



Cincinnati Fountain Square



The CEO Resource

May 2005

Volume 4, Issue 2

New Markets Tax Credit- More Leverage, More Efficiency for Community Development Initiatives

The CEO Resource is a periodic hot sheet of resource information for our colleagues, Chief Executives and Senior Management in business and leadership.

Our focus is to help senior management and company owners accelerate their pathways, first to "success" and then to "making a difference"- a significant difference for their families, their stakeholders and their communities. The CEO Resource is a time sensitive tool directly responsive to this critical focus.

Ross, Sinclair & Associates, Inc. (RSA), Ariel Ventures LLC (Ariel) and KMK Consulting Company, LLC (KMKC) have created an alliance that combines expertise in economic & community development, capital formation, and tax structuring & compliance that serve the needs of economic development initiatives seeking creative solutions to finance challenging community development projects.

Community development leaders search daily for new and innovative ways to promote and finance economic development that will in turn spark additional development to increase tax revenues and improve communities. The New Markets Tax Credit (NMTC) Program is a federal program that permits taxpayers to receive a

credit against Federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). The premise of this program was to create investment in "New Markets" that were (and continue to be) typically underserved or overlooked by investors and financial institutions.

The tax credit provided to the investor amounts to 39% of the equity investment in the CDE. While this idea is simple enough, the rules and process for NMTC are complicated. Investors may claim the tax credit over a seven-year credit allowance period, and the investment may not be redeemed before the end of the entire seven year period. In addition, substantially all (at least

85%) of the qualified equity investment must be used by the CDE to provide investments in qualifying businesses in low-income communities.

Qualifying businesses must be located in a low-income census tract, and have a considerable portion of their revenues generated, assets located and employee services provided within the low income community. Generally, commercial real estate projects can qualify for NMTC, but real estate projects with greater than 80% residential rental do not. Certain businesses, such as gambling facilities, massage parlors and liquor stores are not qualifying businesses.

(cont. on p. 4)

KMCC Client Wins Another Award

netTrekker was named the Best Search Engine in 2005 Media & Methods Awards Portfolio, its second win in just three years. The annual Awards Portfolio competition honors outstanding K-12 educational products based on their comprehensiveness, versatility for different learning abilities, ease of use, and innovativeness, among other criteria.

The 2005 Media & Methods award is the eighth industry award that netTrekker has received in the past four years for helping to transform the way the Internet is used in education. More information on these awards can be found at <http://www.netTrekker.com/forward/awards.epi>.

Corporex Celebrates Its 40th Year of Impacting Communities from Tampa to Denver

Our country's economic development history is filled with stories of enterprising people whose dreams became reality. This is one such story. The story of Corporex. KMKC is pleased to share this great success story with you in honor of Corporex's 40th year of changing the landscape of numerous communities, particularly that of Greater Cincinnati.

It begins in 1965 with a 22 year old Bill Butler full of ideas, but whose assets included only a drafting table, a phone, a garage and the money saved since college. "In those days we did anything we could to stay alive, building a house addition. selling

plywood to home builders, knocking on doors" says Bill Butler, Founder and CEO.

In 1970 after only five years; the first of seven industrial parks was announced in Erlanger, Kentucky. It was in this park that the Company developed its first speculative buildings and its first headquarters. The decade of the seventies was not without its challenges; the OPEC Oil Embargo, and spiraling inflation all led to even more challenging times ending with 22% interest rates at the end of the decade.

"1974 and 1975 were very difficult for us. We had 25 pieces

of heavy earth-moving equipment sitting idle, 22 company cars in the parking lot, 150 construction employees and no work. It was the Company's first true test for survival. To survive we laid off all but two of the field forces, all but 10 of the office staff; and sold our heavy equipment" said Bill.

In 1977 the resurgence of the Company began. It was a period of Explosive Growth for the W.P. Butler Company. In 1982, Corporex bought its first aircraft. Corporex expanded to Tampa, Orlando, Atlanta and Nashville building and development mostly office buildings. (cont. on p. 6)



Metro Orlando Enhances its Business Destination Reputation Through Sophisticated Economic Development

By Ray Gilley, President/CEO of the Metro Orlando Economic Development Commission



A company launches a new product. A firm announces a corporate relocation or expansion. A start-up is established. A local organization reveals plans for growth. One business merges with another. Such is the news that happens every day in corporate America.

I think we can all agree that while this type of news is standard for the day, the ways of doing business have greatly changed over the past decades ... and continue to do so. As these changes have taken place, so too has the process of developing local economies. Today, new and growing companies demand a rapid ramp-up. The digital age has completely transformed traditional business models and prompted companies to expect immediate response and action. And entrepreneurship and business reinvention are at an all-time high. Perhaps no other industry is keeping such a close watch on these trends and transitions as the economic development industry – an industry that's not often spotlighted, but plays a vital role in business and community growth.

Given the ever-growing competitive nature of doing business, you can imagine that the hundreds of state, regional and local economic development groups in the country have become much more sophisticated, aggressive and dynamic. And, in fact, economic development has gained an even more prominent role as universities, utilities, chambers of commerce and more have added this function within their organizations.

Economic development is about nurturing business vitality and diversification and enhancing the overall standard of living. Attracting targeted industries, assisting in the expansion of local businesses, and working with start-up enterprises that create high wage, high value jobs – these are the leading charges of economic development groups. And, this work results in numerous benefits, including the diversification of a community's tax base, generation of more income and buying power for residents, and

attraction of targeted, high paying career opportunities for the region's population.

The People Factor

Years ago, people associated economic development solely with recruitment or attraction of industry. Today, it's much more about a mixture of activity that includes business attraction, retention, growth and creation. Even more importantly, it's about people. People are both the beneficiaries and the foundation of all economic development. Skilled, productive workers attract employers. Employers anchor dynamic communities. Dynamic communities are great places to live. Without economic development at the center of community-building, this cycle of economic growth and prosperity would not exist.

Metro Orlando's Edge

In Metro Orlando, a region that has been consistently recognized as a top location to start and grow a business, we're attracting people. Our student population is exploding, bringing young creative minds to the area. People from every part of the world live and work here. As a young and growing metropolis, we're attracting top researchers and executives from key industries that have clustered here, including software development, simulation and training, and laser optics, to name a few. And, women and minority-owned businesses are on the rise.



In the last three years alone, our entrepreneurial and small business resources have swelled – with additions such as the Disney/SBA National Entrepreneur Center. Downtown Orlando, the heart of the region's business community, is undergoing a major revitalization that is luring both people and industry. Our infrastructure is solid – boasting everything from nationally recognized educational institutions to a great quality of life to the availability of competitive facilities. Together, these assets

make the region extremely appealing to business. Our image as the world's top family-friendly destination has also made us one of the most attractive markets in the world. And, as we've heard so many times from heads of companies, there is so much potential here ... particularly to start and grow a headquarters base.

Where will the region be 10 years from now? Metro Orlando will continue to experience growth from multiple sectors within the technology clusters, particularly from the digital media sector. Corporate services, including financial and back office, will also expand. Our strengths will only grow and more challenges will be overcome. Orlando will continue to be a place where people and culture thrive ... it will be an even better place to start and raise a family, to work and live ... and it will be a great place for people and companies to put their imagination to work.

KMK Consulting is very proud of its support of the Metro Orlando EDC, its great staff and its outstanding volunteer leadership.

For more information on the MOEDC's programs, call Ray Gilley at (407) 422-7159 or KMKC's Jim McGraw at (513) 579-6932. ■



Local Incentives – The Increasing Risks of Political Review

We are all well aware of the impact that the Sixth Circuit Court's decision may have on the business of economic development incentives. The fear of some, yet the hope of others, is that if the decision stands, it will be the proverbial straw that broke the camel's back and eventually turn the competition within the economic development landscape back into one driven by available workforce, tax and utility costs, and other factors of doing business in one community as opposed to another— not one of who is putting more money on the table. Although the use of economic development incentives will be more highly scrutinized as result of the Sixth Circuit's ruling, they are not going away anytime soon. As long as competition exists between local jurisdictions and between states, economic development incentives are going to be a factor in landing the deal.

One factor that will never go away from the site selection decision-making process is time. The time that it takes for a community to provide demographic information about the area (housing stock, available workforce, average income of the community, average educational attainment of the community, etc.). The time that it takes for a company to provide the details of its proposed project to the community's economic development professionals. The time that it takes for a community to provide tax and regulatory information (local income tax rates, real and personal property tax rates, state corporate income tax rates, etc). The community's factors of time are all contingent upon quantitative measures that come into play and allow executives to make pure business decisions based on the needs of the project and the cost/benefit analysis of the various metrics. The factor of time that can become a significant factor in determining one community versus another is the amount of time that it takes the governing body of that jurisdiction to review the project, debate its merits and vote "yes" or "no" on approval of a permit, an incentive package, or some other regulatory item.

If a company is able to get some kind of a decision in a timely fashion (either positive or negative), they are able to move forward with their own due diligence in determining which site is most appropriate for the future of the operation. One often hears that government's concept of time is different from that of private enterprise. It is difficult

for government to move as quickly as business because of its many layers of bureaucracy and fiduciary responsibility in dealing with public funds. Most businesses understand this and are willing to work around the government's schedule but this should not be taken to mean that the business will wait to move forward elsewhere if one community is unable to provide the same timeliness as another. Much to the contrary. If a company is forced to wait, it may be forced to make the decision to go elsewhere in order to avoid losing more time on the project, oftentimes regardless of any incentives that are on the table. Economic development incentives are an inducement to a business doing a project in a particular community, but they do not guarantee the project happening there. One of the last things any company wants to do when making a site selection decision is move to a community that acts as an impediment, whether consciously or not, to development by allowing an inordinate amount of time to pass between when the project's concept was first introduced and when it was brought to the governing body for approval.

The political leadership of a community has a significant impact on making their jurisdiction a business hub. In virtually any economic development deal, the community's elected officials play a large role in promoting the area. The government's staff can be made up of the best sales and marketing experts and the government can be equipped with the most unique and powerful tools available, but if the elected body is perceived as anti-business, companies are less likely to even consider that jurisdiction for its project. Perception is certainly not always reality but in today's highly competitive economic development marketplace, community's will not shy away from using that negative perception to their advantage to "win the deal." Elected officials are the most high profile representatives of a community and they set the tone. It is critically important, today more than ever, that community's and their elected officials avoid being branded as "anti-business." It causes existing businesses to consider leaving, emerging businesses to locate elsewhere, and those business considering a relocation to any number of communities to cross yours off the list.

It is also incumbent upon companies to stay in front of any of the political fluctuations of the communities in which they do business. They need to be aware of who the community's elected leaders are and have a comprehensive

they are considering an economic development project where they may be interested in pursuing incentives, it is a good idea to meet with leadership to give them a heads up that their project is being brought to the board or council for approval. That way there can be an open dialogue and any questions that an elected official has about the project can be raised and answered in a friendly environment. If the answer is not known at that time, the company can get it to them in a timely fashion. Conversely, if the company has any particular concerns about the jurisdiction as a place to do business, they can talk through those with the community's leadership. These steps should be part of the due diligence phase of the site selection process.

The company should also be aware of and proactive in its dealings with the compliance of its approved economic development incentive projects. Rather than seeing their name in the paper for defaulting on a commitment, the company should be responsible for alerting the local economic development director to any potential shortfalls and negotiate any necessary amendments to the incentive agreement. If a problem presents itself, companies should never wait and hope the jurisdiction finds out about it. The reaction from both the private and public sectors will be far more negative if a company fails to address problems when they arise and chooses to try to hide. It will put the existing relationship in danger and all but insure that future deals (often times even with a different company) will be immediately received with skepticism, regardless of its merits.

To learn more, contact Jim Benedict at (513) 639-3963. ■



New Market Tax Credits (cont.)

There are many ways to creatively leverage the tax credits. The credits can be levered to offer below market interest rates, increases in loan to value, provide equity injections and to fill financing gaps for development in communities. By building coalitions within the community and developing a focused plan to deploy the funds, NMTC can prove a valuable tool in stimulating economic development in highly distressed communities.

RSA is a Cincinnati based Broker/Dealer firm that is a member of the National Association of Securities Dealers. The nexus of RSA was expertise in the issuance of Municipal Debt especially for communities that were underserved by capital markets participants. As the number five (5) nationally ranked financial advisor for municipal issuance by volume of transactions in 2004, RSA (like KMKC) serves communities throughout the nation.



Ariel is a Cleveland based finance, tax and business advisory service firm. Ariel is a minority and women-owned business

KMKC Update

Andy Bowers recently joined KMK Consulting as a member of the Government Affairs Solution Group. Andy has an extensive background in the fields of government affairs and public administration.

Prior to joining KMK Consulting, Andy spent two years as Deputy Chief of Staff for Ohio Auditor of State Betty Montgomery where he was responsible for directing the office's policy initiatives and nine-member regional liaison staff.

From 2000-2003, Andy served as Director of Special Counsel to then Ohio Attorney General Betty Montgomery. There, he managed over \$35 million in annual legal contracts with 400 law firms in 28 states and three foreign countries. He also managed Ohio's cases against Enron, WorldCom, and Global Crossing for securities fraud against Ohio's public pension funds. In addition, Andy oversaw a record-setting \$128 million in annual collections of money owed to the state.

enterprise that specializes in real estate, international, and economic development projects, which include public/private partnerships, tax credits and other incentives. Ariel also manages a \$47 million NMTC Fund in conjunction with the Cleveland Port Authority. Ariel has developed a state-of-the-art software application specifically for NMTC and approved by the Community Development Financial Institutions Fund (CDFI Fund).

"RSA's deep understanding of community development structure and finance in a multitude of economic conditions, along with Ariel's expertise and software system specifically for NMTC, presents a combination of resources which we are very pleased to help bring to communities across the country," said Jim McGraw of KMKC.

The alliance between RSA, Ariel and KMKC allows for creative solutions through a unique and focused NMTC application. The availability of NMTCs is limited. The CDFI Fund allocates NMTC, annually to CDEs under a competitive application process. To qualify as a CDE, an entity must be a domestic corporation or partnership that: 1) has a mission of serving, or providing

Andy will also support KMK's bond team as of counsel to the firm's real estate practice group.

Andy is a 1996 graduate of Wittenberg University, and received his law degree in 1999 from The Ohio State University College of Law. His will work out of KMKC's Columbus, Ohio office.

Jim McGraw was recently appointed Chair of the Planned Giving Committee at the Athenaeum of Ohio.

The Athenaeum of Ohio, the graduate school of theology sponsored by the Roman Catholic Archdiocese of Cincinnati, prepares people to serve the church effectively as priests, deacons, and lay ministers. The Planned Giving Committee works with all types of Athenaeum benefactors to help



investment capital for, low-income communities or low-income persons; 2) maintains accountability to residents of low-income communities through their representation on a governing board of or advisory board to the entity; and 3) has been certified as a CDE by the CDFI Fund. RSA and Ariel have significant experience in certifying CDEs and preparing NMTC applications on their behalf.

For more information contact Jim McGraw at KMK Consulting (513) 579-6932, Alex Stillpass at Ross, Sinclair & Associates, Inc. (513) 381-3939 or Annette Stevenson at Ariel Ventures, LLC (216) 344-9442. ■

structure and facilitate a variety of major gift programs including trusts, annuities and life insurance.

KMK congratulates our clients and nominees selected as finalists for Ernst & Young's 2005 Entrepreneur of the Year Program. Congratulations and good luck to:

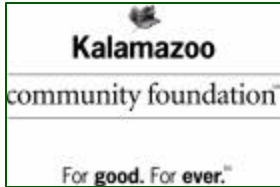
- Construction Software Technologies
- Ampac
- Monarch Construction
- Home City Ice
- Spark People
- Multi-Color
- Contech Construction

Winners will be selected at the Cincinnati Region dinner on June 16, 2005.



Stimulating Economic Growth in Kalamazoo Through the Leadership of the Kalamazoo Community Foundation

KMKC is very pleased to bring you another example of community foundations taking true leadership positions as a part of the economic development delivery system in their respective cities or regions. We applaud the cutting edge work of the Kalamazoo Community Foundation through a series of creative real estate initiatives which are making a significant difference in the place their benefactors call home. There is much to learn from their story.



The greater Kalamazoo area has had its share of economic difficulties in recent years. For

communities the size of Kalamazoo, this is not unique. What is unique are the ways in which the Kalamazoo Community Foundation has played an integral role in helping to shape the community's future economic vitality.

The Kalamazoo Community Foundation, like most community foundations, has been challenged to be more entrepreneurial and innovative as economic conditions change.

It is fortunate to have significant levels of unrestricted assets, which form 44 percent of its \$262 million asset base. For much of its 80-year history, the Foundation has used these assets to address a wide variety of community issues through traditional grantmaking. However, more recently in the areas of economic and community development, its board of trustees has used Program and Business Related Investments (PRIs and BRIs), which are low-cost loans and loan guarantees, to leverage economic and redevelopment activity in the greater Kalamazoo area.

What is the benefit of using PRIs or BRIs instead of traditional grants? Loans will eventually be paid back to the Foundation, so it retains the assets. The same cannot be said for traditional grants. The Foundation has been careful to use these tools for economic development projects that may not be eligible for conventional financing, although in several cases, PRIs leveraged private-side capital.

In 2000, the Foundation's board of trustees authorized \$13 million for PRIs, \$5 million for venture capital BRIs (outside its managed assets) and a restricted Community

Redevelopment Fund with the goal of using these new economic development tools to better the community. During the past four years, \$14 million has been executed for 18 projects, the smallest of which was \$180,000 and the largest was \$2 million.

Here are some examples of the ways in which these economic development tools have been used by the Foundation:

- The Foundation provided Downtown Tomorrow, Inc. (DTI), a non-profit real estate development entity that works with private and public sectors to preserve and enhance Kalamazoo's downtown, with a \$784,000 loan to purchase a former retail paint store. DTI sold the property to developers (passing along the low-interest loan) who in turn constructed and sold 20 condominiums in the central business district of downtown.
- A Foundation PRI of \$1.5 million made possible the creation of a nine-acre parcel of land for future downtown development on the west side of the city's downtown.
- The Foundation partnered with Southwest Michigan First (SMF), Kalamazoo County's economic development entity, providing a \$2 million PRI to complete the financing of an advanced Innovation Center in the Business Technology Research Park of Western Michigan University. The Innovation Center primarily supports scientists previously employed by Pharmacia/Upjohn pharmaceutical company (now Pfizer and one of Kalamazoo's largest employers), who are beginning their own early-stage, biotech and life sciences companies. This \$12 million facility is already home to 14 small business endeavors. Could one of these companies be following in the footsteps of Kalamazoo natives Dr. W. E. Upjohn, who began the Upjohn Company, or Dr. Homer Stryker, who founded the Stryker Corporation, one of the world's largest medical device companies?
- A loan of \$1 million to the Air Zoo, an entertainment-based aviation museum

in Kalamazoo, was critical to opening its new, multi-million dollar facility. It continues to be one of the top tourism attractions in Kalamazoo County and attracts an ever-increasing regional and national audience. Michigan Governor Jennifer Granholm recently said, "The Air Zoo is a metaphor for what Michigan can be."

- In the venture capital arena, the Foundation has become a limited partner in three funds with a total BRI of \$3 million. The Foundation seeks firms with significant ownership or venture capital presence in the community. Because this is a strategic investment by the Foundation, it measures success by the level of community betterment achieved, not by the return on investment as in the case of managed assets.

PRI and BRI proposals must fit the same charitable criteria as would any Foundation grant and it must have an expectation of achievability. In most cases, this process of due diligence is more intensive and significant than the normal unrestricted grant application process because the Foundation fully expects the asset to be retained and books it as such.

To secure asset retention, a proposing organization's balance sheet, 1st and 2nd mortgage positions (shared positions with other creditors as in some cases), assignments of contractual interest, unutilized holding costs, contractual covenants, and yet to be utilized advances or some combination of each is used to back the promissory notes. Finally, appropriate reserves are booked based on an annual evaluation of each transaction.

The Kalamazoo Community Foundation believes that its approach to economic development is one that is on the leading edge of philanthropy today and will perpetuate philanthropy within the community. Through the creation of economic development opportunities, companies will develop, employment will

(cont. on p. 6)



Kalamazoo Community Foundation (cont.)

increase and wealth will be created. It is a well-known tenet of American society that wealth creation stimulates the growth of philanthropy. This program has been an exciting part of the Kalamazoo Community Foundation and will continue to be a significant tool towards

achieving its mission as it starts its second 80 years of bettering the community.

The role of community foundations in economic development is growing in importance nationally.

KMKC is proud to be a thought leader and influencer in this area. To learn more about efforts elsewhere, call Bob Jennings at (513) 639-3905. ■

Corporex (cont.)

The geographic diversification of the Company was a strategic move to take advantage of the sun belt. At this same time the Company was also changing its identity from an industrial builder to office builder, to hotels, to urban focuses as well.

For a long time, Bill had felt the Company had outgrown its name. The W.P. Butler Company sounded like a sole proprietorship and did not reflect the Company's image. In 1982, at a board retreat in Ashville, it was agreed to change the name to Corporex. Why Corporex? REX is the Latin word for King; so Corporex means King of Companies.

Corporex not only undertook geographic diversification as a strategy during the eighties, but also product diversification as well. The Commonwealth Hilton opened in 1987 in Northern Kentucky and Bill formed Commonwealth Hotel Management Company. Hotels were not the only new product-type Corporex had in the mix. Bill Butler and a group of investors owned a small racquet club since the early 70s. The membership had outgrown the facility and Bill and one of the partners, the club's manager, Kevin Molony, began research on a national basis for leading edge concepts. Five Seasons Sports Country Clubs was born. The original prototype, the Four Seasons Club, was built on the campus of Thomas More College in a win-win effort to provide amenities the college could not afford. The very first year following the opening, Thomas More's enrollment jumped 22%. The Club was also an immediate success!

"The period of time from 1982 to 1990, it was not uncommon for us to start 13-15 new developments in a single year. Our revenues grew eight-fold. We raised more than \$350 million dollars in financing from 19 banks for forty buildings in five states. Toward the end of the eighties we reversed our development strategy back to Cincinnati. The market was good and we were humping," said Butler.

It was on Covington's Riverfront, however, directly across the Ohio River from downtown Cincinnati where Corporex made its biggest statement of the eighties. In 1986, the City of Covington had been designated by HUD as the most distressed city in the USA. The riverfront consisted of abandoned warehouses and a dilapidated motel. The City of Covington had



undertaken a national search for a master developer. After the first five tries with out-of-area developers – all of whom failed, Corporex was finally given a chance, but it was not to be easily sold. Bill met with nearly 50 banks in an effort to finance RiverCenter. On November 10, 1988, Corporex broke ground on the Embassy Suites Hotel and the RiverCenter I Office Tower. The south shore of Cincinnati and the world's impression of Covington would be forever changed.

While the decade of the eighties was a period of explosive growth, the overbuilding caused the crash of the early nineties. In Cincinnati for instance, more office space was built in the decade of the eighties than in the previous seven decades combined. But Corporex had proven visionary once again. Corporex implemented a strategy to get cash liquid. Simultaneously, by June of 1990, the Company had reduced its total overhead by 45%.

In July of 1990, Corporex was truly in the middle of the credit crunch crisis. Corporex had 19 different loans that matured in the next year, at a time when no lenders were lending against real estate. Nationally, only one out of every eight developers survived this period.

Since there was not a great deal of private sector demand, Corporex also developed and constructed two major government projects during this period, one in

Covington, Kentucky and one in Hamilton, Ohio. Both of these projects were completed at a price that was 30% below the statewide averages for similar projects. Corporex was once again experiencing significant growth. In a six-year period that followed, nearly \$500 million dollars of assets were added to the portfolio.

Today, Corporex is a uniquely diverse enterprise with investments that reach beyond the traditional real estate business while continuing to elevate by developing luxury condominiums using World-Class architecture. By partnering with Daniel Libeskind, Corporex is developing the Museum Residences in Downtown Denver and has undertaken an extraordinary project to be known as THE ASCENT at Roebling's bridge as highlighted by the Wall Street Journal in a major article on April 20, 2005. The Company has also accessed the public markets for the first time- raising \$165,000,000 on the NYSE in 2004 and formed Eagle Hospitality Properties Trust to acquire, own and develop full-serve hotels.

So what lies ahead? One thing is certain; the best chapters of this story are yet to be written. Corporex will continue to expand as an industry leader in a diverse set of markets through creativity, integrity and a strong desire to serve and grow.

KMKC is proud of its relationship with Corporex, a company which will go beyond its founder and be a major contributor to the Cincinnati USA region – in ever bigger and better ways. Congratulations Bill Butler on your 40th year of making your dreams a reality. ■