



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

HUD Office of University Partnership
National Conference
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A photograph of a large, modern building with a prominent circular dome structure at the top. The building is dark-colored with many windows. The sky is clear and blue. The text is overlaid on a dark, semi-transparent rectangular area.

UNIVERSITY PLACE OF JACKSON

Leveraging a University's Strengths to Revitalize
the Surrounding Community

TIM MCCARTY
VICE PRESIDENT, UNIDEV, LLC

THE CHALLENGE

- “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

A WORD OF CAUTION



“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

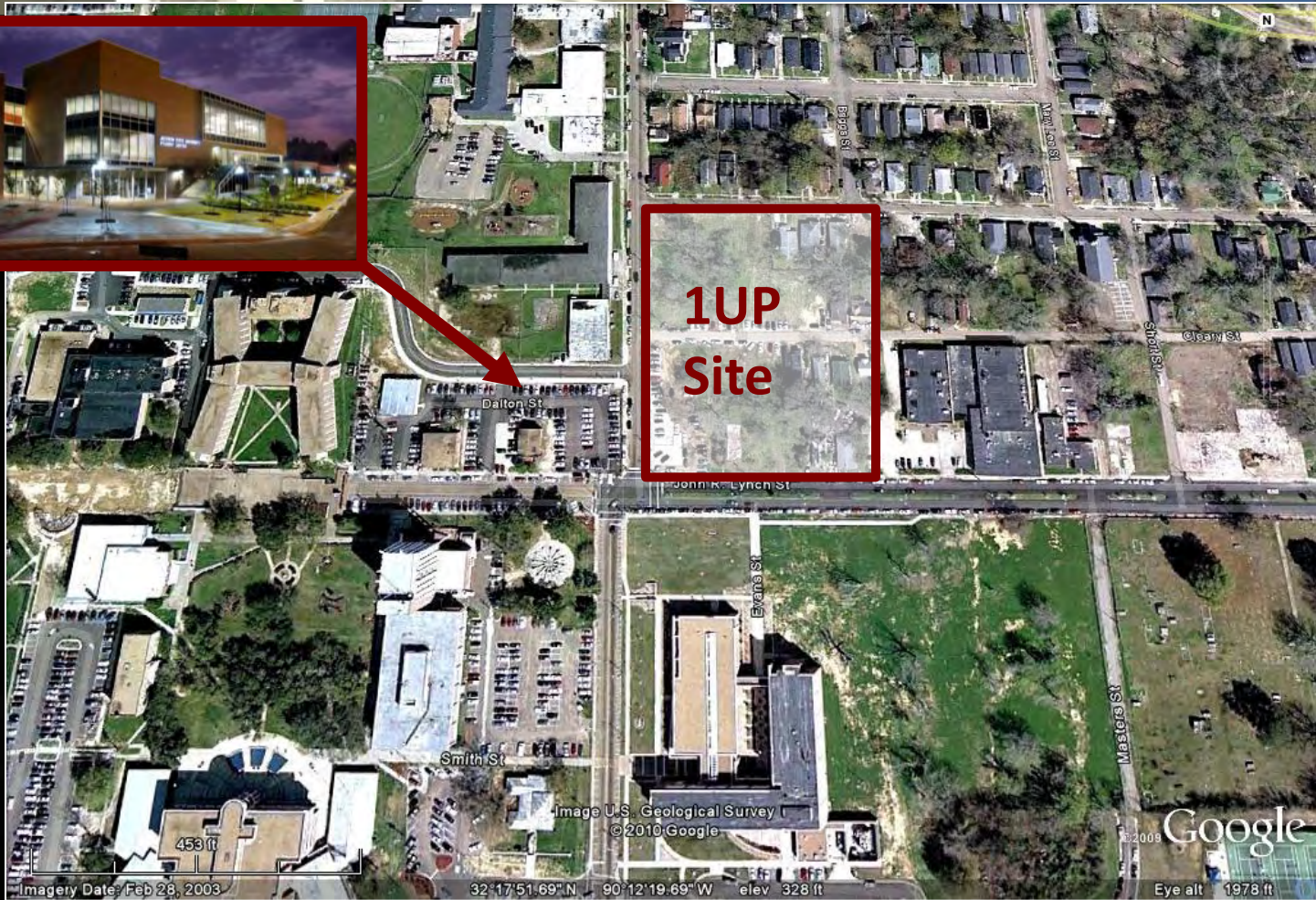
The background of the slide is a photograph of a large, multi-story university building with a prominent white dome on top. The building is set against a clear blue sky. The foreground shows a paved area, possibly a sidewalk or street, and some greenery on the right side. The overall scene is bright and clear.

- Start near the campus.
- Serve the underserved students, faculty and staff.
- Seek out expertise to address the challenges.

PROJECT LOCATION



SITE SELECTION



SPECIFIC CHALLENGES

The background of the slide is a photograph of a large, multi-story building with a prominent dome on top. The building is dark in color, possibly black or dark grey, and has many windows. The sky is a clear, bright blue. The overall scene is brightly lit, suggesting a sunny day.

- 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

NEW MARKETS TAX CREDITS - INVESTOR

- 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 through 3
 - 6% of the QEI in years 4 through 7

QUALIFIED ACTIVE LOW INCOME COMMUNITY BUSINESS (QALICB)

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

QUALIFIED ACTIVE LOW INCOME COMMUNITY BUSINESS (QALICB)

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

DEBT INVESTOR

MAKES A LOAN TO

COMMUNITY DEVELOPMENT ENTITY

MAKES A QUALIFIED EQUITY INVESTMENT IN

REAL ESTATE PROJECT



SPRINGHILL SUITES BY MARRIOTT AT ODU



JSU UNIVERSITY PLACE



ROANOKE HIGHER EDUCATION CENTER





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

NATIONAL HEALTHY FOOD FINANCING INITIATIVE

- **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.

NATIONAL HEALTHY FOOD FINANCING INITIATIVE (CONT'D)

- **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

RENEWABLE ENERGY TAX CREDITS

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

DON'T ASSUME ANYTHING

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?

RECOGNIZE & ENGAGE COMMUNITY ASSESTS

Every community has assets, successful development projects must leverage:

- Schools
- Faith Institutions
- Healthcare Facilities
- Cultural Institutions
- Local Businesses

DOCUMENT THE COMMITMENT

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