



# Navigating the New Markets Tax Credit Program A Review of the Program, Processes, & Participants

September 19, 2024

# Agenda

1. Introductions
2. Learning Objectives
3. What Is the New Markets Tax Credit (NMTC) Program?
4. Current State of the NMTC Program
5. Who Participates & How Does the Program Work?
6. Q&A
7. Closing



# Meet Today's Presenters



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# Today's Learning Objectives

1. What is the NMTC Program & how does it work?
2. Discuss current & future state of the NMTC Program
3. Understand the parties that participate in a NMTC project
4. Understand how Community Development Entities (CDEs) & NMTC Investors navigate the NMTC Program & make investment decisions

# What Is the NMTC Program?

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## What Is the NMTC Program?

- It is a **community development** program administered by the Community Development Financial Institutions (CDFI) Fund, a division of Treasury
- The NMTC Program incentivizes community development & economic growth using tax credits that attract private investment to distressed communities
- It is a financing tool that provides projects & businesses access to low-cost capital to fund important community development initiatives

# NMTC Program History

- Authorized under the Community Renewal & Tax Relief Act of 2000 & has been subject to reauthorization since 2006
- The NMTC Program was most recently renewed for 5 years at \$5B per year under the Consolidated Appropriations Act.
- The Program is set to expire as of December 31, 2025.
- In 19 award rounds, \$76 billion in tax credit authority has been awarded
- According to the CDFI Fund, the Program has
  - Generated \$8 of private investment for every \$1 of federal funding
  - Created nearly 239 million sq. ft. of manufacturing, office, & retail space
  - Financed more than 10,800 businesses

# Current State of the NMTC Program

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# NMTC Program Milestones

- \$5B of new allocation to be awarded in Fall 2024
- A new application to be announced in late 2024 (expected).
  - \$10B in allocation round → largest in the history of the Program
  - Expected to be awarded in Fall 2025
- The Program sunsets on December 31st, 2025. However, the Program has strong bipartisan support & has been extended 8 times in 23 years.
- There is, & has been, a movement to permanently extend the Program.
  - Legislation has been introduced in both the House & Senate

# NMTC Program: Sample Impact

- According to the CDFI Fund, *through FY 2022*:
  - 68.9% of the Program dollars have been directed to real estate commercial, construction, & rehabilitation costs
  - The remaining Program dollars have been invested in businesses or investments into other CDEs
  - A full data breakdown is available on the CDFI Fund website

NMTC Investments Purposes <i>(in billions of dollars)</i>	FY 2022		FY 2003 – FY 2022	
	Amount	Percentage	Amount	Percentage
Business and Micro	\$0.927 B	25.1%	\$18.059 B	27.1%
Real Estate Commercial, Construction and Rehabilitation	\$2.653 B	71.7%	\$45.894 B	68.9%
Real Estate Single & Multi-Family Housing, Construction and Rehabilitation	\$0.070 B	1.9%	\$0.975 B	1.5%
Loans to CDEs	\$0.039 B	1.1%	\$1.278 B	1.9%
Other	\$0.008 B	0.2%	\$0.405 B	0.6%
<b>Total Qualified Low-Income Community Investments (QLICs)</b>	<b>\$3.697 B</b>	<b>100.0%</b>	<b>\$66.611 B</b>	<b>100.0%</b>

- Due to the timing of reporting, the impact of the most recent rounds is still pending

# Who Participates in the NMTC Program?

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# Low-Income Communities (LICs)

- **What is a Low-Income Community?**

- Where the poverty rate is at least 20%; **or**
  - Where the median family income does not exceed 80% of the area median family income; **or**
  - Where the median family income does not exceed 85% of the area median family income provided the census tract is located in a high migration rural county; **or**
  - Where the census tract has a population of less than 2,000 & is contained within a federally designated Empowerment Zone & is contiguous to at least one other LIC
- A project **must** be in a census tract that meets one of the above criteria
  - Why low-income communities?
    - Historically, low-income communities are underfunded by traditional capital markets
    - The NMTC Program “aims to break this cycle of disinvestment by attracting the private investment necessary to reinvigorate struggling local economies” (CDFI Fund)

# Community Development Entity (CDEs)

- **What is a Community Development Entity?**

- A domestic corporation or partnership that serves as an intermediary vehicle for loans, investments, or financial counseling to low-income communities
- CDEs invest in low-income communities through projects that meet critical needs & improve the lives of low-income persons
- CDEs must be certified by the CDFI Fund (intended for community development entities)
- CDEs may be
  - For profit or nonprofit
  - Focused on specific geographies, *i.e.*, national, multistate, state-oriented, or local
  - Focused on specific project types or community goals, *i.e.*, manufacturing & healthcare, or job creation & access to critical services

# NMTC Investors

- **What is a NMTC Investor?**

- Either an individual or corporate taxpayer
- Most often, the NMTC Investor is a bank or financial institution, *e.g.*, U.S. Bank, Chase, PNC, Wells Fargo, Citi, etc.
- NMTC Investors purchase tax credits from CDEs
- NMTC Investors claim those tax credits on their returns, thereby offsetting tax liability
- NMTC Investors also receive Community Reinvestment Act (CRA) “points” when purchasing tax credits
  - They receive full “credit” for the aggregate NMTC transaction even though they only provide an equity portion to the transaction
- NMTC Investors, in many cases, are also CDEs

## The QALICB (the Project)

- **What counts as a QALICB (Project)?**
- **Qualified projects, business, &/or real estate investments**
  - Projects **must** be in a NMTC qualified census tract
  - Businesses **must** meet the Program requirements for a **Qualified Active Low-Income Community Business (a QALICB). Examples include
    - An operating business (manufacturer, grocery store)
    - A business that develops or rehabilitates real estate projects (commercial, industrial, retail, mixed use)
    - A business that develops or rehabilitates community facilities (charter schools, health clinics)
    - A business that develops or rehabilitates for-sale housing units**
- Most projects & investment types can be considered for the NMTC Program; however, some project types are expressly prohibited (casinos, racetracks, golf courses, etc.)

## So How Does the NMTC Program Help LICs?

- The NMTC Program is designed to help communities that are economically disadvantaged & that have been historically overlooked by capital funding
- Investment decisions are made at the community level where need is often more apparent
- Community benefits help drive these investment decisions & often include a focus on
  - Job creation (quality & accessible jobs)
  - Access to critical services (healthcare, health foods, mental health, etc.)
  - Training & workforce development



## So How Does the NMTC Program Help Businesses?

- The NMTC Program helps support businesses & projects with access to financing that is flexible & affordable
  - Financing is direct to the project/business & is often immediately available
  - Funds reduce upfront project costs & may increase ROI
- The financing available is lower cost &, according to the CDFI Fund, up to 96% of NMTC investments involve more favorable terms & conditions than the market typically offers. Terms may include
  - lower interest rates & longer interest-only periods
  - lower origination fees
  - higher loan-to-values & lower debt coverage ratios

# How Does the NMTC Program Work?

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# Competing for NMTC Allocation



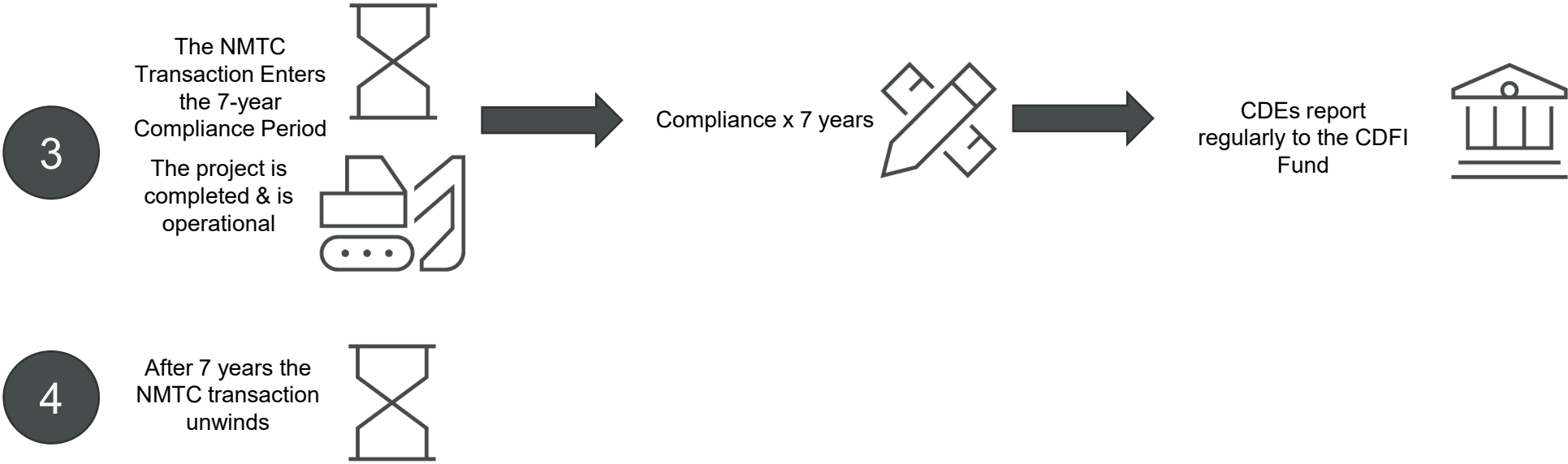
- Eligible CDEs apply to the CDFI Fund for NMTC Tax Credit Allocation Authority
- The CDFI Fund reviews applications & scores each CDE's application
- Allocation is awarded to the highest ranked CDEs, generally 9 months following the application due date (recently, awards have been announced in late Fall)
- In the most recent award round, 197 CDEs applied for \$14.8 billion in allocations. 102 CDEs (52%) were awarded \$5 billion (34% of the requested amount) on September 22, 2023
- The next award is expected in Fall 2024

# CDE & Investor Project Selection



- CDEs & Investors continuously seek projects with community benefits that match their stated goals
- Before selecting a project, both CDEs & NMTC Investors evaluate the investment to gain comfort that the project will close successfully & provide a stable benefit to the community
- A CDE & NMTC Investor will issue a project a term sheet (an offer of financing). If all parties agree to the terms, the project will begin a NMTC closing
- A closing generally lasts 60-90 days
- At closing, the project will receive funding or will have access to a disbursement account to draw upon for qualified project expenditures

# Compliance & Unwind



- Using the NMTC financing, the project is completed
- The project reports regularly on status, community benefits
- After seven years, the NMTC transaction unwinds

## Why Does the NMTC Program Work?

- Location, location, location – only distressed communities qualify
- The Program helps drive real economic benefit to underserved communities
- Investment decisions are made at the local level
- A strong sense of “team” as part of the Program & among each transaction
- A seven-year time horizon helps to eliminate “flash in the pan” projects which helps to drive sustained success in the community
- Per the CDFI Fund, the Program has helped more than 10,800 business

Questions?

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Visit our webpage: [New Markets Tax Credit \(NMTC\) | Forvis Mazars](#)

### Other Helpful Resources:

[New Markets Tax Credit Program | Community Development Financial](#)

[Institutions Fund \(cdfifund.gov\)](http://cdfifund.gov)

[Home - New Markets Tax Credit Coalition \(nmtccoalition.org\)](http://nmtccoalition.org)

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