

GRAND RIVER COMMUNITY DEVELOPMENT

“Building a Brighter Future for the Next Seven Generations”



NEW MARKET TAX CREDITS

GRAND RIVER
COMMUNITY DEVELOPMENT, LLC

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7 Greatest Economic Needs?

1. Employment
2. Housing
3. Tourism
4. Healthcare
5. Manufacturing
6. Infrastructure
7. Commercial Offices & Retail



Current Types of Tax Credits

1. Low Income Housing Tax Credits (LIHTC)
2. New Market Tax Credits (NMTC)
3. Historic Tax Credits (HTC)



New Market Tax Credits

- Enacted as part of the Community Renewal Tax Relief Act of 2000
- To encourage investments in low-income communities that historically have had poor access to capital
- Community Development Financial Institutions Fund (“CDFI Fund”) allocates allocation authority and oversees compliance with NMTC Program rules

What is NMTC?



- The NMTC Program provides investors with credits against federal income tax in exchange for capital investments in businesses and commercial projects in low-income communities.
- Qualified businesses benefit from the equity investments through additional equity capital.

What is NMTC?



- NMTC projects are “recession resistant” aspect so long as the program is extended by Congress
- The NMTC program allows private developers to access public funds to make projects in low income communities feasible
- The program’s flexible structure allows implementation in a wide variety of projects



New Market Tax Credits

What Types of Projects are Allowed?

- Commercial Offices & Retail Services
- Mixed Use Properties (residential & commercial)
- Factories & Industrial Facilities
- Community Centers
- Educational Facilities
- Entertainment & Cultural Facilities
- Health-related facilities
- Small Business Loan Funds
- Businesses that buy, develop, build, rehabilitate or sell residential property



Benefit of NMTC?

- Projects that pose too much credit risk may become feasible through the inclusion of NMTC investor equity in the capital stack
- Developers typically pay interest-only loan payments during the 7-year compliance period with a balloon payment at the maturity
- 39% tax credit provides additional funds to capital stack making debt service less expensive



New Market Tax Credits

Qualification Criteria?

- At least 50% of revenue derived from project
- At least 40% tangible property located in a low income community
- At least 40% of employees' services are performed in a low income community
- Income from rental of residential units may not account for more than 80% of revenue



New Market Tax Credits

High Distress Areas

1. Severe Distress: Poverty rate $>30\%$; median family income $<60\%$ of statewide median; unemployment rate 1.5 times the national average
2. Targeted Populations: At least 60% owned, employed, or customers are low-income
3. Qualified non-metropolitan counties



New Market Tax Credits

High Distress Areas – Require 2 Areas

- **Poverty Rate >25%; median income <70%; or unemployment 1.25x >**
- Fed. Designated Empowerment Zone, Enterprise or Renewal Community
- SBA Designated HUB Zone
- Brownfield Site
- HOPE VI Redevelopment Plan
- **Native American or Alaskan Native areas or redevelopment areas by the AI/AN or appointment authority**
- Colonias Areas
- Medically underserved areas
- State Enterprise Zones – economically distressed communities
- Areas of Major Disaster Declaration
- Businesses certified by Dep. Of Commerce under Firms Program
- Businesses located on Food Deserts



New Market Tax Credits

Typical Awards

- Equity Range of 30-45% of total project
- 7 Year Tax Compliance Period
- Great for Projects that the Tribe has already determined to develop
- Allows for Building of Healthcare Infrastructure

Example of NMTC

The Math

NMTC allocation	\$10,000,000
NMTC rate	<u>39%</u>
Tax credits	\$3,900,000
Investor monetization	<u>\$0.85</u>
Investor equity	\$3,315,000
Less estimated closing cost and fees	<u>\$775,000</u>
Net NMTC cash to the project	\$2,540,000



Funding Sources

1. USDA Rural Development
2. Funding from other tribes
3. Government grants
4. Tribe can “Self Fund”

Recapture



Recapture can occur in any of the following circumstances:

- The CDE ceases to be a CDE
- The CDE ceases to use “substantially all” of its cash for making a QLICI
- An investor redeems an equity investment in a CDE

Pros vs. Cons



PROS

- Projects are completed which may not have happened without NMTC
- Focus on creating substantial community benefits i.e job creation
- Instant equity into a large commercial project

CONS:

- Strong competition to obtain tax credits
- Strict Complex issues
- Costly upfront fees and many moving parts

New Market Tax Credits

- Whole Health Clinic - 21,000 sq. ft. building on the 3.2 acre site
- Whole Health Clinical Group's goal is to improve the physical health status of adults with mental illness and those with co-occurring disorders



Multi-Tax Credit Development

- Germania was built in 1896 and on the Historic Preservation list since 1983
- \$22 million renovation - mixed income / mixed use
- 46 market rate apartments & 44 tax credit apartments
- 9,000 sq. ft. first floor commercial and office space
- State and Federal Historic Preservation Commissions Approved





New Market Tax Credits

El Rio Community Health Center

<http://nmtccoalition.org/stories/healthcare/>



New Market Tax Credits

NMTC Projects Nationwide

https://www.novoco.com/sites/default/files/atoms/files/nmtc_at_work_nmtc_coalition_121416.pdf



New Market Tax Credits

Project Breakout Groups

1. Infrastructure
2. Commercial / Mixed Use
3. Healthcare



Grand River Community Development

Consultation

- Health & Human Services
- Program Development
- Organizational Assessment
- Strategic Planning



Grand River Community Development

Economic Development

- Tax Credits
- Job Creation
- Residential Development
- Commercial Development



Grand River Community Development

Construction

- Design Build
- Construction Management
- Value Engineering
- Owner Representation

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Question / Comments



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