THE NEW MARKETS TAX CREDIT PROGRAM AND NON-TRADITIONAL FINANCING TOOLS

HUD Office of University Partnership
National Conference
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UNIVERSITY PLACE OF JACKSON

Leveraging a University’s Strengths to Revitalize the Surrounding Community

TIM MCCARTY
VICE PRESIDENT, UNIDEV, LLC
A part of the West Jackson community is in critical condition and is dying. Without bold, decisive action to reverse current trends, the deterioration in the eastern portion of West Jackson will worsen and spread, people and businesses will continue to move away and the physical and social fabric of the community will continue to unravel.

It will get worse – much worse – without aggressive intervention.”

An Action Plan for West Jackson
An Inner-City Community Building Program
ULI Advisory Services Panel Report (May 1995)
JSU’S ROLE

“The needs of the poor and desperate are great and institutions of higher education must respond to that need according to their ability. Despite their traditional role, universities have great ability to engage in the community betterment process and effect positive change should they chose to use it.”

Dr. Ronald Mason, Jr.
President Jackson State University
“We have been studied enough. We are ready for something to happen.”

Resident of the Olin Park Neighborhood
ONE UNIVERSITY PLACE
ONE UNIVERSITY PLACE’S STRATEGIC GOALS

• Invest in the Jackson State / West Jackson Community / City of Jackson
• Capture a greater share of campus-generated economic activity
• Increase JSU’s competitiveness.
METHODOLOGY

- Start near the campus.
- Serve the underserved students, faculty and staff.
- Seek out expertise to address the challenges.
PROJECT LOCATION
SITE SELECTION
SPECIFIC CHALLENGES

• Neighborhood distrust.
• We don’t own the land.
• The land we want to buy has unclear title.
• We don’t have $4M to put into the project.
THE NEW MARKETS TAX CREDIT PROGRAM

SAMUEL J. DEAL
MANAGING MEMBER, RENAISSANCE EQUITY PARTNERS
SENIOR ADVISOR, HAMPTON ROADS VENTURES
A taxpayer ("Investor") is entitled to a NMTC to offset its federal income tax liability when the Investor makes a "Qualified Equity Investment" (QEI) in a CDE.

The 39% NMTC is claimed by the Investor over 7 years:

– 5% of the QEI in years 1 though 3
– 6% of the QEI in years 4 though 7
To be a QALICB

• At least 50% of the total *gross income* is from the active conduct of a qualified business in Low-Income Communities (LICs); and

• At least 40% of the *use of tangible property* of the business is within LICs; and

• At least 40% of the *services performed* by the business’ employees are performed in LICs; and
To be a QALICB (cont’d)

• Less than 5% of the average of the aggregate unadjusted bases of the property is attributable to collectibles (e.g., art and antiques), other than those held for sale in the ordinary course of business (e.g., inventory); and

• Less than 5% of the average of the aggregate unadjusted bases of the property is attributable to non-qualified financial property (e.g., debt instruments with a term in excess of 18 months).
INELIGIBLE ACTIVITIES

- Residential rental property:
  - Buildings or structures which derive 80% or more of its gross rental income from renting dwelling units
- Certain types of businesses:
- Refer to IRS regulations for additional details.
  - Golf courses
  - Race tracks
  - Gambling facilities
  - Certain farming businesses
  - Country clubs
  - Massage Parlors
  - Hot tub facilities
  - Suntan facilities
  - Stores where the principal business is the sale of alcoholic beverages for consumption off premises
QUALIFIED ACTIVE LOW INCOME COMMUNITY BUSINESS (QALICB)

What is a typical QALICB?

• An operating business located in a LIC.
• A business that develops or rehabilitates commercial, industrial, retail and mixed-use real estate projects in a LIC.
• A business that develops or rehabilitates community facilities, such as charter schools or health care centers, in a LIC.
• A business that develops or rehabilitates for-sale housing units located in LICs.
NMTC BASIC MODEL

Taxpayer

Makes a qualified equity investment in

Community Development Entity

Makes loans to

Businesses & Real Estate Projects in Low Income Communities
NMTC LEVERAGED MODEL

TAX CREDIT INVESTOR
MAKES AN EQUITY INVESTMENT IN
FOR-PROFIT HOLDING COMPANY
COMMUNITY DEVELOPMENT ENTITY
MAKES A QUALIFIED EQUITY INVESTMENT IN
REAL ESTATE PROJECT

DEBT INVESTOR
MAKES A LOAN TO
JSU UNIVERSITY PLACE
COMMUNITY AND UNIVERSITIES: MAKING A DIFFERENCE IN CHALLENGING TIMES

DIONNE SAVAGE
PARTNER, LOWE & SAVAGE, LLC
FINANCING COMMUNITIES AND UNIVERSITIES

• National Healthy Food Financing Initiative
  – Financing supermarkets in low-income communities

• New Markets Tax Credit Program
  – Financing commercial/mixed-use development projects
  – 39% tax credit to entities or individuals that make investments in qualified low-income communities

• Renewable Energy Tax Credits
  – Financing solar facilities to reduce energy cost

• Historic Tax Credits
  – Financing to facilitate the rehabilitation of historic buildings
Public-private grant and loan program
- $400 million in tax credits to eliminate “food desert communities.”
- Administered by the U.S. Department of Health & Human Services and the U.S. Department of the Treasury.
  - U.S. Treasury provides $250 million in New Markets Tax Credit allocation

Expansion of supermarkets, farmers markets and other food retailers
- Inner-city areas, especially distressed areas lack stores that offer quality fresh foods at competitive prices.
- Nationwide, 23.5 million people who live in low-income communities do not have a supermarket or large grocery store within one mile of their home.
- Communities without access to supermarkets suffer from higher rates of obesity, diabetes and other diet-related diseases.
• Commonwealth of Pennsylvania Model Program
  • Pennsylvania Fresh Food Financing Initiative
    – Reduce the high incidence of diet-related diseases by providing healthy food
    – Stimulate investment of private capital in low-income communities
    – Remove financing obstacles and lower operating barriers for supermarkets in poor communities
    – Create living wage jobs
    – Prepare and retain a qualified workforce
Business Investment Tax Credit (BITC)

Reduce the cost of financing a solar energy facility

- 30% tax credit that is applied to the eligible construction and equipment costs once the solar project is placed in service.
  - Examples of eligible costs are solar panels, mounts, wiring and installation
- Investors obtain dollar-for-dollar reduction in their federal tax liability, which can be carried back 1 year or carried forward 20 years.
- Compliance period is 5 years
- Recapture during compliance period is triggered if:
  - the property ceases to be a qualified; or
  - change in ownership interest occurs.
RENEWABLE ENERGY TAX CREDITS (CONT’D)

**Business Investment Tax Credit (BITC)**

Can you combine with projects that include:

- Low-Income Housing Tax Credits (IRC Section 42)
- New Markets Tax Credits (IRC Section 45D)
- Historic Tax Credits (IRC Section 1.48-12, CFR 1.48-12)
HISTORIC TAX CREDITS

Historic Tax Credits

• Jointly administered by The U.S. Department of the Interior and The U.S. Department of the Treasury
• Encourages the rehabilitation, restructure, and reconstruction of certified historic buildings through the provisions of tax credits to property owners
• 20% tax credit for qualified rehabilitation expenditures
• Tax credit can be applied the year that the property is placed in service
• Compliance period is 5 years
BUILDING & MAINTAINING STRONG COMMUNITY RELATIONSHIPS

MARVIN OWENS
MANAGING PARTNER, GENESIS DEVELOPMENT GROUP, LLC
Community Redevelopment Projects can never be based solely on developer’s wishes. Community engagement and buy-in is critical. Create a sense of community ownership.

Key Questions:
• Does your institution host/attend regular community forums?
• Does the development entity include community participation, i.e. CDC, CDFI?
• Does your project include a community reporting mechanism?
Every community has assets, successful development projects must leverage:

• Schools
• Faith Institutions
• Healthcare Facilities
• Cultural Institutions
• Local Businesses
Although development projects are prone to change, agree to some tangible benefits:

- Support for Community Programs
- Minority Contracting Commitments
- Living Wages
- Local Hiring
- Capacity Building
EXPLORE CO-DEVELOPER RELATIONSHIPS WITH LOCAL ENTITIES

Benefits of co-developer relationships

• Fee Generation
• Potential Equity
QUESTIONS & ANSWERS