

Panel Outline

- What are **New Markets Tax Credits**? How would a sample transaction involving this investment look? What is their CRA value?
- What are **Low Income Housing Tax Credits**? How would a sample transaction involving this investment look? What is their CRA value?
- What are **Historic Tax Credits**? How would a sample transaction involving this investment look? What is its CRA value?
- Questions and Comments



Community Development Financial Institutions (CDFI) Fund

Interagency Community Reinvestment
Conference
March 15, 2010
New Orleans, LA





NMTC Presentation Roadmap

- Overview of CDFI Fund Programs
- Overview of NMTC Program
- Sample NMTC Assisted Projects
- Utilizing NMTC-Depository Institutions
- Utilizing NMTC-Not-for-Profits



CDFI Fund Overview

The mission of the CDFI Fund (the Fund) is to expand the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and communities in the United States.



CDFI Fund Overview

The CDFI Fund achieves its mission by directly investing in and supporting Community Development Financial Institutions (CDFIs), Community Development Entities (CDEs), and other financial institutions through the following programs and initiatives:

- **Certification Programs** (CDFI and CDE)
- **New Markets Tax Credit** (NMTC) Program
- **Bank Enterprise Award** (BEA) Program
- **CDFI Programs** (Financial Assistance (FA) and Technical Assistance (TA) grants)
- **Native Initiatives**
- **Capital Magnet Fund** (CMF) grants
- **Financial Education and Counseling** (FEC) grants



NMTC Program Overview

- Enacted on December 21, 2000
- Part of the Community Renewal Tax Relief Act of 2000
- Provides a credit against Federal income taxes for investors that make Qualified Equity Investments (QEIs) into Community Development Entities (CDEs)
- CDEs in turn use the proceeds of these investments to make Qualified Low-Income Community Investments (QLICIs)
- QLICIs include, among other things, investments in businesses and real estate projects in low-income communities



Credit Amount

- The credit is taken over a 7-year period
- The credit rate is:
 - 5% of the original investment amount in each of the first three years
 - 6% of the original investment amount in each of the final four years
- Equals 39% of amount of original investment



Example

The Fund awards an allocation of \$1 million to a CDE. The CDE offers the tax credit to a single investor in exchange for a \$1 million equity investment. How much can the investor claim as a credit on its Federal taxes?

- Years 1-3 Tax Credit at 5% Value \$50,000 per year
- Years 4-7 Tax Credit at 6% Value \$60,000 per year
- **TOTAL VALUE OVER 7 YEARS.....\$390,000**



What is a CDE?

- A domestic corporation or partnership that is an intermediary vehicle for the provision of loans, investments or financial counseling in “Low-Income Communities” (LICs).
- CDEs are required to demonstrate that they:
 - Have a **primary mission** of serving, or providing investment capital for, LICs or Low-Income Persons
 - Are **accountable** to residents of the LICs they serve



Timing of Investments

- CDEs must offer NMTCs to investors within **5 years** of receiving an allocation
- CDEs have **12 months** to invest their QEI proceeds into Qualified Low-Income Community Investments (QLICIs)
- Generally, CDEs that receive returns of capital will have **12 months to reinvest** those funds in QLICIs.
 - Reinvestment is not required in the final year of the 7-year credit period



Qualified Low-Income Community Investments (QLICIs)

Eligible Investments (QLICIs):

- Any capital or equity investment in, or loan to, any “Qualified Active Low-Income Community Business” (QALICB)
- Purchase of a loan from another CDE if the loan is a QLICI
- Any equity investment in, or loan to, any CDE
- “Financial Counseling and Other Services” (FCOS) to businesses located in, or residents of, LICs



Financial Counseling and Other Services (FCOS)

FCOS is “advice provided by the CDE relating to the organization or operation of a trade or business.”

- **Possible FCOS activities:**

- Business plan development
- Assistance with business financials
- Operating assistance to not-for-profit organizations



Qualified Active Low-Income Community Business (QALICB)

What is a typical QALICB?

- An operating business located in a LIC
- A business that develops or rehabilitates commercial, industrial, retail and mixed-use real estate projects in a LIC
- A business that develops or rehabilitates community facilities, such as charter schools or health care centers, in a LIC
- A business that develops or rehabilitates for-sale housing units located in LICs



Qualified Active Low-Income Community Business (QALICB)

To be a QALICB:

- At least 50% of the total **gross income** is from the active conduct of a qualified business in Low-Income Communities (LICs); and
- At least 40% of the **use of tangible property** of the business is within LICs; and
- At least 40% of the **services performed** by the business' employees are performed in LICs.



Qualified Active Low-Income Community Business (QALICB)

To be a QALICB (cont'd)

- Less than 5% of the average of the aggregate unadjusted bases of the property is attributable to **collectibles** (e.g., art and antiques), other than those held for sale in the ordinary course of business (e.g., inventory); and
- Less than 5% of the average of the aggregate unadjusted bases of the property is attributable to **non-qualified financial property** (e.g., debt instruments with a term in excess of 18 months).



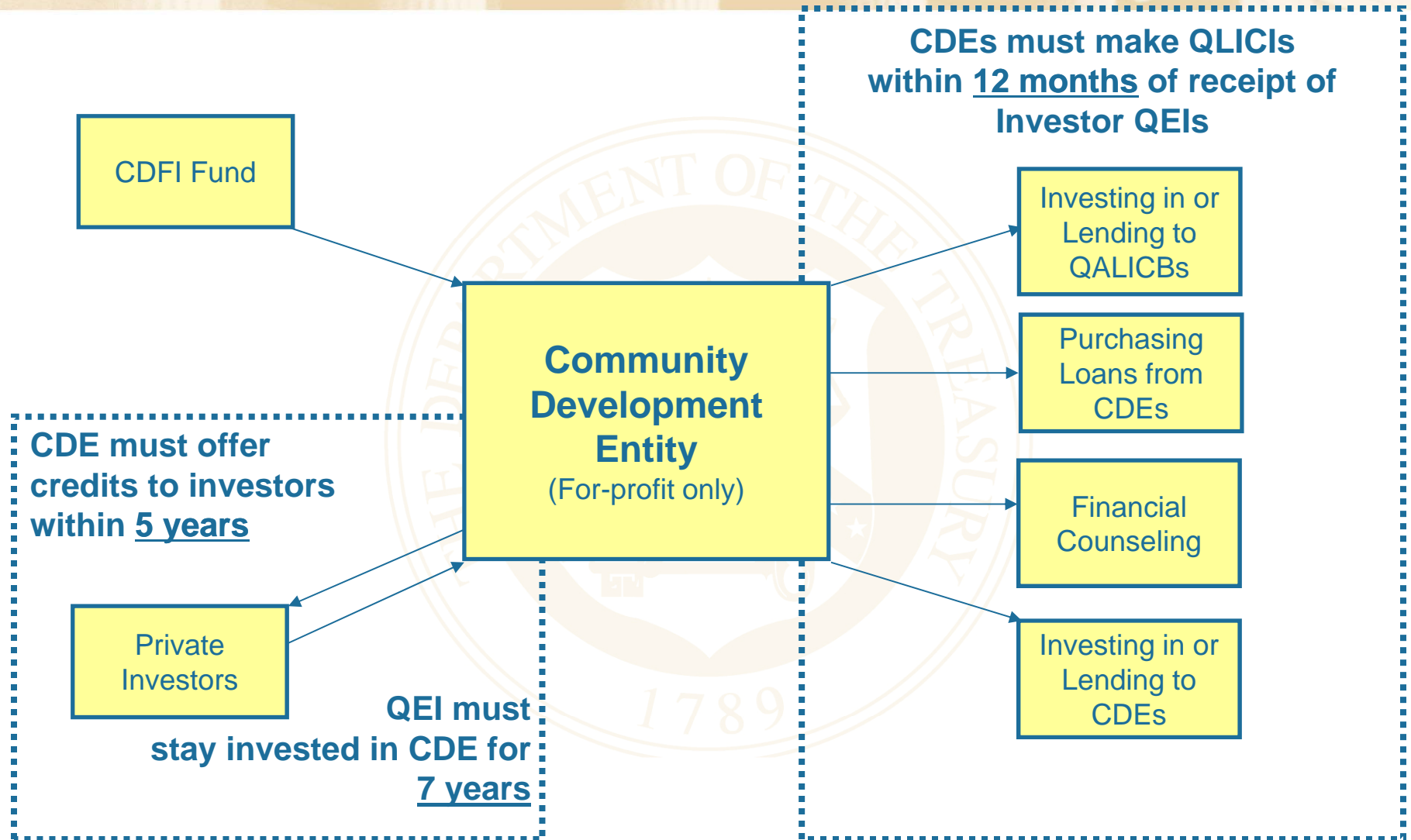
Ineligible Activities

- Residential rental property:
 - Buildings or structures which derive 80% or more of its gross rental income from renting dwelling units
- Certain types of businesses:

– Golf courses	– Massage Parlors
– Race tracks	– Hot tub facilities
– Gambling facilities	– Suntan facilities
– Certain farming businesses	– Stores where the principal business is the sale of alcoholic beverages for consumption off premises
– Country clubs	
- Refer to IRS regulations for additional details

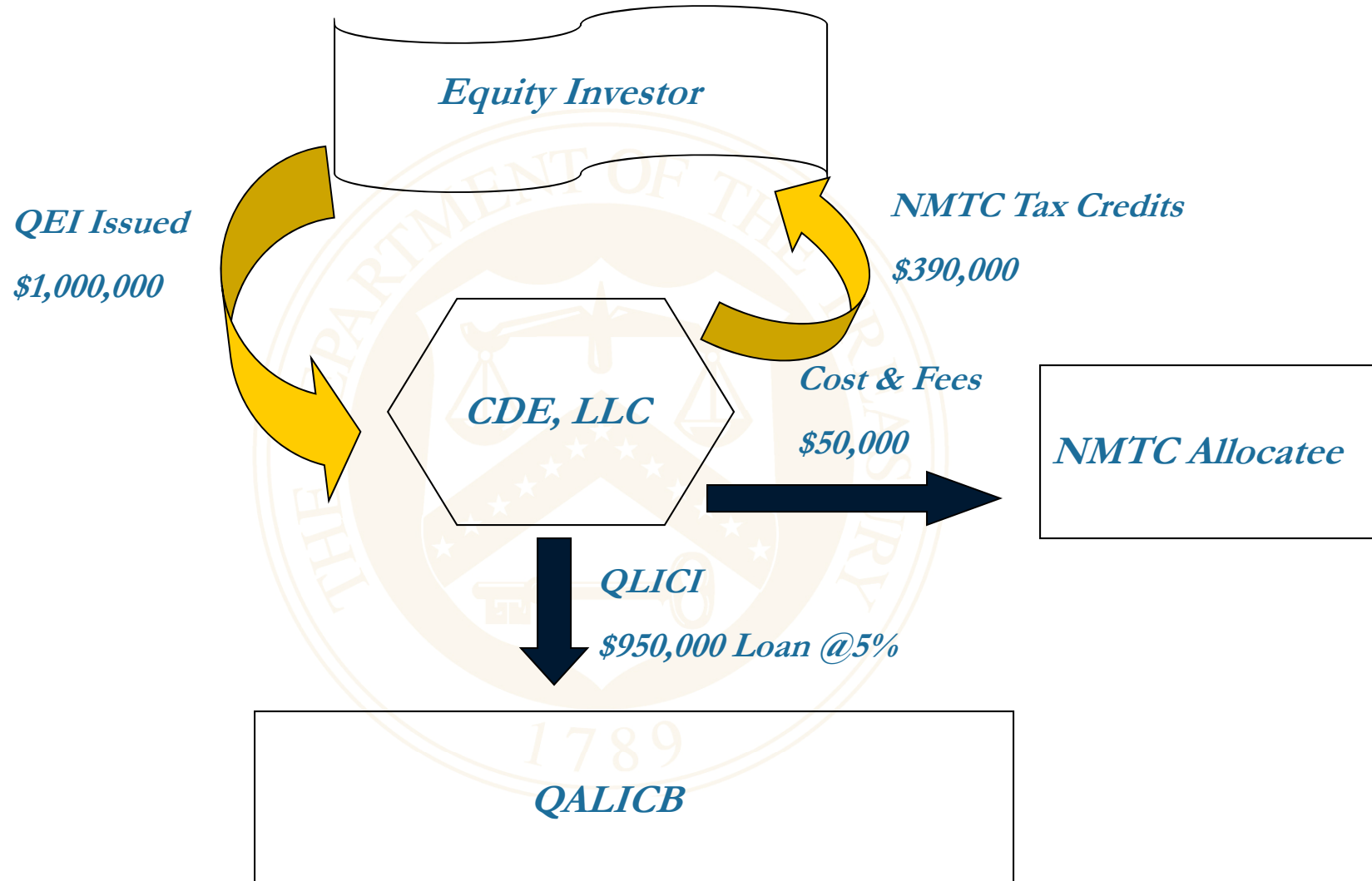


Summary Graphic



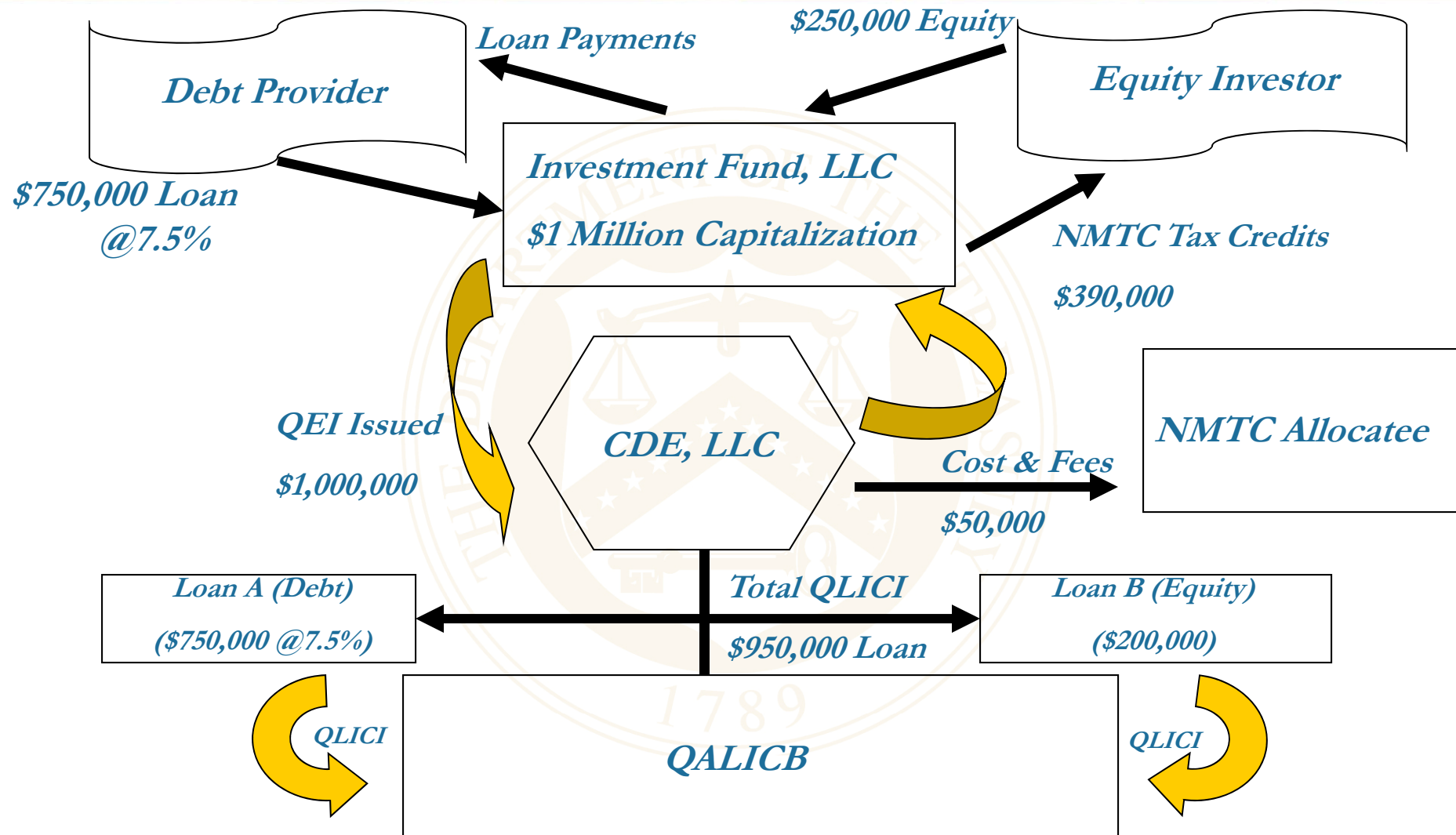


NMTC Unleveraged Structure





NMTC Leveraged Structure





NMTC Investment Authority Available

2002	\$2.5 billion	<input type="checkbox"/> → Includes 2001 Round
2003	\$1.5 billion	<input type="checkbox"/> → Combined for 2004 Round
2004	\$2 billion	
2005	\$2 billion	
2006	\$3.5 billion	+ \$600 million GO Zone
2007	\$3.5 billion	+ \$400 million GO Zone
2008	\$3.5 billion	+\$1.5 billion Recovery Act
2009	\$3.5 billion	+\$1.5 billion Recovery Act
2010	<u>?????????</u>	
TOTAL	\$26 billion	

Unallocated investment authority may be carried over from year to year through 2014.



Activities to Date

- Over \$15.2 billion in QEIs made into CDEs that received awards under the first six allocation rounds
- Through FY2008, awardees have reported making over \$12.7 billion of NMTC loans and investments into QLICIs
- These investments have supported a wide variety of community and economic development activities, including small and large businesses, manufacturing facilities, retail shopping centers, health care facilities, charter schools, job training centers, alternative energy companies, and for-sale housing.



Sample GO Zone Project-Second Line Stages

- Total Project Costs: \$34.6 million dollars
- \$24 million in NMTC equity was contributed by three CDEs:
 - \$6 million-National New Markets Fund
 - \$8 million-The Valued Advisor Fund
 - \$10 million-CCG Community Partners
- 90,000 square feet office space and studio production facility in Lower Garden District accommodating a 49 seat digital screening theater, actor's dressing rooms, and soundstages among other amenities
- Project enabled: job creation, apprenticeship opportunities for youth in partnership with local community service provider
- Anticipated opening January 2009





Sample Go Zone Project-Dancing Rabbit Hotel

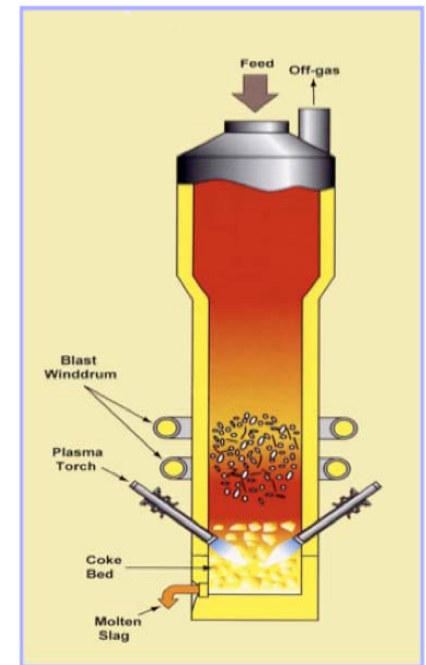
- Total Project costs: \$15.2 million
- National Tribal Development Association utilized a portion of their \$30million NMTC GO ZONE allocation in Philadelphia, MS
- Hotel development on Lands of the Mississippi Band of the Choctaw Indians
- The Hotel and a joining Pearl River Resort Entertainment Venue provides jobs for tribal members and increases revenues within the Choctaw community





Sample GO Zone Project- Sun Energy Group

- American Community Renewable Energy Fund, LLC invested a portion of its \$72 million in NMTC Allocation authority
- Total Project costs: \$450 million dollars
- Sun Energy is a minority owned renewable waste-to-energy company headquartered in New Orleans
- Sun Energy is establishing a waste-to energy facility in an industrial corridor in the Eastern part of New Orleans which will take thousands of tons per day of municipal solid waste, and turn it into enough electricity for 60,000 homes.
- Projected economic benefits include 83 FTE (pre-development), 55 FTE (post-development), 4,288 construction
- Anticipated to begin operations in mid-2011





Sample Project Types

NMTC Program supported a range of transactions in GO Zone including:

- Construction and supply store/lumber yard
- Physicians offices
- Nursing home
- Schools
- Restaurants
- Supermarkets



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Utilizing NMTC-Depository Institutions

- Serve as a leveraged debt lender
- Serve as equity investor in transactions
- Create a CDE to support community and economic development
- Contact CDE allocatees
- Get your CRA eligible transaction(s)/project(s) into future NMTC Allocation Applications



Utilizing NMTC-Not-For Profit

Not-For-Profits

- Contact NMTC trade associations
- Share information about eligible NMTC transactions
- Develop a CDE to support community and economic development activities
- Partner with NMTC allocatees
- Use the CDFI Fund website as a resource:
 - QEI investment reports
 - Allocatee profiles
 - Searchable award database



Contact Information

- Contact IRS at new.market.tax.credit@irs.gov
- For questions about:
 - IRS Regulations, Eligibility of possible QLICI activities and Other tax implications of the program

Visit the Fund's website at www.cdfifund.gov

Contact the Fund directly:

Program Support

Ph: (202) 622-6355 (option 3)

Fax: (202) 622-7754

Email: cdfihelp@cdfi.treas.gov

IT Support

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