

Financing Options
for the
Ford Highland Park Project

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INTRODUCTION

The Ford Highland Park Project involves the redevelopment of the former Highland Park Ford Plant located in Highland Park, Michigan. Woodward Heritage, a non-profit organization, is working to preserve the remaining buildings in this complex because of the Plant's historical significance. This report offers a summary of the facility's history, a financing model for a similar project, gives a brief description of financing options for the project, and provides an example of sources and uses for the project.

HISTORY

The former Ford Highland Park complex is historically significant not only on a local and national level, but on an international level, and should be preserved. The facility's connections with Henry Ford and his company give it global recognition. It was at this location Ford led the world in the production of the automobile, created the powered assembly line, offered the famous \$5.00-a-day wage, and contributed to the reduction of manufacturing's reliance on a skilled labor force. The architect, Albert Kahn, also adds to the site's historical significance, as he is known throughout the world for his work, particularly for his designs of industrial buildings.

MODEL FOR FORD HIGHLAND PARK PROJECT

From its inception, the former Highland Park Ford Plant was an asset to the city and contributed to the growth of Highland Park. Due to neglect and general abandonment, the complex has become a blighting influence. Its proximity to the local high school, neighborhoods, and high visibility on Woodward Avenue makes it a priority in the economic recovery of the city. Through creative financing and development, it is possible to preserve the former Highland Park Ford Plant.

The Odd Fellows Hall project is a good example of how the renovation of vacant and blighted buildings is financed. The Odd Fellows Hall is located in southwest Detroit and was abandoned for over twenty years. The Southwest Detroit Business Association (SDBA) purchased the building and began making plans for its restoration to accommodate primarily non-profit tenants to better service the community. With the assembly of funding from numerous sources, the project closed on financing in December 2005 and construction will begin in 2006.

The Odd Fellows Hall is much smaller than the Ford Highland Park Project, but it is still a good financing model. The project utilizes both private and public financing. The public financing came from a number of sources including: a Section 108 Loan, New Markets Tax Credit, a State of Michigan Cool Cities Catalyst Grant, and a grant from the U.S. Department of Health and Human Services. Private funds were gathered from foundations such as Detroit Renaissance, Local Initiatives Support Corporation, and the Nonprofit Facilities Center. Also, the developer contributed to the financing of the project.

The Ford Highland Park Project has the same attributes and characteristics as the Odd Fellows Hall project and other obsolete buildings that have been rehabilitated. These similar elements that may provide financial incentives are listed below.

- **Historical Significance:** The plant's history makes it potentially eligible for historic designation on federal and state levels, and for Federal and State Historic Tax Credits.

- **Obsolete and Blighted Status:** The buildings' obsolete and blighted status may qualify them for Single Business Tax Credits, Tax Increment Financing, and an Obsolete Property Rehabilitation Exemption Certificate.
- **New Markets Tax Credits:** New Markets Tax Credits may be available if the project is location in a low-income census tract and the buildings are reused as commercial buildings.
- **Loan:** The project may be eligible for an award of a Section 108 Loan Guarantee.

Also, the projects are similar in that the redevelopment of the former Ford Highland Park Plant is likely to be undertaken as a community initiated development, since private developer interest is not normally attracted to community oriented and economically questionable projects.

ECONOMIC FEASIBILITY OF THE REHABILITATION OF THE FORD HIGHLAND PARK PLANT

Zachary and Associates, Inc. has identified resources for financing that may be available to the Ford Highland Park Project. The ownership and use of the buildings will play a key role in deciding what resources will be applicable. The financial incentives studied for the project are described below.

Public Loans and Grants

U.S. Department of Health & Human Services offers a **Community Services Block Grant (CSBG)** program to projects that alleviate poverty in communities. The alleviation of poverty must be accomplished through the provision of services and activities to low-income individuals which address employment, education, better use of income, housing, nutrition, emergency services, and health. There has been no allocation for the 2006 year because "the President has requested no funds for CSBG."

Two years ago, the State of Michigan began a Michigan Cool Cities Initiative which has resulted in Cool City programs funding qualifying projects. The **Cool City Pilot Program** awards selected projects in Michigan a \$100,000 **Catalyst Grant**. Any project selected will have access to the services and resources of the State, including grants, tax credits and loans which will help further and expand the impact of the project on its neighborhood. This initiative was undertaken in order to create vibrant neighborhoods that attract businesses, create and retain jobs, and offer an appealing place to live to a diverse population. To apply, a City must have created a Local Cool City Advisory Group.

The project may be eligible for a **Community Development Block Grant (CDBG)** through Wayne County. This federal program provides grants to local governments for community development activities. The primary objective of the program is the development of viable urban communities through the elimination of slums and blight and the provision of decent housing, a suitable living environment, and expanded economic opportunities principally for persons of low- and moderate-income. Eligible activities include community facilities, demolition of blighted buildings, acquisition, relocation and preparation of property for new development, economic development, public services, and planning and administration of the program. Grants may be available on an annual basis for CDBG eligible projects.

A grant from the **Economic Development Administration (EDA)** may be available, if the project meets the eligibility requirements related to training, entrepreneurship, job generation, etc. Typically a 50% match is required for all grants, but this percentage may be reduced based on the community's distress factors, such as level of unemployment. It is important to note, projects funded by EDA must be owned by a non-profit organization for its entire life or the grant must be repaid. A preapplication is required to evaluate a project's eligibility prior to submitting a full application.

Wayne County should be issuing a Request for Proposals for the **Redevelopment Grant Program** before the end of the year. This program is offered through the Development Corporation of Wayne County. The Redevelopment Grant Program offers grants of up to \$150,000 to non-profit organizations for predevelopment activities for their projects. Predevelopment activities include, but are not limited to: preliminary architectural plans, acquisition costs, surveys, legal fees, technical assistance, and consultant fees.

A **Section 108 Loan** is available from HUD's Community Development Block Grant (CDBG) program through Wayne County for qualifying projects. This loan must be repaid within twenty years and is a low-interest loan granted to projects that primarily benefit low- and moderate-income persons, alleviate slums and blight, or "meet urgent needs of the community." Section 108 Loans are used for the following eligible activities: CDBG eligible economic development activities, acquisition of property, rehabilitation, CDBG eligible housing rehabilitation, public facilities improvements (includes site improvements, sidewalks, etc.), related relocation, clearance, and site improvements, payment of interest on the guaranteed loan and issuance costs of public offerings, debt service reserves, public works and site improvements. It is important to note that local governments pledge current and future Community Development Block Grant allocations to cover the loan amount as security for the loan.

Private Loan and Grants

Foundations are often able to fill gaps in funding for projects like this one. Below are descriptions of some of the foundations that may provide funds to this project. It is important to note that in the past, foundations have had limited involvement in development projects in Highland Park.

The **Community Foundation for Southeast Michigan** offers several grants that may be available for the Ford Highland Park Project. The Southeast Michigan Commercial Economic Development Fund supports commercial economic developments. A construction grant up to \$50,000 may be available to the project. This same fund offers an organizational development and predevelopment grant. It is possible to receive more than one grant from this fund, but not more than one grant from the same category (organizational development grant, predevelopment grant, and construction grant). Also, a grant up to \$10,000 from the Comerica Bank Community Economic Development Fund may be available for the project. It is important to note job training programs are not eligible for this grant. Before applying to either fund, the Community Foundation for Southeast Michigan should be contacted.

The **Ford Motor Company Fund** may have an interest in funding the project because of the history of the plant. Assistance offered by the Ford Motor Company Fund is comprised of the following areas: Education, Environment, Public Policy, Health and

Social Programs, Civic Affairs and Community Development, and Arts and Humanities. There may be an opportunity to receive a grant in one of the categories listed above for the Ford Highland Park Project.

The **John S. and James L. Knight Foundation** may be a source of financing depending upon the programming of the building. This foundation is committed to increasing the access and diversity of the arts in Wayne, Oakland, Macomb and Washtenaw Counties, but they are primarily focused on six neighborhoods in Detroit. The foundation is particularly interested in projects that involve minority and low-income populations.

The **Kresge Foundation** is traditionally associated with its challenge grants (Bricks and Mortar program) to non-profit organization's capital projects, but they also have specialized initiatives. For example, their Green Building Initiative offers a planning grant of \$25,000-\$100,000 to organizations who are considering developing a "green" building. The planning grant covers expenses incurred from professional services, energy analysis and modeling, materials analysis, ecological site planning, and leadership in energy and environmental design documentation. There was a Detroit Initiative but according to Kresge's website this initiative was only funded through 2003.

The **Nonprofit Facilities Center** has several programs that help non-profits plan the growth and/or expansion of their organization in an economically healthy way. One such program offers a **Planning Grant** of up to \$20,000 which is matched by the non-profit organization. The grant may be used for a variety of studies including economic feasibility, architectural planning, financial planning, building feasibility and market study.

The Nonprofit Facilities Center also offers a development grant, the **Capital Grant**. The Capital Grant provides support up to 20% of the total project budget (soft and hard costs), as long as the amount does not exceed \$250,000. Also, the Nonprofit Facilities Center has the ability to offer non-profits a low-interest loan for seven years in order to fill a gap in financing. The Nonprofit Facilities Center should be contacted to evaluate their interest in supporting this project with a grant or low-interest loan.

The **Michigan Interfaith Trust Fund** offers non-profit developers commercial and affordable housing loans within the State of Michigan. Depending upon the use of the Ford Highland Park Project, the project may qualify for a **Non-Profit Facility Loan**. This loan to non-profit organizations may be used to acquire, build or renovate buildings that offer services utilized by low- and moderate-income people.

Developer Financing

Capital Campaigns are often undertaken by non-profit organizations to solicit funds from foundations and other funders who find the services provided by a non-profit organization are consistent with the foundation's funding guidelines. Projects involving the rehabilitation of a historic structure are often extremely expensive. Many times conventional financing is not adequate to cover all rehabilitation costs. Thus, a capital campaign may be necessary to fill any gap in financing. Funds may be raised from individual donors, corporations and foundations.

The developer may opt to have a **Deferred Developer Fee**. This deferred fee is included as part of a tax credit calculation in the financial analysis and will be received through

cash flow. The figure may be based on 15% to 20% of the total development costs. The IRS allows for the 20% historic tax credit to be calculated against the Deferred Developer Fee. The fee would then be taken out of the project's cash flow.

Tax Credits

To receive **Federal Historic Tax Credits**, the building must be listed in the National Register of Historic Places, or the building must be listed in a registered local historic district and certified by the Secretary of the Interior as contributing to the historic significance of the district. If the building is listed and the project qualifies as a certified rehabilitation, the project will be eligible for a 20% federal historic tax credit on eligible investments. Once the building is listed, there is a three part application process to receive historic tax credits and this process can begin at any time.

If the building is not eligible for listing in the National Register of Historic Places it may be eligible for a **10% Rehabilitation Tax Credit** on eligible investments. The building must be constructed before 1936, non-residential, and the rehabilitation must be significant. This credit is claimed on the IRS Form 3468 and, unlike the 20% federal historic tax credit, there is no formal review process for receiving this credit.

To qualify for **State Historic Tax Credits** the project must be designated as a *certified rehabilitation* of a *certified historic resource*. If this occurs, the project may be eligible for a 25% state tax credit or, if combined with the federal historic tax credit, a 5% state tax credit on all eligible investments. The application process to receive State Historic Tax Credits is similar to the three step application process for historic tax credits and may begin at any time.

The project may qualify for **New Markets Tax Credits**, a federal program, which were created in order to support the creation of jobs, and encourage economic and community development. This tax credit program is utilized by commercial projects located in low-income areas. To qualify the project must be located in a census tract with a population that is at least 20% below poverty level or in a census tract where the median family income is below 80% of the area median income. Also, a minimum of 20% of the project's income must be generated from commercial venues. This program also allows for interest only payments for the first seven years of operation. The New Markets Tax Credit process is extremely fee heavy and is primarily utilized by larger projects.

Single Business Tax Credits, a state program, may be available to the project. The project site must qualify as a facility, functionally obsolete, or blighted property to be eligible for this program. The Single Business Tax Credit provides the owner with a 10% tax credit on eligible investment. The process to receive Single Business Tax Credits may begin at any time and may take six to nine months to reach a point when construction may begin. This is a three step process that includes the completion of the Project Notice of Intent, Brownfield Plan, and the Brownfield Redevelopment Credit Project Preapproval Application. **Tax Increment Financing (TIF)** may also be available to the project. TIF allows for the capture of local and school property taxes for brownfield redevelopment projects.

Property Tax Abatement

Another resource that may financially assist in the project's economic feasibility is the designation of the property as an obsolete building under the **Obsolete Property**

Rehabilitation Act. The award of an Exemption Certificate, based on the building's eligibility as a functionally obsolete property, may result in property tax abatement for up to twelve years. Receiving a property tax abatement can play a large role in a project's economic feasibility, particularly during the first few years, because the burden of higher taxes has been alleviated.

FINANCIAL MODEL OF THE FORD ADMINISTRATIVE BUILDING

Below is an example of how the Ford Administrative Building, which is located at the former Ford Highland Park Plant, might be financed. Please note, this example of sources and uses for the project are for **demonstrative purposes only** and do not reflect "real" project costs.

Ford Highland Park Administrative Building Sources and Uses December-05

Sources

Loan	\$	3,771,252
Equity - Federal Historic Tax Credit	\$	1,381,413
Equity - State Historic Tax Credit	\$	222,809
Equity - Single Business Tax Credit	\$	475,617
Equity - New Markets Tax Credit	\$	1,905,780
Total	\$	7,756,872

Uses

Land and Building	\$	500,000
Construction (45,200 @\$100)	\$	4,620,000
Contingency (10%)	\$	462,000
A/E (8%)	\$	406,560
Environmental Report	\$	10,000
Environmental Remediation	\$	500,000
Insurance	\$	50,000
Appraisal	\$	10,000
Legal - General	\$	75,000
Legal - Investor	\$	40,000
Legal - Community Development Entity	\$	70,000
Legal - Historic	\$	25,000
Economic Consultant	\$	60,000
Accountant	\$	40,000
Development Fee	\$	500,000
Closing Fee (4%)	\$	227,081
Administration (.5%)	\$	2,839
Working Capital Reserve ¹	\$	-
Loan Loss Reserve ¹	\$	-
Construction Period Financing (7%)	\$	158,393
Total	\$	7,756,872

¹ Reserves may be required as a part of the New Markets Tax Credit Program.