

New Markets Tax Credits

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U.S. Bancorp Community Development Corporation

March 26, 2012



U.S. Bancorp CDC

- U.S. Bancorp Community Development Corporation (USBCDC) is a wholly-owned community development investment subsidiary of U.S. Bank.
- USBCDC is headquartered in St. Louis with offices in Los Angeles, Denver, Minneapolis, Kansas City, and Washington DC.
- USBCDC makes **Tax Credit equity investments** in New Markets (NMTC), Historic (HTC), Renewable Energy (ITC), and Low Income Housing Tax Credit (LIHTC) projects.
- USBCDC also syndicates federal and state Tax Credit investments to third party investors, bringing new and additional sources of capital to the market.

What are Tax Credits?

- Tax Credits provide a reduction of federal and/or state income tax liabilities.
- Tax Credits are not a reduction of taxable income.
- Two types of Tax Credits:
 - **“Allocation” Tax Credit:** Tax Credits are issued annually by the local state housing agency (LIHTC) or the federal government (NMTC) through a competitive process. Developments and/or Entities (Sponsors) are awarded Tax Credits based on specific applications.
 - **“Entitlement” Tax Credit:** Tax Credits are earned by eligible buildings or renewable energy facilities (Sponsors) that comply with the program requirements (HTC or ITC).

Overview of NMTC Program

- **“Allocation”** Tax Credit created in 2000; part of the Community Renewal Tax Relief Act.
- Program serves as a catalyst to encourage investment of private capital in distressed, low-income communities.
- Program is administered through the CDFI Fund, a department of the U.S. Treasury.
- NMTCs are allocated to Community Development Entities (CDEs) which in turn, deploy the Tax Credit financing benefit to projects. Investor tax credit equity is used to monetize the CDE’s allocation.
- Program uses include both real estate and operating business investments.
- NMTCs can be paired with HTC and ITCs, but cannot be used with LIHTCs.

USBCDC NMTC Experience

- USBCDC is the most active NMTC Investor both in dollars invested and transactions closed.

- As of March 2012 USBCDC:
 - Financed over 700 NMTC transactions in 46 states
 - Partnered with over 150 CDEs

- U.S. Bank's CDE, USBCDE, is an efficient, high-impact CDE with two primary goals:
 - to provide industry-leading, highly flexible financing products with a strong bias towards equity and equity-equivalent debt products to real estate and non-real estate QALICBs; and
 - to finance businesses that will generate immediate and long term economic and social benefits to the community.

- As of March 2012, USBCDE financed approximately 64 projects in 28 states.

Key NMTC Terms

- **CDE: Community Development Entity**
 - A partnership or a corporation
 - Applies for NMTC allocation (locally or nationally) from the CDFI Fund
 - Decides how much and where to deploy NMTC allocation (projects)
 - Makes NMTC loans and investments to project
 - Services NMTC loans
 - Monitors NMTC Program compliance

- **IF: Investment Fund**
 - Single purpose entity named for each transaction
 - Aggregates all NMTC financing sources and makes QEI
 - Conduit for capital into CDE, which makes loans and investments to projects
 - Conduit for cash return from project

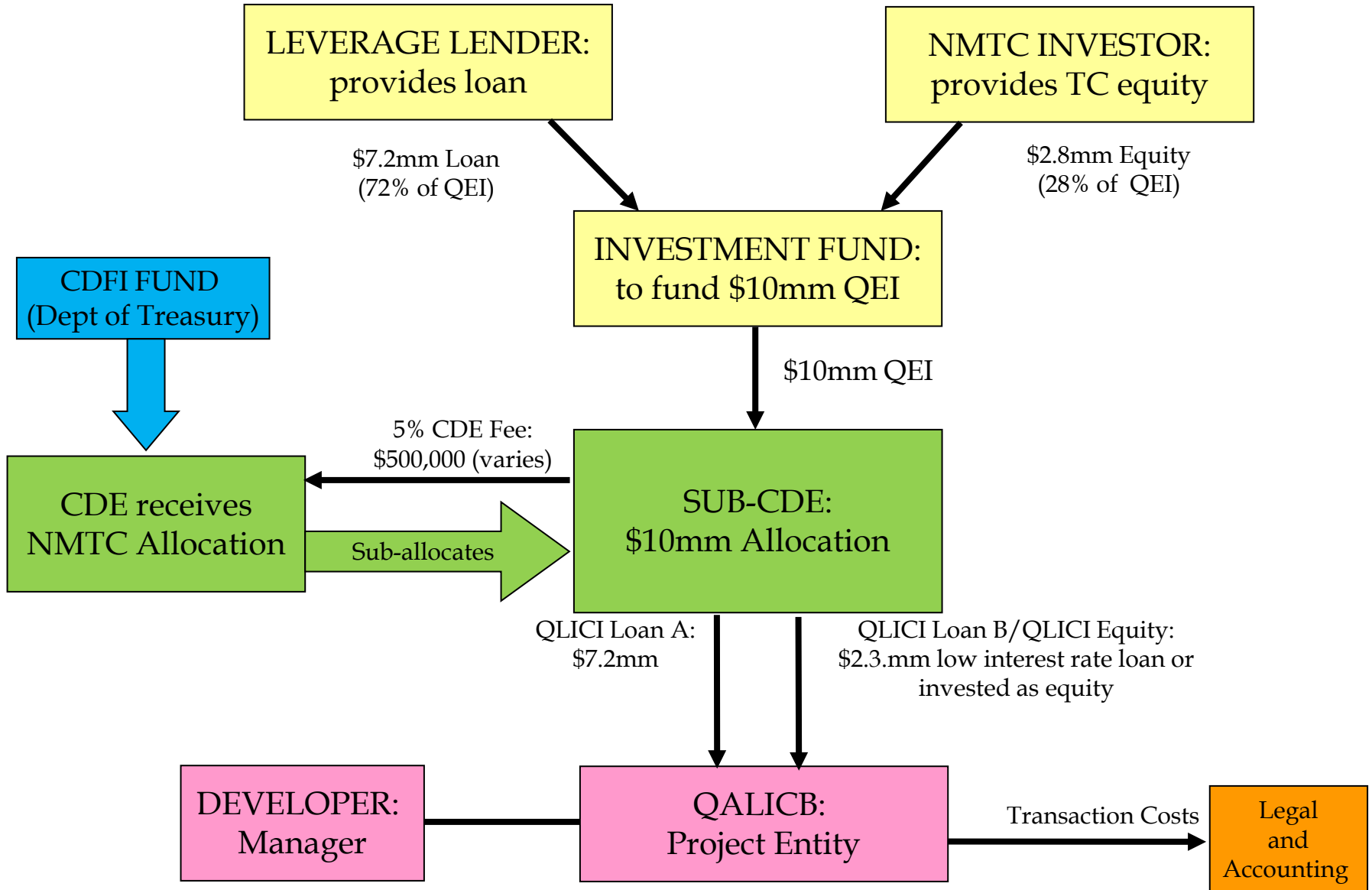
- **Leverage Lender**
 - Provides a source of funds to IF in order for it to make QEI

- **QEI: Qualified Equity Investment**
 - Money invested by IF into CDE
 - Triggers Tax Credit benefits to Investor

- **QLICI: Qualified Low-Income Community Investment**
 - CDE loans and/or investments to project

- **QALICB: Qualified Active Low Income Community Business**
 - The real estate or operating business (project)

NMTC Deal Structure Example



Selecting a Project for NMTCs

- USBCDC is mission-oriented NMTC equity investor
- CDEs are also looking for projects with strong community impacts aligned to their NMTC Allocation Agreements
- Community Impacts:
 - Create or maintain quality jobs
 - Increase in wages
 - Assistance to low income businesses
 - Assistance to minority or women-owned businesses
 - Increase of community benefit businesses (childcare, healthcare, and education)
 - Increase homeownership
 - Provide goods and services
 - Increase environmental sustainability
 - Neighborhood stabilization
 - Foster stakeholder partnerships
 - Catalytic impact on other developments
 - Importance of the NMTC subsidy to project feasibility (“But for” test)

Different Types of NMTC Projects

For Rental

- Retail
- Mixed Use: Retail/Office
- Mixed Use: Retail/Office/Residential
20/80 requirements
- Mixed Use: Office/Residential
20/80 requirements
- Cultural/Entertainment
- Business Incubators

Owner Occupied

- Theatres
- Museums
- Manufacturing/Industrial
- Office
- Community Centers
- Educational Facilities
- Health Related Facilities



Navos Mental Health Solutions (Seattle, WA)

- Navos is a non-profit organization providing mental health services in the Greater Seattle area under three primary functions: evaluation and out-patient treatment; in-patient hospital care; and client housing. They are the second largest mental health contractor in King County and focus primarily on low-income individuals.
- Project Summary:
 - Development of a new outpatient mental health center that will provide medication, crisis intervention, case management, counseling, chemical dependency treatment, educational programs, and employment services.
 - Site will also have a pharmacy, library, café, community center, computer and vocational training center, and a drop-in center for clients with immediate needs.
 - NMTC funds were used to pay for tenant improvements on the upper floors, clinical systems and construction of the community activities building.
- Deal Team/Financing Sources:
 - U.S. Bancorp CDC & U.S. Bank, NA
 - National Development Council
 - King County Housing Authority
 - WNC & Associates, Inc.
 - Washington State
 - Navos

Blanchet House (Portland, OR)

- The Blanchet House of Hospitality is a non-profit social services charity that has served Portland's homeless and working poor for nearly 60 years, providing food, clothing and shelter for people in need. Food is offered to all who may need it, and housing is offered to those who qualify and who are committed to improving their lives.
- Project Summary:
 - Blanchet's current facility was over 100 years old and had limited capacity.
 - Development of a new LEED Gold four-story 36,410 square foot facility is expected to open in fall 2012.
 - First floor will include office space, a new kitchen, dining area, a library, and rooms for health and social services; housing is planned for the three upper floors.
- Deal Team/Financing Sources:
 - U.S. Bancorp CDC & U.S. Bank, NA
 - United Fund Advisors
 - Portland Housing Bureau, City of Portland
 - Blanchet House

U.S. Bancorp CDC NMTC, HTC & Energy ITC Contacts

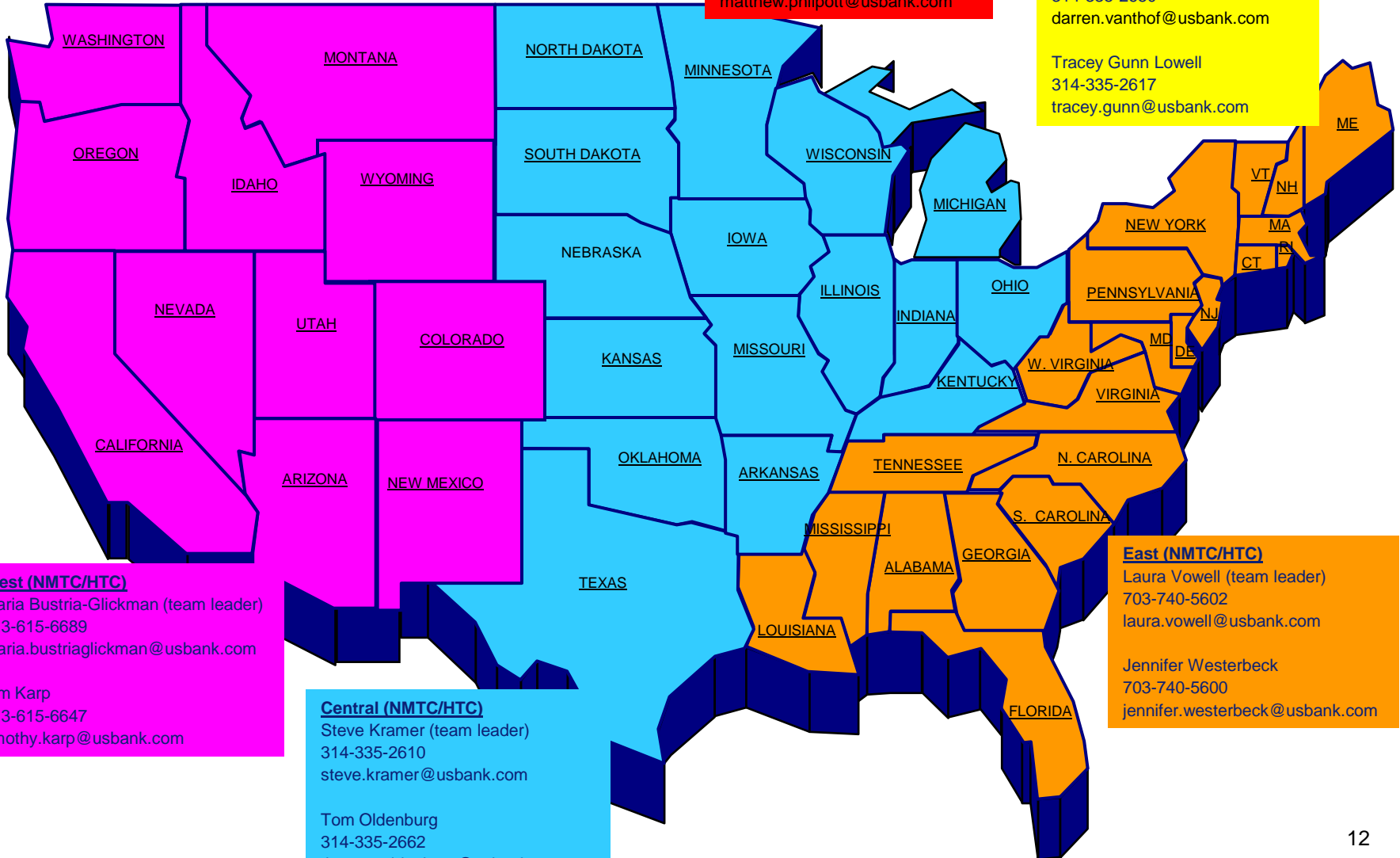
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