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OPPORTUNITY KNOCKS

Working with a non-profit development corporation to accomplish targeted community development priorities



For years, large cities have used redevelopment authorities to acquire sites in deteriorated urban areas with the objective of exerting some control over the eventual use of key real estate parcels. However, smaller communities, such as boroughs, tend to have less experience with this approach. One of the frustrations expressed by many smaller communities is how to be more precise in guiding what development will occur to meet strategies identified in a comprehensive plan or a downtown strategic plan.

Some areas have less active redevelopment authorities, so

the purchase of parcels by a redevelopment authority may not be an option or the redevelopment authority may prefer to partner with other organizations. An approach worth considering is the formation of a non-profit development corporation that specializes in acquiring real estate that is strategically located. The non-profit would include representation from different segments of the community, and its members would have different skills sets. It is possible for the non-profit organization to draw members from other organizations such as a redevelopment authority, community based neighborhood revitalization

organizations, or possibly church related organizations such as Habitat for Humanity. The non-profit may or may not have staff depending on whether the municipality or a redevelopment authority is willing to provide staff services.

If formed for redevelopment purposes, the non-profit corporation should strive to become incorporated as a 501 (c)(3) under the Internal Revenue Code, which would make it a charitable organization. This will require filing an application with the Internal Revenue Service in which the non-profit will need to demonstrate that it is lessening the burdens of government by purchasing and redeveloping a



deteriorated property. Also, the extent to which the activities undertaken by the non-profit creates jobs, particularly for people who live in surrounding neighborhoods, will help the organization qualify for charitable status.

Acquiring the 501 (c)(3) status gives the non-profit organization two distinct advantages. First, as a charitable non-profit under the Internal Revenue Code it may raise funds to cover some, if not all of the costs by seeking charitable donations from individuals, foundations, and corporations. These contributions, in the case of individuals qualify as a charitable deduction. Second, if the non-profit has its 501 (c)

(3) designation, it may be able to acquire real estate for less than the fair market value by providing the seller with a charitable deduction for the difference between the fair market value of the property and a lower price. This can be a powerful incentive for the seller who needs a tax break and/or is interested in selling quickly.

As with any newly incorporated organization, there will be start-up costs. These costs include the cost of incorporation, the IRS application for 501 (c)(3) charitable status and the legal costs associated with the drafting of bylaws. These costs could be in a range of \$1,500 to \$2,500.

In Cumberland County, the

Redevelopment Authority of Cumberland County (Redevelopment Authority) formed a 501 (c)(3) corporation about ten years ago expressly for the purpose of teeing-up buildings and land for private developers. Hometown Development Corporation (Hometown) was formed in 2000 to tackle difficult to develop properties that, for whatever reason, private developers passed on for the time being. One of the first projects undertaken by Hometown was the acquisition of a former Woolworth Building in downtown Carlisle Borough that was in danger of being demolished because of extensive water damage caused by a failing roof. The building



BUSINESS CENTRAL Using funds from four different sources, the Redevelopment Authority rehabilitated the former Woolworth's building for retail and commercial use

closed as a Woolworth's in 1997, and the condition of the property deteriorated during the time it was vacant. That is, until Hometown, with the assistance of the Redevelopment Authority staff, purchased the property in 2002. Hometown acquired the property and renamed it "Business Central." The first phase of the rehabilitation included the replacement of the roof and the rehabilitation of the 12,000 square foot first floor space into storefront retail and commercial office uses. Hometown financed this phase with grants from the Pennsylvania Department of Community and Economic Development, U.S. Department of Agriculture Rural Development, the Borough of Carlisle Community Development Block Grant (CDBG) Program and a bank

loan.

Even though it had no assets at the time, Hometown was able to purchase the former Woolworth property because the bank considered the public financing that Hometown secured in addition to the cooperation of the Redevelopment Authority, as equity in the project. Because these funds were either granted to the project or were loaned with the understanding that the lien position would be subordinated to the bank financing, the local bank was able to take a first mortgage against the property. In addition, Hometown was able to demonstrate that the project was financially feasible by projecting operating expenses and income that documented the project's financial feasibility.

In 2006, Hometown sold the property to a private developer after obtaining substantial, below market rate financing from the state that was provided to the developer with the condition that it renovate and lease the upper floors of the property. Hometown sold the real estate for a small profit and plowed those profits into its next real estate venture.

Shortly thereafter, Hometown acquired a strategically located historic property in Carlisle, again with the benefit of funds from the borough's CDBG Program and Community First Fund (a community development financial institution). The property had originally been built as a stable in the 1800s and was renovated many times over the years. Most recently the building had been used as a print shop.

One of the goals expressed in the borough's comprehensive plan was the development of upscale housing above storefronts. The Redevelopment Authority assisted Hometown in drafting a request for proposals (RFP) to send to private developers. Hometown sought proposals to develop high end, upscale apartments above the first floor, and high quality retail space on the first floor.

The RFP required the developer to provide background information on their development team, concept drawings, and an income/expense projection that would document the need for, if any, public financing. Two proposals were received from local, private developers. After reviewing the credentials of the respective developers, a preferred developer was chosen based on that developer's track record, quality of the proposal, financial strength and commitment to the concept reflected in the RFP. To qualify for this forgiveness loan, the developer was required to keep the property for seven years. Hometown selected a developer who moved ahead and completed the project without a hitch. The \$1.3 million project, known as the "Livery Apartments" was assisted with a \$77,000 forgiveness loan through the borough's CDBG Program. All of the other funding in the project was private, in the form of developer equity (cash) and a bank loan.

Hometown has worked on two other major projects, one involving the acquisition of a large corner property in Newville Borough for rehabilitation as a mixed use (commercial/high quality apartments). The owner of the property was a bank that also had a branch office in the property. The bank agreed to sell the property to Hometown for substantially less than its fair market value in exchange for a charitable donation for the difference between the appraised value of the property



MIXED USE The rehabilitation project in Newville garnered new commercial property in addition to high quality apartments while other revitalization projects are occurring in the community

and the price paid by Hometown. This property will be sold by Hometown to a private developer who will be moving ahead with the rehabilitation of the upper floors into nine high quality apartments and the renovation of the first floor commercial spaces. The project, like others typically undertaken by Hometown, is not the only redevelopment activity occurring in the community. Other recent projects include streetscape improvements, the rehabilitation of other nearby commercial properties, and the rehabilitation of houses for resale to first time homebuyers. Hometown's ability to acquire a strategically located corner property has

enhanced the overall redevelopment effort.

Just recently, Hometown conveyed a large former hotel property in New Cumberland Borough to a limited partnership which is developing the property into affordable housing for seniors, with some retail space on the first floor. Hometown purchased the property, which had a history of problems including drug activity, with the benefit of federal HOME funds through Cumberland County. Hometown's purchase in December 2006 was a critical step in the process because the eventual developer was able to demonstrate that they had site control (an option to buy the property from



STATE OF CHANGE Hometown purchased the New Cumberland property in 2006 and is facilitating change with a developer, which will further promote the neighborhood's improvements

Hometown). They needed site control in order to successfully compete for federal tax credits needed to attract a private investor. The New Cumberland project is occurring in the context of a state funded Elm Street Program that has featured streetscape improvements in the vicinity of the property owned by Hometown. Façade grants have also been available for homeowners and renters in the neighborhood.

Hometown Development Corporation's track record of success is well-documented during its ten year existence and its work provides a model for communities to guide development consistent with local priorities. By focusing on strategically located, difficult to develop properties, Hometown has been a major player in ongoing redevelopment efforts in several downtowns in the county. **(B)**

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