



Navigating the New Markets Tax Credit Program

A Review of the Program, Process, & Participants

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Meet the Presenters



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Agenda

- **Introductions & Learning Objectives**

- **What Is the NMTC Program?**

- **Who Participates in the NMTC Program?**

- **How Does the NMTC Program Work?**

- **Q&A**

- **Closing**

Today's Learning Objectives

1. **Identify the participants of a NMTC transaction**
2. **Describe how the participants benefit from taking part in a NMTC transaction**
3. **Describe the fundamental community development goals of the NMTC Program**
4. **Identify the key factors that contribute to NMTC transaction success**

What Is the NMTC Program?

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What Is the NMTC Program?



- A community development program administered by the Community Development Financial Institutions (CDFI) Fund, a division of Treasury
- It attracts private investment to distressed communities using tax credits
- The credit totals 39% of the original investment amount & is claimed over a period of seven years
- Ultimately, it is a project financing tool that provides qualified businesses access to low-cost capital to fund important community development initiatives

NMTC Program History

- Authorized under the Community Renewal & Tax Relief Act of 2000 & has been subject to reauthorization since 2006
- The NMTC Program was most recently extended under the Consolidated Appropriations Act for five years at \$5 billion in annual funding. The Program now expires on December 31, 2025
- In 18 award rounds thus far, \$71 billion in tax credit authority has been awarded
- According to the CDFI Fund, the Program has
 - Generated \$8 of private investment for every \$1 of federal funding
 - Created nearly 239 million sq. ft. of manufacturing, office, & retail space
 - Financed more than 10,800 businesses

Who Participates in the NMTC Program?

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Low-Income Communities (LICs)

- **What is a Low-Income Community?**
 - Where the poverty rate is at least 20%; **or**
 - Where the median family income does not exceed 80% of the area median family income; **or**
 - Where the median family income does not exceed 85% of the area median family income provided the census tract is located in a high migration rural county; **or**
 - Where the census tract has a population of less than 2,000 & is contained within a Federally designated Empowerment Zone & is contiguous to at least one other LIC
- A project **must** be in a census tract that meets one of the above criteria
- Why low-income communities?
 - Historically low-income communities are underfunded by traditional capital markets
 - The NMTC Program “aims to break this cycle of disinvestment by attracting the private investment necessary to reinvigorate struggling local economies” (CDFI Fund)

Community Development Entity (CDEs)

- **What is a Community Development Entity?**
 - A domestic corporation or partnership that serves as an intermediary vehicle for loans, investments, or financial counseling to low-income communities
 - CDEs invest in low-income communities through projects that meet critical needs & improve the lives of low-income persons
- CDEs must be certified by the CDFI Fund (intended for community development entities)
- CDEs may be
 - For profit or non-profit
 - Focused on specific geographies, *i.e.*, national, multistate, state-oriented, or local
 - Focused on specific project types or community goals, *i.e.*, manufacturing & healthcare, or job creation & access to critical services

NMTC Investors

- **What is a NMTC Investor?**
 - Either an individual or corporate taxpayer
 - Most often, the NMTC Investor is a bank or financial institution, *e.g.*, U.S. Bank, Chase, PNC, Wells Fargo, Citi, etc.
- NMTC Investors purchase tax credits from CDEs
- NMTC Investors claim those tax credits on its return, thereby offsetting tax liability
- NMTC Investors also receive Community Reinvestment Act (CRA) “points” when purchasing tax credits
 - They receive full “credit” for the aggregate NMTC transaction even though they only provide an equity portion to the transaction
- NMTC Investors, in many cases, are also CDEs

The QALICB (the Project)

- What counts as a QALICB (Project)?
- Qualified projects, business &/or real estate investments
 - Projects **must** be in a NMTC qualified census tract
 - Businesses **must** meet the program requirements for a **Qualified Active Low-Income Community Business (a QALICB). Examples include
 - An operating business (manufacturer, grocery store)
 - A business that develops or rehabilitates real estate projects (commercial, industrial, retail, mixed use)
 - A business that develops or rehabilitates community facilities (charter schools, health clinics)
 - A business that develops or rehabilitates for sale housing units**
- Most projects & investment types can be considered for the NMTC Program; however, some project types are expressly prohibited (casinos, racetracks, golf courses, etc.)

So How Does the NMTC Program Help LICs?

- The NMTC Program is designed to help communities that are economically disadvantaged & that have been historically overlooked by capital funding
- Investment decisions are made at the community level where need is often more apparent
- Community benefits help drive these investment decisions & often include a focus on
 - Job creation (quality & accessible jobs)
 - Access to critical services (healthcare, health foods, mental health, etc.)
 - Training & workforce development
- The NMTC Program helps support businesses & projects with access to financing that is flexible & affordable
 - Financing is direct to the project/business & is often immediately available
 - Funds reduce upfront project costs & may increase ROI
- The financing available is lower cost &, according to the CDFI Fund, up to 96% of NMTC investments involve more favorable terms & conditions than the market typically offers. Terms may include
 - lower interest rates & longer interest-only periods
 - lower origination fees
 - higher loan-to-values & lower debt coverage ratios

How Does the NMTC Program Work?

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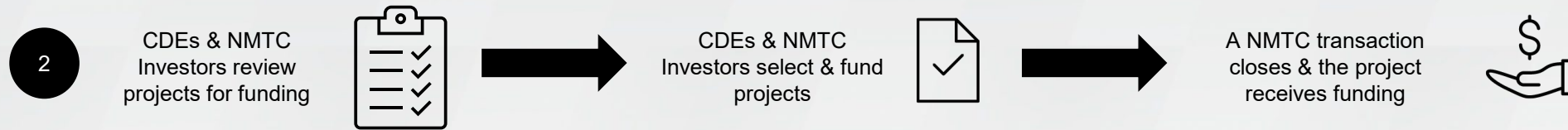
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Competing for NMTC Allocation



- Eligible CDEs apply to the CDFI Fund for NMTC Tax Credit Allocation Authority
- The CDFI Fund reviews applications & scores each CDE's application
- Allocation is awarded to the highest ranked CDEs, generally nine months following the application due date (recently, awards have been announced in late fall)
- In the most recent award round, 199 CDEs applied for \$14.7 billion in allocations. 107 CDEs (54%) were awarded \$5 billion (34% of the requested amount) on October 28, 2022

CDE & Investor Project Selection

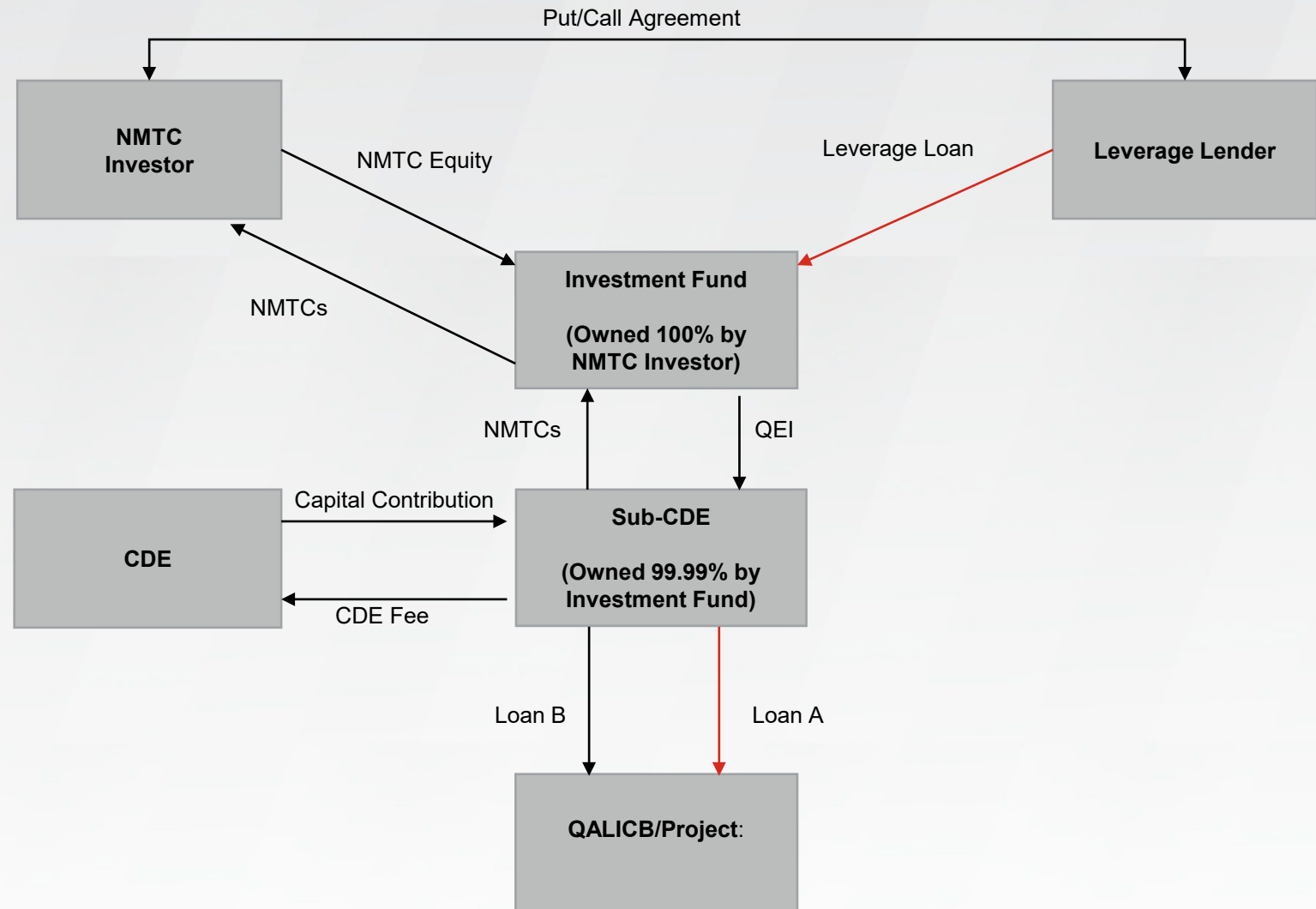


- CDEs & Investors continuously seek projects with community benefits that match their stated goals
- Before selecting a project, both CDEs & Investors evaluate & underwrite the investment to gain comfort that the project will close successfully & provide a stable benefit to the community
- A CDE & Investor will issue a project a term sheet (an offer of financing). If all parties agree to the terms, the project will begin a NMTC closing
- A closing generally lasts 60-90 days
- At closing, the project will receive funding or will have access to a disbursement account to draw upon for qualified project expenditures

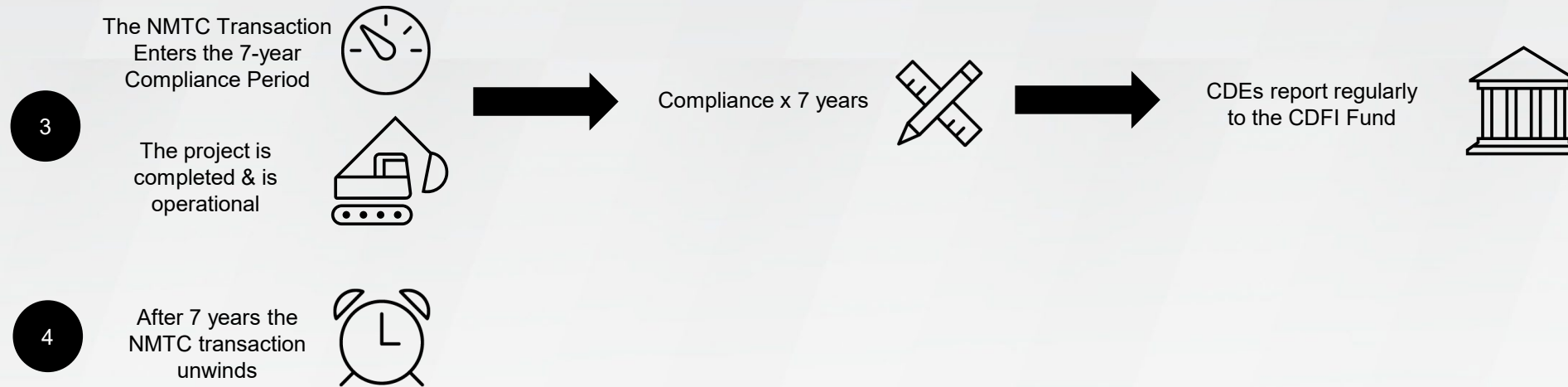
NMTC Sample Structure

Sample leverage structure utilizing NMTC allocation to fund a qualified project

for illustrative purposes only; actual structure & flow of funds may vary



Compliance & Unwind



- Using the NMTC financing, the project is completed
- The project reports regularly on status, community benefits
- After seven years, the NMTC transaction unwinds

Why Does the NMTC Program Work?

- Location, location, location – only distressed communities qualify
- The program helps drive real economic benefit to underserved communities
- Investment decisions are made at the local level
- A strong sense of “team” as part of the program & among each transaction
- A seven-year time horizon helps to eliminate “flash in the pan” projects which helps to drive sustained success in the community
- Per the CDFI Fund, the program has helped more than 10,800 business

Questions?

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Email the NMTC team – NMTC@forvis.com

FORVIS NMTC Resource Center: [New Markets Tax Credit Resource Center \(sharepoint.com\)](#)

Other Helpful Resources

- [New Markets Tax Credit Program | Community Development Financial Institutions Fund \(cdfifund.gov\)](#)
- [Home – New Markets Tax Credit Coalition \(nmtccoalition.org\)](#)

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