Understanding New Markets Tax Credits

A presentation by:

LISC NMTC Program
Rhode Island Foundation
May 10, 2012

For more information, visit: www.newmarkets.org
Agenda

- NMTC Overview
- LISC NMTC Program
- Project Examples

For more information, visit: www.newmarkets.org
## NMTC Overview

### What is the NMTC Program?

- Federal tax initiative administered by the Department of Treasury’s CDFI Fund
- NMTCs awarded annually through a competitive process
- Designed to stimulate private investment capital into underserved markets
- Eligibility:
  - Generally based on geography (i.e., location of activities limited to qualified census tracts)
    - 80% of applicable area median income
    - 20% poverty
  - Targeted Populations Approach based on income of business owners, employees or customers / clients

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NMTC Overview

Eligible Uses of NMTCs

- Applies to a wide range of economic development and business activities
  - Commercial real estate
  - Community facilities
  - Industrial/Distribution
  - Business financing

- 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 nonresidential components)
  - The development of housing to rent or sell is permissible, although it presents some significant NMTC financing challenges

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NMTC Overview

Acronyms

CDE: Community Development Entities must use…
Sub-All: Substantially All of the proceeds from…
QEI: Qualified Equity Investments to make…
QLICI: Qualified Low-Income Community Investments in…
QALICB: Qualified Active Low-Income Community Businesses located in…
LIC: Low-Income Communities

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NMTC Overview

Leveraged Financing Structure

- NMTC leveraged financing can fill a 10% - 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 need to be willing to accommodate some of 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").

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NMTC Overview

Leveraged Structure Diagram

1. The diagram does not account for the fees and expenses involved in providing NMTC financing. Subsequent slides present examples that include typical fees and expenses.

2. The diagram assumes the investor pays $0.70 per $1.00 of NMTC.

3. Loan payments are generally interest only.

4. CDEs generally distribute income used by the investment fund to make payments on the leverage loan.

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**NMTC Overview**

**Typical NMTC Financing**

- **Two Examples**
  - **Community Facility**
    - Nonprofit sponsor / limited and uncertain operating income
    - Ongoing fees & expenses reserved at closing
  - **Retail / Office Project**
    - Financially strong for-profit developer & project
    - Ongoing NMTC fees & expenses paid from project cash flow

- **$10 million of NMTC Financing**
  - Lies within the $5 - $15 million of NMTC financing that a single CDE is likely to provide to a transaction
  - Represents the “sweet spot” within that range

- **NMTC equity pricing of $0.70 / per $1.00 of NMTC**
  - Represents the midpoint of the current range of $0.67 to $0.72

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NMTC Overview

Community Facility

- Based on typical NMTC fees and expenses, a developer can expect to fill a 17% capital gap
- Under this approach, the developer pays:
  - The rate that its leverage sources, most likely
    - a nominal rate attached to a loan of grant funds and / or
    - the rate charged by a lender to bridge the sponsor’s receipt of funds from a capital campaign) and
  - All of the costs associated with the NMTC Net Equity are paid from a reserve.

<table>
<thead>
<tr>
<th>NMTC Leverage Source(s):</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Project Grants, etc.</td>
<td>$ 8,301,156</td>
</tr>
<tr>
<td>NMTC Net Equity</td>
<td>$ 1,698,844</td>
</tr>
<tr>
<td>LISC NMTC Financing</td>
<td>$ 10,000,000</td>
</tr>
<tr>
<td>Total Development Costs</td>
<td>$ 10,000,000</td>
</tr>
</tbody>
</table>

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Based on typical NMTC fees and expenses, a developer can expect to fill a 22.5% capital gap.

Under this approach, the developer pays:
- The rate that its commercial loan bears and a nominal rate of interest (to itself) on the loan of its equity contribution.
- The ongoing fees and expenses, which are equivalent to an interest rate of 4.1% on the NMTC Net Equity. (This rate can range from 3% to 7%.)

**NMTC Leverage Source(s):**

- **Commercial Debt** $6,749,897
- **Loan of Sponsor Equity** $1,000,000
- **NMTC Net Equity** $2,250,103

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

**Total Development Costs** $10,000,000

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LISC NMTC Activity To Date

- $778 million received (largest cumulative NMTC award recipient)
- $646 million deployed
- 66 transactions
- $1.6 billion in total development costs
- 7.3 million square feet of Commercial or Community Space
- 390 housing units
- 7,600+ Permanent Jobs Created or Retained

*As of November 1, 2011

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LISC NMTC Program

How is LISC using NMTCs?

- 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’s NMTC activities build on its core competency in real estate financing for commercial space and community facilities
- LISC generally uses $5-$15 million in NMTC financing per transaction and can partner with other CDEs on larger transactions

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**LISC NMTC Program**

**Ideal LISC NMTC Transaction**

- LISC evaluates the following criteria to choose among NMTC financing requests:
  - **Location Meets:**
    - Basic NMTC Eligibility &
    - Higher Distress Criteria (in LISC’s Allocation Agreement with the CDFI Fund)
  - Meets LISC’s Social Investment Criteria & Will Generate Significant Community Impact:
    - Demonstrates Support From Local Community
    - Furthers the Local Programs of LISC and its Partners
    - Creates jobs, provides commercial/retail space, community services or facilities, and/or other community benefits
  - Project is Ready or Near Ready To Close (3 to 6 months out)
    - Clearly Defined 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 Guaranteed Maximum Contract with general contractor
    - Site control and real estate issues in order

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LISC NMTC Program

Types of Projects and Financing

Type of Asset
- Community Facilities: 45%
- Mixed-Use Residential: 15%
- Commercial, Office and/or Retail: 29%
- Industrial: 8%
- Other: 3%

Type of Sponsor
- Non-Profit: 63%
- For-Profit: 37%

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LISC NMTC Program

LISC NMTC Investors (in order of volume)

Bank of America
Bank of the James
BB&T
Chevron
First NBC Bank
First Niagara Bank
Fifth Third Bank
Goldman Sachs
HSBC
Huntington CDC
JP Morgan Chase Bank
KeyBank
PNC Bank
Trustmark National Bank
Union Bank of CA
US Bancorp
Wachovia Bank
Wells Fargo Bank

Plaza Verde
(Minneapolis, MN)

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Shops at Park Village (Washington, DC)

Project Basics:
- Retail center anchored by a supermarket
- Supermarket is the first in area in nearly a decade, with full-service pharmacy, Staples office supply aisle, etc.
- Commercial component of larger mixed-use initiative to reuse and redevelop 7.5 acres of a vacant former army base (Camp Simms) in Congress Heights

Community:
- 44% poverty rate
- Family income 32% of area median
- Unemployment Rate 3.83 times the National Average

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# LISC NMTC Project Snapshot

## Shops at Park Village (Washington, DC)

### Financing:

<table>
<thead>
<tr>
<th>NMTC Leverage Source(s):</th>
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<tbody>
<tr>
<td><strong>Commercial Debt</strong></td>
<td>$12,165,000</td>
</tr>
<tr>
<td><strong>Developer / Sponsor Capital</strong></td>
<td>$2,000,000</td>
</tr>
<tr>
<td><strong>NMTC Net Equity</strong></td>
<td>$3,450,000</td>
</tr>
</tbody>
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<tr>
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<tbody>
<tr>
<td><strong>LISC NMTC Financing</strong></td>
<td>$17,615,000</td>
</tr>
<tr>
<td><strong>Non-NMTC Sources</strong></td>
<td>$2,970,000</td>
</tr>
</tbody>
</table>

**Total Development Costs** $20,585,000

### Community Impact:

- 111,293 s.f. of commercial space
- 188 construction jobs
- 172 permanent jobs

**NMTC Investor:**
Wachovia

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LISC NMTC Project Snapshot

Midtown Global Market (Minneapolis, MN)

Project Basics:

- Public market component of the redevelopment of the largest building in Minneapolis.
- Undertaken by the Neighborhood Development Center, a LISC-supported business development nonprofit.
- The international theme provides entrepreneurial and employment opportunities to residents of the low-income, high-immigrant Lake Street community.

Community:

- 29% poverty rate
- Family income 44% of area median
- Unemployment Rate 2.93 times the National Average

For more information, visit: www.newmarkets.org
LISC NMTC Project Snapshot

Midtown Global Market (Minneapolis, MN)

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<th>Financing:</th>
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<tbody>
<tr>
<td><strong>NMTC Leverage Source(s):</strong></td>
<td></td>
</tr>
<tr>
<td>Commercial Debt</td>
<td>$ 910,296</td>
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<tr>
<td>Soft Debt</td>
<td>$ 1,412,096</td>
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<tr>
<td>Developer / Sponsor Grants</td>
<td>$ 1,734,113</td>
</tr>
<tr>
<td>Historic Tax Credit Equity</td>
<td>$ 1,235,024</td>
</tr>
<tr>
<td>NMTC Net Equity</td>
<td>$ 2,153,620</td>
</tr>
<tr>
<td><strong>Total Development Costs</strong></td>
<td>$ 16,514,806</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Community Impact:</th>
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</tr>
</thead>
<tbody>
<tr>
<td>• 86,084 s.f. of commercial space</td>
<td></td>
</tr>
<tr>
<td>• 474 construction jobs</td>
<td></td>
</tr>
<tr>
<td>• 206 permanent jobs</td>
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**NMTC Investor:**
US Bank

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LISC NMTC Project Snapshot

Boys & Girls Clubs (Phoenix, AZ)

Project Basics:
- Boys & Girls Clubs of Metropolitan Phoenix operate 10 clubhouses and focus on 5 core program areas.
- The LISC NMTC transaction develops three Boys & Girls Clubs:
  - Jerry Colangelo Clubhouse
  - Ed Robson Family Clubhouse
  - Glandale Branch
- Each is to be used jointly with nearby public elementary schools.

Community:
- 33% poverty rate
- Family income 55% of area median
- Unemployment 1.83 times national rate

NMTC Investor:
JP Morgan Chase

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LISC NMTC Project Snapshot

Boys & Girls Clubs (Phoenix, AZ)

<table>
<thead>
<tr>
<th>Financing:</th>
<th>Community Impact:</th>
</tr>
</thead>
<tbody>
<tr>
<td>NMTC Leverage Source(s):</td>
<td>• 74,865 s.f. of community space</td>
</tr>
<tr>
<td>Capital Campaign Bridge Loan $7,173,888</td>
<td>• 12 construction jobs</td>
</tr>
<tr>
<td>NMTC Net Equity $2,339,852</td>
<td>• 36 permanent jobs</td>
</tr>
<tr>
<td>LISC NMTC Financing $9,513,740</td>
<td></td>
</tr>
<tr>
<td>Total Development Costs $9,513,740</td>
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LISC NMTC Project Snapshot

The Plant (Providence, RI)

Community Impact:
- 27,264 s.f. of commercial space
- 32 residential units
- 107 construction jobs
- 75 permanent jobs

Project Basics:
- $20.4 million - Development Costs
- $9.5 million – LISC NMTC Allocation
- US Bank – NMTC Investor
- Conversion of a former mill complex into 17 residential rental units, 15 live/work artist lofts, 27,264 sq. ft. of commercial space, and 114 parking spaces.

Community:
- 36% poverty rate
- Family income 40% of area median
- Unemployment 1.9 times national rate
- Brownfield site

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LISC NMTC Project Snapshot

Hope Street (Woonsocket, RI)

Community Impact:
- 14,200 s.f. of commercial space
- 95 construction jobs
- 36 permanent jobs
- 104 children served

Project Basics:
- $5.7 million - Development Costs
- $4.4 million – LISC NMTC Allocation
- Bank of America – NMTC Investor
- Renovation of historic school for lease to Connecting for Children and Families, a well-respected, non-profit child care organization.

Community:
- 26% poverty rate
- Family income 60% of area median
- Unemployment 2.1 times national rate

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### American Locomotive (Providence, RI)

**Community Impact:**
- 199,706 s.f. of commercial space
- 333 construction jobs
- 780 permanent jobs

**Project Basics:**
- $77 million - Development Costs
- $14.6 million – LISC NMTC Allocation
- Chevron – NMTC Investor
- Adaptive reuse of the American Locomotive Works on the north shore of the Woonasquatucket River near the city’s center into office and retail space.

**Community:**
- 31% poverty rate
- Family income 41% of area median
- Unemployment 2.0 times national rate
- Brownfield site

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LISC NMTC Program

LISC NMTC Website (www.newmarkets.org)

For more information, visit: www.newmarkets.org
LISC NMTC Program

Preliminary Information Form

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LISC NMTC Program

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