

Date: July 14, 2008 **DRAFT**

Subject: Review of Comparative Tax Analysis – CIC North Development Plan

From: *S. B. Friedman & Company*

To: Ken Mihelich, City of Joliet

S. B. Friedman & Company (SBFCo) was asked by the City of Joliet to review the analysis submitted by Kane, McKenna and Associates (KMA) on behalf of CenterPoint Properties regarding property tax projections for the CIC North Development Plan. KMA prepared tax projections for three development scenarios; within each scenario an “Industrial Only” and “Intermodal & Industrial” alternative was analyzed.

We performed a high-level analysis of the KMA report that evaluated its key assumptions and validated its logic and calculation methodology. You have indicated to us that the City is comfortable with the report’s square footage assumptions for each scenario and alternative, and we used them in our analysis. This memorandum summarizes our findings.

ASSUMPTIONS

The key assumptions we evaluated concerned the absorption of industrial building space under the different scenarios and the market value/taxable value of the industrial space and intermodal facilities. We also considered other assumptions used in the report.

Absorption

The KMA report projects an annual absorption rate of 800,000 square feet of industrial building space in the Industrial Only alternatives. The annual absorption rate of industrial space in the Intermodal and Industrial alternatives is almost double, at 1.5 million square feet. The assumption is that the presence of the intermodal facility will substantially boost the absorption rate. The absorption assumptions used by KMA are taken from a market overview report prepared by the NAI Hiffman brokerage firm.

We researched the average annual absorption rate of industrial space in two Chicago-area intermodal facilities (both developed by CenterPoint) and five master planned industrial parks in or near Joliet through conversations with the properties’ leasing brokers and information obtained from their websites. Our findings are summarized in the attached Table 1.

The industrial-only parks reported an average annual absorption between 200,000 and 400,000 square feet per year. This is substantially lower than the 800,000 square feet per year projected in the report for the Industrial Only alternative. The two intermodal facilities reported widely

divergent absorption rates: 1.6 million square feet per year in Elwood and 160,000 square feet per year in Rochelle. Given that the Elwood facility is located in close proximity to the proposed CIC North development, this suggests that the 1.5 million-square-foot annual absorption projected for the Intermodal and Industrial alternative may be valid. However, the market conditions and competition that would be faced by the proposed CIC North development may differ from those faced by the Elwood facility up to this point, so it is possible that the CIC North absorption rate could also differ.

Market Value

KMA does not provide any sources or details for the market value assumptions used in its report, other than to state that they were obtained from comparable properties. We attempted to evaluate these assumptions through research on comparable intermodal facilities and master planned industrial parks. Our findings are shown in Table 1, and our observations presented below:

- **Industrial Building Space.** KMA assumes a market value of \$36.75 per square foot for industrial building space, for both development alternatives. The five comparable industrial parks we identified in Joliet and surrounding communities show average market values for occupied space between \$8.69 and \$32.11 per square foot. It should be noted that the two highest values were reported by Rock Run Business Park and the CenterPoint intermodal facility in Elwood, which are located the closest to the proposed CIC North development. We were not able to determine the cause of this wide range of values within the scope and timing of this review.
- **Vacant Land.** KMA assumes a market value of \$31,845 per acre for vacant land in the park that is ready for industrial building construction. The four comparable industrial parks for which we were able to obtain sufficient data show average market values for vacant land between \$7,715 and \$40,584 per acre. We were not able to determine the cause for this wide variation within the scope and timing of this review, but it may be the case that the lower values are for future phases for which utilities have not yet been provided. We believe that the two larger values are more likely to be valid comparables to the KMA assumption. The average of these two values is approximately \$36,500 per acre.
- **Container Storage and Rail Yard.** KMA assumes a market value of \$4.78 per square foot for container storage land and \$2.21 per square foot for the rail yard. Our research found that the only comparable intermodal facility in the region is the CenterPoint facility in Elwood, which KMA states is what was used as the comparable property in its report. We were not able to verify KMA's assumptions with the time and resources available to us for this review, due to the complexity of the parcel layout at the facility and difficulty in identifying the status and specific land use of certain parcels. KMA presumably has access to detailed information on the facility from CenterPoint, its client.

Other Assumptions

We also considered and verified other assumptions utilized in the analysis, with the following observations offered:

- **Total Tax Rate.** Based on our discussions with you, the most appropriate total tax rate to assume for the property (using 2006 rates) is 7.1909%. The 8.1593% rate used by KMA includes the East Joliet Fire Protection District rate, which would fall off once the property is annexed, and double-counts the City share of the Township Road & Bridge rate.
- **City of Joliet Tax Rate.** We verified the rate used by KMA through our discussions with you; although we understand that the City typically caps its levy rate at a slightly higher level. For the purposes of this review, we used KMA's assumption of 1.1081%.
- **Annual Reassessment/Inflation Rate.** KMA assumes annual inflation of 1.5% in the assessed value of the property (all components). This is a conservative assumption, which suggests that the buildings and land will actually be losing value relative to general inflation (i.e., the Consumer Price Index), which *SBFCo* typically assumes to be around 2.5%.
- **Discount Rate.** Based on our discussions with you and typical *SBFCo* methodology, the 4.5% discount rate used by KMA in calculating net present values is reasonable.

METHODOLOGY

Our review of the logic and calculations in KMA's report found that the basic structure and approach of the analysis seems reasonable. We identified two items of question:

- It is unclear why KMA projected Incremental EAV and Incremental Property Taxes, since as you indicated there is no TIF district in place on any part of the property.
- KMA applies a discount to the projected market value of the property in any given year to account for building space that has been absorbed but is not brought on to the assessment roll in that year. This usually occurs when buildings are completed and occupied in the later months of a year, too late to be captured in the annual reassessment cycle. The discount can be seen in KMA's Exhibit D, labeled "% Occupied for Year." We believe that the basic concept being applied is appropriate, but that the method of applying it is too conservative. KMA applies the discount to the market value of all occupied space in a given year, rather than to only the new space being absorbed in that year. This significantly reduces the amount of property tax revenue projected for each year.

In order to evaluate the findings of the report, *SBFCo* reconstructed the KMA analysis using most of its general assumptions in an attempt to most closely replicate the methodology. It was not possible to exactly replicate the findings produced by KMA, since the amount of detail

provided in the report was not sufficient to determine where our analyses diverged. We used KMA's assumptions for absorption, market value, inflation rate, and discount rate. (Note that our discussion above indicates that some of the absorption and market value assumptions may be aggressive.) In differing from KMA's analysis, we adjusted the total tax rate downward and applied the discount for absorbed, but not assessed, building space to only the newly absorbed space.

Given these adjustments and the difficulty in exactly replicating KMA's results, the dollar amounts of tax revenues projected in our analysis are thus different from those projected by KMA. However, the comparison of the revenue amounts and their timing in the Industrial Only and Intermodal & Industrial alternatives should remain the same since we maintained the critical assumptions of absorption rate and market value in our analysis. This allowed us to evaluate the timing of the "crossover point" (where the Industrial Only revenues start to exceed the Intermodal & Industrial revenues) in a similar manner to KMA and compare the results.

ANALYSIS FINDINGS

The attached Table 2 summarizes the *SBFCo* property tax projections in a format that is comparable to the scenario summaries provided by KMA in its memo report. (KMA provides only total tax revenue projections, while the *SBFCo* table also provides City of Joliet tax projections.)

We also evaluated the crossover year of the projections, when tax revenue from the Industrial Only development alternative exceeds that of the Intermodal & Industrial alternative. Figures 1 and 2 (attached) present our findings in graphical format for total property tax revenues only. (The crossover years are identical for City of Joliet tax revenues.) The cumulative property taxes (Figure 1) and Net Present Value of the cumulative taxes (Figure 2) in each year are graphed, and the crossover point (if any) indicated. As indicated in the charts, our findings are essentially identical to KMA's.

As an additional analysis, we calculated the Present Value of each individual year of projected total property revenue generated by every scenario and development alternative (as opposed to the NPV of the cumulative taxes displayed in Figure 2). We used the same 4.5% discount rate. The results are shown in Figure 3. It shows that the Present Value of the Industrial Only tax revenues cross over the Intermodal & Industrial revenues in Year 23, 24, or 30 depending on the scenario. This means that it will be 23 to 30 years before the Industrial Only alternative is producing more property tax revenues in a year (in 2009 dollars) than the Intermodal & Industrial alternative.

CONCLUSIONS

Our review of KMA's report found that the annual absorption assumption for building space in the Industrial Only alternative appears fairly aggressive, based on the comparable industrial parks we surveyed. However, reducing the Industrial Only absorption rate only reinforces the conclusion of the report, since the absorption pace of the Intermodal & Industrial alternative remains substantially higher. The City may wish to ask CenterPoint to provide more detailed

analysis to support its opinion that the Intermodal & Industrial alternative will absorb at a pace comparable to the Elwood facility over the next decade. The City also may wish to ask for more detail on the basis for the industrial absorption rate of 800,000 square feet per year, since the basis is not immediately apparent in the submitted market study.

KMA does not provide any detail on the sources of its market value comparables. Given the wide variety in building and vacant land values we found in our (limited) survey, the City may wish to ask that more detail be provided so that the validity of these comparables can be more thoroughly evaluated.

Even with certain adjustments to the assumptions and methodology, our evaluation of KMA's analysis produced essentially identical crossover years for the cumulative property tax revenues of all three scenarios. Our analysis of the Present Values of annual property tax collections showed that the Industrial Only scenarios would not surpass the Intermodal & Industrial scenarios until roughly 25 to 30 years in the future. This extended time horizon may be beyond the useful competitive life of the industrial buildings that are developed on the site.

The conclusions of the KMA report appear to be valid. While we have noted certain assumptions that could be adjusted based on further research, these adjustments may not materially affect the overall conclusions of the report. While the scope and timing of this review did not allow for sensitivity testing of specific assumptions or additional scenarios, we are available to provide such services if requested by the City.

Thank you for the opportunity to assist the City of Joliet on this project. If you have any questions about this review please contact David Stamm at (312) 424-4258 or by e-mail at dstamm@friedmanco.com.

CIC North Development

DRAFT

Table 1: Intermodal Centers and Industrial Parks

Name	Community	Location	Total Building Sq. Footage	Occupied Building Sq. Footage	Vacant Acres Available	Project State Date	Average Annual Absorption	Developer	Market Value per Occupied Bldg SF	Market Value per Vacant Acre
Intermodal Centers										
CenterPoint Intermodal Center (Logistics Park Chicago)	Elwood	East of I-55, South of Arsenal Road	9,703,200	8,043,200	N/A	2003	1,608,640	CenterPoint	\$26.14	N/A
CenterPoint Intermodal Center Rochelle	Rochelle	Southwest of downtown Rochelle	5,259,944	800,393	N/A	2003	160,079	CenterPoint	N/A	N/A
Industrial Parks										
Cherry Hill Business and Rail Park	New Lenox	South side of I-80 and Gougar Road	6,000,000	2,000,000	80.00	2003	400,000	Northern	\$19.86	\$8,363
Ferro Industrial Park	New Lenox	Gougar Road, South of Rt. 30	3,484,799	3,419,459	N/A	1996	284,955	Pete Ferro	N/A	N/A
Laraway Crossings	Joliet	East of IL 53, 2 miles South of I-80	4,550,819	1,549,564	200.41	2003	309,913	Ryan	\$8.69	\$32,438
Pinnacle Business Park	Romeoville	Taylor Road, 1/4 Mile East of Weber Rd.	8,000,000	1,500,000	270.84	2001	214,286	Pizutti	\$17.90	\$7,715
Rock Run Business Park	Joliet	80 and I-55 interchange	4,421,484	3,286,867	21.27	1997	298,806	IDI	\$32.11	\$40,584

Sources: broker interviews, developer websites, Will County Assessor's Office, and *S. B. Friedman & Company*

CIC North Development
Table 2: Summary of Property Tax Projections

DRAFT

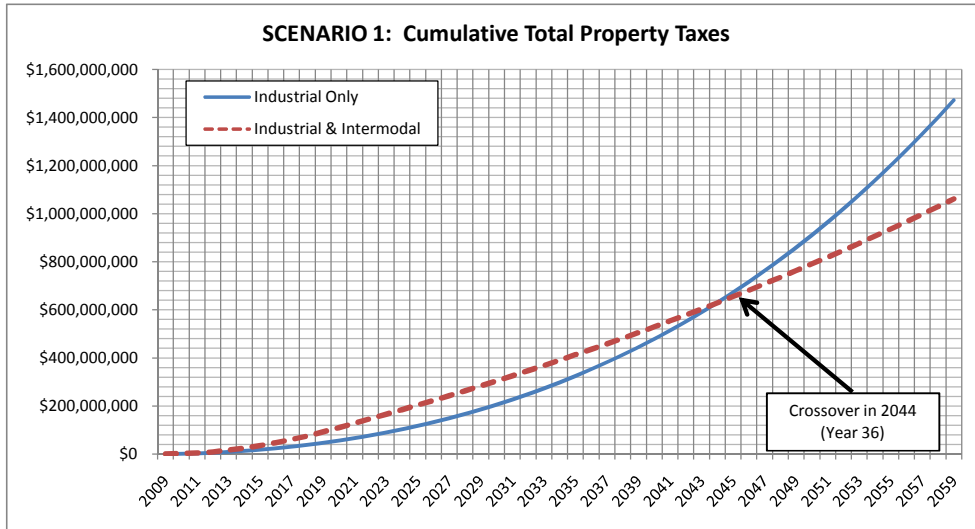
Total Real Estate Taxes

	SCENARIO 1		SCENARIO 2		SCENARIO 3	
	Industrial Only	Intermodal & Industrial	Industrial Only	Intermodal & Industrial	Industrial Only	Intermodal & Industrial
Cumulative Total Property Taxes						
Year 21	\$ 185,772,362	\$ 283,138,442	\$ 184,384,186	\$ 283,138,442	\$ 184,384,186	\$ 328,152,867
Year 31	\$ 445,027,437	\$ 505,132,191	\$ 441,507,264	\$ 505,132,191	\$ 441,507,264	\$ 609,639,116
Year 41	\$ 859,571,596	\$ 762,765,001	\$ 852,572,281	\$ 762,765,001	\$ 852,572,281	\$ 936,315,401
Year 51	\$ 1,472,583,439	\$ 1,061,758,394	\$ 1,452,574,262	\$ 1,061,758,394	\$ 1,452,574,262	\$ 1,315,436,565
NPV of Cumulative Total Property Taxes						
Year 21	\$ 99,140,779	\$ 157,506,640	\$ 98,418,566	\$ 157,506,640	\$ 98,418,566	\$ 178,918,765
Year 31	\$ 178,990,707	\$ 226,830,208	\$ 177,612,528	\$ 226,830,208	\$ 177,612,528	\$ 266,820,479
Year 41	\$ 261,519,721	\$ 278,636,012	\$ 259,449,273	\$ 278,636,012	\$ 259,449,273	\$ 332,509,813
Year 51	\$ 340,275,010	\$ 317,350,716	\$ 336,684,109	\$ 317,350,716	\$ 336,684,109	\$ 381,599,739

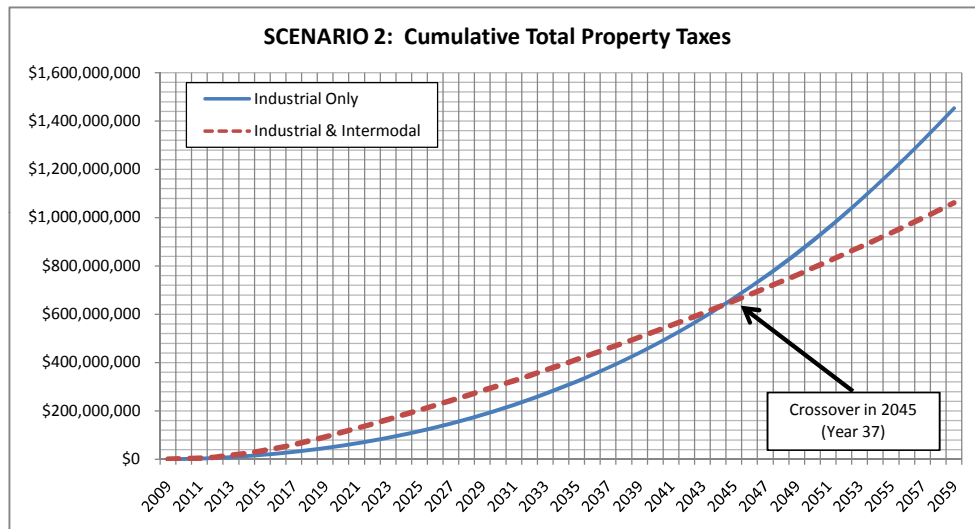
City of Joliet Real Estate Taxes

	SCENARIO 1		SCENARIO 2		SCENARIO 3	
	Industrial Only	Intermodal & Industrial	Industrial Only	Intermodal & Industrial	Industrial Only	Intermodal & Industrial
Cumulative Total Property Taxes						
Year 21	\$ 28,627,064	\$ 43,630,937	\$ 28,413,150	\$ 43,630,937	\$ 28,413,150	\$ 50,567,550
Year 31	\$ 68,577,633	\$ 77,839,628	\$ 68,035,183	\$ 77,839,628	\$ 68,035,183	\$ 93,943,888
Year 41	\$ 132,457,868	\$ 117,540,210	\$ 131,379,291	\$ 117,540,210	\$ 131,379,291	\$ 144,283,900
Year 51	\$ 226,921,485	\$ 163,614,357	\$ 223,838,120	\$ 163,614,357	\$ 223,838,120	\$ 202,705,539
NPV of Cumulative Total Property Taxes						
Year 21	\$ 15,277,350	\$ 24,271,386	\$ 15,166,059	\$ 24,271,386	\$ 15,166,059	\$ 27,570,942
Year 31	\$ 27,582,028	\$ 34,953,977	\$ 27,369,654	\$ 34,953,977	\$ 27,369,654	\$ 41,116,379
Year 41	\$ 40,299,546	\$ 42,937,124	\$ 39,980,495	\$ 42,937,124	\$ 39,980,495	\$ 51,238,944
Year 51	\$ 52,435,542	\$ 48,902,965	\$ 51,882,193	\$ 48,902,965	\$ 51,882,193	\$ 58,803,581

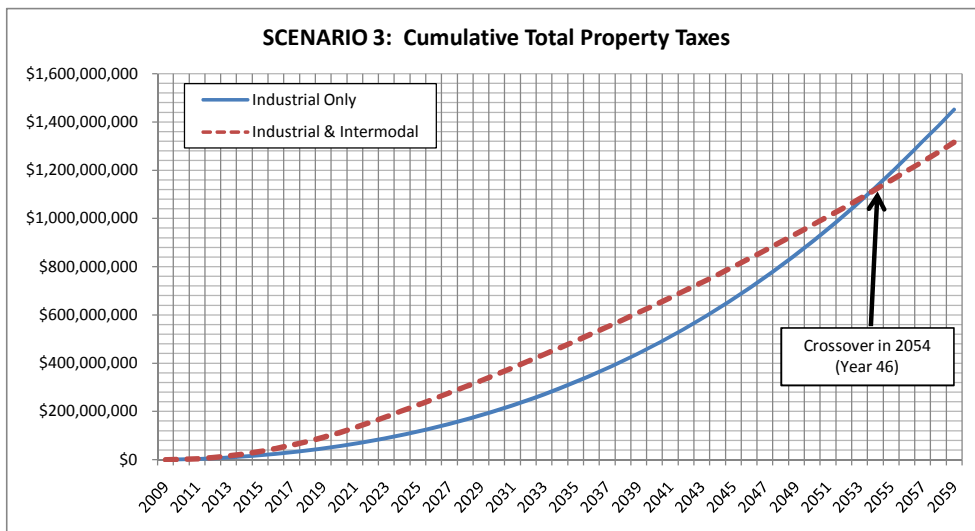
Figure 1: Cumulative Total Property Taxes



KMA Crossover Year
2045

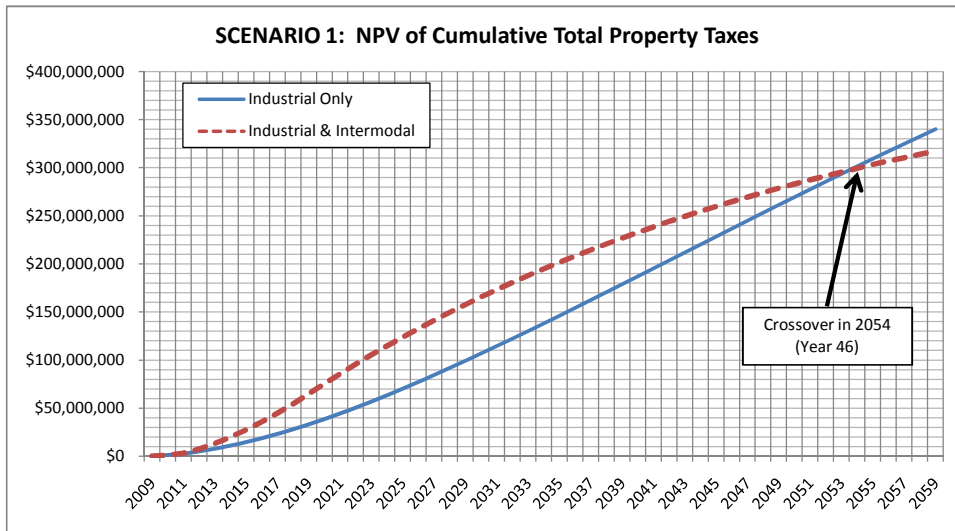


KMA Crossover Year
2045

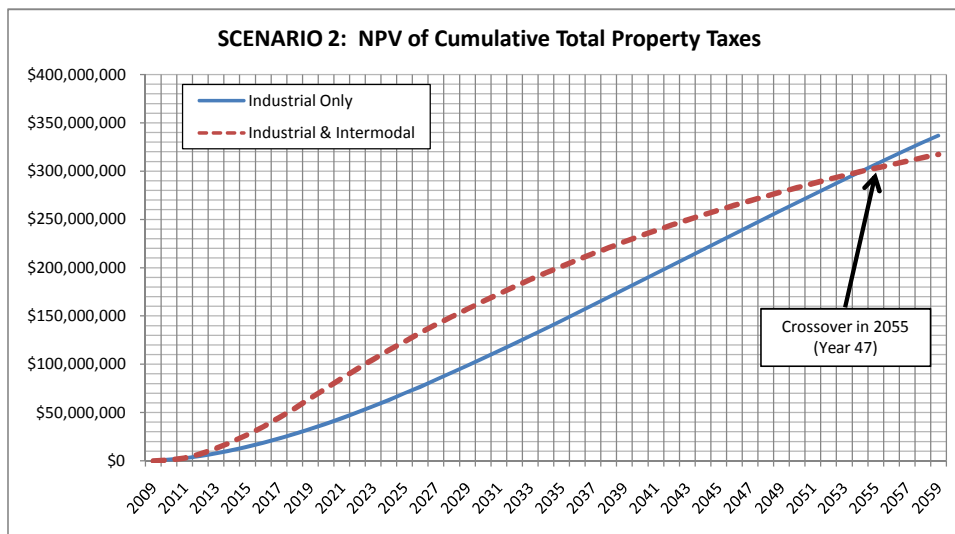


KMA Crossover Year
2055

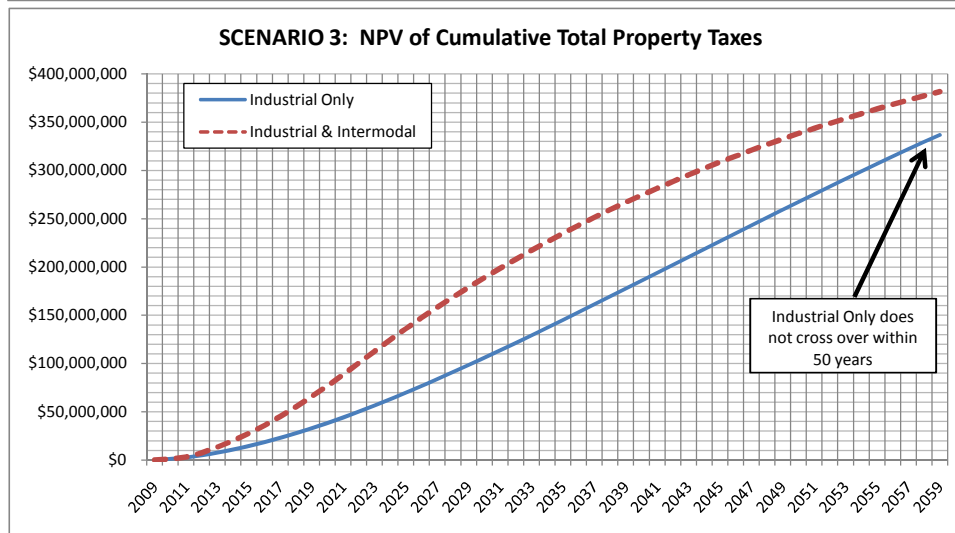
Figure 2: Net Present Value of Cumulative Total Property Taxes



KMA Crossover Year
2055



KMA Crossover Year
2055



KMA Crossover Year
2082

Figure 3: Present Value of Total Property Taxes, by Year

