

Financing Opportunities in Rural Communities

A Central Appalachian Webinar Series

Preserving Housing & Historic Buildings

November 16, 2010



Housekeeping:

- Please remember to mute your telephones while you listen in.
- If you have to take a phone call during the webinar, please do not put the line on hold. Please hang up and dial back in when you are ready.
- After today, the presentation and agenda will be posted on the Cleveland Fed and Richmond Fed's website.





Preserving Housing and Historic Structures: Introduction and Context

**Presented by Ray Christman,
Advisor to the ARC Federal Chairman,
Credit and Capital
Appalachian Regional Commission**

Mission:

To be a strategic partner and advocate for sustainable community and economic development in Appalachia

Appalachian Regional Commission

- **13 states**
- **420 counties**
- **205,000 sq. miles**
- **25 million people**

Unique Regional Characteristics and Challenges:

- **Mountainous terrain and topography**
- **High unemployment/low education attainment**
- **Dependency on natural resource extraction**
- **ARC focus has been on roads, infrastructure, education and training, and economic development**

Federal-State-Local Partnerships

- **ARC is structured as a Federal-State Partnership**
- **Long-term focus on building network of local and sub-regional intermediaries that can support community and economic development:**
 - **CDFIs**
 - **Revolving loan funds**
 - **Venture funds**

ARC Capital Policy Initiative

- **New effort by ARC to address large challenge of capital and credit availability for business and economic development in the region**
- **Goals are to expand bank lending, attract new sources of equity capital, increase deal flow, and build local capacity of local/state intermediaries**
- **Assembling diverse private/public advisory group to help think through actions and strategies**

Housing and Historic Structures

- **Housing is fundamental to community success and prosperity – quality, availability and affordability**
- **Special long-term challenges in rural areas (homebuilder capacity, availability of rental housing, presence and quality of manufactured housing, etc)**
- **Built environment in Appalachia is older – need to focus on preservation, creative reuse, and rehab opportunities**

Tools for Housing and Historic Preservation

- **Affordable housing in U.S. is a locally delivered system driven by federal and state resources and incentives**
- **Developers are locally based for-profit and non-profit organizations, supported by local financial institutions**
- **Key resources are federal Low-income Housing Tax Credit, Historic Building Tax Credit, New Markets Tax Credit Programs, state tax credit programs, and various state, federal, and private programs to provide “gap” financing**

Critical Role for Financial Institutions

- **Community and economic development can't happen without bank participation**
- **In rural areas like Appalachia, community banks are only game in town**
- **CRA provides incentives for financial institution participation in housing and community development – Kentucky Bank is a role model**
- **Opportunities exist for collective action by community banks (affordable multi-family loan consortia, etc) – doing well and doing good**

System in Stress Today

- **Federal Low Income Housing Tax Credit Program weakened by shrinking investor base (e.g. large financial institutions) and underwriting challenges in weak economy**
- **Private homebuilding and multi-family industries at historic lows**
- **Banking sector facing re-capitalization issues limiting lending capacity**

But...Opportunities Exist and Will Increase in Future

- **Need to rebuild and re-supply the tool box**
- **Learn from examples and models like Oliver School and Kentucky Bank**
- **Build stronger system for the future**
- **Local and state initiative and action will be key in federal deficit reduction environment**

Historic Rehabilitation and Low Income Housing Tax Credits

Robert B. Vice



Rehabilitation Tax Credit

Federal income tax credit equal to 20% of *Qualified Rehabilitation Expenditures* for a *Substantial and Certified Rehabilitation* of a *Certified Historic Structure*

Certified Historic Structure

- Listed on the National Register of Historic Places
- or
- Contributing building in a registered historic district

Certified Rehabilitation

- Rehabilitation plan must be approved by state historic preservation office and National Park Service
- Follow the Secretary of the Interior's Standards for Rehabilitation
- Rehabilitation work must be approved upon completion by state historic preservation office and National Park Service

Substantial Rehabilitation

- Rehabilitation expenditures must exceed the cost basis of the CHS
- Expenditures measured within a 24 month period
- Alternatively, a phased rehabilitation allows expenditures over a 60 month period in planned phases

Qualifying Buildings

- Must be used in a trade or business (private residences do not qualify)
- Residential rental property, office, retail, or other commercial uses
- Alternative 10% credit for non-historic pre-1936 buildings does not apply to residential commercial uses

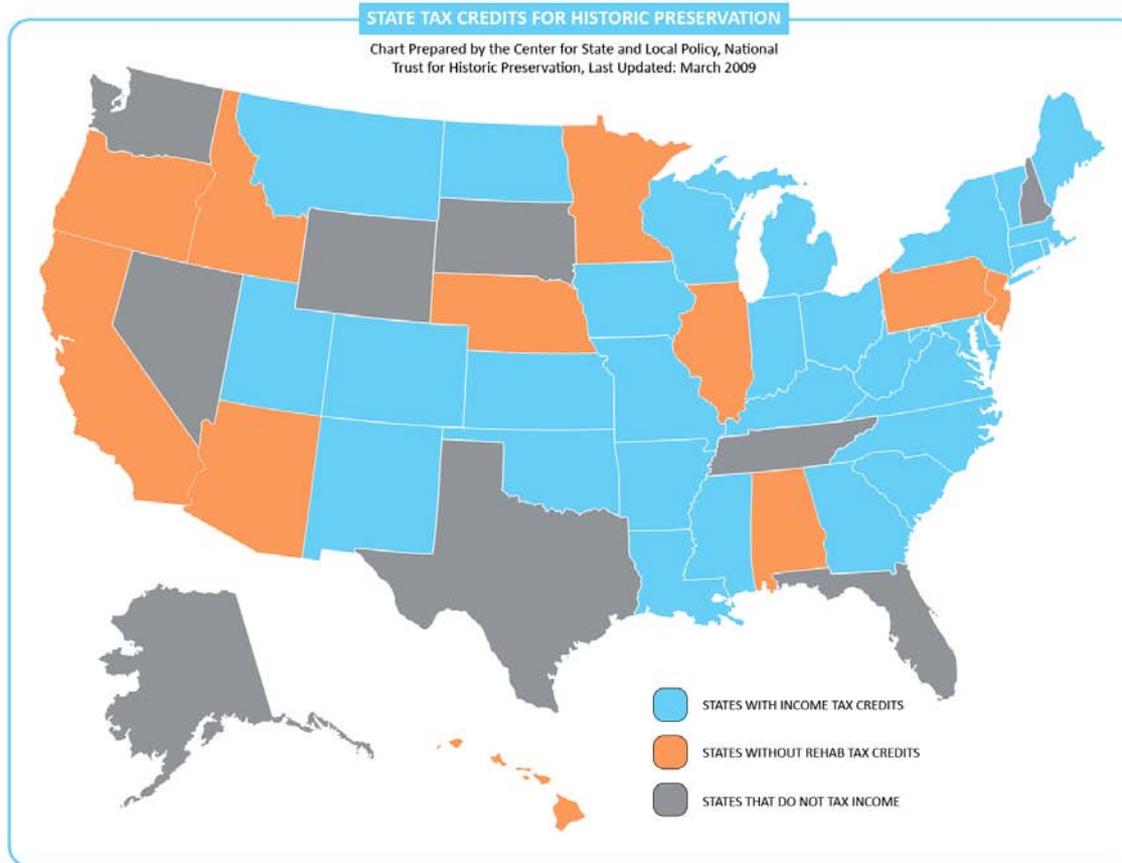
Earning the Rehabilitation Tax Credit

- HRTC earned in the year the certified rehabilitation is completed and the building is *placed in service*
- 60 month holding period to avoid recapture of HRTC

Limitations on Federal Rehabilitation Tax Credit

- Closely held C corporations (and individuals) are subject to *at risk* and *passive activity* limitations

State Historic Tax Credits



Kentucky Historic Rehabilitation Tax Credit

- Up to \$5,000,000 of total credits awarded annually
- 30% of qualified rehabilitation expenses for owner-occupied residential properties
 - minimum investment of \$20,000 is required, with the total credit not to exceed \$60,000
- 20% of qualified rehabilitation expenses for all other properties
 - minimum investment of \$20,000 or the adjusted basis, whichever is greater
 - maximum credit for property that is not owner-occupied residential is \$400,000

Kentucky Certified Historic Structure

- Available for historic property that is
 - Listed on the National Register of Historic Places
or
 - A contributing building in a National Register district
and
 - A certified rehabilitation per Secretary of Interior's Standards for Rehabilitation
- Apply to Kentucky Heritage Council; review is similar to federal HRTC process

Use of Kentucky Historic Rehabilitation Tax Credit

- Applied against Kentucky income tax liability, or
 - Refundable, or
 - Transferred to a financial institution
-
- Tax-exempt organizations, homeowners and out-of-state owners who cannot use the credit against Kentucky income tax liability can either apply for a refund or transfer the credit

Transfer of Kentucky Historic Rehabilitation Tax Credit

- Can be transferred to banks, which are subject to annual Kentucky financial institutions franchise tax
- Enter into tax credit transfer agreement with owner and provide the Department of Revenue with:
 - The name, address, employer identification number, and bank routing and transfer number
 - The amount of credits transferred
- No Kentucky income tax on the proceeds of the transfer of credit (federal income tax would apply)

Limitations on Kentucky Historic Rehabilitation Tax Credit

- If approved applications for HRTC exceed \$5,000,000, HRTCs are allocated proportionately
- Subject to 100% recapture against the owner (not a transferee) for disqualifying work within 3 years of completion

Low Income Housing Tax Credits

- Available to owners of residential rental property used for “low-income” housing
- Income qualifications:
 - At least 20% of the units must be occupied by households with incomes *at or below 50% of the area median income*, or
 - At least 40% of the units must be occupied by households *at or below 60% of the area median income*
 - Almost all projects qualify 100% of the units to maximize LIHTCs

Low Income Housing Tax Credits

- LIHTCs claimed over a ten year credit period
- Credit Amount
 - Present value of LIHTCs equal to 70% of the cost of rehabilitation or construction of qualifying units (fixed at 9% annually for projects completed before 12/31/2013)
 - Increased by 30% for projects designated by state housing finance agency as needed in order to be financially feasible
 - Present value of LIHTCs equal to 30% of the cost of acquisition of existing buildings or bond-financed projects

Low Income Housing Tax Credits

- Qualifying basis for LIHTC based on number of units occupied by low-income tenants at the end of the first year of the credit period
- Maximum rents set annually, based upon a maximum of 30% of qualifying tenant household income

Compliance Period

- Low-income use must be continuous for a 15 year compliance period
 - LIHTC recaptured if low income use is discontinued
- Extended low-income use requirement for an additional 15 years
 - May be terminated upon foreclosure, subject to a 3 year period for existing tenants

LIHTC Allocation

- Each state receives an amount of LIHTCs each year equal to \$2.15 per state resident
- State housing finance agencies annually allocate LIHTCs to projects based upon competitive scoring and an annual *Qualified Allocation Plan*
 - Kentucky Housing Corporation will allocate approximately \$9,275,000 of LIHTCs in 2011
- Construction/rehabilitation must be completed by December 31 of the second year following the allocation of the LIHTCs to the project

Combining Credits

- The same project can utilize
 - Federal and State HRTCs and LIHTCs
 - Federal and/or State HRTCs and NMTCs

Bank Involvement

- Construction Loan
- Equity Bridge Loan
- Partnership Equity for HRTCs and LIHTCs
- Permanent Financing (with or without Federal Home Loan Bank subsidy)
- Kentucky Historic Rehabilitation Tax Credit
- Community Reinvestment Act

Use of Limited Partnerships

- Allows sponsors to raise capital from equity contributions of investor limited partners
- Provides limited liability for investors
- Enables sponsor to control the project as the general partner and developer
- Tax credits are passed through the partnership to its partners
- Tax credits are allocated based upon partnership ownership percentages
- Banks invest directly or through syndicators

Subsidies and Layered Financing

- KHC Affordable Housing Trust Fund grants and loans
- CDBG and HOME loans
- Federal Home Loan Bank grants and loans
- Tax-exempt bonds
- HOPE VI Mixed Finance loans from PHAs
- HUD 221(d)(4) insured loans
- HUD 202 capital advances for senior housing

Analysis of Historic and Low Income Tax Credits

DEVELOPMENT BUDGET

LAND COST	\$10,000
BUILDING SHELL	340,000
REHAB CONSTRUCTION COSTS	3,000,000
A & E	300,000
ENVIRONMENTAL, APPRAISAL	7,500
LOAN COSTS	39,508
CONSTRUCTION INTEREST	98,769
TITLE, SURVEY	10,000
LEGAL	30,000
WORKING CAPITAL	<u>15,000</u>
SUBTOTAL	3,850,776
DEVELOPMENT FEE	<u>385,078</u>
TOTAL	<u>\$4,235,854</u>

SOURCE OF FUNDS

LIMITED PARTNER	\$2,515,754
GENERAL PARTNER	100
FIRST MORTGAGE	1,435,000
HOME/AHTF	200,000
DEFERRED DEVELOPER FEE	<u>85,000</u>
TOTAL	<u>\$4,235,854</u>

BUILDING ANALYSIS

GROSS SQ.FT.	35,000
NET RENTABLE SQ.FT.	31,500
CONSTRUCTION COST/SQ.FT.	\$85.71
TOTAL COST/SQ.FT.	\$121.02
NUMBER OF UNITS	37
TOTAL COST/UNIT	\$114,483
AVG. RENT/MO/UNIT	\$625.00
AVG. SQ.FT./UNIT	851
RENT/SQ.FT./MO.	\$0.73
RENT/EXPENSE INCREASE	2%/4%
OPERATING EXPENSES/UNIT/YEAR	\$3,500
OCCUPANCY	95%
RESERVES/UNIT/YEAR	\$225

TAX CREDITS & DEPRECIATION

REHABILITATION CREDIT %	20%
HRTC AMOUNT	\$765,171
BASIS REDUCTION	\$768,171
LOW INC. QUALIFIED BASIS	3,072,683
LOW INCOME CREDIT %	9.00%
ANNUAL LOW INC. CREDIT	286,741
DEPRECIABLE BASIS	\$3,373,176
MACRS PERIOD	27.5
ANNUAL DEPRECIATION	\$122,661
MARGINAL TAX RATE	35%
CAPITAL GAINS RATE	35%

LOAN TERMS

RATE	7.00%
AMORT.	40
TERM (YEARS)	15
COVERAGE %	1.25

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Federal Reserve Bank of Cleveland Preserving Historic Buildings

Converting Community Liabilities into Assets

*Combining Federal, State and Local
Funding Sources to Adaptively
Re-Use a Local Landmark*

Holly B. Wiedemann



A U A S S O C I A T E S

About AU Associates, Inc.

- Founded in 1990
- **A**daptive re-**U**se, Urban Infill, Historic Preservation
- Over \$43.5 million developed since 1998
- Over \$18.9 million currently in process
- Recognized by over 20 State & National Awards
- Featured in multiple Local & National Publications including: *Residential Architect, Novogradac's Journal of Tax Credit Housing, The Tax Credit Advisor, and Affordable Housing Finance*



A U A S S O C I A T E S

Project Portfolio

Project	Type	Units	Year	Project Cost
Beattyville School Apartments	Senior affordable	18 units	2010	\$ 2,800,000
Glasgow Graded School Apts	Senior affordable	23 units	2010	\$ 3,600,000
Oliver School Apartments	Family affordable/community center	11 units	2009	\$ 1,700,000
First Presbyterian Church Apts	Family affordable	10 units	2009	\$ 1,800,000
Harbor Hill	Special needs	34 units	2009	\$ 4,600,000
ARTEK Lofts	Market condos/commercial	38 units	2008	\$ 7,500,000
Liberty School Apartments	Senior affordable	20 units	2005	\$ 2,400,000
St. Francis (YMCA renovation)	Family mixed income/commercial	58 units	2003	\$ 15,000,000
Irvine School Apartments	Senior affordable	17 units	2001	\$ 1,800,000
Midway School Apartments	Senior mixed income	24 units	1998	\$ 2,300,000
Under Construction				
Buffalo School Apartments	Senior affordable	19 units	2011	\$2,800,000
Riverview at Clendenin School	Family affordable/medical office	18 units	2011	\$5,200,000
Parkside Apartments	Family affordable/commercial	36 units	2011	\$6,600,000
Edison School Apartments	Family affordable	26 units	2011	\$4,300,000



A U A S S O C I A T E S

Lenders/Investors and Funding Sources

Lenders/Investors

BB&T
Boston Financial / Lend Lease / MMA
Community Affordable Housing Equity Corporation
Central Bank
Citizens Commerce National Bank
Citizens Union Bank
City of Ashland
City of Lexington
Federal Home Loan Bank of Cincinnati
Federation of Appalachian Housing Enterprises, Inc.
First Federal Savings Bank
Housing Authority of Louisville
Kentucky Bank
Kentucky Heritage Council
Kentucky Housing Corporation
Louisville Downtown Housing Fund
National City Bank/PNC
Poca Valley Bank
US Bank

Funding Sources

Federal Historic Tax Credit
State Historic Tax Credit
Low Income Housing Tax Credit
New Markets Tax Credit
Community Development Block Grants
Affordable Housing Trust Fund
HOME
National Stabilization Program
TCAP/Exchange
Federal Home Loan Bank AHP Program
USDA/Rural Development



A U A S S O C I A T E S

Description of the Project

Once serving as the only place in the community where African-Americans received education at the secondary level, The Oliver School site provided educational opportunities from 1892 – 1956. The Oliver Street School building stood, at its construction, as a remarkably well-constructed edifice. As a result, it remains the most prominent feature of the local landscape within this important historical theme.



A U A S S O C I A T E S



 **OLIVER SCHOOL**

APARTMENTS

Originally Constructed 1926

Dedicated 2009

Development made possible by:

AU Associates, Inc.

Christ Temple Apostolic of Winchester, Inc.
Oliver Street Community Center Project, Inc.

Architect: Brandstetter Carroll, Inc.

Contractor: CFS Construction, Inc.

Financial assistance provided by:

Kentucky Bank

Branch Banking and Trust

Kentucky Housing Corporation

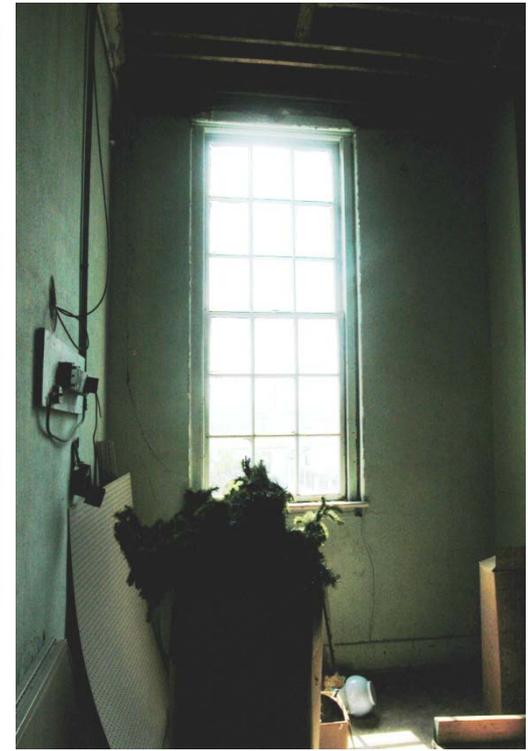
Kentucky Heritage Council

Dedicated to the vision of

Marine Sharp

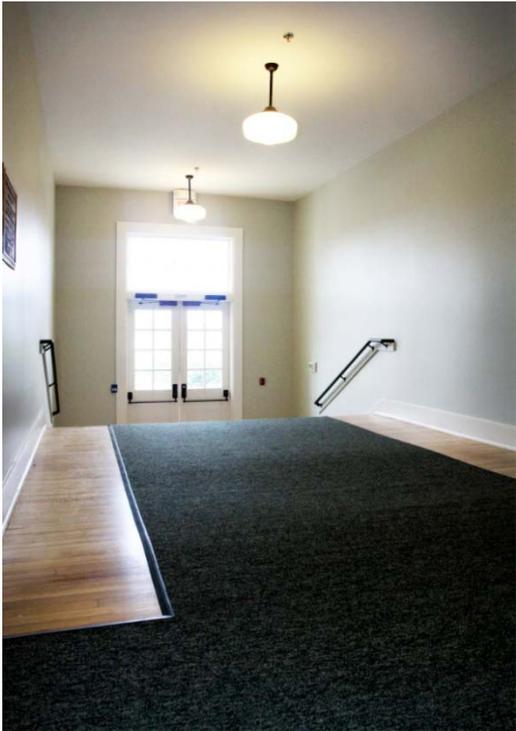
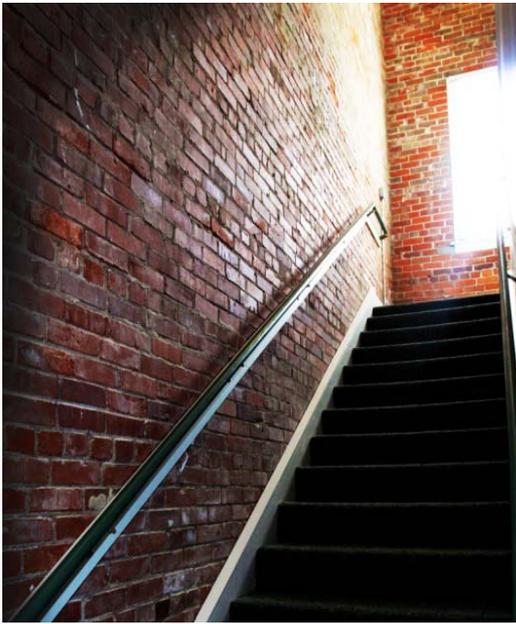
Founder and Pastor of Christ Temple
from 1986 - 2003





**1926
Oliver School**





 **OLIVER SCHOOL**
APARTMENTS



Supportive Service Agencies

Foothills Community Action Partnership

Independence Place

Bluegrass Regional Mental Health Retardation Board, Inc.

Bluegrass Community & Technical College

Victory Heights Center for Achievement

STRIDE (Supporting Therapeutic Recreation for Individuals with
Disabilities Everyday)

First Steps

Kentucky Virtual Adult Education

Kid's Karnival Afterschool Program

Christ Temple Apostolic



A U A S S O C I A T E S



OLIVER SCHOOL

APARTMENTS

- 20,000 Square feet
 - Built 1926
 - 11 large apartments:
 - 3 one bedroom
 - 5 two bedroom
 - 3 three bedroom
- Apartment amenities**
- Fully Equipped Kitchens
 - Traditional cabinetry
 - Self-cleaning electric range
 - Dishwasher
 - Frost Free Refrigerator
 - Washers & Dryers included in all units
 - Paddle fans in living areas
 - Handicap accessible
 - Abundant natural light
 - Individual climate control
 - Keyless electronic entry
 - Complete fire suppression system
 - Cable TV access
 - High-speed internet access
 - Cultured marble vanity tops
 - Designated storage area for each resident



A U A S S O C I A T E S

Income Limits and Rents

Family of 1 \$26,700

Family of 2 \$30,480

Family of 3 \$34,320

Family of 4 \$38,100

Family of 5 \$41,160

Family of 6 \$44,220

1 Bedroom \$400

2 Bedroom \$500

3 Bedroom \$600



A U A S S O C I A T E S

Project Financials

Uses:

Hard Construction Costs	\$1,565,226
Soft Costs (architect, legal, dev fees)	\$ 321,000
Permits, insurance, perm loan fees	\$ 94,707
Construction loan costs (interest and fees)	\$ 33,770
Reserves (lease up, operating, soft cost)	\$ 70,000
Total	\$2,084,703

Sources:

Federal LIHTC	\$1,549,654
Federal Historic Tax Credit	\$ 346,851
State Historic Tax Credit	\$ 85,098
Affordable Housing Trust Fund	\$ 100,000
General Partner Equity (SLP=\$3,000, \$100=GP)	\$ 3,100
Total	\$2,084,703



Prices for Credits

LIHTC	0.87
Federal Historic Tax Credit	0.92
State Historic Tax Credit	0.57
Combined Project IRR	8.43%
Annual Credit Amount	\$178,139
10 Year Total Credit Amount	\$1,781,390



Benefits for Bank Investment

1. Excellent Return
2. Community Reinvestment Act credits
3. Controlled risk (dependent upon developer, track record, credit history)
4. High Profile
5. Positive Community Impact
6. Provision of Affordable Housing
7. Historic Preservation
8. Local, State and National Name Recognition through successful project
9. Generation of future business across all levels
10. State historic tax credit utilization for state franchise tax



Project Timeline

March 2003	Contacted by State Heritage Council
June 2003	Met with Members of Christ Temple in Winchester and toured building
August 2003	Kentucky Housing Corporation focuses Qualified Allocation Plan on special needs, precluding submission of this project for funding
January 2005	Meeting with Christ Temple about project potential
2003 - July 2007	No funding available
August 2007	Meeting with Mayor of Winchester
December 2007	BB&T construction loan approval CUB Bank approval for state historic tax credit purchase Equity syndicator approval for LIHTC and federal historic purchase Purchase option with Christ Temple
January 2008	Submission of KHC funding application First conversation with Kentucky Bank representative

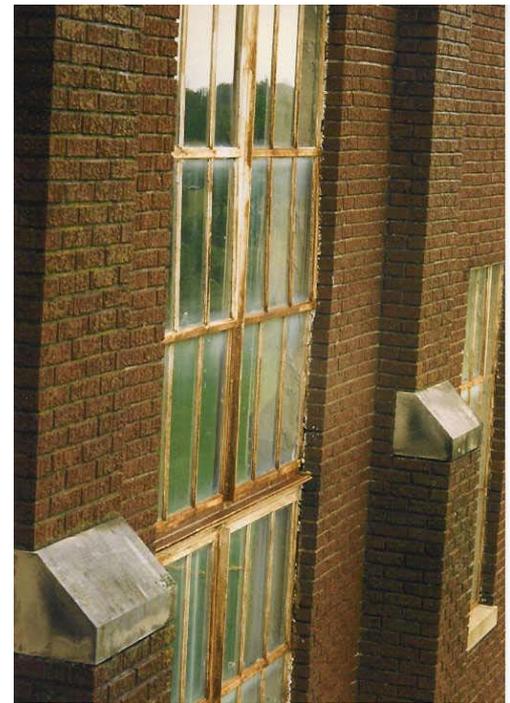


A U A S S O C I A T E S

Project Timeline (continued)

May 2008	Notification of funding award
June 2008	Equity commitment from Kentucky Bank to purchase all Federal and State Historic Tax Credits and LIHTC
July 2008	Neighborhood Meeting
August 2008	Board of Adjustment Hearings for Parking
September 2008	Technical Submissions to KHC due
December 2008	Construction Contract Signed
January 2009	Construction Begins
August 2009	Construction Completed
September 2009	Dedication Ceremony
October 2009	Lease up Completed





**1924
Midway School**





THE
MIDWAY
SCHOOL
APARTMENTS



1913 Former YMCA



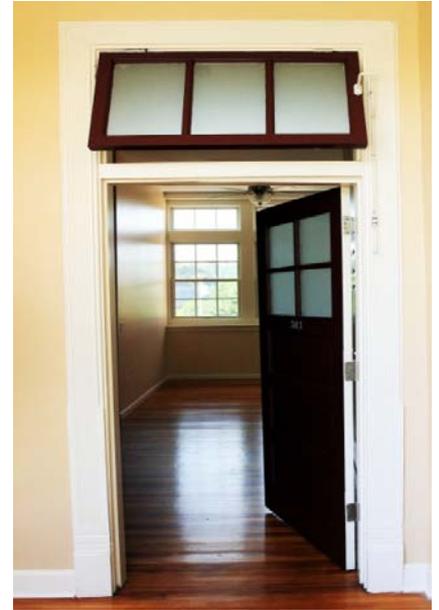
StF

THE St Francis APARTMENTS | COMMERCIAL





Beattyville School
1926



BEATTYVILLE
SCHOOL APARTMENTS





A U A S S O C I A T E S

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OLIVER SCHOOL PROJECT

2009



KENTUCKY BANK

- \$670 MILLION IN ASSETS
- 13 BRANCHES IN CENTRAL & EASTERN KENTUCKY
- STARTED IN 1851
- SEC REGISTERED COMPANY

MOTIVATION FOR PROJECT

- FINANCIAL
- COMMUNITY INVOLVEMENT

BENEFITS

- FINANCIAL
 - Federal historic tax credits
 - Federal low income tax credits
 - State historic tax credits, if applicable
- COMMUNITY (vacant school building to apartments)
- REGULATORY – CRA Credit

WHO TO TALK TO

- ACCOUNTANT, TAX PROFESSIONALS
- ATTORNEY
- DEVELOPER
- MANAGEMENT AGENT
- BANKERS WITH PREVIOUS EXPERIENCE
- CONSTRUCTION LENDING PERSONNEL, IF APPLICABLE

LESSONS LEARNED

- WORK WITH COMPANIES WITH A PROVEN TRACK RECORD
- DON'T BE AFRAID TO TALK WITH OTHERS TO GET A “WARM FUZZY” FEELING ABOUT THE PROJECT
- WE WILL DO ANOTHER PROJECT WITH THESE BENEFITS

CONTACT INFORMATION

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Wrap-Up

- Thanks to all
- For a copy of this presentation go to:
http://www.clevelandfed.org/Community_Development/events/Rural_Community_Webinars/ and
http://www.richmondfed.org/conferences_and_events/community_development/2010/fin_opps_rural_comm_webinar_preserving_housing_historic_bldg_20101116.cfm



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APPALACHIA FORUMS



THE FEDERAL RESERVE BANK OF RICHMOND
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FEDERAL
RESERVE
BANK
of ATLANTA

