



# Novogradac Journal of Tax Credits

News, Analysis and Commentary On Affordable Housing, Community Development and Renewable Energy Tax Credits

December 2015 • Volume VI • Issue XII

Published by Novogradac & Company LLP

## ‘New’ Approach to Make Small Historic Tax Credit Investments Easier

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**W**hen Maine Farmland Trust sought a federal historic tax credit (HTC) investor for its plan to convert a 1898 school house into the Unity Food Hub in Unity, Maine, it faced a familiar problem: The transaction seemed too small for investors.

“It’s sort of a standing rule in many businesses—scale is important,” said John Leith-Tetrault, founding president of the National Trust Community Investment Corporation (NTCIC) and chairman of the Historic Tax Credit Coalition (HTCC). “[A large investment] spreads transaction costs over a larger budget. A smaller project’s transaction costs are higher relative to the value of the credit. You have to ask if it’s worth it.”

Maine Farmland Trust, a small nonprofit corporation, eventually teamed up with the MainStreet America Fund, a new fund that specializes in small HTC projects, on the \$1.2 million transaction. The approach was simple: standardized forms and little negotiation—possibly a template for future success.

Tom Boccia, a partner in Novogradac & Company LLP’s Cleveland office, said it’s always more difficult to get investors for smaller deals. “If there’s a \$5 million deal and a \$1 million deal, it takes the same amount of effort,” he said. “There are a lot of fixed transaction costs that go into it.”

Transaction costs aren’t the only difficulty with smaller HTCs. “When you’re dealing with smaller deals, for many developers, it’s a one-off or their first deal,” said Shawn Whitney, an attorney with Spencer Faine in Springfield, Mo., who worked with the MainStreet America Fund on its legal forms and plan. “They don’t understand why they need so many projections and other things. They might not have relationships with sophisticated accountants and lawyers. It’s a steep learning curve.”

There are financial complications, too. “When you have a larger developer, it probably has the strength to get conventional bank financing,” said John Panno, senior vice president of tax credit equity at Bank of America. “Smaller deals often have eight to 10 financial sources, so there is a lot more going on—government agencies, foundations and more. Smaller deals require just as much due diligence by the investor.”

### New Look at a System

MainStreet America Fund hopes to change the small HTC paradigm by emphasizing simplicity. “This whole firm was created for small deals,” said Michael Chesler, the fund’s owner. “We set up every process for it. It was by design.” The fund created what Chesler calls “an expedited, streamlined process on a volume basis. We have a set of legal documents that are fixed and proven,” he said. “We can tell the developer what it is and what to expect, which allows them to close the deal quickly

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with little negotiations. We're confident in our set of legal documents, we're so confident that it won't require a tax opinion."

It's an aggressive approach using a familiar formula.

"All of us who have had small-deal funds have followed this approach," Leith-Tetrault said. But Leith-Tetrault said the simplicity of standard forms doesn't solve all the difficulties with smaller HTCs. "NTCIC has dedicated parts of its new markets allocation to small Main Street Deals that twin the new markets tax credits with historic tax credits," Leith-Tetrault said. "[Large investors] aren't really interested in doing them. We will have to find a local bank or civic-minded corporation that has a community commitment. We'll have to go out there and find them and educate these investors on two different credits."

MainStreet America Fund's solution is simple: it acts as the investor and it reduces expenses. "There are ways to mitigate costs and make the closing smoother," Whitney said. "First is communication with the developer, investor and lender. In a small deal, you can't negotiate every line. Some are nonnegotiable. We've tried to come up with fundamentally fair documents. Maybe they're not as investor-friendly as you could negotiate, but they're fair."

### Making It Happen in Maine

Maine Farmland Trust is a believer after funding its food hub, which provides a central location for farmers to bring their produce for resale to restaurants. LouAnna Perkins, senior legal counsel for the Maine Farmland Trust, encouraged the group to pursue HTCs partly because she had experience working with new markets tax credits (NMTCs) and knew it was a way for the nonprofit to help cover its cost. She was unaware of the difficulties involved in getting HTC financing as a smaller property until she began looking for investors.

"I scoured the country, doing research and calling people," Perkins said. "I worked hard to find anybody." By the time she had narrowed it down to a few potential investors, the hub was less than two months from opening. Perkins reached an agreement with MainStreet America.

"They were going to keep the credits themselves, but they were a nonprofit and needed every penny they could get. I flew up there and we did the deal," Chesler said. "It was

the kind of deal no one in the right mind would do. But it's the iconic deal. No one else would do it."

Perkins said her organization was committed to use the Maine state HTC, which is available to nonprofit developers. "But having a federal investor use tax credits really lifted our ceiling," she said. "We got three to four times the benefit." The Unity Food Hub held its grand opening Oct. 1.

### Focus on Smaller Deals

Chesler's fund is unusual. While many major HTC investors have a small-deal branch, his group deals exclusively with smaller transactions.

"As far as I know, we're the only small deals fund," said Chesler. "We go as low as we can go—down to \$200,000 or \$250,000 federal credits. Most projects costs are \$1 million to \$15 million."

While MainStreet America Fund focuses exclusively on the small deals, the big boys in the investment world remain interested. Panno said that Bank of America still seeks smaller deals, often because they often are in crucial communities, particularly Community Reinvestment Areas (CRAs).

Panno said there are ways that developers can make things easier when dealing with larger institutions. "When a smaller developer gets into a project, it can come to us with a solid due-diligence package," Panno said. "I think it's a good idea to ask ahead of time for a checklist and the come with the information in hand. You supply the bank with what it needs and realize there's not going to be a lot of negotiation. The bank isn't going to overreach as it wants to keep doing smaller deals in a streamlined process."

### Long-Term Success?

The long-term viability of the MainStreet America Fund plan comes down to finances. "I'd think that if you can do a high volume, you can make money," Leith-Tetrault said. "If you can get volume going and have a low overhead, you can do it."

Chesler said it was too early to see if it's working. "The fund really started to work in the first quarter of this year, so it's only been about six months," Chesler said. "We

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closed three deals and are about to close a couple more. We'll see how successful we are."

Leith-Tetrault also said small deal funds are ideal for mission-driven organizations. "If you're just in it for profit, it's a tough row to hoe," Leith-Tetrault said. "It's hard to do it as a standalone line of business unless it's about the mission or you can manage to achieve a high volume."

Chesler said he has already seen other funds duplicating his efforts—even using the same structure. "It's a form of flattery, I guess," he said. "Whether it will be a big switch or not, time will tell. It's a competitive business."

Whitney, the man responsible for most of the company's forms and legal strategy, thinks the approach will work. "I think funds that specialize in small deals make it easier," Whitney said. "They have relationships with accountants, lawyers and have systems in place. That can lead to longevity. There's definitely a niche in the marketplace for it."

Time will tell whether an approach such as MainStreet America Fund's will fill that niche. ❖

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*This article first appeared in the December 2015 issue of the Novogradac Journal of Tax Credits.*

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ISSN 2152-646X