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San Jose Closes Innovative NMTC Transaction

By Jennifer Dockery, Assignment Editor, Novogradac & Company LLP

Late last year, the city of San Jose, Calif. completed its first new markets tax credit (NMTC) transaction. As fits the largest city in Silicon Valley, the project, known as the San Jose Environmental Innovation Center (EIC), will house emerging technology startups and recycling centers. EIC is part of the city's Green Vision, a 15-year plan for economic growth and environmental sustainability, and will provide jobs and resources to San Jose and other Santa Clara County communities.

"The sponsor had sufficient leverage in the form of the value of the existing building, along with city funds, to provide a match for the NMTC investment from Chase Bank. With NMTC financing, this unused former manufacturing plant can become a viable resource for jobs and innovation in the city of San Jose," said Elizabeth Tracey, vice president in Chase's NMTC group.

The EIC will house a demonstration facility for emerging clean technology companies, a secondhand and surplus construction materials store and a household hazardous waste facility where Santa Clara County residents will be able to drop off household waste at the county's first permanent hazardous household waste collection facility.

The Clean Technology Development Center (CTDC) will lease space to start ups and technology companies and help them commercialize their products. It will also provide green training opportunities for low-income residents. Habitat for Humanity will operate a ReStore on the site. ReStores, whose stock is donated and sold at reduced prices, sell reusable and home improvement goods, including fur-

niture, home accessories, building materials and appliances.

"We saw the opportunity to site the clean tech demonstration center at the site. We wanted to reuse the site productively and fill as many needs as possible," said Jo Zientek, acting assistant director for the city's Environmental Services Department (ESD), which led the project for the city.



Photo: Courtesy of Ed Ramirez, City of San Jose

The City of San Jose is converting a 1960s-era warehouse into a hazardous household waste collection facility, business incubator and Habitat for Humanity ReStore.

The EIC features sustainable and environmentally friendly design and is expected to earn at least LEED Gold certification. The project includes a utility metering and dashboard system, composting toilets and an advanced storm water system, which includes structured void spaces beneath per-

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vicious sidewalks.

“San Jose is known for new technology and sustainable technology. What they’re creating there doesn’t exist right now,” said Michelle Morlan, west region director with the National Development Council (NDC). “We all knew that the resulting project was really going to be exceptional.”

ESD acquired the 47,000-square-foot warehouse in 2006. The 1960s building, originally purchased by the city for use as an affordable housing development, cost ESD \$4.3 million; the department used a combination of utility fees and rental income from other city owned properties to fund the purchase. The city used \$4 million in garbage, sewer, storm and sanitary fees to fund the hazardous waste facility. The Habitat for Humanity ReStore was funded with \$6 million in recycling deposit fees that the city collected from developers that did not recycle construction materials at a city certified recycling center. An additional \$2 million in utility late fees were used to pay Group 4 Architecture Research + Planning Inc. to design the EIC. The \$26.7 million project included NMTC financing from several partners: NDC, Brownfield Revitalization (BR) and Northern California Community Loan Fund (NCCLF) provided NMTCs and Chase provided \$7.4 million in equity for the tax credits.

“[The project] serves as a perfect example of a project receiving substantial broad-based local community, political and private industry support because of its commitment to environmental stewardship, small business support and job creation and training,” said Bret Batchelder, BR’s managing director. BR provided the project with a \$12 million qualified equity investment (QEI).

A City First

The city of San Jose worked for several years to bring its first NMTC transaction to fruition. It reversed its usual project development process, pulling together its “dream project” and then seeking financing.

“We wanted to get far enough in site design to attract investors,” Zientek said. ESD identified components of the project that could be added depending on how much capital the city could attract. ESD’s goal was to build the center debt-free.

With project design in hand, ESD contacted private and public environmental centers across the country to inquire about funding, leading the city to hear about the NMTC program. ESD determined that the center was in a qualified census tract and worked with consultants, on the condition that they would be paid only if the NMTC transaction was successful, to attract community development entities to the project. The city worked with NDC to secure NMTC project financing, the result of which was NDC

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investing in the EIC and bringing NCCLF and BR into the project.

"If you look at how that project would be valued in the conventional market ... there's really no way to compare it to existing real estate. It would be very difficult to attract private sector financing to make this project go," said Morlan.

Ross Culverwell, NCCLF's deputy director of lending, agreed. "It fits very well into that 'but for' question," he said. He called the transaction an example of how the public, private and not-for-profit sectors can work together.

In order to use the NMTCs, the city created and transferred the EIC to a not-for-profit entity. Once the project is completed, the not-for-profit will own the building and the city will be the master tenant.

"The subsidy that the NMTC program is providing to the project will allow for the creation of innovative green technology that will, in the long run, decrease the country's dependence on fossil fuels. ... The EIC will create higher paid and more advanced jobs opportunities in the clean tech industry for [low-income community] residents," said Batchelder.

Jobs & Opportunity

The EIC will provide local residents with services and job opportunities. The city anticipates that construction and operational programming will provide 140 new jobs, including 50 jobs at the hazardous waste collection center, 45 construction jobs, 40 jobs at CTDC and five at ReStore. Additionally, the EIC will host environmental workshops and workforce development programs for local and low-income residents. San Jose's Work2Future program, which assists with meeting workforce demands, will use the space to offer jobseekers educational opportunities and workshops, networking opportunities and other services. It is expected that local companies will lease space in CTDC and use the center's business support services as well as its office, lab, manufacturing and demonstration space.

"They very consciously built in job training and workforce development in the completed project," said Culverwell. NCCLF provided the project with a \$7.35 million QEI.

At press time, the EIC was under construction and the city was securing tenant leases for the remainder of the building. Habitat for Humanity had already signed a lease for its ReStore space and the center was establishing a memorandum of understanding with the Lawrence Berkeley National Laboratories for CTDC space. Santa Clara County was expected to sign a lease for the hazardous waste facility by June 2012 and offset the cost with fees from municipalities that use the facility. Zientek said that the city

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plans to build out the space to suit its tenants. The city expects to complete the EIC in December. ♦

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