

Capital Stacks for Housing & Commercial (Re)Development: Structuring deals, managing risks & attracting investors

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Who We Are

Dynamic Full-service Midwestern Law Firm

- Bricker Graydon focused in eight key industries:
 - Banking & Financial Services
 - Higher Education
 - Education (Pre-K to 12)
 - Energy
 - Health Care
 - Insurance
 - Manufacturing
 - Public Sector
- Nearly 200 attorneys in Ohio, Kentucky & Indiana



Today's Discussion

- Public Sector Interventions into the Marketplace
 - Addressing market imperfections
 - Brownfields, tax-foreclosed properties
 - Capital Stacks & Sources-and-Uses tables
 - Filling financing gaps
- Where Does the Money Come From?
 - Other Peoples' Money (OPM)
 - Tax Increment Financing
 - Special Assessments
 - Single-family Housing Development programming
 - Other Gap Fillers

Public Sector Interventions into the Marketplace

- Financial incentives constitute public sector intervention into the private markets to grow a tax base - OR - address imperfections
 - Which tax base(s)?
 - Property taxes
 - Income taxes
 - Sales Taxes
 - What market imperfections?
 - Government / county land banks as developer of last resort

Market Imperfections

An extreme
Example:

Detroit Blight Removal Task Force (2014)

Blight = 86,641 parcels

72,328 single-family

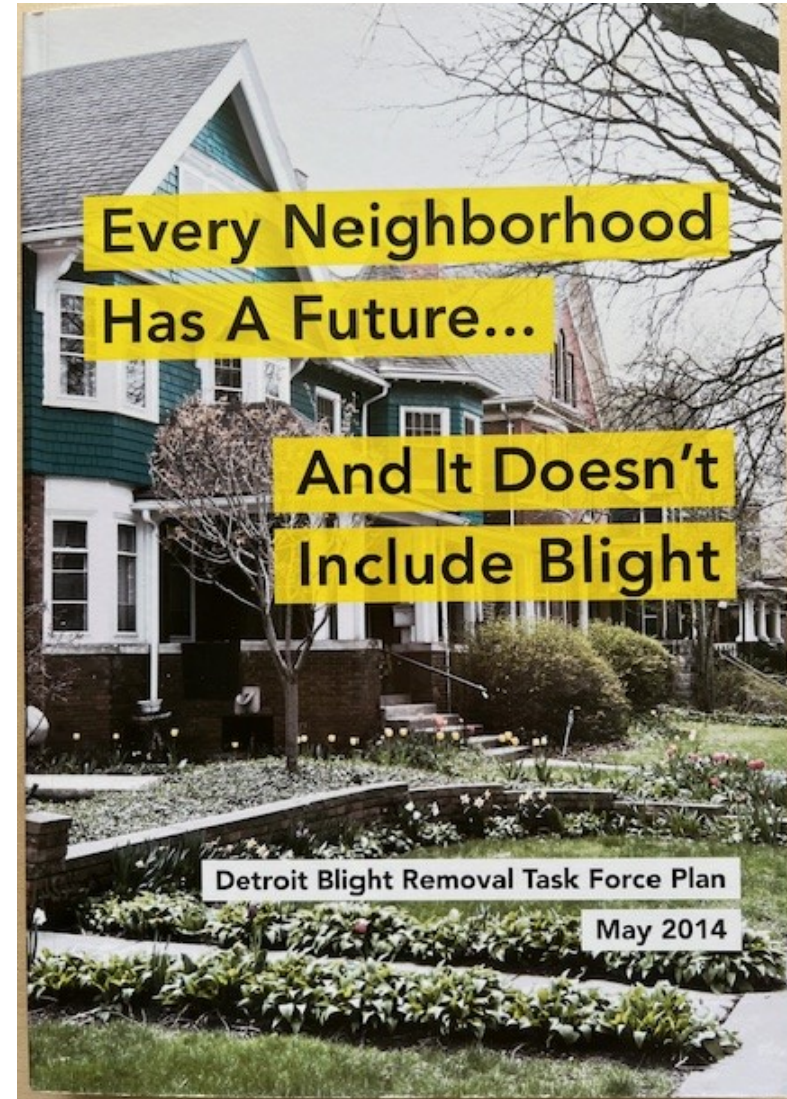
707 multi-family

3,904 neighborhood commercial

220 large commercial

339 industrial

6,135 vacant lots





Brownfields:

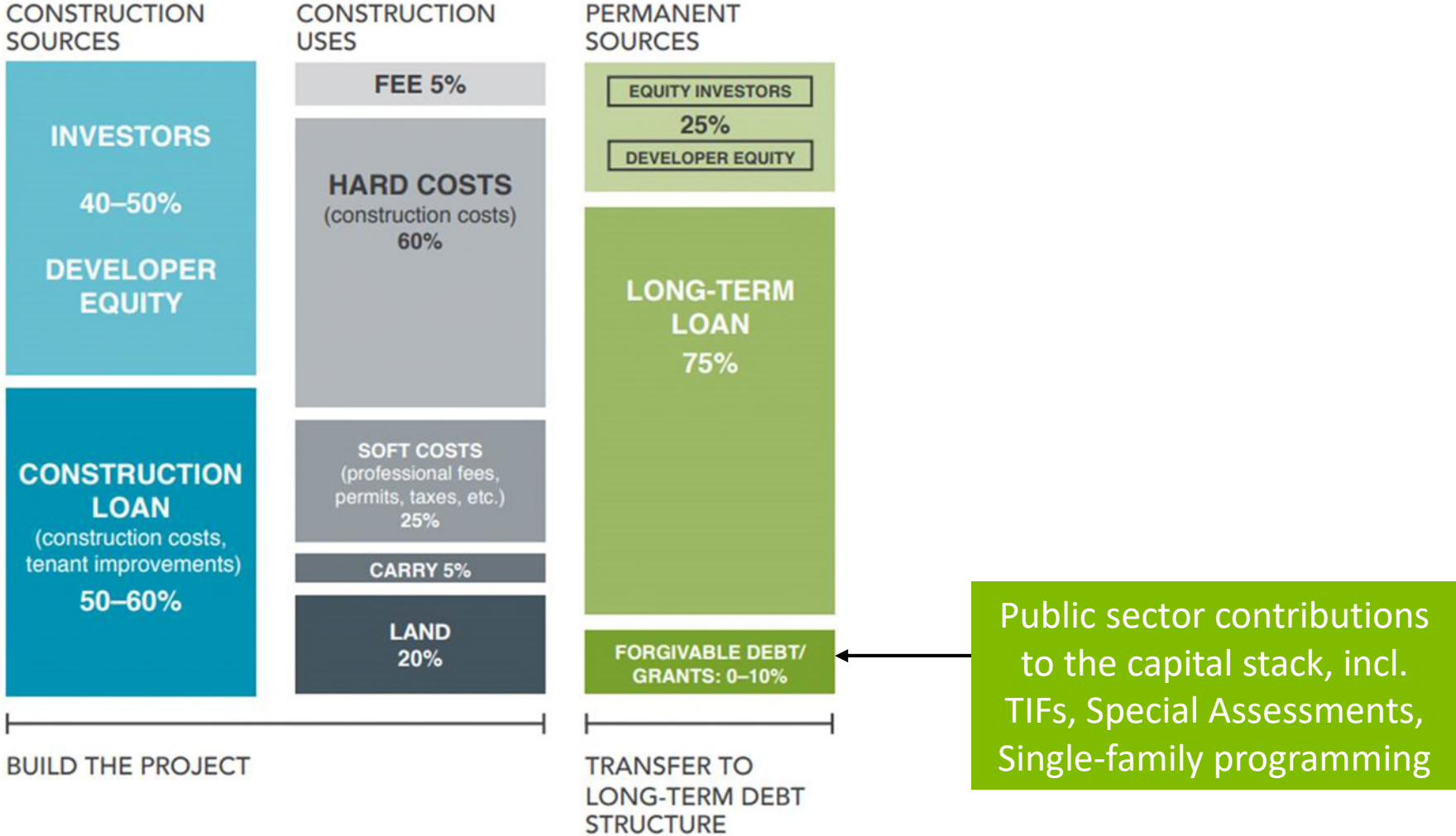
- Abandoned or underutilized properties
- Previously used for industrial or commercial purposes
- Contain hazardous substances, pollutants or other contaminants

Public Sector Interventions to Address Market Imperfections

- What forms of public investment are available to get the deal to “pencil out?”
- What is the project’s capital stack?



Capital Stack



Source: Williams, Stockton, et al. *The Economic of Inclusionary Development*. Washington, DC: Urban Land Institute, 2016

Public Sector Interventions into the Marketplace

- Sources & Uses of Funds table
 - Other Peoples' Money (OPM)
 - Which tools are employed by my community?
 - How do public sector incentives factor?
- Filling the Financing Gap

Sources & Uses of Funds Table

SOURCES	
Patient Capital Fund	\$690,000
TIF Bond Proceeds	\$3,300,000
Hamilton County Redevelopment Grant	\$200,000
JobsOhio OSIP Grant	\$2,000,000
JobsOhio OSIP Loan	\$2,000,000
Commercial Loan to Developer	\$21,000,000
Developer Equity	\$9,000,000
TOTAL	\$38,190,000

USES	
Acquisition	\$690,000
Demolition + Remediation (asbestos abatement, soil remediation, site preparation, vapor barrier) + Infrastructure	\$7,500,000
Building Construction – 350,000 SF Total	\$30,000,000
TOTAL	\$38,190,000

Source: Todd Castellini, *Advanced Manufacturing Initiative*. The Port. Cincinnati, OH: 2024

Filling the Financing Gap – What are the desired outcomes?

- Publicly sourced financial incentives offered within context of private transactions to induce desirable public policy outcomes
- Take many forms:
 - Diversions of tax revenue (i.e., TIFs)
 - Increase effective tax burdens (i.e., Special Assessments)
 - Single-family Housing Development programming
 - Other Gap Fillers
 - Real property tax exemptions
 - Brownfield-related tax credits
 - Grant funding

Gaps in Weak Markets

- Construction pricing increases daily / weekly
- Loan-to-value (LTV) limits set by commercial lenders
- Sale prices & revenue don't meet budget

Construction Cost	\$	300,000.00
Market Sale Price	\$	250,000.00
Gap	\$	(50,000.00)

Where's that Money?

- Issued Debt
- Other People's Money (OPM)

States & Local Governments Issuing Debt to Finance Projects

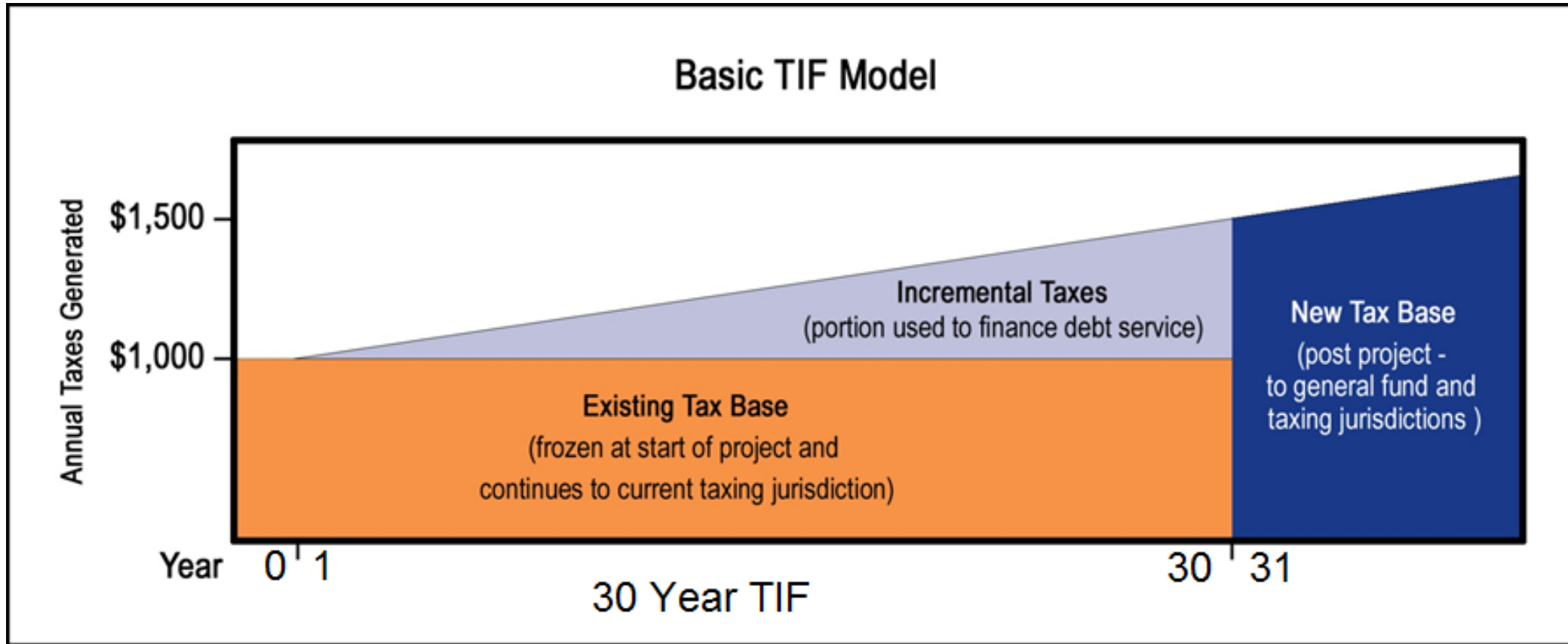
- Issuing debt (selling bonds), using sale proceeds to fund construction
 - Example: Debt sold to build **housing** on city-owned land
 - In Ohio: *“Lending of credit” to private enterprise*
- Political subdivisions can issue debt (sell bonds), paid for with identified revenue stream, for economic development
 - In Ohio: *Industry, commerce, distribution or research*
 - Debt issued with repayments promised from TIF revenue / special assessments

Other Peoples' Money

Tax Increment Financing

- Local governmental entities can create TIF structures
- Redirect taxes up to 100% of improvement value, for up to 30 years
- Secret sauce: service payments in lieu of taxes (PILOT) revenue
 - Paid in the same amount and collected in the same manner as taxes
 - Service payments are collected into a segregated fund (think escrow)
 - **Issue bonds repaid from PILOTs**
 - Revenue used to pay for *public infrastructure improvements*
 - Roads, sewers, environmental remediation, land acquisition, demolition
 - Sometimes can be used to pay for *private improvements*

TIF Basics



Source: "Tax Increment Finance Best Practices Reference Guide" (CDFA and ICSC), page 2.

Main Street Project - TIF Model - 10yr 75% - District 56 - 60% of Value Estimate

Assumptions	Input	Commercial Millage Breakdown			Tax Analysis			
Number of years	10	Total Millage	61.7565465		<i>Entity</i>	<i>Full Rate</i>	<i>Reduction</i>	<i>Effective Rate</i>
School Comp.	None	CSD	39.6739026	64.24%	County	13.95	0.168262	11.6027451
TIF Exemption	75%	Pioneer CTC	3.0774306	4.98%	Township	0.13	0.168262	0.10812594
Commercial Imp.	\$3,300,000	Net TIF	19.0052133	30.77%	School	47.7	0.168262	39.6739026
Residential Imp.	\$0				Corp	3.47	0.168262	2.88613086
Total Imp.	\$3,300,000	School Revenue	0%		Career	3.7	0.168262	3.0774306
					Health	1.4	0.168262	1.1644332
					Library	3.9	0.168262	3.2437782
					Fire	0.00	0.168262	0.00
					Total	74.25	0.168262	61.7565465

Collection Schedule			Commercial TIF Revenue					
Period	Tax Year	Collection Year	Commercial Development Value	Gross Commercial Tax	75% of Gross Commercial Tax	Auditor Collection Fee (1%)	School District Compensation	NET Commercial TIF
1	2025	2026	\$ 3,300,000	\$ 71,329	\$ 53,497	\$ (535)	\$ -	\$ 52,962
2	2026	2027	3,300,000	71,329	53,497	(535)	-	52,962
3	2027	2028	3,300,000	71,329	53,497	(535)	-	52,962
4	2028	2029	3,300,000	71,329	53,497	(535)	-	52,962
5	2029	2030	3,300,000	71,329	53,497	(535)	-	52,962
6	2030	2031	3,300,000	71,329	53,497	(535)	-	52,962
7	2031	2032	3,300,000	71,329	53,497	(535)	-	52,962
8	2032	2033	3,300,000	71,329	53,497	(535)	-	52,962
9	2033	2034	3,300,000	71,329	53,497	(535)	-	52,962
10	2034	2035	3,300,000	71,329	53,497	(535)	-	52,962
Total			\$ 33,000,000	\$ 713,288	\$ 534,966	\$ (5,350)	\$ -	\$ 529,616
			NPV @ 5%	\$ 550,782	\$ 413,087			\$ 408,956
			NPV @ 6%	\$ 524,986	\$ 393,740			\$ 389,802
			NPV @ 7%	\$ 500,984	\$ 375,738			\$ 371,980

Other Peoples' Money

Tax or Assessment?

- Spectrum of analysis applicable to payments to government
 - Constitutional analysis: TIF is not a tax, but is enforced in the same manner
 - Statutory analysis: PILOTs are “more like” assessments, if for no other reason than PILOTs have to be something
 - Assessment statutes employ “benefit” concept
 - TIF PILOTs certainly not ad valorem taxes

Special Assessments: New Community Authorities

- Separate governmental body organized to encourage the orderly development of an economically sound new community
- Developer-driven
- Secret sauce: annual Community Development Charge revenue
 - Charges authorized in deed restrictions
- An **assessment (not a tax)** based on millage, residents' income, gross receipts, or business revenues (including lease rentals)
 - Issue bonds repaid from assessments
 - Revenue directed to “Community Facilities”: public buildings, parks, lakes and streams, cultural facilities, streets, lighting, water / sewer, gas or electric

Special Assessments: Property Assessed Clean Energy (PACE)

- Allows property owners to finance the costs of energy efficiency & renewable energy improvements thru special assessments on their real property tax bills
- Nonprofit & most governmental entities may use PACE
 - Even though otherwise may be exempt from real property taxes & charges on real property
- **Secret sauce**: Special assessments used to secure financing to fund improvements without requiring the property owner to take on the debt

Other Peoples' Money

Special Assessments: Property Assessed Clean Energy (PACE) – *cont.*

- PACE can allow for investment with \$0 up-front cash required from the property owner
- Long-term, fixed-rate financing at favorable rates
- Special assessment payments can be passed through to tenants and remain with the property following a sale
- Energy savings resulting from improvements often fully offset the special assessments

Other Peoples' Money

Single-family Housing Development programming: Welcome Home Ohio

Dual-track grant / tax credit program:

- NEW R.C. 122.631 - R.C. 122.633
- ODOD implementing, w/ grant funds exclusively available to land banks & tax credits available to a limited set of eligible entities
- Public financing tool available for development of single-family residential units comprising at least 1,000 sq ft. living space

Single-family Housing Development programming: Welcome Home Ohio – *cont.*

Rehabilitation / Construction Grant Track:

- Land banks may receive **additional grants** to offset costs of rehabilitation or construction of single-family residential units
- General Assembly appropriated \$25MM/state fiscal year ('24 & '25)
 - Per-housing unit grant amount: \$30,000
 - To receive **grant** of funds for such rehab / construction work, land banks **cannot also seek a tax credit** for the same work on the subject property

Single-family Housing Development programming: Welcome Home Ohio – *cont.*

Rehabilitation / Construction Tax Credit Track:

- Land banks may receive **additional tax credits** from ODOD by land banks and eligible developers to support capital stacks for rehabilitation or construction of single-family residential units
- General Assembly capped total credits at \$25MM/state fiscal year ('24 & '25)
 - Tax credits only after property sold; 1st round of tax credits must be issued by June 30, 2024
 - Tax credit cap: \$90,000/unit or 1/3 project costs (whichever is lower)
 - Tax credits are fully transferrable to “any person” (i.e., syndication)
 - Taken against taxpayers' state financial institutions or personal income tax obligations

Single-family Housing Development programming: Welcome Home Ohio – *cont.*

Program-wide Restrictions:

- Buyers cannot earn >80% of county median income
- Buyers must participate in a financial literacy course conducted by land bank seller
- Buyers must commit – via the purchase sale agreement w/ land bank seller – to use the subject property only as a primary residence
- Buyer cannot rent “any portion” to others for 5 years
- Subject property will have restrictive covenants limiting future buyers to only those who likewise don’t earn >80% of county median income
 - Deed-restricted affordability period: 20 years
- Subject property cannot be sold for more than \$180,000

Other Peoples' Money

Single-family Housing Development programming: OHFA Tax Credit

- Tax credits to be awarded on a competitive basis
- OHFA in process of drafting rules outlining application criteria
- Amount of credit is limited to the amount by which the project's estimated development costs exceed the fair market value
- Tax credits may be claimed over a 10-year period
- Credit claimed after project completion

Other Peoples' Money

Single-family Housing Development programming: OHFA Tax Credit – *cont.*

- Adopted in State Budget Bill (H.B. 33)
- Authorizes a nonrefundable tax credit against insurance premiums tax, FIT, or income tax for investment in affordable single-family homes
- A public-private partnership between the State, local governments and developers
- OHFA to administer program through an application process

Other Peoples' Money

Other Filler: Real Property Tax Exemptions

- CRA & EZ Property Tax Exemptions:
 - Value of improvements for up to 100%, up to 15 years
 - EZ: Schools' approval needed +10 years, +75%; Relocation waivers required
 - CRA: Schools' approval needed +75%
 - Residential, Commercial & Industrial improvements

Other Filler: Real Property Tax Exemptions – *cont.*

- Brownfield Exemption (R.C. 5709.87)
 - Exemption of the “increase in the assessed value of land... and improvements, buildings, fixtures, and structures that are situated on that land... [when] the remedial activities began.”
 - Property that is or has been the subject of a Voluntary Action Plan (VAP)
 - Exemption as an entitlement / right, granted upon completion of VAP / Covenant Not to Sue
 - Applicable to commercial / industrial redevelopment *and residential* (e.g., multi-family)
 - However, but... apartment buildings must be constructed in the same year as, and be listed in, the issued Covenant Not to Sue?

Other Peoples' Money

Other Filler: Federal COVID-19 Response (ARPA Stimulus)

Local Fiscal Recovery Fund - Allowable Uses under Sec. 603(c)(1)

- A. Respond to the COVID-19 public health emergency or its negative economic impacts
- B. Respond to workers performing essential work
- C. To provide government services to extent of reduction in revenue
- D. To make necessary investments in water, sewer, or broadband infrastructure

Other Filler: Federal COVID-19 Response (ARPA Stimulus) – *cont.*

Addressing Vacant or Abandoned properties

- ARPA funds to renovate vacant & abandoned properties that are located within **Qualified Census Tracts** within the recipient's boundaries:
 - *Rehabilitation, renovation, maintenance, or costs to secure* vacant or abandoned properties to reduce their negative impact
 - Costs associated with *acquiring and securing legal title* of vacant or abandoned properties and other costs to *position the property for current or future productive use*
 - *Removal and remediation of environmental contaminants* or hazards from vacant or abandoned properties
 - **Demolition or deconstruction** of vacant or abandoned buildings (including **residential, commercial, or industrial buildings**)

Other Filler: Inflation Reduction Act – Energy Community Bonus

- A brownfield site is considered an “energy community”
 - There are 9 enumerated exclusions from this definition of the term “brownfield site” in 42 U.S.C 9601(39)(B)
- An energy community provides an additional 2% or 10% to the amount of the investment tax credit energy property can generate
 - Based on the eligible upfront costs of the energy property
 - Base Rates: 6% or 30%
 - Maximum Value: Capped at 50%-70%
- Potential to use in capital stack as collateral for bridge financing

Other Peoples' Money

Other Filler: JobsOhio Revitalization Program

- Loans & grants to bridge the financial gap between the cost of brownfield sites and cost of site redevelopment
- Can fund demolition, site improvements, rehabilitation, and expansion on previously utilized sites or existing buildings
- Designed for competitive projects
 - End-user in the JobsOhio targeted sectors
 - Commit to a new project & create and/or retain ≥ 20 new jobs
- Awarded competitively year-round

Other Peoples' Money

Other Filler: JobsOhio Vibrant Community Grants

- Primary focus: generating catalytic reinvestment in eligible distressed communities experiencing chronic disinvestment
- < 75,000 populations municipalities w/ poverty rates \geq state average
- Grants and/or loans to support development and redevelopment projects
 - To enhance quality of place
 - Projects must include an identified end user; can support mixed-use development
- Can fund demo, on-site infrastructure, reno, remediation & construction

Putting it all together:

New Building Project w/o Econ. Dev. Incentives



- 50,000 SF Industrial Spec Building
- Funding purely privately with
 - 30% equity
 - 70% bank
- Rent required to retire debt with 125% debt coverage = \$14.28 PSF NNN

Source		Use	
Equity	\$1,750,000	Site Work	\$1,063,000
Bank	<u>\$ 3,923,653</u>	Utilities	\$ 220,000
		Bldg. Construction	\$4,096,153
		Soft Costs	<u>\$294,500</u>
Total	\$ 5,673,653	Total	\$ 5,673,653
Debt Service	Term	Rate	Monthly P&I
Bank	10	8%	\$47,605
Monthly D/S	Annual D/S	Debt Coverage	Required Rent
\$47,605	\$571,257	125%	<u>\$14.28/psf NNN</u>

Putting it all together: New Building Project w/ Econ. Dev. Incentives



- 50,000 SF Industrial Spec Building

Assumes participation from:

- ODOD Rural Industrial Park Loan (RIPL)
- JobsOhio Ohio Site Inventory Program
- Rent required to retire debt with 125% debt coverage = \$6.79/PSF NNN

Source		Use	
Equity	\$567,365	Site Work	\$1,063,000
Bank	\$ 706,287	Utilities	\$ 220,000
RIPL	\$4,000,000	Bldg. Construction	\$4,096,153
OSIP	<u>\$400,000</u>	Soft Costs	<u>\$294,500</u>
Total	\$ 5,673,653	Total	\$ 5,673,653
Debt Service	Term	Rate	Monthly P&I
Bank	10	8%	\$8,569
RIPL (1/2 forgivable)	15	3.25%	\$14,053
Monthly D/S	Annual D/S	Debt Coverage	Required Rent
\$22,623	\$271,471	125%	<u>\$6.79/psf NNN</u>

Putting it all together:

Building Rehab for Affordable Housing Example

- Building rehab for 60% AMI population in a rural Appalachian county.
- Rents capped at \$633 per unit.
- \$269,100 annual rent income.
- \$8.8 million renovation costs

SOURCE NAME	AMOUNT	*ANNUAL DEBT SERVICE	INTEREST RATE	LOAN TERM (YEARS)	AMORT. (YEARS)
Bank Loan	\$ 1,400,000	\$92,435.89	6.000%	40	40
LIHTEC Equity	\$ 5,623,560				
Historic Tax Credit Equity	\$ 1,501,447				
Deferred Developer Fee	\$ 116,376		0.000%	12	12
General Partner Contribution	\$ 180,000		0.000%	100	100
TOTALS	\$ 8,821,383	\$92,436			

Source: OHFA

April 2024 - Ohio Land Bank Association

CAPITAL STACKS

Not just for big city Land Banks



**KNOX
COUNTY
LAND BANK**

KNOX COUNTY LAND BANK

Portfolio

Residential Development

Traditional Land Bank programming. Selling properties to developers for rehabilitation and reuse.

Moving in to self development with Welcome Home Ohio.

Industrial Development

The Land Bank owns 77 acres of industrial land which includes 670,000 square feet of heavy industrial space.

Commercial Development

Redeveloping the former Mount Vernon News building in downtown Mount Vernon to bring the highest and best use to the community.



MOUNT VERNON NEWS

MOUNT VERNON NEWS

18 East Vine
Former Mount Vernon News





Project Timeline

Following the sale of the local paper the new owner wanted to get rid of the building and sold it to the Land Bank



December 2020
Land Bank purchases the building for \$1.



2021
Plans were conceived of a multi-use building



2022
Intel announcement led to a partnership with MVNU



2023
Hired contractor and construction plans are developed





MOUNT VERNON NEWS BUILDING - MVNU ENGINEERING
 NOVEMBER 10, 2022



Cyber Security Lab



Office Space
20 new jobs to
Knox County



Food Hall with 8
kitchens +
bar to be owned
by the Land
Bank



Capital Stack

Sources (Total Project)	
Local Community Grant	\$5,500,000
Demolition Grant	\$118,000
Sale of Office	\$300,000
Vibrant Communities (requested)	\$1,000,000
Owner Improvements	\$300,000
Tenant Improvements	\$260,000
Land Bank Investment	\$600,000

Uses (Total Project)	
Demolition	\$118,000
MVNU Construction Costs	\$2,283,048
Facade Construction Costs	\$926,379
CK Fees	\$518,018
SoL Fees (facade/MVNU)	\$257,867
SoL Fees (first floor)	\$150,000
MVNU Furniture	\$217,000
MVNU Equipment	\$1,430,000
Office Build Out	\$300,000
Tenant Improvements (Food Hall)	\$260,000
Construction of First Floor	\$1,650,000

Capital Stack

Sources (Total Project)	
Local Community Grant	\$5,750,000
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Vibrant Communities (requested)	\$1,000,000
Owner Improvements	\$300,000
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Land Bank Investment	\$600,000

Total Project Cost = \$8,078,000

Total Land Bank Investment = \$600,000

Uses (Total Project)	
Demolition	\$118,000
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Development Tools Available

Vibrant Communities Grant

Capital Lease (Sales Tax Exemption)

Site Revitalization and Demolition Funds

Community Reinvestment Area

Revolving Loan Fund

Tax Increment Financing

PACE Financing

ARPA Funds



Knox County Land Bank and Knox County Habitat For Humanity Partnership

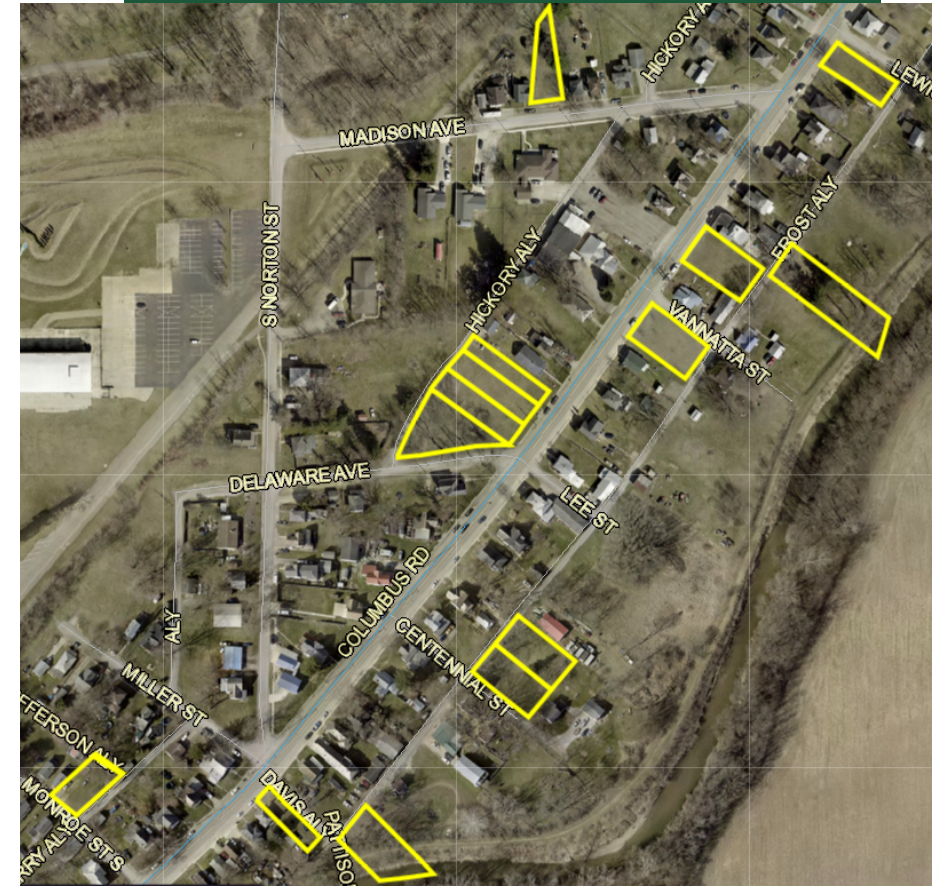
KEY

- Habitat Builds
- Contractor Builds
- Community Lots



WHO Goal

Support a vibrant neighborhood in the Columbus Road area focused on increasing housing stock quality and corridor beautification while maintaining affordability.



WHO Grant Request

Welcome Home Ohio - Purchase Grant Request = \$2,100,000

This would buy 12 new homes in two years

- 4 built by Habitat for Humanity
- 4 built by a local home builder who is offering to reduce cost to support the project
- 4 modular home builds

Welcome Home Ohio - Renovation Grant Request = \$360,000

This would build garages and add other enhancements to each new home

Total grant request = \$2,460,000

WHO Impact Goals

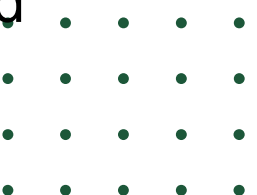
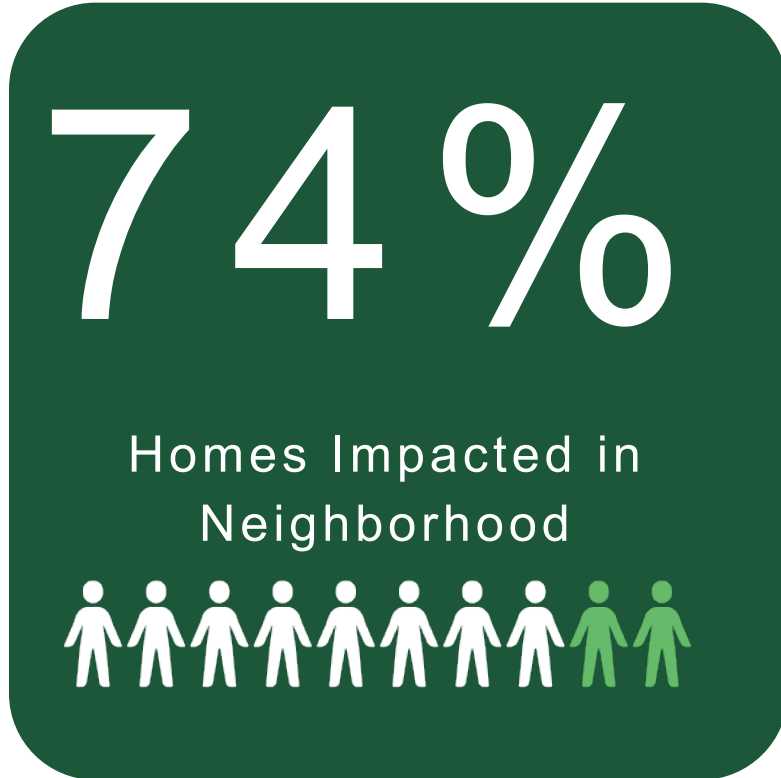
12 new owner-occupied homes sold at an affordable price

12 critical home repairs on existing owner-occupied houses at no/low cost to the owner - led by Habitat

12 "Brush with Kindness" events (5 houses per event) - led by Habitat

Overall Impact Goal = ~ 84 Homes

Representing 74.3% of homes in the neighborhood



Summary of How We Can Help

Early-Stage Proactive Steps

- Form site control entity
 - CIC
 - Port Authority
 - Non-profit and for-profit corporations
- Site control agreements
 - Purchase agreements
 - Options
 - Development agreements
- Title search
- Financial Pro Forma
- Refresh Zoning/Permitting

Urban Redevelopment and Reuse Tools

- Welcome Home Ohio
- Demolition & Brownfield grants
- Historic tax credits for mixed use buildings
- Low Income Housing Tax Credits
- Transformational Mixed Use Tax Credits
- Community Reinvestment Area (CRA)
- Sales Tax Exemptions through Port Authorities

Greenfield Tools

- Tax Increment Financing (TIF)
- New Community Authorities (NCA)
- Community Reinvestment Area (CRA)
- State developer tax credit
- Bond financing for infrastructure
- Low Income Housing Tax Credits

Getting It Built


- RFP to developers
- Public-private partnership agreements
- Prevailing wage considerations
- Zoning & Annexation approvals
- Environmental Permitting
- Construction agreements
- Reporting & compliance

Questions?

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Thank You

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