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**BARTRAM & COCHRAN** Real Estate & Economic Development Consultants

**Libby Hill Business Park Phase II (LBHP II)  
Business Plan**

**April 30, 2008  
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## **Libby Hill Business Park Phase II (LBHP II) Business Plan**

### **Background**

Situated in an ideal location at the intersection of I-95, I-295 and Route 201, Libby Hill Business Park (Phase I) has been in operation since the late 1990's with build-out starting in 2000. Phase I consists of 140 acres with 16 lots, of which only four are currently available. Given its outstanding location within the State of Maine as a central point from which to access key areas north to Bangor (and beyond) and south to Greater Portland, the time is right to begin the Phase II expansion.

Because of its Tax Increment Financing (TIF) zone location and Pine Tree Zone designation, Libby Hill has been and will continue to be a desirable location for business. Not only is the park aesthetically attractive with its natural setting and well designed buildings but it has the necessary infrastructure for today's businesses (water, sewer, electric and telecommunications). With Federal and State regulatory pre-permitting, construction time is expedited for interested businesses—a key factor in their location and site decision-making.

Target sectors to attract to Libby Hill are distribution, technical/consulting firms and other businesses that need good access to the entire state. Ideal targets are those companies that would create a corporate headquarters/distribution facility on the site.

### **Approach**

To develop the Business Plan for Libby Hill Business Park (Phase II), Bartram & Cochran:

- ◆ Toured the Business Park to get a first-hand feel for the location, the site, the topography, the adjacency to major highways and local routes, the existing buildings that are currently located there and the future expansion opportunities
- ◆ Met with Jason Simcock, Director of Planning & Development, City of Gardiner to get both a quantitative and qualitative feel for the background on the Libby Hill Business Park. Mr. Simcock has provided extensive background material on Phase I on land sales, property taxes, Tax Increment Financing (TIF) and other related matters. Phase II information, where available, was also provided.

- ◆ Conducted Information Interviews with a wide range of contacts to get diverse and broad perspectives on Phase I as well as a sense of the direction for Phase II, including:

Ken Young, Executive Director, KVCOG

Brian Hodges, Business Development Specialist, Maine DECD

Connie Greenleaf, Gardiner Board of Trade

Dave Bragg, Milone & MacBroom--Ph. II site plan, infrastructure, costs/timing

Dave Cichowski, Code Enforcement Officer—zoning, land use, lot coverage

Greg Connors, Program Officer, Maine Municipal Bond Bank

(bond related information)

Merrill Huhtala, Center for Workforce Research and Information,

Maine Dept. of Labor (Labor Force and Demographics information)

Maine Revenue Services (personal property tax reimbursement programs)

Curt Lebel, City Assessor (personal property tax information)

#### Businesses at LHBP

These information interviews addressed the following points:

- ◆ The nature of their business
- ◆ Where they were previously located
- ◆ How the LHBP location and infrastructure support their business requirements
- ◆ What cost and expense factors went into their decision
- ◆ Other locations they had considered
- ◆ Is there anything the LHBP could do to improve its competitive posture
- ◆ What specific types of businesses would be attracted to the LHBP

The following businesses were contacted:

Dennison Lubricants-Tim Dennison (owner)—just acquired lots

E.J. Prescott-Peter Prescott (owner), Dave Gardiner (SVP)

Pine State Trading-Nick Alberding (owner)

Harper's Development – Bill Dowling (tenant oversight)

Tenants at Harper's Development Building

Scientific Games – Darrell Frecker, General Manager

On Target – John Fallona, President

Veterans Administration – Keith Waye, Contracting Officer

- ◆ Reviewed background materials including City Valuation and Tax Records, 2006 TIF worksheet, Phase I expense, real and personal property tax data, additional TIF and other information and related Phase II Projections

- ◆ Reviewed Sales to Date information on LHBP Phase I to get a better sense of the demand and absorption to date to utilize in establishing Phase II projections
- ◆ Conducted a preliminary evaluation of competitive sites
- ◆ Evaluated financial, locational, demographic and other market data to establish the context for the Business Plan
- ◆ Reviewed a draft business plan with the Libby Hill Business Park Steering Committee for their feedback

### **Business Plan Description**

To create the Business Plan and Cash Flow models, the information and assumptions used were based on the Information Interviews and data previously described. These assumptions continued to be refined and expanded, culminating in the final Business Plan with a range of possible outcomes. Also, the attached spreadsheet contains all the details, assumptions and projections for preliminary revenue and expense estimates from 2007 through 2017 (or 2018, depending on the particular scenario). 2017 represents the year in which all the lots will have been sold and buildings constructed. The attached spreadsheet contains three scenarios (to be described in greater detail). Worksheet 1 is a Conservative Scenario. Worksheet 2 is the Most Likely Scenario. And Worksheet 3 is an Aggressive Scenario. Each worksheet has its business model on page 1, assumptions on page 2 and bond pro forma information on page 3. A revised site plan for Phase II is also attached.

Contained in the first chart below are key lot related assumptions for Phase II based on Phase I experience as well as other factors and projections. Projected Sale Prices will vary by scenario—ranging from \$.75/SF (developable) in the Conservative Scenario to \$1/SF (developable) in the Most Likely Scenario to \$1 to \$1.25/SF in the Aggressive Scenario with the northernmost lots priced at \$1/SF and the southernmost priced at \$1.25/SF.

Lot #	Total Acres	Developable Acres	Projected Sale Price Conservative Scenario	Projected Sale Price Most Likely Scenario	Projected Sale Price Aggressive Scenario
17	2.8	1.7	\$55,539	\$74,052	\$74,052
18	3.5	3.5	\$114,345	\$152,460	\$152,460
19	12.9	7.7	\$251,559	\$335,412	\$335,412
20	13.3	3	\$98,010	\$130,680	\$130,680
21	20	13.6	\$444,312	\$592,416	\$592,416
22	13.5	8	\$261,360	\$348,480	\$435,600
23	2.8	2.3	\$75,141	\$100,188	\$100,188

24	4.1	1.5	\$49,005	\$65,340	\$81,675
25	4.8	2.4	\$78,408	\$104,544	\$130,680
26	8.4	2.5	\$81,675	\$108,900	\$136,125
27	10.9	6.4	\$209,088	\$278,784	\$348,480
28	17.3	7.9	\$258,093	\$344,124	\$430,155
Total	114.3	60.5	\$1,976,535	\$2,635,380	\$2,947,923

Pricing for these scenarios was determined based on a number of factors. Current pricing is at \$.75/SF or \$32,670 per developable acre in Phase I. This was used for the Conservative Scenario. For comparison, FirstPark is priced at \$40,000 per developable acre. Based on the scarcity of available business park land, in and nearby the Gardiner area, and for the uses typical at Libby Hill Business Park, it would appear that a range of \$40,000 to \$50,000 (per developable acre) would be very realistic. This translates to \$.918 to \$1.148/SF. For marketing purposes, using a mid-range, round number of \$1.00/SF would translate to \$43,560 per developable acre. This was determined to be the Most Likely Scenario. While the more Aggressive Scenario is priced at \$1 to 1.25/SF (with the latter end of the range not related to a projected sale until 2011).

Current thinking is that construction will be completed during 2009. Infrastructure completion will, of course, depend on funding availability. Additionally, the northernmost lots (see attached site plan) with greatest proximity to the main road entering Phase II are presumed to be available first.

Absorption (sales) for Phase II also was approximated based on Phase I experience where 12 lots sold in nine years (plus a private resale) and there were also two additional lots under option. For Phase II, each Business Plan Scenario uses 12 lots selling over eight years.

Lot sales are assumed to occur in single lot increments (although multiple lot groupings could be possible to satisfy the land, privacy, building and aesthetic needs of the businesses using them).

Building Values were also approximated from Phase I activity and were projected for Phase II based on ranges of developable land. For lot purchases of under five (developable) acres, the building value has been projected at \$3.5 million. For lot purchases of five to 15 acres, the building value has been projected at \$5 million. Projected lot sales timing and related information are shown in the table below.

Tax Increment Financing (TIF) is a powerful and flexible economic development tool for municipalities to support job creation and retention, capital investment and a broadening of the local tax base. TIFs use some or all of new (incremental) property tax revenue generated from development projects to help offset the cost of those developments, thus providing an incentive to companies to come to that municipality. In Gardiner, Libby Hill Business Park and the Downtown Shopping District are examples of areas where TIFs have been utilized.

Each TIF is negotiated individually with regard to the percentage of tax revenues that benefit the property owner as well as the length of time over which the agreement runs.

Lot	Year of Sale	Dev. Acres	Building Value	TIF
17	2009	1.7	\$3,500,000	25%
18	2010	3.5	\$3,500,000	25%
19	2011	7.7	\$5,000,000	33%
20	2011	3.0	\$3,500,000	25%
21	2009	13.5	\$5,000,000	33%
22	2012	8.0	\$5,000,000	33%
23	2012	2.3	\$3,500,000	25%
24	2012	1.5	\$3,500,000	25%
25	2013	2.4	\$3,500,000	25%
26	2014	2.5	\$3,500,000	25%
27	2015	6.4	\$5,000,000	33%
28	2016	7.9	\$5,000,000	33%
Total		60.5	\$49,500,000	

In the above table, TIF percentages for the two building value categories are 25% and 33% respectively, increasing as the value of the buildings increases. TIFs are assumed to extend over a ten-year period and apply to buildings only, not to land and not to personal property.

Property Tax revenues assume a building is completed by year two after the related land sale. For this plan the tax rate used was .0218, with the property tax on the land value pro-rated at 50% in the year the property was bought and then at 100% thereafter. Property tax on buildings reflects the complement of the TIF % shown in the previous table, with the City revenue being 100% - the TIF %. It should also be noted that a property revaluation is underway in Gardiner and the tax rate will likely change as a result.

It would also be useful to create an area-wide TIF District comprised of Libby Hill Phase II and the remaining lots still available in Phase I. This would help to simplify the process required in utilizing TIFs at Libby Hill while still having each TIF agreement negotiated individually in terms of percentages to be used and length of term.

Personal property tax revenue is based conservatively on existing personal property valuations for key LHBP tenants with the following personal property values used in relation to the previously described building values:

Building Value	Personal Property Value (for Equipment)
\$3.5 million	\$350,000
\$5 million	\$500,000

The above personal property values stay constant year to year—assuming depreciation is offset by new and replacement purchases and the fact that leased equipment has not been included. Revenue to the City of Gardiner is assumed to be reimbursement from the State program (BETE-Business Equipment Tax Exemption) that exempts companies from paying this tax. Reimbursements to the City of Gardiner are 100% (2008), 90% (2009), 80% (2010), 70% (2011), 60% (2012), 50% (2013 and beyond).

Funding and financing sources included an EDA Grant of \$856,400 and bonding through the Maine Municipal Bond Bank. This bond was used to cover the expenses for land acquisition, engineering and design, test permits and infrastructure costs, totaling \$4,706,845. Bond term varies from 10 years (Conservative Scenario and Most Likely Scenario) to 9 years (Aggressive Scenario). Bonding pro forma methodology is similar to that of Libby Hill Business Park Phase I.

Expected engineering costs and permit fees that were not expended by November 20, 2007 were allocated to 2008. Engineering and design work also includes survey work, bidding assistance, construction administration, inspection and other services.

Legal costs are assumed to be \$2,000 per year from 2009 to 2015 to cover closing costs. Marketing costs are assumed to be \$20,000 per year, prorated at 50% for 2008. An additional \$5,000 has been allocated for 2008 to address the costs of collateral printing, signage and website changes. These and other business park/economic development related costs, will be funded through an expanded Libby Hill area-wide TIF district, as detailed in future annual development fund budgets.

With all the above revenue and expense assumptions used in the three Scenarios, the attached spreadsheets indicate how cash flow and net profit/(loss) and cumulative net profit/(loss) are impacted over time. Starting in 2008 and going through 2018, when the final building has been completed, each of the spreadsheet results shows a cumulative positive bottom line each year. Also, in 2020, TIFs will begin to expire, greatly increasing the on-going (property tax) revenue from the site.

In the following summary chart the three scenarios are compared with their key points described. The **Most Likely Scenario** remains the recommended direction for the City of Gardiner given its realistic pricing and related reasonable bond term.

	Conservative Scenario	Most Likely Scenario	Aggressive Scenario
Pricing	\$.75/SF (Developable)	\$1/SF (Developable)	\$1-1.25/SF (Developable)
Bond Term (Principal = \$3,923,856)	10 years (Total interest = \$1,092,544)	10 years (Total interest = \$1,092,544)	9 years (Total interest = \$989,623)
Cumulative Net	\$2,241,576 in 2019	\$2,902,058 in 2019	\$2,578,233 in 2018

Profit	<p>with future tax revenues not reduced by any bond costs</p> <p>These annual tax revenues start at \$862,768 in 2019 and will increase gradually as TIFs expire.</p>	<p>with future tax revenues not reduced by any bond costs.</p> <p>These annual tax revenues start at \$873,932 in 2019 and will increase gradually as TIFs expire.</p>	<p>with future tax revenues not reduced by any bond costs</p> <p>These annual tax revenues start at \$883,945 in 2018 and will increase gradually as TIFs expire.</p>
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It is important to keep in mind also that the cumulative net profit, positive in each scenario in each year from 2008 onward, acts as a cushion against any downturn in the economy. Additionally, if companies acquire multiple lots to combine into one larger lot for their use, the building value on those combined lots could be less than what the total building values might have been for separate buildings constructed on the individual lots.

Finally, this business plan has assumed selling the land as opposed to developing buildings on the site and leasing space. We cannot recommend the latter scenario to our municipal clients as it would put you into what we would consider an undesirable situation of having to develop buildings and manage the property. Even if the City had a developer or property manager involved (at additional expense), the City would still be subject to the vagaries of the economy and the possibility of a building (that the City would own) becoming vacant in the future. Additionally, the types of companies that are being sought for Phase II would be more likely to want to own their building due to their long term commitment to the area and/or their need to customize the design to their special requirements. All in all, the risk/reward continuum suggests selling the land as the best alternative.