The Granary
Roadmap to Redevelopment

Prepared for:
Longmont Area Economic Council

Prepared by:
Council of Development Finance Agencies

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About the Roadmap to Redevelopment

The *Roadmap to Redevelopment* is a product of the CDFA Brownfields Technical Assistance Program, which is funded through a grant from the U.S. Environmental Protection Agency. The program provides technical assistance to brownfields communities on redevelopment finance. For communities that require detailed, hands-on assistance for their redevelopment efforts, CDFA Brownfields Project Response Teams comprised of CDFA staff and technical assistance partners are available to conduct site visits and provide recommendations. The goal of these visits is to offer communities specific, actionable advice that can transform brownfields into economically-productive sites in accordance with the goals and plans of the community. CDFA will coordinate 36 Brownfields Project Response Teams over the life of the program.

The *Roadmap to Redevelopment* was developed through a three-day process that included interviews with numerous stakeholders from the government, business, and non-profit sectors. The plan provides a framework for the redevelopment of the Granary in Longmont, CO.

The *Roadmap to Redevelopment's* recommendations combine the input of development finance experts, CDFA staff, and the interests of stakeholder groups gathered during the Project Response Team site visit. The plan articulates the following recommendations in order to better facilitate the redevelopment of the Granary and surrounding area.

Background & History

One of Longmont's downtown corridors – referred to as the 1st and Main area as defined by the "1st & Main Station Transit and Revitalization Plan" – is undergoing a major redevelopment.[1] Once identified by an old flourmill, the targeted area expands just south of Longmont's downtown to include the former Butterball plant, the newly developed Wibby Brewing Company, and the Granary site, among other properties. The plan calls for redevelopment of the 1st and Main corridor as a residential mixed use area that capitalizes on Longmont's strengths as a high-tech, business friendly community. The redevelopment of the Butterball plant is currently underway and will result in a mixed-use complex of approximately 300 housing units and 10,000 square feet of commercial space. The Butterball project is expected to be the catalyst for additional redevelopment of the remaining properties, which includes the 1.3 acre Granary site.

The remainder of the 1st and Main area is planned to be primarily residential with supportive commercial uses. While the CDFA team agreed that the redevelopment area could be successful with a primarily residential reuse plan, one member of the team urged greater consideration of office and technology uses. This member was swayed by several factors, in addition to the obvious growth of the tech sector in Longmont: 1) many technology companies prefer urban locations in order to attract a young and talented workforce; 2) mixing office and residential uses produces a shared parking situation that allows greater urban density; 3) the redevelopment area would better complement downtown as a fully mixed use area; 4) much of the 1st and Main redevelopment area is eligible for New Markets Tax Credits, which usually means that commercial development can be 15 to 20 percent subsidized, but residential development is not eligible; 5) if the Granary is successful in spawning new tech businesses, there should be a place for them to grow in the near downtown area.

The Granary site includes two buildings, one of which is a 17,000 square foot, three story building that was constructed in 1912 and originally used to store and distribute grain for Schlitz Brewing. The other building is a 3,000 square foot, one story building from the same era, which was at one time used as a laboratory to test for bacteria in the turkey processing operations.[2] Also on the site is a grain elevator, constructed in 1977. The silos still contain grain, which is considered a hazardous material requiring remediation.

Both the City and the developer share a vision for the site that includes a "makerspace", a learning center that provides tools, technology, and training to enable entrepreneurs. Longmont is already home to a successful makerspace: the TinkerMill, where members with interest in art, technology, science, or business can gather to collaborate on creative projects, share tools, make prototypes, network, and start ventures.[3] Although the TinkerMill operates as a non-profit, there is strong interest from the developer and the TinkerMill founder to organize the new makerspace at the Granary as a for-profit business which not only sells memberships to its users, but also operates a school for the various trades and technologies practiced in the space. The business and

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[1] 1st & Main Station Transit and Revitalization Plan Executive Summary. Retrieved from: http://longmontcolorado.gov/home/showdocument?id=6143

[2] Ayuda. Phase I Environmental Site Assessment 204 Emery Street, Longmont, Colorado 80501. March 19, 2014.

[3] Retrieved from: http://www.tinkermill.org/

organizational structure of the makerspace has yet to be finalized. Other uses on the site might include a restaurant, café/bakery, and retail space.

The City's public incentives allocated to the neighboring Butterball redevelopment amount to over $2M and are documented in a Redevelopment Agreement between the City of Longmont, the Downtown Development Authority, and the site owner. The Agreement states that any unused resources that remain after the Butterball property is complete may be used toward neighboring properties, including the Granary. There is no estimate of the amount of those funds, if any, that will be available. If the project costs for the Butterball redevelopment are as expected, it's not likely that any significant funding will remain. Therefore, the City should consider the following recommendations in order to secure other financing sources for the redevelopment of the Granary.

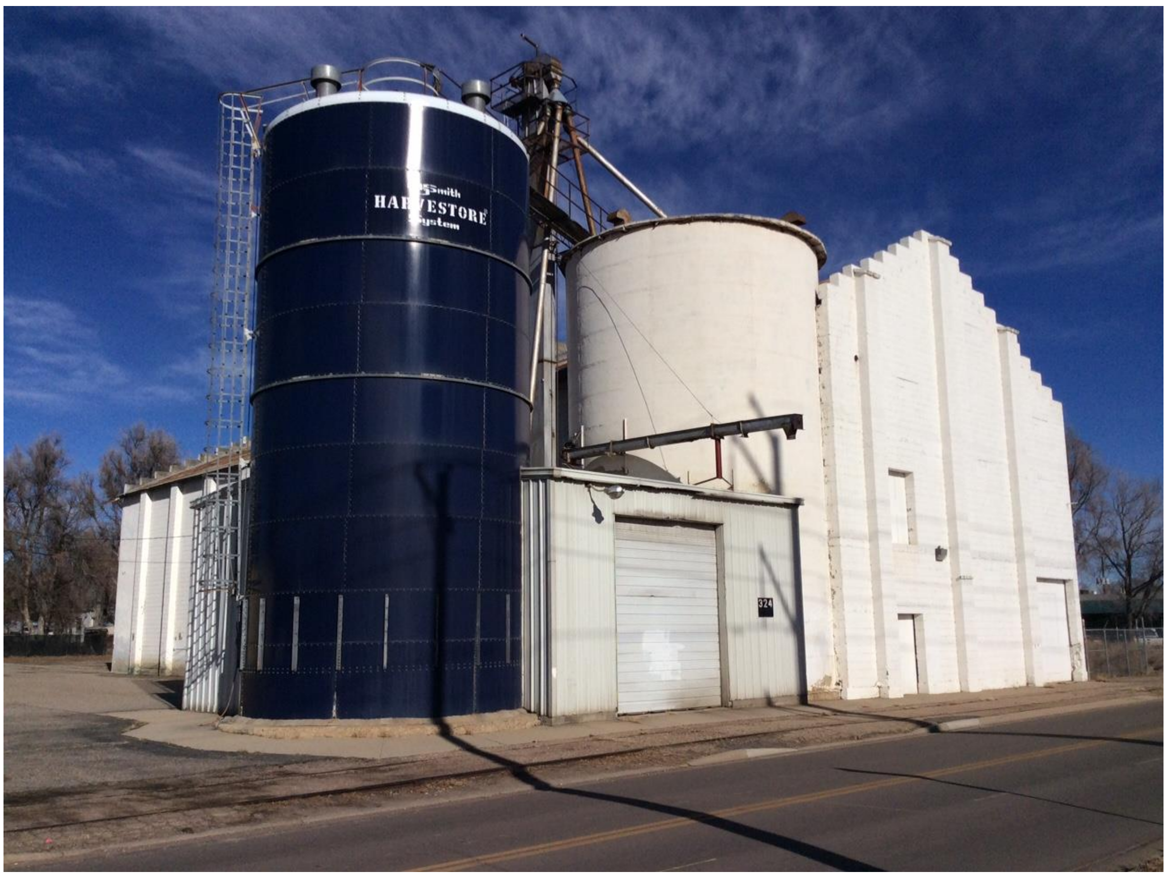

Figure 1: The Granary Building and Grain Elevator

Recommendations

Part I: Preparing the Site for Redevelopment

In order to understand the contamination level and remediation cost, a Phase II assessment should be completed on the site as soon as possible. The following resources should be pursued to assist in completing Phase II assessment and remediation at the Granary and other brownfield sites in the City's targeted redevelopment areas.

i. EPA Assessment & Cleanup Grants

   U.S. Environmental Protection Agency (EPA) Assessment & Cleanup Grants, though highly competitive, are awarded on an annual basis and can cover up to $200K for site assessments, cleanup, brownfield inventories, planning, and community outreach. The site assessment funds can assist multiple sites either city-wide or in a targeted redevelopment area, such as 1st and Main. The cleanup grants are limited to assisting publicly owned sites, but the EPA-funded Colorado Brownfields Revolving Loan Fund can assist privately owned sites with low interest loans.

ii. Colorado Brownfields Tax Credit

   The Colorado Brownfields Tax Credit is available to properties associated with redevelopment initiatives that are enrolled in Colorado's Voluntary Cleanup Action Program. Under the program, 40 percent of eligible cleanup costs are covered for projects with costs up to $750K, and 30 percent of eligible cleanup costs up to $1.5M. The tax credits are allocated on a first come, first served basis and are administered by the Colorado Department of Public Health and Environment (CDPHE). Remediation of in-building contamination is an eligible use of funds.

iii. State EPA Targeted Brownfield Assessment

   CDPHE also manages statewide EPA Targeted Brownfield Assessment Program, through which they and their affiliated contractors conduct the assessment for various private, public and non-profit entities.

Part II: Financing the Gap: Redevelopment and Infrastructure

Based on the characteristics of the Granary, the CDFA team identified several potential financing resources for the rehabilitation of the structures on site. The following section details State and Federal resources that should be considered for financing the redevelopment of the buildings.

i. Vacant Building Rebab Tax Credit

Longmont was recently approved to be designated as an Enterprise Zone by the Economic Development Commission of Colorado. As such, the City can now offer incentives in the form of tax credits to attract businesses. One of these incentives is the Vacant Building Rehabilitation Tax Credit. The owner or tenant of a building that has been vacant for over two years can qualify for a tax credit of 25 percent of the cost of the rehabilitation, up to $50K. Qualified expenditures include demolition and other hard costs.

ii. Historic Tax Credits and Grants

Federal Historic Tax Credit
An opportunity exists for the Granary to qualify for Federal and State Historic Tax Credits. At the Federal level, there are 10 percent and 20 percent tax credit options. The 20 percent tax credit is reserved for the rehabilitation certified historic structures, while the 10 percent tax credit is available to non-historic structures.

In order for the Granary to be eligible to receive the 20 percent tax credit, the owner would need to request and receive its designation from the National Park Service as a Certified Historic Structure. Additionally, the 20 percent tax credit requires strict adherence to the Secretary of the Interior's Standards for Rehabilitation, which may put undesired restrictions on modifications to the building, such as the addition of windows. However, the CDFA team provided anecdotal evidence of projects that have been approved where windows were allowed to be introduced to the property that were not always there. The 10 percent tax credit is less restrictive in relation to historical accuracy of the building modifications. The developer should discuss building design and modifications with Federal Historic Preservation Officers.

State Historic Tax Credit
Colorado offers a Historic Tax Credit of 20-30 percent depending on the qualified expenditures of the rehabilitation. The eligibility requirements for receiving the State Historic Tax Credit follow the requirements for the Federal Historic Tax Credit program, including restrictions on modifications of building structure. The developer should work closely with Historic Preservation Officers to maximize the tax credit use for the rehabilitation.

Colorado Historic Fund Grant
History Colorado provides $10K Historic Structure Assessment Grants in addition to grants that can be used for renovation. The grants must go to a Certified Local Government and are also subject to the Secretary of the Interior's Standards for Rehabilitation. Again, communication

with officials regarding the proposed building design would be the first step toward securing State historic resources.

iii. Mile High Community Loan Fund

The Mile High Community Loan Fund provides short-term loans to non-profit and for-profit organizations throughout Colorado for the preservation of affordable housing and economic and community development projects. This includes redevelopment of commercial real estate in areas targeted for revitalization, and distressed areas.

iv. New Market Tax Credits (NMTC)

The Granary is located in a census tract that is eligible to receive New Markets Tax Credits, and the area appears to qualify as a “severely distressed” area (which is a very favorable factor in the ranking system). The total development cost of the current plan is likely too low to justify the transaction fees necessary to administer NMTC, however, the project could be expanded to include redevelopment of other commercial sites owned by the developer and slated for future redevelopment. The City should work to identify Community Development Entities (CDEs) that specifically target projects with an entrepreneurial focus and explore the opportunity for linking the Granary redevelopment to additional projects in the targeted revitalization area.

v. Housing and Urban Development (HUD) Community Development Block Grants (CDBG) and HUD 108

HUD CDBG and HUD 108 can be used be used for economic development projects like the Granary. HUD must be satisfied that one of two national objectives (low-moderate income benefit, or the removal of slums and blight) are being served. Should lenders prove to be reluctant to finance such an outside-the-box reuse, HUD 108 could be a key loan source. HUD 108 loans have very favorable terms and can be paired with TIF or a variety of other payment sources in order to increase the subsidy, if necessary. While HUD 108 loans must be secured with the locality’s annual CDBG allocation, there are ways to structure the loan so that the risk to CDBG funds is minimal.

Part III: Financing Option using Tax Exempt Bonds

The following option for using tax exempt bonds only applies if the redevelopment scenario includes non-profit ownership or leasing of the Granary. This organizational structure is feasible considering the 501(c)(3) ownership and operation of the TinerkMill.

i. 501(c)(3) Private Activity Bonds

501(c)(3) Private Activity Bonds (PABs) are exempt from federal and state income taxation. Provided that the developer leases the facility to a 501(c)(3) organization such as the makerspace or subsidiary, or that the Makerspace or subsidiary owns the building, the project could qualify for tax exempt bond financing. This PAB is subject to requirements limiting for-profit uses on the property. At least 95 percent of the net proceeds of the bonds must be used by a 501(c)(3) organization in furtherance of its exempt purpose, and not more than 5 percent of the net proceeds of the bond issue can be used in furtherance of an unrelated trade or business.[4]

This potential financing structure would secure a long term low interest rate. The developer could potentially participate in various revenue streams subject to safe harbor management contract rules to reach the desired level of return, without compromising the tax exempt purpose.

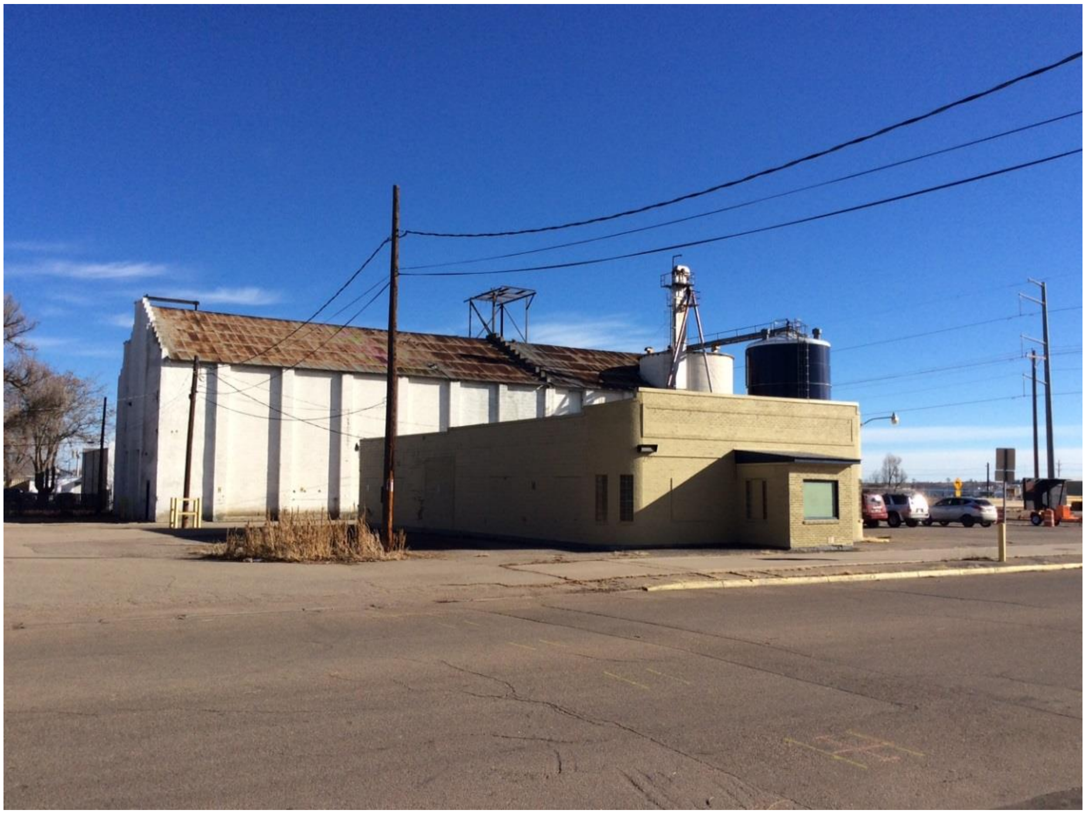

Figure 2: Former laboratory building at the Granary.

[4] Overview of Qualified 501 (c) (3) Bonds. Retrieved from: http://cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=LeatherberryTEDC2008.html

Part IV: Small Business Loans and Grants

Although a non-profit model of business such as the TinkerMill would not be eligible for small business funding, for-profit structures of the co-working space, such as one including a trade school that would generate revenue for the business, may be eligible.

i. Small Business Administration (SBA) 504 Loan

The SBA 504 Loan is a real estate and equipment loan for small businesses. It is available to for-profit companies whose net worth is less than $15M and average net income less than $5M after taxes for the preceding two years. The SBA only provides loans when the individual and business do not have the financial strength to support the loan. Both business and personal resources will be taken into account when applying for a SBA 504 Loan.

ii. SBA Growth Accelerator Program

The SBA Growth Accelerator Program is a highly competitive grant competition for $50K grants that are awarded to promising entrepreneurial organizations. The program debuted in 2014 and relaunched in 2015. The program focuses on spreading the "entrepreneurial ecosystem space" geographically by "supporting the development of accelerators and startups in parts of the country where there are fewer sources of conventional access to capital."[5]

Part V: Locally Controlled Structures

i. Tax Increment Financing District

Longmont has an active Tax Increment Financing District that covers a large portion of the targeted redevelopment area. Although existing TIF funds have already been committed to the Butterball redevelopment and other various projects, future TIF funds could be prioritized toward the redevelopment of neighboring properties as the increment increases. If the City is reluctant to commit to a direct TIF subsidy for the Granary, another way to aid project financing is to offer TIF only as a credit enhancement to help secure private financing. Given that private lenders may be reluctant to finance such an "outside-the-box" reuse plan, a TIF-generated credit enhancement could be a key element.

ii. City as Master Lease Holder

In an instance where the developer might have difficulty obtaining bank financing due to the non-traditional structure of the makerspace revenue streams, the City may be able to lend credibility by a master leasing on the property from the developer and subleasing to the 501(c)(3) entity. The term of the lease could be for a limited period of time, or could be refinanced once designated performance milestones are met and the project could achieve financing on its own. Extraction terms could be included to protect the City if tenants do not perform as expected.

[5] The Growth Accelerator Fund Competition. Retrieved from: https://www.sba.gov/offices/headquarters/ooi/resources/1428931

Additional Resources

As the City of Longmont works through the recommendations in this plan, the following resources may provide useful information.

CDFA Brownfields Financing Toolkit | http://www.cdfa.net/cdfa/cdfaweb.nsf/ord/201502_BF_Toolkit/$file/CDFA%20Brownfields%20Financing%20Toolkit%2002.02.15.pdf

CDFA Online Resource Database | http://www.cdfa.net/cdfa/cdfaweb.nsf/ordsearch.html

Secretary of Interior Standards for Rehabilitation | http://www.nps.gov/tps/standards/rehabilitation/rehab/stand.htm

Small Business Administration 504 Loan
https://www.sba.gov/content/cdc504-loan-program-eligibility

Types of Brownfields Grant Funding (Environmental Protection Agency)
http://www.epa.gov/brownfields/types-brownfields-grant-funding#tab-1

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The Council of Development Finance Agencies is a national association dedicated to the advancement of development finance concerns and interests. CDFA is comprised of the nation's leading and most knowledgeable members of the development finance community representing public, private and non-profit entities alike. For more information about CDFA, visit www.cdfa.net or e-mail info@cdfa.net.

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