MRRA
Midcoast Regional
Redevelopment Authority

January 24, 2012

Mr. Robert Ibanez
New Market Tax Credit Program Manager
CDFI Fund
U.S. Department of the Treasury
601 Thirteenth Street North West, Suite 200 South
Washington, DC 20005

Re: Response to Request for Public Comment on the New Market Tax Credit (NMTC) Program

Dear Mr. Ibanez:

The Midcoast Regional Redevelopment Authority (MRRA) in Brunswick, Maine is charged with the redevelopment of the former Naval Air Station Brunswick that was decommissioned on May 31, 2011. The facility, now known as Brunswick Landing and Brunswick Executive Airport, is under the control of MRRA and is in the process of ongoing redevelopment. The facility is located in an eligible NMTC Census Tract, and a MRRA affiliate, Brunswick Landing Economic Development Company, LLC (BLEDCL), was recently approved as a CDE in CDFI's NMTC program. BLEDCL has an application pending with CDFI for an allocation of NMTC in the current round of funding requests.

MRRA is respectfully offering comments to address concerns and issues under two of the six areas that CDFI is soliciting comments. MRRA has both direct and indirect experience in these areas.

1. Census Tract Eligibility and Commitment to Areas of Higher Distress
2. Transaction Costs.

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1. Census Tract Eligibility and Commitment to Areas of Higher Distress

In a letter addressed to you on June 29, 2011 by CEI Capital Management, LLC (CCML), one of CDFI's most successful allocatees, they very eloquently state the case for awarding higher distress points for communities or census tracts that have or will undergo the BRAC process. A copy of that letter is attached for your reference. A military base closure through the BRAC process has a sudden, severe, and long lasting impact with significant distress consequences that ripple through the host community, surrounding towns and the region as a whole. Besides the immediate elimination of direct military jobs, civilian jobs and contractor jobs are eliminated as well. There is a significant economic multiplier effect that sends shock waves through the community, affecting the sale of goods and services, tax bases, indirect jobs and purchasing power, all with effect of impacting the most vulnerable members of a community's society – the low income. Municipal tax bases are affected as are school enrollments and budgets. Youth migrate out of a community in search of better economic prospects. This latter point forestalls economic development efforts as prospective employers weigh heavily the challenge of finding a capable work force.

By giving consideration to a higher distress rating, CDFI can take a preemptive role in stabilizing a community through assisting that community in becoming proactive to a distress-causing situation versus being reactive over a much longer time frame when resources and human capital have migrated elsewhere.

In consort with considering a higher distress ranking for BRAC communities, MRRA also strongly urges CDFI to consider a waiver on rural allocation emphasis. MRRA supports, on a nationwide basis, waving the 75% emphasis on rural allocation restrictions for allocatees that have the capacity to apply available allocations to BRAC-based community projects in eligible census tracts.

2. Transaction Costs.

At the May 2011 Annual Summit Meeting of the Council of Development Financing Agencies, Director Donna Gambrel gave a key note speech. During the open microphone question and answer period, a MRRA staff member courteously asked the question, "[I]s CDFI planning to review what appears to be exorbitant costs for closing NMTC transactions?" That question prompted significant follow-up questions from the audience on the same topic.

MRRA has two firsthand experiences related to NMTC transactions that occurred recently at Brunswick Landing.

The first case study involves an aeronautical tenant of MRRA. The Company is engaged in a three year build out and will involve closing approximately $80,000,000 in NMTC related financing. The first of three proposed NMTC financing tranches was concluded in the spring of 2011. The follow-on funding tranches are in jeopardy due to the expense of the program and scarcity of a non-rural allocation. The cost of closing the first tranche of NMTC represented approximately 32.9% in transaction-related costs as a percent of the value received. Fees included in the transaction costs include legal, professional, rating agency and allocatee fees. Additionally, funds were allocated to required reserves and future unwind fees. The total transaction size was $20.7M, with $7,200,000 being derived with NMTC debt and equity. The total transaction closing time frame was an unacceptable six months.

The second case study is one in which MRRA was directly involved as investor and borrower. This transaction of $14,300,000 involved a leverage loan of $10,300,000 and an equity investment of $4,000,000. The closing costs directly attributable to NMTCs in this transaction were $985,800, which represents 7% of the total transaction costs and 24% of the NMTC benefit. (Legal fees alone were almost 4% of the transaction cost.) The closing time frame from when a NMTC investor was identified to actual closing was an unacceptable seven months.

MRRA offers the following suggestions for improving the NMTC program from a cost and transaction timing perspective.

1. A model exists for capping costs on another extremely beneficial economic development tool: Industrial Revenue or Private Activity Bonds places a transaction cost restriction of 5% on issuance costs for bonds issued after approximately 1986. This, like the NMTC program, is a Federal Tax Code governed program. The cap was place on bonds to insure efficiency and maximize the amount of proceeds going into a project. Issuance costs in excess of 5% can be financed outside the transaction, but this gives the ultimate beneficiary of the bond, shopping and negotiating power to seek out lower cost forms of legal and professional services.

2. The regulations and Code need to be examined to streamline the program, which will ultimately reduce transaction costs. Some practical suggestions are:

    a. Call a spade a spade. If loans and equity are truly intended to be in a deal for a seven year NMTC period, then dispense with the need to calculate and document a put or call unwind feature. This simplifies documentation and transaction cost.

b. Standardize documentation. There should be a uniform set of federal documentation applicable to all transactions. Again I reference the Private Activity Bond model, where there are specific sets of core transaction documents applicable to either a public offering or private placement. In the NMTC program, core documents can also be created. Only documentation required by applicable state law, or documents truly unique to a specific transaction, should be made necessary.

c. Cap legal fees and allocatee fees. Permit only a portion of fees to be paid up front, creating either an amortization schedule for fees or a fee annuity to be paid to allocatees and attorneys over the seven year period.

d. Eliminate the put and call features. Eliminate this artificial barrier and the necessity for significant backend or unwind are eliminated or otherwise substantially reduced.

MRRA appreciates your daunting task in considering comments on this complex program. Thank you for the opportunity to share our comments aimed at offering constructive suggestions for improvement of the program. Should you require any clarification, please do not hesitate to contact me.

We look forward to continuing our participation in the NMTC program to assist us in fulfilling our economic redevelopment mission.

Respectfully,

Steven H. Levesque
Executive Director

CEI CAPITAL MANAGEMENT LLC

June 29, 2011

Mr. Robert Ibanez
New Markets Tax Credits Program Manager
CDFI Fund
U.S..Department of Treasury
601 Thirteenth Street, NW, Suite 200, South,
Washington, DC 20005

Re: Request for consideration of targeted Higher Distress designation for NMTC Qualified Census Tracts located in former US military bases closed under the 2005 Round of the Defense Base Closure and Realignment Commission (BRAC) process.

Dear Mr. Ibanez:

CEI Capital Management LLC ("CCML") is subsidiary of Coastal Enterprises, Inc. ("CEI"). CEI has been awarded an aggregate total of $683 million in New markets Tax Credit (NMTC) allocation authority in various allocation rounds. It has authorized CCML to deploy and manage this allocation and in this capacity CCML has closed 43 transactions and has nine more in various stages of the closing process.

The purpose of this letter is to respectfully request that the CDFI Fund consider:

> Inclusion of Base Realignment and Closure ("BRAC") status as qualifying criterion for targeting areas of "Higher Distress" when an NMTC qualified census tract is located on such a property. Our preference is that this be made a primary criterion sufficient to qualify an NMTC census tract as Higher Distressed. However, in lieu of that, we ask that the CDFI Fund consider including it as a secondary criterion that in combination with other criteria may qualify the tract as Higher Distressed.

CCML has first-hand experience with negative community impacts stemming from the BRAC process. Two major BRAC closings in Maine have caused considerable economic hardship to local communities. The most recent closing at Naval Air Station Brunswick, located in Brunswick, Maine, was scheduled as part of the 2005 Round of the BRAC process. Per the Office of Economic Adjustment within the U.S. Department of Defense (OEA) the closure of the Naval Air Station will create the direct loss of approximately 5,720 local jobs[1]. The decommissioning of the Naval Station began in 2008 and will conclude this summer. In a population catchment area of 77,828 people this job reduction accounts for fully 7% of the population, just in direct job losses. The Maine State Planning Office projects $140 million of lost direct annual income to the families affected. For every direct job loss on the base for both military and civilian workers, it is estimated that nearly two additional civilian workers will be displaced due to loss of local consumer spending and related economic activity[2]. The impacts go well beyond direct jobs and payroll. A recent housing study

[1] Source: Defense Community Profiles, November 2009, as published by the Office of Economic Adjustment, U.S. Department of Defense.
[2] From Understanding the Impact: Closing Naval Air Station Brunswick, Maine State Planning Office, January 2007.

projected that 2,300 units would be released onto the market by 2011; the veracity of this projection is now supported by a current vacancy rate of 30% for rental units in the area[3]. This is three times the historic average. Being based in Maine with staff that lives in the affected communities, CCML can see the impacts every day of the Naval Station being closed. All of this comes on top of the damage caused by the devastating global recession of 2008 and 2009 with a very slow recovery still just beginning to occur.

Through the decommissioning process, the former Naval Air Station, is now operated by the Midcoast Regional Development Authority (MRRA) and has been renamed Brunswick Landing. MRRA is just beginning its work but has been more successful than many BRACs redevelopment authorities in stimulating economic activity[4] by attracting private companies to locate on the site of the former Naval Air Station. It has already seen the use of the NMTC program to enhance this activity and serves to demonstrate the catalytic role that NMTC can play.

The prevailing global economic uncertainty makes raising capital challenging for all, but as an early-stage economic development entity MRRA is less well positioned than most as it has limited cash flow and borrowing capacity. Brunswick Landing is located in an eligible NMTC census tract and, NMTC allocation provided by CCML has been a significant factor in MRRA's success attracting business and creating new jobs. Kestrel Aircraft Corporation (described in more detail in Appendix A) is the first example of the successful use of the NMTC program on the air station. However, Brunswick Landing is not in a targeted higher distressed census tract using current criterion provided by the CDFI Fund. This is impeding MRRA's ability to attract additional NMTC allocations despite continuing capital needs. As you well know most allocatees commit to placing 75% or more of their allocation with tracts that meet targeted higher distress designations as prescribed by the CDFI Fund. Tracts that do not meet higher distress designation are much less attractive to allocatees, or in the case of CEI which although strongly committed to Maine is limited from further NMTC participation due to the higher distress constraints.

Negative community impacts like those described here for Brunswick, Maine are being replicated nationally in many of the communities affected by the 2005 BRAC Round. Brunswick Landing is one of 39 BRACs in the US, all of which have been decommissioned since 2005. To get a better sense of the overall impacts, the CCML staff reviewed data provided in the OEA report entitled "Defense Community Profiles" which was produced in 2009 and is cited under Footnote 1. It then developed a summary listing of communities that are affected by BRAC closures and which military installations have NMTC qualified census tracts comprising all or part of property (Appendix B).

The analysis shows that in total these facilities employed over 108,000 people directly and accounted for many more secondary jobs and much more significant secondary economic activity in communities. The sudden and very damaging loss of jobs and population Brunswick suffered is characteristic of such base closings. There is a significant lag in quantifying the impact on communities by the decennial Census; in fact none of the 2000 Census data with which we are operating for NMTC purposes picks up the impacts of the 2005 round of base closings. Of the 39 BRACs, 16 (accounting for over 64,478 of the direct jobs lost) are in qualifying NMTC tracts but only half of these fall under the:"higher distress" designation and these account for 20,549 jobs. This leaves 43,929 in estimated direct job losses in qualified, but not highly distressed census tracts.

The changes we respectfully request here will help to make NMTC more available to BRACs as a powerful economic development tool. It must be emphasized that communities experiencing base closures do not

3 As reported by the MidCoast Regional Redevelopment Authority (MRRA). MRRA is a municipality of the State created under BRAC guidelines as the local entity in charge of redeveloping the base property.
4 Historic data from prior BRAC rounds defines highly successful economic development as job replaced equal to number of direct jobs lost. The most successful base redevelopment efforts have taken 15 to 20 years to replace all jobs lost due to BRAC closing.

have control over their occurrence. In most cases, like Maine's, the community fought hard to avoid closure but did not prevail in the BRAC process. These closures are not part of an economic cycle and cannot be readily foreseen prior to actual legislative postings of the facilities listed for closing. This makes their impact on already hard hit communities even more devastating and chaotic. Given the measurable negative impacts of BRAC closures and the third party data to back these up, CCML feels strongly that it would be fair and logical to include BRAC closure as an element for targeted higher distress in NMTC Rounds that have been allocated since 2008 when, on average, closures began to take place and negatively impact communities. These impacts are being felt now and will be felt for years to come: as noted above even best case redevelopment efforts take 15 to 20 years to return the community to equal employment levels.

We also believe that this argument is being made in a fair and balanced manner when considering all allocatees across the nation. This is because the affected bases are located in a wide geographic area including the states of Virginia, Texas, North Dakota, Louisiana, Maine, California, Georgia, Missouri, and Kansas. They are in both metropolitan and non-metropolitan counties.

We know this request comes at a time that may be inopportune relative to the Round IX application process, but we also believe it is of critical importance and hope the Fund will consider making this change retroactive to all rounds issued from 2008 onward as a way for any allocatee so inclined to be able to assist qualifying bases across the country. We believe this request rises to this level of review and action because it only focuses on existing statutorily qualified census tracts and therefore does not require any legislative changes. It is focused on a very discrete set of census tracts with clear economic impairment that has been substantiated by third party analyses, is measurable, and is unique because it was actually caused by an Act of Congress when the 2005 closure list was approved.

We will appreciate any consideration you can give to this request and anything that can be done to expedite this request to allow it to apply to Rounds Allocated since 2008.

Sincerely

Charles J. Spies III,
Chief Executive Officer

Cjs/cjs

Cc: MRRA: Stephen Levesque, Executive Director

CDFI Fund: Donna Gambrel, Director
Rosa Martinez, NMTC Program Associate Program Manager

Office of Senator Snowe:
Scott McCandless, Tax Counsel to Senator Snowe, Senate Small Business and Entrepreneurship Committee.

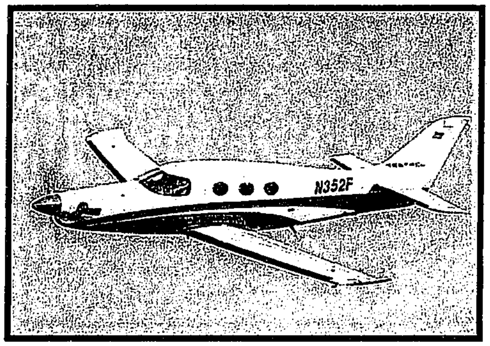
Appendix A:

CEI CAPITAL MANAGEMENT LLC

April 2011

KESTREL BRUNSWICK CORPORATION

Brunswick, Maine



In November 2005, the Federal government slated the Brunswick Naval Station (BNAS) for closure as part of its Base Realignment and Closure (BRAC) process. By the time of official base closure in May 2011, an estimated 6,000+ jobs will be lost to the community by military and civilian personnel with an attendant a loss of $140 million of direct annual income.

The local community and government have dedicated themselves to the process of recovering lost jobs and rebuilding the base into Brunswick Landing: a vibrant live, work, learn, and play community with a variety of corporate, business, academic, recreational, and community services. These efforts are spearheaded by the Midcoast Regional Redevelopment Authority (MRRA), a public municipal corporation established by the Maine State Legislature.

A key part of the redevelopment plan is to utilize the existing aviation-related infrastructure, including two existing 8,000-foot long runways, taxiways and adjacent buffer zones. Kestrel Brunswick Corporation (Kestrel) is an exciting start-up company that fulfills this need, in addition to jump-starting the development by being one of the first businesses to locate at the Landing.

Kestrel's business at Brunswick landing is two-fold: the development and commercialization of the Kestrel aircraft; as well as a maintenance, repair, and overhaul program (MRO) for light aircraft. The MRO business alone will support 25 to 30 jobs, with up to an additional 300 21st-century jobs should the plane be commercialized and the company go into full production.

Key Benefits

- Project helps fulfill key targeted industry sectors for MRRA to develop on the base.
- Kestrel will support local college's engineering programs with internships and mentoring, and provide potential job opportunities.
- Jobs will be well-paid with health care and 401(k) benefits
- Project will grow the existing composite technology cluster in Midcoast Maine

Qualifying Features

- Military Redevelopment Pine Tree Zone
- Hot Zone

CCML allocated $20.7 Million in NMTC capacity to finance the project. Ohio national Life Insurance Company provided both debt and equity funding, while the Kestrel Aircraft Company provided the additional leveraged debt for the transaction, which closed April 20, 2011

CEI CAPITAL MANAGEMENT LLC

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APPENDIX B - 2005 BRAC BASE LISTING SHOWING DIRECT JOBS LOST AND NMTC QUALIFIED AND NMTC "HIGHER DISTRESSED" TRACTS

			Jobs Lost*					
Base Name	Address	State	Military	Personnel	Contractor	Total	Qualified for NMTCs?	Higher Distressed?
Arlington Virigina Leased Space (11 sites consolidated inot one line)		VA	4,000	13,000	10,000	27,000	Y	
Army Reserve Personnel Center (ARPC)		MO	2,609	2,699	5,178	10,486	Y	Y
Brooks City Base		TX	1,446	1,201	749	3,396	Y	
Buckley Annex		CO	1,890	40	30	1,960		
Charles E. Kelly Support Facility		PA	174	136	-	310		
Fort Gillem		GA	511	570	-	1,081	Y	Y
Fort Lawton Army Reserve Complex		WA	53	54	-	107		
Fort McPherson		GA	2,881	2,204	746	5,831	Y	Y
Fort Monmouth		NJ	500	5,500	15,000	21,000		
Fort Monroe		VA	3,239	462	-	3,701	Y	
General Mitchell Air Reserve Station		WI	66	370	-	436		
Grand Forks Air Force Base		ND	1,224	290	286	1,800	Y	
Kansas Army Ammunition Plant		KS	-	8	328	336	Y	
Lone Star Army Ammunition Plant, Red River Army Depot and Watts-Guillot US Army Reserve Center		TX	2	945	329	1,276	Y	Y
Naval Air Station Brunswick		ME	4,900	700	120	5,720	Y	
Naval Air Station Joint Reserve Base Willow Grove		PA	968	679	5	1,652		
Naval Station Ingleside Electromagnetic Reduction Facility		TX	2,915	3,690	-	6,605		
Naval Station Pascagoula		MI	844	112	7	963	Y	Y
Navy Supply Coprs School		GA	115	188	250	553	Y	Y
Naval Support Activity		LA	1,310	603	63	1,976	Y	
Naval Weapons Station		CA	-	71	-	71		
Newport Chemical Depot		IN	1	15	660	676		
Onizuka Air Force Station		CA	9	150	200	359	Y	Y
Riverbank Army Ammunition Plant		CA	-	4	89	93		
Rock Island Arsenal		IL	-	1,540	-	1,540		
Selfridge Army Garrison		MI	-	-	-	-		
Umatilla Chemical Depot		OR	304	-	869	1,173		
Walter Reed Army Medical Center		DC	3,580	3,649	750	7,979		
* Source: Defense Community Profiles, November 2009		All	33,541	38,880	35,659	108,080		
			Military	Personnel	Contractor	Total		
		Qualified	23,090	23,132	18,256	64,478		
		Targeted Distress	6,971	6,868	6,710	20,549		