

Community Investments Vol 15, Issue 2 The Story of Phoenix's NMTC Allocation

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August 2003

Phoenix is honored to receive the single largest allocation of tax credits representing \$170 million in equity for the inaugural application of 2002. Along with 345 other applicants, Phoenix anxiously awaited the allocation announcement in early 2003. In March 2003, CDFI selected 66 organizations to receive the first \$2.5 billion in tax credit allocations, which represents a small fraction of the \$15 billion equity investments that will be raised over the next seven years. And while most recipients will target their services statewide, multi-state, and even nationally, Phoenix will focus on low-income communities only within the city's boundaries.

Application Success

The city of Phoenix sponsored the application by creating an independent, nonprofit corporation, Phoenix Community Development and Investment Corporation (PCDIC), to become a certified Community Development Entity (CDE). We speculate that the city of Phoenix's application was successful because of our international reputation for excellence in management and community service delivery, access to capital, and pipeline of potential projects. To demonstrate the city's success in managing other programs that assist Phoenix's underserved communities, several key city departments including, community and economic development, finance, neighborhood services, and housing and equal opportunity, provided documentation for the application. The application was further bolstered by strong support from

local and national financial institutions, commercial developers and large corporations that had a history of conducting business with the city.

Allocation Utilization

The primary mission of the Phoenix Community Development and Investment Corporation is to improve the economic conditions in Phoenix's underserved communities, which encompass over 32 percent of the city's geographic area. Out of the city's 138 low-income census tracts, 63 are designated as economically distressed areas-meaning census tracts with poverty rates exceeding 30 percent or median family income less than 60 percent of the Phoenix AMI of \$51,126. The primary beneficiaries of PCDIC's activities will be residents and businesses located in these targeted areas. Residents will benefit from new and higher quality employment opportunities created by business development activities and from additional community services such as retail development. These areas will also benefit from increased property values and a reduction of blighted properties through commercial revitalization activities.

Through the PCDIC, Phoenix is offering three programs to reach our goal of improving the quality of life of those individuals who live and work in the most underserved areas of the community (table 1). Recipients of NMTC financing or investments must demonstrate that their business or project accomplishes one or more of the following:

- Creates jobs for residents or persons below the poverty level in the designated area
- Increases wages or benefits for residents or persons below the poverty level in the designated area
- Targets job creation in areas of severe economic distress
- Provides services to the designated area
- Attracts higher income residents to live and work in the urban core
- Raises local property values

- Is committed to remaining in the community long-term

Community Representation

We recognize the stewardship that CDFI has granted Phoenix, not only as an entity implementing the NMTC, but also as the only municipality awarded an allocation. To ensure that all the funds distributed have the community impact intended by the NMTC, a five-member board of directors will evaluate and approve projects. Those projects that best demonstrate the ability to meet the goal of our program to improve underserved communities while meeting the regulatory requirements will have a greater chance for funding approval. The PCDIC Board has representation from several key organizations, including Chicanos Por La Causa, Greater Phoenix Urban League, and Phoenix Community Alliance, all of which have a primary mission of providing services to individuals and businesses in low-income communities. PCDIC is also represented by two members from the city of Phoenix.

Another element critical to the success of the NMTC program is participation from residents and businesses in low-income communities. Phoenix has already initiated public participation by holding numerous information sessions to educate potential investors, lenders, and users of our program. Phoenix's program has been shaped and enhanced by the feedback received during these sessions. Patrick Grady, president of PCDIC, "We felt strongly that our business community could help us identify how to make this program better so that they would be encouraged to develop and grow in areas of Phoenix that they normally would not consider."

Where We Are

We are currently working with the local lenders, investment firms and developers that supported us during the application process. Participation thresholds and projected investor returns will be determined on a project by project basis. However, we are accepting pre-applications from businesses to

add to our list of possible projects. Perhaps the most challenging aspect of the program at this time is ensuring that those small business borrower's who do not have a strong financial background are bankable. To eliminate the barriers that may limit their access to capital, PCDIC will secure technical assistance contractors to help them develop business plans, set up basic accounting systems, do a cash flow analysis and complete a loan application. For additional information on PCDIC's program, please contact Lynda Dodd at 602-261-8708 or email [Lynda Dodd](#).

Table 1 - Phoenix Programs			
Program	Objective/Type	Loan or Investment Range	Proposed Terms
Business and Commercial Real Estate Development Loans (below-market terms)	<ul style="list-style-type: none"> ·community retail projects ·commercial/industrial development projects ·transit-oriented developments ·corporate and regional headquarters for businesses locating in qualifying census tracts 	\$1,000,000 - \$12,000,000	<ul style="list-style-type: none"> ·senior and mezzanine loans ·loan-to-value (LTV) 90-95% senior & mezzanine · 100+ basis points below market ·debt service coverage ratio: senior - 1.20:1 mezzanine - 1.10:1
Small Business Loans (below market terms)	<ul style="list-style-type: none"> ·business and/or commercial real estate acquisition · business expansion ·working capital · major equipment purchases 	\$35,000 - \$1,000,000+	<ul style="list-style-type: none"> · LTV - Up to 90% ·based upon borrower financial history, but generally 1% below market · additional 5% reduction for businesses locating in particularly economically distressed areas ·rates for loans secured by second mortgages or by equipment will be somewhat higher than for loans secured by first mortgages ·debt service coverage ratio - 1.10:1

Venture Capital	• equity funding for companies in the life sciences and technology industry	varies	
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Biography



Roberto Franco is the assistant director of community and economic development at city of Phoenix and vice president of the Phoenix Community Development and Investment Corporation. Mr. Franco led the Phoenix team in applying for the New Markets Tax Credit program and manages the program development and implementation. He has 22 years of professional experience with emphasis in contract administration, strategic planning, negotiation, financial, marketing, management, and administering and developing economic development projects. Mr. Franco earned his masters of business administration and bachelor of business administration from the University of Texas, El Paso.