

City of Keene
New Hampshire

AD-HOC COMPREHENSIVE ECONOMIC DEVELOPMENT
COMMITTEE MEETING MINUTES

Tuesday, April 16, 2019

1:00 PM

Conference Room 2nd Floor

Members Present:

Mitchell Greenwald, Chair
George Hansel, Councilor
George Foskett, BHG Masiello Real Estate
Joseph Walier, Walier Chevrolet
Elizabeth Dragon, City Manager
Timothy Murphy, SWRPC
Keith Thibault, SCS
Jack Dugan, MEDC
Jordan Benik, People's Linen
Dominic Perkins, Savings Bank of Walpole
Melinda Treadwell, President KSC
Kendall Lane, Mayor

Staff Present:

Med Kopczynski, Economic Development,
Initiatives, and Special Projects Director

Others:

Members Not Present:

Gary Lamoureux, Councilor
Rebecca Hamilton, Machina Arts
Chris McIntosh, Clark-Mortenson
Phil Suter, Chamber of Commerce
Bill Hutwelker, Swanzey Selectman

1. Call to Order- Roll Call

Chair Greenwald called the meeting to order at 1:00 PM and read the Committee Charge.

2. Introduction of Guest(s) and New Members

Chair Greenwald welcomed everyone and introductions were made.

3. Approval of Minutes- March 19, 2019

Councilor Hansel motioned to approve the minutes of March 19, 2019 as submitted. Mr. Walier seconded the motion which carried unanimously.

4. - Financial Resources- Available for existing or potential businesses Opportunity Zone, 79E, NMTC, CDBG

Chair Greenwald introduced the topic of discussion and turned the floor over to the first speaker, Jack Dugan.

a. Jack Dugan, MEDC- Programs available for small and large business, land development, building renovation, Opportunity Zone

Mr. Dugan distributed a handout titled “Funding Sources” to assist with his discussion. Mr. Dugan said there are a lot of funding sources out there. The trick is to figure out what uses to use them for and how to cobble them together. It is not uncommon to have a dozen different funding sources on a joint project. Mr. Dugan shared the example of an MEDC and SWCS joint project at the Beaver Mill.

Mr. Dugan began his discussion of the funding sources explaining despite all the public funding sources he will discuss it always starts with the bank loan which is the most important ingredient of the whole thing. MEDC fills gaps with the other funding sources to allow a project to proceed. Mr. Dugan explained the different types of loans a bank will make including Guarantee and SBA 504 to help a business grow.

Mr. Dugan addressed Tax Increment Financing (TIF) which is a public funding source that MEDC has used in partnership with the City of Keene and other municipalities. Mr. Dugan continued Tax Increment Financing is designed for a community to use designated taxes from a Revitalization Zone (TIF District) to build out infrastructure to support economic growth. We have taken it to a different level here in Keene on several projects where the City has loaned MEDC proceeds from Tax Increment Bonds. Examples are the new Court House and the Library project. Mr. Dugan noted you can get very creative on how the Tax Increment Financing can be used.

Mr. Dugan said Historic Tax Credits have tightened up in the last couple of years. There used to be two levels of tax credits 10 percent or 20 percent. With the 10 percent the building just had to be old and you did not need to completely demolish it; this has been done away with. The 20 percent credit requires a big project to qualify. He explained the property has to be placed on the National Historic Register which is a multi-part process (federal government and Department of Interior). This process includes them reviewing your plans for the renovation of the building for compliance.

Moving onto the NH Department of Environmental Services (NHDES) Mr. Dugan said they make loans to businesses and developers to help clean up their sites. Along with NHDES there are two other Regional Development Corporations, similar to MEDC. The Capital Regional Development Corporation (CRDC) and Regional Economic Development Corporation (REDC) in New Hampshire also provide Brownfields Revolving Loans to help businesses clean up contaminated sites. Mr. Dugan continued a little known funding source here in Keene/Monadnock Region is the Green Gap Fund. This is a group of private investors that have

pooled their funds and have an interest in helping businesses make their buildings and processes greener. Mr. Dugan noted this group stepped up in the Co-op project.

Mr. Dugan continued by saying we do a lot of business with USDA Rural Development (Page 3) and they have several different loan programs.

- Community Facilities Loan- This is where a not for profit can borrow money long-term; 30 to 40-year amortization with the current interest rate around 3 percent. MEDC borrowed 12 million dollars from them for a project in Lebanon. Mr. Dugan reiterated a not-for-profit has to own the building/occupy it, and/or lease it to a not-for-profit.
- Intermediary Relending Program – They loan Regional Development Corporations, like MEDC, slugs of money.

At this point there was an interruption in the discussion and Mr. Dugan took on questions before continuing his discussion.

Chair Greenwald referred to the Historic Tax Credits and asked if the property had to actually be accepted on the National Historic Registry (the whole process has to be completed). Mr. Dugan replied in the affirmative noting you start with the State Historic Preservation Office and they help you. They first look at your program and then they make a recommendation to the Parks Service that the project could be eligible for listing on the National Historic Register. The Parks Service then gives you a three-part application.

- Part 1- feds determine your eligibility
- Part 2- submit plans and they say they will list you
- Part 3- upon project completion you show them you built what you said you would and then you realize the tax credits.

Chair Greenwald then asked if there are consultants that will take you through this. Mr. Dugan replied in the affirmative noting sometime there is no rhyme or reason to what they do. He shared the windows at the Beaver Mill as an example. Mr. Thibault added the plans are scrutinized in Philadelphia and it can be grueling. Continuing Chair Greenwald asked if you receive a check. Mr. Dugan replied in the negative noting you actually have to bring in a partner and the tax credits are sold to the partner so to speak.

Mr. Walier referred to the NHDES and asked if the state had a big pile of money for clean-up; he added he was thinking about a property across the street from him. Mr. Walier continued someone is paying thousands of dollars a month for that; he also wondered if the City ever gets money for that. Mr. Dugan commented you would first have to identify the problem and then go see Mr. Murphy and his organization. If you are a for-profit business you are pretty much limited to borrowing funds from NHDES, CRDC, or REDC for clean-up; CDFA also loans money. As a not-for-profit or public body you are eligible for grant funding which usually comes in rounds for which you have to apply. NHDES can supply a list of where to borrow money.

Mr. Kopczyński referred to the Library project noting we were not successful with the Historic Tax Credits. Mr. Dugan affirmed. He suggested Mr. Dugan explain why as it might be helpful. Mr. Dugan said that was frustrating as he believes the Preservation Office and LCHIP wanted to help but they had two issues: 1. they did not feel the Connector represented the building well,

and 2. once we decided to build the Connector they had to step back and not just look at the Heberton Hall building but they had to look at the entire Library complex. Going back in time they found the Library had been renovated several times not to the standards of the Department of the Interior so it threw the whole project out the window.

As the guest speakers had arrived Chair Greenwald asked them to introduce themselves. Dick Jennings, Director of Mascoma Community Development who also runs the bank's Community Development Lending Team introduced himself. Mr. Jennings explained their primary function is to function as a Community Development Entity (CDE) which he will discuss later. Mr. John Hamilton, of the New Hampshire Community Loan fund introduced himself noting he is responsible the outside of Mr. Jennings across all of their programs including affordable housing, childcare, and businesses. Mr. Hamilton continued with the businesses we not only make loans but do investing.

At this point Mr. Dugan restarted his discussion beginning on the second page of the handout with the NH Business Finance Authority. Mr. Dugan continued they have more programs than he has listed and MEDC does use many of them.

- Aid to Local Development Organizations- this is a program where they loan money to MEDC and other organizations and we re-loan it out to other businesses.
- Tax Exempt Bonds- MEDC has used this for the Precitech at Black Brook Building at Black Brook. They also provide private businesses things like a working capital line of credit guarantee. They also have an arrangement with several banks where they pool money in a risk like pool from which they make loans.

Mr. Dugan continued with the New Hampshire Community Development Finance Authority who MEDC deals with frequently because they have several programs MEDC taps into such as:

- Community Development Investment Program- a state tax credit program. They provide funding to what they consider to be important public projects throughout the region. Applications are in now for the next round. Mr. Dugan provided examples of success locally with this such as the Woolworth block and the Food Co-op. You then have to find someone to buy the tax credits like Mascoma, C&S, and the National Grange. Other regions of the state have not been as fortunate as Keene.
- Community Development Block Grant (CDBG)- is used in two ways by MEDC. For every \$20,000 a company pledges to create over an 18 to 24-month period we can get \$20,000 in grant funds up to a maximum of \$500,000 every year. MEDC either invests the grant funds as equity in a real estate development project or MEDC makes a subordinate directly to a business behind their bank financing. The Food Co-op expansion is an example of MEDC using those funds in two different ways. The tax credits have to be sponsored by a governmental agency. Each city or county is eligible to apply for up to \$500,000 every year. Mr. Dugan said of the 3.5 million dollars they set aside this year we expect to use about 2.5 million of that this year.
- Energy Efficiency Loans- CDFA also makes energy efficiency loans. With their program they do an energy audit on your business, determine how much you can save with the purchase of new equipment or make efficiencies to your building. They will then loan you the money and negotiate the terms of the interest rate so that the repayment will be equal or less as to the savings defined by their energy audit.
- Pre-development Loans- this is something new at the Finance Authority – MEDC is

using this for the Arts and Culture Corridor downtown.

- Opportunity Zone Funds – this is relatively new with only one eligible census tract in this area that allow Opportunity Zone funds to be invested. If someone has a significant capital gain liability they can self-certify themselves as an Opportunity Zone Fund. They can collect to invest the funds that are the subject of the capital gain into either an operating entity or a real estate development project, in that qualified census tract. They are essentially delaying the payment of their capital gains tax for seven to 10-years. If they stay the 10-year term it is an elimination of the capital gains tax. Also if they stay the 10-year term any gain realized from the new investment is not subject to capital gain.

Mayor Lane asked if a third-party could invest in this to defer their capital gains. Mr. Dugan replied in the affirmative and provided an example of how MEDC plans to use this relative to the Arts and Culture Corridor.

At this point Mr. Dugan returned to Page 3 of his handout and continued with Intermediary Relending Program. He explained we come up with \$125,000, USDA lends us \$500,000 so we create a \$625,000 pool that we loan out to small businesses. Mr. Dugan continued we generally do not make more than a \$125,000 loan from this fund but we have made loans as small as seven or eight thousand dollars to help small businesses. Continuing Mr. Dugan said every once in a while they do have a round of Rural Business Development grant opportunities in the \$30,000 to \$40,000 range for public purpose projects. The Business and Industry Loan Guarantee is where they work with banks which is kind of like SBA's 7(a) Guarantee program.

Another little known funding source for potential small public purpose projects Mr. Dugan noted is the Keene Downtown Housing Corporation. Mr. Dugan explained they fly way under the radar and have stepped up for us; and we do pay them back. Their primary focus is downtown Keene.

Referring to the NH Community Loan Fund and New Markets Tax Credits Mr. Dugan said they are incredibly important to the whole funding source picture. Without the Community Loan Fund there would not be a Railroad land development; they loaned us over a million dollars when nobody else would. Mr. Dugan said in MEDC's opinion Mascoma is the leading CD in the region and they have invested in a number of our projects. As this concluded Mr. Dugan's discussion he asked if there were any additional questions.

Chair Greenwald commented he finds this list incredibly flexible and confusing. Mr. Dugan concurred reiterating the secret is to know which ones apply and then how to introduce others if one is not enough.

Mr. Walier asked if a for-profit group came to Keene would they go to MEDC or the bank first, and how do people get to know about this. Mr. Dugan recommended going to the bank first so MEDC knows what kind of gaps they can fill. Mr. Murphy asked if MEDC has the links to these programs on its website. Mr. Dugan replied he does not think so. Mr. Kopczynski outlined what he does and agreed with the comments made. Councilor Hansel commented almost everyone that has tried to do something recently, in Keene, has ended up at MEDC. Mr. Dugan explained

how MEDC filled the gap for 603 Optics and noted the importance of keeping the working capital working rather than putting it into a piece of equipment.

Mr. Foskett asked where the Opportunity Zone began. Mr. Kopczynski replied it is on the other side of Gilbo Avenue south towards lower Main Street. Mr. Perkins noted there are links on the Mascoma website to both the Opportunity Zone and New Markets qualifying census tracts.

b. Dominic Perkins, Savings Bank of Walpole- Retail banking

Mr. Perkins said he is Head of the Retail Department at the Bank so he looks at the deposit side for their customers. He continued right now it is a very competitive on the loan side and even on the deposit side. This makes for free or low-cost deposits when businesses are coming in. If businesses are paying anything for fees right now they should reevaluate because they can find low-costs elsewhere. Mr. Perkins said Mascoma has diversified a little more in the past couple of years because of the things they have done with creating escarole agreements with other businesses around here. We have done some with the Food Co-op to help them finance some of their refrigeration systems. We also helped Hillside Village with all their deposits and escaroles on their units which is something we had not done before. Mr. Perkins continued on the loan side the Retail Department is currently taking what the Commercial Lending side cannot take at this time.

c. Dick Jennings, Mascoma Bank/Mascoma Community Development, NMTC

Mr. Jennings distributed copies of his 28-page presentation on New Market Tax Credits (NMTC) and Community Development Entities. Due to the time he noted he would only touch on a few items. Mr. Jennings said the NMTC is a very powerful program that was established in 2000 as part of the Community Renewal Tax Relief Act. The goal is to spur development and revitalization efforts in low income communities. The program provides a 39 percent tax credit, spread over seven years to a project investor, based on total project investment or cost. The program is administered by the US Treasury Departments CDFI Fund division and is competitively awarded. One of the most important criteria in determining eligibility is based on the census tract. Mr. Jennings referred to Page 4 and the Mascoma link for community development and map-my-project as a tool to determine if your project meets the qualifying census tract. He also noted the importance of it being severely distressed. Mr. Jennings said the things that make a good project are “high impact”; job creation, sustainability, etcetera.

Turning to Page 6 Mr. Jennings noted these are the calculations that are the basis for what is called the New Market Leverage Structure. This is a 10,000,000 project with a 39 percent credit to the investor, and there is a market price (today it is eighty cents). On the bottom right of the page it shows the tax credits generated by the project of \$2,300,000. This is the money the project does not have to come up with from other sources. Page 7 is a flow-chart of the NMTC Leveraged Deal Structure. It combines sources of capital and is very complex; the flow-chart depicts a base transaction. Mr. Jennings continued we work with a lot of professional advisors so we bring so we bring to bear a lot of experts in the transactions. We apply every year to the CDFI Fund of the Treasury for New Markets.

Mr. Jennings referred to Page 12, the last bullet, where it states I 2017 the CDFI Fund received 230 applications requesting a total of \$16.2 billion in allocation authority. With only \$3.5 billion available credits this is a highly competitive process.

On Page 13 Mr. Jennings noted we are a wholly owned subsidiary of Mascoma Bank and 100 percent of our Advisory Board membership represents low-income communities or individuals (LIC and LIP). Page 14 lists the individual members of the Advisory Board.

Mr. Jennings indicated that Mascoma Community Development (MCD) has won two NMTC allocation awards. He further stated that MCD's remaining small amount of allocation was committed to a project that is in the closing process. Mr. Jennings reviewed the NMTC Leverage Financing structure and referred to projects that MCD had funded using the Leverage structure. These projects are located in the following areas: Berlin, New Hampshire (Capone Iron Corporations, North Woods, Incorporated), the Littleton Consumer Cooperative Society, and Heberton Advancement, LLC, and the Love Building (Concord), and the Brooks House, in Brattleboro, Vermont.

Mr. Jennings referred to two NMTC census tract for Cheshire County and the City of Keene. He indicated that the dark blue on both maps depicts severely distressed, rural qualifying NMTC census tracts.

Mr. Jennings discussed MCD's loan pools. The Loan Pools allow MCD to do smaller transactions (\$500,000 up to \$2,000,000). These transactions are interest only loans that have an average rate of three percent, that can be fixed for seven years. The Loan Pools allow for higher than standard LTV's, and as a result, they are a favorable program. The project would also have to meet all the requirements for a New Markets Tax Credit project.

Mr. Kopczynski asked if you have to create a separate holding entity. Mr. Jennings replied the projects will always be placed into a special purpose entity; normally an LLC.

The City Manager referred to Mr. Jennings comments regarding the allocations running out and asked when they would be applying for additional allocations. Mr. Jennings replied we applied last year and we are still waiting to know. We are hoping to hear end of April or beginning of May. Mr. Jennings commented CDE's like Mascoma live and die by receiving an award. Mr. Jennings briefly noted the other sources of funding this can be combined with. We look to work with all the funding sources available. In conclusion Mr. Jennings reiterated this is a great gap funding source.

Mr. Murphy also referred to Mr. Jennings comments regarding the allocations running out and said he imagines exhausting the current allotment is a good thing. Mr. Jennings replied technically yes. One of the key elements is getting the allotment out as quick as you can and you want to get it out to good projects like Heberton Hall. Mr. Jennings explained it is really hard to determine why CDE's win or not; it is very excruciating. We have applied five times and won twice, and are waiting on the answer to the fifth application.

Mr. Walier referred to the low rates and asked who makes up the difference to the competitive market rates. Mr. Jennings referred to their loan pool explaining the projects have to meet all the NMTC qualifying requirements; truly in the LMI sensor trap. The difference in subsidy rate is made up by the investor. The investor that bought the credits that funded the loan pool is providing a subsidy to allow Mascoma to provide that debt at a subsidized rate. Mr. Jennings noted other investors in their capital projects. Mayor Lane commented the incentive that buyer has is that money will go to taxes or to the project. Mr. Jennings affirmed. He added the investor is willing to put money in because he is getting those tax credits; and not dollar for dollar. Today the price is around eighty cents per dollar of credit.

d. John Hamilton, Vice President of Economic Opportunity- New Hampshire Community Loan Fund- Small business lending- investing (royalty and equity)

Mr. Hamilton offered three takeaways for the Committee with the first being to see NHCLF as a partner to help amplify what you are trying to accomplish. We partner with groups like MEDC and private investors. Mr. Hamilton's second point is flexibility – we cover every street corner in New Hampshire and our source of capital is our investors; a private source of capital so we have flexibility. Mr. Hamilton added for 35 years we have never lost a single investors money. With that we have been able to raise a \$133,000,000 fund and we have nothing to do with the state; so call us. Mr. Hamilton's third point reflected their particular appetite for businesses in manufacturing and farm/food. Mr. Hamilton noted they sometimes step out of that range and noted a solar energy project they recently entered into. After providing additional examples Mr. Hamilton said we stand ready to partner with you.

Councilor Hansel said an interesting thing is you (Mr. Hamilton) also provide expertise. Mr. Hamilton agreed noting we have to make sure the business is setup for success or we eat it. Mr. Hamilton clarified their appetite is not for startups. If you have one year's worth of revenue and are a New Hampshire based business you are eligible. Mr. Hamilton discussed true growth capital not secured with real estate. He said if the only opportunity for businesses without good growth proposition is equity where the owners do not want to sell their business to cash in on the equity- how are we supporting our businesses growth. In 2000 our answer was to introduce Vested for Growth which is offering royalty investing; a hybrid between loans and equity. The way it works is we get a percentage of future growth revenue; we get paid out of cash flow not out of an exit event. Royalty is an additional tool that we bring to the table and we would be glad to have conversations with any business looking to grow.

Mr. Hamilton concluded by noting there will a meeting this evening at the Hive, starting at 5:30 PM where you can hear more about our Community Loan Fund and our Affordable Housing side.

Mr. Kopczynski asked if it might be possible or desirable to put on Mr. Jennings hour and a half presentation. He suggested this could be something that comes out of the Committee's report. He questioned how the local business owner gets to connect the dots to realize the wealth of opportunity. The City Manager asked if Mr. Kopczynski was thinking of something like a public meeting; he replied of sorts. Mr. Murphy noted there is also a lot of opportunity outside of Keene to consider. Mr. Kopczynski agreed suggesting that facilitating that might be one of the

outcomes of the report. Committee members were in favor of this idea. Mr. Hamilton suggested putting something together with the local Chamber of Commerce.

Mr. Murphy thanked the area experts for talking to the Committee today. He continued we are a rural region and he thinks what we see here is the result of the people who bring these programs to the business industries and other entities that take advantage of it. So when we talk about investing in our infrastructure we should not forget in our report to recognize part of that infrastructure are the financial tools that are out there.

5. Future Topics-

May 21st 2019- Housing

June 18th 2019 –Compensation

6. Topics Discussed and Parked

a. Arts and Culture

b. Energy, Use and Supply

c. County Economic Development Efforts

d. Current and Future Airport Economic Development Efforts – Jack Wozmak, Airport Manager

e. Current and Future MEDC Economic Development Efforts – Jack Dugan, President

f. Workforce Development Training and Education- Dr. Melinda Treadwell, President Keene State College

7. Draft Report Goal -Workforce Development

i. Training and Education

ii. Housing

iii. Culture

iv. Compensation

8. Next Meeting Date – May 21, 2019 – Housing is the topic.

9. Adjournment - There being no further business Chair Greenwald adjourned the meeting at 2:13 PM.

Respectfully submitted by,

Mary Lou Sheats- Hall, Minute taker

April 18, 2019

Edited, M.K. Kopczynski- Director Economic Development

April 19, 2019