



# **New Markets Tax Credits**

*Considerations for Tribes*

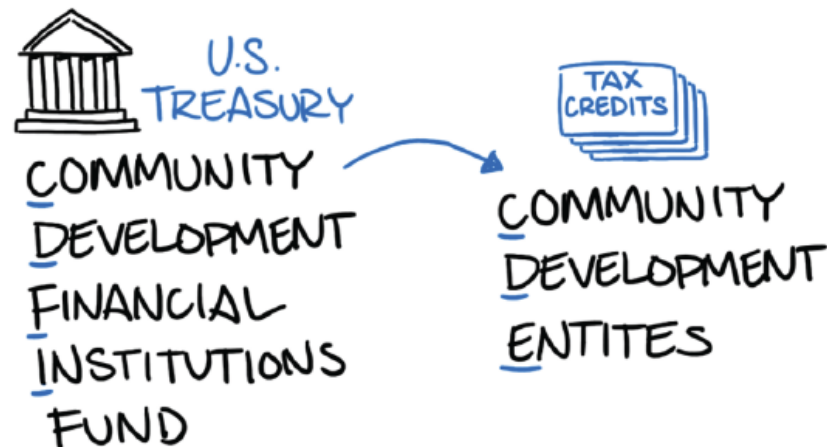
## **New Markets Tax Credits**

- > Program benefit in review
- > Understanding the CDE – those which control the credit
- > What makes a solid NMTC opportunity?
- > Program benefits
- > Baker Tilly experience and services

# **New Markets Tax Credits Program Overview and Benefits**

# Critical distinction

**Unlike other tax credit programs, the NMTC does not “belong to” the qualified borrower. It was awarded to the CDE, to be monetized, with the proceeds loaned to a business that qualifies for the subsidy.**



# The math



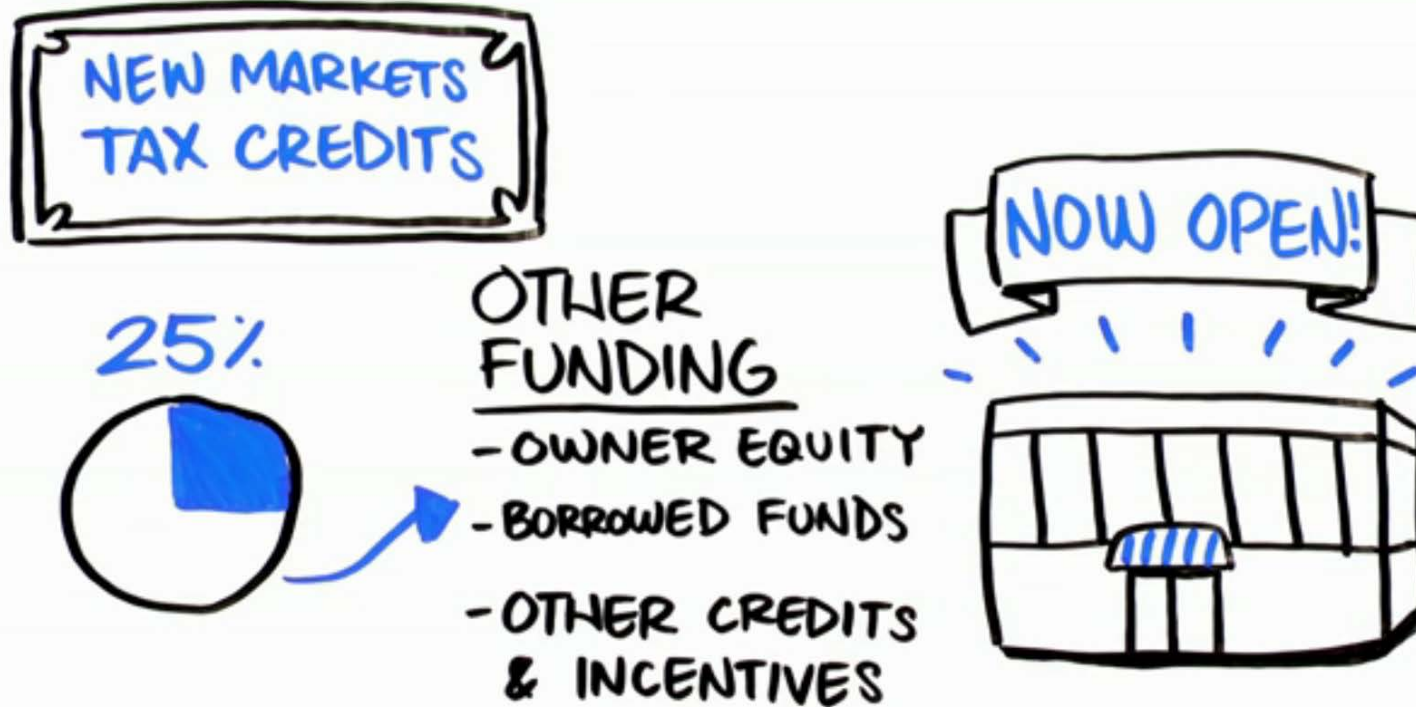
Candor. Insight. Results.

**Important: An allocation does not equal cash.**

**Here's how it works:**

<b>The Math</b>	
NMTC allocation	\$10,000,000
NMTC rate	<u>39%</u>
Tax credits	\$3,900,000
Investor discounts and costs	<u>55%</u>
Net NMTC cash to the project:	\$2,145,000

# The math



# **Understanding the CDE – those who control the credit**

# The CDE – Those That are Awarded Credit to Allocate to your Project



Candor. Insight. Results.

## > Who are these guys???

- A division of state or local government (Example: The State of Wisconsin)
- A subsidiary of a financial institution (Example: Wells Fargo)
- A not for profit community development organization (Example: Local Initiatives Support Corporation)
- A privately held organization (Example: Baker Tilly)

## > What are they looking for???

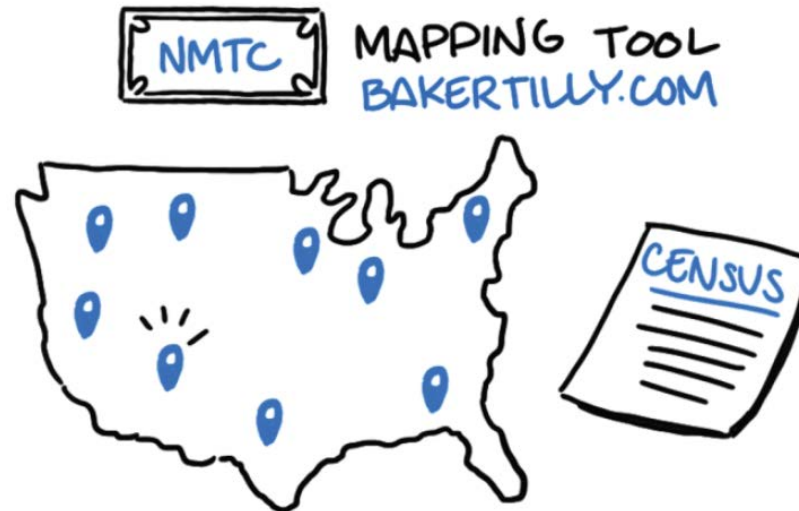
- Each have a specific mission or intended purpose/goal when deciding which projects to allocate NMTC to
- Some have regional geographic focus, some have national focus
- Since this is a very competitive, limited resource, and not an entitlement program like many other grants, credits, and incentives, they can “call the shots” in some respects



# What makes a solid NMTC project opportunity?

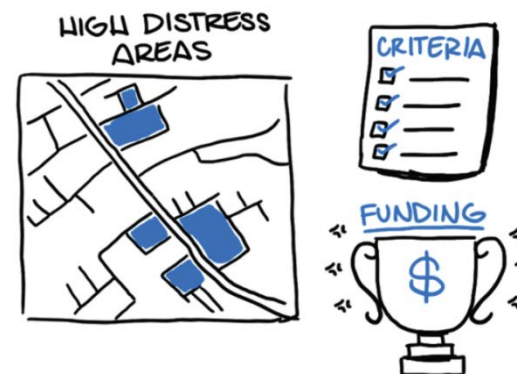
# Minimum project qualifications

- > Project must meet certain Geographic requirements
  - Business located in a “low-income” community which has a specific definition based on demographics
  - Other factors, such as:
    - » Brownfield
    - » HUD
    - » TIF
    - » Medical



# Strong candidate and project profile (and why many tribal projects are great candidates for NMTC deals)

- > Located in a “highly distressed” census tract, defined as one of the following:
  - Poverty > 30%
  - Median income < 60% of statewide
  - Unemployment > 1.5 times national average
  - Non-metropolitan county
- > **Community impact**
  - Tangible community benefit (i.e. job creation, unmet good or services, etc.)
  - Part of an existing plan for economic revitalization
  - “But for” test—NMTC fills a real funding gap that would otherwise not happen
- > Readiness (this cannot be understated – remember the credit is competitive)
  - Other sources of funding committed
  - Approvals all in place

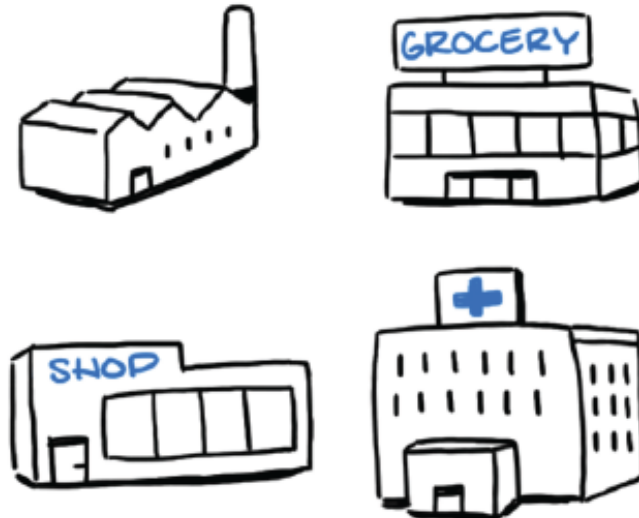


## Examples of Good NMTC projects (assuming in NMTC eligible location)



Candor. Insight. Results.

- > Rural Community Centers
- > Rural Healthcare Clinics
- > Manufacturing Businesses
- > Rural Schools



- > Infrastructure projects (energy, telecom, water/wastewater) which directly benefit low income communities (example-distributed generation solar project adjacent to a tribal community center)

# Program benefits

## **Economic benefit to recipient**

- > Additional capital to fund capital projects, expansions, or debt refinancing
  - Tax credits are monetized to bring additional capital to the capital structure
- > Low cost of capital
- > Below-market interest rates
- > Flexible loan terms including longer amortization and higher LTV ratios
- > Debt forgiveness
  - At the end of the seven year compliance period, a portion of the debt may be acquired for cents on the dollar

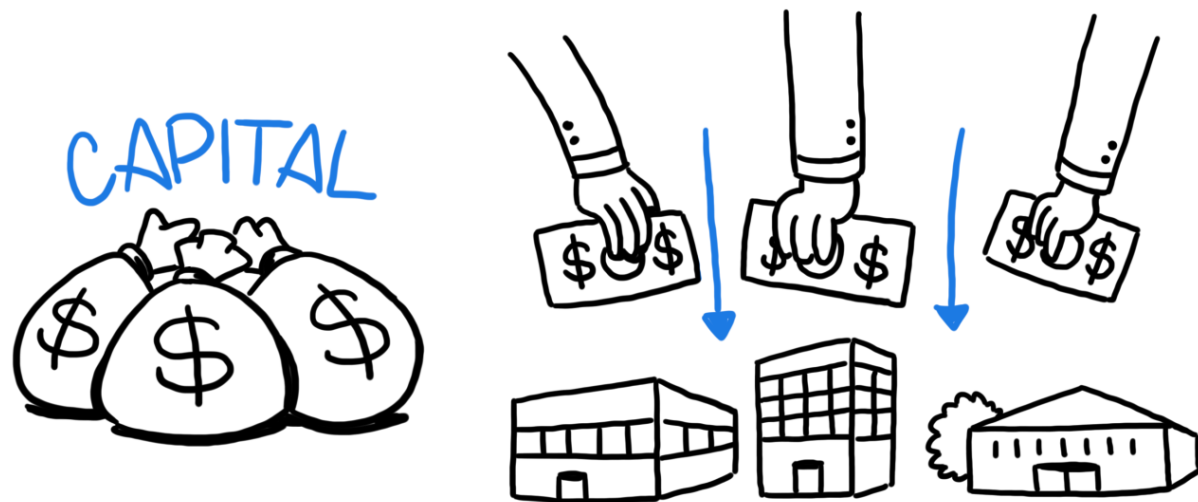
# Program considerations



Candor. Insight. Results.

- > Availability of credits – not an entitlement
- > Lender requirements – the “lender” (any funding source) needs to be willing to be flexible, willing to learn about the program, and “roll up their sleeves”
  - Seven year forbearance agreement (the compliance period)
  - No principal amortization for length of NMTC investment
  - In the event of a default, required to re-lend funds to another QALICB for the duration of the compliance period
  - Indirect lien on collateral assignment of LLC interest as compared to direct lien on collateral
- > Borrower requirements
  - Must be compliant for seven year with QALICB requirements
  - Personal guarantee on QALICB status often required
  - Additional reporting requirements

“Is it worth going through the process and its challenges if I can fund over 20% of my project with low cost capital?”





# Current Status of NMTC Market



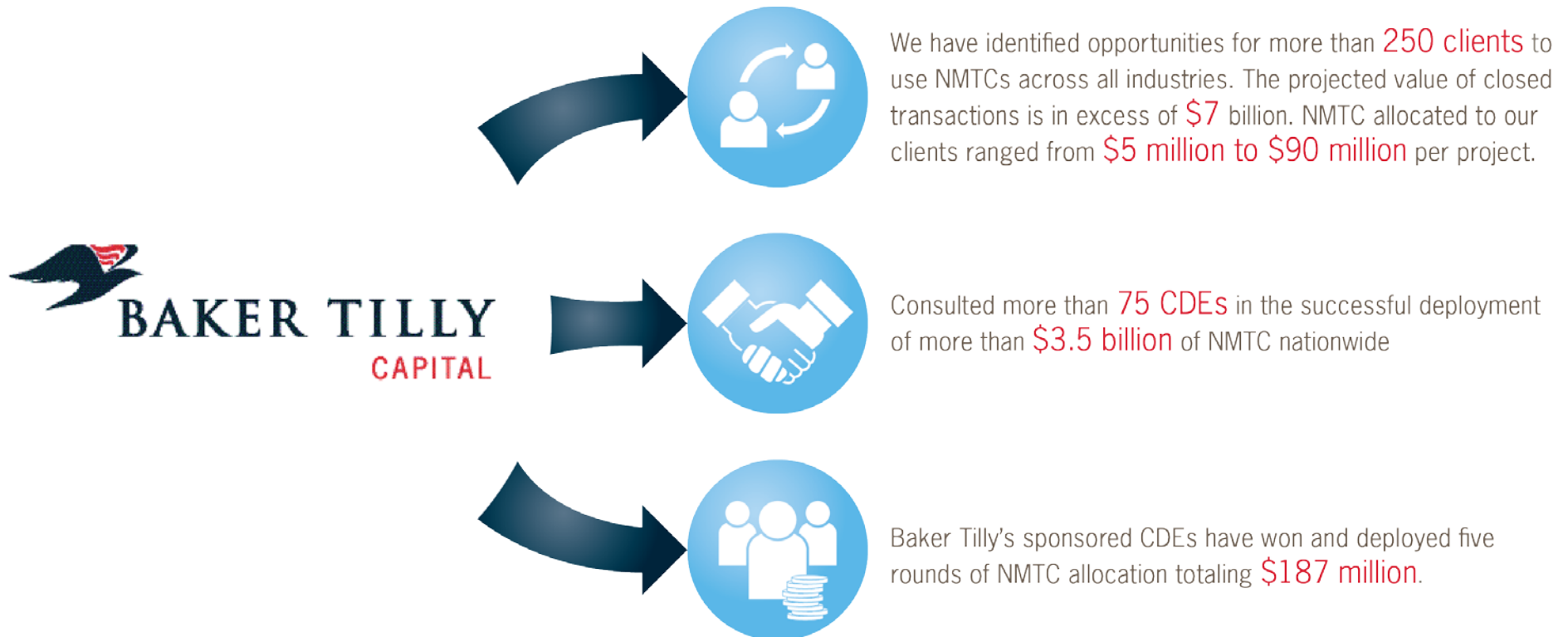
Candor. Insight. Results.

- > Program was extended for five years
- > CDEs submitted applications in Q4 of 2015 for credit in the next funding cycle
- > Next round of funding is \$7 billion and likely will be announced in Q4 of 2016
- > If you have projects close to being shovel ready, discussions should commence with CDEs asap
- > Start planning now for capital improvement projects on the drawing board that could use this program in the future

# Baker Tilly experience

## New Markets Tax Credit experience

> Involved with NTMCs since the program's inception in 2000



## **New Markets Tax Credits – How it Works**

<http://bakertilly.com/insights/new-markets-tax-credit-program-how-it-works>

## **New Markets Tax Credits – Mapping Tool**

<http://bakertilly.com/insights/new-markets-tax-credit-and-low-income-housing-tax-credit-mapping-tool>

# Disclosure



Candor. Insight. Results.

The content in this presentation is a resource for Baker Tilly Virchow Krause, LLP clients and prospective clients. Nothing contained in this presentation shall be construed as legal advice, opinion, or as an offer to buy or sell any property or services. In conformity with U.S. Treasury Department Circular 230, tax advice contained in this communication and any attachments is not intended to be used, and cannot be used, for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code, nor may any such tax advice be used to promote, market or recommend to any person any transaction or matter that is the subject of this communication and any attachments. The intended recipients of this communication and any attachments are not subject to any limitation on the disclosure of the tax treatment or tax structure of any transaction or matter that is the subject of this communication and any attachments.