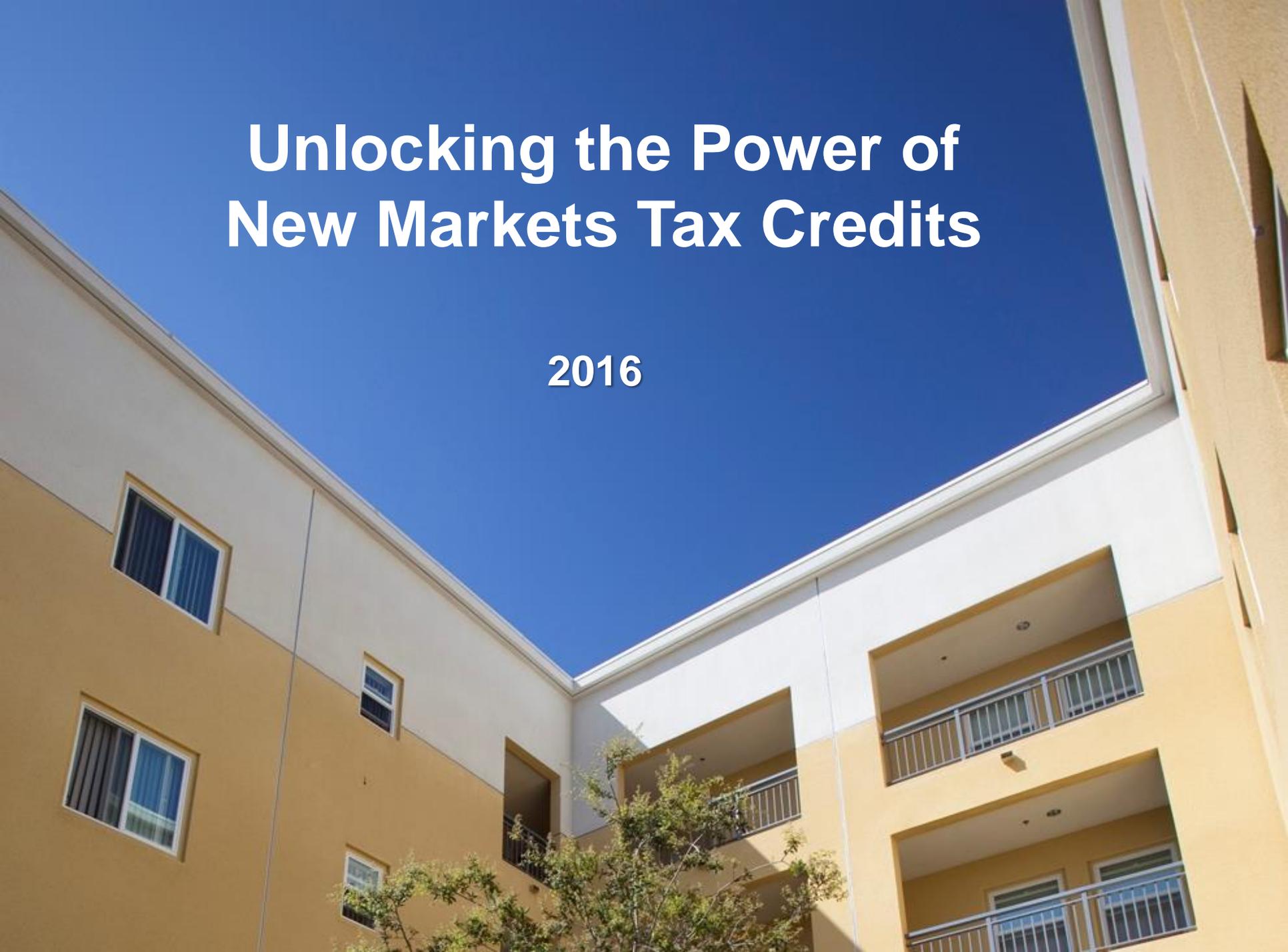


# Unlocking the Power of New Markets Tax Credits

2016



# Agenda

- Goals:
  - Understand the basics of how NMTCs can benefit projects in your community
  - Understand the process for obtaining NMTC Allocation
- Agenda:
  - NMTC Basics
  - Program descriptions and project examples
  - Questions



# Panelists

- Kelsey Hamory, LISC
- Elaine DiPietro, Enterprise
- Shirley Boubert, DC Housing Enterprises



# NMTC Background

- Financing tool to spur economic investment in low-income communities by providing equity to fill a capital gap
- Created by Congress as part of the Community Renewal Tax Relief Act of 2000
  - Codified in Section 45D of the Internal Revenue Code
  - Administered by the Community Development Financial Institutions (CDFI) Fund of the US Treasury Department



# Pearl Foods – Dorchester, MA



**Total NMTC Financing - \$14,000,000**

**LISC NMTC Financing - \$10,000,000**

## Community Demographics:

- Unemployment rate 2 times the National Average
- 23.6% Poverty Rate
- Family income 40.8% area median
- CHOICE Neighborhood

## Project Basics:

- Dorchester Bay Economic Development Corporation (DBEDC) partnered with Commonwealth Kitchen to utilize NMTC financing for an exciting new concept that uses commercial kitchen space as a means of building small businesses, creating jobs, and encouraging asset building and wealth creation.
- Redevelopment of 36,000 square foot former Pearl Meats Factory, located in the Grove Hall section of Dorchester, into a shared-use and multi-tenant food production facility.
- Integral part of DBEDC's Quincy Corridor Initiative, which will bring \$80 million of public and private investment into a four-block stretch of Quincy Street to revitalize the community, including the rehab of 129 homes for low-income families.
- In 2011, initiative was awarded a HUD CHOICE Neighborhoods grant of \$20 million.



# Pearl Foods – Dorchester, MA

## Financing:

### NMTC Leverage Sources:

CDFI Debt	\$3,060,000
HUD 108 Loan	\$3,200,000
CHOICE Grant	\$500,000
Other Grants	\$3,035,800
<b>Total Leverage Sources</b>	<b>\$9,795,800</b>

NMTC Net Equity	\$3,761,700
Sponsor Direct Equity	\$1,273,152
<b>Total Financing</b>	<b>\$14,830,652</b>

Total Development Costs      \$14,830,652



**NMTC Investor:** PNC Bank

**CDEs:** LISC, PNC

## Community Impact:

- 64 Construction Jobs Created
- 23 new jobs created in first six months of operation
- 40% of jobs filled by community residents



# NMTC: Overview

<b>Purpose:</b>	Encourage the investment of private & patient capital in low-income communities.
<b>What is it:</b>	39% tax credit (.39 for every \$1) on the capital invested in a Community Development Entity (CDE), over 7 years (5% in yrs 1-3; 6% in yrs 4-7) 7 year compliance period
<b>Who is eligible for the credit?</b>	Only a CDE can apply for an allocation of federal tax credits. Only investors who make a qualified investment can claim the credit.
<b>Who benefits from the credit?</b>	Investors get return through tax credits CDEs further mission Businesses / projects get financing in form of loans or equity
<b>Eligible Property Types:</b>	Low-income community businesses Commercial, community or mixed-use projects

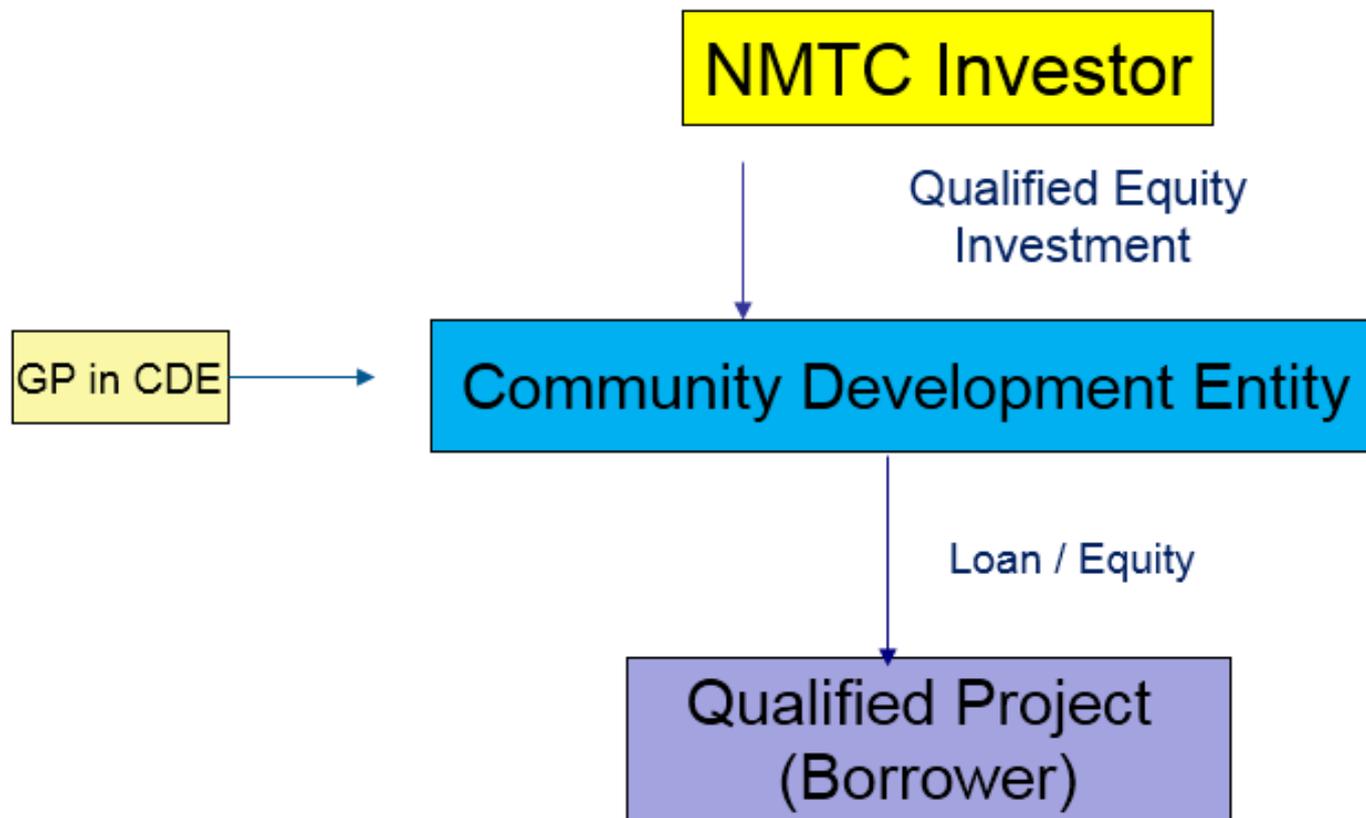


## NMTC: How it Works

- Community Development Entity (CDE) applies for and receives NMTC “allocation authority” from CDFI Fund - \$3.5 billion annually
  - \$43.5 billion total allocation awarded to date
- Investors form partnerships with CDE
- Investor’s capital contributions and loans are used to make investments in qualified projects
- Qualified projects result in new or rehabbed facilities, job creation and/or other benefits



# NMTC Deal Structure: Simple (Unleveraged)



# NMTC: Overview

- NMTCs can finance a wide range of real estate and business activities:
  - Commercial real estate (i.e. office, retail etc.)
  - Community facilities (i.e. health centers, charter schools, rec centers etc.)
  - Industrial/Distribution
  - Business financing
- Type of Construction
  - New Construction or Substantial Rehab
  - Avoid refinancing of existing buildings (can do take-out)
  - Can be combined with Historic Tax Credits
  - Cannot be combined with LIHTC (unless a separate condo regime)
- Ownership & operation of rental housing is specifically excluded BUT
  - Mixed-use projects are permissible if less than 80% of gross revenue is from dwelling units (or if the project is separated into residential and non-residential components)
  - At least 20% of the units must be affordable to tenants earning no more than 80% of the area median income



# What do NMTCs do for projects?

- NMTC leveraged financing can fill a 15% - 25% gap in a project's capital budget, with the percentage filled depending upon
  - Amount of financing provided
  - Pricing of NMTC equity
  - Whether ongoing NMTC fees & expenses are reserved at closing or paid out from project operating income
- The funding sources for the 75 – 80% of leveraged capital must be willing to accommodate the requirements of a NMTC financing
- Compared to 9% LIHTC projects, where the tax credit equity can be as much as 50% of the total development cost, NMTCs are a relatively shallow subsidy
- Unlike LIHTC and HTCs, NMTCs are generated by enhancing other project sources, rather than being based on project expenditures (“uses”)



## How the NMTC Works



Credits are earned on a “*Qualified Equity Investment*” (**QEI**) in a “*Community Development Entity*” (**CDE**) which uses *substantially all* of the QEI proceeds to make “*Qualified Low-Income Community Investments*” (**QLICIs**) in “*Qualified Active Low-Income Community Businesses*” (**QALICBs**) located in *Low-Income Communities* (**LICs**)



## NMTC: Key Definitions

- **Allocatee:** A CDE that has received an allocation of NMTC authority from the CDFI Fund.
- **QEI:** Qualified Equity Investment - \$ contributed to the CDE to acquire equity in the CDE. Investor is able to take NMTCs in an amount equal to 39% of the QEI.
- **QLICI:** Qualified low-income community investment – a loan or investment by a CDE to/in a QALICB.
- **LIC:** Low Income Community - a census tract with (1) poverty rate more than 20% or (2) median family income less than 80% of area median income.



## What is a *Qualified Active Low-Income Community Business* (QALICB)?

- Borrower/Investee that receives loan or equity investment from CDE
  - A QALICB is a corporation or partnership (including a nonprofit corporation) engaged in the “active” conduct of a qualified business that meets 5 separate requirements and is not engaged in an excluded business or activity
  - “Active” means the business can reasonably be expected to generate revenues within 3 years after the QALICB is made (or for a nonprofit to generate funds to further support its mission)



# What are Excluded Businesses?

- Liquor store
- Racetrack or other gambling facility
- Massage parlor
- Hot tub facility
- Suntan facility
- Country club
- Golf course



Restrictions apply to QALICB *and*  
*Tenants of QALICB*

# What are Other QALICB Restrictions?

- Can't be a business which develops or holds intangibles for sale or lease
- Can't be certain farming businesses



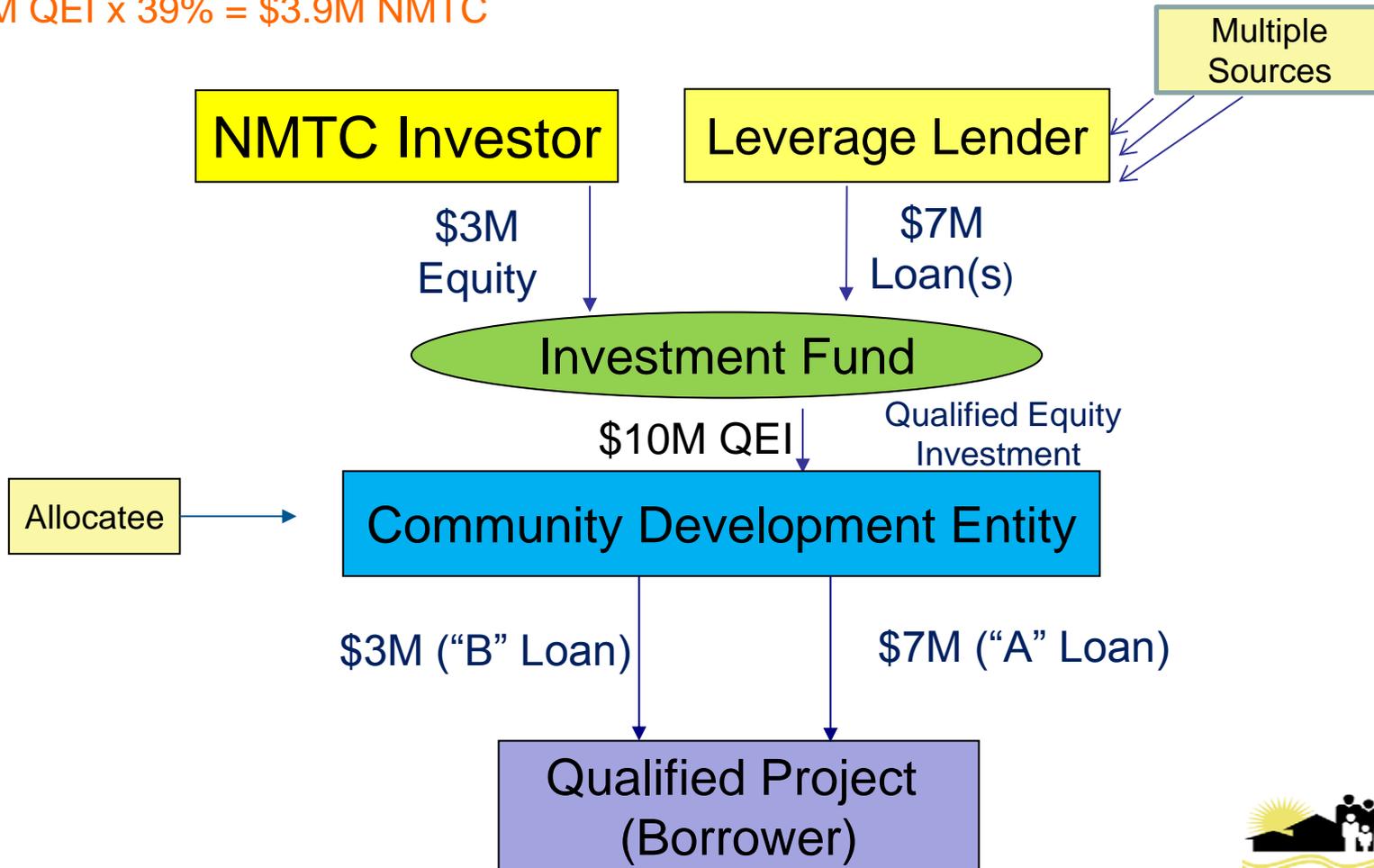
- Can't be residential rental property (at least 20% gross rental income must be from commercial uses)

# Why Leverage?

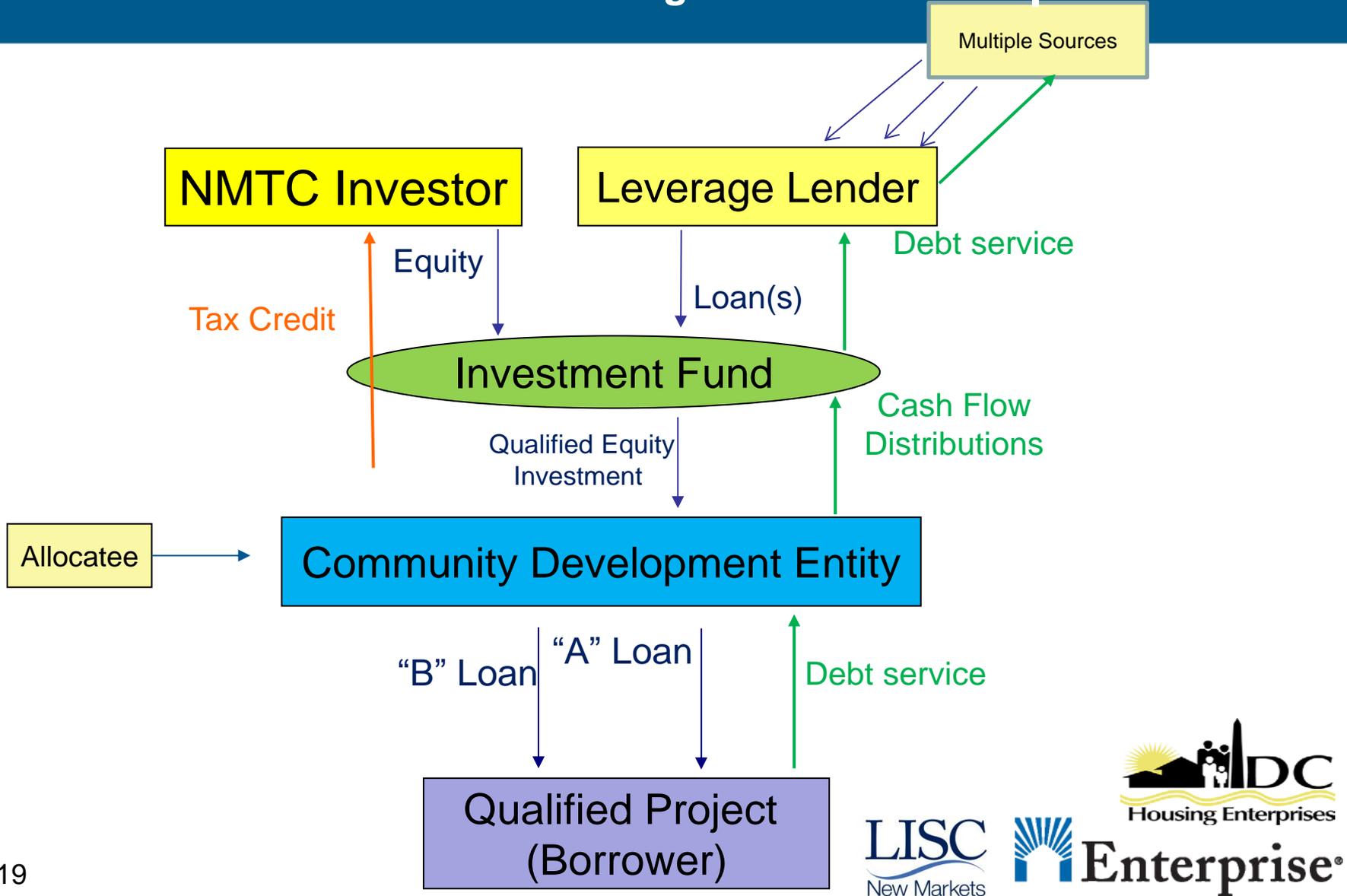
- *Limitation:* NMTC earned only on equity investments
- *Goal:* structure that allows NMTC to be earned on debt as well as equity, reduce investor's risk and increase return
- *Solution:* create an intermediate entity ("Investment Fund") that pools debt and equity from multiple sources before making QEIs into a CDE
- Can be used to NMTC-enhance debt, developer equity, grants & fundraising

# NMTC Deal Structure – Leveraged with Cash Down-Flow

\$10M QEI x 39% = \$3.9M NMTC



# NMTC Deal Structure – Leveraged with Cash Up-Flow



# Example of the numbers...Gross Equity

	<b>Example 1</b>	<b>Example 2</b>
QEI	\$ 10,000,000	\$ 10,000,000
NMTC Rate (over 7 years)	39%	39%
Total NMTCs Generated	\$ 3,900,000	\$ 3,900,000
Equity Price per NMTC	\$ 0.77	\$ 0.85
<b>Gross NMTC Equity Generated</b>	<b>\$ 3,003,000</b>	<b>\$ 3,315,000</b>



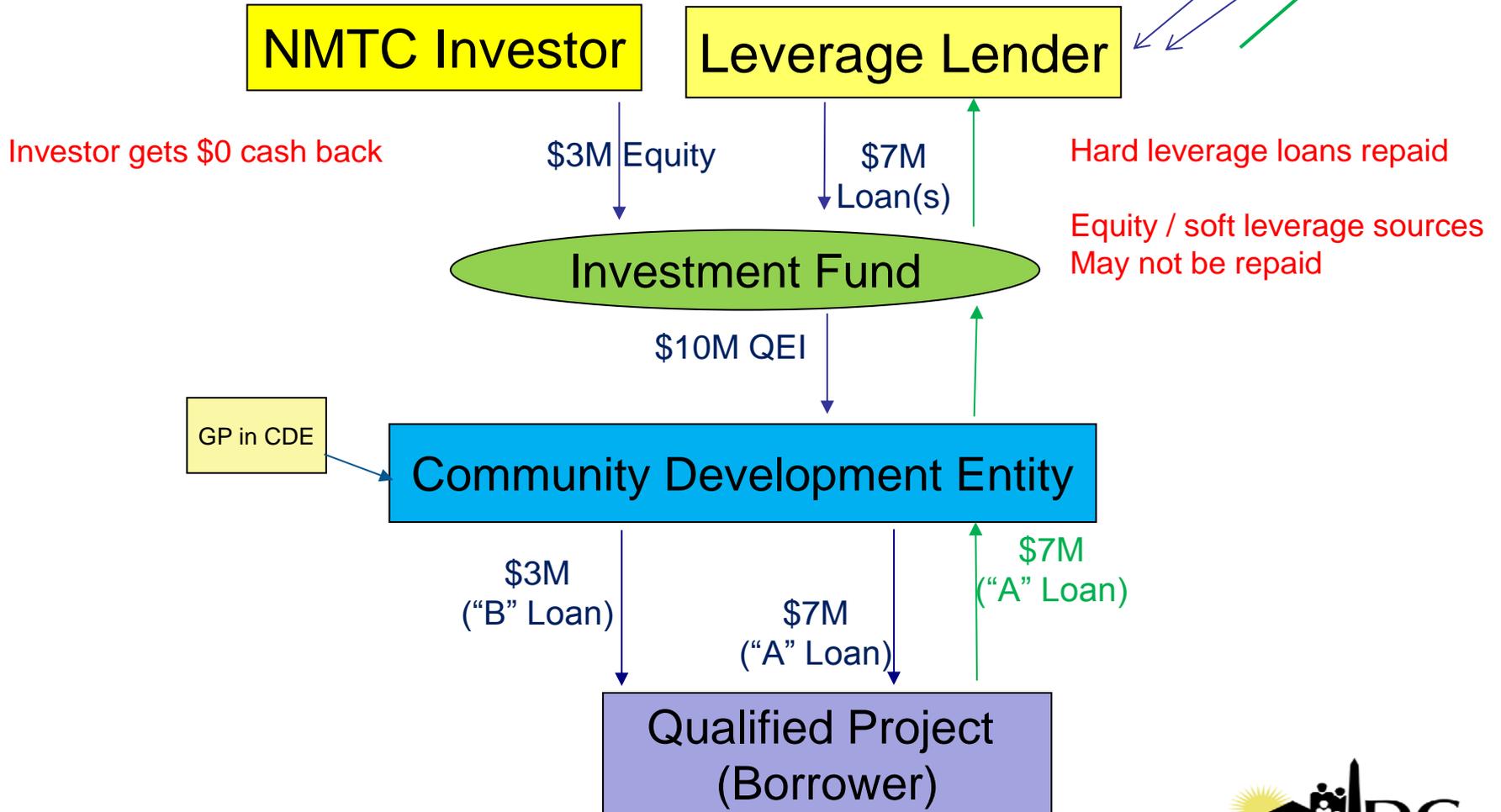
# Example of the numbers...Net Equity

	<b>Example 1</b>	<b>Example 2</b>
<b>Gross NMTC Equity Generated</b>	<b>\$ 3,003,000</b>	<b>\$ 3,315,000</b>
Less: Placement Fee (% of QEI)	\$ (300,000)	\$ (300,000)
Less: NMTC Transaction costs	<u>\$ (300,000)</u>	<u>\$ (300,000)</u>
CDE Asset Management Fee (% of QEI)	\$ (350,000)	\$ (350,000)
CDE Audit / Tax Return Expense	\$ (70,000)	\$ (70,000)
Investment Fund Mangement / Expenses	<u>\$ (175,000)</u>	<u>\$ (175,000)</u>
Total Ongoing Annual Expenses	\$ (595,000)	\$ (595,000)
<b>Net NMTC Equity for Project</b>	<b><u><u>\$ 1,808,000</u></u></b>	<b><u><u>\$ 2,120,000</u></u></b>



# NMTC Deal Structure - **Unwind**

Multiple Sources



# NMTC: Pros & Cons

## Pros :

- “But for” projects are completed
- Focus on creating substantial community benefits
- Efficient use of taxpayer dollars

## Cons:

- Limited access to credits; strong competition
- Strict compliance issues
- Transaction structures can be costly & complex
- Program renewal risk

## Significant Recapture Risk:

The compliance period is 7 years from date of QEI

Amount of recapture = NMTC (39% of QEI) + interest + penalty



# NMTC: Participant Roles

## NMTC Allocatee (Enterprise, LISC, DCHE)

- Applies to CDFI Fund for NMTC allocation
- Utilizes allocation to finance projects for the direct benefit of the NMTC Investor and the indirect benefit of the borrower
- Role: Ongoing Compliance, accounting, asset management, and investor reporting for seven years

## NMTC Investor / Lender

- Economic investors typically focus on cashflow and depend on project performance to receive a return on capital
  - Construction/permanent lender (“leverage lender”)
  - Equity investors (sponsor, preferred equity)
- Tax credit investors typically focus on the receipt of tax credits and depend on regulatory compliance to ensure a return on capital.



# NMTC: Participant Roles

## Sponsor / Developer

- Articulate community impact
- Specify level of commitment of all funding sources
- Develop a pro-forma that articulates NMTC allocation required and appropriate fees
- Begin conversations with NMTC allocatees / CDEs and Investors
  - Allocatees control their own credits
  - Investors control the \$\$\$



# NMTC: Participant Risks

## Key risk categories

Real estate risk (leverage lender, sponsor)

- Project performance
- Effect of market-based conditions

Compliance risk (tax credit investor, CDE)

- Following IRS guidelines
- Complying with Allocation Agreement with CDFI Fund

Management of risk allocation (sponsor, tax credit investor, CDE)

- Transaction structuring to ensure appropriate party bears risk

Reputation risk (CDE)

- Ability to receive future NMTC allocations  
(maintain track record)



# Transaction Selection

- Does it meet CDE's strategy & commitments?
  - Geography
  - Investor relations
  - Project type, community impact, but-for
  - Located in highly distressed census tract?
  - Strong community support?
  - Environmental sustainability, etc.
- Does it meet the requirements of applicable Allocation Agreements?
- Does it meet the investment guidelines for investors?
- Is it a Qualified Active Low Income Community Business?



# Transaction Selection

## Filters: Community Impact

CDEs consider benefits to low-income community/end-users

- Job creation/retention
- Quality jobs: wages / benefits
- Brings commercial or community goods and services to underserved areas
- Flexible financing for business operations



# Transaction Selection

## Filters:

### Project or other benefits would not be achieved “but for” NMTC

- Targeted towards investments that have a funding gap
- Demonstrate that all other sources of subsidy have been exhausted
- Commercial projects in “low-rent” areas
- Cannot access market rate capital
- Goal: Efficient use of taxpayer money



# Timing

- Application cycle is important to both CDEs and project sponsors...
  - Typically, CDFI Fund announces new awards in Summer
  - Projects then take 3-6 months to close on average
- How to be prepared as a project sponsor:
  - Clearly defined funding gap that can be closed with a straightforward leveraged structure
  - Sources of Leverage and other financing committed
  - Project defined, construction drawings complete and costs estimated with a GMP Contract with general contractor
  - Site control and real estate issues in order

# How to find a CDE?

- List of CDEs - [Cdfifund.gov](http://Cdfifund.gov)
  - Geographic Footprint
  - QEI Issuance Report
- NMTC Consultants
- Banking relationships
- Call one of us!



# NMTC Compliance - Recapture

## Events of recapture:

- CDE ceases to be qualified
  - Change of primary mission or non-accountable board
- “Substantially All” requirement is not met
  - 85% of QEI must be invested in a QLICI “at all times”
- QEI is redeemed or cashed out by CDE
  - Cash in excess of “net operating income” is distributed to investment fund / investor



Recapture = loss of all tax credits + interest & penalties

# Not Recapture...

Recapture is not triggered if:

- CDE goes bankrupt
- QALICB goes out of business
- Mortgage is foreclosed upon
  - Any QLICI proceeds repaid are still subject to reinvestment requirements

# Program Descriptions and Project Examples

DC Housing Enterprises

Enterprise

LISC



# DCHE Overview



DC Housing Enterprises (DCHE) is a subsidiary of the District of Columbia Housing Authority (DCHA). DCHE is one of a few housing authority Instrumentalities that is certified by the Community Development Financial Institutions Fund (CDFI Fund) as a Community Development Entity (CDE).

## Accomplishments:

- DCHE has received \$83 million New Markets Tax Credit allocations since 2009 and has invested over \$400 million in community real estate and business development.
- NMTC Investments has created over 500 construction and permanent jobs. 124 of jobs created were set aside for public housing residents.
- DCHA has received 7 HOPE VI awards and 1 Choice Neighborhood Planning Grant and lead the revitalization efforts in low income communities across the District of Columbia.



# How DCHE uses NMTC

## **DCHE's Strategy:**

DCHE prioritizes investments that reinforce DCHA and other partner agencies targeted development activities therefore, we make investments in projects that meet the various demands of economically challenged communities.

- Types of projects include:
  - Educational
  - Mixed-Use Commercial
  - Community Facility
  - Recreational/Entertainment
  - Fresh Foods
  - Health Care Facilities
  - Employment Training Center



# Educare DC – Kenilworth Parkside Community



## Early Childcare Educational Program:

- Serves 175 very low income students ages 6 weeks – 5yrs old.
- Technical support to parents to assist with job training and employment.
- Offers innovative approach towards educating low income children beginning at 6 weeks old.
- 65 permanent jobs created.

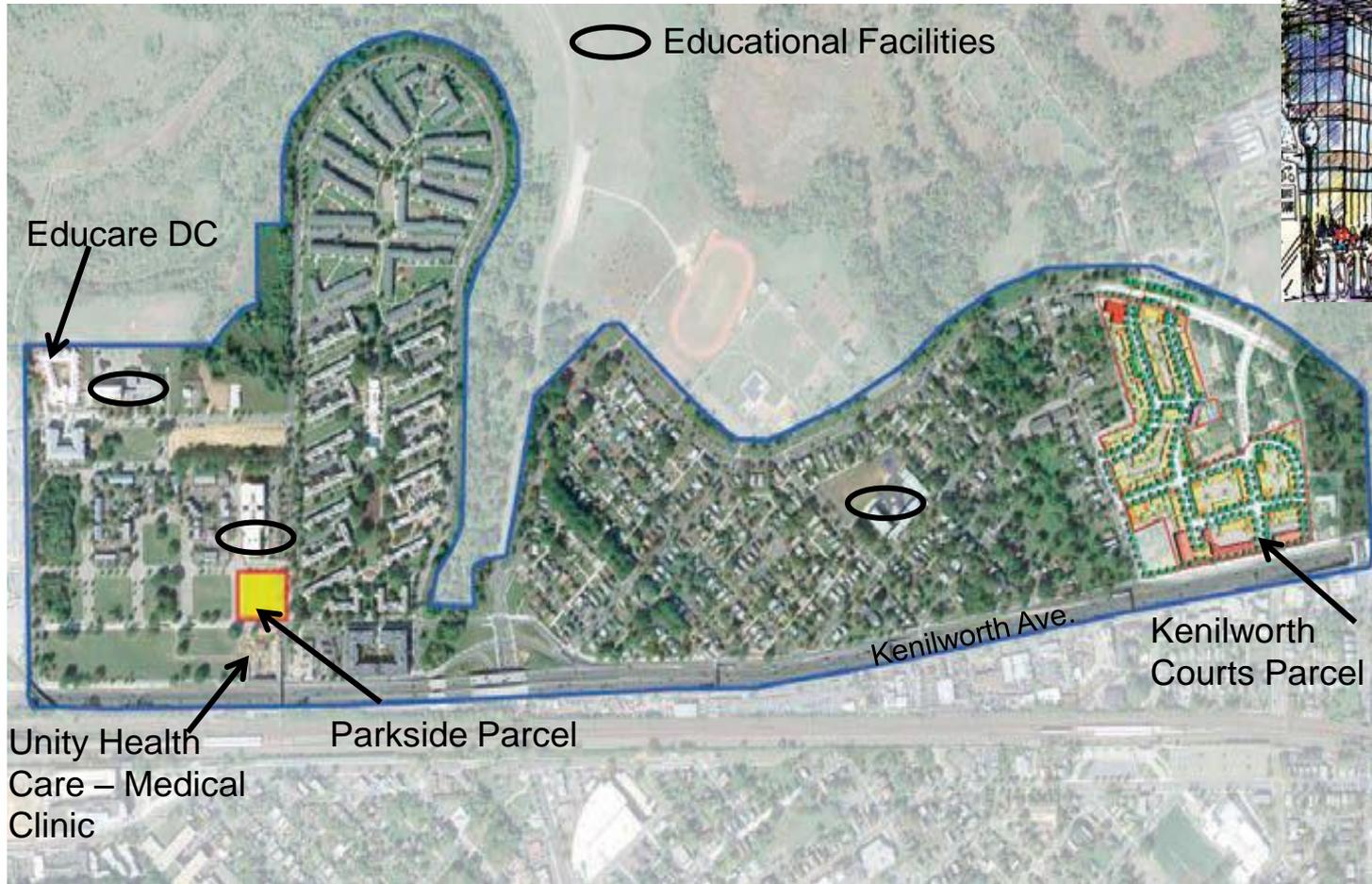
## Leveraged Model

NMTC Equity: \$3,000,000 ( \$15.6 Million Allocation )

37 Total Development Cost: \$24,300,000



# NMTC Investments at Kenilworth Parkside CNI Planning Grant Recipient



# Progression Place & Howard Theatre

Progression Place



# DCHE Project Example

## Progression Place (Office, Retail & Residential)

- 205 residential (51 workforce/affordable units)
- 24,343 GSF storefront retail & 103,083 GSF office space /UNCF Headquarters
- 194 parking spaces underground parking structure

## Leveraged Model

NMTC Equity: \$ 3,971,000 (\$18 Million Allocation )

Total Development Cost: \$157,654,244

- Highly Distressed:
  - Median Income < 60% of statewide
  - Unemployment > 1.5 times national average
- Community Impact:
  - 232 Construction and 66 Permanent Jobs Created
  - Real estate tax increase over \$1.2 mill from 2012 – 2014
  - Scholarship Opportunities/ College of Knowledge Center
  - Job Training & Employment Opportunities



# Enterprise Overview

- Enterprise is a national non-profit organization seeking to end housing insecurity. Enterprise's mission is to create opportunity for low- and moderate-income people through affordable housing in diverse, thriving communities.
  - Loans, Grants, and Equity Investments
  - Local, State, and National Policy Support
  - Technical Assistance
- Since inception, Enterprise has invested \$18.6 billion, investing in over 340,000 homes and millions of square feet of commercial and community facility space.
- Enterprise has received \$830 million in NMTC allocation and invested \$803 million to date



# How Enterprise uses NMTC

- Enterprise invests NMTC allocation in severely distressed neighborhoods in the 10 areas where Enterprise has a local office.
- We focus on projects that will complement affordable housing investments and provide access to:
  - Health care
  - Better education
  - Healthy food and
  - Jobs
- Average NMTC investment is \$10 million per project
- We partner with other CDEs and
- Provide compliance / asset management services for others as needed

# Miller's Court – Baltimore, MD

BEFORE



- \$21M TDC
- \$19M of NMTC allocation
- State and Federal HTC
- 38% Poverty Rate / 66% AMI
- 1.5 x national unemployment rate
- Baltimore Enterprise Zone
- Brownfield
- Perception of crime & danger

AFTER



# Miller's Court - Impact

GOALS

Quality Affordable  
Housing for Baltimore  
Teachers

Provide a Collaborative  
Environment for  
Nonprofits

Spark Revitalization in  
Distressed Neighborhood

Create New Economic  
Opportunity

PROJECT  
IMPACT

Positive Financial  
Changes

---

Improved Resident  
Quality of Life

---

Increased Commitment  
& Positive Teaching  
Experience

Strengthened  
Collaboration Between  
Tenants

---

Increased  
Professionalism &  
Opportunities for  
Growth

Increased "Sense of  
Place"

---

Reduction in Crime

---

Increased  
New Investment

---

Greater Long-Term  
Neighborhood  
Commitment

Increased Economic  
Activity & Local  
Spending

---

Job Growth

---

New Tax Revenue  
Generated

# Asian Health Services – Oakland, CA



- \$10.7M TDC
- \$10.5M NMTC allocation
- AMI 34.8% / Poverty 21.6%
- Federal medically underserved area
- High unemployment

New NMTC facility is having a tremendous impact on the 9,800 patients seen annually:

- 87% of patients have their blood sugar under control, compared to 73% nationally
- 75% have blood pressure under control, compared to 52% nationally
- 97% have an asthma action plan, compared to 81% nationally

# LISC Overview

- LISC is a national non-profit organization dedicated to transforming distressed neighborhoods into healthy, sustainable communities.
  - With 30 local programs and a national rural program, LISC helps to mobilize support to local community development organizations with:
    - Loans, Grants, and Equity Investments
    - Local, State, and National Policy Support
    - Technical and Management Assistance
- Since its inception in 1980, LISC has invested \$15 billion which has generated \$44.1 billion in total development.
- LISC has received \$908 MM in NMTC allocation and invested \$854 MM in 100 projects to date
- LISC NMTC Program is managed by its affiliate, New Markets Support Company

# How LISC uses NMTC

- LISC brings NMTCs to communities served by LISC by financing transactions that advance the community development strategies of LISC's local programs, National Rural Program, & other national programs and affiliates
- LISC generally uses \$5-\$15 million in NMTC financing per transaction and can partner with other CDEs on larger transactions
- LISC has also developed two structured NMTC products:
  - Small Business Loan Fund – provides advantageous first mortgage, real estate financing in connection with the SBA 504 Program
  - Healthy Futures Fund – provides favorable financing for Federal Qualified Health Centers (FQHCs)

# Paseo Verde TOD - Philadelphia, PA



**Total NMTC Financing - \$30,000,000**

**LISC NMTC Financing - \$10,000,000**

## **Community Demographics:**

- ❑ Unemployment rate 4.4 times the National Average
- ❑ 61% Poverty Rate
- ❑ Family income 23.6% area median

## **Project Basics:**

- ❑ Developers Asociación Puertorriqueños en Marcha (APM) and Jonathan Rose Companies received NMTC financing for the new construction of a mixed-use, transit-oriented, green development that provides affordable, workforce and supportive housing and space for a health center, pharmacy, and a nonprofit that provides social services dedicated to improving the outcomes for children.
- ❑ The NMTC project includes 67 residential units and 29,400 SF of commercial space. The health center relocated and expanded into new space in order to offer low-cost medical care to 2,000-2,900 uninsured people annually.
- ❑ The project utilized environmentally responsible construction and remediated a brownfield site, which had been underutilized for years, with a modern LEED Certified building.

# Paseo Verde TOD - Philadelphia, PA

## Financing:

### NMTC Leverage Source(s):

TRF Energy Leverage Loan	\$3,000,000
Chase Senior Loan	\$9,010,000
<u>Sponsor Leverage Loan</u>	<u>\$9,046,286</u>
<b>Total Leverage Sources</b>	<b>\$21,056,286</b>

NMTC Net Equity	\$7,897,264
<u>Deferred Developer Fee</u>	<u>\$1,130,415</u>
<b>Total Financing</b>	<b>\$30,083,965</b>

Total Development Costs      \$30,083,965



**NMTC Investor:** Chase Community Equity, LLC

**CDEs:** LISC  
Corporation for Supportive Housing  
Building America  
WNC

## Community Impact:

- 112 Construction Jobs Created
- 139 Permanent Jobs Created
- 2,900 patients served
- 1,000 children served

**LISC**  
New Markets



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