

# NH&RA NEW MARKETS TAX CREDIT SYMPOSIUM

Closing Transactions in Today's Financial Environment  
Case Study: Argonaut Building, Detroit Michigan

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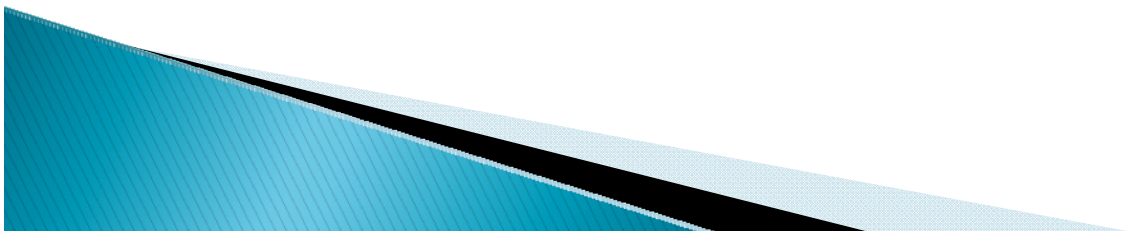
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# Argonaut Building Overview of Project

## A. Development Background

- i. **Sponsor = College for Creative Studies (CCS)**
  1. **Non-profit college**
  2. **Recognized internationally in automotive design**
  3. **Places more graduates in automotive design than any other school**



# Argonaut Building

## Overview of Project *(continued)*

### A. Development Background (continued)

#### i. Argonaut Building

1. Former design headquarters for General Motors
2. 760,000 sq ft building donated to CCS by General Motors
3. \$145 million project
4. End use: Center for design education–6th grade through graduate school
5. Primary tenants
  - CCS
    - ✓ Home to all of CCS's designed based majors
    - ✓ 300 beds of student housing
  - Art and design based charter middle and high school



# Argonaut Building Then and Now





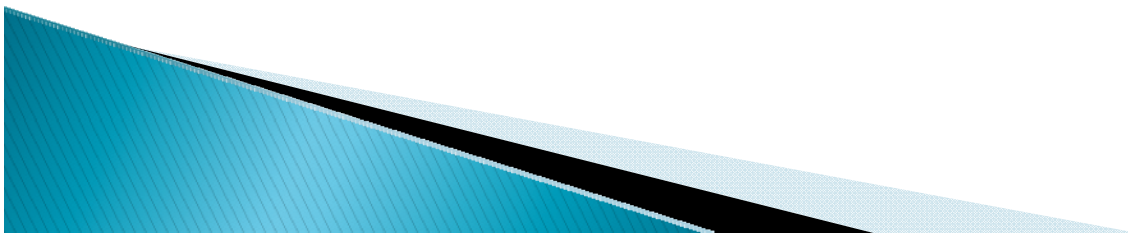
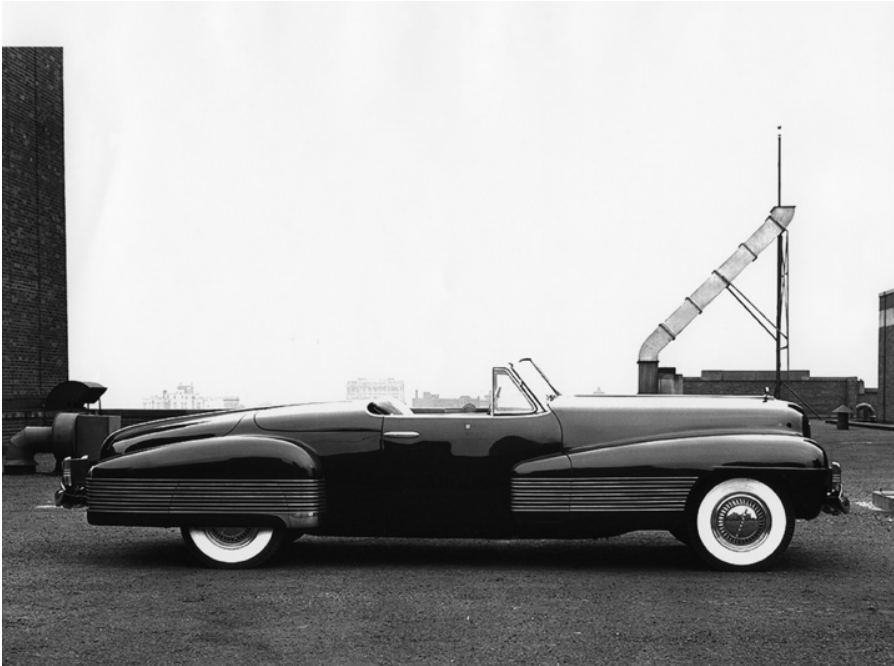
# Argonaut Building Exterior Close Up – Before and After



# Argonaut Building Historical Photo – GM Design Work



# Argonaut Building Historical Photos from Roof





# Argonaut Building Before Parking Deck Demo





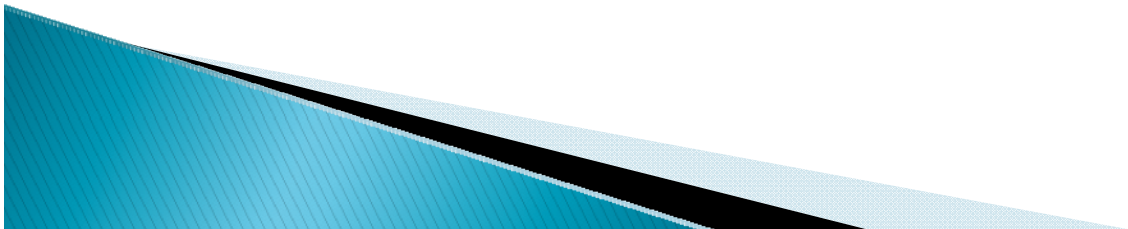
# Argonaut Building Parking Deck Demo



# Argonaut Building New Gym and Parking Deck



# Argonaut Building Historical Photo – 11<sup>th</sup> Floor





# Argonaut Building Current Photo - 11<sup>th</sup> Floor

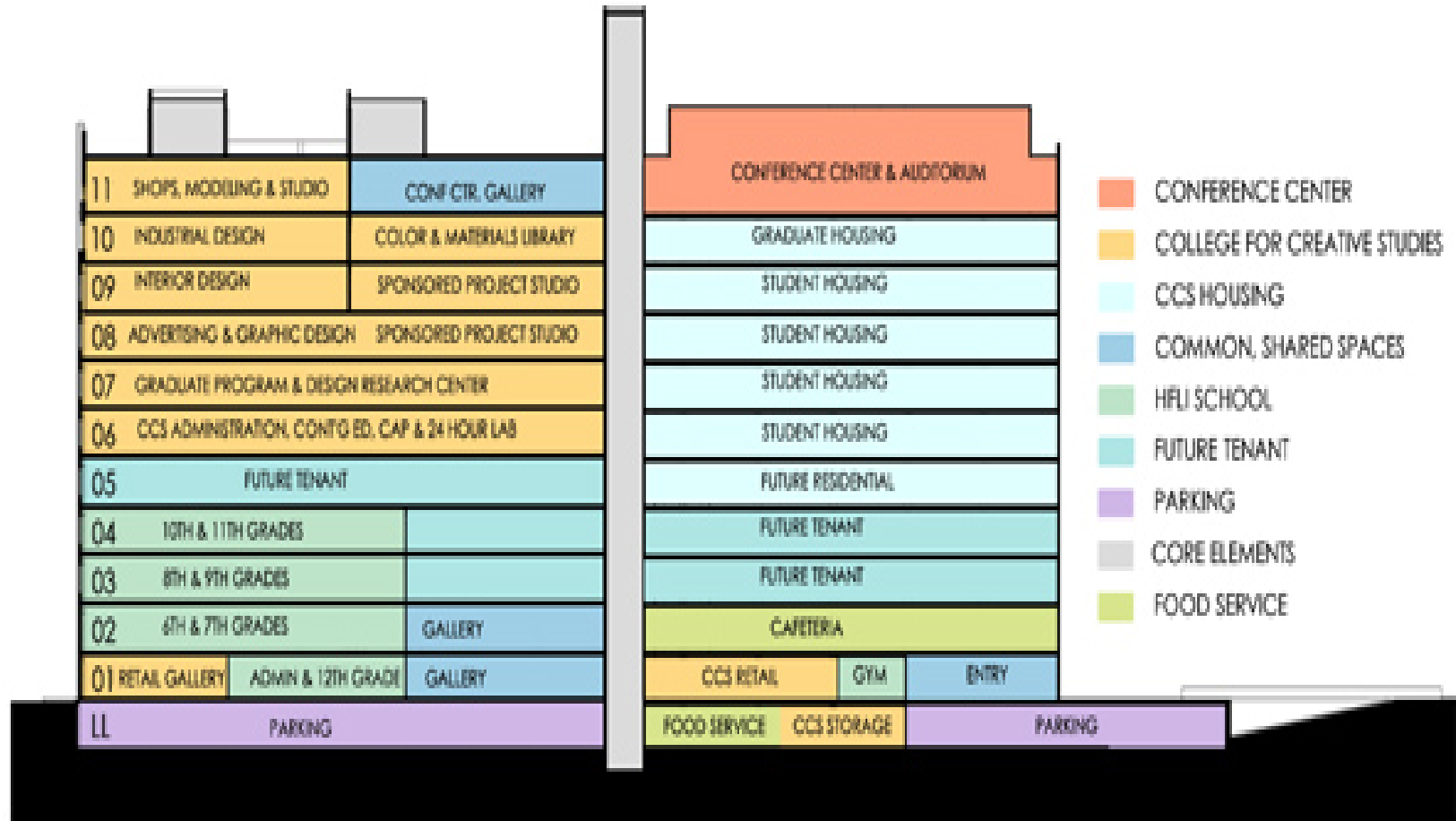


# Argonaut Building Artist Rendering – 11<sup>th</sup> Floor



# Argonaut Building

## Floor by Floor Uses of Building



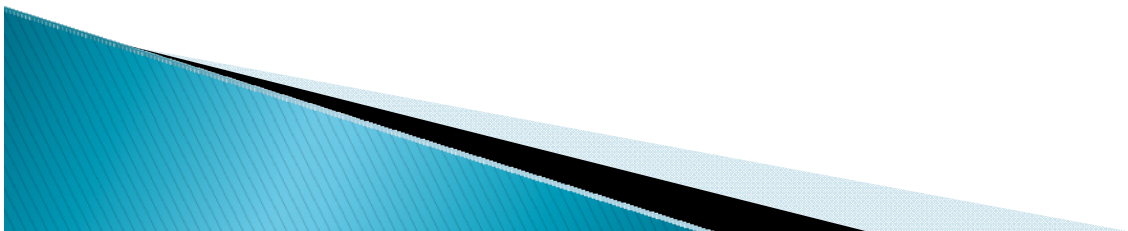


# Argonaut Building

## Overview of Project *(continued)*

### **B. Incentives**

- i. New Markets Tax Credits – 6 CDEs = \$69 million allocation**
  - 1. September 2008 closing – 4 CDEs = \$51.5 million allocation**
  - 2. March 2009 closing – added 2 CDEs = \$17.5 million allocation**
  
- ii. Historic tax credits – Federal (20%) and state (5%)**
  
- iii. State Brownfield tax credits**
  
- iv. TIF**



# Argonaut Building

## Overview of Project *(continued)*

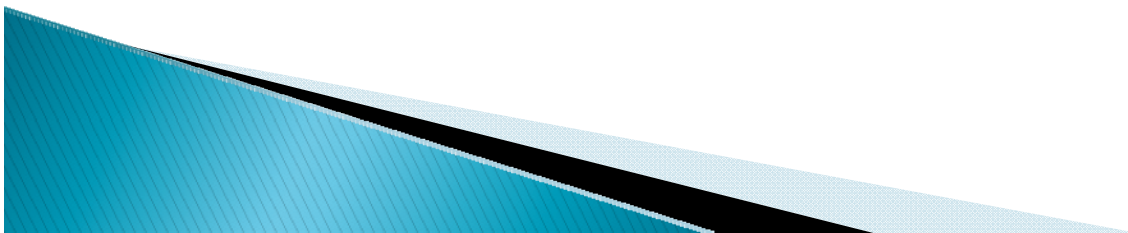
### **c. Structure (see organization chart)**

#### **i. NMTC**

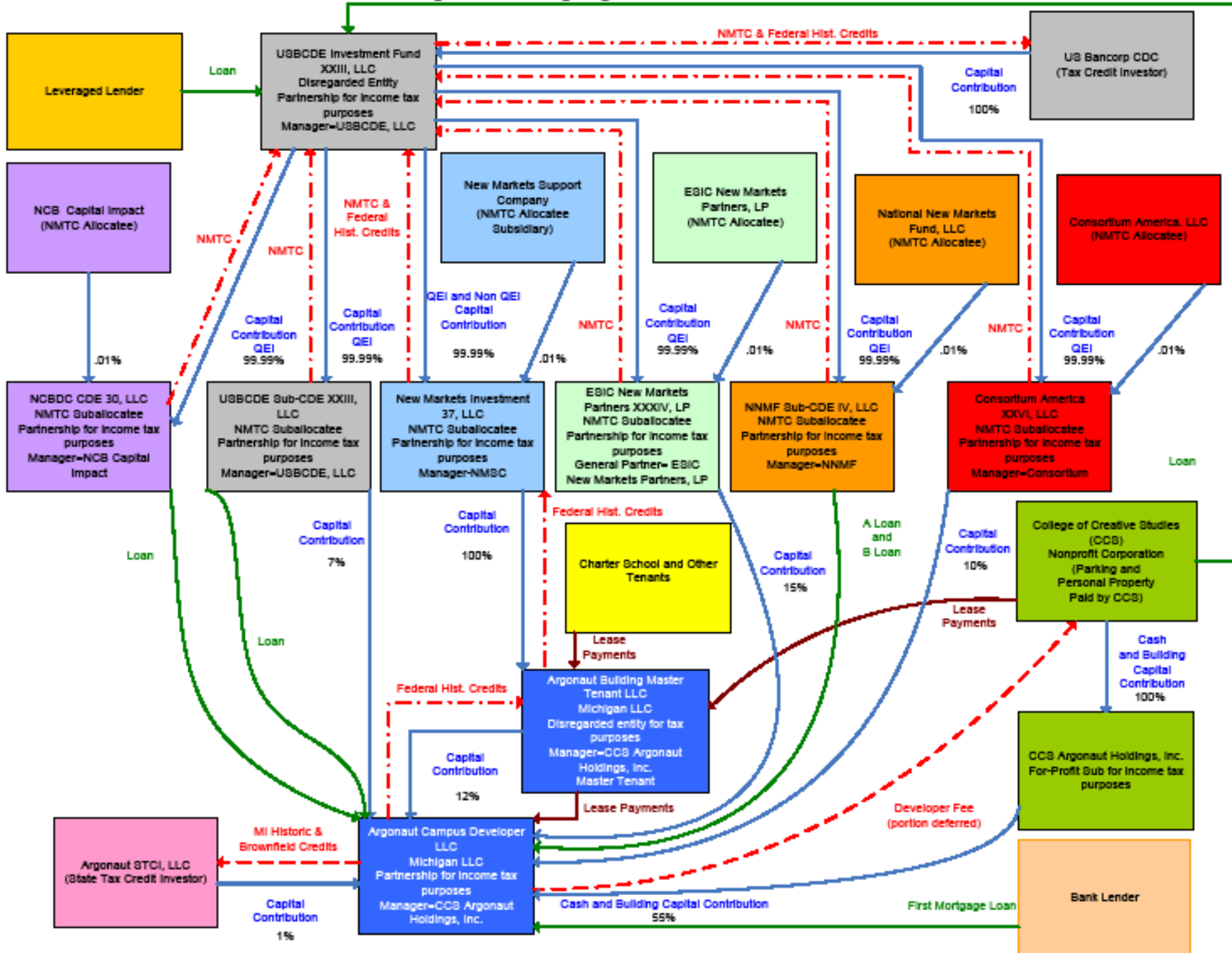
- 1. Leveraged structure with one investment fund**
- 2. Equity provided to QALICB by 4 CDEs**

#### **ii. HTC - Master lease pass through**

#### **iii. State credits - Tax deferred equity**



## Argonaut Building Organizational Flowchart





# TRENDS PREVALENT IN TODAY'S NMTC TRANSACTIONS *(continued)*

## A. **Developer without tax credit experience**

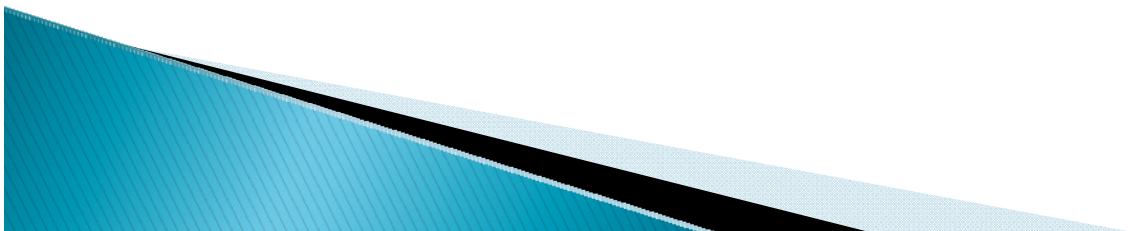
- i. **Issue = Developer needs to utilize tax credits for the project to be viable, but does not have tax credit experience**
  
- ii. **Solutions = Organize a team early in the process and address transaction structuring issues early**
  1. **Team members**
    - a. **QALICB – Need to identify tax credit project leader**
    - b. **Accountant**
    - c. **Attorney**
    - d. **Investor**
    - e. **CDE(s)**



# TRENDS PREVALENT IN TODAY'S NMTC TRANSACTIONS *(continued)*

## A. Developer without tax credit experience (continued)

2. Transaction structuring to be addressed early
  - a. Integrating multiple CDEs into the structure
  - b. Layering NMTCs with other incentives (e.g., historic tax credits, state tax credits, etc.,)
  - c. Address potential tax exempt use issues
  - d. CDE compliance with allocation agreement
  - e. Non-qualified financial property restriction
  - f. Create organization chart



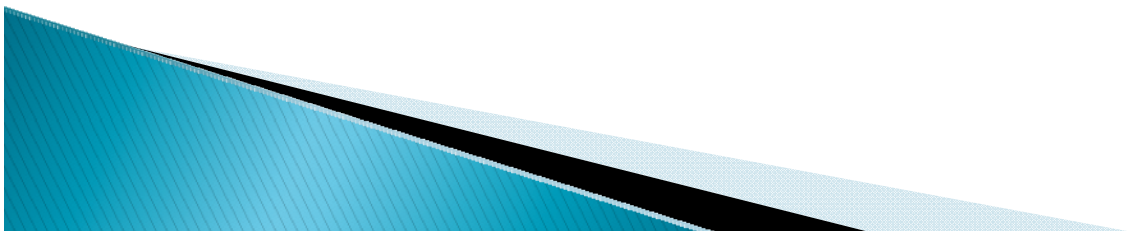
# TRENDS PREVALENT IN TODAY'S NMTC TRANSACTIONS *(continued)*

## B. Using NMTCs to help solve financing challenges

I. Issue = Project needs NMTCs to move forward

### II. Solutions

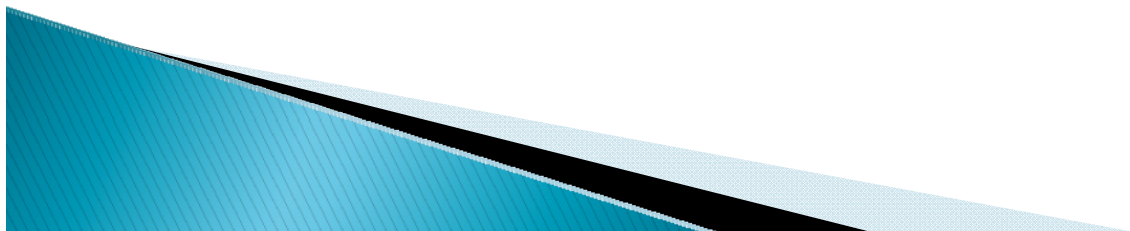
1. Identify gap
2. Determine the amount of allocation required
3. Limits on sources that can be leveraged?
4. Find CDEs and investors



# TRENDS PREVALENT IN TODAY'S NMTC TRANSACTIONS *(continued)*

## **c. Difficulty in obtaining financing**

- i. Issue = Low appraised value compared to project budget**
  
- ii. Solution = Shift in capital stack**
  - 1. Lower traditional bank debt – First mortgage < 10% of project budget**
  - 2. Layering of incentives**
  - 3. Maximize NMTC allocation**
  - 4. Gross subsidy from tax credits > 40% of project budget**





# TRENDS PREVALENT IN TODAY'S NMTC TRANSACTIONS *(continued)*

## **D. Difficulty in attracting leveraged lenders**

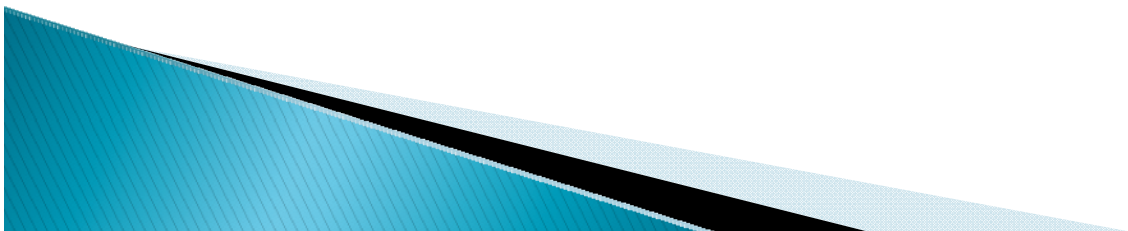
- i. Issue = Traditional bank lender not interested in functioning as leveraged lender
  
- ii. Solution = Identify creative sources of leverage
  1. Historic tax credit equity used as leveraged source in 3 CDEs
    - a. Complications in calculating preferred return
    - b. Complications related to HTC adjuster provisions
  2. Identify alternative leveraged lenders
    - a. Affiliate of charter school tenant
    - b. Sponsor (CCS)



# TRENDS PREVALENT IN TODAY'S NMTC TRANSACTIONS

## **E. CDE requirements to finance projects located in distressed areas**

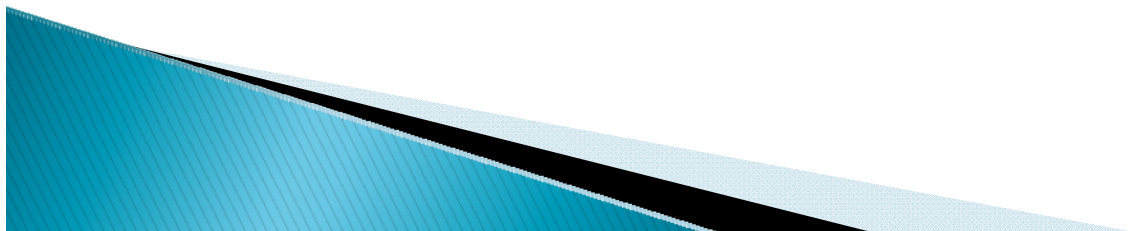
- i. Issue = Census tract not distressed based upon poverty rate (26.6%), median family income (62.5%) or unemployment rate.**
  
- ii. Solution = Meet two distress criteria listed in allocation agreement**
  - 1. Located in a federal Empowerment Zone**
  - 2. Located in a local TIF district**



# TRENDS PREVALENT IN TODAY'S NMTC TRANSACTIONS *(continued)*

## F. NMTC related party restriction

- i. Issue = How to structure the subsidy in the most tax efficient way for the QALICB (i.e., as equity) without violating the related party restriction?
  1. Detailed analysis of QALICB capital accounts is necessary whenever subsidy (HTC and/or NMTC) is provided to the QALICB in the form of equity
  2. Investor's capital account(s) cannot exceed 50% of QALICB's total capital
  3. Need to analyze capital accounts
    - a. During construction period
    - b. Throughout NMTC compliance period



# TRENDS PREVALENT IN TODAY'S NMTC TRANSACTIONS *(continued)*

## F. NMTC related party restriction (continued)

### ii. Solutions

1. Proceeds of bank bridge loan to non-profit sponsor (secured by pledges) were used to accelerate the managing member's capital contributions to QALICB
  2. Structure of state tax credits assignment
    - a. State credit investor will provide proceeds in the form of capital contributions
    - b. State credit investor is different than federal credit investor
  3. Defer contribution of subsidy to QALICB until one year after QEI
  4. Part of NMTC subsidy was provided to QALICB in the form of a "B" loan
  5. Managing member sharing ratio limited to 55%
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