PAYMENT IN LIEU OF TAXES AGREEMENT

THIS AGREEMENT, by and between **MORGAN WATERTOWN TOWNHOMES LLC,** a New York Limited Liability Company having an address of 1170 Pittsford Victor Road, Pittsford, New York 14534 ("**Company**") and **JEFFERSON COUNTY INDUSTRIAL DEVELOPMENT AGENCY**, an Industrial Development Agency and a Public Benefit Corporation of the State of New York having an address of 800 Starbuck Avenue, Watertown, New York 13601 ("**Agency**"),

W I T N E S S E T H:

WHEREAS, the Agency was created by Chapter 369 of the Laws of 1971 of the State of New York pursuant to Title I of Article 18-A of the General Municipal Law of the State of New York (collectively, the "**Act**"); and

WHEREAS, the Agency by Resolution dated June 7, 2012, has agreed to undertake a project to construct, equip and lease 394 multi-family rental housing units together with related buildings (the "**Project**") on certain land (the "**Land**") located on the west side of Jefferson County Route 202, in the Town of Watertown, Jefferson County, New York, consisting of 57.09 acres of land, as more particularly described in Schedule "A" attached hereto (the Project and the Land are hereinafter referred to as the "**Facility**"); and

WHEREAS, the Agency has agreed to lease the Facility to the Company pursuant to a Lease Agreement executed and entered into of even date herewith (the "**Lease Agreement**") by and between Agency and the Company; and

WHEREASS, pursuant to the terms of the Lease (1) the Company will agree to cause the Project to be undertaken and completed, and (2) the Agency will agree to undertake and complete the Project; and

WHEREAS, simultaneously with the execution and delivery of the Lease Agreement, the Company will execute and deliver to the Agency a certain Lease Agreement to Agency (the "**Underlying Lease**") pursuant to which the Company leases the Land under the Project; and

WHEREAS, pursuant to section 874(1) of the Act, and Section 412(a) of the Real Property Tax Law of the State of New York, the Agency is exempt from the payment of taxes and assessments imposed upon real property and improvements owned by it other than special ad valorem levies, special assessments and service charges against real property located in Jefferson County which are or may be imposed for special improvements or special district improvements; and

WHEREAS, the Taxing Jurisdictions which are the Town of Watertown ("**Town**"), Jefferson County ("**County**"), and Watertown City School District ("**School**") have the

following taxable years: the Town and County January 1 to December 31 and the School July 1 to June 30; and

WHEREAS, the Agency and the Company deem it necessary and proper to enter into this agreement with the approval of the Taxing Jurisdictions, making provision for payments in lieu of taxes by the Company to the Agency, for the benefit of the respective Taxing Jurisdictions within which the Facility is or is to be located;

NOW, THEREFORE, in consideration of the covenants herein contained, it is mutually agreed as follows:

1. (a) For the purpose of payments to be made pursuant to this Agreement, the Completion Date for the Project shall be the earlier of twenty four months from the date the first building permit was issued for any part of the Project; or the issuance of Certificates of Occupancy for 85% of the rental units; or at the election of the Company. The Company shall notify each Taxing Jurisdiction and the Agency within 30 days from the anticipated Completion Date for the Project.

(b) Commencing with the tax year beginning on the next Taxable Status Date following the Completion Date and for the period set forth below or until the earlier termination of the Lease Agreement, the Company agrees to pay in lieu of all real estate, tangible personal property, inventory and/or other similar taxes and assessments (in addition to paying all special ad valorem levies, special assessments and service charges which are or may be imposed for special improvements or special district improvements) which would be levied upon the Facility during such tax years as if the Facility were owned by the Company and not by the Agency, the amounts determined according to the following formula:

PILOT = AV x ATR x PR

WHERE

PILOT	=	Amount of payment in lieu of taxes due to the Taxing Jurisdictions for the applicable tax year.
AV	=	Assessed Value of the Facility.
ATR	=	Actual Tax Rate for the respective Taxing Jurisdictions for the applicable year.
PR	=	Payment Ratio as set forth in Table I for the applicable tax year.

TABLE I

TAX YEARS	PAYMENT RATIO
1 through 10	0.50
11	1.00
12 through 15	1.00
and thereafter	1.00

(c) The Company shall pay, or cause to be paid the amounts set forth in Paragraph 1(b) hereof within the grace period, without penalty, applicable to taxes, assessments, special ad valorem levies, special service charges or similar tax equivalents, as the case may be, on similar property subject to taxation by the Taxing Jurisdictions during such respective tax years, subject to any late payment penalties pursuant to §874 of the Act if not made within the grace period. Any failure on the part of the Company to timely make any payments pursuant to this Agreement within ten (10) days following written notice from the Agency shall be an event of default (**"Event of Default"**) under this Agreement and under the Lease Agreement. Upon such Event of Default, the Agency shall have any and/or all of the Remedies on Default set forth in the Lease Agreement. Further, upon such Event of Default, the Payments In Lieu of Tax due under this Agreement shall, upon thirty (30) days written notice from the Agency to the Company, immediately bear a Payment Ratio of 1.00 as such term is defined in the PILOT in Paragraph 1(b) of this Agreement until such Event of Default shall be cured by the Company.

(d) The assessed value of the Facility shall be the value as finally determined on the Assessment Roll of the Taxing Jurisdiction for the applicable year. Notwithstanding anything herein to the contrary, the Assessed Value of the Facility in the years 12 through15 cannot increase by more than one percent (1%) per year.

(e) Prior to the Completion Date as defined in Paragraph 1(a) above of the Project, the Company shall pay to the Agency on the Project an amount equal to the real estate taxes and assessments on the Land for the Project as if the Land were owned by the Company and not by the Agency. The Company shall pay or cause such amounts to be paid within the grace period without penalty, applicable to taxes, assessments, special ad valorem levies, special service charges or similar tax equivalents, as the case may be, on similar property subject to taxation by the Taxing Jurisdictions during such respective tax years, subject to any late payment penalties pursuant to Section 874 of the Act if not made within the grace period.

(f) The assessed value of the Facility shall be as determined by the Town assessor using the following methodology set forth in Exhibit "B" attached hereto and made a part hereof.

2. This Agreement shall terminate, unless it is terminated sooner pursuant to the Lease Agreement or any other provisions of this Agreement, on a date which will be 180 months from the initial Taxable Status Date ("**Termination** Date") at which time the parties agree that the Lease and Underlying Lease for the Facility shall terminate. In the event of an early termination either pursuant to this Paragraph or any other termination pursuant to this Agreement, both the Lease and the Underlying Lease shall terminate.

3. In the event that the Facility or any Phase is transferred from the Agency to the Company, the Facility shall be immediately subject to taxation pursuant to Sections 302 and 520 of the New York Real Property Tax Law, as amended. However, in no event shall the Company be required to pay both a PILOT payment pursuant to the Agreement and real property taxes for a concurrent tax year or portion thereof. Therefore, should the Facility be conveyed to the Company and thus become taxable pursuant to New York RPTL Section 520, any payments payable under this Agreement as Payments required in Lieu of Taxes shall be reduced by the amount of any taxes which are required to be paid under RPTL Section 520 for any such concurrent tax year or portion thereof, and should such Payment-in-Lieu-of-Taxes already have been made, the Taxing Jurisdictions shall refund any such amounts owing to Company.

4. To the extent the Facility or any part thereof is declared to be subject to taxation or assessments by an amendment to the Act, other legislative change, or by a final judgment of a court of competent jurisdiction, the obligations of the Company hereunder shall, to such extent, be null and void.

5. Any notice required to be given under this Agreement shall be deemed to have been duly given when delivered and, if delivered by mail, postage prepaid, return receipt requested, addressed to the respective parties hereto at their respective addresses specified below or such other addresses as either party may specify in writing to the other:

If to the Agency: Jefferson County Industrial Development Agency
800 Starbuck Avenue, Suite 800
Watertown, New York 13601
Attn: Donald C. Alexander

With a copy to: James Heary, Attorney at Law, P.C.
120 Washington Street, Suite 500
Watertown, New York 13601
Attn: James Heary, Esq.

If to the Company: Morgan Watertown Townhomes LLC
1170 Pittsford Victor Road
Pittsford, New York 14534
Attn: Kevin Morgan

With a copy to: Fix Spindelman Brovitz & Goldman, P.C.
295 Woodcliff Drive, Suite 200
Fairport, New York 14450
Attn: James J. Bonsignore, Esq.

6. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

7. This Agreement shall be binding upon and inure to the benefit of the parties, their respective successors and assigns.

8. This Agreement may only be assigned by the Company with the written consent of the Agency and the Taxing Jurisdictions. In the event of such assignment, the Company will remain legally responsible to all of the other parties to this Agreement for all of the obligations and responsibilities herein imposed upon it.

9. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original for all purposes and all of which shall constitute collectively a single agreement. In making proof of this Agreement, it shall not be necessary to produce or account for more than one such counterpart.

IN WITNESS WHEREOF, each of the parties hereto has executed this Agreement on the date set forth before the signature of its respective representative.

Date: July 19, 2012

MORGAN WATERTOWN TOWNHOMES LLC

By: [redacted]
Robert C. Morgan, Manager

Date: July 23, 2012

JEFFERSON COUNTY INDUSTRIAL DEVELOPMENT AGENCY

By: [redacted]
Donald C. Alexander, CEO

SCHEDULE A
LEGAL DESCRIPTION

Lot 3

ALL THAT PARCEL OF LAND located in the Town of Watertown, County of Jefferson and State of New York, being bounded and described as follows:

BEGINNING at a point in the west boundary of County Route 202, said point being N 12 degrees 14 minutes 46 seconds W, 652.86 feet and N 11 degrees 48 minutes 22 seconds W, 88.74 feet from the intersection of said west boundary with the division line between lands conveyed to Route 57 Development LLC (Liber 1707 Page 283) on the north and lands conveyed to Sam's Real Estate Business Trust (Instrument 2009-00004395) on the south and runs thence from the point of beginning, through the lands of Route 57 Development LLC, the four (4) following courses and distances: S 79 degrees 25 minutes 36 seconds W, 210.20 feet to a point ;thence S 51 degrees 04 minutes 43 seconds W, 346.66 feet to a point; thence S 78 degrees 49 minutes 35 seconds W, 60.28 feet to a point; thence S 15 degrees 39 minutes 20 seconds E, 485.03 feet to a point in the division line between lands of Route 57 Development LLC on the north and lands of Sam's Real Estate Business Trust on the south; thence along said division line N 85 degrees 14 minutes 51 seconds W, 255.09 feet to an existing iron pipe at the northeast corner of lands conveyed to John Robert Phippen et al (Instrument 2006-00005942 & Instrument 2006-00005943); thence along the north line thereof and continuing along a south line of Route 57 Development LLC, N 84 degrees 28 minutes 36 seconds W, 798.40 feet to a rebar with cap set at a southeast corner of lands of Jay Hall (Liber 1537 Page 309); thence along the east line thereof, to and along the east line of lands of Bayard E. Charpentier (Liber 1710 Page 303) N 04 degrees 39 minutes 47 seconds E, 2115.66 feet to an existing iron pipe at the northeast corner of Charpentier, the northwest corner of Route 57 Development LLC and the southwest corner of lands conveyed to Bina C. West (Instrument 2006-00013737); thence along the north line of Route 57 Development LLC, along the south line of West, to and along the south line of Coffeen Street Properties LLC (Liber 1651 Page 80) S 84 degrees 48 minutes 40 seconds E, 1177.41 feet to the intersection of said line with the west boundary of County Route 202; thence along said west boundary southeasterly on a curve to the left having a radius of 5779.58 feet, a distance of 1372.65 feet to the place of beginning, it being S 04 degrees 33 minutes 45 seconds E, 1369.42 feet from the last described point, containing 57.09 acres of land, more or less.

SCHEDULE "B"
(Methodology)

Valuation of apartment projects in the Town of Watertown under PILOT programs need to be valued annually to reflect vacancy caused by Military deployments and returns as needed.

In an effort to secure a methodology for appraising these complexes the following information shall provide a plan for the future for subsequent assessors to use as a guideline in working with developers to establish annual assessments for tax purposes during the PILOT and after the PILOT expires.

It is recommended that the parties involved share the cost of having an appraiser prepare a spreadsheet for each complex as if complete according to plans and specs. These spreadsheets will be derived from Institute of Real Estate Manager's expense ratios and shall be used for valuation purposes and be adjustable for annually creating new assessments based on changing influencing factors.

During construction only land shall be valued until such time as 85% of the project has received a Certificate of Occupancy from Jefferson County Codes. Upon the completion to 85% the PILOT will begin utilizing spreadsheets for the value with applicable percentage of completion on the balance of the project and vacancy rate as the project rents up to normal capacity.

Income and expense statements supplied by the developers annually to the assessor shall be used to determine the value of the project. Such income and expense statements shall be provided as soon as possible after each year, no later than March 1st of each year during the life of the PILOT to ensure accurate value estimates. Such income and expense statements shall be deemed confidential working papers not subject to FOIL.

The practice of providing annual income and expense statements may survive the PILOT so that accurate assessments can be placed on the project according to current market influences and vacancy rates for each apartment complex. This is intended to run with the life of the project in providing future assessors with the necessary tools and information to correctly assess these projects at any level of assessment the Town happens to be in any given year.

Influencing factors used in the value of the projects will be the actual income and expenses, vacancy rates, interest rates for Capitalization of Net Operating Income, completion, new construction, annual level of assessment (Equalization Rate), and future reassessment projects.