Feasibility of an Inland Logistics Center at Ocala, Florida

Final Phase III Financial Analysis

Prepared for:

The City of Ocala and the Florida Department of Transportation

Prepared by:

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August 10, 2016

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About this Report

The purpose of this Phase III analysis, prepared by Parsons Brinckerhoff Inc. (PB), is to build upon the results presented in three previous reports – the Phase I Market Analysis, Phase II Engineering Analysis, and Phase II Environmental Analysis – by providing a financial analysis of the ILC development opportunity at the Ocala 275/Sprayfield site.

Phase III work addressed the following considerations:

- Total construction cost and up-front cost to the City, and potential returns from sale of property that could be applied to the up-front City cost
- Long-term revenue streams to the City resulting from property development
- Overall Return on Investment to the City
- Summary findings and recommendations

Projected City Investment Cost and Land Sale Value

As part of the Phase II Engineering analysis developed by PB, development costs were estimated for a representative hypothetical buildout of the Ocala 275 / Sprayfield site. The estimate includes a high (35%) contingency, reflecting the fact that the estimates are based on preliminary available information and concept-level designs. The primary uncertainty is soil condition and buildability; soil borings were not available as part of this project. As additional information becomes available, these estimates can be refined, and may as a result be higher or lower.

Table 1: Rough Order of Magnitude Costs for Option 1 Buildout (in 2016 Dollars)

ITEM DESCRIPTION	TOTAL COST OPTION 1	Non-City	City
Mobilization, Demobilization & General Conditions	$6,324,892	$6,324,892	
Site Clearing & Grubbing	$2,100,000		$2,100,000
Earthwork	$9,000,000		$9,000,000
Pavement, Landscaping & Fencing	$12,945,280	$12,945,280	
Rail	$6,844,150	$6,844,150	
Stormwater	$1,021,400	$1,021,400	
Buildings	$79,000,000	$79,000,000	
Utilities	$1,032,000		$1,032,000
Sewer & Reclaimed Water Replacement*	$4,000,000		$4,000,000
Environmental	$155,000	$155,000	
Permits	$45,000	$45,000	
Termination & Buyout of Golf Contract*	$571,000		$571,000
Construction of New 9-hole Golf Course*	$2,000,000		$2,000,000
Engineering	$5,921,136	$5,921,136	
Subtotal	$130,959,858	$112,256,858	$18,703,000
35% Contingency	$45,835,950	$39,289,900	$6,546,050
TOTAL	**$176,795,808**	**$151,546,758**	**$25,249,050**

*Estimate provided by the City

The development site is currently an active golf course and sprayfield. Assuming the City is responsible for bringing the site to development-readiness for an Inland Logistic Center developer, its costs would total an estimated $25.3 million. This includes:

- Site clearing and grubbing

- Earthwork (clearance and leveling)
- Utilities
- Stormwater and reclaimed water handling
- Termination and buyout of the golf course contract
- Construction of an upgraded 9-hole course adjacent to the ILC development site

Based on current comparables, it is projected that a reasonable sale value of a development-ready site would be approximately $50,000 per acre. Offering 140 acres for sale, the City might expect to realize approximately $7 million in proceeds.

This would leave a gap of approximately $18.3 million (in current year 2016 dollars), which the City could look to recover from revenue streams associated with site development and operations.

Long-Term Revenue Streams from Property Development

If the site is developed by a private owner as an Inland Logistics Center, the City could expect to see substantial annual revenues resulting from real estate taxes, personal property and equipment taxes, and payments to City utilities. Actual revenues will depend on the developed value of the property, the degree of equipment investment, and the utility demands of its users -- none of which have been determined. For present purposes, potential returns are estimated using methods and rates associated with a reasonably comparable major freight logistics facility located in Ocala.

Table 2: Long-Term City Revenue Streams (in 2016 Dollars)

YEAR	PROPERTY TAX	REAL ESTATE TAX	UTILITY PROFIT/TAX	TOTAL REVENUE
2020	-	185,984	244,693	430,677
2021	61,348	371,967	244,693	678,009
2022	114,855	557,951	244,693	917,499
2023	98,249	743,935	244,693	1,086,878
2024	79,799	743,935	244,693	1,068,427
2025	60,118	743,935	244,693	1,048,746
2026	43,513	743,935	244,693	1,032,141
2027	32,442	743,935	244,693	1,021,070
2028	25,677	743,935	244,693	1,014,305
2029	23,217	743,935	244,693	1,011,845
2030	23,217	743,935	244,693	1,011,845
2031	23,217	743,935	244,693	1,011,845
2032	23,217	743,935	244,693	1,011,845
2033	23,217	743,935	244,693	1,011,845
2034	23,217	743,935	244,693	1,011,845
2035	23,217	743,935	244,693	1,011,845
2036	23,217	743,935	244,693	1,011,845
2037	23,217	743,935	244,693	1,011,845
2038	23,217	743,935	244,693	1,011,845
2039	23,217	743,935	244,693	1,011,845
2040	23,217	743,935	244,693	1,011,845
2041	23,217	743,935	244,693	1,011,845
2042	23,217	743,935	244,693	1,011,845
2043	23,217	743,935	244,693	1,011,845
2044	23,217	743,935	244,693	1,011,845
	887,474	**17,482,469**	**6,117,332**	**24,487,275**

With this assumption, and using current applicable City tax and utility rates, over a 25-year payback period the City might expect to realize $24.5 million in revenues: $17.5 million in real estate taxes, $0.9 million in personal property/equipment taxes, and $6.1 million in utility payments. These figures represent current year 2016 dollars.

The analysis assumes City investments occur in 2017 and 2018; phased private investment occurs in 2019-2021; and private operations begin in 2020, reaching full activity in 2022, with the 25-year analysis period ending in 2044.

Overall Return on Investment to the City

Return on Investment was estimated assuming three scenarios: a 0% discount rate, a 3% discount rate, and a 7% discount rate. Typically, discount rates are appropriate when evaluating projects with higher risks and/or greater uncertainties. The 3% and 7% rates are standard rates in Benefit Cost Analysis for federal transportation investment projects.

Table 3: Return on Investment Summary (in 2016 Dollars)

	0% DISCOUNTING	3% DISCOUNTING	7% DISCOUNTING
CITY COSTS AFTER LAND SALE	(18,249,050)	(17,459,502)	(16,497,307)
CITY RETURNS	24,487,275	15,398,359	8,996,740
NET VALUE	6,238,225	(2,061,143)	(7,500,567)
AVG ANNUAL RATE OF RETURN	1.2%	negative	negative

The financial scenario is positive if 0% discounting is assumed, but negative if 3% or 7% discounting factors are applied on future revenue streams. Again, the analysis assumes City investments occur in 2017 and 2018; phased private investment occurs in 2019-2021; and private operations begin in 2020, reaching full activity in 2022, with the 25-year analysis period ending in 2044.

Summary Findings and Recommendations

Based on this Financial Analysis, and considering the results of our Market, Engineering, and Financial analyses, our general findings and recommendations can be summarized as follows.

- In the Ocala region, the market for Inland Logistics Center development is positive and robust. The Ocala 275 / Sprayfield site does not appear to present any special environmental challenges that would restrict its development for an ILC, and the site accommodates a representative development program consistent with what a private ILC developer might reasonably hope to construct.

- Stronger financials for the Ocala 275 / Sprayfield opportunity would be desirable. Although the project is estimated to have negative returns at 3% and 7% discount rates, here are a number of factors that could improve the financial outlook, including:

    - Higher than projected land sale price, reflecting the unique attributes of the site (rail access, proximity to new I-75 interchange, etc.)

    - Higher than projected developer contributions to reduce the City's capital cost and/or increase its long-term revenue streams

    - Partial buildout of the site rather than full buildout, focusing on lowest-cost / highest-return opportunities

- ILC development at the Ocala 275 / Sprayfield site should be preserved as a future development option. Once a potential developer is identified and project details are formulated, the financial picture will become more definite, and a "go" decision may emerge. Timing is the key issue.

- In the meantime, Ocala should look to take advantage of favorable market conditions, by:

    - Aggressively promoting Ocala's core strengths, which are not specific to the Ocala 275 / Sprayfield site

    - Utilizing the market study findings to support industrial development on other suitable public and private sites, as opportunities arise

    - Supporting and participating in transportation projects that improve the region's competitiveness and attractiveness for freight development, such as the new I-75 interchange and Tampa to Jacksonville corridor improvements