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10TH ANNUAL
Native CDFI Capital Access Convening

New Markets Tax Credits

Leveraging #NMTC to Support Bigger Projects

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Sponsors:

Kaiser Permanente Fund at East Bay Community Foundation

Tamalpais Trust Fund of RSF Social Finance

New Markets Tax Credits

- Established as part of the Community Renewal Tax Relief Act of 2000.
- Provided under Section 45D of the Internal Revenue Code.
- Designed to incentivize investment in businesses within communities that have traditionally lacked access to financing and capital markets (including rural communities).
  - These communities are known as Low Income Communities.
  - Determined by Qualified Census Tracts (2020 census data) or Targeted Populations.
- Investments typically take the form of low-interest loans.
- Has supported more than 7,100 projects with $40 billion in credits (in 2023 dollars).
  - Per the Tax Policy Center.

NMTC Alphabet Soup

- QEI – Qualified Equity Investment
- CDE– Community Development Entity
- QCDE – Qualified Community Development Entity
- QALICB – Qualified Active Low Income Community Business
- QLICI – Qualified Low Income Community Investment
- NQFP – Non-Qualified Financial Property

NMTC Basics

39% Federal tax credit earned over 7-year compliance period for an investor's qualified equity investment (QEI) into a qualified community development entity (QCDE) that has received an allocation of NMTCs from the CDFI Fund, if substantially all (or 85%) of the QEI is invested through a loan or equity into a qualified active low-income community business (QALICB) within 12-months of the date of the QEI

Thus, a $10 million QEI will generate $3.9 million of NMTCs over the 7-year compliance period.

Tax Credit Investors typically make their equity investment (the "NMTC Equity") in an "Investment Fund" that is wholly owned by the Tax Credit Investor.

QALICB Requirements (Eligible Projects)

QALICBs can be any corporation (including a nonprofit corporation) or partnership if all of the following conditions are satisfied:

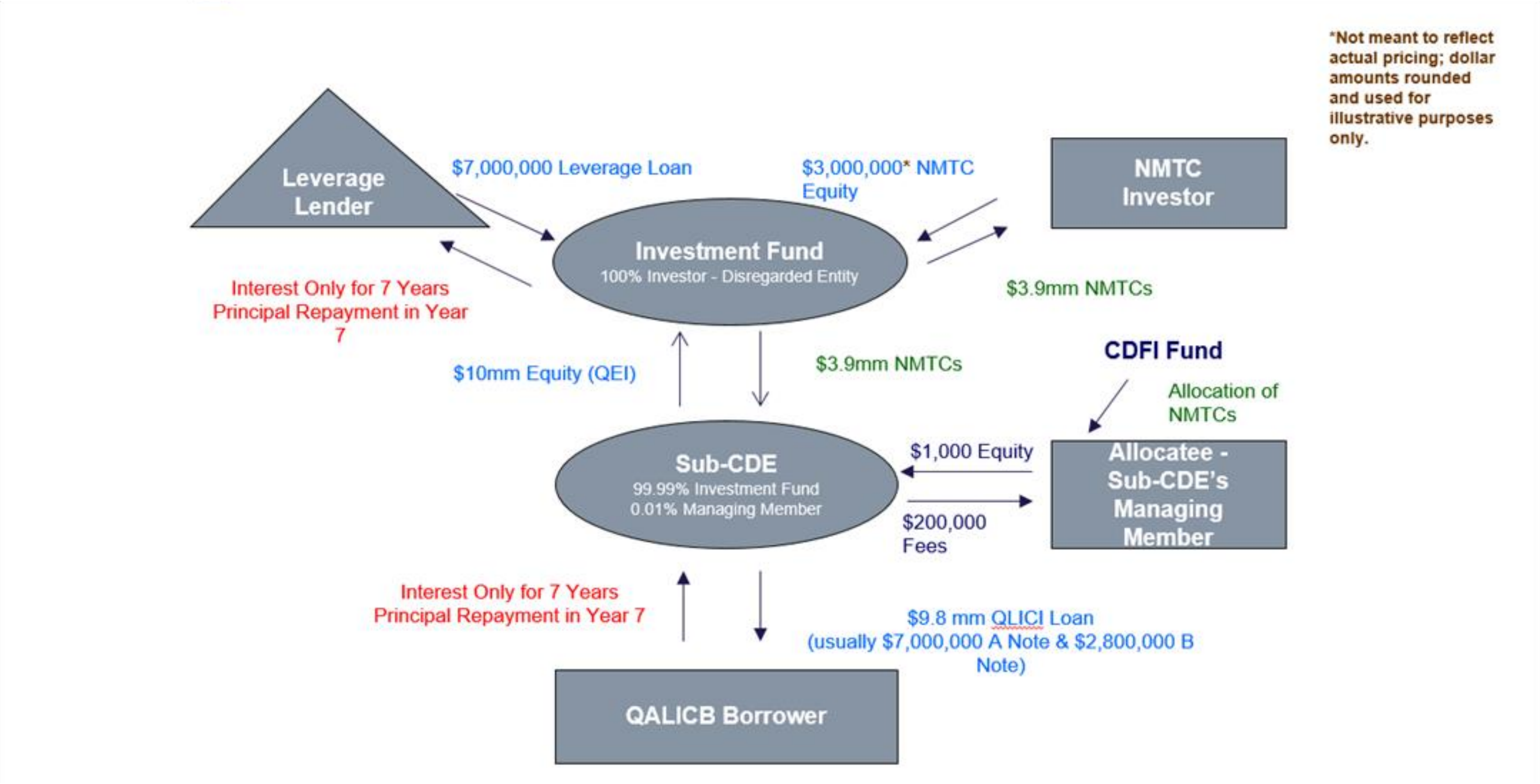
- at least fifty percent (50%) of the total gross income of such entity is derived from the active conduct of a "qualified business" within any Low-Income Community;
- a substantial portion (at least forty percent (40%)) of the use of the tangible property of such entity (whether it is owned or leased) is within any Low-Income Community;
- a substantial portion (at least forty percent (40%)) of the services performed for such entity by its employees are performed in any Low-Income Community (or, if the entity has no employees, eighty-five percent (85%) is substituted for forty percent (40%) under clause (ii) above);
- less than five percent (5%) of the average of the aggregate, unadjusted bases of the property of such entity is attributable to "collectibles" (other than collectibles held primarily for a sale to customers in the ordinary course of business); and
- less than five percent (5%) of the average of the aggregate, unadjusted basis of the property of such entity is attributable to "nonqualified financial property" (the "<u>NQFP Test</u>").

Can real estate be an "active" business?

NMTC Capital Stack Example

- Nonprofit has $9,000,000 project planned (construction of new health clinic)
- Nonprofit needs to bring $7,000,000 to the project through a mix of debt, equity, and cash
  - Could be funded through a loan from a bank, CDFI, or foundation
  - Loan could be secured by charitable pledges, mortgage on other property, and/or assignment of leverage loan
- Tax Credit Investor will provide $3,000,000 in funding to leverage the nonprofit's dollars
- Fees will be paid to the CDE, consultants, attorneys, etc.
- Reserves will be funded to pay ongoing compliance costs and interest within the NMTC deal

Sample NMTC Structure Chart



Typical Structures in Indian Country

- Nonprofit Urban IHS Clinic
  - Sponsor nonprofit corporation as Leverage Lender
  - Related nonprofit corporation as Project Entity
- Tribal Facility
  - Tribe as Leverage Lender
  - State LLC as Project Entity that is a partnership between Tribe and State nonprofit corporation
- The Leverage Lender and the QALICB must be separate entities for tax purposes.

How Can Small CDFIs Support NMTC?

Source Loans	Direct Loans	Operating Capital	Advance Purchase of QLICI Loans	Participations
• Loans to the Leverage Lender that are used to leverage the Investor's money in to the QALICB	• Loans to the QALICB to support construction costs	• Grants or loans to support operating expenses	• Initial Funding of the QLICI Loan	• Direct Loan • Source Loan • Bridge Loan

Source Lender Underwriting Concerns

Issues that occur in any loan	Issues specific to NMTC
• Is the management team qualified? • Are there sufficient revenues for repayment? • Does the project have sufficient funding to complete construction?	• Are you comfortable with indirect collateral? • Limited rights regarding construction disbursements

Lac Courte Oreilles Band of Lake Superior Chippewa Indians

- State-of-the-art clinic addressing healthcare, behavioral health, dental and pharmaceutical needs
- Total Project Cost: $48,712,539
- NMTC Amount $43,511,000
- Impact: 15 jobs created, 106 retained. Expected doubling of annual patient visits to 38,176 across nearly 10,000 patients.
- $20,000,000 source loan from consortium of 5 lenders

Source: New Markets Tax Credit Coalition

Pawnee National Behavioral Health Center

- Construction of Tribal Behavioral Health Facility
- Total Project Cost: $22,403,496
- NMTC Amount $22,403,496
- Impact: 53 full time jobs. 47 construction jobs. Expected to serve 2,040 unique clients annually; 75% of these clients are low-income individuals, and 90% of its clients are Native American.
- Native CDFIs provided source loan and direct loan. Additional support from USDA and EDA.

Source: New Markets Tax Credit Coalition

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