

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(UNAUDITED)

This discussion and analysis of the Riverhead Industrial Development Agency (the Agency) financial performance provides an overview of the Agency's financial activities for the year ended December 31, 2016. Please read this in conjunction with the basic financial statements and the accompanying notes to those financial statements.

Financial Highlights:

- The assets of Agency exceeded its liabilities (including the net of deferred inflows and outflows of resources) at December 31, 2016 by \$273,545.
- The Agency's total assets increased by \$110,580. The Agency's total liabilities increased by \$78,570 for the year ended December 31, 2016 primarily due to the increase in net pension liability.
- The Agency's 2016 net operating income increased \$8,174 from the 2015 net operating income.
- During the year ended December 31, 2016, the Agency implemented Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*. As a result, beginning net position increased by \$6,681. Additionally, the Agency recorded its proportionate share of net pension liabilities, as well as deferred outflows of resources related to pensions.

Basic Financial Statements Ended December 31, 2016:

- The financial statements presented herein include all of the activities of the Agency.
- The financial statements present the financial picture of the Agency, which is an enterprise type fund and, accordingly, reflects business-type activities. These statements include all assets and deferred outflows of the Agency as well as liabilities and deferred inflows.
- The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements are located immediately following the financial statements.
- The statement of net position and the statement of revenues, expenses and changes in net position report information about the Agency as a whole and about its activities. These statements include all assets, deferred outflows, liabilities and deferred inflows of the Agency using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Agency's net position and changes in net position. The net position is the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources, which is one way to measure the Agency's financial health, or financial position. Over time, increases or decreases in the Agency's net position are an indicator of whether its financial health is improving or deteriorating.

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Condensed Balance Sheets at December 31,

	<u>2016</u>	<u>2015</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Total Current Assets	\$ 313,562	\$ 202,830	\$ 110,732	55%
Total Noncurrent Assets	421	573	(152)	-27%
Total Assets	<u>313,983</u>	<u>203,403</u>	<u>110,580</u>	<u>54%</u>
Deferred Outflows of Resources	83,800	-	83,800	n/m
Total Assets and Deferred Outflows of Resources	<u>\$ 397,783</u>	<u>\$ 203,403</u>	<u>\$ 194,380</u>	<u>96%</u>
Total Current Liabilities	\$ 21,143	\$ 22,703	\$ (1,560)	-7%
Total Noncurrent Liabilities	91,593	11,463	80,130	n/m
Total Liabilities	<u>112,736</u>	<u>34,166</u>	<u>78,570</u>	<u>230%</u>
Total Deferred Inflows of Resources	11,502	-	11,502	n/m
Total Net Position	<u>273,545</u>	<u>169,237</u>	<u>104,308</u>	<u>62%</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 397,783</u>	<u>\$ 203,403</u>	<u>\$ 194,380</u>	<u>96%</u>

Condensed Statement of Financial Position for the
Year Ended December 31,

	<u>2016</u>	<u>2015</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Total Operating Revenues	\$ 327,124	\$ 294,898	\$ 32,226	11%
Total Operating Expenses	<u>229,566</u>	<u>205,514</u>	<u>24,052</u>	<u>12%</u>
Operating income	97,558	89,384	8,174	9%
Total Non-Operating Revenue	<u>69</u>	<u>33</u>	<u>36</u>	<u>n/m</u>
Change in Net Position	<u>\$ 97,627</u>	<u>\$ 89,417</u>	<u>\$ 8,210</u>	<u>n/m</u>

n/m - not meaningful (percentage change calculation)

Analysis of Financial Position and Results of Operations:

The Agency operations during 2016 resulted in \$313,635 in revenues being generated by fees associated with completed projects. The Agency operations also include revenues of \$13,489 related to Empire Zone Fees, project refinance fees, compliance fees and other items. The Agency continues its approach to economic development by attracting new businesses and helping existing businesses expand.

The Agency did not retroactively apply GASB Statement No. 68; therefore, the condensed Statement of Changes in Net Position for the year ended December 31, 2015 was not restated. The cumulative effect of applying the change of accounting principle is show as an adjustment to the 2016 beginning net position.

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Budgetary Analysis:

This section will discuss the significant budget to actual variances in 2016.

The charges for services line in the 2016 budget was established at \$177,465. During 2016, additional unanticipated projects were cultivated and closed as well as projects that did not close in 2015 were closed in 2016. This resulted in an approximate \$136,000 revenue overage.

Professional fees are approximately \$3,800 higher than budget in 2016 as a result of the increase in project closings.

The aggregate variance in all other budget lines was immaterial and individual explanation of each line is deemed unnecessary for this report.

Economic Condition and Outlook:

The Agency has analyzed the year ended December 31, 2016 financial statements, which resulted in an increase in net position thereby providing a stable outlook for the Agency.

COMPLETED PROJECTS

The following is a summary of the Agency's projects which closed during the 2016 calendar year.

Atlantis Holding Co, LLC -Phase III

In November of 2015, the Agency received an application for financial assistance from Atlantis Holding Company LLC, a limited liability company qualified to do business in the State of New York with an office in Riverhead, New York ("Atlantis") and J. Petrocelli Development Associates, a company qualified to do business in the State of New York with an office in Ronkonkoma, NY ("Petrocelli") (jointly known as the "Applicant"), with respect to the rehabilitation and reuse of the Preston House, an existing vacant 2,600 square foot dilapidated structure located within the Riverhead Urban Renewal Area, EMSURA, to permit the construction of a restaurant and five-story boutique hotel as Phase III of the previously approved Atlantis Holding Co., LLC Aquarium Project at a cost of \$9,000,000 and the refinancing of the \$15,250,000 debt on the existing Aquarium Facility Phase I & II, as most recently approved by Agency, located on the 6.8 acre parcel.

The public hearing was held January 2016. The financial assistance approved with respect to the Project: (i) the provision of an exemption from Mortgage Recording Taxes, (ii) the provision of an exemption from Sales and Compensating Use Taxes on certain property, including tangible personal property, and (iii) a partial abatement of real property taxes for the improvement over the current assessed value of parcel and a continuation over the current real property tax exemption for parcel for an additional ten years past the current Payment In Lieu of Tax Agreement.

The project closed in July 2016 and construction commenced immediately on Phase III.

J Kings Realty/City Cider House, LLC

In March of 2015, the Agency received an application for financial assistance from J Kings Realty (owner) & City Cider House, LLC dba Riverhead City Cider (facility user), each company qualified to do business in the State of New York, with respect to the construction and equipping of a cider manufacturing, bottling and tourism facility initially estimated to occupy 38,000 sf of total 108,178 sf of

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building located in Calverton, New York, with anticipated expansion (the "Facility"). The project will include renovation of existing space and equipping of space to provide for a cider manufacturing plant, cider center, regional tourism center, and regional bottling facility including expenses in connection therewith, at an aggregate cost, including costs associated with the financing thereof, estimated to be \$5,990,000.

A public hearing was held in April of 2015. It was determined that the Agency shall provide Applicant with the following financial assistance with respect to the Project: (i) the provision of an exemption from Sales and Compensating Use Taxes on certain property, including tangible personal property in an amount not to exceed a total value of eligible goods and services in the amount of \$1,550,000, (ii) a partial abatement of real property taxes by granting a real property tax abatement equal to the assessed value of the improvements for a period of ten years, effective for the 2017/2018 tax billing year. PILOT payments shall be paid on the land assessment and 77% of the improvements assessment increasing to 100% over 10 years by 2.3% per year and (iii) the provision of an abatement of the Mortgage Recording Tax on a mortgage not to exceed \$2,865,000.

The project closed in October 2016.

Peconic Crossing, LLC

In October of 2014, the Agency received a request for financial assistance from Peconic Crossing, LLC, as property owner, and Conifer Realty, LLC, as operating entity, in conjunction with Community Development Corporation of Long Island, Inc. all qualified to do business in the State of New York (collectively referred to herein as "Peconic Crossing"), with respect to the acquisition of parcel, demolition of existing structure, and construction of a 70,000 +/- square foot building located within a designated urban renewal area in Riverhead, New York for use as 48 units of workforce rental housing with downstairs interior parking garage and vehicle access across adjacent parcel to Peconic Avenue for project known as Peconic Crossing at an aggregate cost, including costs associated with the financing thereof, estimated to be \$16,710,091.

A public hearing was held in December 2014 and held open due to amendments made to the Project since the submission of the original application. No Agency activity took place on this project in 2015 as the project continued through site plan changes.

Another public hearing was held in June 2016 with respect to the acquisition of parcel, demolition of existing structure, and construction of a 52,205 +/- square foot building located in Riverhead, New York for use as 45 units of workforce rental housing with downstairs interior parking garage and vehicle access across adjacent parcel to Peconic Avenue for project known as Peconic Crossing at an aggregate cost, including costs associated with the financing thereof, estimated to be \$17,650,928.

Financial assistance was authorized in November 2016. It was determined that the Agency shall provide Applicant with the following with respect to the Project: (i) the provision of an exemption from Sales and Compensating Use Taxes on certain property, including tangible personal property in an amount not to exceed a total value of eligible goods and services in the amount of \$388,314, (ii) a partial abatement of real property taxes by granting a real property tax abatement equal to the assessed value of the improvements for a period of ten years, effective for the 2017/2018 tax billing year. PILOT payments shall be paid on the land assessment of \$70,000 and 100% abatement of improvements assessment over 10 years as set forth in the attached Schedule A, and (iii) the provision of an abatement of the Mortgage Recording Tax on a mortgage not to exceed \$7,180,000.

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The applicant applied for an amended budget for an increase in project costs prior to final authorization totaling \$18,541,044 and was approved. The project closed at the end of December 2016.

Solutions Riverhead, LLC

In July 2016, the Agency received an application for financial assistance from Solutions Riverhead, LLC, a limited liability company qualified to do business in the State of New York (the "Applicant"), with respect to the acquisition of parcel and restoration and renovation of an existing 2,560 square foot historic structure, located within an urban renewal area containing distressed properties in Riverhead, New York for use as shared office space for use by professionals in the mental health and well-being fields estimated at a cost of \$808,500.

A public hearing was held in August 2016 and it was determined that the Agency shall provide Applicant with the following financial assistance with respect to the Project: (i) the provision of an exemption from Sales and Compensating Use Taxes on certain property, including tangible personal property in an amount not to exceed a total value of eligible goods and services in the amount of \$260,450, and (ii) a partial abatement of real property taxes by granting a real property tax abatement equal to the assessed value of the land for a period of five (5) years.

The project closed in September 2016 and construction commenced immediately.

CLOSED PROCEEDINGS/WITHDRAWN PROJECTS

The following projects were either rescinded or the Agency took action to close proceedings during the 2016 calendar year.

E.B.S. Building Systems

An application for financial assistance was made by E.B.S. Building Systems L.L.C. to the Riverhead Industrial Development Agency regarding property located in the Calverton Enterprise Park, Riverhead, New York for project to acquire parcel of land of approximately 10 acres to cause the construction of approximately 62,300 square feet of buildings to be used in the manufacture of wood building components.

The Agency approved financial assistance for the Project. Despite an application being submitted in 2013 to keep permits open, there has been no activity to cause a closing by the applicant. Therefore, the Agency rescinded the authorizing resolution and close the proceedings in September 2016.

Peconic United Methodist Housing Development Fund Co (John Wesley Village LP)

An application was made by Peconic United Methodist Housing Development Fund Company, Inc. and John Wesley Village for financial assistance regarding property located in Riverhead, New York for project to renovate existing 115-unit senior housing rental facility.

The Agency approved financial assistance for the project September 2014. Since there was no activity to close the project, the Agency rescinded the authorizing resolution and closed Agency proceedings in this matter in September 2016.

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REFINANCES/BOND MODIFICATIONS

Browning Properties, LLC Hilton Garden Inn and Marriott Residence

The Hilton and the Marriott are a phased development with common features of design for ingress and egress, plantings and site layout on a single tax map parcel which requires that the financing of each facility, though evidenced by separate mortgage, be placed with the same lending institution.

Manufactures and Traders Trust Company (M&T Bank) has issued a letter of commitment for permanent financing for the Hilton in the amount of \$15,500,000 and a letter of commitment for construction and permanent financing for the Marriott in the amount of \$19,000,000. The Agency authorized the necessary Mortgages and other documents to permit the refinancing of the Hilton by Browning Hotel Properties, LLC with M&T Bank and construction and permanent financing for the Marriott by Browning Hotel Properties, LLC with M&T Bank in the amount of \$19,000,000 both for premises.

RETIRED PROJECTS

There were no retired projects in 2016

PENDING APPLICATIONS

One recognized application received in 2016 that did not close, continues to be processed.

Georgica Green Ventures, LLC

The Agency received an application for financial assistance from Georgica Green Ventures, LLC, a limited liability company qualified to do business in the State of New York with respect to a proposed development located within a designated urban renewal area in downtown Riverhead to replace the existing deteriorated and outdated retail storefront with a five-story, mixed-use building consisting of 117 rental apartments and 13,024 square feet of ground floor retail fronting the Main Street. The Project unit mix will consist of 29 studio, 60 one-bedroom and 28 two bedroom units. The majority of apartments will be kept affordable to residents earning 60% of the AMI (Average Median Income) with tiers of units available to residents earning between 90% and 130% of the AMI. Project cost is estimated to be \$47,338,188.

There was no public hearing scheduled in 2016 and the application and project continues to be processed through the Agency and site planning.

MARKETING

The Agency works closely with local economic development organizations, such as the Town of Riverhead Community Development Agency, the Riverhead Chamber of Commerce, Miller Business Resource Center and Suffolk County to market the Town of Riverhead as a business location. Cooperative meetings are arranged to provide incentive proposals to potential companies. Co-sponsored seminars/events, such as a "Subscription Database Seminar," and Financial Workshops are both cost effective and effectual means from a public relations standpoint as well as marketing and general business assistance. The Agency also works closely with regional and national economic development organizations such as, the Stony Brook Small Business Development Center, municipal economic development departments on Long Island, LIBDC and the Long Island Association (LIA). The Agency participates in the LIA's IDA Long Island Coalition to boost the cooperative efforts and marketing of the region. Memberships to the New York State Economic Development Council and the International Economic Development Council not only provide exposure, but are resources for leads and networking.

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The Agency also meets regularly with the Long Island IDA's to corroborate on improving regulatory compliance as well as cooperative marketing ideas.

Efforts are ongoing with in-house marketing using electronic media, such as the website and social networks, editorials submitted to economic development periodicals, such as NY Real Estate Journal. Cold calls, editorials, and general public relations are all part of the grassroots approach to the Agency's marketing efforts.

GENERAL BUSINESS ASSISTANCE

The Agency fields calls from real estate brokers, attorneys, and companies interested in establishing a presence in the Town of Riverhead who are seeking direction as to location, permitting processes and information regarding benefits and incentives.

In addition, the current Executive Director has the experience and knowledge to handle inquiries for assistance programs offered outside those of the Agency; providing a one stop service for businesses. These resources include low cost financing options, State and Federal incentive programs, grants, business planning, employment and housing assistance. The Agency staff assists businesses through the government and financial maze and helps interested parties find suitable sites and provides contact information to resources. The Director currently sits on the Board of the Riverhead Chamber of Commerce forging cooperative relationships locally and hosting coordinated seminars.

The Agency Executive Director participates on the CTEA (Career & Technical Education Act 2009) Local Advisory Council for Suffolk County Community College to assist with the grant planning process toward workforce development efforts.

This year the Executive Director worked closely with the Long Island IDA's and the New York State Economic Development Council to compile "best practices" for IDA's to submit to the NYS Comptroller for implementation.

The Agency administers the Suffolk County/Town of Riverhead SC/TOR Empire Zone Program. The Empire Zone Program is a New York State Tax Credit program that has goals consistent with that of the Industrial Development Agency in regard to business attraction, expansion and retention. Although the program has sunset to new certifications, continued service to the zone certified entities and reporting is mandated by the State of New York for the life of the certified entity's benefit period. The SC/TOR Zone currently services 35 businesses. The Agency receives an annual fee for the administration of the zone.

This financial report is designed to provide a general overview of the Agency's finances. If you have any questions about this report or need additional information, contact the following:

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