

Federal New Market Tax Credit (NMTC) Overview

NMTC Program Fundamentals

- NMTCs are Federal tax credits issued by the US Department of Treasury’s Community Development Financial Institution (CDFI) Fund.
- The purpose of NMTCs is to *spur private investment and job creation in urban and rural distressed communities*, as defined by US Census data. Each project’s eligibility for NMTCs is based on the Census tract where it is located.
- There are three important entities in the NMTC industry:
 1. Community Development Entities (CDEs)
 2. Tax Credit Investors (typically big banks)
 3. Project Owners (can be a developer, a construction company, a manufacturing company or another business owner/operator)

Community Development Entities

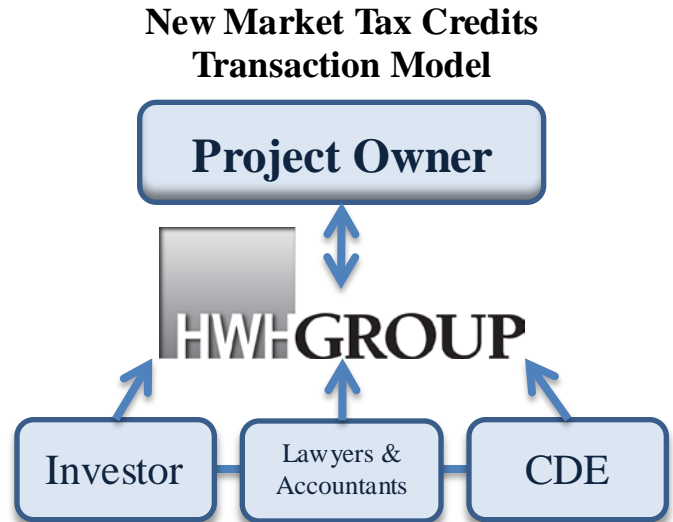
- Tax credits are allocated by the CDFI Fund, and awarded to CDEs through an annual competitive process.
- CDEs define their service area as local, state-wide, multi-state or national.
- A CDE allocates their tax credits to projects that are in their service area – their project pipeline.
- The definition of a CDE is: A domestic corporation or partnership that is an intermediary vehicle for the provision of loans, investments, or financial counseling in Low-Income Communities. To qualify as a CDE, a domestic corporation or partnership must apply for and receive certification from the CDFI Fund.

Investor

- Investors are typically big national banks. These banks have business units that employ experts who are focused primarily on NMTCs.
- Investors look for projects to which a CDE has allocated tax credits. Projects with a tax credit allocation make up the investor’s pipeline.
- When an investor purchases the tax credits, the credits are “monetized.” Monetized tax credits create the cash that benefits the project owner and pays for the NMTC transaction professional fees to the CDE, lawyers, accountants and consultants.
- The investor uses the tax credits to offset their Federal income tax liability over a 7-year period.

Project Owner

- Project owner can be a developer, a construction company, a manufacturing company or another business owner/operator. There are some types of businesses that are prohibited from NMTCs –a variety of “sin” businesses, and tanning businesses to name a few.
- Project owner is the entity that benefits from the cash created by monetizing the tax credits.
- Project owner’s net benefit from NMTCs is to add approximately 20% additional capital into their project. For example, a \$10M project can generate \$2M additional cash for the project.
- Project owner structures a new special purpose corporation to pass NMTC and all project funds through. This special purpose corporation is dissolved after the 7-year NMTC compliance period.



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Project Eligibility

- A geographic area (census tract) is determined to be eligible based on the most recent Census data.
- Severely distressed communities are the most desirable for NMTC investment, and projects in rural areas are especially attractive to both CDEs and investors.
- Using a NMTC map tool shows a Census tract's eligibility status as "severely distressed" in red and "eligible" in yellow. See: http://www.novoco.com/new_markets/resources/map2_popup.php

Local EDC NMTC Strategy

- Understand the basics of NMTC and consider using it as an available Federal incentive.
- Determine if your local industrial or business park is an "eligible" area. Highly distressed rural areas are most desirable in the increasingly competitive NMTC market.
- Partner with a *knowledgeable consultant* and introduce them to your prospect at the right time.
 - Explain NMTC program and set expectations of the project owner.
 - Get your project in the pipeline to secure a CDE allocation of credits and a credible investor.
 - Craft a compelling economic impact story to describe your community's unique population, as well as economic and workforce challenges (to be viewed favorably by CDEs and investors).
- Jubal Smith with JLL said the following about NMTC: "This is the most complicated incentive program on the planet, but one that is worthwhile if the fact pattern fits and the company wants to go through the process. The credit is sold to an investor and the project pockets the cash up front. 20% of the investment back in cash."

The HWH Group

- The HWH Group is a professional services firm that offers the following services:
 - Corporate Site Selection & Incentive Negotiations
 - Economic & Community Development Consulting
 - NMTC Transaction Consulting, representing Project Owners
 - Strong reputation in the NMTC industry, and business relationships with CDEs and investors who serve Texas and the entire US.
- The HWH Group is interested in partnering with local EDCs on the NMTC portion of projects for a "success fee" which is approximately 2-3% of the overall project costs and is paid at closing. No fees are paid up front.
- HWH introduces and presents the NMTC proposal to CDEs who have available credits for Texas projects, and to banks who are credible investors. Current NMTC applications are for the 2015-16 calendar year.
- HWH Group is experienced in brokering NMTC transactions. The following outlines their NMTC process and deliverables:
 1. Determine Qualified Site
 2. Meet Project Owners
 3. Assemble Team of Experts
 4. Finalize Pipeline Report (The Story)
 5. Secure Tax Credits (CDE Relationships)
 6. Secure Investor (Qualified, Knowledgeable)
 7. Facilitate The Deal, Accelerate the Process (Complicated with many Moving Parts)
 8. Deal Closing (Payday for all Parties)

Steve Gilbert is the former Executive Director of the Paris EDC and successfully used NMTC with prospects, impacting new relocations and existing industry expansions. He now works for The HWH Group in Paris, TX. Steve's contact information is sgilbert@thehwgroup.com or (903) 495-4647.