



Creative Tax Credit Solutions

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CDFA Illinois Financing Roundtable
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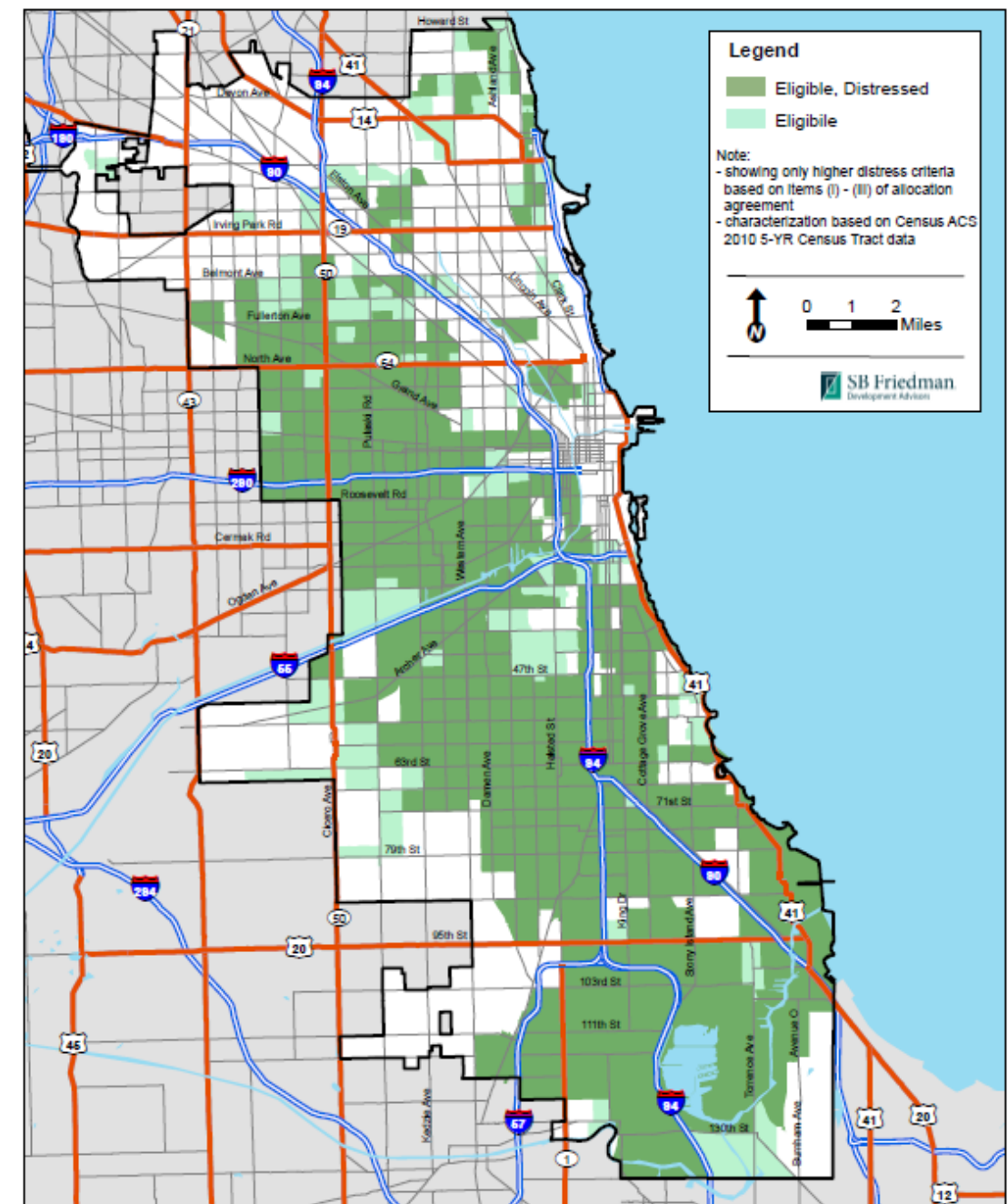
Federal New Markets Tax Credit Program

- ▶ Administered by US Treasury
- ▶ Flexible federal tax credit program that generates below-market capital for community and economic development projects
- ▶ Primarily supports industrial, community facility, and commercial development in qualifying Low Income Census tracts
- ▶ Can also support direct loans/equity investments to operating businesses

- ▶ **The bottom line:**
 1. Can boost available capital for high impact projects/businesses by up to about 20%
 2. The capital is “patient”—7 year term or longer
 3. At the end of the 7 years, NMTC capital can convert to a permanent subsidy

Census Tract Areas of Eligibility

- ▶ NMTC capital must be deployed in qualifying Census tracts
- ▶ Eligibility: Median Family Income of 80% or less of Metro Median; *or*
- ▶ Poverty rate of 20%+
- ▶ Eligibility sourced from 2006-2010 Census American Community Survey
- ▶ To be attractive, an NMTC project also needs to be located in an Area of Greater Economic Distress (multiple definitions/paths to qualify)



NMTC Qualifying Tracts within Chicago

Key NMTC Player: The CDE (Community Development Entity)

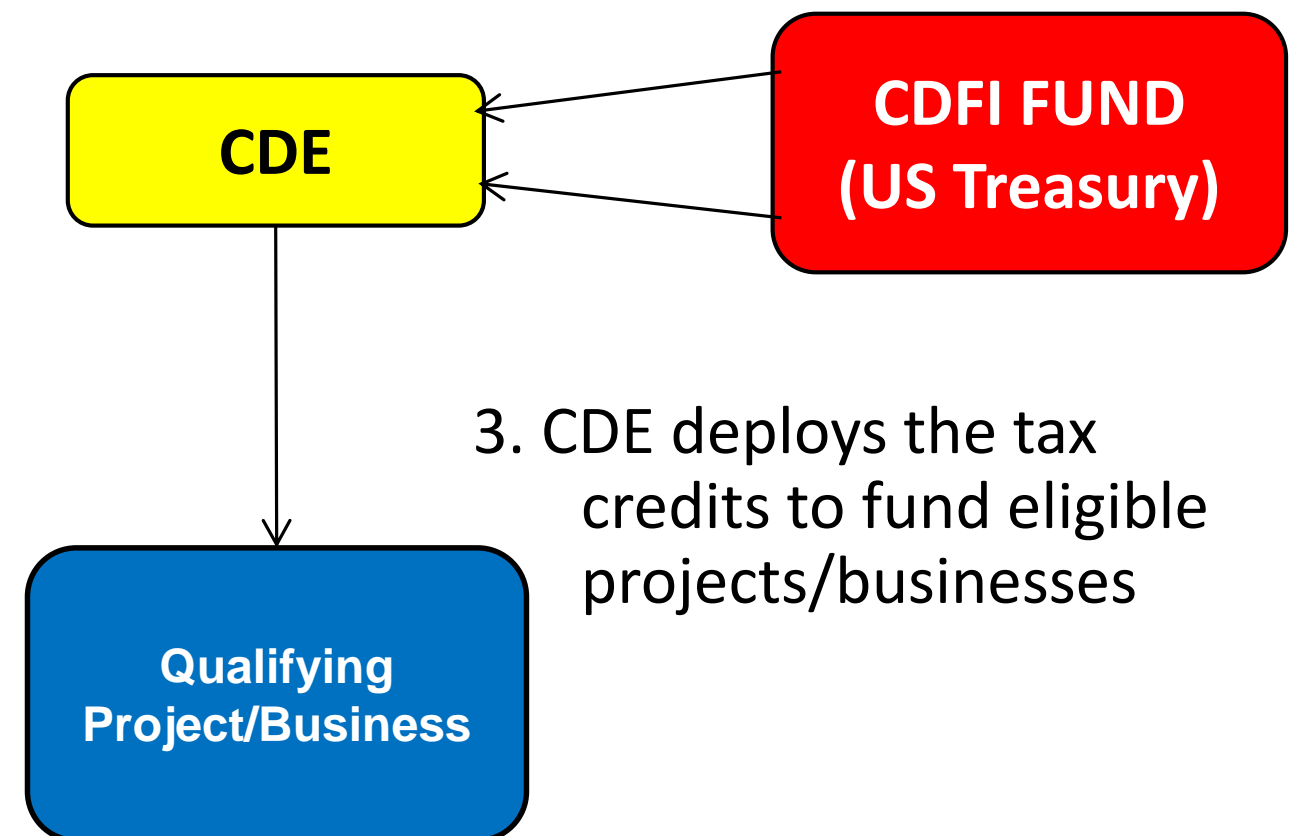
Requirements:

- ▶ Private corporation or partnership entity involved in lending and investment
- ▶ Mission driven: serving and accountable to Low-Income Communities
- ▶ Certified CDEs may apply competitively for NMTC allocation
- ▶ Differing geographic footprints: National, regional, or local

Examples:

- ▶ Chicago Development Fund: City-controlled 501(c)(3) only focusing on City of Chicago
- ▶ IFF: Nonprofit 501(c)(3) focusing on multiple Midwestern states
- ▶ Chase New Markets Corporation: For-Profit bank subsidiary of JPMorgan Chase with a national footprint

1. Certification as a valid CDE
2. Competitive allocation of NMTCs



3. CDE deploys the tax credits to fund eligible projects/businesses

How CDEs Obtain NMTC Allocation: “Beauty Contest” #1

- ▶ Applications for NMTC allocation are increasingly competitive
- ▶ Average CDE success rate: 25-30%
- ▶ Applications focus on community impact from proposed investments, CDE business strategy, and operating plan/track record
- ▶ CDEs under tremendous competitive pressure to do deals that create high community impacts
- ▶ Applications submitted: typically Q3 of each calendar year
- ▶ Awards announced: typically Q2 of following calendar year

Community Impacts- How CDEs are Evaluated

Twelve Key Community Impact Categories

1. Job Creation
2. Quality of Jobs
3. Jobs accessible to Low-Income Persons and LIC residents
4. Commercial goods and services to underserved populations
5. Community goods and services to underserved populations
6. Financing minority businesses
7. Flexible lease rates to disadvantaged/high impact tenants
8. Affordable housing units
9. Environmentally sustainable outcomes
10. Healthy foods access
11. Projects integral to implementation of community-based plans
12. Highly catalytic projects

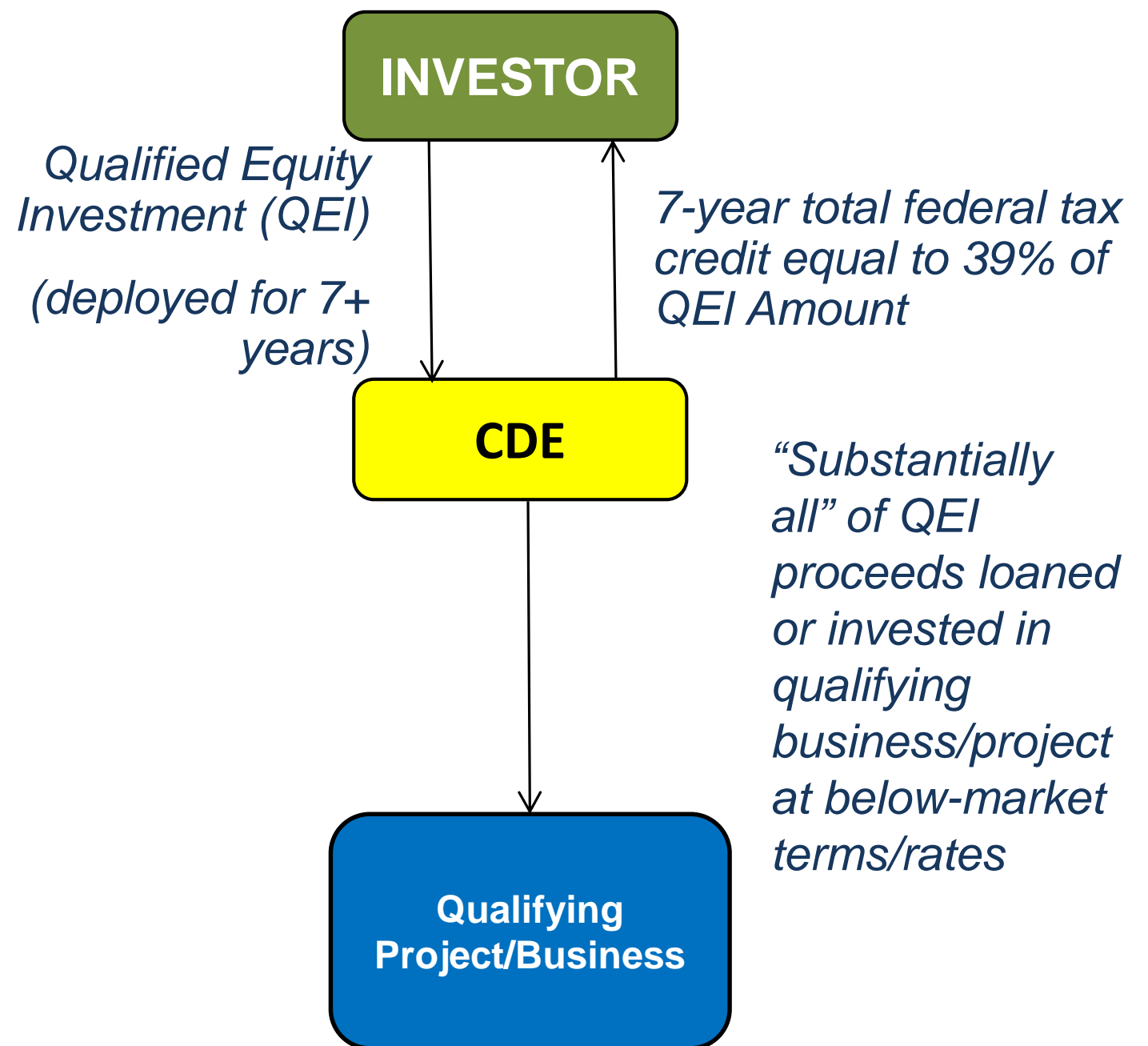
How Projects Obtain NMTC Financing from CDEs: “Beauty Contest” #2

- ▶ Annual demand for NMTCs (high quality, ready-to-go projects) probably in excess of \$6-7 billion per year
- ▶ Supply is fixed at \$3.5 billion per year
- ▶ More necessary to consider the NMTC “Sales Cycle” than ever before
- ▶ Finding CDEs that focus on the right asset classes, locations, etc.
 - ▶ Rural transactions are especially attractive to CDEs focusing on this area!
- ▶ Addressing closing timeframe
- ▶ Demonstrating need for NMTCs but also transaction feasibility and closing certainty
- ▶ Telling the community impact story effectively

General Capital Flow

The NMTC Investment

- ▶ Unlike Historic, Low Income Housing, or Renewable Energy Investment tax credits, NMTC is triggered by investment in CDE as opposed to the project
- ▶ Investor makes a capital contribution into a CDE
- ▶ CDE allocates 7-year tax credit to Investor
- ▶ Typical investors: large banks with Community Reinvestment Act obligations
- ▶ CDE must deploy QEI capital into qualifying businesses/projects



Qualified Businesses Eligible to Receive NMTC Financing

- ▶ **Substantially All of capital received by CDEs must be deployed as:**
Qualified Low-Income Community Investments (QLICIs) provided to
Qualified Active Low-Income Community Businesses (QALICBs).

- ▶ **QALICBs are generally one of three types:**
 1. **Commercial Real Estate Projects**
 - ▶ Derives > 20% of gross income from commercial activities
 - ▶ Industrial, office, retail, mixed-use, etc.

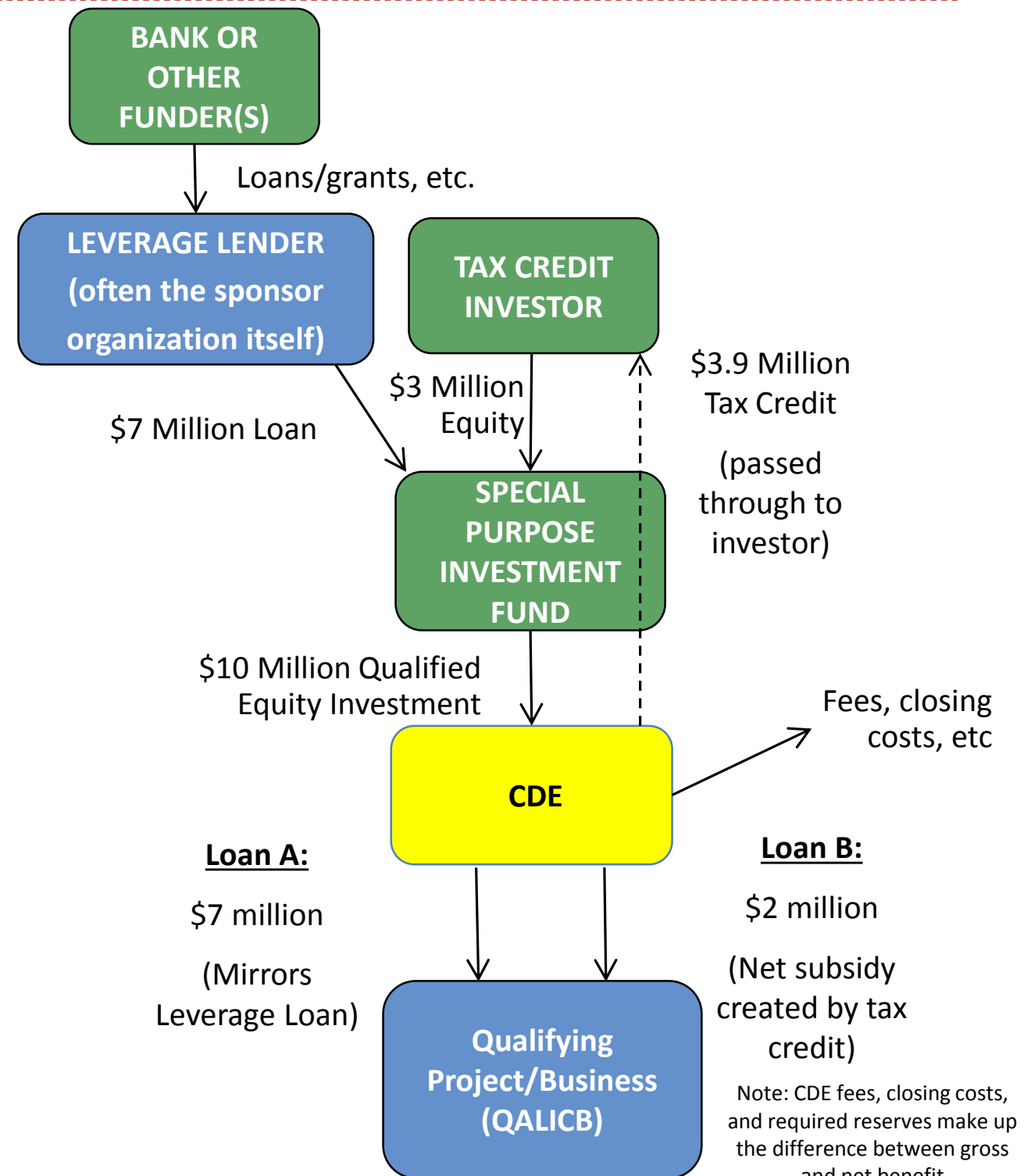
 2. **Owner-Occupied Facilities**
 - ▶ E.g. grocery stores, nonprofit community facilities, industrial businesses, etc.

 3. **Operating Businesses**
 - ▶ Businesses located in and serving low-income communities

How Transactions Work: The “Leverage Model”

- ▶ Investor borrows about 70% of total project funding sources from “Leverage Lender” to make the full QEI
- ▶ Leverage Loan sources can include bank debt, philanthropy, Sponsor equity, grant funds, and a range of other sources
- ▶ NMTC equity investment generates the subsidy in the transaction
- ▶ Because NMTC investor’s equity is underwritten based on tax benefits, significant flexibility to structure Loan B as a long-term subsidy to project

\$1 of Allocation = \$1 of QEI = \$0.39 of tax credit = about \$0.20 of subsidy



Affordable Community Energy, Inc.

- ▶ Sponsor: mission-driven Energy Service Company (ESCO); affiliate of Hispanic Housing Development Corporation
- ▶ Project: retrofits to multiple affordable rental housing properties (11 total; over 1,000 units)
- ▶ Revenue source: capturing a portion of the “spread” between original building utility bill and the reduced energy cost post-retrofit
- ▶ NMTC Transaction leveraged by bridge Loan repayable with 1603 “cash in lieu” grant for Renewable Energy Investment Tax Credit
- ▶ Next phase will use REITC tax equity



Greater West Town Project (GWTP)

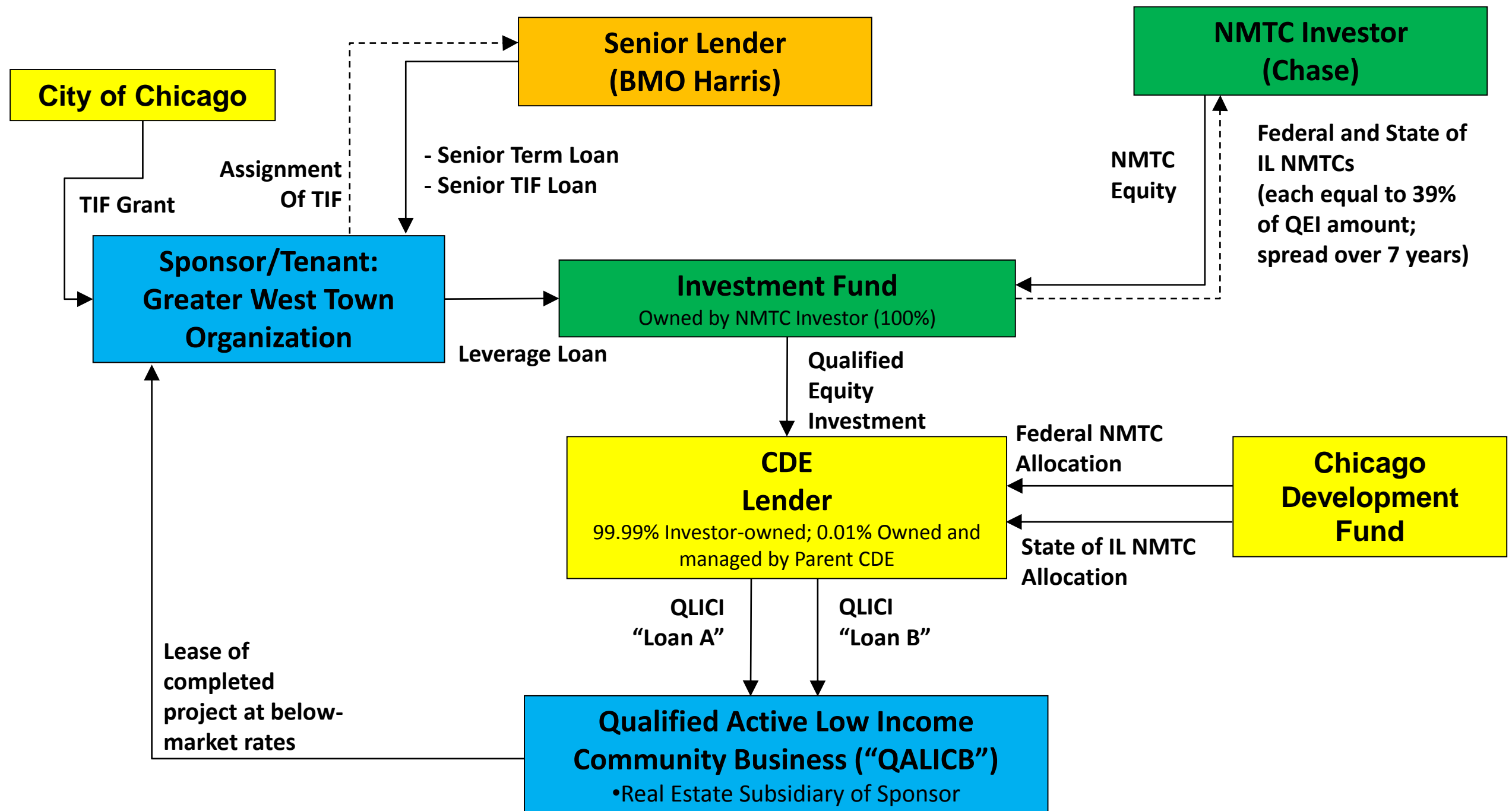
- ▶ \$10.2 million LEED rehab of a former factory building
- ▶ Expansion of a successful job training program in high-tech woodworking and shipping/logistics
- ▶ 85%+ placement rate of job trainees
- ▶ Attraction/retention of custom cabinetry/furniture companies to City industrial corridors
- ▶ Combination of TIF, State, and Federal NMTCs



State of Illinois NMTC Program

- ▶ Launched in 2008
- ▶ 39% credit against income and other state taxes; calculated as a percentage of the Qualified Equity Investment
- ▶ Non-competitively allocated to CDEs on a “first come, first-served” basis
- ▶ Only usable for owner-occupied real estate or non-real-estate transactions
- ▶ Can be used as a standalone source or “piggybacked” with federal NMTCs
- ▶ No more than \$10MM of allocation per project

Greater West Town Deal Structure



Shops & Lofts @ 47

- ▶ Corner of 47th & Cottage Grove in the Bronzeville neighborhood
- ▶ 96-unit mixed-income residential
 - ▶ 28 CHA replacement units
 - ▶ 44 LIHTC units
 - ▶ 24 Market-rate units
- ▶ 55,000sf retail anchored by 41,000sf full-service grocery
- ▶ Located in USDA-designated Low Income/Low Access Area
- ▶ Retail “Leakage” analysis suggested \$46 million of exported grocery sales from store trade area



Image: Community Builders and Skilken Development

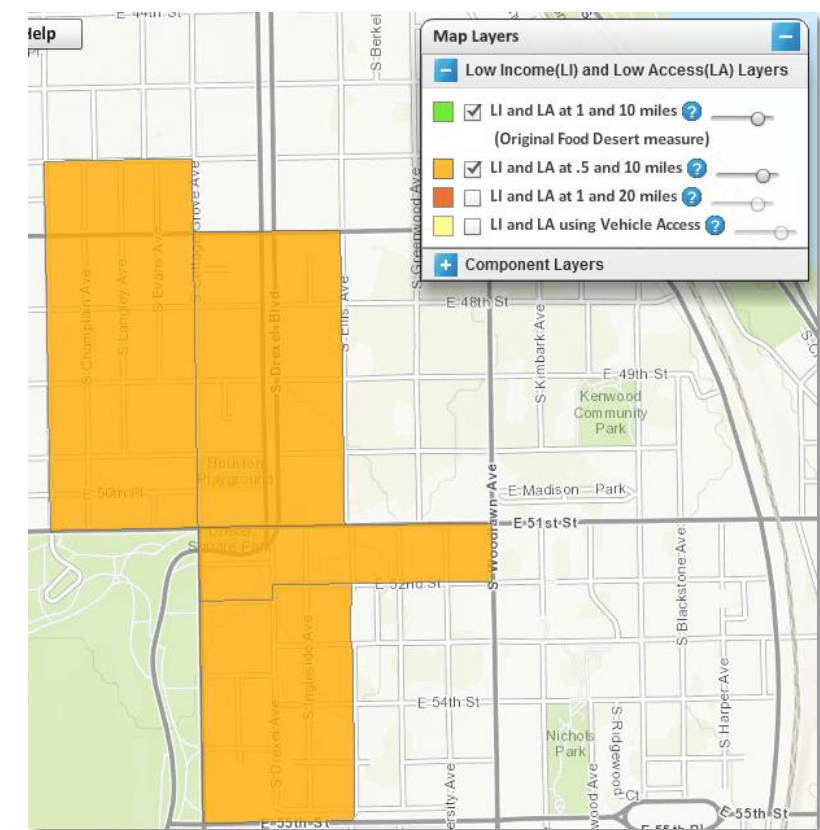


Image: US Dept of Agriculture

The Capital Stack(s)

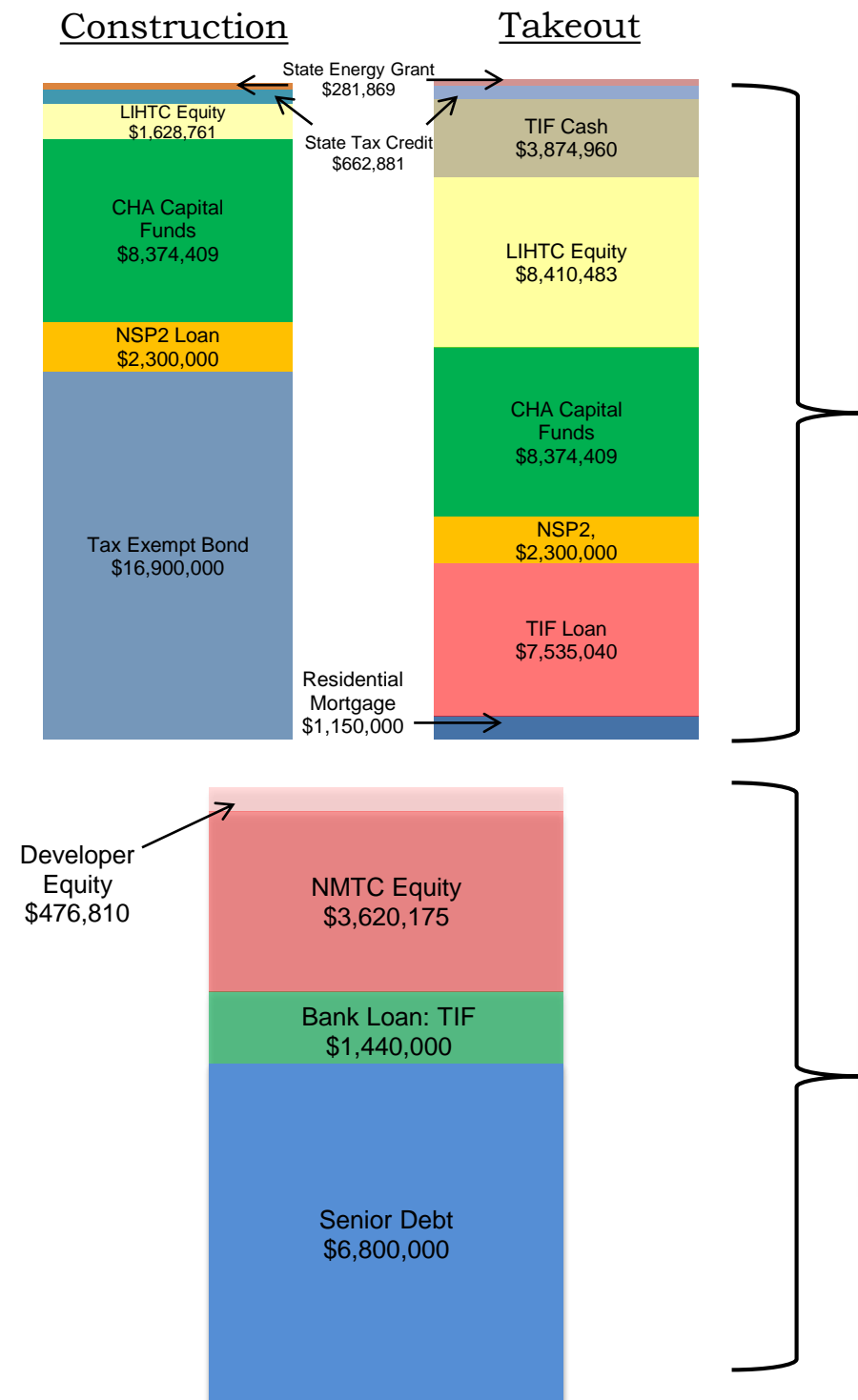


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Discussion

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- ▶ Real Estate Financial Analysis
- ▶ Tax Increment Financing
- ▶ New Markets Tax Credits
- ▶ Revitalization Strategies & Implementation
- ▶ Fiscal & Economic Impact
- ▶ Infrastructure Finance

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