



MEMORANDUM

TO: Members of the Authority

FROM: Caren S. Franzini
Chief Executive Officer

DATE: February 16, 2011

SUBJECT: Urban Transit Hub Tax Credit Program
Panasonic Corporation of North America

Request

The Members are asked to approve the Urban Transit Hub Tax Credit (“UTHTC”) program application for Panasonic Corporation of North America (“Panasonic”) as a tenant in the proposed new commercial real estate project on an eligible site, with at least 250 employees, in Newark, New Jersey for a tax credit in the amount of \$102,408,062. However, if Panasonic does not create at least 200 new jobs over the next 10 years at the site, pursuant to the requirements of the program, they will only qualify for an 80% tax credit of \$81,926,450 over 10 years. The Project’s total qualified cost is \$102,408,062. It should be noted that the Board memorandum dated February 8, 2011, calculated the net benefits to the State over a 20 year period (the maximum period provided for in Regulations) as the proposed lease term is 25 years (initial term of 15 years with two five year renewal options). In response to questions raised by the Board members at the February 8, 2011 Board meeting, staff has revised the net benefits analysis to reflect only the initial lease term of 15 years. This revision does not change the recommended tax credit amount.

Project Description

Matrix Development Group and SJP Properties (the “Developers”) are the owners and developers of a property located at 2 Riverfront Center in Newark (the “Project Site”). The developer is proposing to construct a new facility totaling 410,000 ±sf, of which 250,000 ±sf will be leased to Panasonic for use as office space under a 15 year lease with two five-year renewal options at an estimated \$44.00/sf.

Panasonic has applied for the UTHTC as a tenant in a commercial real estate project on an eligible site in Newark. The Project Site has been verified to be in an eligible municipality and was confirmed to be located within one-half mile of an Urban Transit Hub (Newark Penn Station) by Langan Engineering & Environmental.

Under the UTHTC rules, the applicant must employ at least 250 full time employees at the Project Site by January 13, 2016. Panasonic anticipates meeting this requirement upon issuance of the Certificate of Occupancy in the 4th quarter of 2012 at which time they will relocate approximately 800 full time employees from an existing location in Secaucus, New Jersey to the Project Site. The CEO of Panasonic has certified to material facts that the lease in Secaucus expires in March 2013, the Company has the capacity to accommodate its Secaucus operations at other sites outside the State of New Jersey, and that these jobs are “at risk.” Pursuant to the program requirements, CEO certification was received in order to include the approximately 800 “at risk” jobs in the application as part of the

Authority's Net Benefits Analysis calculation. These site options include Atlanta, Chicago and California where they have current operations and the ability to expand or acquire additional space. The company is also considering Brooklyn as one of their alternatives. Staff has reviewed the economic analysis presented by the applicant that details the cost differential between these alternative locations that indicates significant cost savings were the company to move out of state. The company did not acknowledge, and staff review did not reveal, any facts that would tie the company's existing NJ jobs to NJ, i.e. union contracts, NJ regulated entities or services, specialized labor force needs, or stranded assets. National news media reports have also reflected the company's interest in other locations out of state. As such, staff has included the economic activity of these "at risk" jobs in its calculation of the net benefits to the State.

The estimated total capital investment in the project as it relates to the development of Panasonic's space is \$125,828,566. The eligible capital investment of the costs relative to the development of the applicant's space was determined to be \$102,408,062 which does not include land, land loan interest costs and/or taxes. The estimated cost to develop the entire project site is approximately \$190,000,000. Panasonic is eligible as a tenant under this program as their allocable share of the total leasable space exceeds the UTHTC's minimum requirement (\$17.5 million in a multi-suite facility). Panasonic will be responsible for payment of the tenant improvements made to their leased space. The Authority recommends approval of this project for a tax credit in an amount estimated at \$102,408,062 based on the results of the net benefit analysis and qualifying cost breakdown attached hereto. Panasonic expects to execute a lease with the Developers prior to the start of the construction of this building. Construction is expected to begin by 2nd quarter of 2011. Completion of construction is expected in the 4th quarter of 2012, with Panasonic occupying the space by end of 2012.

Project Ownership

Panasonic, based in Secaucus, New Jersey, is the principal North American subsidiary of Osaka, Japan-based Panasonic Corporation and the hub of its branding, marketing, sales, service, product development and R&D operations in the U.S. and Canada.

For more than 50 years, Panasonic has provided American consumers with innovations for the home and business. Panasonic's consumer electronics and technology products range from award-winning VIERA High Definition Plasma and LCD TVs and LUMIX Digital Cameras to ruggedized Toughbook® laptop computers, communications solutions, networkable office solutions, security systems, home appliances, personal care products, components and entire in-flight entertainment and information systems.

Panasonic operations in North America include Research and Development Centers, manufacturing bases, Panasonic Customer Call Center, business-to-business and industrial solutions companies and consumer products, sales and service networks throughout the United States, Canada and Mexico. Approximately 950 jobs (800 full time and 150 contractors) are linked to Panasonic in the State.

Project Budget for the 247,319 Square Foot Development (Panasonic's Space Only):

Item	Total Development Cost	Eligible Capital Investment
Land and Land Loan Interest Costs	\$7,419,570	\$0
Site Preparation, Core & Shell, and Parking	\$50,963,841	\$50,963,841
Tenant Improvements, Equipment/Furnishing, and Contingency	\$32,176,894	\$29,076,894

Soft Costs (Includes Financing Costs) *Adjusted as Soft costs exceed 20% of Qualifying Project Costs	\$35,268,261	\$22,367,327*
TOTAL	\$125,828,566	\$102,408,062

Net Positive Benefit Analysis

Pursuant to the UTHTC rules, the Authority calculates the Net Positive Benefit of the project based on the new jobs to the state, unless the applicant submits material facts to demonstrate the “at risk” nature of any relocated employees. Panasonic has certified that the 806 employees, considered for relocation, are “at risk.” Therefore, the Net Positive Benefit Analysis considers these jobs as new jobs consistent with the treatment of existing jobs under the net benefits test for the UTHTC program which was approved by the Board in June 2010.

The Authority conducted the required Net Benefit Analysis for this project based on 806 “at risk” jobs at the Project Site and has found that the present value of the Net Positive Benefits to the state of New Jersey over 11.25 years (75% of the proposed initial 15 year lease term) is approximately \$222.8 million using a 6% discount rate. Members will recall that previous analysis provided with regard to this application was done over a 20 year period as the proposed lease term, including extension options, eclipsed the maximum allowed by the regulations. The amended Net Benefits Analysis utilizes the same assumptions as those provided for approval in January of 2011 with the exception of the term change from 20 years to 11.25 years.

The total Net Benefit to the State is calculated by utilizing the net present value of direct tax revenue (Corporate Business Tax, Gross Income Tax, Real Estate Tax and Utility Tax) and the indirect tax revenue expected to be generated by the company over 11.25 years. Also included in the analysis are the one-time construction costs associated with the construction of the space specific to Panasonic. The calculated net benefit meets the standard of being at least 110% of the recommended grant assistance which is approximately \$202.5 million. The total project is thereby eligible for a tax credit amount not to exceed \$102,408,062 which is less than 100% of the total capital investment.

As of December 1, 2010, a total of \$254,449,645 Commercial UTHTC Credits and \$131,645,557 of Residential UTHTC Credits have been approved for a total of \$386,095,202 for the UTHTC program.

Recommendation

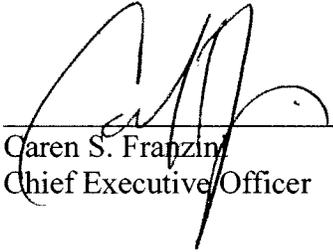
Staff has reviewed the application for consistency with the Act and rules implementing the UTHTC Program (N.J.A.C:19:31-9) and recommends approval of the application for a tax credit in an amount estimated at \$102,408,062. The annual award cannot exceed the yearly lease payments Panasonic will make to occupy the space at the site per NJ Statute 34:1B-209 Section 6 Part c(1). The NJEDA will provide the applicant with an approval letter for the total amount of the credit.

Pursuant to the rules governing the program, the project will need to meet certain milestones for within 12 months of approval in order to maintain the project’s credit approval.

These milestones include:

- 1) Site control
- 2) Site plan approval
- 3) Executed lease between Matrix/SJP and Panasonic
- 4) Other project specific items which may be added

Upon project completion, the Authority shall issue a tax credit certificate based on the final qualified costs, not to exceed the approved amount. The tax credit certificate shall indicate that the applicant may take one tenth of the total credit annually, not to exceed the business' total lease payments for occupancy of the qualified business facility for the tax period, over ten years when accompanied by a letter issued by EDA indicating the project is compliant with program guidelines.



Caren S. Franzini
Chief Executive Officer

2/16/11 Final
Prepared by: Mark Lestuk
Real Estate Financial Analyst

NJEDA Simplified Speculative Building Model (Annotated)

	48	47	49	Project Composite
Job Type Number	48	47	49	
Job Type Description	48. Management of companies and enterprises	47. Professional, scientific, and technical services	49. Administrative and support services	
Sq. footage	247,319			247,319
Average Density				
Implied Direct Jobs	484	259	63	806
Direct Effect Employment Multiplier	2.44x RIMSH-5	1.67x RIMSH-5	1.33x RIMSH-5	2.44x
Total Jobs	1,183 RIMSH-4*Direct Output	433 RIMSH-4*Direct Output	84 RIMSH-4*Direct Output	1,699
Indirect Jobs	699 Total-Direct	174 Total-Direct	21 Total-Direct	893
Final Demand Employment Multiplier	2.44x RIMSH-4	4.71x RIMSH-4	8.50x RIMSH-4	2.44x
Direct Output	\$485.5 known/RIMSH-2	\$91.8 known/RIMSH-2	\$9.9 known/RIMSH-2	\$587.2
Final Demand Output Multiplier	1.55x RIMSH-3	1.57x RIMSH-3	1.61x RIMSH-3	1.55x
Total Output	\$754.2 RIMSH-3*Direct Output	\$144.4 RIMSH-3*Direct Output	\$15.9 RIMSH-3*Direct Output	\$914.5
Spillover	\$268.7 Total-Direct	\$52.6 Total-Direct	\$6.0 Total-Direct	\$327.3
Final Demand Earnings Multiplier	0.16x RIMSH-2	0.25x RIMSH-2	0.25x RIMSH-2	0.16x
Total Earnings	\$77.4 known*RIMSH-1	\$22.9 known*RIMSH-1	\$2.4 known*RIMSH-1	\$102.8
Direct Effect Earnings Multiplier	1.63x RIMSH-1	1.40x RIMSH-1	1.45x RIMSH-1	1.63x
Direct Earnings	\$47.4 known	\$16.4 known	\$1.7 known	\$65.5
Indirect Earnings	\$30.0 Total-Direct	\$6.5 Total-Direct	\$0.8 Total-Direct	\$37.3

NIEDA Economic Impact Model		Notes
NIEDA Economic Impact Model		
County Number	7	
Address	1 Mountain Park, Newark, NJ	
County	Essex	
Ongoing Jobs(Direct)	806	
One Time Jobs(Direct)	93	
State & Local Direct Charges		Consumer Goods Select Industry Sector
Sales Tax	\$0.00	0%
Corporate Income Tax (CIT)	\$7.25	0%
Gross Income Tax	\$2.62	0%
Utility Tax	\$0.06	Assumes 10% at \$2.00 psf
Property Tax	\$0.50	Assumes 10% at \$2.00 psf
Direct Ongoing Annual Taxes	\$10.44	Assumes 10% at \$2.00 psf
State Indirect Charges		
Annual Corp Spending	\$587.17	Assumes 10% at \$2.00 psf
Final Demand Output Multiplier	1.55x	Assumes 10% at \$2.00 psf
Indirect Annual Spending	\$324.94	Assumes 10% at \$2.00 psf
At 3.5 % Tax Rate	\$11.37	Assumes 10% at \$2.00 psf
Annual Payroll	\$65.49	Assumes 10% at \$2.00 psf
Indirect Effect Earnings Multiplier	1.63x	Assumes 10% at \$2.00 psf
Indirect Earnings	\$41.48	Assumes 10% at \$2.00 psf
At 4% Tax Rate	\$1.66	Assumes 10% at \$2.00 psf
Indirect Ongoing Annual Taxes	\$11.37	Assumes 10% at \$2.00 psf
Total State Charges Net Benefits		
Annual Net Benefit	\$23.47	Assumes 10% at \$2.00 psf
Cumulative Net Benefit (11.25 yrs w/ 3% yearly inflation)	\$308.72	Assumes 10% at \$2.00 psf
Present Value @6%	\$215.89	Assumes 10% at \$2.00 psf
One Time		Cost Per Applicant
Construction Value	\$125.8	
Direct One Time Taxes on Spending	\$4.4	
Direct Construction Multiplier	1.53x	
Indirect One Time Spending	\$66.48	
Spending Tax Rate	3.5%	
Ind One Time Taxes on Spending	\$2.3	
Assumed Portion of Const. on Labor	50%	
Dir One Time Earnings	\$2.91	
Earnings Tax Rate	5%	
Dir One Time Taxes on Earning	\$3.1	
Direct Effect Earnings Multiplier	1.45x	
Indirect One Time Earnings (50% of Construction)	\$28.17	
Earnings Tax Rate	5%	
Ind One Time Taxes on Earnings	\$1.4	
Total One Time Tax Benefits	\$6.9	
Total State Benefits		
Total One Time Tax Benefits	\$6.9	
Total State Ongoing Benefits (PV @ 6%)	\$215.9	
Total Benefits	\$222.8	
Implied Maximum Loan at 110% Coverage Ratio Before Adjustments	\$202.5	
Adjustment Test 1		
Maximum HUB Award Test		
Total Qualifying Costs (NIEDA Cost Analysis sheet)	\$102.4	
Max Loan Amount	\$202.5	
Minimum of (Max loan@110%&Total Qualifying Cost)	\$102.4	
Adjustment Test 2		
Switch		
Freight or Urban Grocery Store Site? (Yes=1, No=0)		
Adjustment Test 3		
Is the Capital Investment >= \$50M?	Yes	
Are new or at risk jobs >= 250	Yes	
This transaction meets minimum thresholds		

HUB ELIGIBLE COST ANALYSIS

Panasonic Corporation of North America - Newark, New Jersey

Hard Costs	Developers Cost	Qualifying Category	Qualifying Sub Category	Qualified Cost Total	Soft Cost Qualified	Notes
Land	\$7,419,570	Unqualified	No Credit	\$0	\$0	
Site Prep & Earthwork	\$665,288	Capital	Site Preparation	\$665,288	\$0	
Base Building (Core & Shell)	\$42,798,553	Capital	Improvement - General	\$42,798,553	\$0	
Parking	\$7,500,000	Capital	Improvement - General	\$7,500,000	\$0	
Tenant Improvements	\$11,129,355	Capital	Furnishing - Building	\$11,129,355	\$0	
Tenant Improvements - Tenant Specific	\$4,575,402	Capital	Furnishing - Building	\$4,575,402	\$0	
Solar Panels	\$1,300,000	Capital	Furnishing - Facility	\$1,300,000	\$0	
Signage - LED	\$3,100,000	Unqualified	No Credit	\$0	\$0	
Signage - Building & Parking	\$900,000	Capital	Furnishing - Building	\$900,000	\$0	
IT/Cabling/AV Equipment	\$5,762,533	Capital	Equipment - Business Oper.	\$5,762,533	\$0	
Misc (AV/Security/Lighting):	\$98,928	Capital	Equipment - Business Oper.	\$98,928	\$0	
Contingency	\$5,310,676	Capital	Construction - Other	\$5,310,676	\$0	
Total Hard Costs	\$90,560,305			\$80,040,735	\$0	

Soft Costs	Developers Cost	Qualifying Category	Qualifying Sub Category	Qualified Cost Total	Soft Cost Qualified	Notes
Architectural & Engineering	\$2,629,001	Soft	Engineering	\$2,629,001	\$2,629,001	
Marketing	\$12,366	Unqualified	No Credit	\$0	\$0	
Development Fee	\$2,359,423	Unqualified	No Credit	\$0	\$0	
Furniture	\$11,129,355	Soft	Furniture	\$11,129,355	\$11,129,355	
Legal	\$301,729	Soft	Legal	\$301,729	\$301,729	
Real Estate Taxes During Construction	\$150,865	Unqualified	No Credit	\$0	\$0	
Insurance	\$507,004	Soft	Financing	\$507,004	\$507,004	
Other Consultant Fees	\$207,748	Unqualified	No Credit	\$0	\$0	
Government Fees, Permits	\$71,723	Soft	Engineering	\$71,723	\$71,723	
Building Permit Fees	\$304,202	Soft	Engineering	\$304,202	\$304,202	
Water Connection Fees	\$108,820	Soft	Engineering	\$108,820	\$108,820	
Sewer Connection Fees	\$49,464	Soft	Engineering	\$49,464	\$49,464	
LOC/Performance Bond Fees	\$2,473	Soft	Financing	\$2,473	\$2,473	
Testing & Inspection	\$150,865	Soft	Engineering	\$150,865	\$150,865	
Legal Counsel	\$86,561	Soft	Legal	\$86,561	\$86,561	
Site Selection consultant	\$123,659	Soft	Engineering	\$123,659	\$123,659	
LEED Consultant	\$247,319	Soft	Engineering	\$247,319	\$247,319	
Architect and Engineering - Other	\$803,787	Soft	Engineering	\$803,787	\$803,787	
Project Management	\$741,958	Unqualified	No Credit	\$0	\$0	
Total Soft Costs	\$19,988,322			\$16,515,962	\$16,515,962	

Financing Costs	Developers Cost	Qualifying Category	Qualifying Sub Category	Qualified Cost Total	Soft Cost Qualified	Notes
Brokerage Commission	\$10,087,225	Soft	Real Estate Commissions	\$10,087,225	\$10,087,225	
Legal Financing & Loan Fees	\$967,017	Soft	Financing	\$967,017	\$967,017	
Interest Cost - Total Construction Funding	\$3,625,697	Soft	Financing	\$3,625,697	\$3,625,697	
NJEDA Fee	\$600,000	Soft	Financing	\$600,000	\$600,000	
Total Financing Costs	\$15,279,939			\$15,279,939	\$15,279,939	

GRAND TOTALS	\$125,828,566	\$111,836,636	\$31,795,901
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TOTAL QUALIFIED SOFT COSTS	\$31,795,901
MAXIMUM SOFT COST ALLOWALBE (20% of All Qualified Costs)	\$22,367,327
TOTAL ALLOWED SOFT COST	\$22,367,327
SOFT COST ADJUSTMENT (if Applicable)	\$9,428,574
TOTAL QUALIFYING COSTS	\$102,408,062

MAXIMUM HUB AWARD (100%)	\$102,408,062
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