



# NEW MARKETS TAX CREDITS

A Valuable Tool To Finance High-Impact Projects

SB Friedman Development Advisors



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IMPLEMENTATION

# 01 NMTC Program Overview

# NEW MARKETS TAX CREDIT PROGRAM

## History

- Federal tax credit started in 2000
- Designed to promote economic development in the nation's economically distressed communities
- Has become a competitive resource for community development projects nationwide

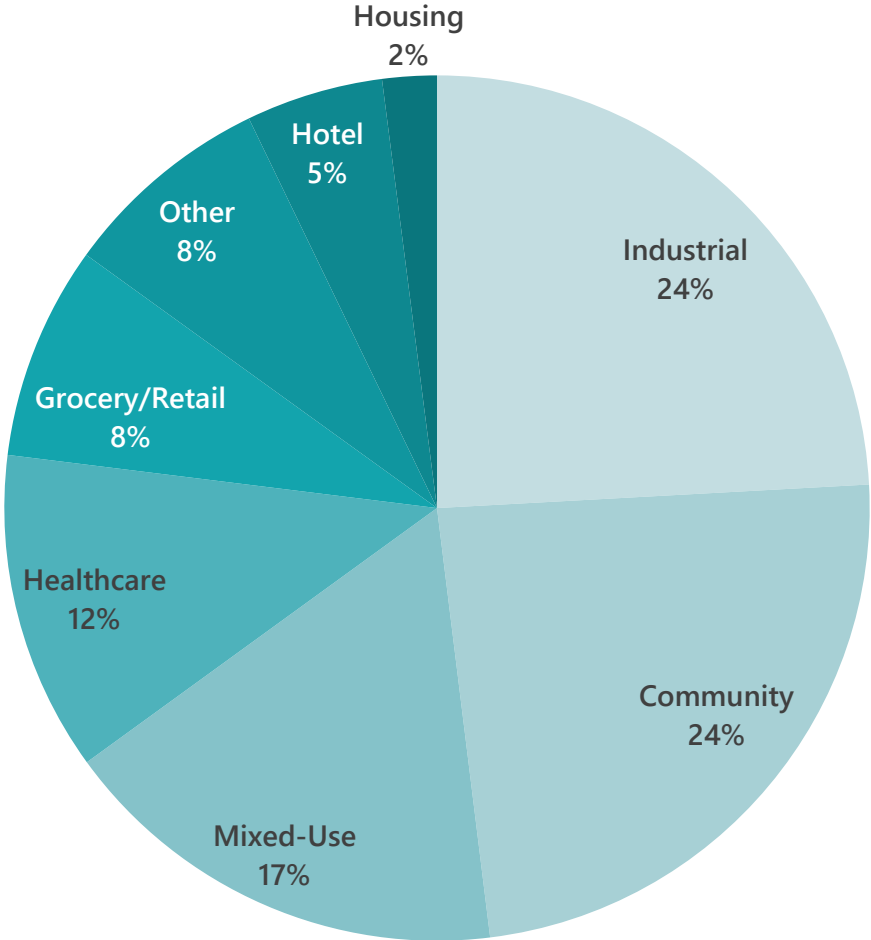
## Impact through 2020

- Supported over **6,400** projects, including more than **2,800** community facilities
- Provided subsidy for projects totaling over **\$105** billion
- Created more than **1,000,000** jobs

## Benefits to Projects

- 7-year forgivable loan in the amount of up to 20% of project costs (net after execution costs) with a net interest rate of approximately 0%. Functional maximum of about \$8 million in net subsidy for any one project.

# WHAT TYPES OF PROJECTS DO NMTCS SUPPORT?



Source: New Markets Tax Credit Coalition. NMTC Economic Impact Report (2003-2015). December 2017

# WHAT DO NMTC FUNDERS CONSIDER?

## Location

- To be eligible, a project must be located in a Low-Income Community (Census tract with >20% Poverty OR <80% Area Median Income)
- To be attractive, a project also needs to be located in an Area of Severe Distress (multiple definitions/paths to qualify)
- Mapping Tool: <https://www.novoco.com/resource-centers/new-markets-tax-credits/data-tools/nmtc-mapping-tool>

## Impact on Low-Income Persons

Projects must offer strong community impacts with robust documentation

## Need

Projects must have a demonstrated need for NMTC subsidy—the “But For”

## Size

Projects are typically \$5MM+ in total project cost

## Financial Readiness

Other financing sources (the Non-NMTC subsidy) need to be available as cash at NMTC closing

## Construction Readiness

Project needs to be under construction or to start construction at NMTC closing (e.g. building permit, contractor engaged, etc.)

# WHO'S INVOLVED?

## FEDERAL GOVERNMENT

- U.S. Congress authorizes Treasury to make allocations of NMTC
- Within U.S. Treasury, CDFI Fund administers NMTC Program
- Late 2020: 5 year extension to NMTC program

## COMMUNITY DEVELOPMENT ENTITIES (CDES)

- Private mission-driven entities who apply for and receive NMTC allocation in competitive process
- Make decisions on what projects to support with their NMTC allocation
- Different geographic and project focuses

## NMTC INVESTORS

- Invest equity in exchange for a federal tax credit
- Provide ~15-20% of total capital for a given transaction
- Typically large banks

## OTHER FUNDERS

- Provide ~80-85% of total capital for a given transaction
- Very flexible: foundations, banks, CDFIs, gov't (local, state, federal), etc.

## NMTC PROJECTS

- Typically commercial real estate, owner-occupied facility, or operating business
- For-profit or nonprofit; many are nonprofit
- Project Team includes NMTC-specialized consultant, accountant, and attorney

# WHAT'S INVOLVED?

## **STEP 1: PRELIMINARY POSITIONING** (Varies; can be 12 months or more)

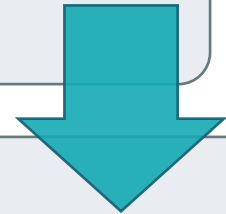
- Define the project, complete preliminary deal structuring, and create summary of community impacts
- Get on the radar of CDEs
- Work on the core funding sources; configure them to be NMTC-compatible
- Move the project towards readiness (site control, design, regulatory, etc.)
- Put together a “deal package” highlighting project feasibility, community impact, timing



## **STEP 2: ASSEMBLING THE DEAL** (Roughly 60-90 days)

- Non-NMTC funding sources are in-hand at a “term sheet” level
- Go through CDE and investor screening process
- Obtain commitments of NMTC allocation, NMTC equity investment

Ideal to time this step based on NMTC award timing by CDFI Fund (which shifts year to year)



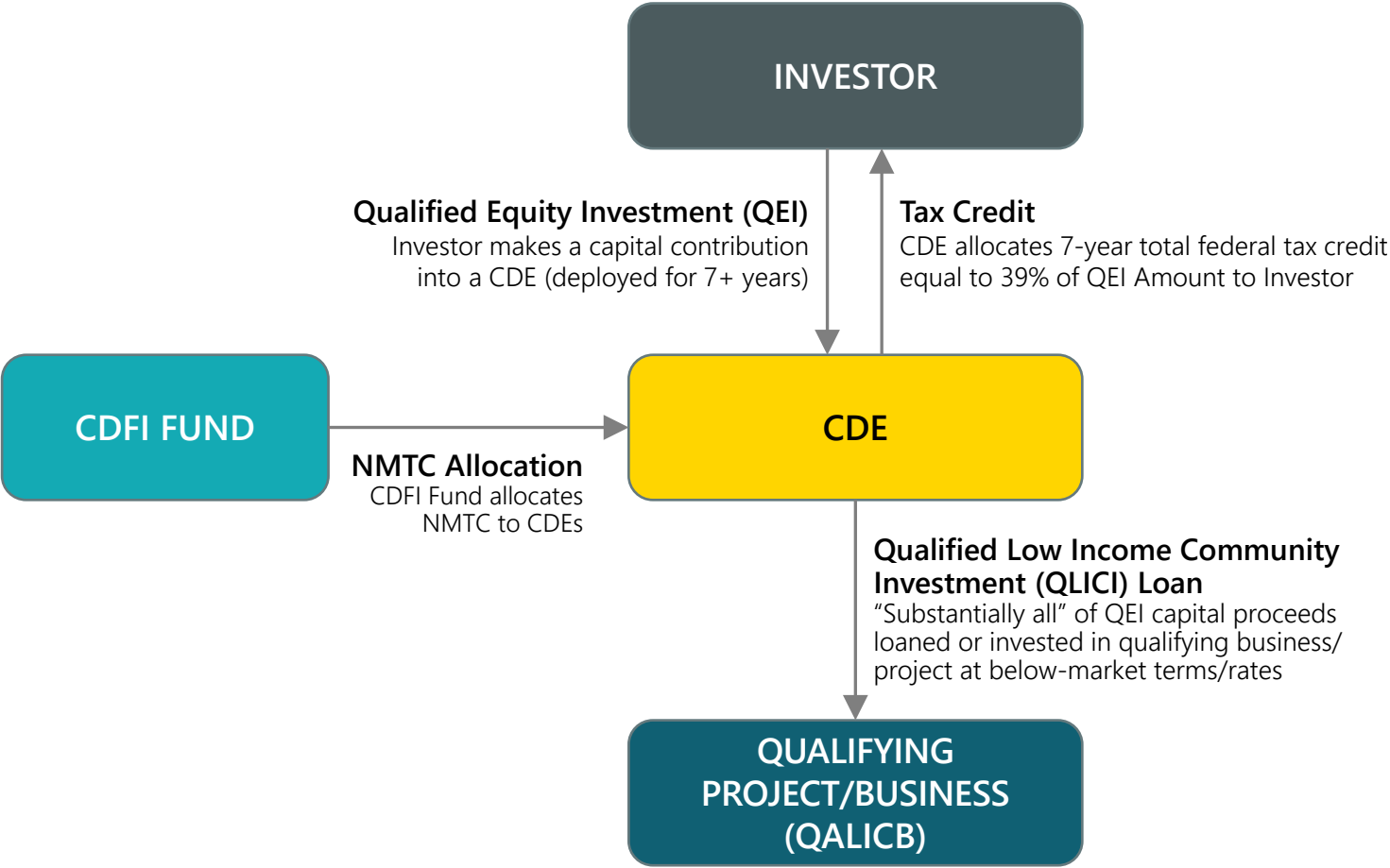
## **STEP 3: CLOSING PROCESS** (Roughly 60-90 days)

- Retain legal counsel and NMTC accountants
- Weekly calls and document drafting
- Ready to break ground prior to or at closing
- All legal permissions to proceed are in-hand (e.g., building permits, zoning, etc.)

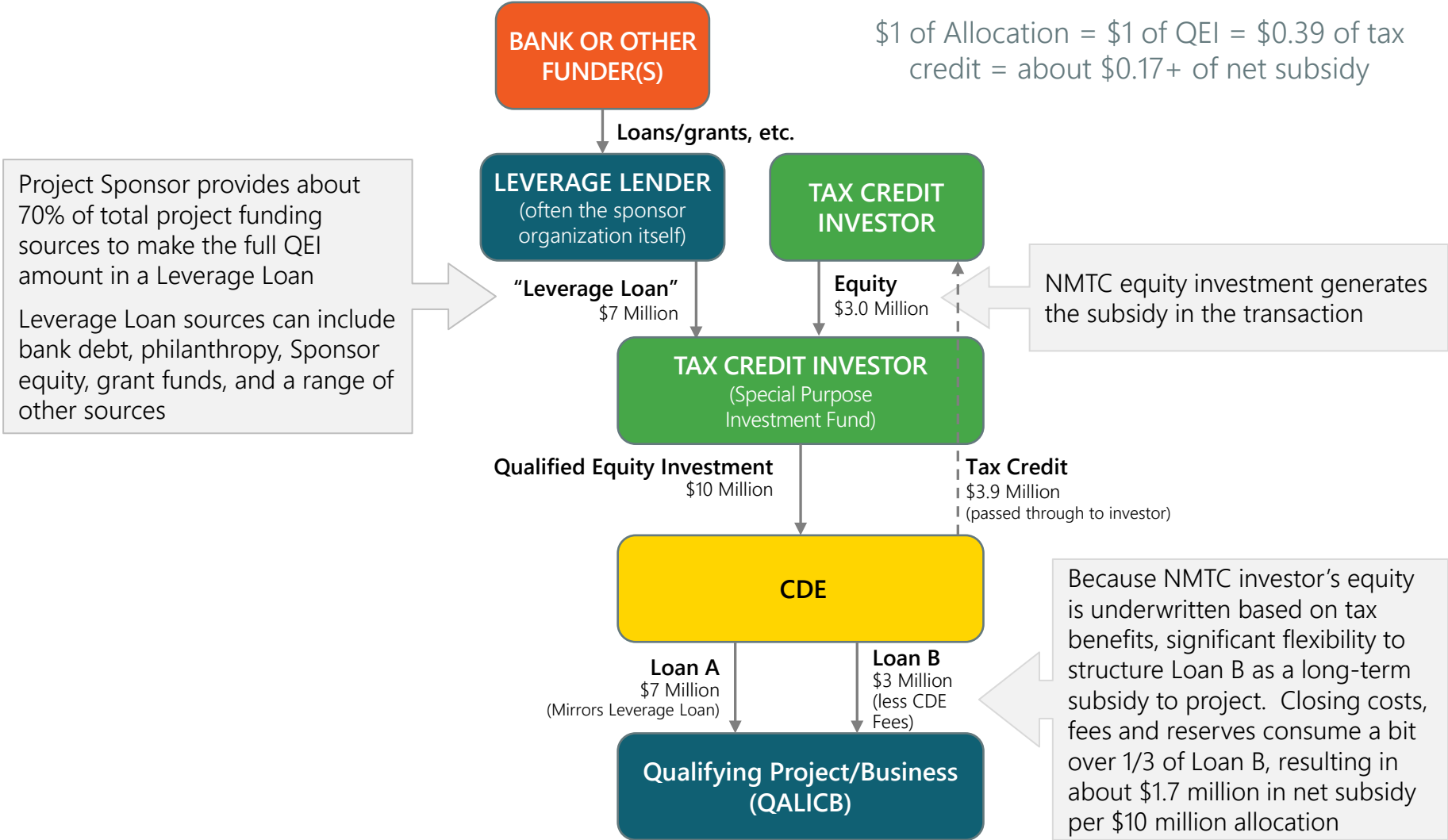
# 02 Transaction Structuring and Economics



# GENERAL CAPITAL FLOW



# STRUCTURING: THE “LEVERAGE MODEL”



# 03 SB Friedman Client Project Examples

# LOTUS VILLAGE AND CHILDREN'S VILLAGE

Miami, FL

## Lotus Village

- 100,000 SF state-of-the-art community facility serving women and children
- Full-service on-site childcare facility and on-site clinic
- Facilitates training programs for life skills and job readiness through education center and kitchen
- \$26.5MM in NMTC allocation resulting in \$6.3MM net NMTC subsidy for a \$28MM project

## The Children's Village

- 75,000 SF multi-tenant youth services facility providing a comprehensive array of education, wellness, enrichment, and other services for low-income youth in Overtown
- 9 third-party service providers co-located on-site across the street from Lotus Village
- Developed and managed overall by Lotus Endowment Fund
- \$32MM in NMTC allocation resulting in \$7.4MM of net subsidy for a \$32MM project



# COLORADO COALITION FOR THE HOMELESS MEDICAL RESPITE CENTER

## Denver, Colorado

### Overview

- NMTC financing for approximately 42,000 SF of a new 112,000 SF building
- Floors 1- 3 consist of NMTC-financed medical respite and supportive care services targeting individuals experiencing homelessness, mental illness, addiction, and high utilizers of emergency health services
- Floors 4-9 consist of LIHTC-financed supportive housing (98 units)
- Project Size: \$20MM; \$18.75MM NMTC allocation



### Key Impacts

- Created 30 permanent FTEs, 100% of which pay above the Living Wage, and 47 temporary construction jobs
- Serves an estimated 500 high health need patients annually (medical respite care), 100% of which are experiencing or at-risk of experiencing homelessness
- Total individuals served annually anticipated to be 2,162 (NMTC portion only)



# CENTER AGAINST SEXUAL AND FAMILY VIOLENCE

## El Paso, Texas

### Overview

- New construction of a 37,490 SF emergency shelter for survivors of domestic violence and sexual assault
- Expands emergency shelter facilities from 21 to 33 bedrooms with common areas, and dedicated advocate rooms.
- Project Size: \$8.2 million; \$7.75 million NMTC allocation

### Key Impacts

- Supports up to 29 permanent FTEs, 75% of which are eligible for benefits, and 40 temporary construction jobs
- Serves an estimated 400 adults and 600 children annually through the emergency shelter, an increase from 360 adults and 560 children at the former facility
- Provides mental health services to at least 900 clients annually



# BREAKTHROUGH URBAN MINISTRIES FAMILYPLEX

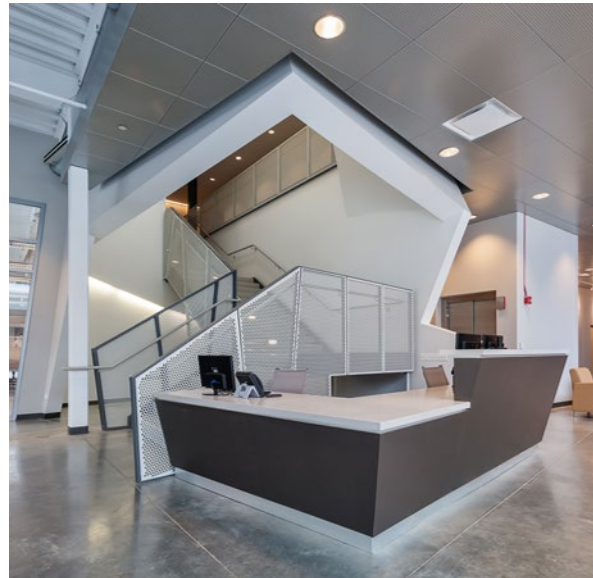
## Chicago, IL

### Overview

- 42,500 SF FamilyPlex complex that includes a 5,650sf health clinic, daycare center, library, computer lab, gymnasium, classroom space for youth education programs, a café, and other amenities
- NMTCs also funded the Joshua Center, a food pantry on the same block also operated by Breakthrough Urban Ministries
- \$13MM in NMTC allocation secured to support \$16.1 million project

### Key Impacts

- Medical care for 4,500 patients via about 11,000 visits/yr
- Mental Health services to 550 patients/about 1,000 visits/yr
- Wrap around services, including food pantry, preschool and after school programs, and fitness classes
- FamilyPlex offers youth enrichment programming from preschool through college prep
- On-site primary care health clinic operated by Lawndale Christian Health Center.



# CONTACT INFORMATION

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