

New Markets Tax Credits

Capital for Kansas City's Underserved Markets

January 2009

New Markets Tax Credit Summit - Jan. 21



Central Bank of Kansas City and the City of Kansas City, Mo., are organizing the New Markets Tax Credit Summit on Jan. 21 to further increase awareness of the new markets tax credit program and to continue to promote the value and importance of the tax credits in helping to stimulate investment in the city's highly distressed communities. The Federal Reserve Bank of Kansas City will host the event. The agenda for the summit will

include a series of sessions, including panelists who will discuss their experiences using new markets tax credits, a case study presentation on a new markets tax credit transaction and a presentation on Central Bank's recently funded new markets tax credit loan program. The summit will draw a wide audience, including developers, real estate professionals, real estate and tax attorneys and representatives from financial institutions, government and non-profit organizations. Thomas M. Hoenig, president, Federal Reserve Bank of Kansas City will deliver opening remarks.

The summit will be held from 8:30 a.m. to 12:15 p.m. at the Federal Reserve Bank building, located at One Memorial Drive in Kansas City, Mo. Breakfast will be provided starting at 7:30 a.m.

If you are interested in learning more about the summit and/or new markets tax credits, contact Paula Willett, Central Bank of Kansas City, at (816) 483-1210 or Ruben Alonso III with the City, at (816) 513-1021.

Case study: Milwaukee Charter School

Unique financing package helps charter school grow

The Academy of Learning and Leadership, a City of Milwaukee authorized independent public charter school, completed an \$11 million transaction using new markets tax credits and bond financing. The funding allowed the school to build and equip a 24,000-square-foot building in the city's highly distressed Lindsay Heights neighborhood, refinance the mortgage on an existing 20,000-square-foot building and acquire additional land for future expansion.



New markets tax credits were critical in financing the project. Because charter schools typically do not have sufficient collateral to get conventional financing, many schools are forced to find other funding sources. Combining the tax credits with the bond issue created a financing structure that provided lower-than-market rate financing and instant equity after seven years.

The Redevelopment Authority of the City of Milwaukee issued \$8.5 million worth of taxable and tax-exempt bonds that were combined with funds generated by the allocation of \$11 million in new markets tax credits. Morgan Stanley acted as the purchaser of the federal tax credits, which are distributed over seven years. Both the qualified equity investment resulting from Morgan Stanley's purchase of the tax credits and the bond proceeds were passed through a single purpose entity to facilitate a qualified low income community investment in The Academy of Learning and Leadership.

After the tax credit is fully recognized by Morgan Stanley, the academy can buy Morgan Stanley's equity investment interest for an agreed-upon amount of \$80,000. That means the school will essentially be the collector of its remaining \$1.7 million debt on the equity investment, which gives the school instant equity in its building.

The academy's expansion should also be beneficial to the Lindsay Heights neighborhood, which was part of the goal when school locations were being considered.

Camille Mortimore, executive director of the academy, said schools play a critical role in the development of distressed areas. "It seems that the only reason to be using new markets tax credits shouldn't be business, because schools are essential to the redevelopment of our cities," she said.

information taken from The Business Journal of Milwaukee, July 27, 2007

Partnership Spotlight: Central Bank funds loan pool with NMTCs



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Central Bank of Kansas City creates \$6 million new markets tax credit loan pool

Central Bank of Kansas City recently funded a \$6 million loan pool for small business loans in highly distressed census tracts in Kansas City, Mo. Central Bank used part of its \$50 million new markets tax credit allocation and partnered with an investor to help capitalize the loan pool.

Typically, new markets tax credit leverage structures require at least a \$4 million transaction size and a third-party lender. The \$6 million loan pool will facilitate business financing for smaller sized transactions by offering loans from \$100,000-\$4,000,000 with below-market interest rates and at least four other flexible features (higher loan-to-value ratio, longer than standard amortization and interest only period, lower debt service coverage ratios and lower credit standards), mostly to qualified small businesses.

The programs details include:

- Central Bank of Kansas City, through a subsidiary community development entity, will make various loans to qualified active community businesses in Kansas City, Mo.
- The loans will have terms as short as one year or as long as seven years, depending on the need of the borrower and Central Bank of Kansas City's underwriting requirements
- Each loan will meet the terms and conditions of Central Bank of Kansas City's new markets tax credit application, including providing loans with lower-than-market-rate interest and/or five flexible terms and conditions
- The loans only will be made in highly distressed, low-income areas of Kansas City, Mo.
- The maximum term for loans is seven years, although most loan terms will be shorter than seven years so benefits can be spread over more transactions.

Small businesses interested in the loan pool program should contact Paula Willett with Central Bank of Kansas City at (816) 483-1210.

New markets tax credit impact data

Currently, more than \$12.1 billion in qualified equity investments have been issued by community development entities. This figure represents more than 75 percent of the \$16 billion of allocations issued by the Community Development Financial Institutions Fund through the first five award rounds. Data from previous rounds indicate that the ability to raise qualified equity investments is progressing at a healthy rate. In less than two years since receiving their allocation agreements, 2006 allocatees have finalized more than \$3 billion in qualified equity investments, which is more than 75 percent of the total new markets tax credit allocation of \$4.1 billion.

Through 2007, community development entities that have received allocations have invested approximately \$9 billion in new markets tax credit proceeds to approximately 2,000 qualified businesses in low-income communities, supporting more than \$30 billion in total project costs.

New markets tax credit investments have helped support the development or rehabilitation of more than 68 million square feet of real estate in low-income communities, creating 210,000 construction jobs and helping to create or maintain more than 45,000 of full-time-equivalent jobs at businesses operating in low-income communities.

Quick fact

The new markets tax credit program, which is administered by the Community Development Financial Institutions Fund within the U.S. Department of the Treasury, was enacted in December 2000 as part of the Community Renewal Tax Relief Act.

Upcoming news:

- **About the Community Development Financial Institutions Fund**
- **Introducing the Kansas City, Missouri Community Development Entity governing board**

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