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YOU CAN DO THIS! FINANCE PROJECTS WITH NEW MARKETS TAX CREDITS

APRIL 5, 2016
RCDI WORKSHOP

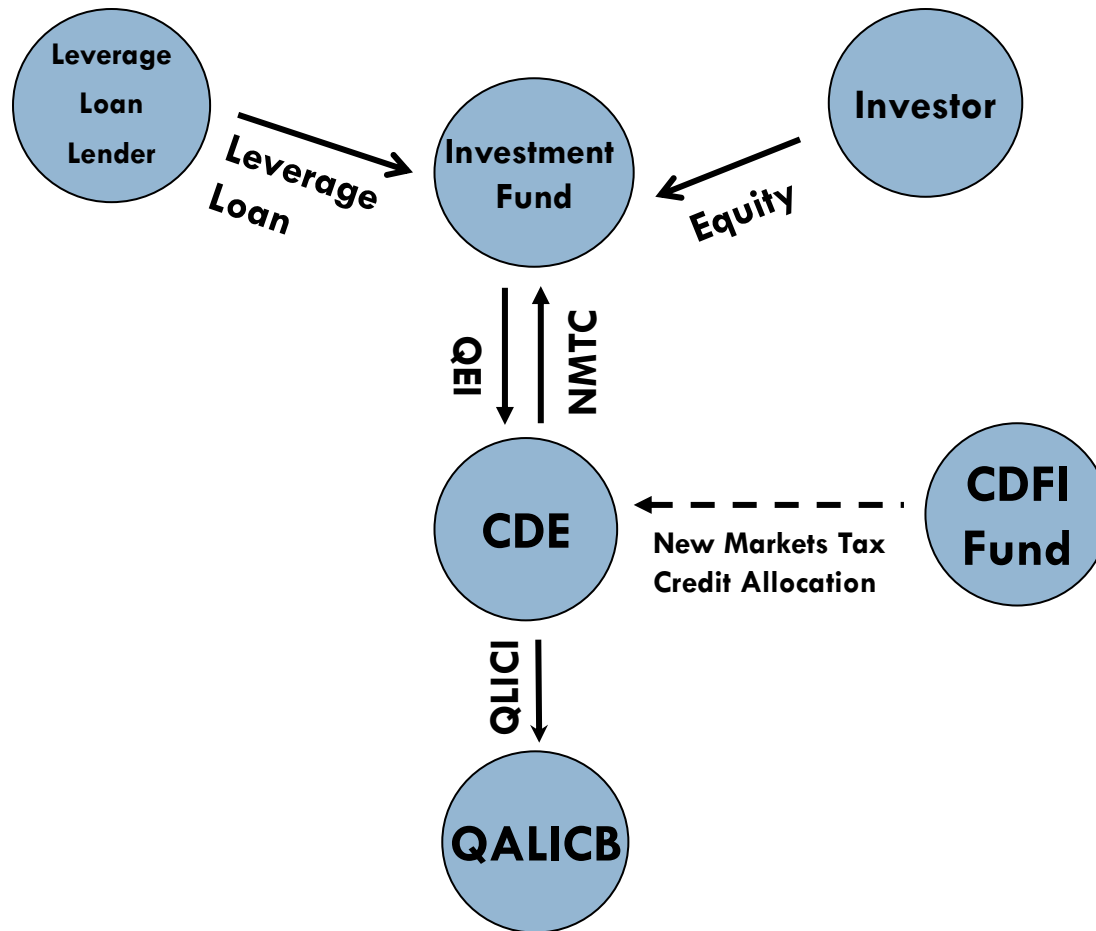
WHAT ARE NEW MARKETS TAX CREDITS?

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- A **federal tax credit program** designed to stimulate investment in **low-income communities** or to assist-low income “targeted populations”.
- Developed after the success of the Low Income Housing Tax Credit – though completely different!
- A 39% tax credit for every **Qualified Equity Investment (QEI)** to a **Community Development Entities (CDEs)**.
- Part of the **Community Renewal Tax Relief Act of 2000**.
- Over **\$40 Billion** of NMTCs awarded since the program began.
- Administered by the **CDFI Fund**, part of the US Treasury Department.

“TYPICAL” STRUCTURE OF A NMTC DEAL

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HOW DOES THE PROGRAM WORK?

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- CDEs annually apply for an allocation of NMTCs.
- If awarded an allocation, CDEs facilitate investments (typically structured as low interest and forgivable loans) to qualifying projects with proceeds from investors that purchase the NMTCs from the CDEs.
- CDEs generally select projects that are real estate projects or operating businesses located in highly distressed low income areas, which result in high community impacts.



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NMTC FINANCING

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- The NMTC financing facilitated by the CDE is generally a low interest loan, which is forgiven after 7 years.
- The loan typically is approximately 20% of the total financing necessary for a real estate project or operating business.
- The NMTC borrower is either a for-profit or nonprofit entity that is located in a “low-income census tract” as determined by the US Census or serves low income Targeted Populations.



NMTC BENEFITS

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□ **Benefit to Borrower/Project**

- Low interest (approx. 1%), interest-only 7-year loan to help fund a project.
- NMTC financing provides a net benefit of approximately 20% of the funds necessary to finance the project.
- Ability to leverage existing project funds, prior incurred expenses and land value with NMTC financing through the “Leverage Structure”.
- Forgiveness of B Note (NMTC Equity).

□ **Community Benefit**

- Develop a community facility or commercial project which will provide services to low income areas.
- Retain and increase employment in low income areas.
- Spur economic development and act as a catalyst for more development in economically challenged communities.

NET BENEFIT TO PROJECT - FOR \$10M PROJECT *

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Sources & Uses	CDE Level	Project Level at closing	Interest over 7 years used to pay CDE Expenses
NMTC Equity from Investor Bank (\$10M x 39% x \$.85 purchase price)	\$3,300,000	\$3,000,000	\$2,700,000
- CDE Fee (3% of \$10m QEI)	(\$300,000)		
- Legal, Accounting, Consulting Fees		(\$370,000)	
- Annual Asset Mgmt. & Monitoring Fees (Spread over 7 years- 3.5% of QEI)			(\$350,000)
Net Project Benefit (22% of \$10M Budget)	\$3,000,000	\$2,630,000	\$2,280,000

***For illustration only: Actual fees will vary!**

Types of Projects Funded with NMTC Financing

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□ Examples of NMTC funded projects include:

- Community Centers
- Food Banks
- Health Clinics
- Recreational Facilities
- Infrastructure Projects
- Child Care Facilities
- Grocery Stores
- Biomass Industry
- Mixed Use Developments

□ NMTC financing cannot be used for:

- Golf Courses
- Race Tracks
- Gambling Facilities
- Liquor Stores
- Certain Farming Businesses
- Residential Rental Property

RECENT NMTC ALLOCATION ROUND

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- Announcement for most recent NMTC Allocation Round made on June 15, 2015
- 76 CDEs Awarded NMTC Allocation (263 CDEs applied)---**NCCLF awarded \$45 million**
- All 76 CDEs agreed to fund 75% of their allocation in Highly Distressed Areas
 - Highly Distressed = 30% or higher Poverty Rate, below 60% AML or more than 1.5 times the national unemployment rate

THE IDEAL TRANSACTION

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- **Project Readiness**
 - Site control agreement
 - Engineering construction documents in progress
 - All regulatory approvals defined and scheduled
 - Contractor is selected and has draft contract
 - Obtaining building permits in a timely manner
 - Other financing tied down (sources of leverage)
 - Power Purchase Agreement (Source of Revenue)

- **High Community Impact**
 - **Jobs**
 - **Services**
 - **Assist Severely Distressed Areas**

ISSUES TO CONSIDER

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- NMTCS add complexity to a transaction
- Leverage Lenders need to be educated regarding debt security issues and remedies
- Guaranties and Indemnities
- End of compliance period arrangements
- What is the NET benefit for your project?
(Typically about 20% of total project cost.)

THE FUTURE OF THE NMTC PROGRAM

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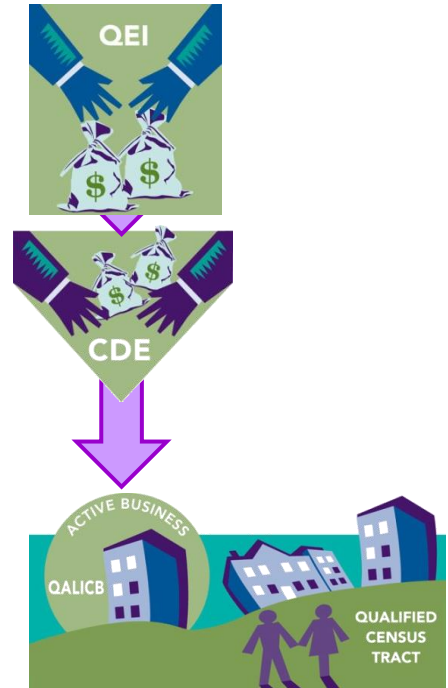
- In December 2015 Congress and President agreed to extending the NMTC for five years at \$3.5 billion annually. **Next awards announced in August 2016.**

- Investment Tax Credits for Co-Heat Power only extended one year.

NMTC TERMINOLOGY

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- **QEI** = Qualified Equity Investment
- **CDE** = Community Development Entity
- **QLICI** = Qualified Low-Income Community Investment
- **QALICB** = Qualified Active Low-Income Community Business
- **QCT** = Qualified Census Tract (Low Income Community)



The Investor's QEI to a CDE is used to make a QLICI to a QALICB in a QCT.

GOLDFARB & LIPMAN LLP

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- Goldfarb & Lipman is a law firm with special strengths in community economic development, affordable housing, real estate development and municipal law. Since the founding of Goldfarb & Lipman in 1971, we have developed an extensive practice focused on providing superior legal representation to both public entities and private developers in real estate developments and financing transactions. We have successful closed transactions involving the Low Income Housing Tax Credits, New Markets Tax Credits, Renewable Energy Credits, and Historic Rehabilitation Tax Credit.
- Goldfarb & Lipman has been involved in every stage of the New Markets Tax Credit Program. Since the beginning of the NMTC program, we have represented: (i) public agencies lending into a NMTC transaction, (ii) QALICBs utilizing NMTC financing and CDEs closing NMTC transactions. Some examples of projects we helped close utilizing NMTC financing include community facilities, historic live theater venues, child care centers, office buildings serving nonprofit organizations, and commercial mixed use buildings.



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NCCLF'S MISSION

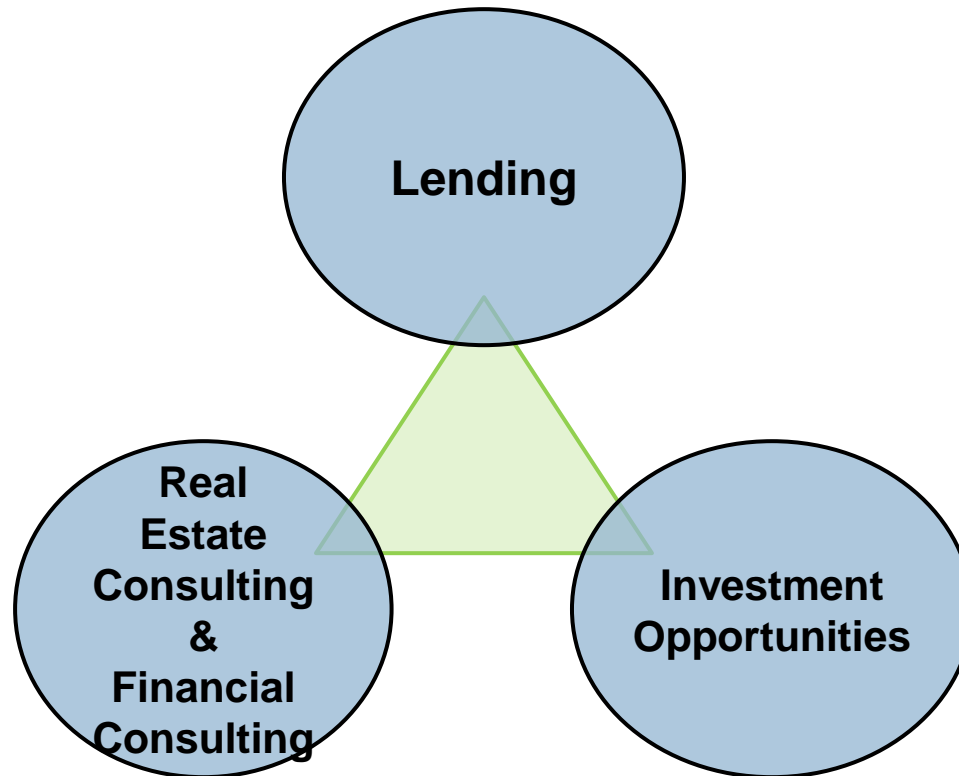
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- We promote economic justice and alleviate poverty by increasing the financial resilience and sustainability of community-based nonprofits and enterprises.

PROGRAMS

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Financial Solutions. Stronger Communities.



AREAS SERVED

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47 Counties in Northern California

Alameda	Mendocino	Solano
Alpine	Merced	Sonoma
Amador	Modoc	Stanislaus
Butte	Monterey	Sutter
Calaveras	Napa	Tehama
Colusa	Nevada	Trinity
Contra Costa	Placer	Tulare
Del Norte	Plumas	Tuolumne
El Dorado	Sacramento	Yolo
Fresno	San Benito	Yuba
Glenn	San Francisco	
Humboldt	San Joaquin	
Kern	San Mateo	
Kings	Santa Clara	
Lake	Santa Cruz	
Lassen	Shasta	
Madera	Sierra	
Marin	Siskiyou	
Mariposa		

MORE QUESTIONS? CALL US!

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