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Layering the Capital Stack

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Malcolm Guy

Coordinator, Government & External Affairs
Council of Development Finance Agencies
Columbus, OH

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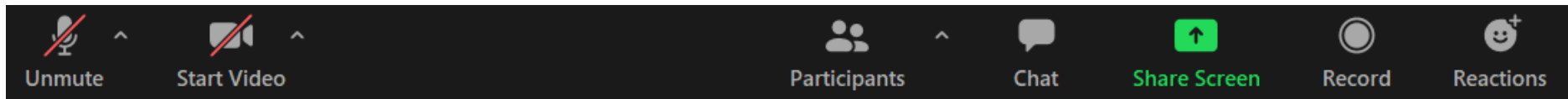
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Seth Crone

Principal
The Bank of New York Mellon

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Panelists

Seth Crone, *Moderator*

Principal
The Bank of New York Mellon

David Misky

Assistant Director
Redevelopment Authority of the City
of Milwaukee

Laura Kurtz

Member
Eckert Seamans Cherin & Mellott

Michael Pehur

Development Finance Consulting
Director
Duane Morris Government
Strategies

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Laura Kurtz

Member

Eckert Seamans Cherin & Mellott, LLC

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Outline of Part 1 - Bonds

- Financing Projects – Equity and Debt
- Bonds – Governmental vs. Private Activity
- Bond Structuring, Sizing and Market Considerations
- Bonds Example – Kalahari Resorts

Financing Projects – Equity and Debt

- Many projects are typically financed with debt or some combination of debt and cash.
- For private projects, lenders may require at least 20-30% “equity.”

Bonds – Governmental vs. Private Activity

- Governmental Bonds (either gov't use or payment)
 - General Obligation – full faith, credit and taxing power;
 - Revenue (e.g. sewer, water, special assessments); and
 - Guaranteed Revenue
- Private Activity Bonds (both private use & payment)
 - Primarily secured by revenue pledges, although mortgages and security interests in property common

Bond Structuring, Sizing and Market Considerations

- Determine timing and amount of projected cash flows available for debt service after operations, maintenance, taxes, etc.
- New revenue streams take time and create risk, often necessitating additional security.
- Understand market conditions before issuing bonds.

Bonds Example – Kalahari Resorts





Michael Pehur

Development Finance Consulting Director
Duane Morris Government Strategies

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21 September 2021



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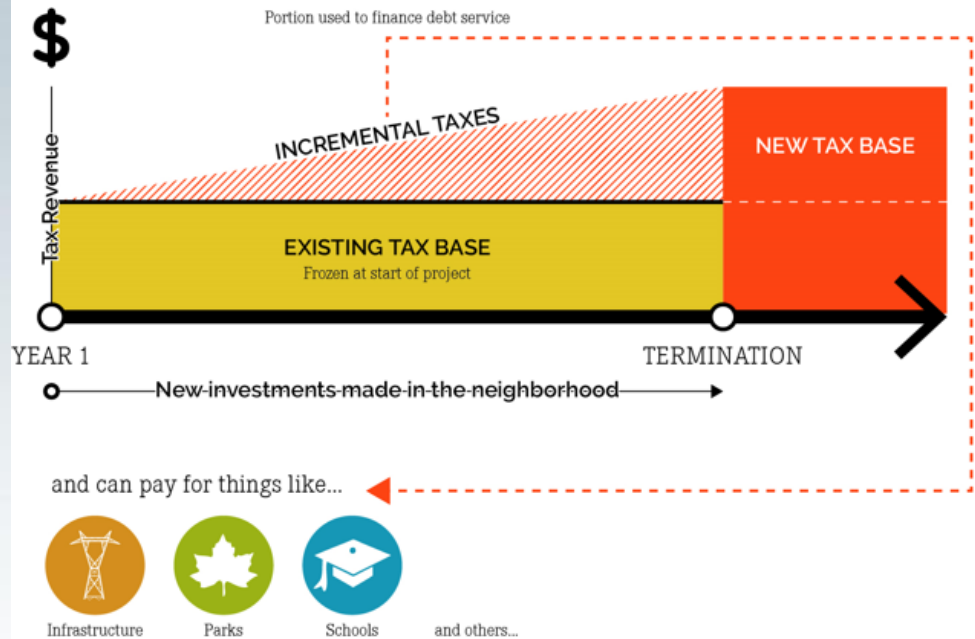




Leverage - How to utilize TIF?

- Local match
- Source of repayment

VALUE CAPTURE DIAGRAM





Typical Project Capital Stack

Planning & Assessment
Grant



Site Preparation & Infrastructure
TIF/Special Assessment, RLF,
Capital Grant



Vertical Construction
Tax Credits, EB5, OZ



Speculative TIF

- Driven by Municipality/Development Agency
 - Implement planning studies
 - Meet investment priorities
- Provide incentive to attract private investment
 - Address weak market conditions and development constraints
 - Mitigate risk
- Challenges:
 - Patient capital required
 - Need 'jump-start' funding



State Funding Example

PA Commonwealth Financing Authority

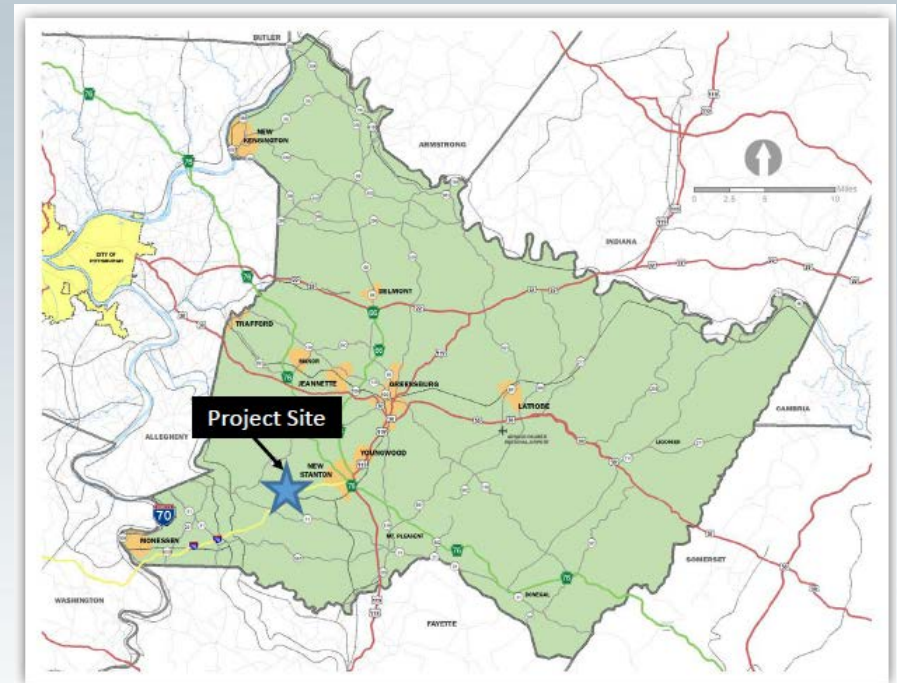
Business in Our Sites Program

- Create an inventory of pad-ready sites to attract growing and expanding businesses
- Acquisition and development of speculative projects
- Financial assistance:
 - Secured by 1st lien position (will subordinate if necessary)
 - Max 20 year term
 - Interest rate 2-3% depending on County unemployment rate (8-9% for 2nd lien)
 - Payments deferred for 5 years or until sale/lease of property
 - Grants – may not exceed \$4 million or 40% of the total combined award



Case Study - Commerce Crossing at Westmoreland

- WCIDC acquired 206 acres of vacant, underutilized property in Sewickley Township
- Facilitate preparation of pad-ready sites with highway and rail access
- \$13 million site development and infrastructure improvement project





Case Study - Commerce Crossing at Westmoreland



- 800,000 SF light industrial and commercial space
 - Buildings ranging from 75,000 to 200,000 square feet
- Anticipated \$50 million private investment
 - +\$7.5 million assessed value
 - \$900,000 annual real property taxes
- Approximately 1,100 direct jobs



Case Study - Commerce Crossing at Westmoreland

Funding sources:

BIOS Grant & Loan

RACP Grant

PennWorks Grant

Local Matching Funds - WCIDC and County Bonds

TIF \$2 million utilized to repay state loan and County investment.



Thank you!

Contact:

Michael P. Pehur

Development Finance Consulting Director

412.497.1066

mppehur@dmgs.com



David Misky

Assistant Director
Redevelopment Authority of the City of Milwaukee

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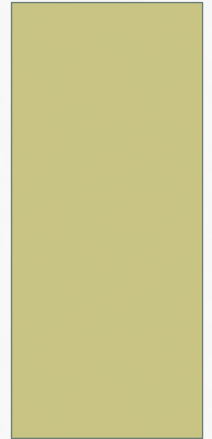
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LAYERING THE CAPITAL STACK: HISTORIC, NEW MARKET, AND LOW- INCOME HOUSING TAX CREDITS

**DAVID MISKY
REDEVELOPMENT AUTHORITY OF THE
CITY OF MILWAUKEE**



REDEVELOPMENT AUTHORITY OF THE CITY OF MILWAUKEE (RACM)

- Independent public corporate body created by state statute in 1958
- Governed by 7-member board
 - Appointed by Mayor; Approved by Council
- Mission
 - “...eliminate blighting conditions that inhibit neighborhood reinvestment, to foster and promote business expansion and job creation, and to facilitate new business and housing development.”

REDEVELOPMENT AUTHORITY OF THE CITY OF MILWAUKEE (RACM)

- Tools for Economic Development
 - Acquisition and disposition of property
 - Preparation and implementation of redevelopment plans
 - Issuance of Bonds
 - Approval of Tax Incremental Financing Districts
 - Assistance with other financial tools (e.g. Tax Credits)

CAPITAL STACK

Federal, state, and local tax credits and incentives

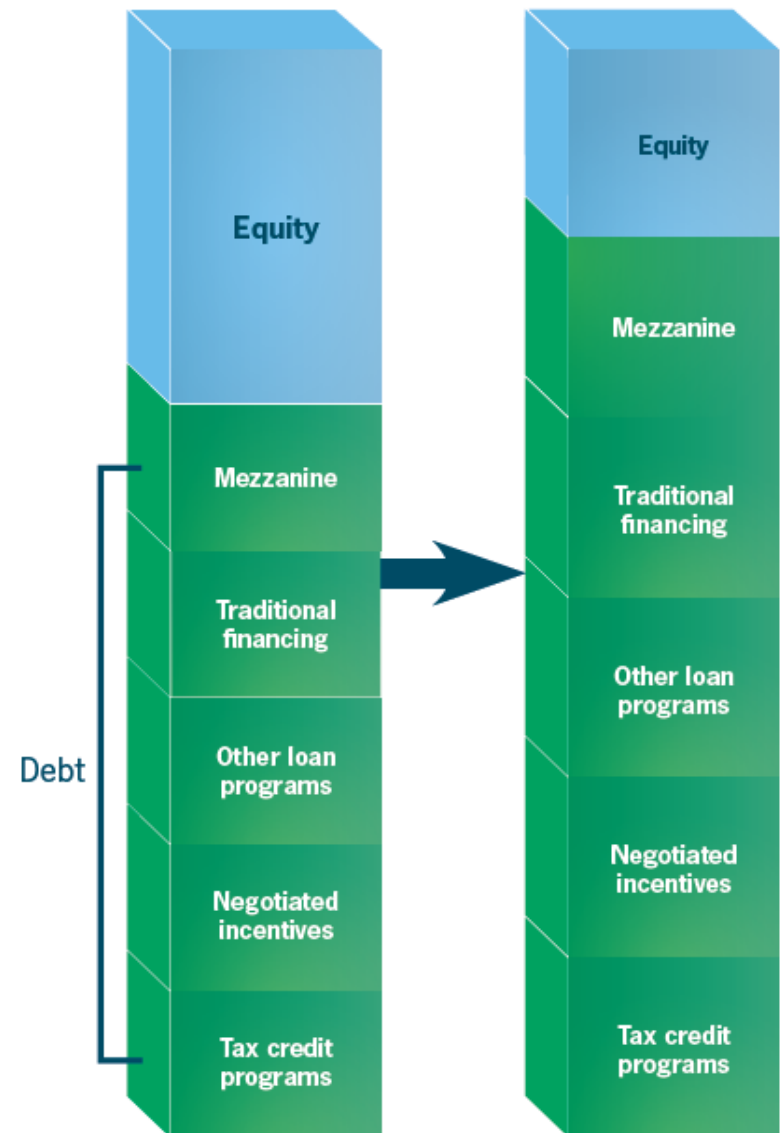
- > New Markets Tax Credits
- > Low-income housing
- > Historic preservation
- > Energy related credits
- > Other geographic/project type credits

Negotiated incentives

- > Tax Increment Financing
- > Discretionary grants and forgivable loans
- > Low-cost land or lease rates
- > Utility rate reductions
- > Infrastructure improvements
- > Other geographic/project type incentives

Loan programs

- > State and federal bonding programs
- > Local economic development loans
- > Characteristic based loans, such as:
 - Brownfield
 - Small business
 - Minority
 - Rural
 - Energy



HISTORIC TAX CREDIT PROGRAM

- Historic Tax Credit (HTC)
 - Program overview
 - Federal program to encourage the rehabilitation of certain buildings through a tax credit equal to either 10% or 20% of the qualified renovation expenditures (QREs).
 - Administered jointly by the U.S. Department of the Interior and the U.S. Department of the Treasury. The National Park Service (NPS) represents the Secretary of the Interior in partnership with the State Historic Preservation Officer (SHPO) in each state. The Internal Revenue Service (IRS) represents the Secretary of the Treasury.

HISTORIC TAX CREDIT PROGRAM

- The 10% credit applies only to non-historic buildings first placed into service before 1936 and rehabilitated for non-residential use.
- The 20 percent credit only applies to certified historic structures (may include buildings built after 1936)– buildings that are listed individually in the National Register of Historic Places or a building that is located in a registered historic district as certified by the NPS.
- Not all expenses associated with the rehabilitation of the property can be contributed toward the calculation of the 20% credit. Generally, only those costs that are directly related to the repair or the improvement of the structural or architectural features of the historic building will qualify.

NEW MARKET TAX CREDIT PROGRAM

- New Market Tax Credit (NMTC)
 - Program overview
 - Created in 2000 as part of the Community Renewal Tax Relief Act, the New Markets Tax Credit Program (the NTMC Program) was promulgated to attract new or increased investment in commercial, industrial, community, and mixed-real estate real estate projects and operating businesses located in low-income communities.
 - Each year the U.S. Department of the Treasury, through the Community Institutions Fund (CDFI), issues New Markets Tax Credits to Community Development Entities (CDEs) who in turn seek to invest these tax credits into the most impactful projects.

NEW MARKET TAX CREDIT PROGRAM

- There are over 200 CDEs in the country and they submit applications annually to the CDFI for these tax credits. It's a highly competitive selection process where CDEs have become very specific in the types of projects they support – in an effort to stand out from the other CDEs.
- The CDEs that receive NMTCs will then allocate those tax credits to projects that they believe will have the largest social impacts and that align with their investment goals. The recipients can then sell the tax credits to investors which generates the cash subsidy.

NEW MARKET TAX CREDIT PROGRAM

- In order to take advantage of the NMTCs, the applicant project must obtain financing from a CDE and the project must meet the Federal definition of a Qualified Active Low-Income Community Business (“QALICB”) in order to be eligible.
- QALICBs are businesses that are located in or that provide services to Low-Income Communities identified by income and poverty statistics from the Census.
- CDEs obtain funds to invest in QALICBs through private investors.

NEW MARKET TAX CREDIT PROGRAM

- The NMTC Program compensates the investors with Federal income tax credits based on their Qualified Equity Investment (“QEI”) made in the CDEs and the investors receive a tax credit for 39% of a QEI, which can be claimed over a 7-year period.
- A QEI must be invested in the CDE for the full 7-year period in order for the investor to satisfy the Program’s requirements.
- Investors claim tax credits as a percentage of the QEI amount over the seven years.
- The investment determinations are made at a community level with a reported 90-97% of NMTC business and real estate investments involving more favorable terms and conditions than the market would otherwise offer, including lower interest rates, subordinated debt, lower origination fees, and longer maturity.

AFFORDABLE HOUSING TAX CREDIT PROGRAM

- Low Income Housing Tax Credit (LIHTC) – Section 42
 - Program overview
 - Federal program to create and preserve affordable housing, stimulate private investment, create jobs, and revitalize communities
 - Administered by the Internal Revenue Service in partnership with State Housing Agencies – WHEDA (Wisconsin Housing and Economic Development Authority)
 - Affordable units often with some market rate units
 - Funding
 - 4% credit (tax exempt bond program) or 9% credit, received annually over 10 years
 - 15-year compliance period often with extended use restrictions

AFFORDABLE HOUSING TAX CREDIT PROGRAM

- Powerful tool - equity investment from LIHTC can account for 50-70% of total funding sources
- Largest source of financing for the development of affordable rental housing
- Projects typically still require multiple funding sources (e.g., Federal Home Loan Bank-Affordable Housing Program (AHP), HUD-HOME funds, Tax Incremental Financing)

AFFORDABLE HOUSING TAX CREDIT PROGRAM

Additional Benefits:

- Opportunities for catalytic impact on City neighborhoods through the elimination of blight or the reuse of vacant buildings
- Workforce benefits – construction jobs (SBE and RPP)
- Opportunities to work with and build the capacity of emerging developers

CAPITAL STACK EXAMPLES: PHILLIS WHEATLEY SCHOOL



PHILLIS WHEATLEY SCHOOL



PHILLIS WHEATLEY SCHOOL

- Tax Incremental Financing
- Adaptive Reuse of historic structure and renovation to historic standards - HTC
- New construction of adjacent residential building
- \$19.4 million investment - LIHTC
- 82 housing units, mix of 1, 2, and 3 BR units
- Range of income targeting and rents, including 67 affordable units and 15 market rate units, with rents ranging from \$370-\$1,125
- Partnership with Emerging Developer

GARFIELD/GRIOT PROJECT

- Adaptive reuse of former public school and new construction of mixed-use building which is home to America's Black Holocaust Museum
- 71 housing units (65 affordable)
- Partnership with Emerging Developer



GARFIELD/GRIOT PROJECT

Development Funding Sources - \$17.3 million

- First Mortgage - \$2.4 million
- LIHTC Equity - \$8.8 million
- Historic Tax Credits - \$2.5 million
- Tax Incremental Financing - \$1.4 million
- Other Grants - \$1.2 million (AHP, HOME, State, City Housing Trust Fund)
- Deferred Fee - \$1 million

VILLARD LIBRARY LIHTC & NMTC



MITCHELL STREET LIBRARY HTC & NMTC



GERMANIA BUILDING LIHTC & HTC



CAPITAL STACK EXAMPLES: CENTURY CITY TIF, BROWNFIELDS, NMTC, LIHTC, HTC, OZs



CAPITAL STACK EXAMPLES: NORTH END MIXED USE DEVELOPMENT

- Former Pfister & Vogel Tannery
- NMTC, Brownfield Loan and Grant, TIF
- TIF used on 2 market rate housing developments in the downtown during recession of 2007-08



Sears/Milwaukee Mall



Sears/Milwaukee Mall



Sears/Milwaukee Mall



Sears/Milwaukee Mall



THE IKON

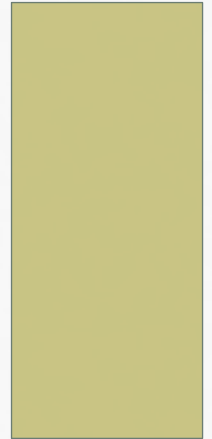


THE IKON: PROJECT SOURCES

First Mortgage:	\$2,000,000
Opportunity Zone:	\$12,000,000
MMSD:	\$500,000
State Environmental Grant:	\$500,000
Energy-Related Credits (PACE):	\$3,000,000
Tax Incremental Financing Loan:	\$9,000,000
Historic Tax Credits:	\$7,000,000
Local Non-Profit Bank Loan:	\$500,000
Deferred Developer Fee:	\$1,727,485
Total Sources:	\$36,227,485

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BNY MELLON



Seth Crone

Principal

713-483-6568

seth.crone@bnymellon.com



Malcolm Guy

Coordinator, Government & External Affairs

614-705-1306

mguy@cdfa.net

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