



gai consultants

COMMUNITY
SOLUTIONS
GROUP

New Markets Tax Credits: Qualified project financing to support local economic development activities

Owen Beitsch, PhD, FAICP, CRE
Senior Director, Economic and Real Estate Services



gai consultants

COMMUNITY
SOLUTIONS
GROUP

Overview

- Program highlights
- What the credit program does (and does not) do
- Value to your community or projects
- Basic deal structure
- Lessons for planners
- Questions



Important highlights

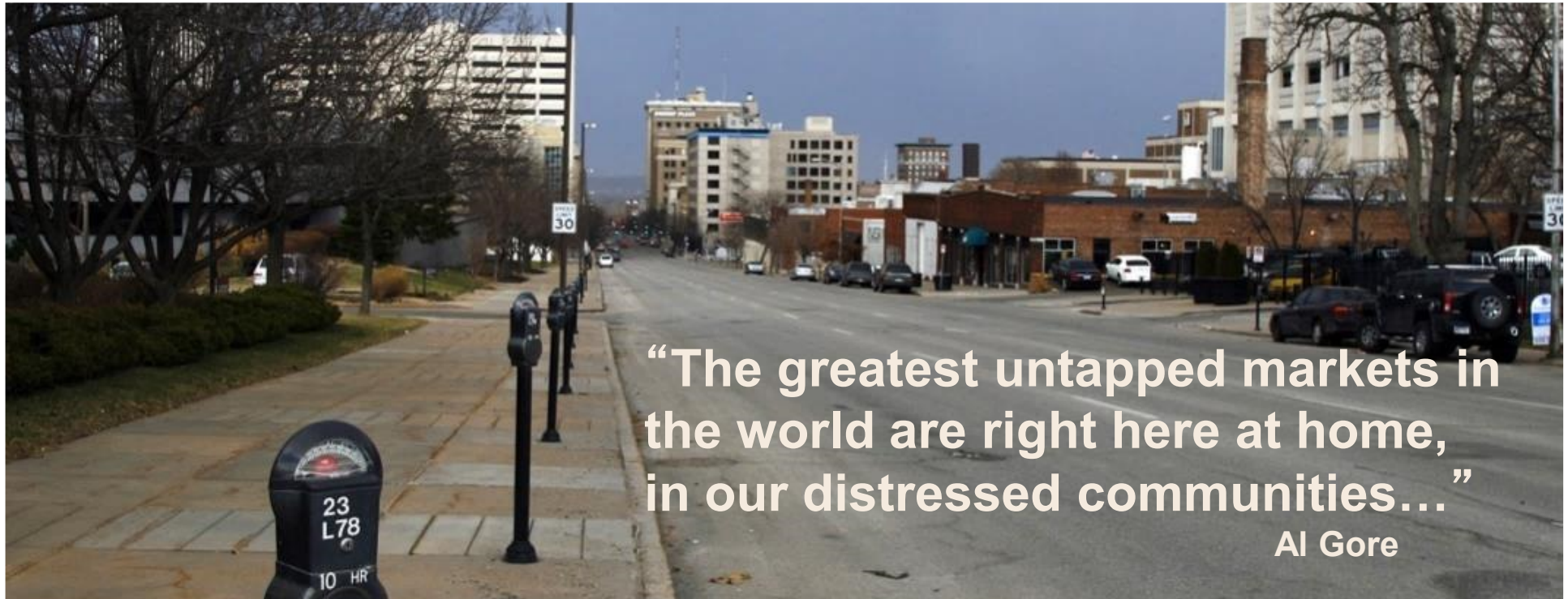
- A tax credit is a **way to secure cash for projects and programs** through a combination of tax policy, investment initiative, and local participation
- Cash is created **as credits are acquired** by interested parties
- **Economic boost** to qualified projects of ultimately representing a net project benefit of about twenty percent (20%)broad uses for operating capital and bricks and mortar

Important highlights

- **Start-ups**, early stage companies, established businesses, and not-for-profit entities are all eligible.
- **Structuring** often can assist an initially unqualified project meet requirements.



World of acronyms



“The greatest untapped markets in the world are right here at home, in our distressed communities...”

Al Gore

Purpose of NMTC financing

- Infusion of capital into low-income communities
- Increases project economic viability
- Promote lending in areas of traditional difficulty
- Allow for flexible and creative lending structures
- Assists projects in filling gaps in capital stacks

But what is a tax credit *really* ?

- Allocation of credits is **not an award of money**
- Credits are **not a grant**
- Credits are **not cash proceeds** from a federal source, they only indirectly affect the budget
- Allocation authorizes a CDE to designate an investor's actions as **qualified to receive tax credits**
- **Investment** effectively represents an exchange of credits for cash
- Credits can represent as much as **39% of the total project value** but are discounted equaling less actual cash received

What if I have no need for tax credits?

- Tax exempt entities, companies burning through NOLs, and start-ups can all benefit
- Tax credits flow upstream to tax credit investors purchasing tax credits for a discount

39% [\$39.00] federal income tax credit payable over 7 years with 5% [\$5.00] for first three years; 6% [\$6.00] thereafter)

YEAR	1	2	3	4	5	6	7	TOTAL
TAX Credit as % of investment (QEI) Amount	5%	5%	5%	6%	6%	6%	6%	39%

- Benefit arising from NMTC equity flows downstream to the identified project

How NMTC financing impacts projects

- After costs of securing credits, approximately twenty percent (20%) net benefit accrues to project costs
 - In not distant years past, this would have been almost the required level of equity
 - Operating and expansion capital: Soft and Hard Capital
 - Impact on debt financing and Loan to Value (LTV)

Only CDEs are allocated credits

- 2015-2016 announcement pending
- Application and allocation by CDFI is highly competitive process
- Credit availability cycles
- Pending allocation
- Future allocation rounds



Attractive project features

- Community impact / Timing
- Financing, equity or balance sheet assets in place
- Lender's eager to satisfy CRA requirements have a role in NMTC program
- Ultimately the terms have the potential to be very attractive

Basic criteria (eligible areas)

- Low-income community census tract, generally 80% of Area Median Income or [poverty rate at least 20%
- Census Tract cannot be over 120% of Area Median Family Income
- Severe distress vs. qualified
- Primary and secondary criteria Average median family income/poverty rate/unemployment rate
- Not qualified:
 - Residential rental housing consisting of over 80 percent revenue from residential tenants
 - Enumerated list of “sin businesses”
 - Farms
 - Raw land with no plans for development



Eligible or highly stressed

- Additional criteria classify an area as highly or severely stressed.
- Attractive or advantageous for program purposes.
- Satisfy basic criteria *plus*
- Additional tests of economic disadvantage plus
- Two additional program criteria linked to many other federal and local designations or programs with their own site or area specific criteria



Test 1: Eligible as *highly stressed*

- Have poverty rates greater than 30 percent.
- Median family income does not exceed 60 percent of statewide median family income.
- Have unemployment rates at least 1.5 times the national average.

Test 2: Eligible as highly stressed

Satisfy two or more

Rural census tract (any LIC outside the MSAs)	Areas designated as distressed by the Appalachian Regional Commission	Businesses located in food deserts under the Healthy Food Financing Initiative definition	Counties for which the Federal Emergency Management Agency has issued a "major disaster declaration"	Federally designated Native American reservations
Federally designated medically underserved areas	State or local tax-increment financing districts, enterprise zone programs, state/local programs targeting distressed areas	Brownfields redevelopment areas	High Out-Migration Rural County	CDFI Hot Zones

Other options to place credits

- **50% of the business's** total gross income for any taxable year must be derived from sales, rentals, services or other transactions with low-income individuals
- **40% of the business's employees** must be low income individuals at time of hire; or **50% of the business** must be owned by a **low-income individual**

Complementing and alternative financing programs or resources

- “**Super charge**” NMTC financing through twinning with HTC, ITC, PTC, and R&D tax credits
- No twinning or use with LIHTC
- EB-5 Program
- Governmental grants and public support
- Conduit issuance of tax exempt bonds
- Several states have NMTC programs of their own...PA does not



Project Examples

- Community centers
- Healthcare facilities
- Grocery stores
- Manufacturing facilities
- Packing plants
- Processing facilities
- Job training centers
- Economic development
- Commercial office buildings/improvements
- Museums
- Convention facilities
- Parking garages
- Shelters
- Child development centers
- Major transportation hubs or infrastructure
- Hotels
- Mixed use facilities
- Sporting facilities
- Restaurants
- Small business growth
- Renewable product manufacturers
- Ship building & ship repair concerns
- Rural job creation oriented businesses
- Food banks and/or food resource centers
- Aquariums

Project Examples

Industry		Total Project Cost	FTE jobs	Construction jobs	FTE jobs at tenant business	Total jobs
Administrative, support, office/business services	9	\$124,105,596	370	655	1,765	2,790
Agriculture, forestry, timberlands, fishing and hunting	1	\$1,000,000	18			18
Building material, hardware, garden equipment, or supplies store	2	\$2,705,788	7			7
Charter school	13	\$227,319,233	155	1,130	641	1,926
Child care center	1	\$6,045,000		160	4	164
Convenience store	1	\$940,000	4	15		19
Electronics and appliance store	1	\$284,000	5			5
Elementary or secondary school (non-charter)	4	\$60,970,786	50	466	41	557
Finance or insurance	3	\$4,665,000	38			38
Food services, caterers	1	\$24,450,000	60	80		140
Grocery	4	\$30,138,042	110	157	125	392
Health care facility	27	\$479,995,875	1,176	3,308	1,002	5,486
Hotel or other accommodation	9	\$266,120,811	212	964	380	1,556
Housing	5	\$13,422,201	12	148		160
Human or social service or facility	9	\$135,008,892	67	804	243	1,114
Information technology	2	\$20,975,895	241	39		280
Manufacturing or industrial	67	1,062,980,956	3,505	2,798	3,646	9,949
Mixed-use	21	\$677,342,199	321	5,413	2,878	8,612
Other	8	\$80,697,756	43	481	269	793
Other educational service or facility (university, vocational training, etc.)	7	\$141,671,731	49	582	271	902
Performing art, cultural, entertainment, recreation, or other amenity	4	\$35,514,379	15	212	92	319
Pharmacy or health store	1	\$245,213	2		2	4
Professional (e.g. legal, accounting, architectural, advertising, PR), scientific, and technical)	5	\$20,102,206	1,089	471		1,560
Restaurant	6	\$20,575,768	58	25	31	114
Retail store	3	\$6,719,600	22			22
Transportation or warehousing	8	\$276,789,420	507	832	81	1,420
Utilities (e.g. gas, electric power, energy, water and sewage)	8	\$110,603,000	170	375		545
Wholesale trade	9	\$24,652,989	25	244	218	487

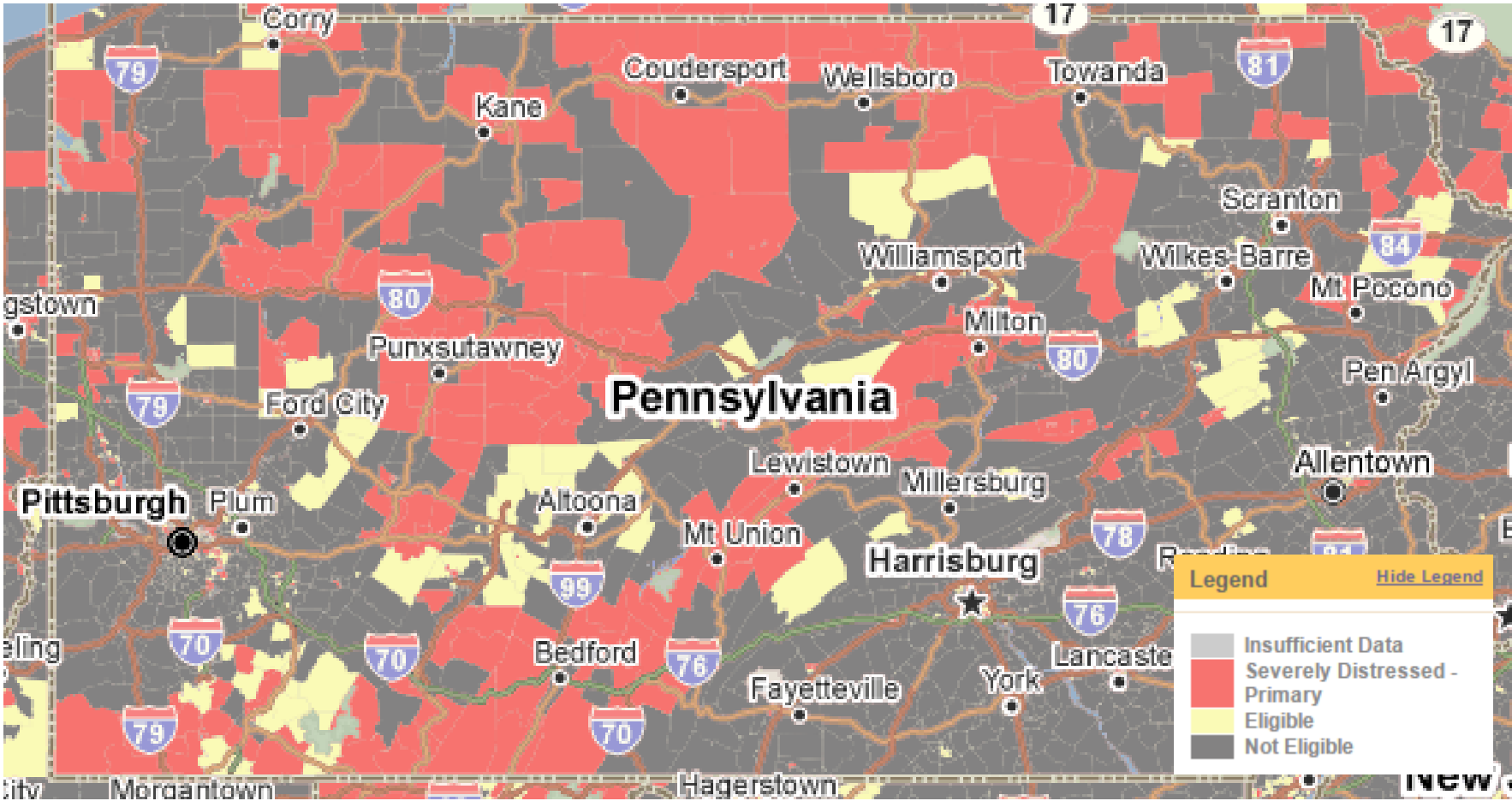


Project Examples

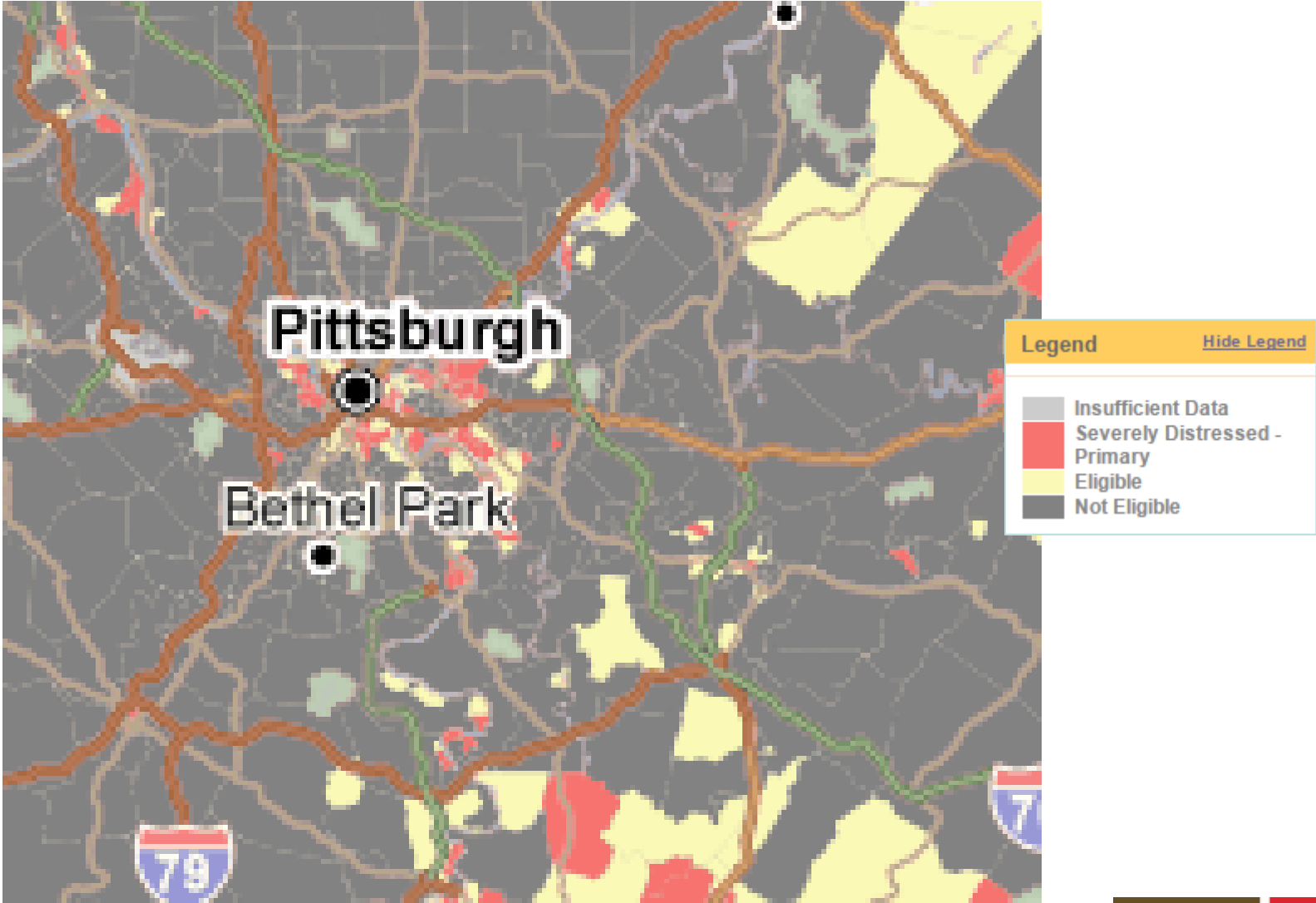
Industry		Total Project Cost	FTE jobs	Construction jobs	FTE jobs at tenant business	Total jobs
Administrative, support, office/business services	9	\$124,105,596	370	655	1,765	2,790
Agriculture, forestry, timberlands, fishing and hunting	1	\$1,000,000	18			18
Building material, hardware, garden equipment, or supplies store	1	\$2,705,788	7			7
Charter school	13	\$227,319,233	155	1,130	641	1,926
Child care center	1	\$6,045,000		160	4	164
Convenience store	1	\$940,000	4	15		19
Electronics and appliance store	1	\$284,000	5			5
Elementary or secondary school (non-charter)	4	\$60,970,786	50	466	4	557
Finance or insurance	3	\$4,665,000	38			38
Food services, caterers	1	\$24,450,000	60	80		140
Grocery	4	\$30,138,042	110	157	125	392
Health care facility	27	\$479,995,875	1,176	3,308	1,002	5,486
Hotel or other accommodation	2	\$266,120,811	212	964	380	1,556
Housing	5	\$13,422,201	12	148		160
Human or social service or facility	9	\$135,008,892	67	804	243	1,114
Information technology	2	\$20,975,895	241	39		280
Manufacturing or industrial	67	\$1,062,980,956	3,505	2,798	3,646	9,949
Mixed-use	21	\$677,342,199	321	5,413	2,878	8,612
Other	8	\$80,697,756	43	481	269	793
Other educational service or facility (university, vocational training, etc.)	7	\$141,671,731	49	582	271	902
Performing art, cultural, entertainment, recreation, or other amenity	4	\$35,514,379	15	212	92	319
Pharmacy or health store	1	\$245,213	2			4
Professional (e.g. legal, accounting, architectural, advertising, PR), scientific, and technical	5	\$20,102,206	1,089	471		1,560
Restaurant	6	\$20,575,768	58	25	31	114
Retail store	3	\$6,719,600	22			22
Transportation or warehousing	8	\$276,789,420	507	832	81	1,420
Utilities (e.g. gas, electric power, energy, water and sewage)	8	\$110,603,000	170	375		545
Wholesale trade	9	\$24,652,569	25	244	218	487



Qualifying areas in Pennsylvania



Qualifying areas in Pennsylvania



Leveraged NMTC structure, outcome

Year	1	2	3	4	5	6	7	Total
Tax Credit as Percent of Investment (QEI) Amount	5%	5%	5%	6%	6%	6%	6%	39%

Discounted

- Because tax relief occurs over a seven-year period, investors likely **to discount the benefit** when calculating the value of the \$0.39 of benefits.
- Investors pay discounted rates for the NMTC benefit because equity is provided up-front
- Historically investors have paid between \$0.65 and \$0.80 per \$1 of NMTC benefit...recent pricing clustering around \$0.70
- **So, an investor paying \$0.70 per \$1 of tax benefit generates \$0.27 per \$1 invested (\$0.70 x 39%).**
- Typically, with programs such as the Low-Income Housing Tax Credit or the Historic Tax Credit, the investor receives a tax benefit for *investing directly* in a project. In NMTCs, the tax credit investor invests money with the CDE, not the project. .

Leveraged NMTC structure, outcome

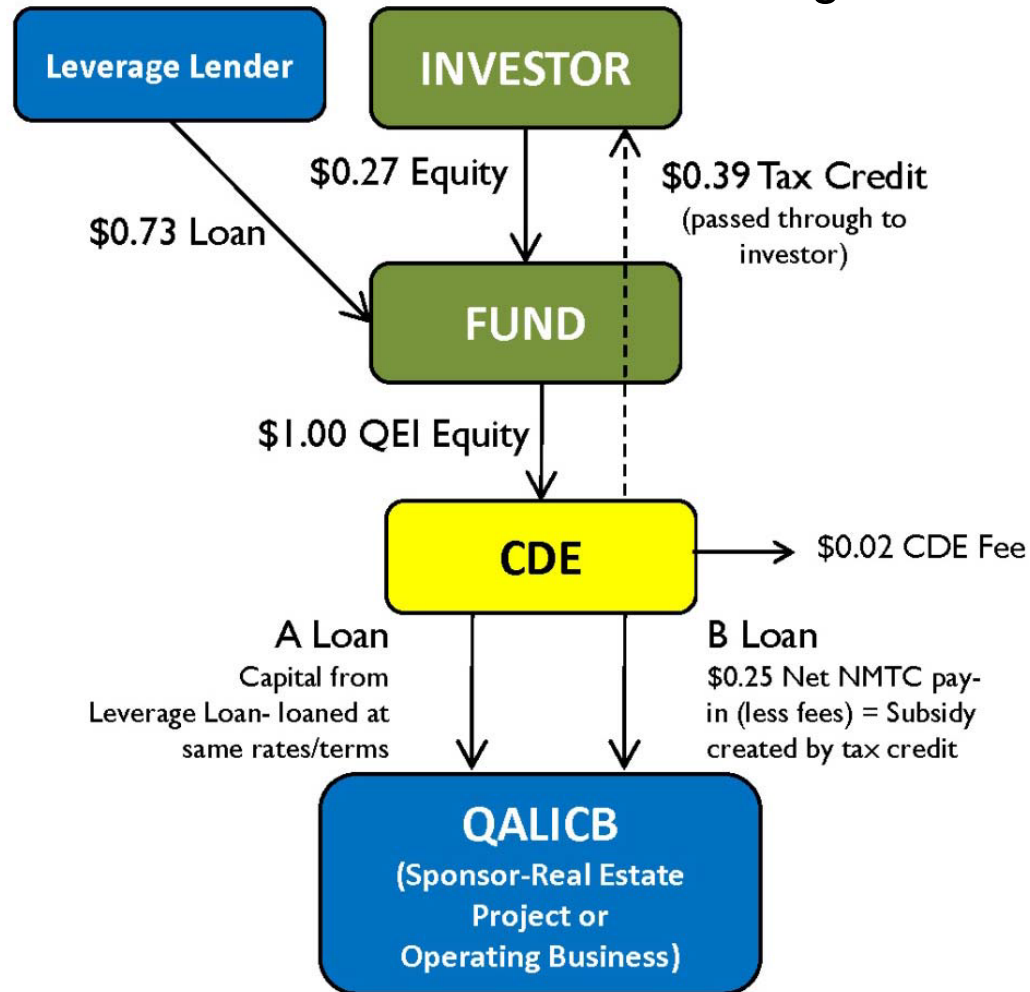
Year	1	2	3	4	5	6	7	Total
Tax Credit as Percent of Investment (QEI) Amount	5%	5%	5%	6%	6%	6%	6%	39%

Discounted

- In many of these situations, the investor buying the New Markets Tax Credits wishes only to make a tax preferred investment, not provide the entire financing package for the project.
- In this example, **because the tax credit investor only provides \$0.27 of each \$1 needed - the remaining \$0.73 must come from other sources.** These other sources put capital to the investment fund as debt so that the tax credit investor maintains ownership of the fund and can claim 100% of the tax credits.
- In many cases, the leverage loan is a traditional commercial loan based on the project’s underlying economics.

Leveraged NMTC structure, funds

- The chart shows the flow of funds for leveraged NMTCs.



Useful lessons for planners

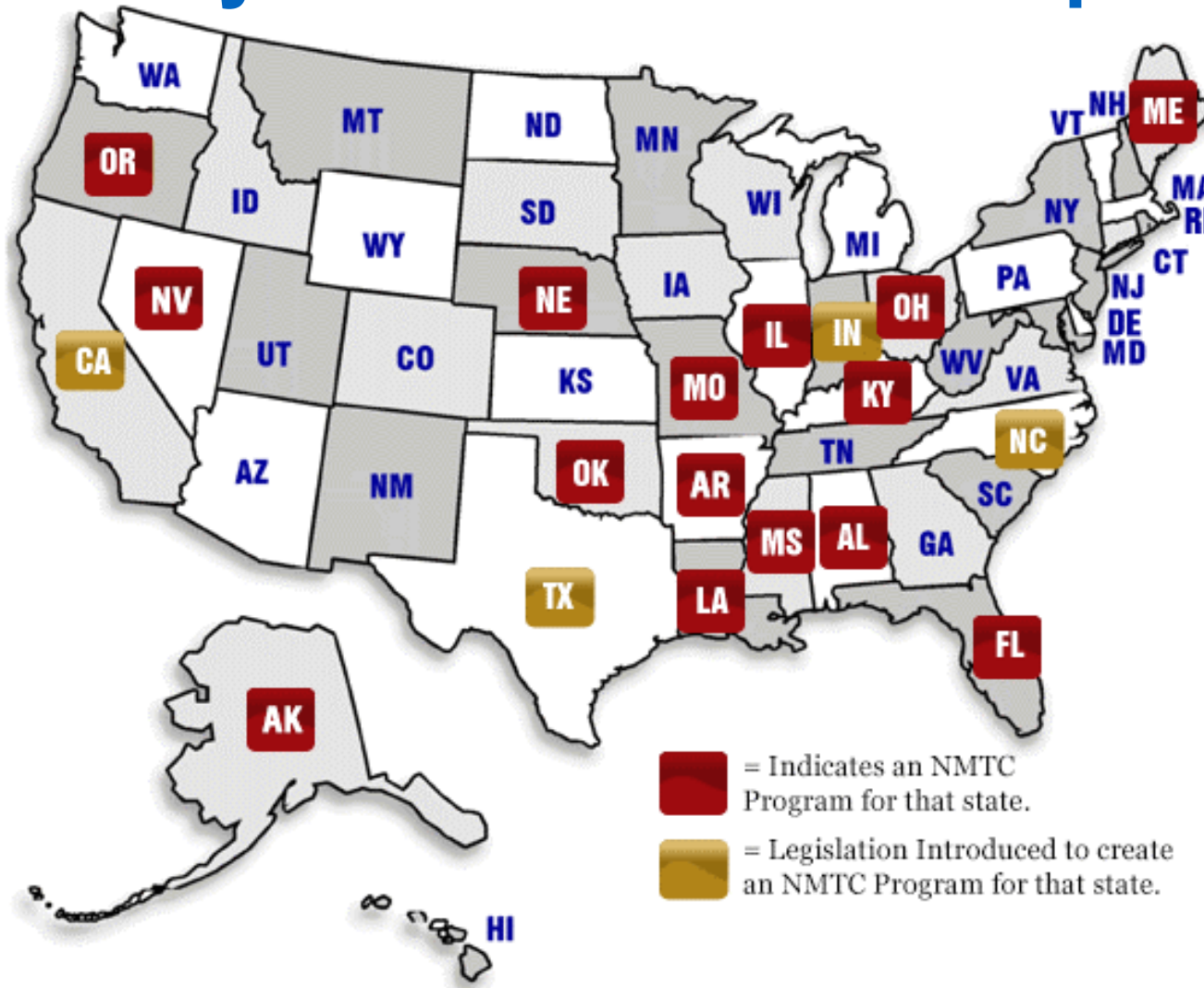
- An obvious device for redevelopment projects because they represent equity
- Probably one-fourth to third of the state highly distressed and eligible
- Pairs well with other programs
- Other areas can be “made” eligible through pairing and by program focus [structure]
- Complicated but high yielding and valuable
- Virtually any project can qualify for tax credit treatment
- Redevelopment agencies and local planning bodies are likely to be dealing with projects of greatest interest to those controlling credits
- Planners need to know who their CDE contacts are in the region

Useful lessons for planners

Pittsburgh New Markets Reinvestment Fund, LLC 200 Ross Street, 12th Floor Pittsburgh, PA 15219-2010 (412) 255-6000 Date Certified: 03/23/2004	Eliz Club Asocietas, L.R. Fifth and Penn Asocietas, L.R. Greater Reading Development Corporation Greater Reading Development Partnership Greater Reading Equity Corporation Pomeroy's Asocietas, L.R. WACO Pomeroy's Asocietas, L.R. Whitner Property Asocietas P O Box 8621 READING, PA 19603-8621 (610) 376-6739 Date Certified: 01/03/2003	43 South Main Street, Lower Level Washington, PA 15301 (724) 225-8250 Date Certified: 03/06/2002
Pittsburgh Urban Initiatives LLC PITTSBURGH URBAN INITIATIVES SUB-CDE 1, LLP PITTSBURGH URBAN INITIATIVES SUB-CDE 2, LLP PITTSBURGH URBAN INITIATIVES SUB-CDE 3, LLP PITTSBURGH URBAN INITIATIVES SUB-CDE 4, LLP 200 Ross Street Pittsburgh, PA 15219-2014 (412) 255-6588 Date Certified: 06/24/2010	Reading Independence Community Commercial Reinvestment Corp. 601 Penn Street Reading, PA 19601-3544 (718) 722-5455 Date Certified: 02/22/2004	Mid-Atlantic Regional Development Institution, LLC 435 Devon Park Drive Building 500 Wayne, PA 19087 (610) 971-9340 Date Certified: 01/16/2003
PNC Community Partners, Inc. PNC CDE 10, LP PNC CDE 11, LP PNC CDE 12, LP PNC CDE 13, LP PNC CDE 14, LP PNC CDE 15, LP PNC CDE 16, LP PNC CDE 17, LP PNC CDE 18, LP PNC CDE 19, LP PNC CDE 20, LP PNC CDE 21, LP PNC CDE 22, LP PNC CDE 23, LP PNC CDE 24, LP PNC CDE 25, LP PNC CDE 8, LP PNC CDE 9, LP PNC CFI Sub-CDE IV - 1 LLC PNC CFI Sub-CDE IV - 2 LLC PNC CFI Sub-CDE IV - 3 LLC PNC CFI Sub-CDE IV - 4 LLC PNC CFI Sub-CDE IV - 5 LLC PNC CFI Sub-CDE IV - 6 LP PNC CFI Sub-CDE IV - 7 LP PNC Center, 3rd Floor, 20 Starvix Street Pittsburgh, PA 15222-4801 (412) 762-3081 Date Certified: 03/24/2006	Reading's Future, LLC Readings Future - 1, LLC Readings Future - 2, LLC Readings Future - 3, LLC 4500 Perkinson Avenue Reading, PA 19606-3202 (610) 779-2000 Date Certified: 03/07/2003	WestChester Chester County Housing Development Corporation Chester County, Pennsylvania Community Development Entity, L.R. Cook County, Illinois Community Development Entity, L.R. Dunham Community Development Entity, L.R. Gary, Indiana Community Development Entity, L.R. Virgh Islands Community Development Entity, L.R. 109 East Evans Street, Suite D WestChester, PA 19380-2000 (610) 738-6910 Date Certified: 03/27/2003
South Side Development Company 50 S. 14th St. Pittsburgh, PA 15203-1564 (412) 481-0651 Date Certified: 01/24/2003	Sovereign Community Development Company Sovereign Community Development NMTC LLC Mail Code 10-6438-CMS, 601 Penn Street Reading, PA 19601-3544 (610) 378-6241 Date Certified: 11/15/2005	Puerto Rico 17
The Pittsburgh Metropolitan Area NMTC Community Dev. Fund Corp. One Oxford Centre , 301 Grant Street, 20th Fl. Pittsburgh, PA 15219-1410 (412) 562-8667 Date Certified: 08/13/2004	Rosemont Inventive Development, Inc. 158 Brooklea Road Rosemont, PA 19010 (610) 647-8808 Date Certified: 03/25/2003	Caguas HIMA-San Pablo Palmas del Mar, LLC P.O. Box 4680 Caguas, PR 00726-4980 (202) 624-7308 Date Certified: 08/28/2007
Treasury Development Corporation 700 River Avenue, Suite 215 Pittsburgh, PA 15212-5915 (412) 322-6121 Date Certified: 04/21/2004	Scranton MetroAction Inc. 222 Mulberry Street Scranton, PA 18503-1210 (570) 342-7711 Date Certified: 06/12/2002	Carmax Comerciantes Unidos para el Desarrollo Comunitario de Carmax, Inc. PO Box 945 Carmax, PR 00627-0945 (787) 262-3722 Date Certified: 11/02/2005
READING Greater Banks Development Fund	Washington Washington County Council on Economic Development New Markets Tax Credit Group New Markets, L.L.C.	Ponce Ponce Neighborhood Housing Services, Inc. Mendez Viquez #57 Ponce, PR 00731-0000 (787) 841-5255 Date Certified: 08/11/2005
	Washington Washington County Council on Economic Development New Markets Tax Credit Group New Markets, L.L.C.	San Juan Advancer New Markets Inc. PO BOX 191000 San Juan, PR 00919-1000 (787) 756-8612 Date Certified: 01/09/2006
		CDS Community Capital, LLC 1956 Manar Rivera, #502 San Juan, PR 00927-5011 (787) 274-9229 Date Certified: 12/07/2005
		GDB NEW MARKETS, INC.

Redevelopment agencies and local planning bodies are likely to be dealing with projects of greatest interest to those controlling credits
Planners need to know who their CDE contacts are in the region

Other information: Pennsylvania has no state program



Questions

GAI Consultants

Community Solutions Group

Owen Beitsch, PhD, FAICP, CRE

Senior Director, Economic and Real Estate Services

407.423.8398 ext. 3151

o.beitsch@gaiconsultants.com