacturing, industrial or warehousing facilities. The Nassau County IDA welcomes interest from all economic sectors, particularly “knowledge based” industries that produce high-technology goods, are intensive users of high technology, or employ a highly-skilled workforce that can benefit fully from technological innovations, such as health care, biotechnology, aerospace, homeland security, education, communications, finance, and real estate. {LINK to definition}

A related organization, the Nassau County Local Economic Assistance Corporation, provides similar incentives to not-for-profit institutions and organizations, such as schools, hospitals, educational, cultural, community and civic organizations.

The Nassau County IDA encourages you to talk with us about these or other types of potential projects that would be located within Nassau County. Please contact Joseph Kearney, Executive Director, at (516) 571-1945, or jkearney@nassauida.org.

INCENTIVES

In order to be able to realize and pass along tax and other financial incentives to a company, the Nassau County IDA generally takes an ownership interest in the

relevant real or personal property that the company will use, for a specified term (for example, 10 years) during which the incentives are being provided. In turn, the company leases the property back from the Nassau County IDA until the end of the period, when legal ownership reverts back to the company. The company operates, manages and is fully responsible for the property during the period, and retains all other incidents of ownership. The structure of these transactions should generally preserve the company's ability to obtain federal tax depreciation benefits on the property during the period when the Nassau County IDA retains its ownership interest.

Types of financial assistance available from the Nassau County IDA include:

REAL ESTATE TAX ABATEMENTS

The Nassau County IDA's temporary legal ownership of a project enables it to transfer to the company part of the value of the Nassau County IDA's exemption from real property taxes. The company utilizes a so-called "PILOT" (Payment In Lieu Of Taxes) program to make reduced, pre-determined payments (PILOT payments) instead of real property taxes that it would otherwise pay without the assistance of the Nassau County IDA. The Nassau County IDA does not have a fixed formula for calculating PILOT payments, but the hypothetical example below is illustrative.

Company A approaches the IDA and proposes to undertake a project involving the construction of a 10,000 square foot manufacturing facility on a parcel of land that is currently vacant. The vacant land has an assessed value of \$10,000 and the projected "as built" assessed value of the completed office building is \$30,000 (including land). The aggregate tax rate for the property is \$500 per \$100 of assessed value.

Year	Land PILOT¹	Increased Assessed Value²	Assessed Value Phase-In	Assessed Value for PILOT³	Tax Rate Increase	PILOT Rate⁴	Improvement PILOT⁵	TOTAL PILOT⁶	Savings vs. Actual Taxes¹
1	\$50,000	20,000	0%	0	1.00	500.00	\$0	\$50,000	\$0.00
2	\$50,000	20,000	10%	2,000	1.00	500.00	\$10,000	\$60,000	\$96,750
3	\$50,000	20,000	20%	4,000	1.00	500.00	\$20,000	\$70,000	\$93,803
4	\$50,000	20,000	30%	6,000	1.03	515.00	\$30,900	\$80,900	\$90,274
5	\$50,000	20,000	40%	8,000	1.0609	530.45	\$42,436	\$92,436	\$86,442
6	\$50,000	20,000	50%	10,000	1.0927	546.35	\$54,635	\$104,635	\$82,292
7	\$50,000	20,000	60%	12,000	1.1255	562.75	\$67,530	\$117,530	\$77,809
8	\$50,000	20,000	70%	14,000	1.1593	579.65	\$81,151	\$131,151	\$72,978
9	\$50,000	20,000	80%	16,000	1.1941	597.05	\$95,528	\$145,528	\$67,787
10	\$50,000	20,000	90%	18,000	1.2299	614.95	\$110,691	\$160,691	\$62,224

TOTAL SAVINGS \$ 730,359

¹ Land A/V of \$10,000 times tax rate of \$500 (200 General Tax Rate 2010; 300 School Tax Rate 2010/11) per \$100.

² As-built project assessed value of \$30,000 (\$3,000,000 market value times 1%), less land assessed value of \$10,000.

³ Increased A/V times A/V Phase-In.

⁴ Tax Rate of \$500 times Tax Rate Increase.

⁵ Assessed Value for PILOT times PILOT Rate divided by 100.

⁶ Land PILOT plus Improvement PILOT.

⁷ Assumes that the Increased Assessed Value applies in full as of Year 2 of the PILOT, that there are no reassessments during the PILOT term, and that actual tax rates increase by 4.5% per year.

The amount of benefits that will be realized by a company cannot be determined with certainty at the inception of the transaction. That amount will depend upon what actual assessments and the applicable tax rates would turn out to be without the PILOT, but over the term of the PILOT the company can expect to benefit to the extent that actual property tax increases exceed the amounts established under the PILOT formula. The PILOT agreement also provides the company with valuable certainty, since the company's PILOT payments, unlike actual real estate assessments, tax rates, and taxes, will not rise in excess of the formula for the 10-year term.

While virtually all companies availing themselves of real estate tax incentives from the Nassau County IDA elect to utilize PILOT payments, no assurance can or will be given that payments made under a PILOT arrangement will be less than the actual real estate taxes on the property that would have been paid if the PILOT arrangement had not been utilized.

SALES AND USE TAX EXEMPTIONS

The Nassau County IDA, in projects in which construction or equipment purchases occur, typically issues a sales tax exemption letter for eligible construction materials, furniture, fixtures and equipment. The tax exemption is limited to the duration of construction and is not available for ongoing operational costs. By way of example, if the cost of eligible construction materials, equipment and services (other than labor costs) for Company A's project were \$2 million, the exemption can result in a savings of \$172,500 (8.625% current sales tax rate x \$2,000,000).

MORTGAGE RECORDING TAX EXEMPTIONS

Company A may be entitled to a full exemption from mortgage recording tax for any mortgage recorded in connection with the project. By way of example, if the mortgage secured the principal amount of \$3 million, the savings could be \$31,500 (1.05% current mortgage recording tax rate x \$3,000,000).

TAX EXEMPT FINANCING

The Nassau County IDA is authorized to issue both tax-exempt and taxable bonds and act as a financial conduit by making the bond proceeds available to an eligible company. Taxable bonds issued to fund eligible costs of a project are exempt from New York State and local income tax but not from federal income taxes. Tax-exempt bonds, on the other hand, are exempt from federal, New York state and local income taxes.

Proposals involving the issuance of tax-exempt or taxable bonds are also eligible for real estate tax abatements, sales and use tax exemptions and mortgage recording tax exemptions.

A thorough analysis must be undertaken to determine whether a particular project meets the various requirements established under the Internal Revenue Code for tax-exempt financing. In addition, the company must weigh the lower cost of borrowing against the transaction costs of the bond financing, including higher borrower counsel fees, bond counsel fees, letter of credit fees, underwriter's fees, underwriter's counsel's fees and trustee's fees.

The following example compares the benefits of a tax-exempt bond financing with a conventional bank financing based upon the following assumptions:

- (1) Company A is financing the acquisition and construction of a manufacturing facility in Nassau County for \$4 million, using a down payment of \$1 million to finance the acquisition cost and financing the remaining cost with a \$ 3 million dollar tax-exempt bond issuance. The bonds will finance rehabilitation, improvement and equipping of the facility.
- (2) The tax-exempt interest rate is 7.0% and the comparable bank loan interest rate is 8.75%, and the principal amount is not amortized.
- (3) The term of the \$3,000,000 principal amount being financed is 10 years. Payment of the full amount of principal will be made at maturity.

Using all of the assistance available, the company may save in excess of \$1,300,000, consisting of:

	BONDS	BANK LOAN
Amount	\$3,000,000	\$3,000,000
Cost and Fees	\$200,000	\$50,000
Total 10 Year Interest	\$2,100,000	\$2,625,000
Total Cost	\$2,300,000	\$2,675,000
TOTAL Financing Cost Savings	\$375,000	

In addition to the financing cost savings, the company may realize the following additional savings from a property tax abatement, a sales tax exemption and a mortgage tax exemption taken from the illustration above:

Property Tax Abatements	\$730,359
Sales Tax Exemptions	\$172,500
Mortgage Tax Waiver	\$31,500
Total Additional Savings	\$934,359

The actual bond and bank interest rates will depend on a number of variables, including then current market conditions, available security, credit enhancement, feasibility, *etc.* The Nassau County IDA recommends that applicants consult with their legal and financial professional advisors to determine whether bond financing, including tax-exempt bond financing, is available and/or feasible for all or a portion of a prospective project.

SEEKING INCENTIVES FROM THE NASSAU COUNTY IDA: GETTING STARTED

The first step in the process is to contact the Nassau County IDA staff, through Joseph Kearney, Executive Director, at (516) 571-1945, or jkearney@nassauida.org. Nassau County IDA staff will review the company's plans with you and enter into preliminary discussions about the proposal. In conjunction with these discussions, the company will complete a preliminary Application for Financial Assistance {LINK}. The aim of this preliminary process is for IDA staff to assess the potential merit of the proposal, in order to minimize the expenditure of time, money and effort for projects deemed unlikely to result in the approval of IDA incentives, and to accelerate the review process for proposals deemed to hold promise.

For proposals that progress past the staff review stage, a meeting of the Nassau County IDA's Transactions Committee will be held within a short period of time. The Transactions Committee will review the proposal face-to-face with officials and representatives of the company. Subsequent to the Transactions Committee meeting, the company will be informed of the recommendation of the Transactions Committee toward the proposal. The aim of the Transactions Committee's review is to expeditiously determine and convey to the company the degree of likelihood of full IDA approval, and to identify issues that need to be addressed in order for the proposal to be likely to warrant full Agency approval.

Once a proposal progresses past Transactions Committee review, a recommendation will be made that a legally-required public hearing be scheduled and held. Following the public hearing, the members of the Nassau County IDA will vote on the application at a public meeting, and, if approved, the Nassau County IDA will issue inducement and approval resolutions.

The approval of financial incentives by the Nassau County IDA is determined exclusively under the discretion of its members, and not by the Transaction Committee. The members consider a number of factors in reaching their decision, but a primary consideration is the likely positive impact of the project on the Nassau County economy – particularly job creation. Applicants should be prepared to demonstrate to the Nassau County IDA the benefits that Nassau County may expect to realize in exchange for granting financial incentives to the company. The members will also consider input about the project received from the community at the public hearing. The project will be monitored by the Nassau County IDA during the term of the financial assistance to ensure that the projected public benefits, particularly job creation, are delivered and maintained.

FEES

Nassau County IDA Fees:

(a) Application Fee: \$1,000

(b) Annual Compliance Fee: \$2,500 at closing and \$1,000 annually for the term of the assistance

(c) Taxable Bonds (if applicable): Six-Tenths of 1% for the first \$20 million and Two-Tenths of 1% for all amounts in excess of \$20 million

(d) Tax-Exempt Bonds (if applicable): Six-Tenths of 1% of the total amount of project costs

(e) Straight Lease Transactions (if applicable): Six-Tenths of one percent for the first \$20 million, and Two-Tenths of 1% for all amounts in excess of \$20 million of total

project costs, or the increased value of the assets plus the amount of all anticipated capital improvements and/or equipment to be purchased.

Other Fees Paid by Applicant:

(f) IDA Bond/Transaction Counsel: \$3,500 deposit, total fee negotiated separately

(g) IDA General Counsel: One-tenth of 1% of the total amount of project costs

(h) Cost/Benefit Analysis: \$2,500 deposit

(i) Real Property Tax Valuation Analysis: \$500 deposit