STATE OF MAINE
DEPARTMENT OF ECONOMIC
AND COMMUNITY DEVELOPMENT

PAUL R. LEPAGE
GOVERNOR

GEORGE C. GERVAIS
COMMISSIONER

To: Governor Paul R. LePage

Senator Dawn Hill, Chair
Representative Margaret Rotundo, Chair
Joint Standing Committee on Appropriations and Financial Affairs

Senator John Patrick, Chair
Representative Erin Herbig, Chair
Joint Standing Committee on Labor, Commerce, Research and Economic Development

From: Commissioner George Gervais
Department of Economic and Community Development

Re: Report on Coordinated Response Efforts to Facilitate the Redevelopment of Unoccupied Mills and Other Unoccupied Buildings

Date: February 1, 2013

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Introduction

The Labor, Commerce, Research and Economic Development Committee of the 125th Maine Legislature voted on March 2, 2012 to issue a divided report on LD 1675, RESOLVE, To Establish a Response Team to Facilitate the Redevelopment of Unoccupied Mills and Other Unoccupied Buildings. The majority of the committee (11 members) voted to support the "ought to pass as amended" report, while a minority of the members (1) advocated for the "ought not to pass" report. The "ought to pass as amended" committee report was adopted by the Senate on March 15, 2012 and the committee report was then amended by a Senate amendment. On March 19th, the House concurred with the Senate's action to approve the committee report as amended by the Senate amendment and the measure was subsequently "finally passed" by that body on March 21, 2012 and the RESOLVE was placed on the Special Study Table. The RESOLVE was removed from the Special Study Table on May 16, 2012 and was "finally passed" by the Legislature. On May 29, 2012, it became law without the Governor's signature as RESOLVE Chapter 167 (detailed below).

Resolve, To Establish a Response Team to Facilitate the Redevelopment of Unoccupied Mills and Other Unoccupied Buildings Sec. 1. Coordinate and establish a response team to facilitate redevelopment of unoccupied mills.

Resolved: That, beginning August 1, 2012, the Department of Economic and Community Development shall establish and coordinate a response team to facilitate the redevelopment of unoccupied mills and other large unoccupied buildings. The Department of Environmental Protection, the Finance Authority of Maine and the Maine State Housing Authority shall participate in the response team, and the Department of Economic and Community Development shall invite the participation in the response team of a representative of a commercial real estate developer, a representative from an economic development district, a local economic development representative and a private sector representative knowledgeable in the mill redevelopment process. The response team shall facilitate the Department of Economic and Community Development's efforts to redevelop unoccupied mills, other large unoccupied buildings and former schools that are now unoccupied. The response team shall provide assistance upon request to a municipality that is actively working to implement a redevelopment business plan for an unoccupied building and that has identified within the business plan possible financing resources and marketing plans for the redevelopment of the unoccupied site. The response team may assist by visiting the unoccupied site and engaging in discussions with local officials regarding the availability of federal, state and local financing resources for municipalities seeking to redevelop such sites as well as identifying and removing whenever possible any regulatory obstacles to the redevelopment of the site; and be it further

Sec. 2. Report. Resolved: That, no later than February 1, 2013, the Department of Economic and Community Development shall provide a report to the joint standing committee of the Legislature having jurisdiction over labor, commerce, research and economic development matters, the joint standing committee of the Legislature having jurisdiction over appropriations and financial affairs and the Governor on the coordinated response efforts under section 1. The Department of Economic and Community Development shall submit with the report any recommendations for changes that may be required in statute or local ordinances to remove obstacles to the redevelopment of the sites under section 1. The joint standing committee of the Legislature having jurisdiction over labor, commerce, research and economic development matters is authorized to report out a bill implementing the recommendations to the First Regular Session of the 126th Legislature.

Response Team Membership

In accordance with the provisions outlined in the Resolve, The Maine Department of Economic & Community Development (DECD) worked with the relevant state agencies identified in the Resolve and designated the following Response Team members: Nick Hodgkins, from the Maine Department of Environmental Protection (DEP); Charlie Emmons, representing the Finance Authority of Maine (FAME); Daniel Brennan, of the Maine State Housing Authority (MSHA), and Brian Whitney from DECD.

The remaining members of the response team are determined based on the community that requests assistance in developing an unoccupied property and are pulled from within that relevant region and from the appropriate vocations identified in the Resolve.

Outreach

Resolve 167 empowers municipalities to initiate a request for help from the Response Team. Cities and towns actively working to implement a redevelopment business plan, including the identification of possible financing sources may at that point seek assistance from the Team.

DECD's team of Governor's Account Executives is familiar with the Response Team's mission and has played an active role in spreading the word about the team's availability in assisting local economic development leaders, municipal officials, commercial realtors, and private developers.

Information about the Response Team is prominently displayed on DECD's new website. Additionally, the Response Team has been touted at several community based events as well as in other electronic newsletters and communications to community business groups such as Chambers of Commerce.

Community Requests

Pursuant to the Resolve, the Unoccupied Mill Response Team convenes when requested by communities seeking assistance in redeveloping vacant mills and buildings. In 2012, the team received a single request from a municipality, the City of Sanford. *Note: Sanford became Maine's newest city on January 1, 2013. All references to the municipality will be "city" even if used for any period prior to the change*.

On October 30, 2012 Sanford made its formal request to meet with members of the Response Team. The meeting took place on November 20, 2012 at Sanford City Hall.

The Response Team meeting was attended by the board members of the Sanford Regional Economic Growth Council (SREGC), and other local subject-matter experts invited per the Legislative Resolve. The absence of Daniel Brennan, Response Team member from MSHA, was noted by several local officials and was of concern given the importance of MSHA's tax credit incentives to the pending redevelopment of one of the city's unoccupied mill buildings.

DECD Director of Business Development and Innovation, Brian Whitney opened the meeting with a brief overview of Resolve 167 and the Response Team's goal of helping communities identify and overcome various regulatory and financial hurdles that often impede the redevelopment of large unoccupied properties. As mentioned above, remaining members of the response team are assigned based on the community that requests assistance in developing an unoccupied property and are pulled from within that relevant region. In this instance, the local/regional Response Team members for Sanford were introduced and included Gary Samia, Century 21, Commercial Real Estate Developer; Paul Schumacher, Southern Maine Regional Planning Commission (SMRPC), Economic Development District; Jim Nimon, SREGC, Local Economic Developer; and Brad Fries, Northland Enterprises, Private Sector Mill Redeveloper.

SREGC Executive Director Jim Nimon explained the Growth Council's mission, and provided an overview of Sanford's mill redevelopment efforts. He mentioned that, since the mid-2000's, the community has been focused on redeveloping its abandoned mill yard. At its peak, the mill yard represented the economic hub of the community, employing 5,000 people in the city's downtown district. In recent years, a number of significant steps have been taken by Sanford to attract and support future development, including:

- The Sanford mill yard was designated the "Goodall Mills Historic District" in 2008. This ensured that federal and state historic tax credits could potentially be utilized as equity for development projects.

- A new road – Heritage Crossing – was constructed through the mill yard. It included street light and sidewalk amenities.

- Eminent domain powers were exercised on the Sanford Mill ("Mill #1") and Aerofab Mill ("the Print Shop") to support Portland-based developer Northland Enterprises' mixed-use development project on the property.

- A municipal tax increment financing district was established and a credit enhancement agreement with Northland Enterprises supported the developer's ability to secure permanent bank financing.

- A federal Neighborhood Stabilization Program grant and a state Riverfront grant were sought and secured from DECD's Office of Community Development to support the Sanford Mill project.

- A federal Environmental Protection Agency (EPA) brownfields area-wide planning grant was sought for the mill yard and Sanford became one of only 23 communities in the nation to receive the grant. An action plan (See Weston & Sampson's report in the appendix) and video have been developed.

- The approval of a contract zone for New Hampshire-based mill redeveloper Brady Sullivan's mixed-use development project planned for the Eric Stone mill building (Mill #4).

A particular frustration that was raised during the meeting related to the city's inability to secure tax credits from the Maine State Housing Authority to facilitate redevelopment of Mill #4. The city has been engaged in a 2-year effort to secure the tax credits under MSHA's competitive award process.

MSHA deploys Low-Income Housing Tax Credits (LIHTC), which are some of the largest sources of federal funding for affordable housing projects. "*The credits are typically sold to investors, generating equity for qualifying rental developments serving families with incomes below 60 percent of the area median income. Although the LIHTC is a federal program, it is administered principally through state housing finance agencies, which have substantial discretion in setting priorities for allocating the valuable credits. Federal law provides for two different types of LIHTCs. The larger of the two credits -- the 9 percent credit -- is allocated to states on a per-capita basis. Because the credit is large and the supply is limited, competition for these credits tends to be fierce under normal market conditions, namely during times in which financial markets are functioning well and investors have taxable income to offset with credits.*

The second, less well-known, type of Low-Income Housing Tax Credit is the 4 percent credit. The 4 percent tax credit is worth only about half as much as the 9 percent credit. (The 4 *percent and 9 percent figures refer to the approximate annual percentage of the eligible project costs that investors may claim on federal tax returns for a 10-year period.) Nevertheless, the equity raised through the 4 percent credit can be substantial, and an important advantage of the 4 percent credit is that it is a renewable resource that is not subject to the same annual allocation caps that apply to the 9 percent credit.*

In general, both the 4 percent and the 9 percent LIHTC are designed to cover the gap between the costs of developing affordable rental homes and the amount of financing that may be raised based on the rents that low-income families can afford. Although the exact amounts vary substantially by project and market conditions, a good rule of thumb is that the 9 percent credit covers about half of a project's cost, while the 4 percent credit covers about one-quarter." (Source: HousingPolicy.org).

The City of Sanford sought the credits through the MSHA competitive process on two different occasions and found the process to be challenging and frustrating. They are still hopeful, however, that they will ultimately be able to fashion a redevelopment package that meets MSHA's goals and allows them to secure the 4 percent or 9 percent credits to help make their mill redevelopment plans possible.

Notwithstanding concerns being raised about the city's experience in trying to secure MSHA tax credits, the Response Team received no complaints from Sanford in terms of the permitting or regulatory process.

During the course of the meeting, Sanford shared its broader mill yard revitalization goals and its ongoing efforts to redevelop specific unoccupied mill buildings. They will continue to actively implement a redevelopment business plan for Mill #4 and have identified possible financing resources and marketing plans for the redevelopment of the unoccupied site.

The City also looks forward to ongoing conversations with members of the Response Team to determine if there are funding opportunities that support the broader action plan for the mill yard.

The Response Team made note of the fact that:

1. The City of Sanford has taken extraordinary measures to prepare its historic mill yard and its large vacant mill buildings for redevelopment
2. Brady Sullivan, an accomplished private mill redeveloper in New England, has committed a substantial amount of time and money - - since it first approached Sanford with its interest in Mill #4 in late 2010 - - attempting to secure MSHA financing to conclude the deal
3. MSHA has several concerns that have kept it from providing the developer with a notice to proceed

While a deal remains elusive, the City of Sanford continues to believe that willing partners can resolve the outstanding issues, and remains convinced that failure to have a housing component and tax credits for affordable housing are obstacles that will continue to hinder solid plans for the successful redevelopment of the Stone mill property (Mill #4).

The meeting concluded with a guided tour of the Sanford Mill Yard and proposed Brady Sullivan development site.

Follow-up Action

On, Friday January 25, 2012, George Gervais, DECD Commissioner; Brian Whitney, DECD Director of Business Development & Innovation, and Doug Ray, DECD Legislative Liaison, met with John Gallagher, Maine State Housing Director, and Daniel Brennan, Director of Development, at MSHA Headquarters in Augusta.

MSHA explained its absence from November's Response Team meeting in Sanford and attributed it to what they perceived as a potential conflict of interest given that the city had an active tax credit application before them. Director Gallagher and Mr. Brennan stressed a desire for MSHA to be involved in future Response Team meetings and reiterated the agency's significant role in the successful redevelopment of many large unoccupied properties.

MSHA and DECD discussed issues raised by Sanford regarding improved communication and access to MSHA programs. MSHA has worked with Sanford in the past and has no reservations about collaborating on a future project provided it meets the agency's programmatic guidelines and fares well in its competitive process.

- MSHA continues to have concerns about the market study supplied by Brady Sullivan which MSHA views as 'flawed' with very broad geographic assumptions. The project targets people who earn between 40% and 60% of the area median income. To rent 140 new units to this narrow band of renters will require a wide capture rate, luring renters from coastal towns. MSHA believes Sanford likely cannot support a project of this magnitude and on several occasions urged the developer to consult the head of Sanford's Housing Authority and pursue a smaller project of 60 affordable units and 30 market rate units. In its most recent application under the 9% tax credit program, Brady Sullivan proposed a project with 90 affordable units.
- The project relies on commercial rents to help pay the mortgage. So far, a nearby project has had difficulty renting new commercial space and there are several downtown commercial properties that are currently vacant. MSHA does not make it a practice to consider commercial rents in underwriting.
- MSHA continues to question the cost estimates provided by the developer. They are concerned that the estimates do not accurately reflect the real costs of redeveloping such a large, aged structure.

MSHA also noted that the developer's most recent application did not contain all the required documents. Specifically, it did include a letter of credit from the developer's construction lender.

MSHA is, however, encouraging Sanford to pursue another application in the fall of 2013. They would like to see more information on wait lists for units in the Northland Properties project in the city as well as low income set asides and rent values. Another option would be for Brady Sullivan to phase the project and prove that the market can sustain the stock of new housing.

Conclusion

Based on the meeting in Sanford, the Response Team is recommending that a mill redevelopment "tool kit" be developed to better assist communities. The tool kit will consist of a detailed list and description of all available programs and resources used in the redevelopment of mills and other large buildings. The checklist will serve as another resource for communities and will supplement any future activities of the Response Team.

The Response Team remains available to work with any city or town seeking its involvement.

APPENDIX

Background and Overview of Sanford's Mill Redevelopment Efforts

Goodall Mills Historic District.

Sanford's First Unoccupied Mill Building Redevelopment Project. DECD Commissioner George Gervais, with the support of FAME CEO Beth Bordowitz (both had independently visited and toured the property), urged Northland Enterprises to seek a "bridge loan" from the Maine Rural Development Authority (MRDA) to allow it to begin the first floor improvements necessary to secure a much-needed commercial tenant. A $500,000 loan was approved for the project from MRDA. Northland is developing the mixed-use site (now about 35% complete, with plans for occupancy this year), consisting of more than 20-thousand square feet of commercial, office and retail space on the first floor and 36 units of residential space on the two upper floors. Currently there are more than 140 people on a residential wait list.

In a letter to DECD Commissioner Gervais dated January 15, 2013, Josh Benthien, a partner at Northland Enterprises credited Deb Johnson, Director of DECD's Office of Community Development, with helping Northland secure federal money for its project. Benthien said, *"her (Johnson) administration of the NSP (Neighborhood Stabilization Program) funds has gone smoothly."* To date, the Sanford Mill project has received $3.7 million in federal NSP funds administered through DECD.

Other public and private funding sources required for the first mill yard redevelopment project in Sanford include:

Source	Amount	Private/ Public
Bangor Savings Bank 1st position debt	$980,000	Private
SMRPC 2nd position debt (EDD)	$830,000	Public
TIF Credit Enhancement (City)	$514,000	Public
Riverfront Grant (DECD)	$505,000	Public
Developer Contribution	$775,000	Private

State Historic Equity	$2,050,000	Public & Private
Federal Historic Equity	$1,654,000	Public & Private
NSP III grant (DECD/HUD)	$3,700,000	Public
Total	**$11,008,000**	

Visits by State Officials. State officials from agencies listed in the Legislative Resolve have visited Sanford in the recent past to meet with the Sanford Regional Economic Growth Council (SREGC), the City Council and other citizens interested in the mill yard redevelopment and community improvements. Tours of unoccupied mill buildings have also been provided. Visitors have included commissioners and staff from DECD and DEP, CEO and staff from FAME, and director and staff from MSHA.

Weston & Sampson Action Plan for Goodall Mills Historic District. Weston & Sampson, environmental and engineering consultants, concluded its work on an Environmental Protection Agency (EPA) grant in 2012. Highlights from the report:

- Sanford must build upon its existing assets in the development of a brand that is focused on specific market niches. These niches need to benefit from the assets of the City that are not currently identified with any other community in Maine. Those niches are: Sustainability, Health & Wellness and Recreation.

- The repositioning of the mill yard can be accomplished through six means of reinvestment: Rehabilitated Infrastructure, Environmental Remediation, Renewable Energy, Economic Redevelopment, Engaged Community, and Improved Health.

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SANFORD MILL YARD REVITALIZATION NEXT STEPS:

1. Natural Gas Extension

2. Explore federal funding for transportation improvements to pedestrian connections, major downtown intersections, and structured parking

3. Renewable energy feasibility design

4. Engineering of Number One Pond and Mousam River for water retention design and infrastructure improvements & technical analyses

5. Explore funding for continued brownfields assessment and clean up; use funding to leverage property ownership for key mill building repositioning

Sanford's Support for Brady Sullivan's Redevelopment Plans: Lofts at #4 Mill.

- Next critical step for mill yard renaissance utilizing seasoned, successful New England mill redeveloper

- Job Creation & Private Investment approaching $20 million

- Use of "4% unlimited" affordable housing tax credit, not 9% or scarce subsidy; funding sources include equity from state & federal historic tax credits (43%), and affordable housing tax credits (24%) and permanent loan debt (33%)

- Mixed-use project with commercial (26,000 s/f on first floor) and affordable workforce housing (140 units on upper floors) and all municipal approvals

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- The community has engaged an accomplished, award-winning private sector developer that has experience in containing costs and building and managing quality facilities (www.bradysullivan.com)

- The developed has a solid plan to build affordable housing units. Its total development cost per unit is estimated to be $132,565 (the ten similarly structured projects – multi-family, historic re-use, affordable housing – funded by MSHA 2007-2011 averaged more than $241,000)

- The project will provide immediate construction jobs; some full-time facility positions; and will lead to the redevelopment of a high priority area for the city and improvements to the municipal tax base

- The plan enjoys the enthusiastic support of the community

- It requires approval and issuance of tax-exempt bonds to support financial plan

Brady Sullivan first approached the City to redevelop a mill building in fall 2010. MSHA agreed to take 4% application from developer in September 2011. The decision by MSHA to not issue notice to proceed was made in March 2012. The developer then submitted 9% application in fall 2012. The list of newly-approved projects did not include developer in December 2012. The developer continues to have first interest in Mill #4 and may be discussing new 4% application with MSHA.