

Giving a Decommissioned Military Base New Life

Financing economic development using New Markets Tax Credits can be complicated, but a Maine collaboration shows that it can provide jobs and benefit an entire region.

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In 2005, the Federal Base Realignment and Closing Commission voted to close Naval Air Station Brunswick (NASB) in Brunswick, Maine. With that decision, Maine and several Midcoast communities began preparing for losing roughly 5,000 military and civilian jobs and \$330 million in annual regional income.¹

The Maine legislature responded first by establishing the Midcoast Regional Redevelopment Authority (MRRA) to acquire and manage the former base, recover from economic losses, and ensure the maximum potential redevelopment of the property.² The state also tapped federal transitional funding for developing and implementing a comprehensive plan to redeploy the base's assets, including its fully operational airfield, approximately 1.5 million square feet of commercial and industrial space, and nearly 1,100 housing units on more than 3,300 acres.

Under the closure process, federal incentives were available to attract new businesses and private-sector investment. The property was eligible for the New Markets Tax Credit (NMTC) program and was approved as a foreign-trade zone.³ The state added more business incentives by incorporating the commercial area into both its Pine Tree Development Zone—a tax rebate and reimbursement program—and the Maine Apprenticeship Program.⁴ The base was then renamed Brunswick Landing and marketed to aviation, aerospace, advanced-materials, renewable-energy, biotechnology, and information-technology sectors.

Steve Levesque, MRRA executive director, praises all those factors and notes in particular, “The utilization of the NMTC program proved to be a very valuable financing tool that enabled this project to happen.”

New Markets Tax Credits

In late 2010, a year before base closure, the MRRA issued a request for proposals (RFP) to financial institutions to provide \$14 million for the construction and permanent financing of a new 80,000-square-foot manufacturing facility. The RFP called for a senior leverage loan and a NMTC equity investment that together would provide for a state-of-the-art, sterile-environment manufacturing facility on leased land. MRRA had a prospective tenant in mind: a subsidiary of a Swedish multinational medical- and surgical-supplies manufacturer, Mölnlycke Health Care US LLC.

According to Mölnlycke Health Care site manager James W. Detert, “The strong team effort putting together the New Markets-based financing was instrumental in our decision to locate this critical factory in Maine, at Brunswick Landing.”

The NMTC program was established by Congress in 2000 to spur new private-sector capital investments into operating businesses and real estate projects in low-income communities. Eligible census tracts are those experiencing high rates of poverty, low median incomes, or other economic hardship. Certain “targeted areas” may be eligible if they have inadequate access to investment capital. For example, disaster zones such as the post-Katrina Gulf region and decommissioned military bases are eligible. (See “Economic Conditions near Naval Air Station Brunswick.”)

The program attracts low-cost capital by permitting investors to receive a credit against their federal income tax: 39 percent of the original investment, taken over seven years. The NMTC program provides for both flexible project financing and significant equity-like capital that remains with the project at the end of the NMTC compliance period. The program essentially provides tax-credit-advantaged financing for seven years for start-ups or expansions.

NMTC arrangements typically combine loan and tax-credit equity investments through a pooling entity. The money is then lent to the project using a special-purpose intermediary lender. Most often the loan is structured on a nonamortizing, interest-only basis until the compliance period ends. At that point, the borrower must seek conventional financing, but only to refinance the senior debt. The NMTC equity investors will have fully recouped their funding through tax credits.

The NMTC program is available only through a certified community development entity (CDE), a corporation or partnership that provides loans or investments to low-income communities and that has received a competitively awarded NMTC allocation from the U.S. Department of Treasury's Community Development Financial Institution (CDFI) Fund.⁵

The CDE syndicates the tax credits to private-sector investors and establishes a single-purpose intermediary lender for the project (a sub-CDE) to deploy the pooled loan and equity investment funds as a secured loan to a qualified business borrower in an eligible census tract. The CDE that receives the allocation acts as managing member of the intermediary lender group, enforcing the loan agreements with

**ECONOMIC CONDITIONS
NEAR NAVAL AIR STATION
BRUNSWICK (NASB)***

DID THEY TAKE OFF?



POVERTY RATE**

NASB

6.2%

2000

3.9%

2007-2011



12.4% **14.3%**
2000 2007-2011

Cumberland County, ME

7.9% **10.7%**
2000 2007-2011



10.9% **12.8%**
2000 2007-2011

Portland-South Portland-Biddeford Metro Area, ME

*** **9.9%**
2000 2007-2011

The poverty rate in the NASB went down but worsened in the county, state, and nation.

MEDIAN FAMILY INCOME**

\$40,652

2000

\$50,915

2007-2011



\$50,046 **\$64,293**
2000 2007-2011

Cumberland County, ME

\$54,485 **\$73,913**
2000 2007-2011



\$45,179 **\$60,021**
2000 2007-2011

Portland-South Portland-Biddeford Metro Area, ME

*** **\$70,682**
2000 2007-2011

The median income for families in the NASB area rose but remained below national, state, county, and metro levels.



*Naval Air Station Brunswick (NASB) is in U.S. Census Tract 23005011100, part of Cumberland County, Maine.

**To qualify for New Markets Tax Credits (NMTC), the poverty rate in a U.S. Census tract must be at least 20 percent. Otherwise, the median family income in a tract that is not within a metropolitan area must be less than 80 percent of the statewide median or the median family income for a tract within a metropolitan area cannot exceed 80 percent of the greater of statewide or metropolitan area median family income.

*** Because of changes in geographic definitions used for determining NMTC eligibility, 2000 data for NASB are compared with data for Portland's metro area (Cumberland County), and 2007-2011 data for NASB are compared with data for the Portland-South Portland-Biddeford metro area.

Source: 2000 Census, 2007-2011 American Community Survey, and Community Development Financial Institutions Fund.

Information graphic Tom DeCoff/iStockphoto

the borrower until the end of the compliance period. CEI Capital Management LLC, a subsidiary of Coastal Enterprises Inc., of Wiscasset, Maine, was the CDE for Brunswick Landing.⁶

“New Markets transactions provide significant benefit to project financings and therefore the low-income communities in which they are located. But they are never easy,” admits Charlie Spies, the CEO of CEI Capital Management. “We harnessed expert resources and incredible cooperation to make this deal happen.”

Hard-Won Benefits

The Mölnlycke project at Brunswick Landing presented challeng-

es but promised winning returns for multiple constituencies. The project would be a win for Mölnlycke Health Care, the international investor that wanted to create skilled manufacturing jobs and expand its reach. It would be a win for MRRRA's strategy to attract new business and develop new employment opportunities (while gaining experience leveraging federal and state financial incentives).

For CEI, it's a win whenever a project supports its mission to foster economic and community development. For financial institutions, acquiring institutional capacity to work on a major commercial venture while receiving consideration under the Community Reinvestment Act is a win, too. Most important, the \$14 million

Celebrating the start of construction at Brunswick Landing.



Photo Midcoast Regional Redevelopment Authority

construction project should make winners of local construction workers, contractors, suppliers, and the 50 new skilled-manufacturing workers and 70 employees at nearby company facilities.

Of the two financial institutions that ultimately provided financing, Bangor Savings Bank, Maine's largest mutual community bank, provided the senior-debt component that would extend through the full 20-year lease. It also acted as construction lender. Wells Fargo Community Investment Holdings, a division of California-based Wells Fargo Bank, provided funding for the NMTC equity investment. Coastal Enterprises Inc. provided gap financing.

It helped that both Bangor Savings and Wells Fargo had experience with NMTC-structured transactions and a fundamental understanding of how to get to closing. However, before closing could occur, both institutions had to engage in the comprehensive underwriting and due diligence necessary to determine that the project was financially viable and that their respective commitments conformed to their respective credit standards, documentation requirements, and risk-adjusted rate-of-return expectations. Moreover, the underwriting process had to align with the decommissioning of the base and the transfer of the property to MRRA, while also meshing with the design, bidding, construction-planning, and occupancy schedule of Mölnlycke Health Care and conforming to the financial modeling, structuring, documentation, and tax and legal opinions required by CEI Capital Management.

It was a steep and winding road to the final days before closing in late 2011, one that included numerous conference calls with the principals and their attorneys across nine time zones. Despite the inevitable obstacles, the public, private, and nonprofit stakeholders who took part remained focused on the goal of making a properly structured and productive investment, creating new and sustainable employment opportunities, and building a more prosperous future for the community.⁷

Beyond Mölnlycke Health Care, Brunswick Landing is now home to other advanced-technology companies, including the

American Bureau of Shipping and Integrated Marine Systems, which provides engineering and design services, and Oxford Networks, providing information-technology and data-security solutions. And according to the MRRA, the effects are likely to multiply as the "Maine Technology Institute (MTI), also located at Brunswick Landing, works with entrepreneurs, innovators, established businesses, and institutions conducting research and development to help them fund and grow their big ideas."⁸

Brunswick Landing is now the newest campus of Southern Maine Community College (SMCC), providing easy access for continuing education, degrees, and customized training for employers, employees, and area residents. And in a partnership with the University of Maine's College of Engineering, SMCC now hosts the Maine Advanced Technology and Engineering Center, which collaborates with industries to achieve an educated workforce for the businesses at Brunswick Landing as well as throughout the Midcoast region and the state.

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Endnotes

- 1 The Midcoast region includes cities and towns west of the Penobscot River Bay, including Belfast, Boothbay Harbor, Brunswick, Camden, and Rockland.
- 2 See <http://www.mrra.us>.
- 3 Foreign-trade zones enjoy reduced trade barriers, relief from customs duties, and other advantages to attract international investment. See ia.ita.doc.gov/ftzpage/info/ftzstart.html.
- 4 See <http://www.mainecareercenter.com/services-programs/training/apprenticeship/index.shtml>.
- 5 See <http://www.cdfifund.gov>.
- 6 See <http://www.ceimaine.org>. For another of CEI's successful New Markets Tax Credit initiatives see David Vail, Keith Bisson, Kate Williams, et al., "Collaborating to Save Northern Forest Tourism," *Communities & Banking* 23, no. 1 (winter 2012): 28.
- 7 For data on how the industries in which the local labor force is employed have shifted since 2000, see <http://www.bostonfed.org/commdev/c&b/index.htm>.
- 8 See http://www.mrra.us/images/Regional_Profile_2012.pdf.

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