The New Markets Tax Credit

10th Anniversary Report

A Report by the New Markets Tax Credit Coalition

December 2010

New Markets Tax Credit Coalition

1331 G Street, NW, 10th Floor • Washington, DC 20005
(202) 204-4500 • (202) 393-3034 fax • www.nmtccoalition.org

This report was prepared by Rapoza Associates for the New Markets Tax Credit Coalition.

The New Markets Tax Credit (NMTC) Coalition is a national membership organization that advocates on behalf of the NMTC program. The Coalition is managed by Rapoza Associates, a public interest lobbying, policy analysis and government relations firm located in Washington, DC that specializes in providing comprehensive legislative and support services to community development organizations, associations and public agencies.

New Markets Tax Credit Coalition Board of Directors 2010:

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On August 5, 1999 U.S. Representative Charles Rangel (D-NY)
and U.S. Senator Jay Rockefeller (D-WV) introduced the
New Markets Tax Credit Act of 1999 in their respective chambers.

Senator Rockefeller made the following introductory remarks on the Senate Floor that day:

> *I rise today to introduce a new tool, the ``New Markets Tax Credit,'' to be used to expand economic development opportunities in low-income communities in West Virginia and across this country….*
>
> *America's most depressed economic areas desperately need private investment. They get very little not only because they are unattractive, but also because of misperceptions and market failures. A lack of information, for instance, means that many companies may have an exaggerated idea of the risk of investing in deprived areas, and often have no idea of potential markets. Yes, it is true that private venture capital investment rose 24% in 1998, 76% of the total went to technology-based companies--primarily in California's Silicon Valley and New England's high-tech corridors. But only 5.7% of all venture capital in 1998 went to South Central, Southwest and Northwest regions combined. Obviously, this is a huge disparity that needs to be corrected….*
>
> *The goal of this tax credit will be to encourage private investors who may have never considered investing in high-risk areas to do so. By investing in the community through local businesses private investors can explore new markets and improve the quality of life for the people in the area. Community development organizations may use the funds from private investors to develop micro-enterprise, manufacturing businesses, commercial facilities, communities facilities, like child care facilities and senior centers and co-operatives…. Communities, businesses, and investors are responding enthusiastically.*

Executive Summary

This report was prepared by the New Markets Tax Credit Coalition, a national membership organization that conducts research on and advocacy for the New Markets Tax Credit (NMTC). The purpose of this report is to evaluate the success of the New Markets Tax Credit as an incentive to private sector investment in low income urban and rural communities.

December 2010 marks the 10th anniversary of the enactment of the New Markets Tax Credit. The legislation was proposed by President Bill Clinton, who worked with House Speaker Dennis Hastert (R-IL) on a package of incentives aimed at boosting economic circumstances in communities left behind by the prosperity of the 1990s. At a time of record budget surpluses, the two leaders chose to use the tax code, rather than federal grants, as an economic development tool; an innovative approach that has now become standard.

The NMTC statute created a new category of investment intermediaries called Community Development Entities (CDEs). CDEs can include community development corporations, community loan funds and private financial institutions. They must have a track record in community or economic development and be accountable to local advisory boards. CDEs compete for annual allocations of New Markets Tax Credits.

NMTC provides a 39% credit against federal income taxes to CDE investors. CDEs use the proceeds from this credit to make loans or investments with below-market terms and conditions to businesses operating in low income communities.

The Community Development Financial Institutions (CDFI) Fund of the Department of the Treasury administers the NMTC program. In September 2010 the New Markets Tax Credit Coalition filed a Freedom of Information Act (FOIA) request with the CDFI Fund, requesting data on transactions from the first allocation of tax credits in 2003 through the most recent round of credit allocations in 2009. The purpose was to understand the characteristics of the communities served under NMTC, the types of businesses receiving financing with the Credit and the overall cost effectiveness of the program.

The FOIA request produced data on over 4,000 transactions that financed close to 3,000 business enterprises. The NMTC investments and loans in those businesses totaled $15.5 billion and the total project cost for financing those businesses with additional private sector capital was almost $50 billion.

Key Findings

- While the NMTC statute requires that projects be located in census tracts where the poverty rate is at least 20% or median family income does not exceed 80% of the area median, in fact, the preponderance of NMTC activity is in extremely disadvantaged communities with high distress factors far exceeding the minimum requirements in the law. Over 61% of investments are made in communities with unemployment rates exceeding 1.5 times the national average, 57% are in communities with poverty rates exceeding 30% and 60% of the investments are in places where median incomes are at or below 60% of area median.

- Between 2003 and 2009 NMTC leveraged $8 in private investment for every $1 of cost to the government. The New Markets program generated almost $50 billion in financing to businesses in low income communities. Of that amount $15.5 billion came from direct NMTC investments, which cost the government $6 billion in lost revenue (39% of $15.5 billion). The balance, totaling $34 billion, came from other public and private sources of capital.

- NMTC financed a wide range of projects from the first supermarket in a generation in Southeast Washington, DC to a loan for a school in Florida, to a health center in rural Louisiana, a solar company in New Mexico, and a series of revitalization projects in Iowa, Michigan and Virginia. While a substantial portion of projects financed by the Credit were real estate – community facilities, industrial and commercial facilities, mixed-use buildings with affordable housing – many were non-real estate projects that provided financing to operating businesses for equipment and working capital.

- Demand for NMTC far exceeds availability. To date, CDEs have requested a total of $202 billion in allocation authority since 2003, a demand of more than 7 times Credit availability.

- Using federal Recovery Act standards, the NMTC Coalition estimates that NMTC-financed projects have created or retained up to 500,000 jobs, at a cost to the federal government of less than $12,000 per job.

Introduction

In December 2000 President Bill Clinton signed into law the Community Renewal Tax Relief Act (P.L. 106-554) which authorized the New Markets Tax Credit (NMTC) program. This legislation was the product of collaboration between a Democratic President and U.S. Representative Dennis Hastert, Republican Speaker of the House. The idea behind the NMTC legislation was that there are good business opportunities in low income communities, but the cost and scarcity of capital in these 'New Markets' is a substantial impediment to spurring economic growth. The purpose of the legislation was to stimulate private sector investment in low income communities and build a delivery system of private for-profit and non-profit entities that could provide technical and financial assistance to economically distressed urban and rural communities.

The Clinton-Hastert agreement totaled $25 billion in new authority and included the creation of the New Markets Tax Credit, a companion New Markets Venture Capital program administered by the Small Business Administration, 40 new Community Renewal Zones and an increase in the Low Income Housing Tax Credit. The Community Renewal Tax Relief Act had supporters from across the political spectrum: Democrats such as Charles Rangel (NY), Jay Rockefeller (WV) and Ted Kennedy (MA); and Republicans such as Olympia Snowe (ME), JC Watts (OK) and James Talent (MO).

The Credit was developed by the Clinton Administration in the fall of 1998 and was first introduced in January 1999 and again in 2000 for the Fiscal Year 2001 federal budget. Its introduction was preceded by a confluence of events in the late 1990s that created just the momentum needed to advance the NMTC. There was a coming of age of community-based lenders, including Community Development Corporations (CDCs) and Community Development Financial Institutions (CDFIs) that had built a formidable track record underwriting and financing community facilities and other developments in low income areas where conventional lenders were wary of making investments. A CDC tax credit demonstration enacted in 1993 had proven successful. Last, there was a positive impact on families and economic gains to investors of the Low Income Housing Tax Credit (LIHTC) which had become the largest federal financing source for affordable housing. All these efforts served to set the stage for enactment of NMTC and reinforced the decision to structure this new economic development tool around a Community Development Entity (CDE) delivery system to effectively shepherd private capital to the places where a mission-driven organization determined it would have local benefit.

There was great interest and support, in a time of immense prosperity and record budget surplus, to use federal assistance for revitalization of low income communities. However, Clinton and Hastert opted not for direct aid for communities, but rather for tax incentives to spur private sector investment. While the revenue loss for tax credits is a real cost to the federal budget, the decision to use the tax code, rather than federal grants in aid, to promote revitalization was a key factor in gaining broad bipartisan support for the legislation.

This construct has led to an enduring bi-partisan coalition in support of NMTC. As noted, the Credit was created under the leadership of President Clinton and Speaker Hastert. It was successfully launched under President George W. Bush. The Bush Administration supported and signed into law legislation sponsored by leaders of both parties to extend the Credit in 2008 and 2009. In fact, according to an article published in the Hoover Institution's *Policy Review*[1], the New Markets Tax Credit along with the Low Income Housing Tax Credit were "the two main pillars of the President's [Bush] urban renewal program."

History of the NMTC: Background and Purpose

Legislative History

The Community Renewal Tax Relief Act of 2000 (P.L. 106-554) authorized $15 billion in credit authority for the New Markets Tax Credit for 2001 through 2007, which was divided out over five allocation rounds in years 2003 through 2007. In December 2005, the Gulf Opportunity Zone Act of 2005 (P.L. 109-135) authorized an additional $1 billion in New Markets Tax Credit allocations for Gulf Coast communities devastated by Hurricane Katrina and those Credits were allocated in 2006 and 2007.

The Tax Relief and Health Care Act of 2006 (P.L. 109-432) extended the Credit through 2008 with an additional $3.5 billion in Credit authority and included language requiring the Department of Treasury to better target the Credit to non-metro areas. In the fall of 2008, Congress passed the Renewable Energy and Job Creation Act of 2008 that included an NMTC extension through 2009 with $3.5 billion in Credit authority.

In February of 2009, Congress passed the American Recovery and Reinvestment Act (ARRA) of 2009 (P.L. 111-16), the economic recovery package that included $3 billion in additional New Markets Tax Credit authority divided equally between 2008 and 2009. ARRA increased the overall Credit authority to $5 billion annually.

In February 2010 Treasury Secretary Geithner announced Administration support for a two year extension of the Credit – for 2010 and 2011 – with $5 billion in annual Credit authority and improvements in the program regarding application of the Alternative Minimum Tax (AMT) for investors in NMTC.

In the 111th Congress, the House approved legislation that extended the Credit through December 31, 2010 with $5 billion in Credit authority (H.R. 4213, Tax Extender Act of 2009) and AMT improvements along the lines proposed by the Administration (H.R. 4849. Small Business and Infrastructure Jobs Tax Act of 2010). As this report goes to print, the Senate has not yet completed action on similar legislation (See Appendix A).

Details of New Markets Tax Credits – How the Program Works

The New Markets Tax Credit provides a credit against federal income taxes of 39% over 7 years to taxpayers who make Qualified Equity Investments[2] (QEIs) in a Community Development Entity (CDE). CDEs use the capital from investors to provide financing to businesses located in low income communities. A CDE is a domestic corporation that must be certified as having a primary mission of serving or providing investment capital for low income communities or low income persons, and must demonstrate it maintains accountability to residents of low income communities through a governing or advisory board. CDE certification is the responsibility of the Department of Treasury and the administering agency for the program is the Community Development Financial Institutions (CDFI) Fund. Examples of a CDE are a community development corporation, a community loan fund, a regulated financial institution, and a state or local government entity (See Appendix B).

CDEs compete for annual allocations of New Markets Tax Credits. CDEs write applications that discuss their strategy to make investments using NMTC that achieve significant community impacts, and that describe their management capacity and ability to raise capital. Upon receiving an allocation, CDEs market the Credit to taxpayers who receive the 39% credit for their investment over 7 years. With those funds CDEs make loans or equity investments in businesses in low income communities. These businesses are defined under the law as Qualified Active Low Income Community Businesses[3] (QALICBs) and include real estate projects or operating or start-up businesses.

Analysis of the allocation process does not reveal preference for any particular type of project or financing. Rather, a commitment to make investments in more highly distressed communities as measured by higher levels of poverty and unemployment and lower incomes, and to achieve community impacts by investing a higher level of qualified equity investments than required, are key factors in securing an allocation.

There is substantial evidence that the NMTC is an effective incentive to encourage private sector investment in low income areas. A 2007 report[4] published by the U.S. Government Accountability Office (GAO) indicated that 88% of investors surveyed would not have made the investment in the low income community without the Credit, and a total of 69% of the investors indicated that they had not made an investment in a low income community project prior to working with NMTC.

During this time of changing market conditions and tightening credit, the strength of the NMTC is most pronounced. The program's flexibility ensures favorable financing terms designed to meet the diverse needs of low income communities where traditional forms of lending and credit availability would otherwise be scarce. Even in these uncertain times, NMTC continues to leverage private sector investments. Despite the worst economy in 60 years, investments in NMTC have not fallen and the CDFI Fund reports that in August and September 2010 alone more than $500 million in new qualified investments had been raised through the New Markets Tax Credit.

Data Analysis: Recent Findings

This report analyzes some 4,000 separate transactions that financed close to 3,000 businesses. These transactions occurred from 2003, when the first allocations were made by the CDFI Fund, through December 31, 2009. During this time period, Community Development Entities (CDEs) deployed $15.5 billion in NMTC financing to businesses and projects in low income communities. That initial investment has generated additional private sector financing, bringing the total amount invested in businesses and projects in low income communities to $49.7 billion. In order to better understand the dimension of the investments, this report examines the characteristics of both the NMTC investments, known as Qualified Low Income Community Investments, as well as the total project costs. In addition to providing an analysis of data, this report profiles a number of different types of businesses financed by the New Markets Tax Credit over the last several years (See Stories from the Field).

Data from the FOIA request was used to evaluate the community impact of the NMTC based on first-hand reporting by CDEs to the CDFI Fund. Additional supporting data collected by the NMTC Coalition through annual surveys of allocatees that was published in the NMTC Coalition's *New Markets Tax Credit Progress Report: 2010* is also referenced in this report. All of the Charts and findings in this report are based on underlying data provided by the CDFI Fund and subsequent analysis conducted by the New Markets Tax Credit Coalition. In carrying out this analysis, the Coalition sought answers to the following questions:

1) What are the economic conditions and distress factors in the communities where NMTC investments are being made?

Low Income Communities are defined in the NMTC statute as census tracts where the poverty rate is at least 20%; or the median family income does not exceed 80% of statewide median family income in non-metro areas, or median income does not exceed 80% of area median income in urban census tracts. Accordingly, a threshold level of community benefit is achieved with every NMTC investment in a qualifying location.

The competitive nature of the NMTC application process allowed the CDFI Fund to set increasingly higher bars for the award of allocations to CDEs that would commit to work in even more disadvantaged communities than statutorily required. This has driven NMTC investments to places where economic development projects are even harder to finance because of the perceived and actual levels of risk. Demand for annual NMTC allocations is fierce. NMTC demand continues to surpass Credit availability. To date, CDEs have requested a total of $202 billion in allocation authority since 2003 with $26 billion in Credit authority available through 2009 (a demand of more than 7 times NMTC availability).

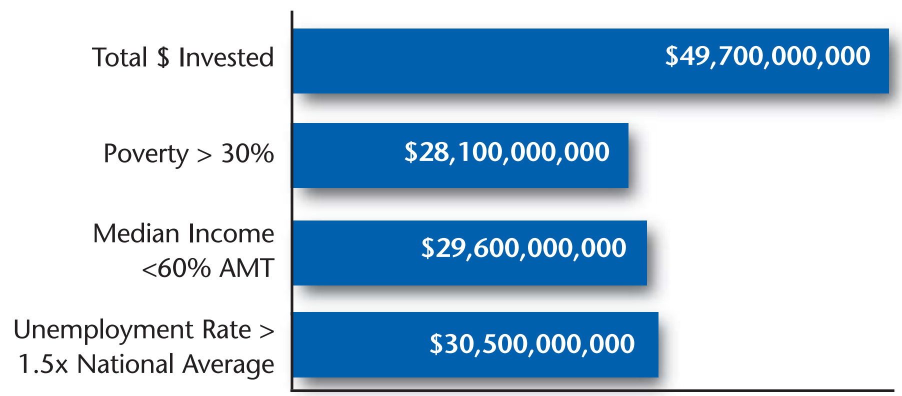
In addition, because of this intense competition, the CDFI Fund reports that CDEs are committing to invest a greater portion of their Qualified Equity Investments (QEIs) than the statutory requirement. For example, all of the allocatees in the 2009 round committed to invest more than the minimum, 85% of their QEIs, and 96 (out of 100 CDEs receiving allocations) agreed to invest at least 95% of the QEIs. According to the CDFI Fund's *2009 Performance and Accountability Report*: "**In real dollars, this means at least $630 million above and beyond what is minimally required by the NMTC Program rules …**"

Our analysis confirms that NMTC investments are reaching areas of even higher distress than what is required by law, with a total of almost $50 billion invested in low income urban and rural communities to date (See Chart 1).

Key Findings:

- Of the total $49.7 billion invested in NMTC eligible census tracts, more than 60% was invested in communities with unemployment rates at least 1.5 times the national average;
- In communities where median income was less than 60% of area or statewide median, NMTC attracted $29.6 billion in project capital that spurred job creation and promoted important economic development projects; and
- More than $28 billion, or 57% of the total project costs, went to communities with poverty rates greater than 30% and helped to ensure that some of our country's most disadvantaged communities received capital during the worst recession since the 1930s.

Chart 1:
Investments in Areas of Higher Economic Distress



Community residents and businesses continue to benefit from the NMTC program. An April 2009 GAO report highlighted demographics of communities where NMTC investments have been made, and noted that "on average, non-white residents account for nearly 42% of residents in NMTC-eligible census tract across the United States, compared to an average of about 26% in all U.S. census tracts." Data confirms that NMTC investments made through 2009 are in even more highly distressed areas with average poverty rates of 29% and are made in majority-minority communities (54% minority residents).

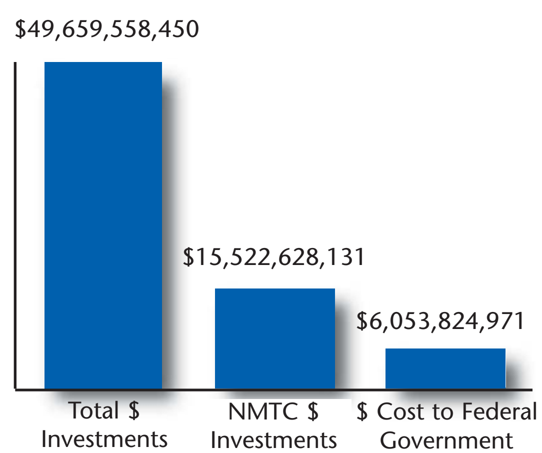
In a separate survey conducted by the NMTC Coalition in 2010, CDEs surveyed reported targeting 93% of their investments in communities with two or more factors of high economic distress.

2) Is the NMTC a good value to the government? Is it a good value to the communities where NMTC investments are made?

The NMTC is an extremely cost effective program and provides a substantial return for modest government investment. NMTC dollars are critical in spurring private sector investment in communities facing economic challenges. Through December 31, 2009 $15.5

billion in private sector capital has been raised through New Markets. This has leveraged more than three times that amount at the project or business level, bringing the total investment in NMTC eligible census tracts to close to $50 billion, which was used to finance a variety of businesses, community facilities, mixed-use and manufacturing projects in urban and rural communities.

Chart 2:
NMTC is Cost Effective



However, the $15.5 billion in NMTC investments translates to a cost to the federal government of only $6.05 billion. The lower cost to the taxpayer is due to the structure of the credit, through which investors in NMTC receive a 39% tax credit in return for an NMTC equity investment. In return for that lost revenue the government has seen almost $50 billion in capital flow to economically distressed urban and rural communities; a return of more than 8 times the cost to the federal government (See Chart 2).

The New Market Tax Credit Coalition's *New Markets Tax Credit: Progress Report 2010* documents that CDEs continue to raise capital and deploy funds faster than required. The law requires CDEs to deploy at least 85% of their investments within one year of issuance, however more than half of the CDEs reported they deploy capital within just 30 days and 47% of the CDEs surveyed report deploying capital in less than one week.

Key Findings:

- The New Markets Tax Credit has leveraged $8 in investment in low income communities for every $1 of forgone federal revenue.
- CDEs continue to raise capital and deploy funds faster than required by law, with almost half of CDEs reporting deploying capital in less than 7 days.

Job Creation, Positive Community Impact

The federal government's standard calculation for job creation per the American Recovery and Reinvestment Act (ARRA) is that it costs $92,000 in federal financing to create one job. Based on this calculation the estimate is that $49.7 billion of total investment through NMTC leverage converts to more than 500,000 jobs having been created or retained in low income communities through 2009. Considering that the cost to the federal government of NMTC was only $6.05 billion in revenue lost, the federal share of the cost per job is reduced from $92,000 to less than $12,000. The fact that the NMTC has generated an estimated

500,000 jobs at a fraction of the cost when compared with other federal programs magnifies the value of the leverage of the NMTC. If those same jobs had been directly funded, it would have cost the federal government nearly $50 billion of direct appropriations to create them.

Key Finding:

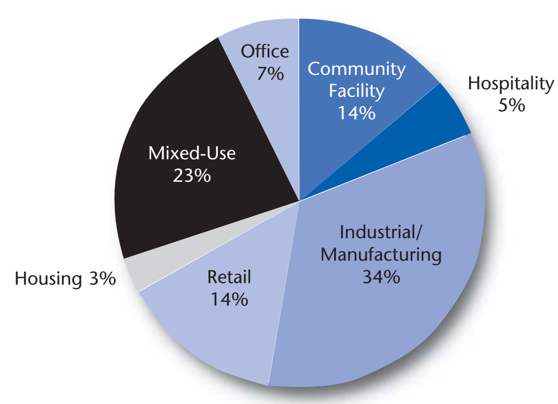
- There is substantial job creation through NMTC. Using existing standards, NMTC financing has created or retained up to 500,000 jobs at a low cost to the government.

3) What are characteristics of the Qualified Active Low Income Community Businesses in terms of geographic distribution, type of business and size of investment?

The CDFI Fund data through 2009 shows 2,958 Qualified Active Low Income Community Businesses (QALICBs) were financed and are located in all 50 states, the District of Columbia and Puerto Rico. As noted, these businesses received $15.5 billion in direct NMTC financing. CDFI Fund data categorizes each type of business as being a CDE, a Non Real Estate business or a Real Estate business[5]. Data shows there were 70 CDE, 1405 Real Estate and 1479 Non Real Estate businesses financed with NMTC through 2009. Financing to Non Real Estate businesses includes working capital or a loan to purchase equipment.

In addition to the CDFI Fund designation by general type of business, allocatees self-identified the types of their investments by entering business descriptions of each of their projects. We consider investments going to Non Real Estate businesses simply as financing for operating businesses. For Real Estate businesses, however, we used the business descriptions to sort and tag businesses by industry type (See Chart 3). A total of $9.7 billion went to finance 1,405 Real Estate businesses. This includes $3.2 billion in NMTC investments for Industrial/Manufacturing/Commercial businesses; $2.2 billion for Mixed-Use projects; $1.4 billion for Community Facilities; $1.4 billion for Retail businesses; $774 million for Housing and Hospitality businesses; and $704 million for Office space.

Chart 3:
Types of Real Estate Businesses Financed with NMTC (% of NMTC $)



Key Finding:

- More than 70% of Real Estate businesses are one of three industry types: Community Facilities such as community schools or health centers; Industrial/Manufacturing/Commercial such as a manufacturer of laser alignment tools or a seafood processing plant; or Mixed-Use such as ground level retail with office or housing above.

Median transaction size of the 2,958 investments was $2.5 million. The average NMTC investment per business was $5.2 million, and total project costs averaged $18 million. Chart 4 breaks down the range of NMTC investments by dollar size, and Chart 5 shows the range of total project costs by the number of businesses financed in each range.

Chart 4:
NMTC Qualified Investments by Size and by Business

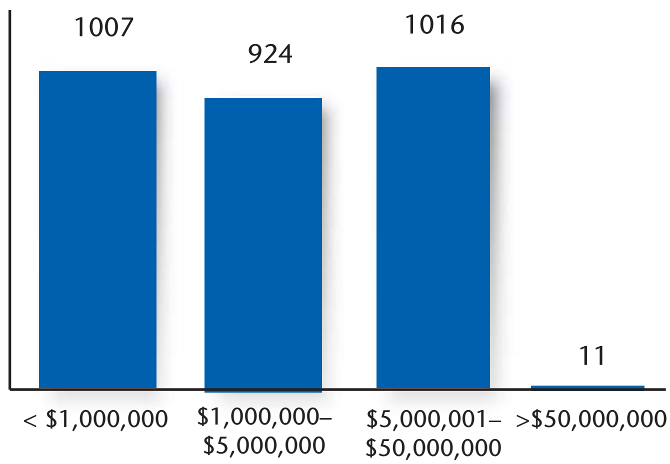
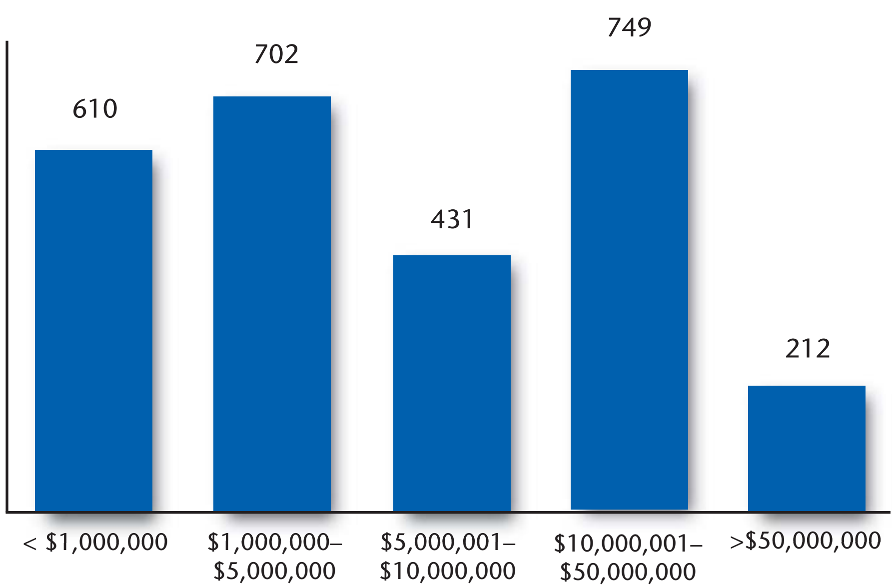


Chart 5:
Total Project Costs by Size and by Business



Key Findings:

- Of the almost 3,000 businesses financed with the NMTC over half had total project costs of $10 million or less. More than 1,300 businesses had total project costs less than $5 million (See Chart 5).
- NMTC investments range from $5,000 to more than $50 million with the vast majority in the $1 million to $5 million range. Approximately half the businesses are real estate and half are operating businesses (See Chart 4).

In response to rural advocates of the program who wanted to be sure a proportional share of NMTC investments would be made in low income rural communities, the Tax Relief and Health Care Act of 2006 (P.L. 109-432) amended the NMTC statute to address the need for more capital investment in rural areas. Starting in 2008 the CDFI Fund has been required to ensure that at least 20% of NMTC investments made by allocatees are in non-metropolitan counties. Of note, for the last three years the NMTC Coalition's survey results reveal a steady increase in NMTC activity in rural areas.

Evaluation of CDFI Fund data shows that in rural communities, the median size of NMTC investments was $760,000 and the median total project size was $1 million. In urban areas the median NMTC investment was $3.3 million and median total project costs were $6.4 million, demonstrating the flexibility of the program to meet the necessary scale of financing for a wide range of businesses including $5,000 to a child care center in Oregon to more than $200 million for a large community-based nonprofit healthcare facility in Massachusetts.

Terms and Conditions of NMTC Financing

The data we received from the FOIA request show that the majority of NMTC investments (91%) were term loans, with another 8% invested as equity, and 1% provided as lines of credit. In order to receive an NMTC allocation and remain competitive in the application process, CDEs commit to providing affordable capital to the businesses and projects they finance, ensuring better terms and conditions for businesses in low income communities.

The NMTC Coalition's most recent survey of Community Development Entities published in the *New Markets Tax Credit Progress Report: 2010* reaffirms that statistic. Almost 90% of survey respondents indicated they most frequently provide debt with below market interests rates on their NMTC investments. The next three most popular financing terms employed by CDEs to benefit low income community borrowers are:

- Longer than standard period of interest-only loan payments (64%);
- Subordinated debt (31%); and
- Debt with lower than standard origination fees (27%).

Key Finding:

- The most frequent financing tool was loans with below market terms and conditions.

Conclusion

When President Clinton and Speaker Hastert launched the Community Renewal Tax Relief Act 10 years ago, it was their hope to spur a new wave of private sector investment in communities left behind.

It is obvious that the New Markets Tax Credit program has achieved that essential goal of increasing private sector investment in low income communities. According to the GAO, most of the investors in the program had not made an investment in low income communities prior to working with NMTC and virtually all the investors made the decision to invest based on the incentive available under NMTC.

There is also ample evidence that New Markets Tax Credit financing is finding its way to some of the poorest, most economically distressed communities in the country – communities with a dearth of economic activity as indicated by high rates of unemployment, high poverty rates and low incomes. At this moment in our nation's history, with unemployment close to 10%, over 60% of the overall investments in NMTC projects are going to communities with unemployment rates *at least 1.5 times* the national average.

The New Markets Tax Credit is a federal resource designed to support locally sponsored and supported revitalization efforts. There is a clear preference for working in more distressed communities and for a greater than minimum level of investment by CDEs. The allocation process rewards CDEs that commit to greater impacts and efficiency. Communities that desperately need the patient, flexible capital available through New Markets Tax Credits are getting that capital.

There is a not, however, a preference in the program for a particular activity, business or financing tool. The size, scope and purpose of the projects financed with NMTC is determined by local decision makers. As a result, loans to businesses can have an impact and yet be as low as $5000. Businesses that benefit from NMTC investments are as varied as a school in Florida to a technology company in Iowa, to a supermarket in Washington, DC.

NMTC is, without question, a good deal for the federal government. For every dollar in revenue forgone, eight dollars in investment goes into revitalization efforts in low income urban and rural communities.

As this report goes to press, extension of NMTC is on a long list of unfinished business before the 111th Congress. Prospects for enactment of legislation extending the Credit are uncertain. However, as has been the case over the last 10 years, there is strong bi-partisan support for the extension.

Since 2007, NMTC has been on a year to year extension. The current situation could accurately be described as 'one foot on the gas, one foot on the brake', which allows the program and its good work to continue, but does not allow for the planning and certainty that comes with a longer time horizon.

The facts are in. New Markets is delivering benefits to businesses and low income communities at a higher rate and greater efficiency than required by law and the results are greater job and business opportunity, improved facilities and services, and economic growth in communities that are in the greatest need of revitalization. The Congress and the Obama Administration should work together to promote a long term extension of NMTC.

Stories from the Field: 10 Years of NMTC in Action

The following NMTC stories from the field describe how a cross-section of CDEs and investors are using the New Markets Tax Credit to generate private sector investments, expand business opportunities and create jobs in low income communities across the country.

Story from the Field: Long Disadvantaged DC Neighborhood Now Boasts Full-Service Grocery Store and Local Employment Opportunities

Allocatee:	Local Initiatives Support Corporation (LISC)
Headquarters:	New York, NY
Service Area:	Nationwide

The New Markets Tax Credit is continuing to revitalize blighted urban neighborhoods across the nation. It is bringing together investors, community development organizations, and for-profit real estate developers to create economic opportunities, often filling financing gaps that prevent revitalization projects from moving forward. A key example of the New Markets Tax Credit's success is The Shops at Park Village project in the Congress Heights neighborhood of Southeast Washington, D.C., where Credit financing played a crucial role in transforming a property that had been vacant for decades into an economic catalyst for revitalizing a low income community east of the Anacostia River.

Congress Heights is one of the most impoverished neighborhoods in the nation's capital. In fact, the census tract where The Shops at Park Village is located has a 44% poverty rate. The median income is 32% of the area's median income and the unemployment rate is almost 4 times the national average. The neighborhood has also been designated a D.C. Enterprise Zone, an Empowerment Zone, a Renewal Community, a Small Business Administration HUBZone, and a Community Development Financial Institution Hot Zone – all of which provide either a local or federal incentive for economic development.

The Shops at Park Village was built on the site of an abandoned National Guard base, Camp Simms. The D.C. Government purchased the property in 1983 and despite promises to redevelop the land, every plan proposed fell through. Previous proposals included a 12-screen movie theater with an indoor mall and food court, a Super Fresh grocery store, and a neighborhood shopping complex. While plans for redeveloping the Camp Simms site were being considered, the Congress Heights neighborhood went without a sit-down restaurant or a chain supermarket.

Though there was clearly a market for a grocery store the low rents that the Congress Heights neighborhood could attract were not sufficient to support the debt financing necessary for a full-scale supermarket. The New Markets Tax Credit provided the subsidy necessary to support the debt and allowed the project to finally move forward after many years of failed attempts to secure private sector capital.

The Local Initiatives Support Corporation (LISC) is a national community development organization that works closely with residents and other community development organizations to bring jobs, business opportunities, and commercial facilities to economically distressed areas. LISC has received six NMTC awards totaling $623 million. Realizing the importance of this commercial development to the economic growth of the Congress Heights neighborhood, LISC used a significant portion of its New Markets Tax Credit allocation for The Shops at Park Village project.

LISC's Washington, D.C. program has been a long-standing supporter of community development activity in Congress Heights and efforts to increase affordable housing, business development, and create jobs for the neighborhood. In partnership with a local community development corporation, William C. Smith and Company, a Washington, D.C.-based real estate developer, obtained the rights to develop the property from the city. This collaboration allowed William C. Smith and Company to put its experience in large-scale real estate development to work in partnership with the local community.

New Markets Tax Credits were largely responsible for bringing The Shops at Park Village project to fruition. LISC, working with its NMTC investor Wachovia Bank, provided $17.6 million in blended debt products at rates and terms that allowed this $20.6 million project to move forward. About $5.5 million of the total project cost was provided in the form of a subordinate loan with an interest rate at or below one percent. The favorable terms of this NMTC loan filled the project's financing gap.

The Shops at Park Village is the centerpiece of the revitalization efforts of the Camp Simms area, which includes construction of a 75-home community for families with incomes starting at $65,000 and The ARC, a nearby town hall, education, arts and recreation center. This 111,000 square foot commercial development has brought to Congress Heights its long desired chain grocery store, a new 65,000 square foot Giant supermarket – the largest in D.C.. The Giant offers a combination food and full-service pharmacy store, and features a Staples office supply aisle, a Western Union money order window, Rug Doctor rentals, an ATM, and a place to purchase phone cards and postage stamps. In addition, the development expanded and revitalized the existing retail space to offer the community a larger choice of retail stores, which now includes a mixture of local and national businesses as well as a successful IHOP sit-down restaurant.

To date, The Shops at Park Village has created 153 jobs (36 of which are filled by community residents), is providing needed goods and services to area residents, and has helped restore the long neglected Camp Simms site to productive use.

According to Robert Poznanski, director of LISC's New Markets Tax Credit program, "the Credit allowed LISC to finance the culmination of a quarter century of efforts aimed at comprehensive redevelopment in Congress Heights."

Story from the Field: Charter School Expansion Made Possible with NMTC Investments

Allocatee: Florida Community Loan Fund
Headquarters: Orlando, FL
Service Area: Statewide: Florida

ASPIRA North Youth Leadership Charter School in North Miami served 300 students in grades 6 through 9 during the 2006/2007 school year. In the fall of 2008, thanks to the Florida Community Loan Fund (FCLF) and financing made available through New Markets Tax Credits, ASPIRA was able to enroll 600 students. ASPIRA moved from its original 10,000 square foot facility where 6 of its classrooms were housed in temporary modular units into its new 35,000 square foot, 3-story, state-of-the-art educational facility that allowed them to serve twice as many middle school children.

George Cabrera, ASPIRA's Chief Financial Officer, credits NCB Capital Impact and FCLF for introducing ASPIRA to the NMTC as a financing tool to help expand services for children in an area of severe economic distress.

The Florida Community Loan Fund (FCLF) was established in 1994 to provide financing to nonprofit organizations to support community and economic development in low income communities throughout the state of Florida. It made its first loan in 1996 and became a certified Community Development Financial Institution (CDFI) that same year. Over the past 15 years, FCLF has provided more than $52 million in below market debt financing, and leveraged an additional $375 million to support its statewide lending activity. Using financing out of its original community development loan pool, FCLF historically made loans of between $150,000 and $1 million. As it grew, FCLF saw a need to finance larger projects with the potential to create jobs and bring much needed services and facilities to poor communities.

Before securing its first NMTC allocation FCLF had not worked with federal tax credit financing but recognized the potential to use the NMTC to raise private investment capital to finance larger real estate and community facilities projects. In 2003 FCLF was awarded a $15 million NMTC allocation and was the first Florida- based CDE to secure Credits. Nelson Black, FCLF's Director of Lending, described how the NMTC has allowed FCLF to finance a number of high impact, larger scale projects that they previously would have passed over because the capital need was too great. With the NMTC capital FCLF is now able to look for businesses in need of between $6 million and $15 million in financing.

One such project was the $7.9 million expansion of the ASPIRA North Youth Leadership Charter School campus in North Miami. ASPIRA Florida is a non-profit organization that was launched 30 years ago to administer youth leadership and education programs targeting the needs of young people in the Puerto Rican/Latino community. ASPIRA administers three charter schools in the greater Miami area. Two of the schools are in buildings owned by ASPIRA and the third is in a building that is currently being leased.

In 2006 ASPIRA approached NCB Capital Impact seeking financing for the renovation and expansion of its middle school campus in North Miami. ASPIRA owned its aging facility as well as an adjacent piece of land, but as a non-profit charter school they were having difficulty coming up with the financing to support the construction and renovation of the facility.

NCB Capital Impact put ASPIRA in touch with FCLF knowing that they were interested in financing community facilities with their NMTC allocation. NCB Capital Impact stepped forward as the leveraged lender in the project providing $5.8 million. USBancorp is the equity investor. Using the leveraged investment structure, FCLF provided ASPIRA with two below market rate loans. The first loan, or A note, for $5.8 million was structured as a seven-year note with a 6.67% interest rate, amortized over 30 years, with interest-only payments for 7 years, and a balloon payment after year 7. The second loan, or B note, for $1.6 million, was also structured as a seven year, interest only note, with a 6.67% interest rate, with a balloon payment after year seven. The two notes taken together had an effective interest rate that was close to 1 percentage point below market. After seven years ASPIRA will repay and refinance the A note in full, and the B note will be converted to equity and remain invested in ASPIRA and contribute to the long term health of this community institution.

To date, FCLF has financed four projects using its first two allocations of NMTC capital. They have a rigorous screening process in place to evaluate potential NMTC projects and ensure that the businesses benefitting from NMTC financing will have a strong community impact. With its 2009 allocation, FCLF has already provided $15 million to another charter school project, located in Jacksonville, Florida. The remaining $45 million of FCLF's allocation is committed to three projects: a solar cell manufacturing facility, a wood recycling facility, and a community facility providing health care and other social services. FCLF looks for projects that are "shovel ready" and ideally for projects that have some financing already committed or ready to be committed once NMTC financing is brought to the table.

ASPIRA is now in talks with FCLF about financing the purchase of the current leased facility in which ASPIRA is hosting 500 charter school students. The project would enable ASPIRA to build out the entire 59,000 square foot, three-story facility and welcome a potential total of 1,000 students.

Story from the Field: Iowa Communities Benefit from NMTC Investments Coming from Near and Far

In Iowa, New Markets Tax Credit (NMTC) investments have been made not only by local entities but also by organizations headquartered outside the state.

An Established Iowa Business Lender Grows into New Markets

CDE:	Iowa Community Development LC
Controlling Entity:	Iowa Business Growth Company (IBG)
Headquarters:	Johnston, IA
Service Area:	Statewide: Iowa

Iowa Business Growth Company (IBG) is headquartered in Johnston, IA and began operating as a Small Business Administration (SBA) 504 loan company in 1981. IBG has a long history of providing flexible alternative financing for small businesses throughout Iowa that complement products available through conventional lenders. To date, IBG has facilitated more than 650 loans to small businesses in Iowa, creating nearly 7,000 new jobs in the Hawkeye State. “The NMTC program was a natural fit that complemented IBG’s mission to create jobs and promote economic development within Iowa’s most needy communities,” commented IBG President Daniel T. Robeson.

IBG’s Community Development Entity, the Iowa Community Development LC, has an exclusive statewide service area in Iowa and has received three NMTC allocations totaling $165 million. NMTC allocations have allowed IBG to extend its flexible rates and terms to qualified borrowers and now leverages NMTC debt to finance much larger business and real estate transactions than they could otherwise authorize. Distressed communities throughout the state have benefited from IBG’s sizable economic investments that have ensured sustained job growth in the state.

When asked how Iowa Community Development LC decides the size and scale of its NMTC transactions, the investment strategy is simple: “The story guides our investment,” says IBG Senior Vice President Jim DePauw. One community’s story that so compelled Iowa Community Development LC to put up $10 million of its NMTC allocation and urge CDE colleagues to do the same was the opportunity for a single office renovation to attract more than 1,300 good paying jobs to downtown Dubuque.

A prominent technology company needed large enough space to host 1,300 employees. Iowa Community Development LC saw the potential to harness this economic engine to benefit a distressed city starved for capital and marked by unemployment more than 1.5 times the national average. The $45.5 million cost to renovate and bring the massive 255,000 square foot building to LEED Gold certification was prohibitive. A supercharged partnership between Iowa Community Development LC, National Community Fund I, LLC and USBCDE, LLC was necessary to tackle this large renovation. Each CDE made a $10 million investment so the total Qualified Equity Investment was $30 million and U.S. Bank served as the investor. Financing to the QALICB was provided with roughly $10 million of debt from each CDE totaling $30 million, $10.6 million from a state historic tax credit, and $5.1 million in equity from the developer. This capital structure brought the project to scale and made it financially feasible.

As a condition of its financing, Iowa Community Development LC secured a commitment from the technology company to fund green job training and sustainability-oriented educational programs for the surrounding low income community residents. In November of 2010 the company provided $589,000 in seed capital to launch this sustainability educational program.

This Roshek Building renovation was nominated in 2009 for Novogradac & Company's "Real Estate QLICI of the Year" and "Metro QLICI of the Year" awards.

Council Bluffs: Targeted Revitalization Bolsters Local Economy

CDE:	HEDC New Markets, Inc.
Controlling Entity:	National Development Council (NDC)
Headquarters:	New York, NY
Service Area:	National

The National Development Council (NDC), headquartered in New York City, has a national service area and works with communities large and small, urban and rural, throughout the country to address their economic development through business and real estate investment. NDC has a longstanding presence in Iowa, and has attracted more than $17 million in qualified equity investments for three targeted revitalization efforts in Council Bluffs that have spurred job creation in the city. Financing provided by NMTC accounted for more than 60% of each project's total cost, and in two projects the NMTC equity investment contributed almost 90% of each project's total financing needs. Capital for these community development projects would not have been available without NMTC. The tax credits facilitated lower-than-standard interest rates and terms that were beneficial to each community business that had struggled to attract capital in the form and with the terms it needed.

Council Bluffs, Iowa (pop. 58,000) is a community whose history was rooted in railroad expansion and the early automotive industry. Like many of its counterparts throughout the Midwest, the city suffered an economic decline that threatened the survival of its local production economy, its downtown and its rich architectural heritage.

Omaha Standard, Inc.

In 2004, when the Pottawattamie County Development Corporation (PCDC) was working to retain one of the area's largest employers, the high cost of land for a new facility presented a serious threat to those efforts. PCDC turned to NDC for development assistance.

NDC made its first investment in Iowa in the Omaha Standard Inc., a leading manufacturer of trucks and truck accessories, including hoists and lifts. In 2006, HEDC New Markets raised $10.5 million in qualified equity investments with a $7.5 million loan and $3 million in equity from the First National Bank of Omaha to finance equipment and a new expanded facility for the business. These investments allowed the company to retain 200 employees and hire 65 new workers.

NDC did not stop there. Committed to meeting the development goals of its community partners, NDC continued its efforts with PCDC and the city to build the local economy. With two more projects, this time addressing downtown renewal and historic preservation, NDC worked with the city to leverage public debt and private equity for the redevelopment of two key landmark buildings that have been instrumental in revitalizing historic downtown.

Nonpareil Building

In 2008, NDC attracted financing from an array of sources to meet the $2.8 million project cost of restoring the historic Nonpareil Building, the former home of the Daily Nonpareil newspaper. The $2.475 million Qualified Equity Investment included $750,000 in HUD Section 108 debt, a $750,000 loan from the local PCDC, $725,000 in NMTC equity and a $250,000 loan from the developer. In turn, NDC provided three below-market rate loans and secured the last $430,000 in equity from the developer. TransCapital served as the investor to restore and put to new economic use this 13,000 square foot facility, built in the 1920s and empty since 2003. The restoration also included an energy efficient retrofit. The building now houses the Council Bluffs Savings Bank, which provides banking services to downtown residents and businesses and has brought 15 permanent jobs to this low income community. In addition 78 construction jobs were involved in the building of the project.

Hughes-Irons (O'Malley) Building

In 2009, NDC partnered with investor U.S. Bank to begin restoring the 44,000 square foot Hughes-Irons Motor Co. building. Built in 1914, this building is rooted in the city's commercial past and has historical significance as an early automobile sales and service business. The building was eligible to be listed on the National Register of Historic Places, but was vacant and dilapidated. In order to finance the hefty $7 million historic redevelopment, NDC used $1.1 million in historic tax credits, obtained a $3 million loan from the PCDC, and provided $1.6 million in NMTC equity. HEDC New Markets offered below market interest rates of less than 2% on three notes, with equity provided to the tenant totaling $5.7 million in qualified low income community investments. To cover the total project cost of $7 million, HEDC New Markets secured $1 million from a deferred development fee and $300,000 in contributed property. This landmark was converted into a mixed-use property and brought much needed residential and retail space to downtown. Street-level commercial space has been leased to the Chamber of Commerce and a local food proprietor, and seventeen apartments are home to the residential tenants of the building, signaling rebirth of this historic neighborhood.

Story from the Field: NMTC Brings Quality Health Care Options to Rural Louisiana

Allocatee:	Advantage Capital Community Development Fund, LLC
Headquarters:	New Orleans, LA
Service Area:	Nationwide

Advantage Capital Partners is a New Orleans based venture capital and small business finance firm that was founded in 1992 to pursue a 'double bottom-line' mission – to generate returns for its investors while at the same time financing early stage businesses with the potential to generate wealth, and bring new technologies and quality jobs to communities that have historically lacked access to venture capital. The company provides both equity and debt financing as well as value-added technical assistance to the businesses and communities it works with. Over its 18 year history the firm has raised more than $1.3 billion in private capital and has invested in more than 200 companies, and created or retained more than 15,000 jobs.

While the company works with businesses and communities across the country, it has maintained a strong presence in the Gulf Coast. Advantage Capital currently maintains offices in Louisiana, Missouri, New York, Texas, California, Illinois, Florida, Mississippi and Washington, DC with affiliated offices in Alabama, Colorado and Wisconsin.

Advantage Capital formed its CDE, Advantage Capital Community Development Fund, LLC (ACCDF), and was awarded a $110 million NMTC allocation in 2003 (NMTC Round I.) ACCDF was looking to use its NMTC allocation to provide both debt and equity to high tech companies with the potential to have a significant job creation and economic impact in distressed communities. The first NMTC investments made by ACCDF included small business investments in several technology and retail businesses, as well as investments in mixed use, commercial and residential real estate.

Initially, ACCDF was formed as a CDE targeting three principal regions of the country: New Orleans, LA; St Louis, MO; and Honolulu, HI. When ACCDF applied for its 2005 allocation it expanded its certification to cover a national service area. In both 2006 and 2007, Advantage Capital was awarded Credits for the Gulf Opportunity Zone (GO Zone) in order to stimulate growth in low income communities that were devastated by Hurricane Katrina in 2005.

In total Advantage Capital has been awarded $388 million in NMTC allocations. ACCDF has used the NMTC to invest in 86 businesses in ten states, generating wealth in communities and creating or retaining more than 4,053 jobs

ACCDF has used the NMTC with other state and federal financing tools to leverage funds and maximize the impact of its NMTC capital. For example, Advantage Capital is putting USDA loan guarantees to use with the NMTC in rehabbing Morehouse General Hospital in Bastrop, Louisiana.

Morehouse General Hospital is a 60-bed rural hospital facility offering a wide range of both inpatient and outpatient care to northeast Louisiana and southeast Arkansas residents.

Morehouse General is the only hospital in Morehouse Parish, which is home to 31,000 residents, over 15 percent of whom are elderly and more than 20 percent of whom are uninsured. There are no hospitals within a three hour driving radius of Morehouse General so many patients travel great distances to receive care. The aging facility was on the verge of closing in when ACCDF intervened in the summer of 2008.

To date, ACCDF, along with Advantage Capital's small business lending division BizCapital, has committed over $12.5 million in financing to Morehouse General using capital raised through the NMTC, the Louisiana New Markets Development program, the Louisiana CAPCO program, and the USDA's Business and Industry (B&I) guarantee and Community Facility (CF) direct and guaranteed loan programs.

In the summer of 2008, ACCDF provided a $4.6 million loan to Morehouse that was in large part used to finance equipment and begin work of the rehabilitation of the facility. The NMTC investor for this first phase investment was US Bancorp Community Development Fund, with leverage loans provided by several lenders including USBank, Enterprise Bank & Trust, Pulaski Bank and Southwest Bank of St. Louis, Missouri. The loan was structured as a 348-month fully amortized loan, priced at prime plus 4.5 points and the loan was backed by an 80 percent B&I guarantee.

In November 2009, ACCDF stepped in on the second phase of financing and provided Morehouse with a $7.8 million, one-year, prime plus 0.5 point loan to cover the construction phase of the project. That second loan was backed by a Community Facility (CF) guarantee and after construction USDA will take out the loan and provide financing through its direct community facility loan program.

ACCDF's funding for Morehouse General supported the direct creation and retention of approximately 250 hospital jobs. It also helped to bring desperately needed improvements to the Emergency Department and will soon provide new, state-of-the-art diagnostic equipment including digital mammography, digital radiology and digital fluoroscopy equipment. New CT and MRI equipment are slated for installation in the near future. The Emergency Department is under construction to add a five room non-urgent clinic adjacent to the main emergency room. A new, larger waiting area is also planned. Additionally, the hospital is replacing old washers and dryers to bring the laundry services back in-house for better quality and utilization.

Story from the Field: The NMTC Catalyzing Reinvestment in Michigan

Allocatee:	Michigan Magnet Fund, Inc.
Controlling Entity:	Michigan Economic Development Corporation
Headquarters:	Huntington Woods, MI
Service Area:	Statewide: Michigan

The Michigan Magnet Fund, Inc. (MMF) is a broad-based statewide nonprofit 501(c)(3) organized by a consortium that includes the Michigan Economic Development Corporation, Great Lakes Capital Fund, and the Michigan State Housing Development Authority. MMF has been awarded two $60 million allocations from the CDFI Fund. Using its 2005 allocation MMF invested in 10 projects located in 6 cities, including the renovation of the Rowe Building in downtown Flint and the Woodward Lofts in rural Owosso, Michigan.

Flint:

It takes a whole community to rebuild a city and this is especially true for a city as devastated as Flint, which has been a national symbol of the loss of American automobile manufacturing jobs. The City of Flint has a 45 percent poverty rate and an unemployment rate of 26 percent.

Michigan Magnet Fund partnered with a local development group and committed to invest in the center of the devastated city in hopes of generating new commercial activity in downtown Flint. The MMF played a key role in assembling community leaders and securing financing from numerous sources, using the NMTC to leverage additional investments and to make this project a success. The effort was backed by the Local Initiatives Support Corporation (LISC), a local nonprofit called the Uptown Reinvestment Corporation, the Mott Foundation, the City of Flint, and the State of Michigan.

This complex revitalization effort combined three adjacent buildings on a large brownfield site in the heart of the downtown business district. The completed Rowe Building is now a four-story, 83,000-square-foot building that is home to an engineering firm called Rowe Professional Services Company. The total project cost was $23 million: $13.4 million in NMTC financing from LISC and MMF with $2.9 million structured as an equity investment and $10.5 in debt financing; the city dedicated $7 million in HUD 108 financing and $2 million through a Brownfield Economic Development Initiative grant; and the Mott Foundation made more than $1 million available to the Uptown Reinvestment Fund to help finance the project. US Bank served as the NMTC investor, and state brownfield and historic tax credit financing was also instrumental in this collaborative effort.

The completed project is named for the Rowe Professional Services Company which is an engineering firm that occupies the second and third floors. The firm signed a 10-year lease to house its headquarters in the newly renovated building bringing 100 professionals to the city. The building features open brick walls, high ceilings, and huge windows. A restaurant is scheduled to open on the first floor. Prior to the development's completion, each of the eight fourth-floor lofts were leased.

The development is a shot in the arm for a community that has lost literally tens of thousands of jobs from the closing of GM plants in the city. It is returning hope to a community that has been devastated by the deindustrialization of America.

Owosso:

In Owosso, a town of 26,000 in the rural central part of Michigan, hard times for manufacturers began long ago. The Owosso Casket Factory was known in the 1920s as the world's largest. It even supplied a metal coffin for President William McKinley. The casket factory closed in the 1950s and the building was left vacant and deteriorated over the years. By 2005, portions of ceilings and floors in the 100-plus-year-old factories had collapsed and the surrounding area was blighted with unsightly silos, a large barbed-wire fence, and overgrown with weeds.

The City of Owosso wanted to revitalize the main building and one other building in the area in hopes that it would spur redevelopment. The unsightly gravel road that once bordered the factory buildings is now a nicely paved street with pedestrian-friendly lighting and sidewalks. Owners of properties around what has now become Woodard Station also have spruced up their areas. "It's really amazing what they've done over there," said Owosso City Manager Joseph Fivas. "This was an area of our community that had a significant amount of blight and this development completely changed that. It has created a place where people live and people from a three-county area come and enjoy. It has just turned into an active place."

The project consists of two main buildings—the former Owosso Casket Company (now restored and housing Target Industries, a manufacturer of promotional materials), and Woodard Station. Woodard Station, once home to Woodard Wrought Iron Furniture, is now a multi-use facility with 48 loft apartments and retail facilities that offer space for small businesses such as a local photographer and an optometrist. A physical rehabilitation center is being built in the retail space for Memorial Healthcare of Owosso. In all, the project has generated nearly 200 jobs and provided a facelift for a part of the community that desperately needed it.

The total development cost was $20 million. MMF invested $5 million in NMTC financing and LISC provided $7.6 million in NMTC financing. The leveraged debt investor was Huntington Bank and the equity investors included Fifth Third Bank and Huntington Bank. The State of Michigan provided state historic and brownfield tax credits valued at $600,000. To make the project possible, assistance was also provided through a variety of additional economic incentives—a Neighborhood Enterprise Zone, a Corridor Improvement Authority, Michigan business tax credits, brownfield redevelopment, and historic district designation. It has been estimated that the various tools and tax incentives saved about $5 million. The site is in a nonmetropolitan county that is an SBA designated HUBZone. The median family income for Owosso is 48.6 percent of the state's median family income and 24 percent of the residents are living in poverty.

Story from the Field: NMTC Investment Tips the Scale for New Solar Manufacturing Facility to Locate in New Mexico

Allocatee:	Finance New Mexico
Controlling Entity:	New Mexico Finance Authority
Headquarters:	Santa Fe, NM
Service Area:	Statewide: New Mexico

"This facility is proof that smart policy can create jobs and spur investment," said New Mexico Governor Bill Richardson at the grand opening of the new SCHOTT Solar manufacturing facility in Albuquerque, New Mexico. The facility is the first NMTC project that Finance New Mexico, LLC has financed and the facility will bring more than 1,500 new 'green' manufacturing jobs to the community.

Finance New Mexico, LLC was created in 2006 as the CDE affiliated with the New Mexico Finance Authority, which is the state agency designated to finance infrastructure, public projects and economic development throughout the state. The state launched Finance New Mexico LLC to increase its capacity to make debt financing available to small and medium-sized businesses and mixed use real estate projects in the state. Finance New Mexico LLC specifically looks to target its investments to "green" businesses that will promote or develop clean energy and create jobs for residents of New Mexico.

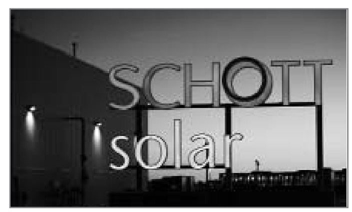


Photo: Pat Berrett

In July 2007, soon after being awarded a $110 million NMTC allocation, Finance New Mexico LLC issued a request for projects and worked aggressively through its public and private networks to solicit financing requests from businesses that met the CDE's ambitious impact goals. Finance New Mexico LLC established a process that screened and scored businesses and projects seeking NMTC financing to ensure that the businesses financed would have the maximum impact in terms of job creation, advancing green technologies, and encouraging economic growth and stability.

One of the first businesses to approach the state for NMTC financing was SCHOTT Solar, a German-based manufacturer of solar energy technology products. The company was looking to build a new plant in the United States and one of the sites being considered was Mesa del Sol, a community in southeast Albuquerque. Founded 125 years ago, SCHOTT is a major manufacturer of solar energy products with operations in 42 countries and markets throughout the world. The company manufactures receivers that convert energy from the sun into electricity using concentrated solar radiation. In requesting NMTC financing from Finance New Mexico LLC, SCHOTT Solar outlined its plans to establish a facility that would bring more than 1,500 green manufacturing jobs to the area, with 260 jobs secured now, and all paying good wages with benefits. In addition, the presence of SCHOTT Solar in the state would establish New Mexico as a manufacturing base for the solar industry which was one of the CDE's prime objectives.


Photo: Pat Berrett

The total development cost of the SCHOTT Solar manufacturing plant was $125 million and the company planned to put up $103.5 million and was seeking NMTC financing to fill the gap. The CDE was reluctant to use close to 25 percent of its NMTC allocation in a single project. Therefore, Finance New Mexico LLC approached US Bancorp and its CDE, US Bancorp Community Development Corporation CDE (USBCCDC CDE), to partner in financing the transaction.

While the community of Mesa del Sol was in many ways an ideal site for SCHOTT Solar because it was planned as a 'sustainable' community using new "Urban Design" principles, the community had some deficiencies in terms of infrastructure, power and other needs related to the condition of the soils and the need for enhanced water retention processes. All of these combined to make the site and site development costs relatively more expensive as compared to other site options that SCHOTT Solar was exploring. Finance New Mexico LLC understood that the NMTC investment would allow the SCHOTT Solar to stay within its projected project budget and allow the company to develop a plant in New Mexico.

Photo: Pat Berrett

In October 2007 SCHOTT Solar and the Finance New Mexico LLC came to an agreement on a final financing package and in December the financing was closed. Finance New Mexico LLC committed $15.5 million of its NMTC allocation to financing the SCHOTT facility and USBCCDC CDE committed $6 million of its NMTC allocation to the project – for a total of $21.5 million in NMTC financed debt. Finance New Mexico LLC provided a 7-year, interest-only loan carrying a 2 percent interest rate. The loan is structured so that 50 percent of the debt, or $7.75 million, will convert to equity after 7 years and the remaining $7.75 million will be returned in cash to the New Mexico Finance Authority to finance other economic development activities throughout the state. US Bancorp is the sole NMTC investor in the SCHOTT Solar project

SCHOTT Solar's manufacturing plant incorporates green elements in its construction and design, and promotes clean energy in its products. The first phase of the SCHOTT Solar facility officially opened on May 11, 2009 and 260 full time employees are already working at the plant. In addition to the full time employment created, more than 300 construction jobs will be created throughout the development phase of the new plant. The state is working with SCHOTT Solar to see that at least 90 percent of the short term and long terms jobs created are going to local residents and the new "green" jobs will upgrade skill sets in the local workforce.

When the facility is completed, SCHOTT Solar will employ more than1,500 people and is forecast to have direct and indirect economic impacts of over $1 billion by 2020. Long term plans call for the facility to expand to 800,000 square feet to accommodate several more production lines, with a planned investment of over $500 million.

Story from the Field: Adaptive Reuse with the NMTC Restores Historic African American Buildings and Brings Performing Arts Center and Culinary School to Southwest Virginia

Allocatee:	Hampton Roads Ventures, LLC
Headquarters:	Norfolk, Virginia
Service Area:	National

At the turn of the 20th century, Roanoke, Virginia was a strategically located transportation hub at the edge of the Blue Ridge Mountains and Roanoke's Gainsboro neighborhood, affectionately known to locals as "the Yard". It was recognized as a vibrant cultural and commercial center for the African American community. The Dumas Hotel and the Strand Theatre, both located on Henry Street at the heart of the Gainsboro community, played a critical role in the livelihood of the community.

In the early 1900s, the Strand Theatre attracted famous black entertainers from across the country to perform in Roanoke, and yet, segregation laws at the time prohibited these star performers from staying at a hotel with a white clientele. The Dumas Hotel, which opened in 1917, provided 26 first class accommodations for these performers. The Dumas Hotel's guest list of entertainers coming through town to perform at the Strand Theater included the top American jazz musicians – Louis Armstrong, Count Basie, Lena Horn, Dizzy Gillespie, Fats Waller, Duke Ellington, Cab Calloway, and Ella Fitzgerald.

Over the years, both the hotel and the theatre fell into disrepair, as did the surrounding Gainsboro neighborhood. Once a vibrant center for the arts and entertainment, the neighborhood now has a poverty rate of 40% and has been deemed by HUD as an Enterprise Community and by the SBA as a HUBZone due to its deepening economic distress.

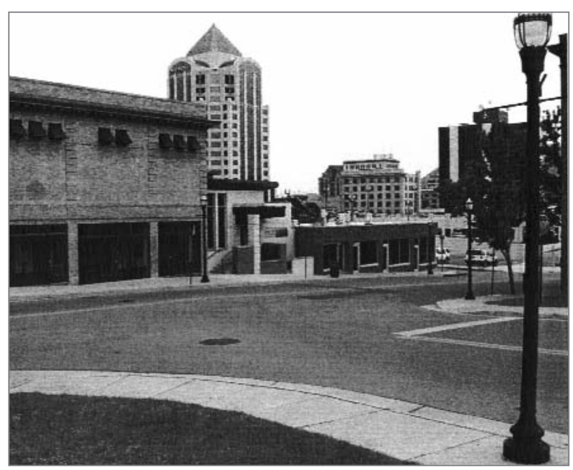


Photo: Hampton Roads Ventures

In 2003, the Roanoke City Council adopted a comprehensive neighborhood plan designed to revitalize the historic Henry Street corridor and renovate the historic buildings in Gainsboro that were now vacant. The city was committed to restoring the once flourishing neighborhood and putting the historic structures back into use to serve the community. The plan called for the Dumas Hotel to be converted into the Dumas Center for the Arts, and the Strand Theatre was to be converted into an educational complex that would include a college level culinary school and banquet facility.

The City of Roanoke approached Hampton Roads Venture (HRV), a community development investment firm headquartered in Norfolk, Virginia, to help move the Henry Street renovation plan forward. While the city had done its work to engage the community in developing a comprehensive community revitalization plan they needed HRV's assistance to secure and structure the financing needed to move the plan forward as envisioned.

HRV was certified as a CDE in 2003 and had established a successful track record of using NMTCs, as well as Historic Tax Credits (HTC) to finance real estate projects in low income rural and urban communities throughout Virginia, with a particular focus on working to restore historic and/or architecturally significant buildings in African American and Hispanic communities.

Renovation of the Dumas Hotel into the Dumas Center for the Arts

The Dumas Hotel had been lying vacant for years when it was acquired by Total Action Against Poverty (TAP), a local community action agency based in Roanoke. HRV worked with TAP to restore the historic theater into a performing arts center and educational facility.

The total project cost of the Dumas Center for the Arts renovation was $4.4 million, of which $4.1 million was financed with NMTC debt provided by HRV and its NMTC investor, Morgan Stanley. Historic tax credits and local non-profit grants provided the remaining $300,000. HRV provided two separate NMTC loans to the project. The first loan, $3.1 million, was structured as an interest only senior loan with a term of 7 years and an interest rate 2.54 percent. The second loan, for $1.0 million, was structured as an interest-only 25-year junior loan, with an interest rate of .5 percent and a 'put and call' option after year 7 allowing the investor to refinance, sell or remain in the project. The below market rate financing provided by HRV, and made possible with the NMTC, allowed TAP to retain ownership of the historical structure and bring it back on line as a facility designed to serve the needs of community residents.

The Dumas Hotel re-opened as the Dumas Center for the Arts in November 2006. This new multi-faceted community cultural and performing arts venue has a 200-seat theater, a recording studio, and music education center for teens. The new facility is now home to two performing arts organizations committed to enhancing the cultural, educational and social well being of the youth and teen residents of the Gainsboro and the surrounding neighborhoods. Over one hundred young people, mostly African-Americans from the surrounding community, are participating in the programs offered.

Renovation of the Strand Theatre into the Culinary School

The Strand Theatre had been boarded up and lying vacant for years and had been listed as one of Virginia's top ten most threatened architectural landmarks before the Roanoke Higher Education Center, a consortium of 14 Virginia colleges, stepped in with plans to redevelop the site into a college level culinary arts school.

The total project cost for the Strand Theatre renovation was $7 million, of which $5.7 million was financed with NMTC debt provided by HRV and its NMTC investor Morgan Stanley, and the remaining $1.3 million was provided by a combination of historic tax credit financing and local non-profit grants. HRV provided two separate NMTC loans to the project. The first loan, for $4.5 million, was structured as an interest-only senior loan having a term of 7 years and an interest rate of 2.9 percent. The second loan, for $1.2 million, was

Photo: Hampton Roads Ventures

structured as an interest-only junior loan for 25 years, with an interest rate of.5 percent, and a 'put and call' option after year 7 allowing the investor to refinance, sell or remain in the project.

The Culinary School opened in June of 2008. It has maintained full enrollment, and expects to produce approximately 30 professional level chefs per academic year. It is also worth noting that the Culinary School is the first building in Roanoke, VA to be registered with the U.S. Green Building Council for LEED certification. The new facilities incorporate green features, including a vegetation-covered roof, solar-heated dishwasher and dual-flush toilets that let users choose a light flush to conserve water.

The restoration of the former Dumas Hotel and the Strand Theatre has already had a catalytic impact on the City of Roanoke, and the Gainsboro neighborhood in particular. A local law firm has acquired a building on the far end of Henry Street for redevelopment into law offices, and a developer has announced plans to construct an office building that is expected to bring new workers into the area.

To date, HRV has been awarded four NMTC awards for a total of $160 million, and the capital raised with the Credits has been successfully deployed in high impact real estate projects like those completed in Roanoke. In addition to putting its NMTC financing to work assisting in the Henry Street renovation project, HRV has used its NMTC capital to finance additional projects in urban and rural communities throughout Virginia as well as in Jackson, Mississippi; East St. Louis, IL; Columbus, OH and Washington, DC.

Endnotes

1 Hendrickson, K. (2004). Hoover Institution. Policy Review, No. 126. *Bush and the Cities*.

2 The NMTC statute defines a Qualified Equity Investment (QEI) as "any equity investment in a qualified community development entity if— "(A) such investment is acquired by the taxpayer at its original issue (directly or through an underwriter) solely in exchange for cash, "(B) substantially all of such cash is used by the qualified community development entity to make qualified low income community investments, and "(C) such investment is designated for purposes of this section by the qualified community development entity. Such term shall not include any equity investment issued by a qualified community development entity more than 5 years after the date that such entity receives an allocation under subsection (f). Any allocation not used within such 5-year period may be reallocated by the Secretary under subsection (f)."

3 A QALICB is defined under IRC §45D(d)(2) as any corporation (including a nonprofit corporation) or partnership if for any taxable year: (1) At least 50 percent of total gross income of such entity is derived from the active conduct of a qualified business within any *Low-Income Community*; (2) A substantial portion of the use of the tangible property of such entity (whether owned or leased) is within any *Low-Income Community;* (3) A substantial portion of the services performed for such entity by its employees are performed in any *Low-Income Community*; (4) Less than 5 percent of the average of the aggregate unadjusted bases of the property of such entity is attributable to collectibles (as defined in IRC §408(m)(2)) other than collectibles that are held primarily for sale to customers in the ordinary course of such business; and (5) Less than 5 percent of the average of the aggregate unadjusted bases of the property of such entity is attributable to nonqualified financial property (as defined in IRC §1397C(e)).

4 U.S. Government Accountability Office. (2007). Report to Congressional Committees, GAO-07-296, Tax Policy.

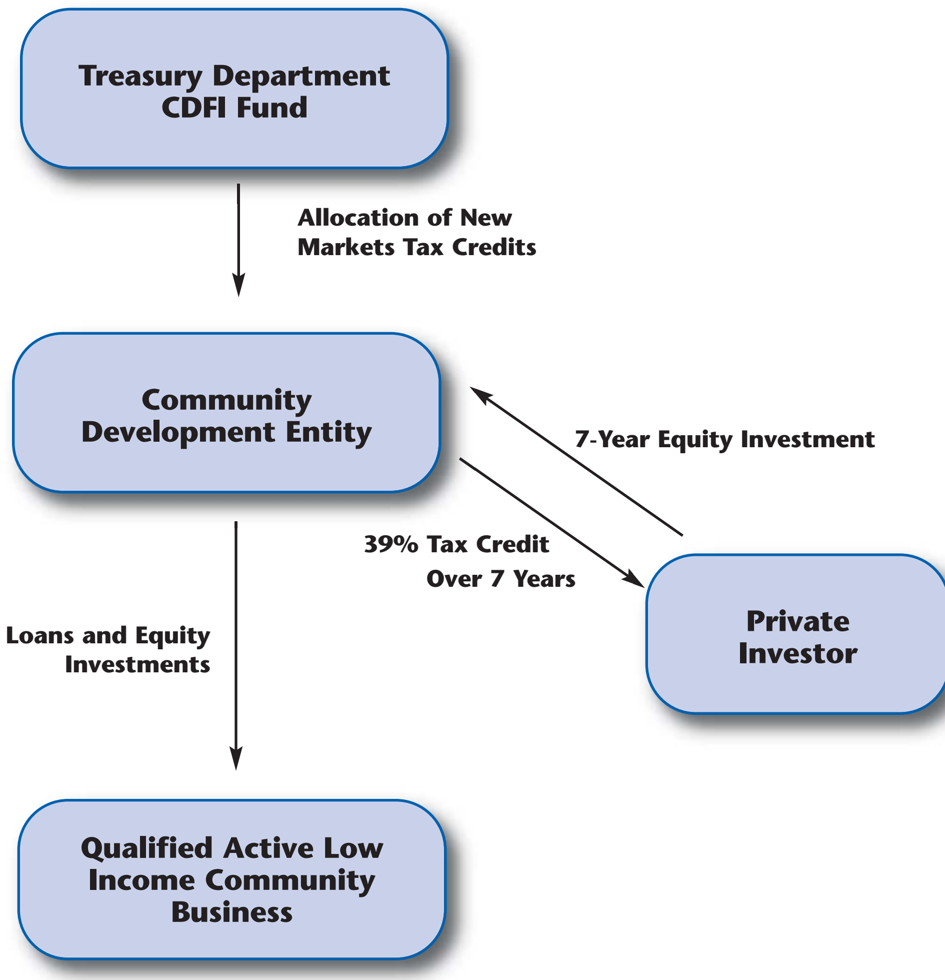
5 The CDFI Fund *2010 NMTC Allocation Application Q & A Document* defines Real Estate QALICBs as "entities whose predominant business activity is the development (including construction of new facilities and rehabilitation/enhancement of existing facilities), management or leasing of real estate" and notes that "Transactions with QALICBs whose predominant business activity includes all other types of business activities should be classified as Non-Real Estate businesses regardless of: 1) how the business intends to use the proceeds of the transaction; or 2) whether the business intends to use any real estate owned as collateral for a loan." CDE businesses used their NMTC investments to capitalize loan funds or provide direct financing for community and economic development projects located in low income areas.

Appendix A:
A New Markets Tax Credit Timeline

2000	
December	■ NMTC Program signed into law as part of the *Community Renewal Tax Relief Act of 2000* (P.L. 106-554)
2001	
December	■ IRS released temporary NMTC regulations
	■ CDFI Fund issued CDE certification application
2002	
October	■ First-round allocation applications submitted to CDFI Fund with a $26 billion demand for $2.5 billion in available allocations
2003	
March	■ CDFI Fund awarded $2.5 billion in first-round allocations
October	■ Second-round allocation applications submitted to CDFI Fund with a $30 billion demand for $3.5 billion in available allocations
November/ December	■ First-round allocation agreements signed
2004	
March	■ IRS released revised temporary NMTC regulations
May	■ CDFI Fund awarded $3.5 billion in second-round allocations
October	■ *American Jobs Creation Act of 2004* (P.L. 108-357) passed with a provision expanding the definition of low income community to include a Targeted Population
	■ Third-round allocation applications submitted to CDFI Fund with a $23 billion demand for $2 billion in available allocations
Fall/Winter	■ Second-round allocation agreements signed
December	■ IRS released final NMTC regulations
2005	
March	■ CDFI Fund announced that $2 billion in Qualified Equity Investments (QEIs) had been issued by NMTC allocatees to date
July	■ CDFI Fund awarded $2 billion in third-round allocations
Fall/Winter	■ Third-round allocation agreements signed
December	■ *Gulf Opportunity Zone Act of 2005* (P.L. 109-135) is signed into law providing an additional $1 billion in NMTC allocation authority for CDEs working in communities affected by Hurricane Katrina – (GO Zone)
2006	
March	■ CDFI Fund announced plans to award the first $600 million in Credits targeted to CDEs working in qualified communities in the GO Zone
June	■ CDFI Fund released fourth-round allocations and $600 million in Credits for the Go Zone
	■ IRS released a notice on Targeted Populations
Fall/Winter	■ Fourth-round allocation agreements signed
December	■ *Tax Relief and Health Care Act of 2006* (P.L. 109-432) is signed into law with language to ensure that non-metro communities secure a proportional allocation of NMTC investments

2007	
March	■ Fifth-round allocation applications submitted to CDFI Fund with $28 billion in demand for $3.5 billion in available allocations
	■ CDFI Fund announced that $7.7 billion in QEIs had been issued by NMTC allocatees to date
April	■ *New Markets Tax Credit Extension Act of 2007* (H.R. 2075/S. 1239) is introduced in Congress by Congressmen Neal (D-MA) and Lewis (R-KY) and Senators Rockefeller (D-WV) and Snowe (R-ME)
October	■ CDFI Fund awarded $3.5 billion in fifth-round allocations and $400 million in allocations for the GO Zone
Fall/Winter	■ Fifth-round allocation agreements signed
2008	
February	■ President Bush called for one-year extension of the NMTC in his FY 2009 budget
March	■ Sixth-round allocation applications submitted to the CDFI Fund with $21 billion in demand for $3.5 billion in available allocations
May	■ CDFI Fund announced that $10.3 billion in QEIs had been issued by NMTC allocatees to date
October	■ CDFI Fund awarded $3.5 billion in sixth-round allocations
2009	
February	■ The *American Recovery and Reinvestment Act of 2009* (ARRA) (P.L. 111-16) was signed into law adding $3 billion in NMTC allocation authority equally divided between 2008 (sixth-round) and 2009 (seventh round) bringing the annual NMTC allocation authority to $5 billion
April	■ Seventh-round allocation applications submitted to the CDFI Fund with $23 billion in demand for $5 billion in available allocations
May	■ CDFI Fund announced that $13.3 billion in QEIs had been issued by NMTC allocatees to date
	■ CDFI Fund awarded $1.5 billion in 2008 allocations made available through ARRA to 32 CDEs
	■ *New Markets Tax Credit Extension Act of 2009* (H.R. 2628) introduced by Congressmen Neal (D-MA) and Tiberi (R-OH)
August	■ *New Markets Tax Credit Extension Act of 2009* (S. 1583) introduced by Senators Rockefeller (D-WV) and Snowe (R-ME)
December	■ The House passed the *Tax Extender Act of 2009* (H.R. 4213) with language extending the NMTC through 2010 with $5 billion in NMTC allocation authority
2010	
February	■ President Obama called for a two-year extension of the NMTC, through 2011, with AMT relief for NMTC investors
March	■ The House passed the *Small Business and Infrastructure Jobs Tax Act of 2010* (H.R. 4849) with language providing AMT relief for NMTC investments made before January 1, 2012
April	■ CDFI Fund released eighth-round allocation applications for $5 billion
May	■ CDFI Fund announced that $16 billion in QEIs had been issued by NMTC allocatees to date
September	■ Eighth-round allocation applications submitted to the CDFI Fund with $23.5 billion in demand for $5 billion in available allocations
	■ IRS issued revenue ruling clarifying that an individual's acquisition of a QEI in a CDE is not subject to passive activity limitations
	■ Over 400 NMTC investors, CDEs and businesses signed an NTMC Coalition letter to Congress calling for immediate passage of NMTC extender legislation before the close of the 111th Congress

Appendix B:
How the NMTC Works



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New Markets Tax Credit Coalition

1331 G Street, NW, 10th Floor
Washington, DC 20005
202-204-4500 (Phone)
202-393-3034 (Fax)
www.nmtccoalition.org