



# An Introduction to New Markets Tax Credits

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# Program Overview

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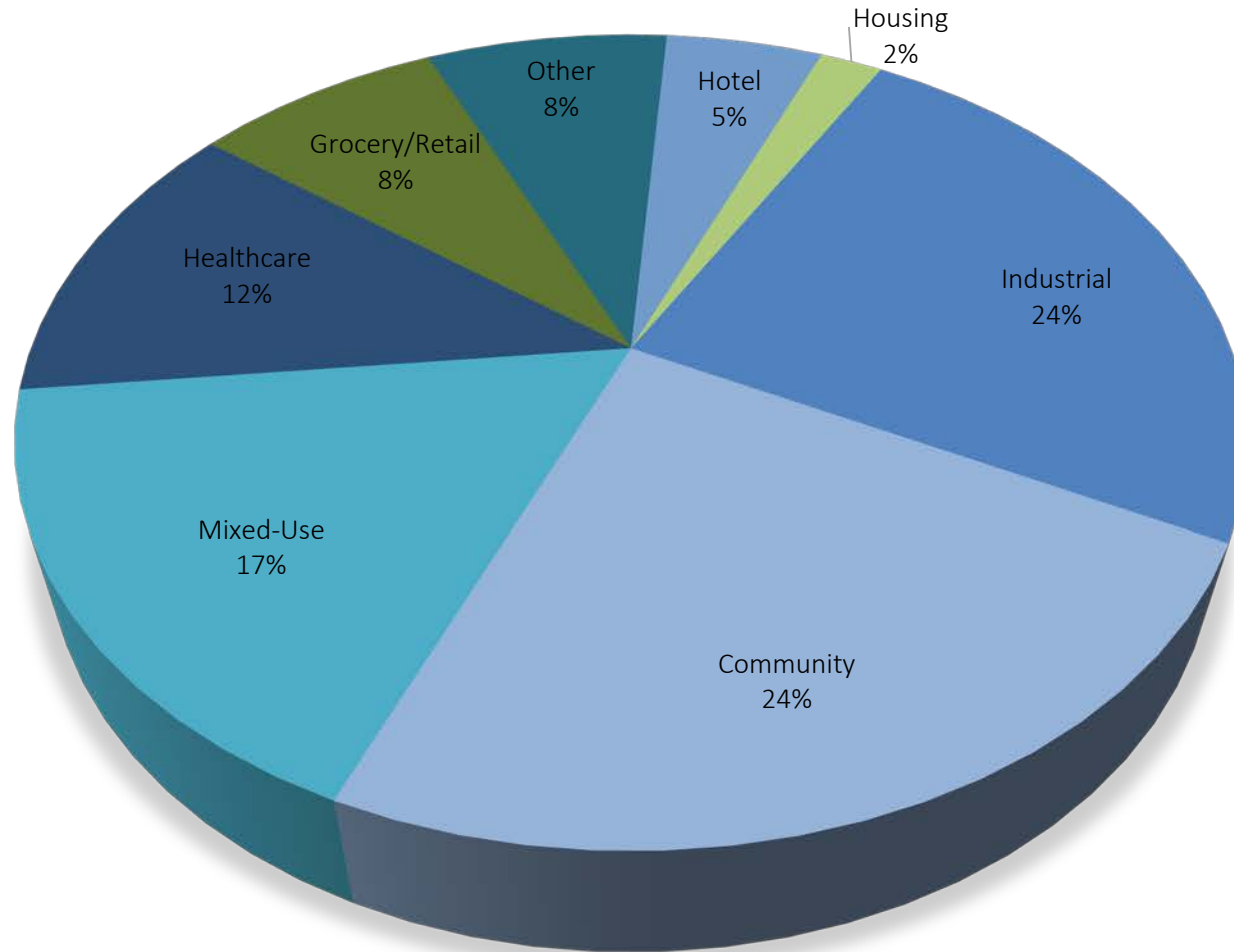
# NMTC Program Overview



# New Markets Tax Credit Program

- Federal tax credit started in the year 2000 and was designed to promote economic development in the nation's economically distressed communities
- Between 2003-2015, NMTC investments:
  - ▶ Supported over **5,000 projects**, including more than **2,000 community facilities**
  - ▶ Provided subsidy for projects totaling over **\$81.6 billion**
  - ▶ Created more than **1,000,000 jobs**
- Benefits of NMTC to projects:
  - ▶ Subsidy: Boosts available capital by 20-25%
  - ▶ Long-Term Financing: Very low-cost, patient capital with 7+ year term
  - ▶ Permanency: After 7 years, the additional capital converts to permanent equity

# What types of projects do NMTCs support?



Source: New Markets Tax Credit Coalition. NMTC Economic Impact Report (2003-2015). December 2017

# Overview of a Good NMTC Prospect

- Located in a Low-Income Community
  - ▶ NMTC-eligible and Severely Distressed Census Tract
  - ▶ Mapping Tool: <https://www.novoco.com/resource-centers/new-markets-tax-credits/data-tools/nmtc-mapping-tool>
- Strong community impacts and robust documentation
- Project readiness
  - ▶ Other financing sources (the Non-NMTC subsidy) needs to be available as cash at NMTC closing
  - ▶ Project needs to start spending NMTC proceeds upon closing
    - For real estate projects, need to be in position to begin construction at closing (e.g., building permit, contractor engaged, etc.)
    - For operating businesses, need to have a clear plan to begin spending proceeds
- Demonstrated need for NMTC subsidy—the “But For”
- Typically \$5MM+ in total project cost

# Who's Involved?

## Federal Government

- U.S. Congress authorizes Treasury to make allocations of NMTC
- Within U.S. Treasury, CDFI Fund administers NMTC Program

## Community Development Entities (CDEs)

- Apply for and receive NMTC allocation in competitive process
- Make decisions on what projects to support with their NMTC allocation
- Private mission-driven entities, serving low-income communities

## NMTC Investors

- Invest equity in exchange for a federal tax credit
- Provide 20-25% of total capital for a given transaction
- Typically large banks

## Other Funders

- Provide 70-75% of total capital for a given transaction
- Very flexible: foundations, banks, CDFIs, gov't (local, state, federal), etc.

## NMTC Projects

- Typically commercial real estate, owner-occupied facility, or operating business
- For-profit or nonprofit; many are nonprofit
- Project Team includes NMTC-specialized consultant, accountant and attorney

# What's Involved?

## Step 1: Preliminary Positioning (Varies; can be 12 months or more)

- ▶ Define the project, do preliminary deal structuring, and create summary of community impacts
- ▶ Get on the radar of CDEs (ideally spring/summer of the year before the deal will close)
- ▶ Work on the core funding sources; configure them to be NMTC-compatible
- ▶ Move the project towards readiness (site control, design, regulatory, etc.)

## Step 2: Assembling the Deal (Roughly 60-90 days)

- ▶ Non-NMTC funding sources are in-hand at a “term sheet” level
- ▶ Put together a “deal package” highlighting project feasibility, community impact, timing
- ▶ Go through CDE and investor screening process
- ▶ Pursue commitments of NMTC allocation, NMTC equity investment

## Step 3: Closing Process (Roughly 60-90 days)

- ▶ Retain legal counsel and NMTC accountants
- ▶ Weekly calls and document drafting
- ▶ Ready to break ground prior to or at closing
- ▶ All legal permissions to proceed are in-hand (e.g., building permits, zoning, etc.)

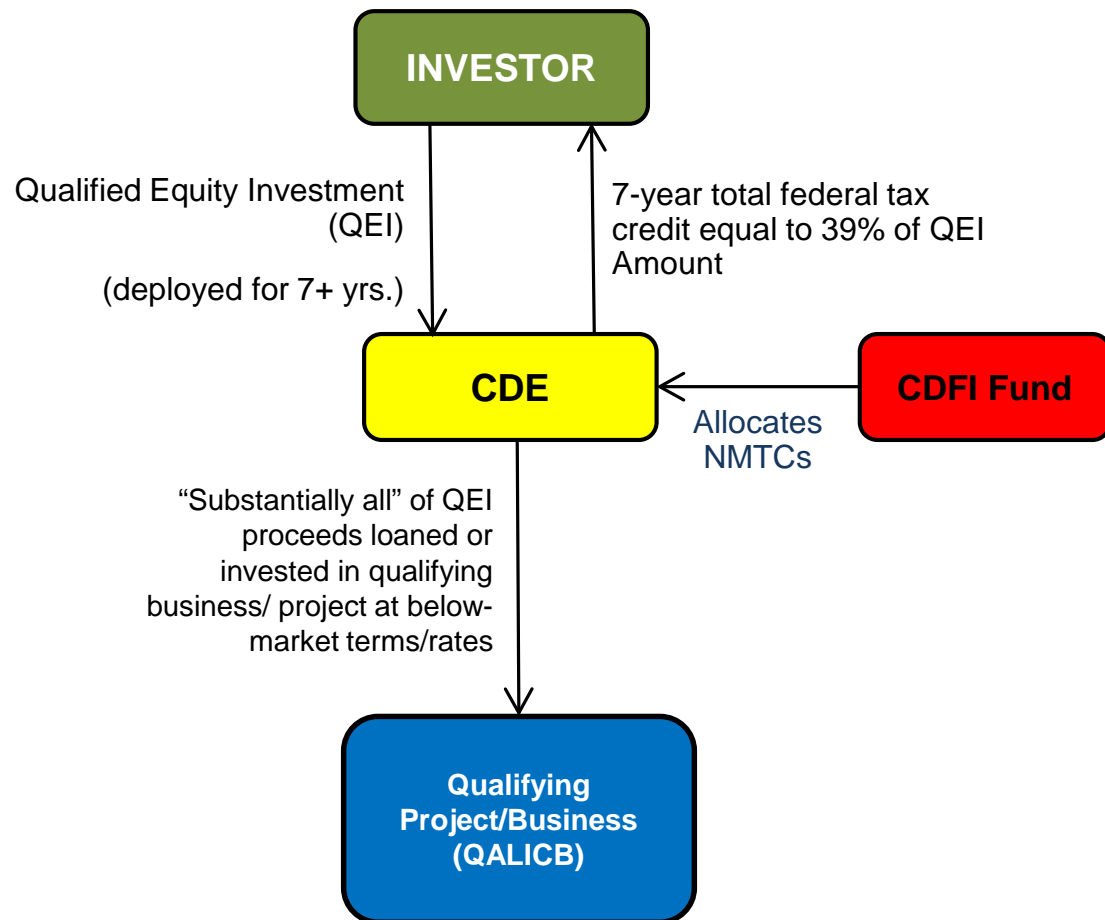


# Transaction Structuring and Economics



# General Capital Flow

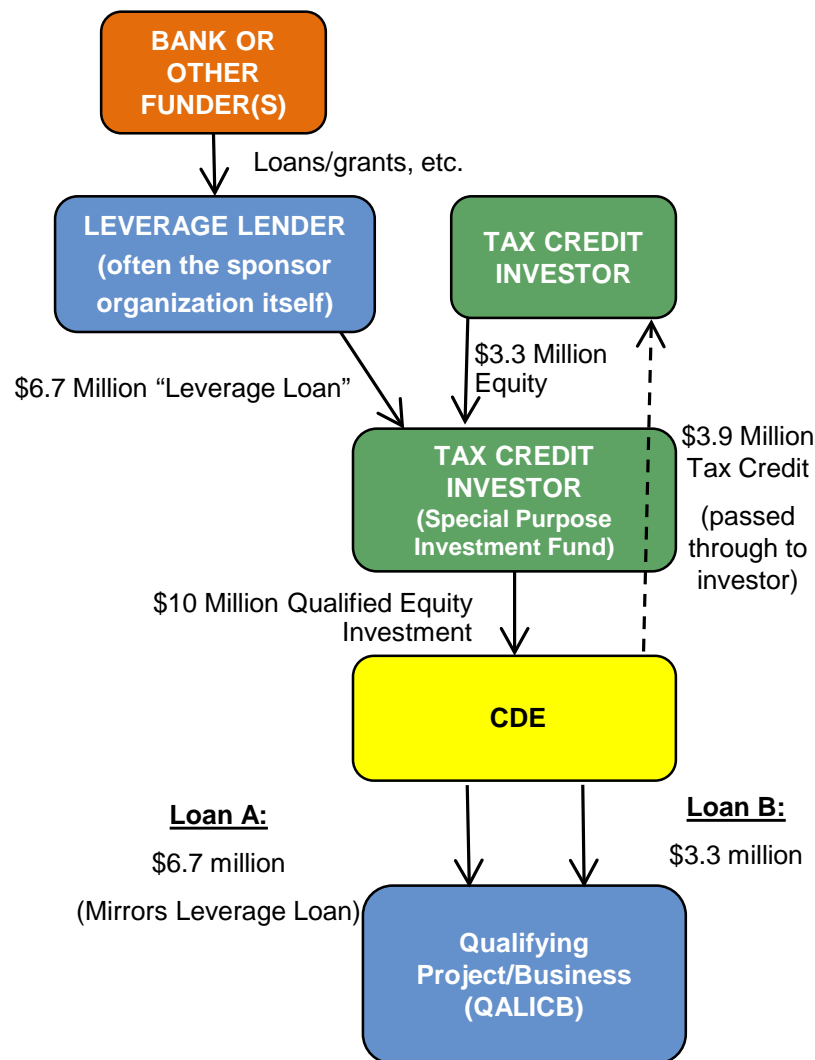
- CDFI Fund allocates NMTC to CDEs
- Investor makes a capital contribution (a Qualified Equity Investment, or QEI) into a CDE
- CDE allocates 7-year tax credit to Investor
- CDE must deploy QEI capital into qualifying businesses/ projects



# Structuring: The “Leverage Model”

- Investor borrows about 70% of total project funding sources from “Leverage Lender” to make the full QEI
- Leverage Loan sources can include bank debt, philanthropy, Sponsor equity, grant funds, and a range of other sources
- NMTC equity investment generates the subsidy in the transaction
- Because NMTC investor’s equity is underwritten based on tax benefits, significant flexibility to structure Loan B as a long-term subsidy to project

*\$1 of Allocation = \$1 of QEI = \$0.39 of tax credit = about \$0.20 to \$0.25 of subsidy*



# Fees and Net Benefit

## \$10 Million Sample Transaction

Total NMTC Allocation	\$10,000,000	
Total Tax Credits	\$3,900,000	39% of Allocation
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Total NMTC Equity (Gross) from Investor	\$3,354,000	\$.86 Investor Pricing for Tax Credits
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Fees and Closing Costs:		
CDE Up-Front Fees	\$400,000	4% of Allocation
CDE Annual Asset Management Fees	\$350,000	\$50,000 / Year for 7 Years (.5% of Allocation x 7 Years)
CDE Annual Audit/Tax Fees	\$88,000	\$11,000 / Year for 8 Years
Closing Costs (Legal Accounting, etc.)	\$300,000	Fees Vary Based on Complexity of Deal
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Total CDE Fees + Closing Expenses	\$1,138,000	
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<b>Net Benefit to Project</b>	<b>\$2,216,000</b>	<b>(Total NMTC Equity from Investor less Total CDE Fees + Closing Expenses)</b>

# Project Case Studies



# Eastside Community Center

## Tacoma, WA

- 55,000-SF community center featuring aquatic and recreation space, commercial kitchen, recording studio, and community space
- Project is result of close collaboration between Metro Parks, Tacoma Housing Authority, Tacoma Public Schools, and Boys and Girls Club of South Puget Sound
- \$29MM in NMTC allocation secured to support \$32MM project

### Key Impacts:

- Provided needed recreation and flexible space for surrounding community
- Created a state-of-the-art space for Boys & Girls Club of South Puget's sound programs on Tacoma's Eastside
- Built a variety of training partnerships with local community colleges and technical schools



# Boys & Girls Club of Metro Atlanta

## Atlanta, GA

- 25,000-SF new club for Boys & Girls Club of Metro Atlanta
- Facility to focus on arts programming with dedicated space for music, film, visual arts, dance and graphic design
- \$10MM in NMTC allocation secured

### Key Impacts:

- Increase the number of youth served
- Expand arts programming
- Expand teen programming



# Boys & Girls Club of Greater Kansas City

## Kansas City, MO

- Renovated building that sat vacant for 10 years
- Established a 45,000 SF club in the worst crime zip code in Kansas City
- Secured \$5MM in NMTC allocation

### Key Impacts:

- Avg. Daily Attendance: 150
- Provides Summer School Programming through partnership with Kansas City Missouri Public School District
- Pool provides need access to swim lessons for members





# Development Advisors to the Public & Private Sectors

- Public-Private Development Finance
- Public-Private Partnerships
- Market and Economic Feasibility
- Fiscal and Economic Impact
- Community and Economic Development
- Urban Economic and Policy Studies

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