NEW MARKETS TAX CREDITS

KIRSTIN BECK – Packard and Dierking, LLC
CRAIG DALE – Capital Peak Partners, LLC
MARK JOB – Citywide Banks
NEW MARKETS TAX CREDITS (NMTC) OVERVIEW

- Created as part of the Community Renewal tax relief act of 2000
- NMTC Program is designed to encourage private capital investment into low-income communities
- Administered by the Community Development Financial Institutions Fund ("CDFI Fund"), an arm of the U.S. Treasury Department
- NMTCs are allocated annually by the CDFI Fund to Community Development Entities ("CDEs") under a competitive application process
- 2012 & 2013 Round of Allocation = $3.5 Billion
- NMTC Program provides a 39% tax credit taken over seven years
  - Years 1-3 = 5%
  - Years 4-7 = 6%
Tax credits are sold at the NMTC loan closing for approximately $.75-$1.82 representing present day value.

Tax credit investor’s return is the value of the tax credits over the seven year term (roughly 7-12% rate of return).

Low-income communities are defined as Census tracts with:

- Poverty Rates Exceed 20% or
- Median Family Income is 80% of Area Median Income (“AMI”) or Less

Most urban areas qualify in the metro area.

Program very competitive now so looking for severe distress:

- Poverty Rates Exceed 30%
- Median Family Income is 60% of AMI or Less

Or located in an SBA Hub Zone, Enterprise Zone, Urban Renewal Area or Brownfield site
- **Allocations are granted to a Community Development Entity (CDE)**

- **CDEs are for-profit or non-profit entities with a primary mission of serving low-income communities**

- **Ideal projects are mixed-use projects, commercial real estate and non-profit facilities**

- **Program seeks to find maximum community impacts through tangible benefits to surrounding residents**

- **Community impacts can be achieved through:**
  - Job Creation
  - Job Training Programs and Job Fairs Within the Project
  - Better than average wages and Employee Benefits
  - Reduced rental rates to minority or low income business owners
  - Goods and services to low income communities or low income persons
- NMTCs are generated when a Qualified Equity Investment ("QEI") is made into a CDE

- 39% tax credit over 7 years based on QEI amount (5% per year in years 1-3, 6% per year in years 4-7)

- To preserve the tax credits, the CDE must invest “substantially all” of the QEI into qualifying loans ("QLICIs") for the full 7 year compliance period:
  - Project must be located in low-income census tract (~40% of the US based on 2010 census tract data)
  - Project must not derive more than 80% of its revenue from multi-family rentals
QUALIFIED EQUITY INVESTMENT

- An equity investment in a CDE by an investor — either stock in a corporation or a capital interest in a partnership — in exchange for NMTCs.
- The equity investment must be acquired by the investor at its original issue solely in exchange for cash.
- QEIs must remain invested in the CDE during the 7-year tax credit compliance period.
- Investors claim credits starting on the date a QEI is initially made.
- The QEI must be substantially invested (85%) within 12 months of investment date.
QUALIFIED ACTIVE LOW INCOME COMMUNITY BUSINESS (QALICB)

Commonly referred to as a Qualifying Business which is:

- An operating business or real estate business located in a LIC
- A business that develops or rehabilitates commercial, industrial, retail or mixed-use real estate projects in a LIC
- A business that develops or rehabilitates community facilities, such as a children’s museum, charter schools or health care centers in a LIC
NMTC Structure - $9,900,000 QLICI - $10,000,000 QEI - NMTC allocation with 1% CDF Fees

Leverage Loan $6,500,000
Tax Credit Equity $2,925,000
Equity $575,000

Investment Fund $10,000,000

$10,000,000 Qualified equity investment (QEI)

CDE ($100,000)

$9,900,000 Qualified low-income community investment (QLICI)

A Note - Leverage Loan $6,500,000 (Market rate terms)
B Note - Tax Credit Equity $2,825,000 (total) (1% interest for seven year term)
Equity $575,000

$10,000,000 NMTC allocation will yield $3,900,000 in tax credits - spread over seven years - 5% years 1-3; 6% years 4-7. Assumes tax credit investor will pay $75 present value.