GRAND RIVER COMMUNITY DEVELOPMENT

“Building a Brighter Future for the Next Seven Generations”

NEW MARKET TAX CREDITS

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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

<table>
<thead>
<tr>
<th>The Math</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>NMTC allocation</td>
<td>$10,000,000</td>
</tr>
<tr>
<td>NMTC rate</td>
<td>39%</td>
</tr>
<tr>
<td>Tax credits</td>
<td>$3,900,000</td>
</tr>
<tr>
<td>Investor monetization</td>
<td>$0.85</td>
</tr>
<tr>
<td>Investor equity</td>
<td>$3,315,000</td>
</tr>
<tr>
<td>Less estimated closing cost and fees</td>
<td>$775,000</td>
</tr>
<tr>
<td>Net NMTC cash to the project</td>
<td>$2,540,000</td>
</tr>
</tbody>
</table>
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

New Market Tax Credits

Project Breakout Groups

1. Infrastructure

2. Commercial / Mixed Use

3. Healthcare
Consultation

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