New Markets Tax Credits Case Study: East St. Louis Housing Authority

Jazz @ Walter Circle Project

NH&RA New Markets Tax Credit Summit
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PRESENTATION OVERVIEW

I. The Housing Authority’s Vision
II. The Investor and CDE Perspective
III. New Markets Tax Credit Structure and Legal Challenges
IV. Mixed Finance Legal Challenges
V. Conclusion and Questions
I. The Housing Authority’s Vision:

Elizabeth Tolliver, Executive Director, East St. Louis Housing Authority
Jazz @ Walter Circle Roundabout
II. The Investor and CDE Perspective:

Robert K. Jenkins, President,
Hampton Roads Ventures
Jazz @ Walter Circle 15th & Exchange
III. New Markets Tax Credit Structure and Legal Challenges:

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New Markets Tax Credit Practice
INTRODUCTION

A. Housing Authority Participation in New Markets Tax Credit Program

B. Jazz@ Walter Circle: A Case Study

C. Project Eligibility and Compliance

D. Project Financing Structure
A. Housing Authority Participation

• Types of HUD funds typically used in New Markets Tax Credit transactions:
  - Community Development Block Grant funds
  - HOPE VI funds
  - HUD 108 guaranteed loans
  - HUD Brownfields Economic Development Initiative (BEDI) grants
Housing Authority Participation

- Housing authorities have been active in New Markets Tax Credit Program since early years in various roles:
  - lenders
  - community development entities
  - developers
Housing Authority Participation

• Mixed finance development of affordable housing usually financed with Low Income Housing Tax Credits, HUD Hope VI capital and operating funds, and Community Development Block Grant funds

• Until the Jazz @ Walter Circle Project, New Markets Tax Credits were not used by housing authorities to finance affordable housing projects with public housing funds
B. CASE STUDY: Jazz @ Walter Circle

• Integrates HUD mixed finance development with New Markets Tax Credit financing

• Uses HUD public housing funds in New Markets Tax Credit structure for first time

• Housing authority affiliates act as lender and developer

• Public-private partnership with third party investor and community development entity
Project Highlights

• Acquisition of land and construction of new four-story mixed-use facility in City of East St. Louis, Illinois

• Two wings connected by one central walkway (North Building and South Building)

• 15th Street between Bowman and Exchange Streets

• Transit-Oriented Development (50 ft to Metro Station)
Project Highlights

- **LEED-Gold certified “green building”:** Solar Hot Water System, Rooftop Solar Array, Rooftop Terrace and Garden/Farm

- **Residential Rental Space:** 74 units of affordable rental housing for senior citizens

- **Commercial Rental Space:** Community Center, Office Space, Health Care Center, Credit Union, Green Grocer (Food Desert), Commercial Kitchen
Project Highlights

• **Project Financing Sources of Funds:**
  - New Markets Tax Credits
  - HUD Public Housing Development Funds
  - City of East St. Louis Tax Increment Financing Funds
  - Illinois Clean Energy Community Foundation Funds

• **Estimated Total Development Cost:**
  Approximately $20,000,000
Jazz @ Walter Circle Rooftop Terrace

Phase 1 - Mixed Finance Development

Roof Terrace with Summer Kitchen
Jazz @ Walter Circle  4 Floors & Roof

Phase 1 - Mixed Finance Development

Whole Building At A Glance

Ground Level
23,500 sf (gross)
25 New off-street parking
31 New on-street parking

Level 2
6 Units

Level 3
6 Units

Level 4
6 Units

Roof
Roof Garden

74 Senior Units
(incl. 4 2BR Units)
99,400 sf 1st-4th
22,500 sf Roof

TOTALS

ESL Housing Authority Board Meeting - July 15, 2010
C. Project Eligibility and Compliance

- **Low-Income Community:**
  - Qualified Census Tract

- **Qualified Business:**
  - rental of mixed use building in furtherance of tax-exempt purpose to provide affordable housing
  - 80/20 residential rental property rule expected to be satisfied based on financial projections
• “Active” in Low-Income Community:
  Five (5) tests reasonably expected to be satisfied throughout the Compliance Period:
  – Gross Income Test
  – Services Test
  – Tangible Property Test
  – Collectibles Test
  – Nonqualified Financial Property Test
D. Project Financing Structure

• Key Parties:
  - DV VNB Community Investment Fund, LLC ("Investor")
  - River East Ventures, Inc NFP ("Lender")
  - DV-ESLHA QEI, LLC ("Fund")
  - People’s Ventures, L.L.C. ("CDE")
  - Eco Jazz, Inc NFP ("QALICB")
Project Financing Structure

• **Upper Tier Equity:**
  - $4,587,960 equity investment from Investor to Fund

• **Upper Tier Debt:**
  - $12,412,040 loan from ESLHA to Lender of public housing development funds
  - $12,412,040 Leverage Loan from Lender to Fund secured by Fund’s 99.99% membership interest in CDE
Project Financing Structure

• **Lower Tier Equity:**
  - $17,000,000 Qualified Equity Investment (QEI) from Fund to CDE in exchange for 99.99% membership interest in CDE
  - $1,700 equity investment from Allocatee to CDE in exchange for .01% membership interest in CDE
Project Financing Structure

• Lower Tier Debt/Grant:
  - $16,490,000 QLICI Loan from CDE to QALICB for development and construction of mixed use facility secured by leasehold mortgage
  • First Priority A Note: $12,412,040
  • Second Priority B Note: $4,077,960
  - $1,707,276 Soft Loan from ESLHA to QALICB
  - $1,400,000 Grant from ESLHA to QALICB
Project Financing Structure

• **Ground Lease:**
  - 48,000 sq. ft. of land owned by ESLHA
  - ESLHA 99 year ground lease to QALICB

• **Commercial Space Master Lease (80/20 Rule):**
  - 100,000 sq. ft. of rentable space in mixed use facility owned by QALICB
  - QALICB 40 year master lease to ESLHA of 18,000 sq. ft. rentable commercial space
  - ESLHA sublease of commercial space to commercial tenants
Jazz @ Walter Circle Financing Structure

East St. Louis Housing Authority
New Markets Tax Credit Leverage Financing Structure
Conceptual Model

Leveraged Lender Affiliate

INVESTMENT FUND, LLC (99.99%)

Tax Credit Investor (100%)

Capital Contribution

Debt Service (interest-only)

$17,000,000 QEI

NMTCs

QLICI Loan A Note
QLICI Loan B Note

Sub-CDE, LLC

Hampton Roads Ventures (.01%)

CDE Fees

$17,000,000 NMTC Sub-allocation

QALICB Affiliate

EAST ST. LOUIS HOUSING AUTHORITY

HUD STATE CITY

Public Funds

FSLHA Loan

Debt Service

Ballard Spahr LLP
IV. Mixed Finance
Legal Challenges:

*Lila G. Shapiro-Cyr, Esquire*
*Partner, Housing Practice*
Jazz @ Walter Circle 15th & Bowman
V. Conclusion and Questions