

The Pajama Factory Roadmap to Redevelopment

Prepared for:
PJ Holdings, LLC
Williamsport, Pennsylvania

Prepared by:
Council of Development Finance Agencies

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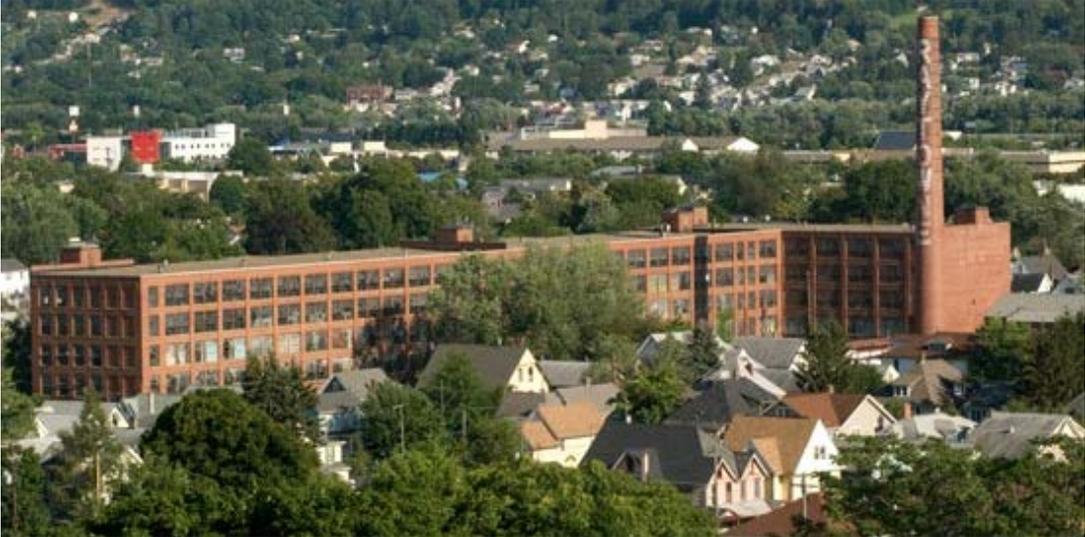
About the Roadmap to Redevelopment

The *Roadmap to Redevelopment* is a product of the [CDFA Brownfields Technical Assistance Program](#), which is funded through a grant from the U.S. Environmental Protection Agency (EPA). The program provides technical assistance to brownfields communities on redevelopment finance. For communities that require detailed, hands-on assistance for their redevelopment efforts, CDFAs Brownfields Project Response Teams comprised of CDFAs staff and technical assistance partners are available to conduct site visits and offer financing strategies. The goal of these visits is to provide communities with specific, actionable steps that can transform brownfields into economically-productive sites in accordance with the goals and plans of the community. CDFAs will coordinate 36 Brownfields Project Response Teams over the life of the program.

The *Roadmap to Redevelopment* was developed through a multi-day process that included interviews with numerous stakeholders from the government, business, and non-profit sectors. The strategies provided are based on the input of development finance experts, CDFAs staff, and the interests of stakeholder groups gathered during the Project Response Team site visit. This report provides a framework for financing the redevelopment of a former garment factory site into a mixed-use property featuring artist lofts, studios, and ground floor commercial space.

Background & History

The Pajama Factory is a historic complex consisting of eight interconnected masonry buildings totaling 300,000 square feet of floor area. The four-acre site is located in the Brodart Neighborhood Improvement Area¹ near Penn College campus and approximately 1.5 miles west of downtown Williamsport, Pennsylvania.



Aerial View of The Pajama Factory.

The factory was built in phases between 1883 and 1919 by the Lycoming Rubber Company, a subsidiary of the U.S. Rubber Company, which was one of the largest manufacturers of rubber goods in the U.S. at the time. The Lycoming division made tennis shoes, gym and yachting shoes, as well as some miscellaneous rubber related products. After 1932, the Rubber Company moved out due to a decline in product demand. The Weldon Pajama Company leased the space in the building beginning in 1934 and purchased the entire complex in 1951. It became one of the largest pajama factories in the world and until 1979, various companies utilized the space including pajama, underwear, and shoe manufacturers. Since the factory closing in 1979, the buildings have been mostly vacant. In 2008, Mark and Suzanne Winkelman purchased the complex, renamed it the Pajama Factory, and formed PJ Holdings LLC, with the goal of establishing a vibrant, diverse, and creative artist community. In addition to being co-owner, Mark Winkelman is also the executive director of PJ Holdings and the developer of the Pajama Factory.

Winkelman has made substantial improvements to the property since purchasing it in 2008, but financing constraints have limited the number of artist studios and residential units that he is able to complete during any phase of construction. He has had difficulty obtaining bank financing that allows him to undertake large-scale construction, so progress has been slow but steady. To date, he has completed the renovation of approximately 40 percent of the total floor area, or about 110,000 square feet. The completed construction has resulted in 115 units ranging from 600 to 2,000 square feet (both residential and work studios). The completed units are fully occupied and another 36 units are currently under construction.

¹ The Neighborhood Improvement Program targets housing improvements and community reinvestment in the City's core neighborhoods.

The Pajama Factory houses commercial tenants on the ground floor including a coffee shop, a bicycle shop aimed at providing affordable bicycles to the community, and a 501(c)(3) called Factory Works. Factory Works was founded in 2011 with a goal to support artists, artisans, and small businesses. In 2014, Factory Works established a woodshop, clay studio, darkroom, and gallery; the non-profit also sponsors an annual artist-in-residence program every summer. A large courtyard space is an amenity enjoyed by residents and available to host community barbeques, exhibitions, farmers markets, and other events.

The development plan for the remaining 60 percent of the total floor area includes more commercial space on the ground floor to potentially serve as community non-profit space, artist workshops, a public lobby, and gallery. Future retail development is also expected. The upper levels (second-fourth floors) are continuing to be built out and will consist of additional artist studios and 1 and 2-bedroom for rent loft residences (up to 2,000 square feet). The fifth and highest level will be developed as 1 and 2-bedroom condominium units with an option to expand to over 2,000 square feet depending on market demand.

With a total of 300,000 square feet and five stories to work with, the developer has plenty of room to carry out his vision for the space while being flexible in meeting the demand from the community. Over 100 individuals are presently on a waiting list for residential apartments or studio space, while excitement is brewing about a potential expansion of Factory Works. While a step-by-step approach to redevelopment has been successful so far, the developer is interested in obtaining financing that would allow him to accelerate the renovation of the complex and provide more retail opportunities on this site, including a restaurant. The strategies in this report are intended to assist the developer in obtaining additional financing resources and include both public and private financing options.



View of Courtyard at Pajama Factory

The Pajama Factory

Roadmap to Redevelopment

Strategies and Recommendations

Part I: Communicating with Potential Financiers and Funders

A clear and cohesive vision for the Pajama Factory development will go a long way to gain support for the project, regardless of the type of financing that is pursued. In addition to being able to share with potential funders evidence of the improvements that have already been made to the building, it is critical to communicate the plan for the remaining building renovations as specifically as possible. This may include developing projections on revenue after project completion and seeking out commitments from future tenants.

i. Update Development Plan

The original development plan for the Pajama Factory included a timeline that anticipated completion in 2016. The developer should work with a consultant to strategically define the next development phases of the Pajama Factory and update estimated completion dates for remaining phases. One suggestion might be to divide the project concepts and costs into categories (e.g., residential, commercial, non-profit) in order to separate the cost and potential revenue by type of use. This may simplify the process of requesting funding for a specific use, and will help to identify where the development gaps exist. A detailed development plan will be a critical contextual component in garnering support from the public, potential partners, lenders, and other investors.

ii. Framing the Project to Highlight Public Benefits

This project has many unique community-supporting attributes aside from providing affordable housing to artists. The non-profit, Factory Works, has the potential to expand into a community makerspace to offer training in a variety of crafts and trades; a number of existing small businesses and future retail opportunities will contribute positively to the local economy; a number of green features will be incorporated into the design to provide a sustainable, energy efficient environment. By highlighting specific features or organizations and telling the story of the opportunities available, the project may be better aligned with appropriate funding sources, many of which are described below.

iii. Explore Partnership with Penn College

A leader in applied technology education, Penn College is both a leading technology institute and community college in Williamsport. With the shared mission of producing future innovators, designers, and creators, Penn College may be interested in partnering with Factory Works and/or Pajama Factory LLC to expand the existing workshop into a makerspace designed around specific programs and trades.

Part II: Leveraging Property Improvements to Obtain Private Financing

The Pajama Factory property has not been appraised since construction began. In order to capture the value of the improvements and renovations made to the buildings over the last eight years, the developer should request an appraisal to determine the current market value of the buildings. He may have enough equity in the property to obtain bank financing. The developer has recently secured a \$1M line of credit for construction through a private investor, which may qualify as a guarantee or collateral for the loan. A local or regional bank is more likely to approve such a loan than a national bank. Obtaining private financing will enable the Pajama Factory to expedite major renovations and projects, such as completing additional studios or apartments and modernizing heating and cooling systems.

Part III: Capitalizing on Low and Moderate Rent Projects

The rents currently being charged for new residential units at the Pajama Factory already fall very near the affordability requirements for many low-income housing programs and that trend is likely to continue. Committing to a specific number of affordable units could be a strategy that will allow him to qualify for federal and state housing programs.

i. Low Income Housing Tax Credit (LIHTC)

The Low-Income Housing Tax Credit (LIHTC) program finances the construction, rehabilitation, and preservation of affordable housing by providing a tax incentive to encourage developers to create more affordable units. The program was established in 1986 and is now one of the largest financing sources of affordable housing in the United States. LIHTCs are allocated to each state using a per capital formula. In Pennsylvania, the Governor has selected the Pennsylvania Housing and Finance Agency as the allocating agency.

LIHTCs are normally classified as either a 4 or 9 percent tax credit, meaning for each 10 years, the tax credit equals roughly 4 and 9 percent of a project's qualified basis (cost of construction). The 9 percent tax credit is highly competitive within Pennsylvania, while the 4 percent LIHTC are more likely to be awarded for a project like the Pajama Factory, assuming all of the qualifications are met. The developer should work closely with Lycoming County when applying for the LIHTC, as projects that the County prioritizes are more likely to be awarded.

ii. Pennsylvania Housing Affordability and Rehabilitation Enhancement Fund (PHARE)

The Pennsylvania Housing Finance Agency operates an indirect federal subsidy used to finance the rehabilitation of low-income affordable rental housing. Eligible uses under the PHARE program include homeowner or rental rehabilitation, new construction, blight removal, and various other housing and home-improvement activities. The PHARE program has a specific goal that a minimum of 30 percent of the grant funds be used to assist households below 50 percent of the median area income (MAI) for Lycoming County (2018 MAI = \$66,700; 50% MAI = \$33,350).² The PHARE fund is capitalized through a variety of

²http://www.lyco.org/Portals/1/PlanningCommunityDevelopment/Documents/Community%20Dev/Application_Information_and_Instructions.pdf

sources including the National Housing Trust Fund, Realty Transfer Tax Fund, and the Marcellus Shale Impact Fee³. The fund is intended to be used as gap financing for housing projects, and is more likely to be awarded if/when the developer can demonstrate financing for the bulk of the project. These funds should be pursued once initial financing for the next housing construction phase (or all phases) has been secured. Again, the developer should work closely with Lycoming County to gain support of the project. The County collects PHARE applications each year for local projects and then makes submissions to the State for supported projects. The developer should begin to prepare a request now and garner support for a 2019 PHARE application.

Part IV: Qualifying for Federal and State Tax Credits

i. Federal Historic Tax Credits

A 20 percent income tax credit on eligible costs is available for the rehabilitation of historic, income-producing buildings that are determined by the Secretary of the Interior, through the National Park Service, to be “certified historic structures.”⁴ The Pajama Factory was recently placed on the National Register of Historic Places, certifying its eligibility for the program. Under the existing system, developers use the credit to offset their federal corporate tax liability, or they can transfer the credit to corporate investors in exchange for a share of ownership. The rehabilitation work must be completed in accordance with the Secretary of the Interior’s Standards for Rehabilitation. The Standards are to be applied to specific rehabilitation projects in a reasonable manner, taking into consideration economic and technical feasibility.⁵

ii. Pennsylvania Historic Preservation Tax Credit

The State’s historic tax credit program largely follows the federal program guidelines as described above. Pennsylvania’s Historic Preservation Tax Credit (HPTC) provides tax credits to qualified taxpayers who will be completing the restoration of a qualified historic structure into an-income producing property. The tax credits awarded to a qualified taxpayer shall not exceed 25 percent of the qualified expenditures as determined by the application in connection with the completed project. The total tax credits awarded to a qualified taxpayer may not exceed \$500,000 in any fiscal year.⁶

³ The Marcellus Legacy Fund was created by Act 13 of 2012 to provide for the distribution of unconventional gas well impact fees to counties, municipalities and commonwealth agencies. The fund has an annual allocation of \$5M into the PHARE program with the potential for additional revenues when funds remain following eligible disbursement to qualifying municipalities. These funds are made available to counties experiencing natural gas well drilling through a competitive application process. Since 2012, Lycoming County has secured \$7.6M in PHARE funds through this process.

⁴ Tax Credit Finance Resource Center. (n.d.). Retrieved from: <https://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/taxcredits.html>

⁵ National Park Services. (n.d.). Secretary’s Standards for Rehabilitation. Retrieved from: <https://www.nps.gov/tps/standards/rehabilitation.htm>.

⁶ Pennsylvania Department of Community and Economic Development. (n.d.) Historic Preservation Tax Credit. Retrieved from: <https://dced.pa.gov/programs/historic-preservation-tax-credit-hptc/>

iii. New Market Tax Credits (NMTC)

NMTC is a federal program used to incentivize economic growth and attract private investment to distressed communities. Since the Pajama Factory is located in a NMTC eligible census tract, the developer may consider pursuing this program to support the commercial uses of the Pajama Factory redevelopment. The NMTC Program can potentially generate a substantial amount of private equity (approximately 20-25 percent of project costs) for eligible projects depending on the fee structures of the Community Development Entity (CDE) providing the credits and investors. However, to be competitive projects must have a strong commercial or retail component providing direct benefit to low income persons. NMTC is intended to fill financing gaps on a project and requires that 80 percent of the total project cost be funded through other sources, including conventional lending, equity from the project owner or investors, other government or public subsidy (grants/loans, etc.), and private donations and/or fundraising. The average minimum size of most NMTC projects is around \$8M (generating under \$2M in actual funds). For the Pajama Factory, this would mean that a project scope for the future commercial use aspects (not housing) would need to be at least an \$8M improvement to pencil out favorably using NMTC. The tax credits are highly competitive and are awarded by the CDE according to the criteria described above, and the specific mission of the CDE.

Part V: Pursuing Grant and Loan Opportunities (State and County)

Pennsylvania and Lycoming County have a variety of programs that can be used in combination to fund various components of the project.

i. Redevelopment Assistance Capital Program (RACP)

The Redevelopment Assistance Capital Program (RACP) is a Commonwealth grant program administered by the Office of the Budget for the acquisition and construction of regional economic, cultural, civic, recreational, and historical improvement projects.⁷ Potential projects are typically added to Capital Budget Project Itemization Bills by members of the House of Representatives, Senate and Administration. Projects must also complete a pre-award application during an open funding round. Improvements to housing are not allowed to be the primary focus of selected projects, but “must be part of a community revitalization plan.”⁸ Due to the Pajama Factory being located in a targeted neighborhood improvement area, and there being multiple economic development opportunities created through existing and future tenants, this project is likely to gain support despite the significant housing component. A new round of funding is likely to open in early 2019, although authorized funds for 2018 may still be available. The developer should continue to meet with the elected officials of Williamsport and Lycoming County to discuss this project and build political support.

⁷ Pennsylvania Office of the Budget. (n.d.). Redevelopment Assistance Capital Program. Retrieved from: <https://www.budget.pa.gov/Programs/RACP/Pages/Main%20Page.aspx>

⁸ Pennsylvania Office of the Budget. (n.d.). RCAP Guidelines. Retrieved from: [https://www.budget.pa.gov/Programs/RACP/Program-Guidelines/Pages/Program%20Guidelines%20\(default\).aspx](https://www.budget.pa.gov/Programs/RACP/Program-Guidelines/Pages/Program%20Guidelines%20(default).aspx)

ii. Lycoming County Brownfield Revolving Loan Fund (RLF)

Lycoming County was recently awarded an \$800,000 RLF grant from the U.S. Environmental Protection Agency. The funds can be loaned out at a very low interest rate for cleanup activities, including the remediation of hazardous building materials. A small amount of funds may be available in the form of a subgrant. The developer can request RLF funds for lead abatement and related costs for buildings that have yet to undergo construction.

Part VI: Funding Local Trail Development on Adjacent Property

When the developer acquired the property, he also acquired a right of way for a nearby inactive railroad corridor that once provided rail access to the property. While the developer has no plan for that strip of property at this time, it may be of interest to the County for incorporation into their local trail system. A partnership for development of a multimodal trail could provide a public benefit while also boosting Pajama Factory businesses by providing additional modes of access to the property.

i. Greenways, Trails and Recreation Program (GTRP)

This funding source was established in 2012 and allocates funds to the Commonwealth Financing Authority for planning, acquisition, development, rehabilitation and repair of greenways, recreational trails, open space, parks and beautification projects using the Greenways, Trails and Recreation Program (GTRP).⁹

ii. Community Conservation Partnerships Program Grants

The State's Department of Conservation and Natural Resources' Bureau of Recreation and Conservation (BRC) assists local governments with funding for projects related to parks, recreation, and conservation. The grant can fund planning, acquisition, and development of parks, motorized and non-motorized trails, and open space.¹⁰ The funds are typically reserved for local governments or conservation organizations, so a partnership with the County would be critical in gaining access to these funds.

⁹ Pennsylvania Department of Community & Economic Development. (n.d.) Greenways, Trails and Recreation Program. Retrieved from: <https://dced.pa.gov/programs/greenways-trails-and-recreation-program-gtrp/>

¹⁰ Department of Conservation and Natural Resources. (n.d.) Community Conservation Partnerships Grants Program. Retrieved from: <https://www.dcnr.pa.gov/Communities/Grants/Pages/default.aspx>

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Additional Resources

CDFA Brownfields Financing Toolkit |

[http://www.cdfa.net/cdfa/cdfaweb.nsf/ord/201502_BF_Toolkit/\\$file/CDFA%20Brownfields%20Financing%20Toolkit%2002.02.15.pdf](http://www.cdfa.net/cdfa/cdfaweb.nsf/ord/201502_BF_Toolkit/$file/CDFA%20Brownfields%20Financing%20Toolkit%2002.02.15.pdf)

CDFA Online Resource Database |

<http://www.cdfa.net/cdfa/cdfaweb.nsf/ordsearch.html>

Pennsylvania Department of Community and Economic Development Programs and Funding |

<https://dced.pa.gov/program/>

Pennsylvania Housing Finance Agency PHARE Program |

<https://www.phfa.org/legislation/act105.aspx>

Lycoming County Planning and Community Development |

<http://www.lyco.org/Departments/Planning-and-Community-Development>

Lycoming County 2018 PHARE Grant Program Application and Instructions |

http://www.lyco.org/Portals/1/PlanningCommunityDevelopment/Documents/Community%20Dev/Application_Information_and_Instructions.pdf

Pennsylvania Low Income Housing Tax Credit |

<https://www.phfa.org/mhp/developers/lihtc.aspx>

The Pajama Factory Website |

<http://www.pajamafactory.net/>

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Organizations/Groups

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About the Authors

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The CDFA project team consisted of the following individuals:

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Toby Rittner, President & CEO
Council of Development Finance Agencies
100 E Broad Street, Suite 1200
Columbus, OH 43215

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