

INVEST HEALTH

Strategies for Healthier Cities

A Project of the *Robert Wood Johnson Foundation*
and *Reinvestment Fund*



The Fundamentals of Capital Project Budgeting

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Navy Yard Development Corporation

The Fundamentals of Capital Project Budgeting

Agenda

1. The Fundamentals (Sara Vernon Sterman)
2. Project budgeting in action (Clare Newman)
3. Exercise

Project Budget vs. Operating Budget

Project budget

One time expenses associated with developing the project

Operating budget

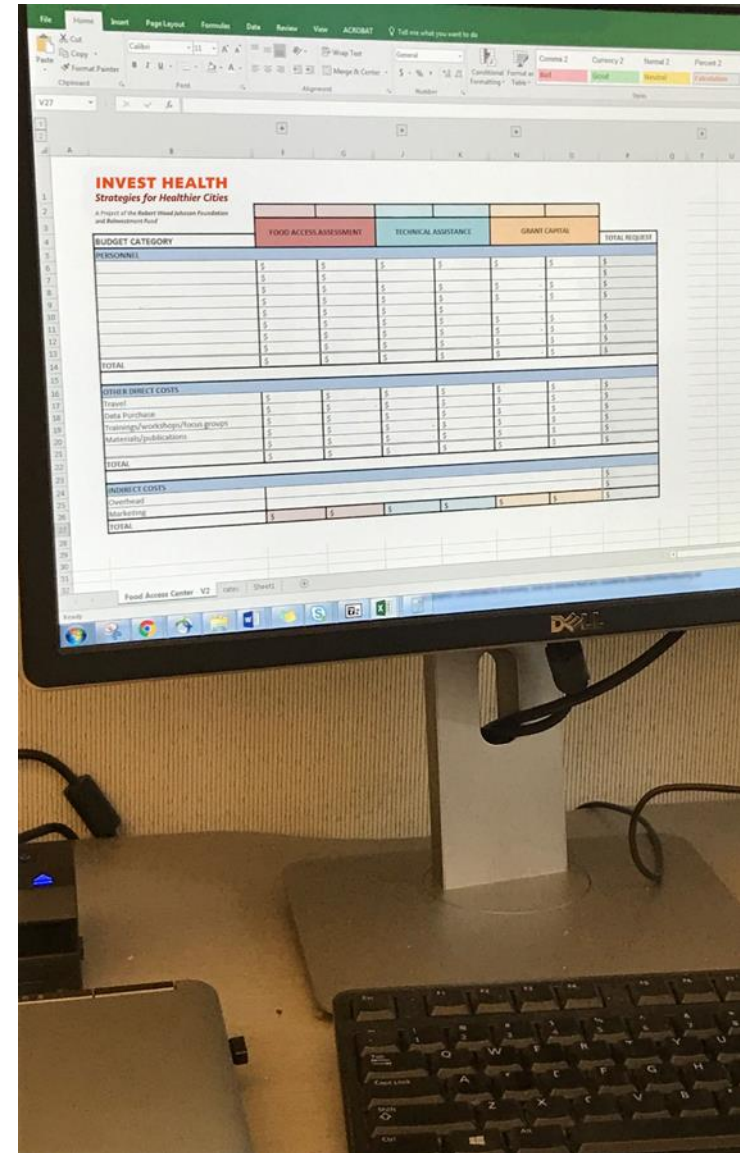
Recurring expenses

- Needs to be sustainable

Operating Budget

For buildings, must include occupancy costs:

- Rent/mortgage
- Utilities
- Water/sewers
- Cleaning/garbage/pest control
- Snow removal/landscaping
- Security
- Repairs/maintenance
- HVAC/elevator
- Insurance/taxes



Fully funded project budget

- Sources must equal Uses
- Sources must be available when needed



Project Budget Uses

- Acquisition
- Hard Costs
- Soft Costs
- Contingency
- FF&E
- Closing costs & financing fees



Project Budget Uses: Hard Costs

- Fixed price contract
 - Stipulated Sum
 - Guaranteed Maximum Price (GMP)
- Time and materials – only for small projects
- Consider energy efficiency
 - Upfront cost vs. long term savings

Project Budget Uses: Soft Costs

- Architect
- Engineer
- Owner's rep or project manager
- Appraisal
- Environmental
- Geotech
- Survey
- Inspection/Property Condition Report
- Plan and cost review
- Payment & performance bond
- Permits
- Insurance



Project Budget Uses: Contingencies

- Emergencies and unforeseen events
- Change orders during construction
- Hard cost: 10-15%
- Soft cost: 5%



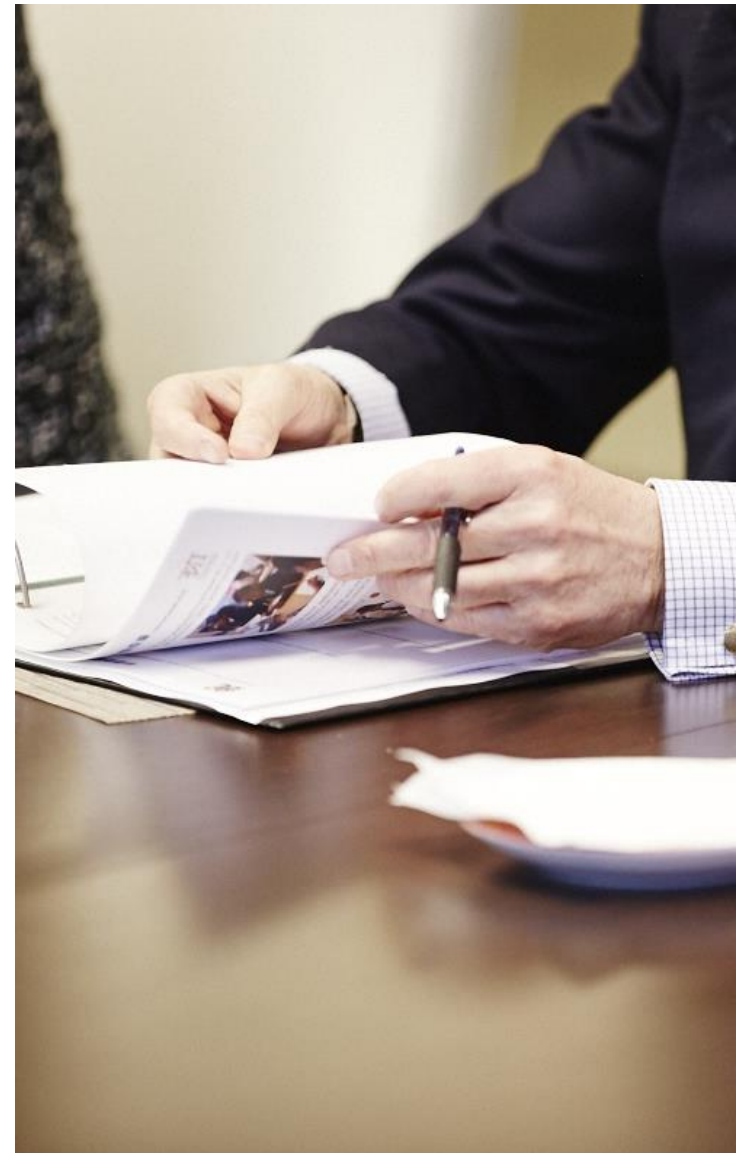
Project Budget Uses: FF&E

Furniture, Fixtures and Equipment

- All movable or attachable items including office equipment, specialized equipment, computers, telephone, signage, and security systems
- Installation must be coordinated with overall construction schedule

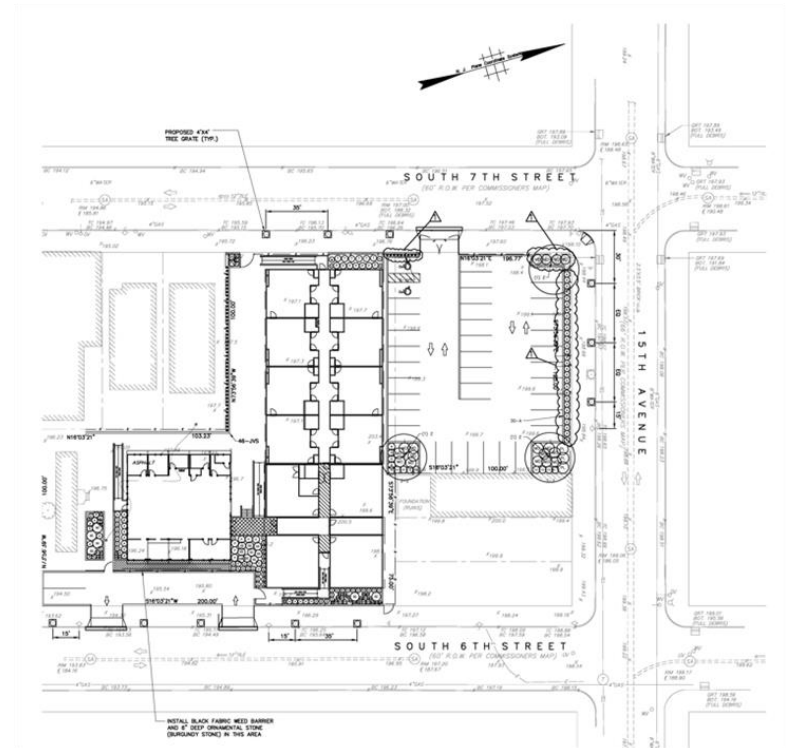
Project Budget Uses: Closing costs

- Financing fees
 - Commitment fee
 - Origination fee
- Legal (both yours and lender's)
- Closing costs (title insurance, escrows, taxes)



Project Budget Uses: Other

- Reserves
 - Construction interest
 - Debt service
 - Repair and maintenance
 - Sinking fund
- Inspection fees
- Retainage
- Fund based upon work in place
- Possible to reimburse predevelopment expenses



Project Budget Sources

- Sources = capital stack = how to pay for project
- Mixture of debt and equity
 - *If project will generate revenue, use debt to spread the cost over time*
 - *If project will not generate revenue, need subsidy/grant funding*

Project Budget Sources: Debt

Borrowed money that must be repaid

- Senior debt
 - Banks, CDFI, Bonds
 - Has “priority” in repayment – means that they are repaid first
- Subordinate debt
 - Junior lender (lender, government program, foundation PRI)
 - Subordination agreement
- Use debt for income producing projects of a project

Types of Loans

- Predevelopment
- Acquisition
- Construction
- Permanent
 - “Mini-perm”
- Leasehold improvement (“tenant improvement”)
- Bridge
- Working capital/line of credit



Project Budget Sources: Equity

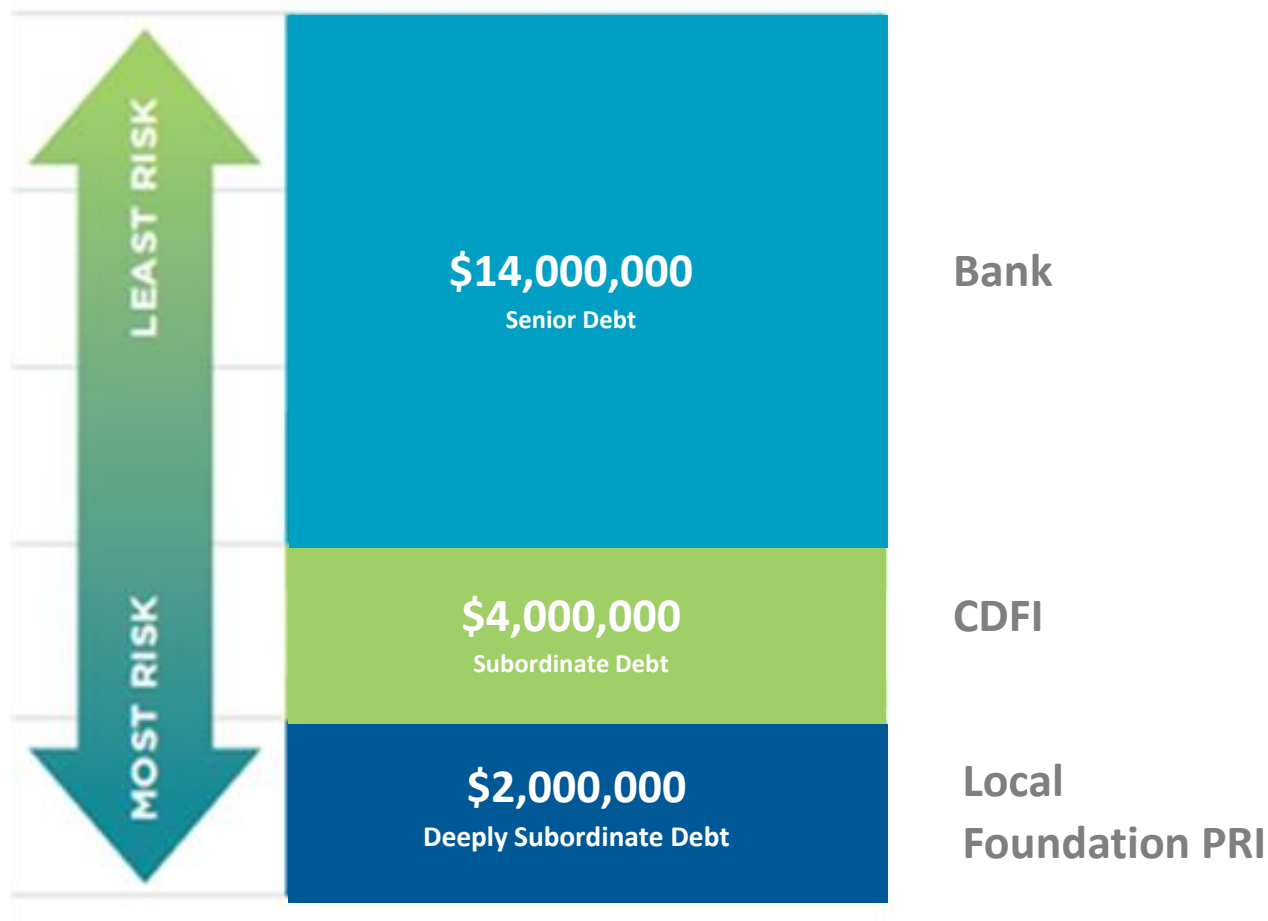
- 20% equity
- Equity paid in first
- Will equity be available when needed?

Project Budget Sources: Equity

- Grant (“capital grants”)
- Subsidy
- Cash
 - Cash on hand
 - Capital campaign
 - Investors
 - e.g., Historic Tax Credits, New Market Tax Credits*
- Existing value

Project Budget Sources: What is a Capital Stack?

The way that this capital is layered together, or combined, to fund a particular project.

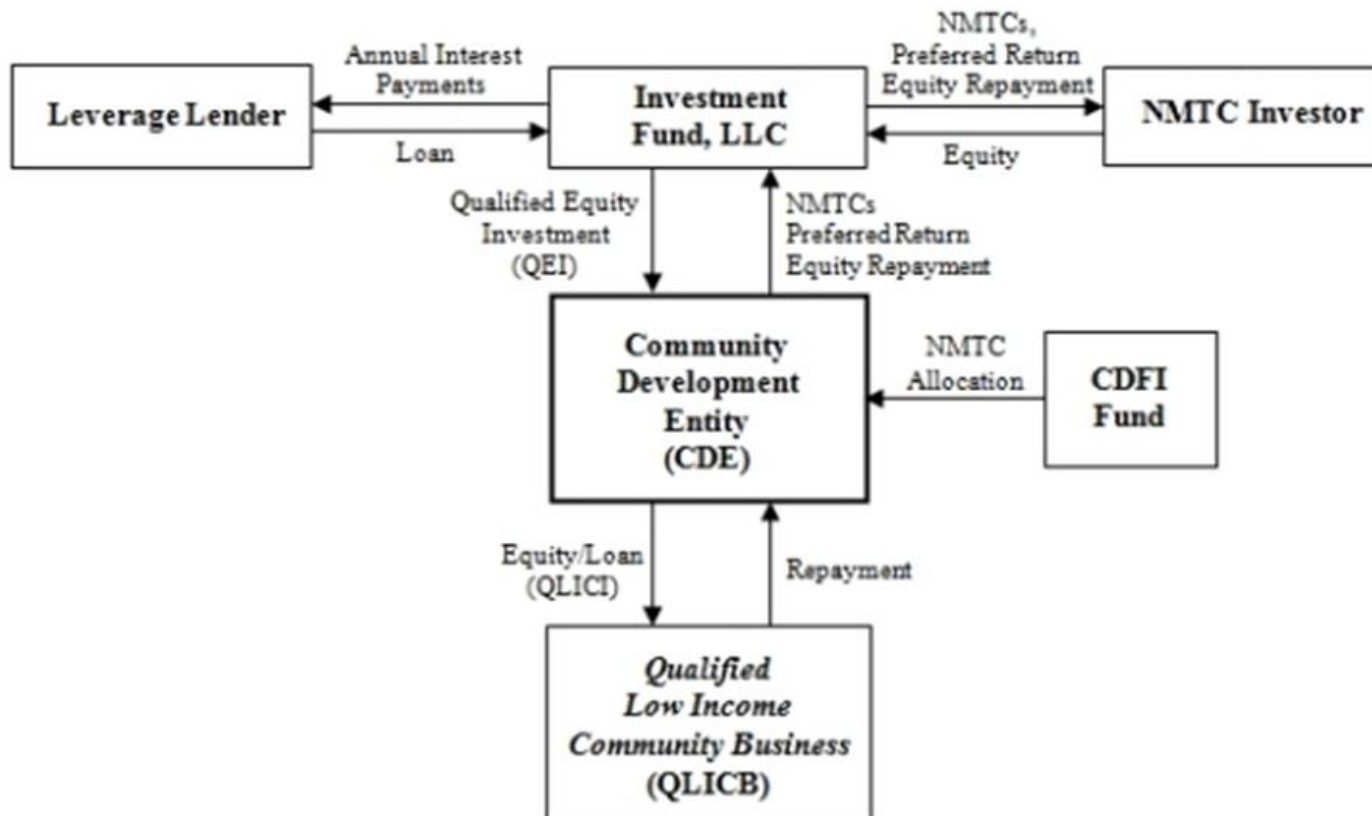


Project Budget Sources: What is Capital Structure?

How the parties interact to finance a project.

A. Can be simple: **Borrower < > Lender**

B. Or complex:



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2. **Project budgeting in action (Clare Newman)**
3. Exercise

**BROOKLYN
NAVY**

YARD

December 2017

Brooklyn Navy Yard



Food Manufacturing Hub

i.

The Yard in Context



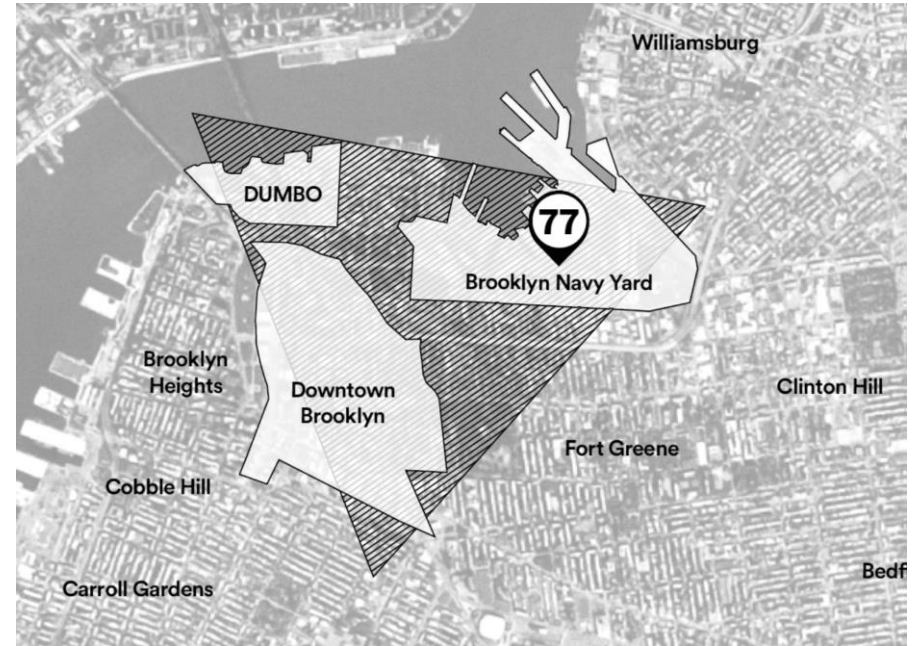
Mission

The mission of the Brooklyn Navy Yard Development Corporation is to fuel New York City's economic vitality by creating and preserving quality jobs, anchoring the City's modern industrial sector and businesses, and connecting the local community with the economic opportunity and resources of the Yard.

i.

The Yard in Context

Who We Are



300 acres

60 buildings

5 million square feet under roof

400+ businesses

7,500 jobs

\$2B in economic impact

i.

The Yard in Context

Development Projects

Wegmans at Admirals Row

285,000 sq.ft.
\$175,000,000
1,200 jobs

Green Manufacturing Center

260,000 sq.ft.
\$68,000,000
800 jobs

Dock 72

675,000 sq.ft.
\$380,000,000
4,000 jobs

Building 77

1,000,000 sq. ft.
\$185,000,000
3,000 Jobs

Steiner Studios Expansion

1,100,000 sq. ft.
\$468,000,000
3,500 Jobs

ii.

Project Intro

Seizing Opportunity



Problem: no place in the Yard to eat, gather, take meetings, accidentally innovate

Opportunity: undertaking gut renovation of 1M sf building immediately adjacent to public street

Project Goals:

1. Create a “front door, living room, and kitchen” for the Yard where businesses, employees and members of the public can meet and collide
2. Support NYC’s burgeoning food manufacturing sector (mainly small businesses) and create jobs
3. Curate a selection of food manufacturers and eateries that are reflective of Brooklyn’s diversity

ii.

Project Intro

A New Front Door





iii.

Project Conception

Pre-development Work

Issue	Building 77 Example
<i>Project Structure</i>	
Control	Self-development (vs. dev agreement or master lease)
Construction	Cost-plus CM (vs. GC or GMP or other)
<i>Info Gathering</i>	
Environmental	Phase 1 and phase 2 testing
Structural	Slab borings, shell testing, etc.
Feasibility / options	Engaged architect to conduct a feasibility study for three options with order-of-magnitude costing
Title / survey	Title search and survey
Timeline	Timeline with phasing
Market study	Food and beverage capture analysis
Comps / budget	Order of magnitude cost estimate (per above) plus comp research
<i>Team Building</i>	
Architect & engineering	Marvel Architects, kitchen consultants,
Owners rep	Sterling
Construction manager	Plaza
Anchors	Russ & Daughters

iii.

Project Conception

End of pre-development phase

Smaller Risk Pool

- Greater revenue certainty (anchor signed, market study complete)
- Greater cost certainty (feasibility work, comp research)
- Fewer unknowns (title, environmental, structural)
- Better defined scope (selection of option and project components)

Disbursement of Risk

- Could consider GMP or completion guaranty – increases \$
- Could consider master lease – decreases control

iv.

Project Pro Forma

Detailed Budget

Building 77 Ground Floor Pro Forma				
<i>Last Updated: November 2017</i>				
Assumptions / Inputs				
Gross Square Feet		62,000		
Zoning Square Feet		60,000		
Rentable Square Feet		38,194		
Detailed Budget				
Acquisition & Closing Costs				
		\$ -		
Hard Costs		Total	PSF	Notes
CM Base Contract Price		\$ 15,000,000	\$ 241.94	
CM Add Alt 1 - Mezzanine		\$ 1,200,000	\$ 19.35	
Graphics and Signage		\$ 500,000	\$ 8.06	
Construction Contingency	10%	\$ 1,500,000	\$ 24.19	
Hard Cost Subtotal		\$ 18,200,000	\$ 293.55	
Soft Costs		Total	PSF	Notes
Feasibility Study		\$ 179,000	\$ 2.89	
Market Study		\$ 22,000	\$ 0.35	
Architect	7%	\$ 1,050,000	\$ 16.94	
Legal		\$ -	\$ -	
Accounting		\$ -	\$ -	
Survey		\$ 12,000	\$ 0.19	
Appraisal		\$ 7,500	\$ 0.12	
Environmental		\$ -	\$ -	
GeoTech & Structural Testing		\$ -	\$ -	inc in feasibility study
Graphics and Signage Design		\$ 40,000	\$ 0.65	
Owners Rep		\$ 100,000	\$ 1.61	
Expediting and Filing		\$ 40,000	\$ 0.65	
Inspections		\$ 140,000	\$ 2.26	
FF&E		\$ 400,000	\$ 6.45	
LEED Fee		\$ 25,000	\$ 0.40	
Marketing		\$ 250,000	\$ 4.03	
Soft Cost Subtotal		\$ 2,265,500	\$ 36.54	

Financing Fees				
		Total	PSF	Notes
Bank		\$ 131,559	\$ 2.12	1% of loan principal
				see NMTC tab; net
NMTCs		\$ -	\$ -	proceeds in sources
Financing Cost Subtotal		\$ 131,559	\$ 2.12	
Leasing Costs "Good News Capital"				
		Total	PSF	Notes
Tenant Improvements	\$45	\$ 1,718,730	\$ 27.72	
Commissions		\$ 200,000	\$ 3.23	
Leasing Cost Subtotal		\$ 1,918,730	\$ 30.95	
Carrying Costs				
		Total	PSF	Notes
Lease-up/Operating Reserve		\$ 250,000	\$ 4.03	six months of op ex
Construction Interest		\$ 723,572	\$ 11.67	
Carrying Cost Subtotal		\$ 973,572	\$ 15.70	
Design Contingency	10%	\$ 2,046,550	\$ 33.01	of HC+SC
SUBTOTAL		\$ 25,535,911		
Developer's Fee	4%	\$ 1,021,436	PSF	of TDC less developer's fee
TOTAL		\$ 26,557,347	\$ 428.34	

Notes:

- Numbers are illustrative only

iv.

Project Pro Forma | Cash Flow

Assumptions / Inputs	
Escalations	2.5%
Gross Square Feet	62,000
Zoning Square Feet	60,000
Rentable Square Feet	38,194

Notes:

- Numbers are illustrative only
- Project is Building, if not Yardwide loss leader; brokers estimate ability to charge \$5-10 psf more on office floors given ground floor project

Cash Flow			Acq	C1	C2	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
<u>Revenue</u>											
Rent	38,194	\$ 31				\$ 1,185,331	\$ 1,214,964	\$ 1,245,338	\$ 1,276,472	\$ 1,308,384	
Events	12	\$ 25,000				\$ 300,000	\$ 307,500	\$ 315,188	\$ 323,067	\$ 331,144	
Electric		\$ 3				\$ 114,582	\$ 117,447	\$ 120,383	\$ 123,392	\$ 126,477	
Condenser Water		\$ 4				\$ 133,679	\$ 137,021	\$ 140,446	\$ 143,958	\$ 147,557	
Insurance		\$ 0.30				\$ 11,458	\$ 11,745	\$ 12,038	\$ 12,339	\$ 12,648	
Water - fixture charge		\$ 0.34				\$ 12,986	\$ 13,311	\$ 13,643	\$ 13,984	\$ 14,334	
Potential Gross Income			\$ -	\$ -	\$ -	\$ 1,758,036	\$ 1,801,987	\$ 1,847,037	\$ 1,893,213	\$ 1,940,543	
Vacancy and Credit Loss	10%	\$ -	\$ -	\$ -	\$ -	\$ (175,804)	\$ (180,199)	\$ (184,704)	\$ (189,321)	\$ (194,054)	
Effective Gross Income			\$ -	\$ -	\$ -	\$ 1,582,233	\$ 1,621,788	\$ 1,662,333	\$ 1,703,891	\$ 1,746,489	
<u>Expenses</u>											
Utilities, Insurance, Staff, Waste, ReTx, Misc											
Repairs and Maintenance											
Total Expenses			\$ -	\$ -	\$ -	\$ (496,000)	\$ (508,400)	\$ (521,110)	\$ (534,138)	\$ (547,491)	
Acquisition Cost			\$ -								
Construction Cost				\$ (13,278,674)	\$ (13,278,674)						
Terminal Value	6%										\$ 19,983,292
Net Operating Income			\$ -	\$ (13,278,674)	\$ (13,278,674)	\$ 1,086,233	\$ 1,113,388	\$ 1,141,223	\$ 1,169,754	\$ 1,198,998	\$ 19,983,292
All Non-equity sources				\$ 7,967,204	\$ 13,278,674						
Debt Service	1.2					\$ (905,194)	\$ (905,194)	\$ (905,194)	\$ (905,194)	\$ (905,194)	\$ (905,194)
Balloon											\$ (11,904,837)
Leveraged Cash Flow			\$ -	\$ (5,311,469)	\$ -	\$ 181,039	\$ 208,195	\$ 236,029	\$ 264,560	\$ 293,804	\$ 7,173,262

iv.

Project Pro Forma

Sources & Uses

Sources	
Developer Equity	\$5,311,469
Deferred Developer's Fee	\$1,021,436
First Mortgage	\$13,155,856
DB Grant	\$380,000
NMTCs	\$2,200,000
City Capital	\$4,488,585
Total	\$26,557,347

Uses	
Acquisition & Closing Costs	\$ -
Hard Costs	\$18,200,000
Soft Costs	\$7,335,911
Developer's Fee	\$1,021,436
Total	\$26,557,347

Notes:

- Numbers are illustrative only

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Rate this budget!

SOURCES

Loan	850,000
Grant	200,000

Total Sources	1,050,000
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USES

Acquisition	650,000
Renovation	350,000
HC contingency	35,000
Architect	15,000
Environmental	25,000
Zoning	20,000
Financing fees	8,500
Closing costs	50,000
FF&E	20,000

Total Uses	1,173,500
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Rate this budget!

SOURCES

Loan	900,000
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Total Sources	900,000
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USES

Acquisition	750,000
Fencing	50,000
Roof repair	100,000

Total Uses	900,000
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Rate this budget!

SOURCES

Bank loan	8,000,000
City subord. loan	2,000,000
Foundation PRI	1,000,000
Grant	200,000
Borrower equity	2,500,875

Total Sources	13,700,875
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USES

Acquisition	7,500,000
Construction	5,000,000
Contingency	500,000
Appraisal	10,000
Architect	250,000
Environmental	150,000
Legal	15,000
Permit	20,000
Owner's rep	25,000
Zoning	10,000
Inspections	7,500
Survey	5,000
Financing	100,000
Title/transfer/taxes	75,000
Soft cost contingency	33,375

Total Uses	13,700,875
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Rate this budget!

SOURCES

Bank	9,775,000
Sub-debt	1,750,000
Seller financing	1,500,000
Equity	2,641,732

Total Sources	15,666,732
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USES

Acquisition	1,500,000
Construction	12,644,456
Contingency	11,556
Soft costs:	
Accounting	65,000
Architect	182,100
Closing	108,600
Environmental	9,428
Engineering	305,900
Appraisal	7,720
Permits/Licenses	63,520
Legal-borrower	50,000
Legal-lenders	70,000
Origination fees	115,250
Owner's rep	255,094
Technology	25,824
FF&E	252,284

Total Uses	15,666,732
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Rate this budget!

SOURCES

Bank	15,000,000
Sub-debt	1,250,000

Total Sources	16,250,000
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USES

Acquisition	1,500,000
Construction	12,600,000
Contingency	1,260,000
Soft costs:	
Professional services	500,000
Appraisal	7,500
Legal-borrower	50,000
Legal-lenders	70,000
Origination fees	162,500
FF&E	100,000

Total Uses	16,250,000
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Budgeting practice

With your teammates or independently, brainstorm on the following...

- What is the right project structure for us?
- Who will be the members of our development team?
- What is most worrying about this project?
- What are the right line items to include in our budget?

Sources	
Uses	
<i>Acquisition</i>	
<i>Hard Costs</i>	
<i>Soft Costs</i>	
<i>Contingency</i>	
<i>FF&E</i>	
<i>Closing costs & financing fees</i>	