

SEATTLE INVESTMENT FUND LLC

Memorandum

Date: March 20, 2012

To: Council President Sally Clark, Chair of Economic Resiliency and Regional Relations Committee; Councilmember Tom Rasmussen, Vice-Chair; Councilmember Richard Conlin, Member; Councilmember Jean Godden, Alternate

From: Stephen H. Johnson, Director, Office of Economic Development

CC: Maria Barrientos, Investment Committee Member, Seattle Investment Fund LLC
M.A. Leonard, Investment Committee Member, Seattle Investment Fund LLC
Sue Taoka, Investment Committee Member, Seattle Investment Fund LLC

Subject: Annual report on the activities and progress of Seattle Investment Fund LLC

I am pleased to submit the first annual report of Seattle Investment Fund LLC, pursuant to Council Ordinance 123284.

Background

The City of Seattle – Office of Economic Development (“OED”) created Seattle Investment Fund LLC (“LLC”) to apply for an allocation of New Markets Tax Credits from the federal government in order to attract financing for catalytic business and real estate projects.

The New Markets Tax Credit (“NMTC”) is a 39% credit against federal income taxes that can be claimed in exchange for providing financing to projects located in low-income areas. Only certain entities, known as Community Development Entities (“CDEs”), have the right to distribute NMTCs to investors. A CDE obtains its allocation of NMTCs through an annual application process with the federal Treasury Department. Treasury has awarded the bulk of NMTC allocations to CDEs managed by national banks and national nonprofits. The City’s LLC is one of a few government controlled entities that has received NMTC awards.

In 2009 and 2010, Treasury awarded the LLC with the authority to distribute NMTCs on a total of \$51 million worth of business and real estate investments. In April 2010, Council Ordinance 123284 approved policies that clarified how the LLC would manage investments of NMTCs.

Council authorized OED to administer the NMTC program. Moreover, Council approved the creation of an Investment Committee to approve investment decisions for the NMTC program and a separate Advisory Board to provide additional input on policy issues and investment decisions. The following is the current roster of the Investment Committee and Advisory Board.

Investment Committee

Deputy Mayor Darryl Smith
Council President Sally Clark
M.A. Leonard, Enterprise Community Partners
Sue Taoka, Craft3
Maria Barrientos (Advisory Board representative
on the Investment Committee)

Advisory Board

Greg Anderson, JP Morgan Chase
Maria Barrientos, Barrientos, LLC
Johnny Bianchi, B&G Machine, Inc.
Michael Brown, Seattle Foundation
Shaiza Damji, 360 Hotel Group
Tony To, Homesight
Vacant Position

Achievements to Date

After receiving its first allocation in late 2009, the LLC has been active in establishing its organizational systems, building an investment pipeline and closing transactions. The following summarizes the NMTC transactions closed to date and transactions projected to close in 2012.

NMTC Transactions Closed to Date (\$30 million)

Pike Place Market II (March 2011; \$10 million NMTC allocation)

- NMTC funding assisted in the Phase II renovation of the Market and assisted small businesses impacted by the renovations. Market businesses received tenant improvement and temporary relocation assistance, which was not covered under the voter-approved levy. Phase II including tenant improvement work is nearly complete.
- **Public Benefits: Assistance to over 60 small businesses impacted by renovations.**

Bullitt Center (July 2011; \$10 million NMTC allocation)

- NMTC funding assisted in the acquisition and construction of Seattle's first commercial building that will meet "living building" standards, exceeding LEED energy efficiency certification. Upon completion, the Bullitt Center will include a Center for Energy and Urban Ecology that will offer green building certificate degree programs and develop new databases for hazardous material identification and locally produced material that will serve as a future resource for new projects. Construction has commenced and will be completed in 2012.
- **Public Benefits: Creation of 141 permanent jobs and energy efficiency improvements.**

INSCAPE (October 2011; \$10 million NMTC allocation)

- NMTC funding assisted in the acquisition and renovation of the historic INS building. Upon completion, INSCAPE will offer affordable commercial working space for local artists / creative professionals. Renovation has been completed within budget and lease-up is underway.
- **Public Benefits: Creation of 40 permanent jobs, retention of 60 permanent jobs and installation of interpretive exhibits designed by Wing Luke Asian Museum which will acknowledge the importance of the building's history to Seattle's immigrant communities.**

NMTC Transactions Projected to Close in 2012 (17 million)

North Lot Podium (March 2012; \$10 million NMTC allocation)

- NMTC funding will assist in the construction of the initial podium phase of the North Lot project.
- **Public Benefits: Development of 48 residential units (30 of which will be affordable below 70% median income), 19,000 square feet of commercial, and creation of 38 permanent jobs.**

Retail Lockbox (May 2012; \$7 million NMTC allocation)

- Pending underwriting approval by the LLC, NMTC funding will provide long term financing to this minority-owned business for the acquisition and renovation of the historic building formerly owned by the Urban League at Yesler. The Urban League will continue to lease space in the building for an additional three years.
- **Public Benefits: Creation of 40 permanent jobs (20 will be created in the next two years) and retention of 80 permanent jobs.**

Future Initiatives

Due to transaction costs and investor preference for larger projects, NMTC projects generally need to be in excess of \$5 million. To support small business projects under \$5 million, the LLC has made a commitment to invest a portion of fees earned from its NMTC transactions.

For example, the LLC invested \$100,000 in fee revenue to support façade improvement projects in low-income areas. OED issued an RFP for façade improvement projects, indicating a priority for projects to work in tandem with the City's *Only in Seattle* business district grant program and projects contributing matching funds. The LLC's Investment Committee selected projects under the following investment criteria:

- Project that improves the physical appearance of a business district, including but not limited to façade renovations, improved signage, awning replacement and painting;
- Predominant benefit of improvements accrues to small business owners (e.g., increased customer traffic, increased sales, stronger neighborhood identity);
- Improvements occur in business districts serving low and moderate income residents;
- Improvements are concentrated in a small geographic area to maximize cumulative impact;
- Project management capacity is available to reduce administrative costs and ensure compliance with associated rules and regulations

Under this criteria, the Investment Committee approved \$100,000 in awards for three areas:

- Columbia City – Rainier and Hudson
 - Community Arts Mural, Esmay Building and Royal Esquires Club (mural, windows, painting and masonry repair)
 - \$35,970 awarded; \$85,585 match required
- Central District – 20th and Jackson and 23rd and Union
 - Pratt Fine arts, Jaam Rek, Former Philly Cheesesteak Bldg, Former Thompson's Point of View Bldg (signage, lighting, awnings, windows, painting)
 - \$32,500 awarded; \$34,272 match required
- International District/Chinatown/Little Saigon
 - Jackson Building (Momo and Kobo), C&T Bldg, Vietwah (signage, lighting, awnings, painting)
 - \$31,530 awarded; \$41,420 match required

In the LLC's Investment Committee's first quarter meeting in April 2012, OED will make recommendations for investment of up to \$400,000 in additional fee revenue. OED will recommend investment in an ongoing façade improvement program and an ongoing entrepreneur technical assistance program. The goal of such investment will be to build on the City's existing efforts to assist small businesses as well as fill gaps in technical assistance not currently offered by private technical assistance providers. OED will work closely with the Mayor's Office and Council Central Staff in making the investment recommendations. Recommendations will provide details on measurable outcomes and explain how such programs will achieve public benefits as required by Council approved NMTC policies.

OED also intends to submit a new NMTC application in July 2012 (projected due date) with awards to be announced in 2013. It is expected that the 2013 application round will be as competitive as previous rounds. The LLC unfortunately did not receive an award this year despite scoring highly on its application. If the LLC finalizes the North Lot and Retail Lockbox transactions this year, the LLC will be in very strong position to receive an award due to its success in investing \$47 million out of \$51 million of its allocation awards. With respect to the remaining uncommitted \$4 million, the LLC is actively looking to invest it. However, it will be difficult to invest the \$4 million unless the LLC can identify a

large project that already has a NMTC commitment from another CDE and needs an additional \$4 million in NMTCs. Alternatively, the LLC could retain the \$4 million and add it to a new award of NMTCs.