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September 2017

Arthur J. Nastre, Chairman
Board of Directors
Hempstead Industrial Development Agency
350 Front Street, Room 234-A
Hempstead, New York 11550

Report Number: S9-15-68

Dear Chairman Nastre and Members of the Board of Directors:

A top priority of the Office of the State Comptroller is to help local officials manage their resources efficiently and effectively and, by so doing, provide accountability for public dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments and certain other public entities statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and governance. Audits can also identify strategies to reduce costs and to strengthen controls intended to safeguard assets.

In accordance with these goals, we conducted an audit of six Industrial Development Agencies (IDAs) throughout New York State. The objective of our audit was to determine whether the IDA's Board of Directors provides effective oversight of the IDA's projects. We included the Hempstead IDA (Agency) in this audit. Within the scope of this audit, we examined the Agency policies and procedures and reviewed records and project files for the audit period January 1, 2014 through May 31, 2015. For selected projects, we expanded the audit period back to February 24, 2005. This audit was conducted pursuant to Article X, Section 5 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This draft report of examination letter contains our findings and recommendations specific to the Agency. We discussed the findings and recommendations with Agency officials and considered their comments, which appear in Appendix B, in preparing this report. Agency officials generally agreed with our recommendations and indicated they plan to initiate corrective action. At the completion of our audit of the six IDAs, we prepared a global report that summarizes the significant issues we identified at the IDAs audited.

Summary of Findings

We found that, while the Board of Directors (Board) generally provides effective oversight of the Agency's operations, some improvements could be made. While the Board uses a standard project application, it has not developed project selection criteria and does not require applicant information to be verified or confirmed before it approves a project for financial assistance. Although the use of project selection criteria was not required at the time of our audit, legislation that became effective June 2016 requires IDAs to develop and use project selection criteria for new projects. Board members use their collective personal knowledge to evaluate the applicant's cost estimates and job creation goals.

The Agency has been performing analysis comparing project job goals versus actual employment since at least 2007 and reports this information to the Board via its annual compliance review. The report is used to monitor a project's progress and determine whether financial assistance should be clawed back or terminated. For projects falling short of job goals, a letter or memo of justification is required explaining to the Agency the reason for the shortfall. However, the information submitted by project owners was not verified. Although Agency officials were not required by statute to verify submitted project information, Agency officials should ensure that the submitted information reflects the actual results of project activity. The Board did not require project owners to provide documentation to support the number of jobs or salaries the projects were expected to create. However, Agency officials explained that starting in 2017, project owners will be required to annually submit a New York State-45 form to verify project employment and salaries.

While the Board adopted a Uniform Tax Exemption Policy (UTEP), as required, which includes provisions for the recapture or "claw-back" of financial assistance when project goals are not met, the Board has not established procedures to follow to implement a claw-back. In addition, the UTEP does not clearly state when financial assistance should be recovered or terminated. The decision to recapture is done on a case-by-case basis. However, the Board has terminated projects for failure to meet project goals. In our sample of five projects, the Board terminated two projects. It terminated one project for not providing annual employment information and another project for not meeting deadlines set by the Board including job creation goals.

Background and Methodology

An IDA is an independent public benefit corporation whose purpose is to promote, develop, encourage and assist in the acquiring, constructing, reconstructing, improving, maintaining, equipping and furnishing of industrial, manufacturing, warehousing, commercial, research and recreation and certain other facilities. The overall goal of an IDA is to advance the job opportunities, health, general prosperity and economic welfare of the people of the State.

IDAs are authorized to provide financial assistance for certain types of projects. Financial assistance includes the issuance of bonds by the IDA to finance construction of a project and straight-lease transactions. Since the property and activities of IDAs are tax exempt, the IDA may pass the benefits of certain tax exemptions (e.g., real property, sales and mortgage recording taxes) to the private entities that undertake the projects. The loss of revenue associated with these tax exemptions can be offset with an agreement for payments in lieu of taxes (PILOTs), under which the private entity agrees to pay all or a portion of the taxes that would otherwise have been imposed

had the project not been an IDA project. The role of the IDA is not just to act as the conduit for financial assistance, but also to monitor the success, progress and cost-benefit of projects, including whether projects are honoring their commitments and agreements.

In June 2016, new legislation became effective to increase the accountability and improve the efficiency and transparency of IDA operations.[1] For new projects, the law requires standard application forms for requests for financial assistance, uniform criteria for the evaluation and selection for each category of projects for which financial assistance is provided, uniform project agreements, annual assessments on project progress including job creation and retention, as well as policies to recapture, discontinue or modify financial assistance or tax exemptions.

The Agency, created in 1971, is governed by a Board composed of seven members who are appointed by the Town Board. The Board is responsible for the general management and control of the Agency. A Board member's role and responsibilities include executing direct oversight of the Agency's officers; understanding, reviewing and monitoring financial controls and operating decisions; adopting organizational policies; and performing their duties "in good faith and with the degree of diligence, care and skill which an ordinary prudent person in a like positon would use under similar circumstances."[2] An Executive Director and Deputy Executive Director, along with other staff members (officers), manage the Agency's day-to-day operations.

For calendar year 2014, the Agency's annual report included 81 active projects including 12 active bonds and 69 active PILOT agreements. The Agency had approximately $1 million in expenditures in 2014, funded exclusively with fees charged for processing project applications and for administering benefits granted to projects it approves.

To complete our objective, we interviewed the Board members and Agency officials, and we examined Agency records and project files for the period January 1, 2014 through May 31, 2015. For selected projects, we expanded the audit period back to February 24, 2005.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix C of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

Project Approval

The Board is responsible for reviewing the merits of each project and then making project approval or denial decisions. Because tax benefits granted by the Board to approved projects result in a cost to the community, it is important for the Board to evaluate the merit of each project and the benefits the community should realize from the Agency's investment. Promoting the use of a standard application when project owners request financial assistance from the Agency can help ensure consistency in project evaluation. Although not required at the time of our audit, the Board should adopt uniform criteria for the evaluation and selection of each category of projects (e.g.,

[1] Chapter 563 of the Laws of 2015.
[2] New York State Public Authorities Law, Section 2824

manufacturing, wholesale, distribution, retail, tourism and housing) for which financial assistance would be provided. Such practices should also include documenting the rationale for approving financial assistance and verifying information provided in the application.

As a matter of good business practice, a standard application should include, among other things:

- A description of the proposed project, including the amount and type of financial assistance requested and an estimate of the capital costs of the project;

- The number of and estimates of salary and fringe benefits for full-time equivalent jobs that would be retained or created if the financial assistance is provided and the projected timeframes for creation of new jobs;

- A statement acknowledging the submission of any knowingly false or misleading information may lead to immediate termination of any financial assistance and reimbursement of an amount equal to all or part of any tax exemptions claimed as a result of the project;

- A statement that the information is true under penalty of perjury;

- A statement that Agency assistance is necessary to undertake the project; and

- A statement that the project owner is in substantial compliance with all laws, rules and regulations.

Good business practices also promote that an IDA's uniform evaluation criteria should, at a minimum, require that prior to approval of any financial assistance, the IDA should verify and evaluate all material information provided with the application. It should also undertake a written cost-benefit analysis that identifies the extent to which a project will create or retain permanent, private sector jobs generated or likely to be generated by the proposed project, the likelihood of accomplishing the proposed project in a timely manner, and the extent to which the proposed project will provide additional revenue for municipalities and school districts.

We found that the Board uses a standard project application. However, although not required during our audit, the Board did not develop uniform project selection criteria and it does not document its rationale for awarding financial assistance. We also found that, although the application includes a description of the project, cost and performance estimates, and other pertinent information, the Board does not require information such as job retention estimates to be verified or confirmed before the Board votes on awarding financial assistance to the applicant. Board members use their collective personal knowledge to evaluate the applicant's cost estimates and job creation goals.

In addition, the standard application did not include a statement that information is accurate under penalty of perjury and does not require the submission of information on fringe benefits estimates for jobs created or retained. While this information was not required to be part of a project agreement at the time of our audit, it is required under the new legislation for new projects.

As a result, on July 1, 2016 the Agency began using a revised standard application which contains the new legislation's requirements.

We judgmentally selected five projects with project costs totaling about $147 million to review the project selection process (Figure 1).

Figure 1: Summary of Five Projects Reviewed		
Project Approval Date	**Description**	**Project Cost**
101 Uniondale LP (9/17/2014)	Acquisition of a 615-room, 10-story full service hotel	$69,000,000
HP Lynbrook, LLC (10/22/2014)	Acquisition and rehabilitation of an office building	$42,360,000
AMB Fund III Mosaic (7/1/2008)	Acquisition of a freight facility	$19,550,000
PDC Corporation (3/12/2012)	Acquisition, expansion and renovation of a building	$13,059,850
Rose Fence (2/24/2005)	Facility expansion	$3,116,000

Agency officials could not provide criteria that was used to evaluate the five projects, and the Board did not document how it arrived at its decision to approve these projects. Board minutes reflected that the projects were approved to receive assistance and Agency monitoring efforts after project approval. Monitoring efforts including the annual review of project goals versus current project employment and other requirements, such as requiring project owners to submit annual employment information or meet Agency expectations. Figure 3 in Appendix A provides additional details on the tax exemptions received by these projects.

Project Monitoring

A significant Board responsibility is to monitor and evaluate the performance of projects receiving financial assistance to determine whether they are meeting the goals included in their applications, such as the number of jobs to be created. The Board should evaluate each project's performance to ensure the project fulfills the commitments made to the residents in exchange for the financial assistance awarded. Although not required at the time of our audit, a uniform project agreement between the IDA and the project owners receiving financial assistance should be in place and used to monitor and evaluate projects' performance. In addition, Agency officials should also use each project's required annual status report to assist in monitoring project performance. Without effective monitoring, the community may not receive the expected benefits from the financial assistance provided.

The Board uses a uniform project agreement, including a UTEP, actively monitors projects, and is provided with project status reports detailing the number of jobs each project created or retained compared to each project's job goals. For all projects that have not met their job goals, an explanation for the shortfall must be provided. Agency officials also review the project's prior year performance to see whether improvement has been made. Board minutes often contain discussions pertaining to project performance or job performance goals.

Project Agreements – To properly monitor projects, IDAs should adopt and use uniform project agreements. A uniform project agreement should, at a minimum, include:

- The Agency purpose to be achieved by the project;
- A description of the project and the financial assistance to be provided;
- A requirement for an annual certification by the project owner, occupant or operator of full-time equivalent jobs created and retained as a result of the financial assistance;
- The dates when PILOT payments are to be made and estimates of the amounts or formulas by which these amounts are calculated;
- A provision for the suspension or discontinuance of financial assistance, or for the modification of any PILOT agreement to require increased payments, for certain defined performance shortfalls;
- A provision for the return of all or a part of the financial assistance provided for in accordance with Agency policy; and
- A provision that the business certify, under penalty of perjury, that it is in substantial compliance with all laws, rules and regulations.

The Agency's project agreement contains most of the best practice components. However, for our sample of five projects, we found the project agreements were missing components that could help the Agency more effectively monitor the projects. For example, the agreements did not state the Agency purpose to be achieved, require updated information if salaries or benefits for these jobs change, or state under penalty of perjury that the project owner is compliant with all laws and regulations. As of July 1, 2016, the Agency began using a new uniform project agreement that contains all of the new legislation requirements.

Additionally, all five projects included in our sample, dating back to 2005, contain provisions that allow for recapture of financial assistance if the projects do not meet the employment goals outlined in their project applications. Of the five projects in our sample, the Board voted to terminate PDC Corporation's financial assistance for noncompliance with timelines and failure to create the intended jobs. The Board also terminated Rose Fence's financial assistance for failure to provide updated project information to the Agency. Although the Board approved the 101 Uniondale project, its owner decided not to proceed with the project after the Board denied the owner's request for additional property tax abatements. AMB Fund II Mosaic did not meet its job goals. However, the project owner provided an explanation for its shortfall, which the Board accepted. The HP Lynbrook, LLC, project reported it exceeded its job goals.

Job Performance – At the time of our audit, the Board did not require project owners to provide documentation to support the number of jobs or salaries associated with the jobs they purportedly created or retained. While this documentation was not required during our audit, it would have provided Agency officials with information to assess whether each project's stated goals are being met. The Board and Agency officials relied on the project owner's integrity to ensure the number

of jobs created and retained are accurately reported. As a result, the Agency did not know if promised jobs were actually created or retained or if the employees were paid at rates stated in the project application. However, starting in the year 2017 the Agency will be requiring project owners to annually submit a NYS-45 form to verify employment figures and salaries.

We reviewed 65 approved projects[3] to determine whether they created and retained the number of jobs specified in their project agreements. We found 53 project owners agreed to create and/or retain 4,317.5 jobs and they reported they created and retained 9,379 jobs. However, the remaining 12 project owners reported they did not (Figure 2). For example, these projects should have created and retained a total of 1,291 jobs. The 2014 annual reports for the projects indicate that 1,050 jobs were created or retained, a shortfall of 241 (19 percent).

Figure 2: Projects Falling Short of Job Creation and Retention Goals

Project Approval Date	Job Creation and Retention Figures		Variance
	Project Agreement	2014 Annual Report	
Hebrew Academy of the Five Towns (5/2/2003)	342	230	(112)
AMB Fund III Mosaic (7/1/2008)	127	85	(42)
Mental Association of Nassau County (9/10/2004)	157	130	(27)
Millenium Realty, LLC (1/21/2010)	147.5	126	(21.5)
Covanta Hempstead Company (5/9/2006)	94	84	(10)
HUH Hempstead BJ 2012 (12/19/2012)	250	240	(10)
Angion Biomedica Corp. (4/11/2011)	40	33	(7)
Summit Hotel OP, LP (12/19/2012)	33	27	(6)
Peninsula Counseling (1/30/2008)	86	83	(3)
Equus Power I LP (10/9/2003)	4	3	(1)
Hempstead Village Housing Association/Woods Edge (4/1/2005)	6	5	(1)
130 Hempstead Avenue Apartment Investors, LLC (1/23/2014)	4.5	4	(.5)
Total	1,291	1,050	(241)

[3] The Agency's 2014 annual report included 81 approved projects. Of these, we reviewed 65 projects that should have created or retained jobs, as they were not in the construction phase, assigned to a new project owner or terminated.

Annual Reporting

IDAs are required to maintain specific information on all projects for which they approve financial assistance. While the project owner is responsible for providing project information to the IDA, the IDA is responsible for collecting and reporting the data. IDAs use this information to submit an annual report of their operations and financial activity, including information on projects which receive financial assistance, to the Authorities Budget Office and the Office of the State Comptroller. Before the Agency submits its annual report, the Board should review the information for accuracy. The Agency's chief financial officer (CFO) must then certify that it is complete and accurate. Good business practices require the Board to establish policies and procedures for obtaining and reporting reliable project information.

To develop the annual report, the Agency sends a letter to each project owner requesting updated project information, including current employment numbers. To determine whether the Agency correctly reported project information, we compared its 2014 annual report, which included 81 projects, to project documentation maintained by Agency officials. We found the information published in the Agency's annual report was accurate.

Recommendations

The Board should:

1. Develop and implement uniform project selection criteria and document the rationale for awarding financial assistance to project owners.

2. Require financial assistance application information to be verified and confirmed before the Board approves new projects.

3. Develop and implement UTEP implementation policies and procedures including, but not limited to, clearly defining when a claw-back should occur.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Board Secretary's office.

Our office is available to assist you upon request. If you have any further questions, please contact Ann Singer, Chief Examiner of the Statewide and Regional Projects Unit, at (607) 721-8306.

We thank Agency officials and staff for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

APPENDIX A

PROJECT TAX EXEMPTIONS

Figure 3: Tax Exemptions Provided to Projects					
Project Approval Date	**Property Tax Abatement[a]**		**Tax Exemptions**		**Total**
	Received	**Pending[b]**	**Sales and Use**	**Mortgage Recording**	
101 Uniondale, LP [c] (9/17/2014)	$5,640,302	$0	$0	$0	$5,640,302
HP Lynbrook, LLC (10/22/2014)	$162,735	$2,004,993	$0	$0	$2,167,728
AMB Fund III Mosaic (7/1/2008)	$898,042	$281,994	$0	$0	$1,180,036
Rose Fence [c] (2/24/2005)	$57,666	$0	$413,608	$244,965	$716,239
PDC Corporation [c] (3/12/2012)	$202,703	$0	$213,038	$52,628	$468,369
Total	**$6,961,448**	**$2,286,987**	**$626,646**	**$297,593**	**$10,172,674**

[a] Amounts were calculated using PILOT payment and schedules from Agency officials and information in the project agreements.
[b] Assumes a 2 percent annual tax rate increase.
[c] Project terminated

APPENDIX B

RESPONSE FROM AGENCY OFFICIALS

The Agency officials' response to this audit can be found on the following pages.

FREDERICK E. PAROLA
EXECUTIVE DIRECTOR
CHIEF EXECUTIVE
OFFICER

TOWN OF HEMPSTEAD
IDA
Industrial
Development Agency
350 FRONT STREET, HEMPSTEAD, NY 11550-4037
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IDAMAIL@TOHMAIL.ORG

May 11, 2017

Ms. Ann Singer
Office of the New York State Comptroller
44 Hawley Street, Ste. 1702
Binghamton, New York 13901-4417

Dear Ms. Singer,

On behalf of the staff of the Town of Hempstead IDA, please accept this letter as our formal response to your draft audit report covering the period of January 1, 2014 through May 31, 2015 including selective review dating back to February 24, 2005. We thank you for the exit interview and appreciate the intent of these reports as well as the professionalism the staff was shown during the process. This Agency staff continues to make efficiency, accountability, transparency and accuracy our prime focus.

All new requirements defined and mandated in June of 2016 became effective and were implemented July 1, 2016. This includes, but is not limited to, the Universal application and the Recapture Agreement as a standalone policy. The Recapture Agreement is also defined within the closing documents and reflected in the Uniform Tax Exemption Policy.

Although our Uniform Tax Exemption Policy included recapture language, the IDA will again review and consider expanding upon, as appropriate, a more defined and concise procedure for recovery and or termination of a project. This will be developed using the Recapture Policy, adopted in 2016, as a guideline.

With regard to employment verification, this Agency takes the responsibility of job creation and retention very seriously. The Agency has had a long standing compliance verification process that includes the monitoring of employment and financial benefits granted to all projects. This process includes gathering data by a notarized affidavit (using the recommended language of "Under Penalty of Perjury") and an Annual Compliance Data Sheet. The data is collected, reviewed and audited annually in advance of the submission of the PARIS report and adoption by the IDA

Board. These employment figures are compared directly with the application submitted by the company/project. The IDA staff has always prided itself on receiving 100% responses on all projects. Additionally, through this process the Agency identifies employment shortfalls. These shortfalls are reviewed through written correspondence with the company/project and reviewed by the Board for termination of benefits, recapture of benefits or termination of benefits. This particular process takes place in either April or May of each calendar year. On several occasions, the Agency Board has taken action to terminate a project that was not in compliance. Using the Recapture Policy and or the Recapture Agreement within the closing documents, the termination process has been effective with the assistance of Agency Counsel and Transaction Counsel. There are many considerations that go into this review including the impact of a termination on a community; the impact on specific populations like children, education, mental health services, homelessness, energy and refuse removal from of the overall township. These aspects are considered in determining whether a project is to continue to receive benefits. The Staff will request from the Board more definition of when a claw-back should occur.

In the fall of 2016, the Agency explored several options to strengthen our compliance review of employment. The Agency staff also spoke to the "onsite" auditors about a procedure to verify employment in the Fall of 2015. We were advised that they did not have any specific recommendations, but would hope a best practice procedure would be identified. The staff of the Agency was in contact with many of the other IDAs around the state to understand the procedures that they use both the point of data collection during the application process and during the review period (January – March). There was one procedure the Agency explored and appeared to give the most accurate picture of current employment at a project site. Namely, collection of the Company's quarterly State Tax reporting form would provide a specific number of employees to be accounted for. Although no a perfect system, because some Projects have many tenants and obtaining that additional information may be difficult, the IDA staff had decided to use the New York State Form 45 for the collection of data. However, due to of other pressing issues specifically related to the Town of Hempstead IDA and the transition of all new Board Members, the policy could not be instituted for the 2016 calendar year review. The Agency will be using this new procedure for the first time for the 2017 Compliance Review.

The Audit also highlights the need for the Board to develop and implement uniform project evaluation criteria and document the rationale for awarding financial assistance to project owners. When a company/project makes application to the Agency, the Board is furnished with a company/project abstract outlining the project type (housing, manufacturing, tourism, retail, housing etc.) and the decisions for the benefits granted are based on New York State Law and weighed against feasibility studies for specific projects and community based needs. The Board will be presented with your example evaluation criterion that was outlined in your email of April 26, 2017.

This will be the guideline the Board will use to create a clearer set of criteria to evaluate projects.

We appreciate the Audit recognizing that the Agency's information, reported in the PARIS system and in the Agency's Annual Financial Report, for 81 projects as being accurate. The Agency strives for complete transparency and accuracy in all aspects of the Town of Hempstead IDA but specifically as it relates to reporting the employment numbers and verification with the initial application. All information furnished and confirmed in the Annual report is audited by an independent auditor before it is furnished to the Board for adoption and reporting in the PARIS system. (I note on page 9 of the audit a statement that the board needed to review the information for accuracy. At or before 2007, the audited report is furnished to the Board in the format of an excel spreadsheet to mirror the records of the PARIS reporting system. In addition to the annual compliance review, all benefits that are granted for a project are monitored closely and include bi- annual reporting to the Agency of Sales Tax Exemption benefits provided. This allows the IDA to verify the exemption amount as requested by the company and reported to the New York State Department of Taxation. Through the use of the ST-60 and ST-123 forms and the request for a company to furnish a copy of their annual ST-340 form, the Agency has the ability to track company expenditures closely and monitor how much is granted through the exemption so as not to exceed the sum permitted to the company/project at closing.

The Town of Hempstead IDA is proud of its accomplishments particularly in the area of job creation. With projections to retain and/or create 4,317.5 and an actual job creation of 9,379 (for the review period) our positive employment impact speaks for itself. As reported on Page 9 in the audit report, one of our projects reflected a shortfall, HUH Hempstead BJ 2012. The numbers in the application were reported incorrectly and once discovered by the Agency, staff immediately notified the ABO for a reset to change the historical data (see attached communication). On May 17, 2016, the Agency received an email from Mr. Feliciano of the Authority Budget Office that the change had been made for HUH Hempstead BJ 2012. (see attached email). As of the 2016 Annual Financial Report filing, HUH Hempstead BJ 2012 has 135 employees.

The Agency staff will continue to strive for accuracy in reporting and enhance the procedures necessary to continue to promote job growth and economic stability in the Town of Hempstead.

Sincerely,

Frederick E. Parola
Executive Director/CEO

Edie M. Longo
Chief Financial Officer/
Deputy Executive Director

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September 15, 2015

Edie M. Longo, Deputy Executive Director/CFO
Town of Hempstead Industrial Development Agency
350 Front Street
Hempstead, New York 11550

Re: HUH Hempstead BJ 2012, LLC
Property at 711 Stewart Avenue, Garden City, New York

Dear Ms. Longo:

Please allow this letter to serve as a response to your letter dated March 6, 2015 with regard to the above-referenced property. It has taken some time for us to investigate and obtain the appropriate information from our subtenant, BJ's Wholesale Club ("BJ's"), in order to respond to your request for an explanation regarding the apparent "employment shortfall" reflected in the Annual Compliance Data Sheet for 2014.

Upon investigation of this matter, we have determined that the projected Full-Time Equivalent ("FTE") employment numbers which are found in the Unit 1 Facility Lease Agreement between the IDA and AG-Metropolitan 711 Stewart Avenue, L.L.C., dated March 27, 2013, and, subsequently, assigned to HUH Hempstead BJ 2012, LLC by the Unit 1 Facility Assignment and Assumption of Lease Agreement, dated March 27, 2013 (the "Lease"), were mistakenly overestimated and cannot possibly be complied with by BJ's. After much discussion with BJ's, it has been determined that even their best stores throughout the country can only support as many as 150 FTE's. Further, it is clear from BJ's current representations that the appropriate number of FTE's for this project should be, conservatively, 130.

As to why the original number shown in the lease agreement was overestimated, it is our opinion that this number was the result of a division of one overall projected FTE number for the original project, which was then split into three separate estimates at the time that the previous owner of the subject property turned this project into a three unit condominium (thru a certain Condominium Declaration dated March 26, 2013) and subdivided the three units into three separate "projects" under the IDA umbrella. As you know, this was done prior to our acquisition of the Unit 1 Facility and a second of the three units, the Unit 3 Facility.

At this time, we respectfully request that the existing agreements between the IDA and HUH Hempstead BJ 2012, LLC be revised to properly memorialize the expected annual FTE number of 130.

3165856.1

If you should have any questions or comments, please do not hesitate to contact me.

Very truly yours,

HUH HEMPSTEAD BJ 2012, LLC

By: HUH US Real Estate Income REIT Inc.,
its Sole Member

By:_____
Name: Robert T. Schmitt
Title: Executive Vice President

cc: Daniel J. Baker, Esq.
Michele C. O'Dowd, Esq.

Edie Longo - Hempstead IDA Historical Data Change Request

From: [redacted]
To:
Date: 5/17/2016 3:17 PM
Subject: Hempstead IDA Historical Data Change Request
Cc:
Attachments: [redacted]

Good afternoon Edie,

We have decided that we can not make the data change requested for the projects mentioned below based on the supporting documentation submitted to us.

1) HUH Hempstead BJ 2012- Upon further investigation, we believe the original value of 250 should be what stays in the # of FTE's before IDA status. The application is incomplete because there is no job data listed. According to the last three years of reported current jobs they had 2013-270, 2014-239.5, and 2015-241. From the documentation we can see BJ's was brand new. Sounds like the jobs should not have been # FTE before IDA status, but Jobs to be created. (See link to news article below). Also we have an email from 9/13/10 stating jobs at BJ's would be 250 and another email (it was sent regarding the LAF project but it lists the BJ's employment as well) from 11/18/12 stating BJ's had 250 jobs. At this point they are two email's two years apart that stated the jobs should have been 250. According to data submitted and certified in PARIS, BJ's was able to maintain the 250 or close to it for three years. Also the Tax Exemptions and PILOTS granted were based on the original figures. So we will not be changing. Also we agreed to change the jobs to be created back to zero. Here are the two emails I cited:

Project Co	Project Name	Fiscal Ye	Field to be changed	Original Val	Updated Val
2802-12-16A	HUH Hempstead BJ 2012	2013-2015	Original Estimate of Jobs to Be Created	0	40
2802-1217A	HUH Hempstead BJ 2012		# of FTE's before IDA status	250	130

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine if the Agency's Board was providing effective oversight responsibilities of the Agency's operations for the period January 1, 2014 through May 31, 2015. For selected projects, we extended our audit period back to the date of their inception.

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed the Board and Agency officials to understand and assess the Agency's processes and procedures.

- We reviewed the Agency's policies, including the UTEP, to identify written criteria outlining an applicant's eligibility for sponsorship and the benefits that are offered.

- We judgmentally selected five projects to obtain a sample of various sizes and types of projects for further review and testing. This testing included comparing amounts projected to be spent and amounts actually spent, comparing the reported actual job numbers by the businesses to projected jobs on the application, and reviewing PILOT agreements and payments to ensure that they were accurate and complied with the agreements.

- We reviewed Board minutes to identify project monitoring or job creation discussions and reports to the Board regarding projects failing to achieve project goals.

- We reviewed the Agency's project application, project agreements, and any applicable evaluation criteria and compared them to the new legislation.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.