HALL B2
9:15 AM
to
10:15 AM

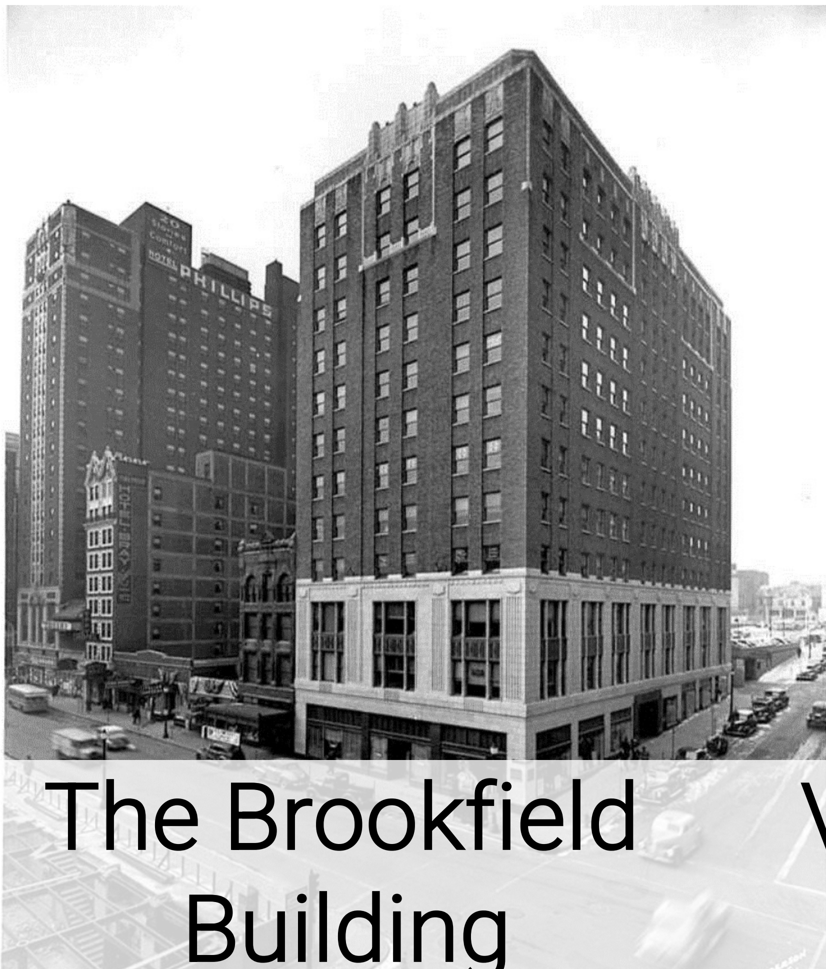
Behind the Scenes: Financing, Feasibility, and Site Selection for Transformative Community Projects

Behind the Scenes

How companies assess feasibility and make site selection decisions

Agenda

1



The Brookfield Building VS. The Manufacturer

2

Determining feasibility

VIDEO

The Brookfield Building

DETERMINING FEASIBILITY

Income Producing Properties - Brookfield Building

Step 1 Estimate required capital expenditures

Step 2 Project revenue and expenses

Step 3 Determine loan supported by project loan-to-value debt service coverage ratio

Step 4 Determine equity supported by local project required equity returns

Step 5 Compare project costs to estimates of debt and equity

DETERMINING FEASIBILITY

Income Producing Properties - Brookfield Building

Step 2 Project revenue and expenses

FORECASTED INCOME STATEMENTS - NO ABATEMENT

Revenues	3/1/2018	3/1/2019	3/1/2020	3/1/2021	3/1/2022	3/1/2023	3/1/2024	3/1/2025	3/1/2026	3/1/2027
Hotel revenue	2,830,500	3,537,900	3,608,658	3,680,831	3,754,448	3,829,537	3,906,127	3,984,250	4,063,935	4,145,214
Apartment revenue	478,928	556,392	567,520	578,870	590,448	602,257	614,302	626,588	639,120	651,902
Total revenues	3,309,428	4,094,292	4,176,178	4,259,701	4,344,895	4,431,793	4,520,429	4,610,838	4,703,055	4,797,116
Operating expenses										
Hotel room expenses	683,500	754,300	769,386	784,774	800,469	816,479	832,808	849,464	866,454	883,783
Hotel undistributed operating expenses	959,600	1,089,700	1,111,494	1,133,724	1,156,398	1,179,526	1,203,117	1,227,179	1,251,723	1,276,757
Apartment operating expenses	80,591	83,009	84,669	86,363	88,090	89,852	91,649	93,482	95,351	97,258
Real estate taxes	559,020	564,610	575,902	587,420	599,169	611,152	623,375	635,843	648,559	661,531
Management Fee	113,636	139,484	142,274	145,119	148,022	150,982	154,002	157,082	160,223	163,428
Insurance	22,600	24,800	25,296	25,802	26,318	26,844	27,381	27,929	28,487	29,057
Total operating expenses	2,418,947	2,655,903	2,709,021	2,763,201	2,818,466	2,874,835	2,932,332	2,990,978	3,050,798	3,111,814
Net operating income	890,481	1,438,389	1,467,157	1,496,500	1,526,430	1,556,959	1,588,098	1,619,860	1,652,257	1,685,302

DETERMINING FEASIBILITY

Income Producing Properties – Calculating debt using LTV

Step 3

Determine loan supported by project loan-to-value debt service coverage ratio

Net Operating Income = Revenue – Expenses

Determine how much a property is worth using a Cap Rate

NOI/Cap Rate = Value or Price $1,450,000/7% = $20,714286

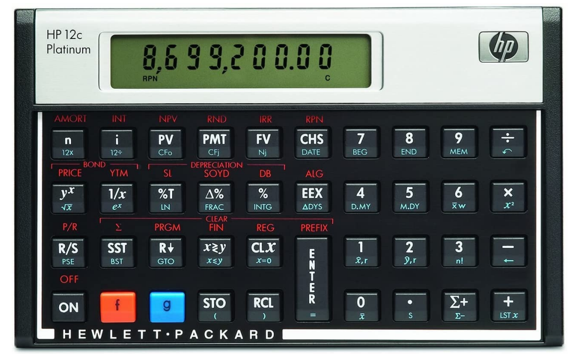
Calculate Debt using Loan-to-Value ratio
75% * $20,714,286 = $15,535,714

DETERMINING FEASIBILITY

Income Producing Properties – Calculating debt using DSCR

Step 3

Determine loan supported by project loan-to-value debt service coverage ratio



The **DSCR** or **debt service coverage ratio** is the relationship of a property's annual net operating income (NOI) to its annual loan payments.

NOI/DSCR = Income available for debt service = Payment
$1,450,000/1.25= $1,160,000
Amortization = 20 years
Rate = 5%
Max Loan DSCR = $14,456,164
Max Loan LTV = $15,535,714

DETERMINING FEASIBILITY

Income Producing Properties - Brookfield Building

Step 4

Determine equity supported by local project required equity returns

Cash flow available to equity = NOI – Debt Service and Replacement Reserves

Determine the required return on equity

Discount cash flows by the required return on equity to determine the amount of equity that the project will support

NPV of cash flow available to equity = equity that project will support

DETERMINING FEASIBILITY

Income Producing Properties - Brookfield Building

Step 5

Compare project costs to estimates of debt and equity

Uses	
Building/land acquisition	2,400,000
Environmental remediation	1,258,000
Construction Costs	17,485,000
Soft Costs	4,161,959
City fees, permits, engineering	100,000
Construction Interest and Fees	2,443,954
Legal and accounting	150,000
Insurance	180,000
Hotel furniture, fixtures and equipment	2,300,000
Franchise fee	75,000
Working capital	750,000
Project contingency	790,000
Total Uses:	**32,093,913**

Sources	
Bank debt	14,456,164
Equity	4,604,015
Total sources:	**19,060,179**

DETERMINING FEASIBILITY

Income Producing Properties - Brookfield Building

Step 1

Estimate required capital expenditures

Uses	
Building/land acquisition	2,400,000
Environmental remediation	1,258,000
Construction Costs	17,485,000
Soft Costs	4,161,959
City fees, permits, engineering	100,000
Construction Interest and Fees	2,443,954
Legal and accounting	150,000
Insurance	180,000
Hotel furniture, fixtures and equipment	2,300,000
Franchise fee	75,000
Working capital	750,000
Project contingency	790,000
Total Uses:	**32,093,913**

WHAT CAN YOUR COMMUNITY DO TO ENCOURAGE INVESTMENT

Income Producing Properties - Brookfield Building

1. **Understand the local financial resources in your community** and know how and when to use them – walk investors through the process

2. Know where the **federal financial tools** can be used in your community

3. Market your buildings and properties to developers and investors

4. **Understand the approval process for projects and become an expert in walking investors through it** – your reputation as a good place to work will spread quickly

Midwestern manufacturer with several facilities across the US.

Seeking a location for a new facility

800 jobs - $30 - $40 million investment

The Manufacturer

DETERMINING FEASIBILITY

Corporate Facilities - The Manufacturer

Step 1 Defining Requirements, developing site selection criteria, identifying primary search markets

Step 2 Develop a short list, location screening, desktop analysis, market research

Step 3 Request for information send to short list of 2 - 10

Step 4 Community visits, field interviews, qualitative assessment

Step 5 Incentives negotiation, financial model, business case development, real estate strategy

Defining Requirements, developing criteria, identifying primary search markets

bakertilly MUNICIPAL ADVISORS

Step 1

Human Resources	Infrastructure	Taxes/Business Climate	Living Conditions

• Language
• Workforce availability / skills
• Competition
• Salaries and benefits
• Labor relations
• Depth of talent pool
• Colleges / universities / training
• Scalability / sustainability
	• Utilities:
	  • Availability, costs, capacities, quality
	• Telecommunications capabilities, reliability and costs
	• Transportation access:
	  • Air, road, rail, waterway
		• Tax exposure
		• Abatements, credits, grants, and other incentives
		• VAT/Sales Tax
		• International tax structure
		• Business services
		• Pro-business attitude
		• Local leadership
		• Pioneering
			• Cost of living
			• Crime and safety
			• Education system
			• Housing
			• Culture and recreation
			• Healthcare
			• Climate

Sites and Buildings	**Risk**	**Regulatory Flexibility**	**Market Strategy**
• Appropriate real estate • Expansion capability • Infrastructure and services • Image and quality • Cost • Terms	• Political • Economic • Currency • Natural disaster • Intellectual property	• Environmental • Permitting • Labor regulations • Contract enforcement • Governmental corruption • Bureaucracy	• Cost structure / cost reduction opportunities • Customer/market access • Local innovation • Portfolio diversification • Time zone • Language skills

DETERMINING FEASIBILITY

Corporate Facilities - The Manufacturer

Step 2

Develop a short list, location screening, desktop analysis, market research

Boise
Wisconsin
Kansas City
Tulsa
Georgia
Nashville

DETERMINING FEASIBILITY

Corporate Facilities - The Manufacturer

Step 3

Request for information send to short list of 2 - 10

Requests for information about sites and incentives sent to state level economic developers in Kansas and Missouri

Evaluating real estate, quality of life, transportation, incentives, and tax structure

DETERMINING FEASIBILITY

Corporate Facilities - The Manufacturer

Step 4 Community visits, field interviews, qualitative assessment

Client visited multiple sites in each state

Consultant evaluated financial implications of federal, state, and local incentives and financing options

DETERMINING FEASIBILITY

Corporate Facilities - The Manufacturer

Step 5

Incentives negotiation, financial model, business case development, real estate strategy

Client found an existing building that met their needs and choose to pursue that building

Received a valuable incentive package but did not select the site that maximized incentives

WHAT CAN YOUR COMMUNITY DO TO ENCOURAGE INVESTMENT

Corporate Facilities - The Manufacturer

1. Understand the strengths of your community and how they align with different industries – this is worth studying
2. Network with and market to sectors that align with your communities strengths
3. Be organized and responsive. Businesses and site selectors like it when you make it easy for them.
4. Understand your state and local financial resources and how they are likely to be used. The more uncertainty you can remove from the proess, the better your chances.
5. Know where your best sites are and have information about the sites readily available.

3

State and Federal Incentives

American Rescue Plan (ARP) for the public sector

Fiscal Recovery Funds

$350 billion
of non-competitive funding for states, counties, cities, Tribes and territories. Of this funding:

$195.3 billion
to states and Washington, D.C.

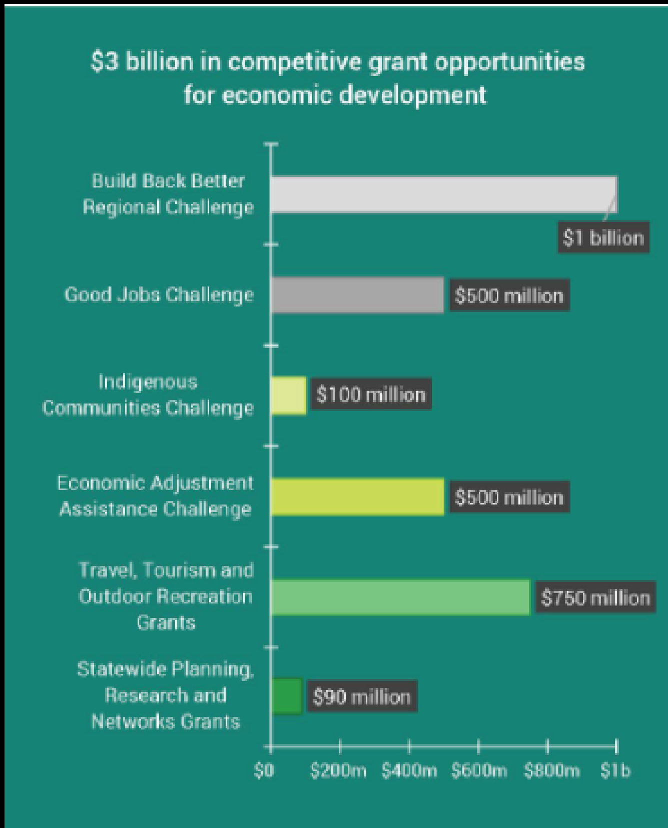
$130.2 billion
to local governments

$20 billion
to Tribal governments

Other provisions of the bill include:

Recovery $10 billion Coronavirus Capital Projects Fund	**Schools** nearly $170 billion	**Housing** $25 billion in emergency rental assistance
Small business $22 billion in EIDL and PPP	**Transportation and infrastructure** $58.2 billion	**Energy and water** $4.5 billion in household assistance
Restaurants and bars $25 billion	**Emergency Connectivity Fund** $7.6 billion for internet access for distance learning	**Public health** $72 billion for COVID-19 testing, contact tracing and vaccine distribution

EDA Grant Opportunities



Things to know:

Funding categories – the funding is divided into six categories with a separate notice of funding opportunity (NOFO) for each

Eligibility – due to the economic hardships caused by the pandemic, the EDA has issued blanket eligibility for this ARP funding, meaning any community in the country can apply. Municipalities, regional organizations, states, tribes and not-for-profits are eligible

Timing – the application deadline is not until March 2022, but the EDA is accepting applications on a rolling basis and recommends submitted applications as soon as possible for the highest likelihood of receiving funding

Local match commitment – EDA will fund up to 80% of project costs. At least 20% must come from a non-federal source

What you need to apply – EDA applications require several federal forms, a match commitment statement from the local government, beneficiary letters, a detailed narrative, a budget, and projects involving construction require a preliminary engineering report and environmental narrative

ARP USAGE OF FUNDS

ARPA Eligible Uses

- Support public health expenditures
- Address negative economic impacts caused by the public health emergency
- Replace lost public sector revenue
- Provide premium pay for essential workers
- Invest in water, sewer, and broadband infrastructure

New Markets Tax Credits (NMTC)

Program overview

– Created in 2000 to encourage investment in eligible low-income communities

– Investors (receiving benefit of federal tax credit) provide low-interest loans to businesses

Eligibility

– Location

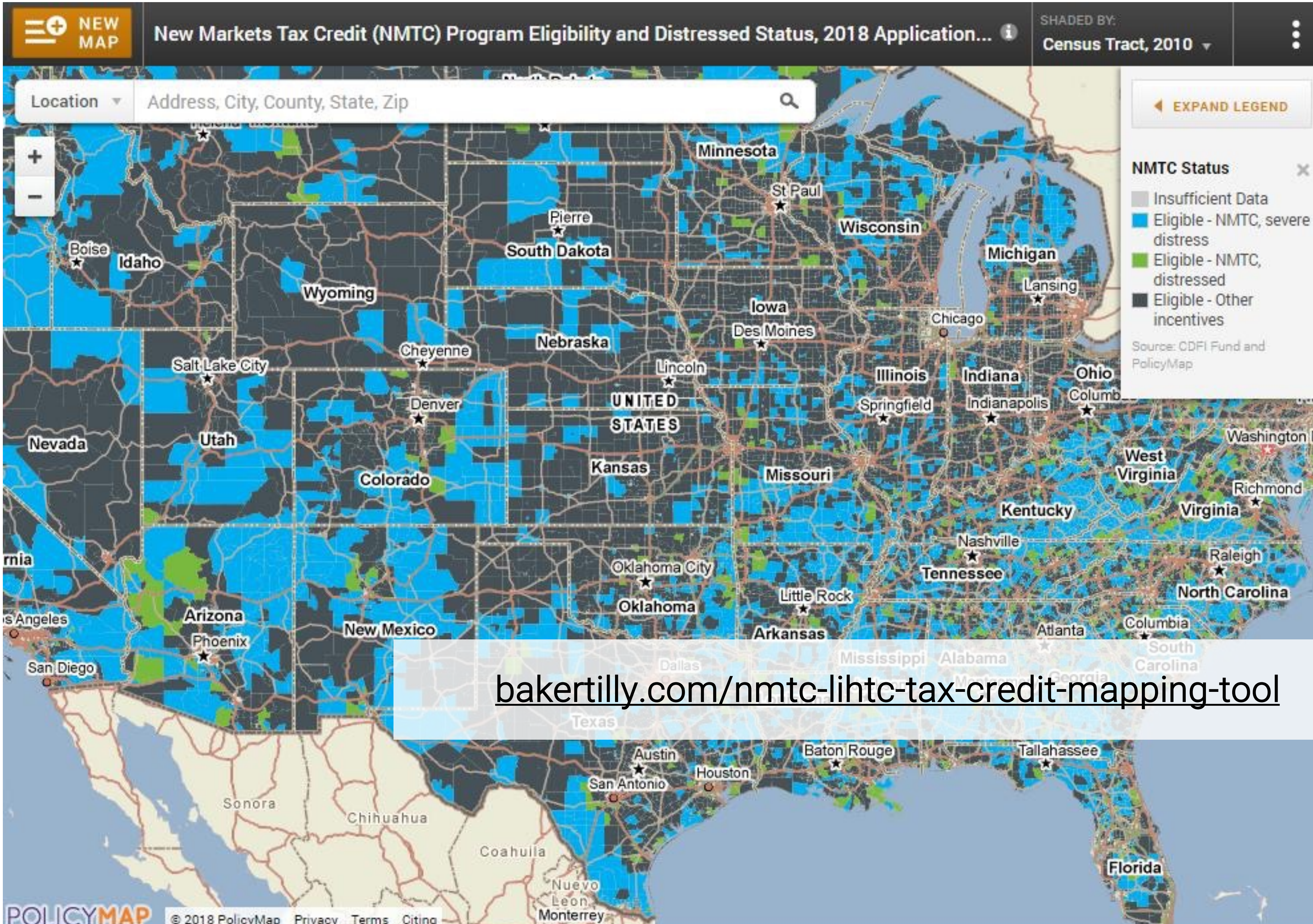
– Community benefit through job creation or retention, community services, environmental sustainability, etc.

THE MATH (ESTIMATED)

How it works

NMTC allocation	$10,000,000
NMTC rate	39%
Tax credits	$3,900,000
Investor discounts and costs	55%
Net NMTC cash to the project	**$2,145,000**

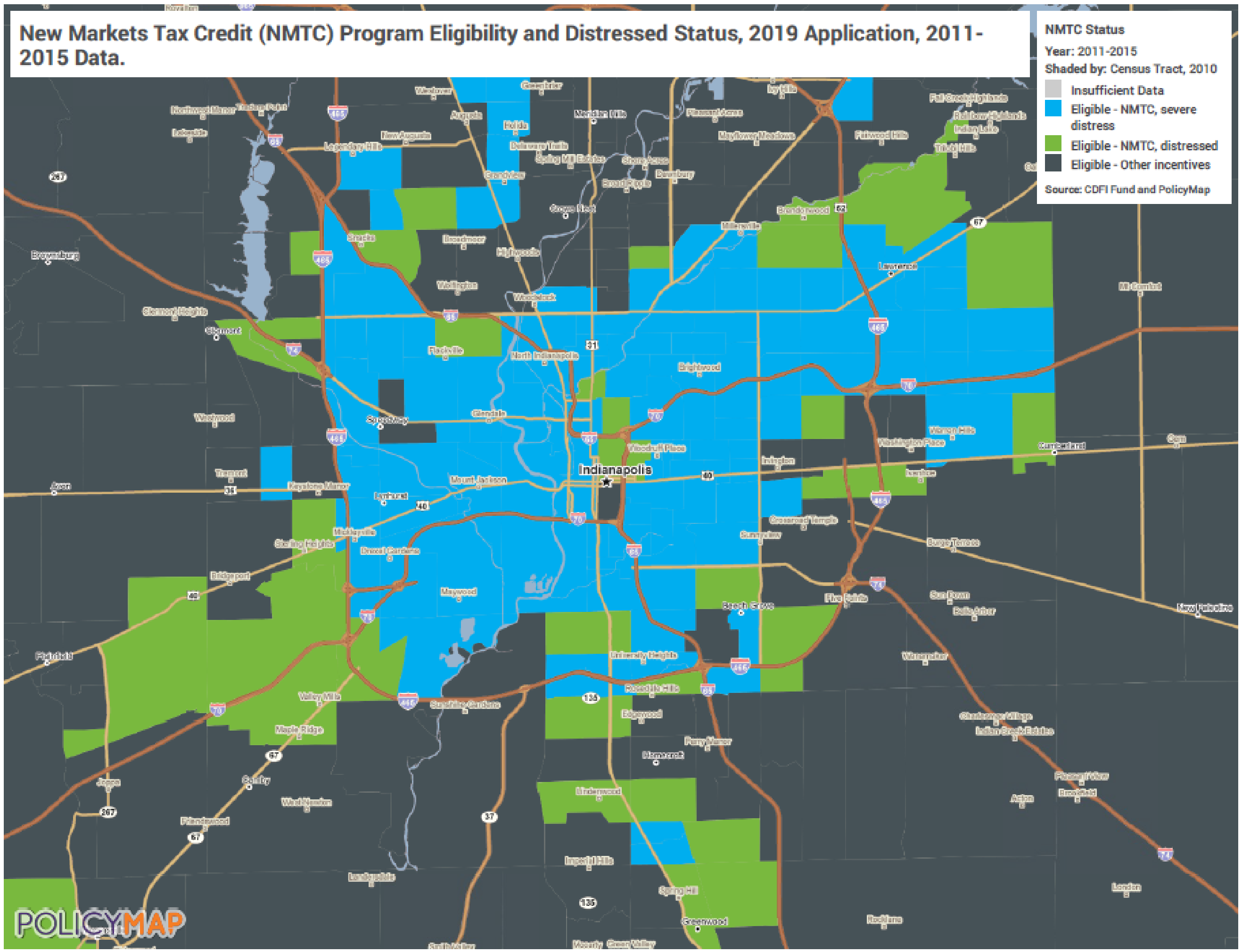
Important: an allocation does not equal cash



bakertilly.com/nmtc-lihtc-tax-credit-mapping-tool

ELIGIBLE AREAS

Indiana– NMTC eligibility



Find eligible areas at bakertilly.com/nmtc-lihtc-tax-credit-mapping-tool

Opportunity Zones

A powerful new tax incentive for real estate investors, venture capital, private wealth, family offices and private equity

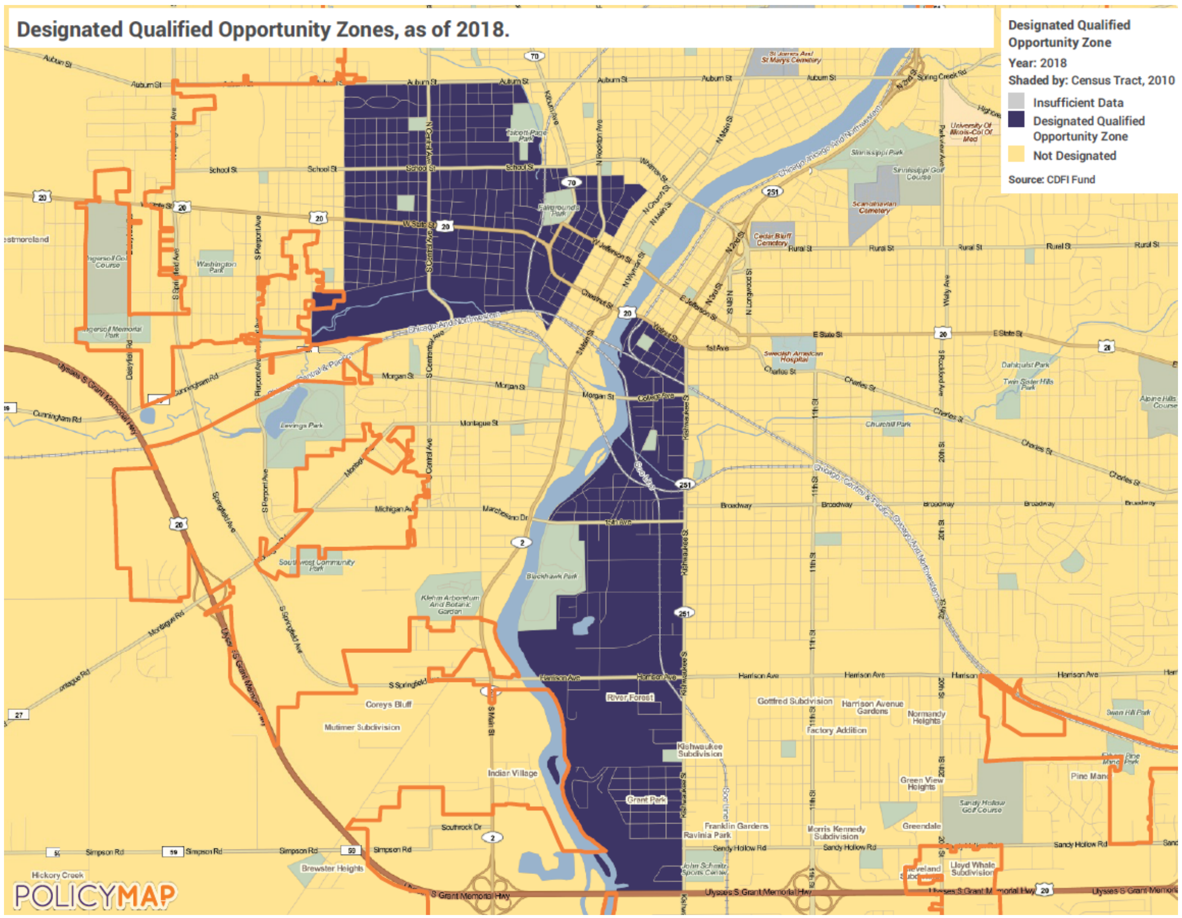
OPPORTUNITY ZONES

Overview

- Established by the Tax Cuts and Jobs Act of 2017
- Incentive to stimulate significant economic development
- Encourages investments in certain low-income communities
  - States designate QOZs
- Potential to defer and permanently reduce capital gain
  - Deferral and reduction of gain, NOT a credit or deduction
- Requires reinvestment of the capital gain into Qualified Opportunity Fund (QOF)
  - Similar to 1031 gain but gain does not have to come from a real estate investment

OPPORTUNITY ZONES

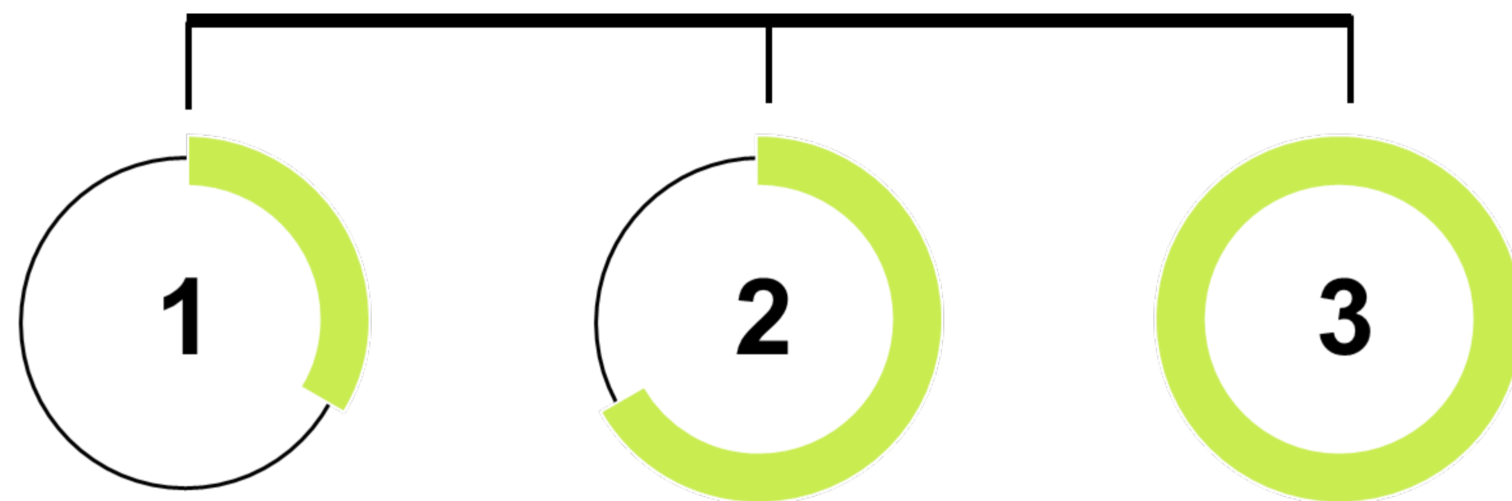
Baker Tilly's mapping tool



Find eligible areas at bakertilly.com/opportunityzones

OPPORTUNITY ZONES

What are the tax incentives for investment in a QOZ?



Defer capital gain

Partial forgiveness of capital gain

Total forgiveness of tax on appreciation

OPPORTUNITY ZONES

Benefits of the OZ

- **Deferral**: The original gain invested is taxable only when the investment in the Opportunity Fund is sold or Dec. 31, 2026, whichever occurs first.
- **Partial forgiveness**: If the OZ investment is held five years, the original gain is discounted 10 percent (15 percent if held more than seven years). Investment must be made by Dec. 31, 2019, in order to qualify for 15 percent discount.
- **Tax-free appreciation**: If the Opportunity Fund investment is held for more than 10 years, the tax basis of the OZ investment steps up to its fair market value upon sale.
  - This is upon an election made by the investor on their tax return covering the period of sale, if the investment's value appreciated. If the value decreased, the election would not be made.

In effect, appreciation on the investment, but not the original deferred gain, is eliminated permanently. Depreciation losses should be a permanent benefit with a 10-year hold. We are awaiting IRS confirmation of this significant tax benefit.

Historic Tax Credits

HISTORIC TAX CREDITS

Program overview

- Federal community revitalization program to preserve historic buildings, stimulate private investment, create jobs, and revitalize communities
- Administered by the National Park Service and the Internal Revenue Service in partnership with State Historic Preservation offices
- Abandoned or underused buildings have been restored to life in a manner that maintains their historic character

Eligibility

- Rehabilitation must be substantial and involve a depreciable building

Funding

- 20% tax credit for certified rehabilitation of certified historic structures – national register or historic district
- State programs also available up to 25%

4

Local Incentives

Local Incentives

Structures

- TIF and Property Tax Abatements are the predominant financial tools for economic development at the local level

Tax Reform

- Before tax reform, TIF investments and other government grants could be made to corporations and the recipient would not have an immediate tax liability
- The new legislation partially repeals Section 118 effective upon enactment (Dec. 22, 2017). Now, grant proceeds from governmental entities or civic groups are taxable upon receipt.

6

Q&A