

# New Markets Tax Credits

An opportunity for your community



# NMTC Basics and Investor Perspective



# Overview

- What are New Markets Tax Credits?
  - Tax credit program designed to stimulate commercial investment in “low-income communities”
  - The program is administered by the US Treasury Department through a division called the CDFI Fund, in a unique “public/private partnership” with Community Development Entities (CDEs) and is competitively awarded
  - Recipients of awards or “allocations” selected qualifying projects and work with investors to supply the GAP capital required to support business start-up & expansion, commercial development, community facility and mixed-use project financing.

# Overview

- What is a “low-income community”?
  - Based on census tract data – median income and/or poverty rate
  - Qualifying vs. “Higher Distress”
    - Includes unemployment, Brownfield areas, State Enterprise and other State and Local designated distress areas medically underserved areas, food deserts, Colonias and HUB Zones, among others
  - Qualifying census tracts in non-metropolitan counties automatically qualify as “higher distress”
  - Qualifying census tracts can be located using the mapping program provided on the CDFI Fund website at [www.cdfifund.gov](http://www.cdfifund.gov) or at the following link: [www.bakertilly.com/tax-credit-mapping-tool](http://www.bakertilly.com/tax-credit-mapping-tool)

# Overview

- What is a “Community Development Entity”?
  - CDEs come in a variety of forms:
    - An affiliate of a municipality to promote economic development
    - An affiliate of a bank to help meet the bank’s community reinvestment goal
    - Non-profit and for-profit entities with a mission to serve low income communities
  - CDEs have defined geographic service areas and are charged with evaluating each potential NMTC transaction for community impact
  - Each CDE has its own mission and business objectives, which differ widely among CDEs
  - CDEs can be found using a search engine on the CDFI Fund website at [www.cdfifund.gov](http://www.cdfifund.gov)

# Overview

- How does the program work?
  - Through a competitive process, CDEs are delegated authority from the CDFI Fund to attract federal third party investors through utilization of the tax incentive to invest in economic development projects.
  - The investors acquire the rights to the tax credit incentive and these proceeds are combined with other project funds and typically structured as low interest rate, convertible loans to fund into qualifying businesses or commercial real estate developments through what is most commonly referred to as a leverage structure.
  - CDEs will search for qualifying businesses and real estate developments to provide NMTC-subsidized financing, which is also a competitive process.

# NMTC Program Benefits - Borrower

- Economic benefit to recipient
  - Capital to fund projects, business expansion or debt refinancing
    - Tax credits are monetized to bring additional capital to the capital structure
    - The NMTC proceeds typically fund up to 20-25% of a project
  - Low cost of capital
  - Flexible loan terms including longer amortization and higher LTV ratios
  - Debt Conversion
    - At the end of the 7-year compliance period a significant portion of the NMTC benefit may be converted to equity or carried as debt by an affiliate of the borrower or the borrower itself, depending on the circumstances of the transaction.

# NMTC Program Benefits - Community

- Community benefit
  - Create additional economic development for the local community
  - Attract and retain skilled workforce
  - Bring new goods or services to underserved communities
  - Capital investment to underserved, qualified Low-Income Communities (LIC)

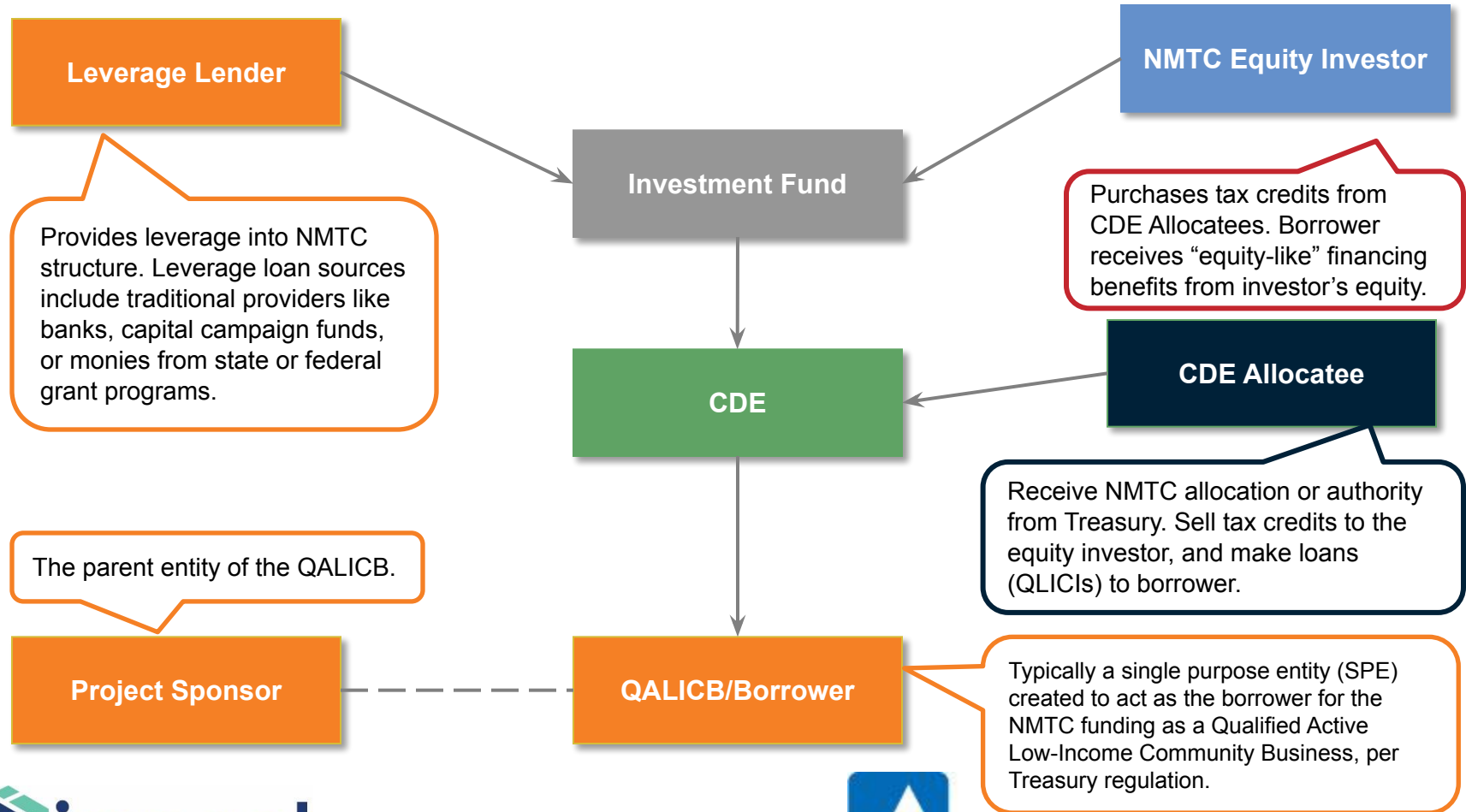




# How does it work?

## LEVERAGE MODEL STRUCTURE

NEW MARKETS TAX CREDITS

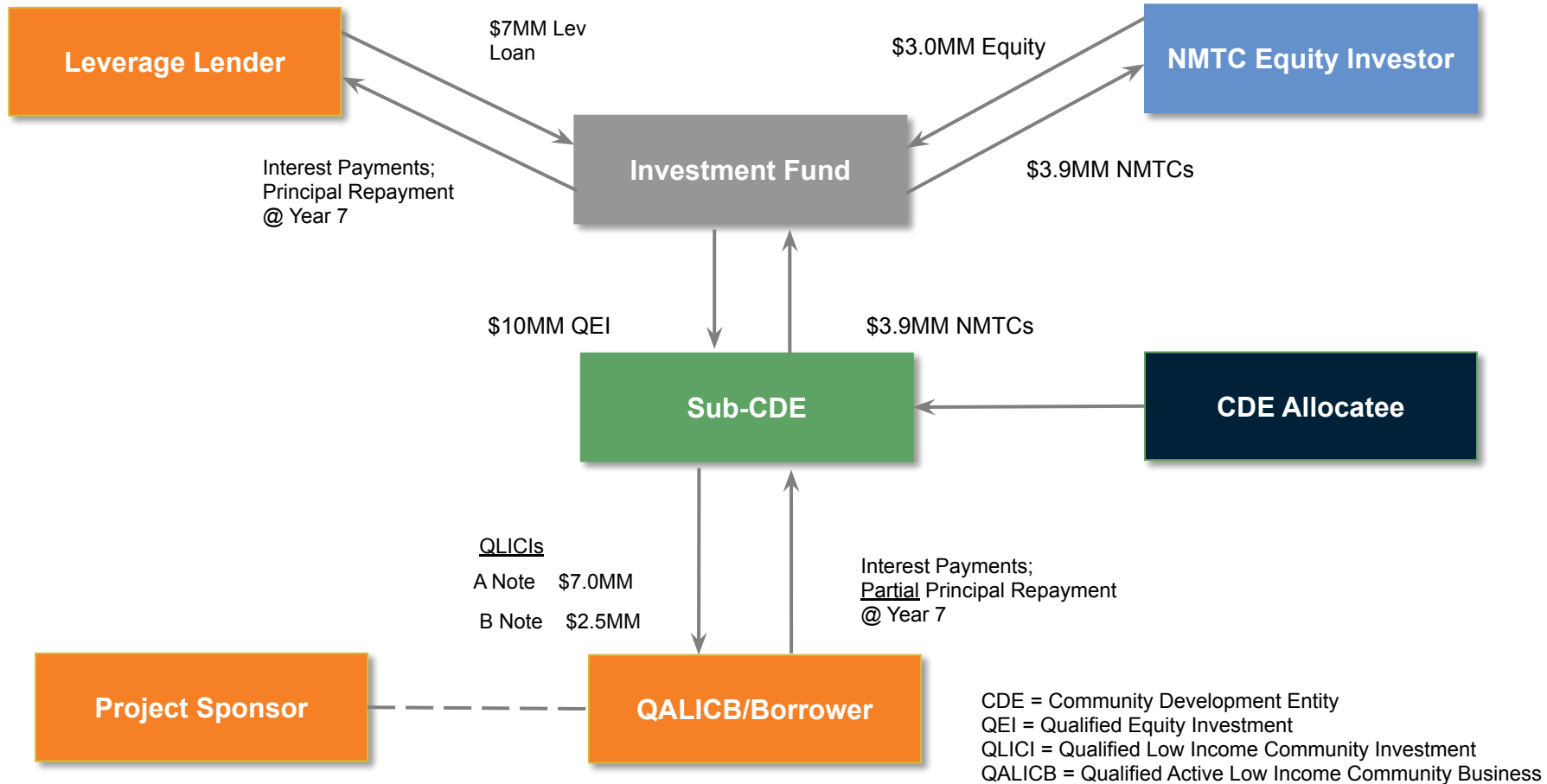


# Critical distinctions

Unlike other tax credit programs, the NMTC does not “belong to” the qualified borrower. It was awarded to the CDE, to be monetized, with the proceeds invested in (or loaned to) a business that qualifies for the subsidy.

An Allocation  CASH

# How does the leveraged structure work?



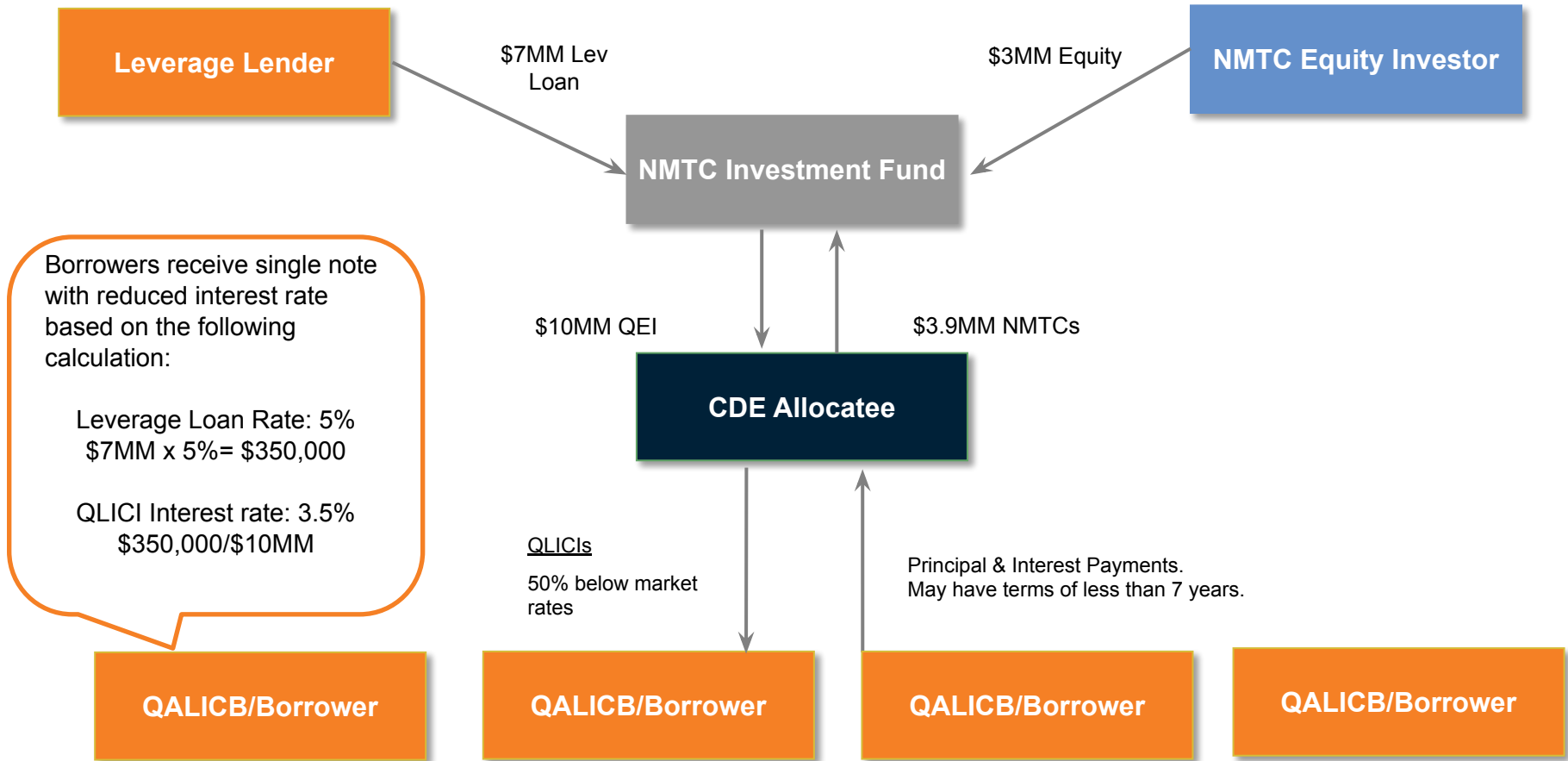
# The Math

The Math (estimated)	
NMTC allocation	\$10,000,000
NMTC rate	39%
Tax credits	<u>\$3,900,000</u>
Investor monetization (\$0.84 per credit)	\$3,276,000
Less estimated closing costs & fees	\$800,000
Net NMTC cash to the project:	<u>\$2,476,000</u>

# Loan Pool Structure

- Allow NMTC subsidy to be used to finance smaller businesses and provide businesses flexible financing
- Project require \$4mm or less of NMTC allocation
- Create jobs and services in low-income community
- Provide maximum subsidy to project through efficient closing process

# How does the loan pool structure work?



Borrowers receive single note with reduced interest rate based on the following calculation:

Leverage Loan Rate: 5%  
 $\$7\text{MM} \times 5\% = \$350,000$

QLICI Interest rate: 3.5%  
 $\$350,000 / \$10\text{MM}$

CDE = Community Development Entity  
 QEI = Qualified Equity Investment  
 QLICI = Qualified Low Income Community Investment  
 QALICB = Qualified Active Low Income Community Business



# Qualifying Business or Development—the “QALICB”

- Geographic restrictions
  - Business located in a Low-Income Community
  - Determined by census tract
    - Mapping tool at: [www.cdfifund.gov](http://www.cdfifund.gov)
    - Or: [www.bakertilly.com/tax-credit-mapping-tool](http://www.bakertilly.com/tax-credit-mapping-tool)
- Technical requirements
  - Over 50% of gross income is derived from the business activity located within a Low-Income Community
  - Over 40% of the tangible property of the business is located in a Low-Income Community
  - Over 40% of the services are performed by the employees are in a Low-Income Community
  - Must not have more than 5% in either collectibles or non-qualified financial assets

# Qualifying Business or Development

- Ineligible activities
  - Residential rental property
    - Mixed use is permitted so long as over 20% of the rental income is derived from commercial tenants
  - Straight acquisition or refinance of rental property – must have “substantial rehab” (25% of acquisition basis) or be owner occupied
  - Certain businesses:
    - Race tracks & gambling facilities
    - Golf courses & country clubs
    - Liquor Stores
    - Farming
    - Massage & tanning businesses
    - Undeveloped land holding



# What makes a good QALICB candidate?

- Located in a “highly distressed” census tract – any one of the following:
  - Poverty > 30%
  - Median Income < 60% of statewide
  - Unemployment > 1.5 times national average
  - Non-metropolitan county
  - Two of any secondary criteria
- Community impact
  - Tangible community benefit – measured by quality job creation, providing unmet goods & services to low income communities (grocery stores), environmentally sustainable construction, etc.
  - Part of an existing plan for economic revitalization
  - “But for” test – NMTC fills a real funding gap that would otherwise not happen
- Ready to go
  - Other sources of funding are committed
  - Approvals all in place

# NMTC Investor

- Tax credit buyer, typically a financial institution, receives the benefit of the NMTCs and community reinvestment act credit
- Credits purchased from a CDE and realized over a 7 year period
  - Years 1-3: 5%
  - Years 4-7: 6%
  - Total benefit of 39%
- Investor currently pays about \$0.80-0.85 in this market for NMTCs
- May act as leverage lender
- No economic interest in the QALICB
- Main concern is to avoid recapture

# Why Do Investors choose specific deals?

- Generate strong returns on acceptable risk profile
- Achieve Community Reinvestment Goals
- Make beneficial impacts on the communities served



# Lender/Investor at a Glance Checklist for NMTC Financing

- Business or real estate development is located in a designated low-income community that's considered higher distress
  - Use NMTC Mapping Tool or email us to ask
- A substantial portion of tangible assets, revenue and employees are located in low-income community
- Business is not engaged in, or leasing to, a “sin” business
- Project creates tangible community and economic outcomes
- Total project financing meets necessary thresholds for CDEs to finance
- Project sponsor has secured other necessary sources of financing
- Confirm client interest and next steps

# Impact Seven



# Impact Seven

- Impact Seven will apply in the 2019 round for NMTCs as a WI statewide CDE focused on both metro and rural projects.
- Focus on financing businesses in highly distressed LICs that drive quality job creation and retention, with an emphasis on training and career development. In addition Impact Seven will fund projects that support fresh food.
- Impact Seven will utilize both the leverage and loan pool structure.
- Impact Seven has extensive experience with NMTCs including \$21MM in direct allocation received as the first allocatee in WI to receive an award. Since that time I-7 has secured \$18MM in sub-allocated funding, participated in a statewide collaborative of CDFIs facilitating \$575MM in deployment and made leverage loans.



Valued Advisor Fund

# The Valued Advisor Fund



# The Valued Advisor Fund

- Has as its controlling entity, Baker Tilly Capital, an affiliate of Baker Tilly Virchow Krause - the 14<sup>th</sup> largest accounting firm in the U.S.
- In aggregate we are one of nation's foremost experts in NMTCs
  - We operate our own CDEs (The Business Valued Advisor Fund and The Valued Advisor Fund), which have received combined allocations totaling \$303 million in NMTCs
  - Assisted in closing 290+ NMTC transactions to date, bringing investment value of over \$8 billion to distressed communities nationwide through the deployment of \$4.8 billion of NMTC allocation
  - Worked with more than 90 CDEs on successfully structuring and closing transactions
  - Worked with CDEs to successfully develop and maintain an application strategy that resulted in more than \$4.5 billion in NMTC awards
  - Provide compliance and loan servicing support for over \$2.6 billion in deployed NMTC



Valued Advisor Fund



# The Valued Advisor Fund

- The Valued Advisor Fund has a principle vision of providing investments and services that provide for long-term sustainable growth opportunities in our nation's disadvantaged communities
  - Through investment in community prioritized transactions
  - Focusing on high quality job creation and placement with low income persons and low income community residents
    - Access to fresh and affordable healthy foods
    - Access to vital community services that expand sustainable qualities of the community served



# NMTC Status Report and Legislative Update



# Legislative Report: NMTC Status

- Survived Tax Reform!
- Extended for 5 years at \$3.5 billion/year in December 2015
- \$3.5 Billion in awards announced in May of 2019
- Applications expected to be submitted for next round late summer or early fall
- Extension of the NMTCs program are high on the industry's radar for the near and extended term

# National Economic Impact

- \$57.5 billion in NMTC allocation awarded to date with \$51.9 billion utilized to fund projects as of May 2019
- Since 2003, the NMTC program has created or retained nearly 750,000 jobs
- It has supported construction:
  - 51MM/SF of manufacturing space
  - 89MM/SF of office space
  - 65MM/SF of retail



Valued Advisor Fund

# Wisconsin



## INVESTMENT, 2003-2018



\$1.9 billion in NMTC allocation leveraged an additional \$1.5 billion from other sources for a total of \$3.5 billion in project investments.



A total of 283 businesses and economic revitalization projects in Wisconsin received NMTC financing.

Source: NMTC Coalition analysis of projects through September 30, 2018

## JOB CREATION, 2003-2015

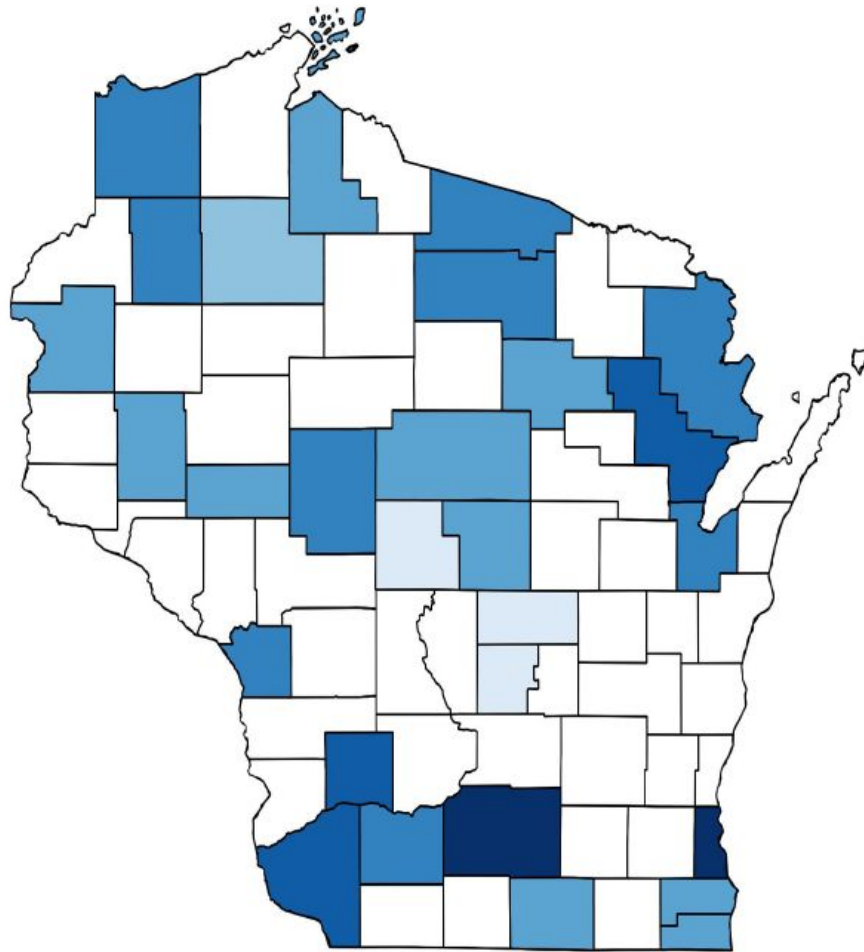


38,547 jobs









Source: NMTC Economic Impact Report, 2003-2015. NMTC Coalition, 2017.



Valued Advisor Fund

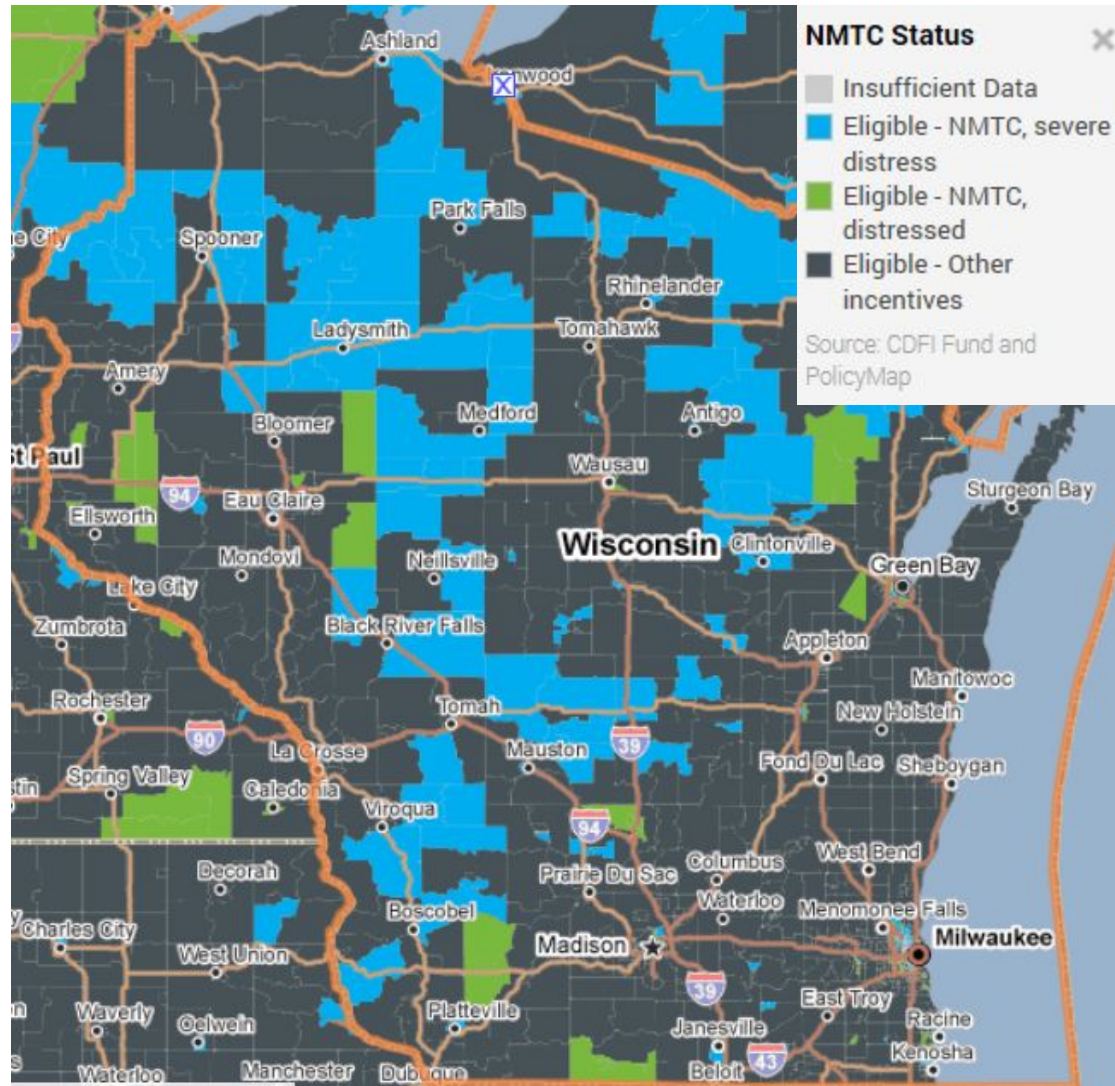


### NMTC Investment by County, 2003-2014

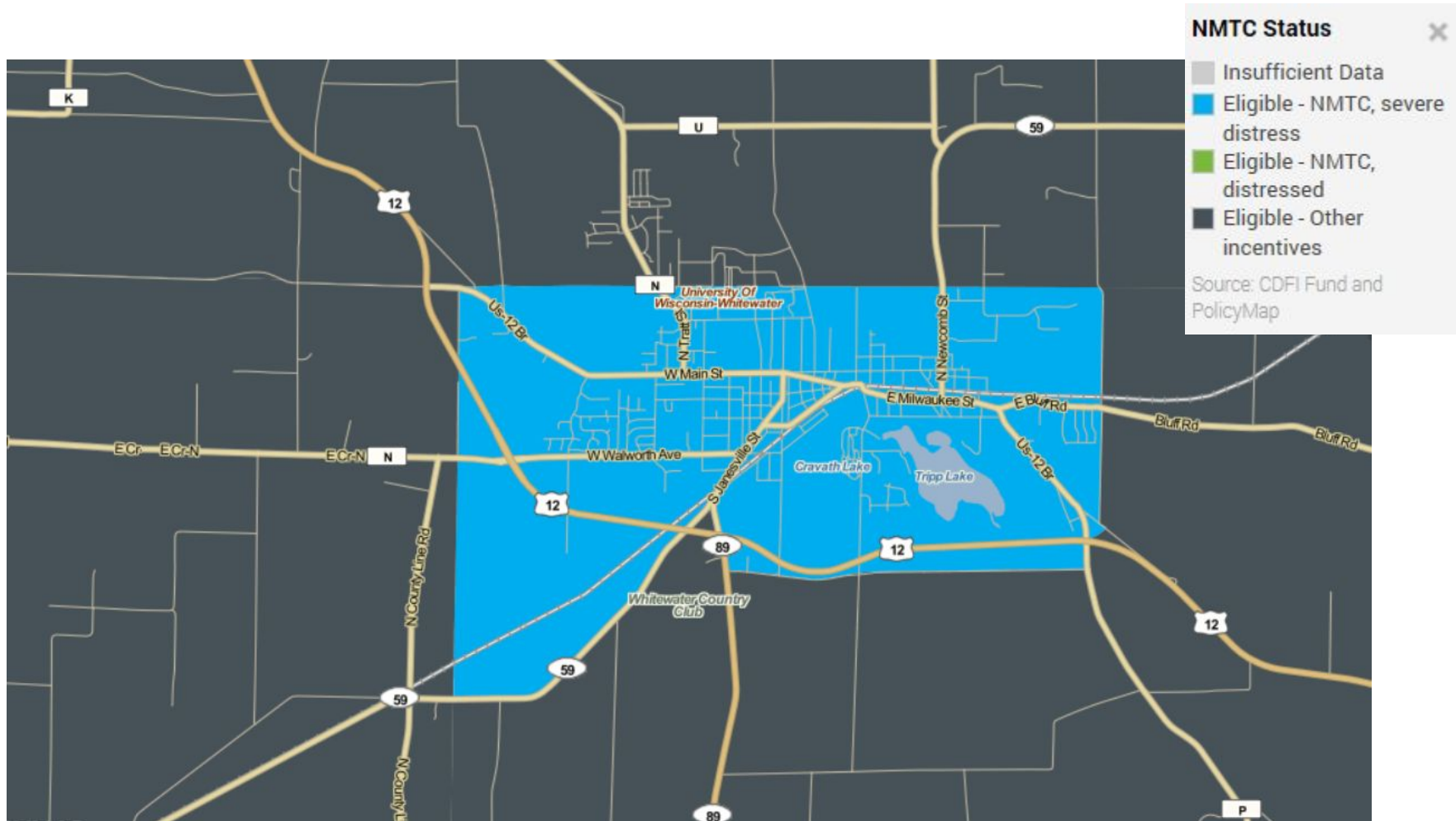
-  \$0 - \$10,000
-  \$10,000 - \$100,000
-  \$100,000 - \$500,000
-  \$500,000 - \$1,000,000
-  \$1,000,000 - \$10,000,000
-  \$10,000,000 - \$50,000,000
-  \$50,000,000 - \$100,000,000
-  \$100,000,000 or above



# NMTC Eligibility - Wisconsin



# NMTC Eligibility - Whitewater Wisconsin





# Community Needs Assessment and Q & A



# Thank you for your interest!

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What does your community need?



# Thank you for your interest!

Please feel free to contact:

- Impact Seven
  - Tom Patzman - [tom.patzman@impactseven.org](mailto:tom.patzman@impactseven.org)
- The Valued Advisor Fund / Baker Tilly
  - Nate Voss – [nate.voss@bakertilly.com](mailto:nate.voss@bakertilly.com)

To see if your project is eligible, please use the following link:

- [www.bakertilly.com/tax-credit-mapping-tool](http://www.bakertilly.com/tax-credit-mapping-tool)

