

New Markets Tax Credits

Capital for Kansas City's Underserved Markets

November / December 2008

Introducing the City of Kansas City, Mo., Community Development Entity

The City of Kansas City, Mo., Community Development Entity is designed to serve and provide investment capital for low-income communities in Kansas City, Mo. The entity recently was awarded \$40 million in new markets tax credit allocation authority, which increases its ability to effectively carry out its mission to facilitate private investment in the city's low-income communities.

Over the next couple of months, the City's Community Development Entity will formalize its new markets tax credit program to ensure this invaluable resource is used effectively and creates the greatest impact in the city's low-income communities. In addition to finalizing an allocation agreement with the CDFI Fund of the U.S. Department of Treasury, the entity will be developing an application process for its allocation and identifying opportunities to promote and increase awareness in the community. Residents can keep up with the entity's efforts and the City's new markets tax credit program through this newsletter or by visiting <http://www.kcmo.org/finance.nsf/web/newmarket>.

City of Kansas City, Mo., Community Development Entity Governing Board

The City of Kansas City, Mo., Community Development Entity maintains accountability to residents of low-income communities in its designated service area (Kansas City, Mo., city limits) through representation on its governing board. The board requires a minimum of 20 percent of its members to either reside in a low-income community within the designated service area or represent the interests of the residents of a low-income community. The governing board of the City's Community Development Entity includes:

- Wayne A. Cauthen (or designee), city manager, City of Kansas City, Mo.
- Jean-Paul Chaurand, senior vice president, Greater Kansas City Community Foundation
- Joseph F. Egan, director/chairman, Board of Commissioners, Housing Authority of Kansas City
- Margaret J. May, executive director, Ivanhoe Neighborhood Council
- Wanda J. Gunter (designee of the chief financial officer/director of finance), deputy director, Finance Department, City of Kansas City, Mo.

Case study:

Jim Wiley Community Center, White Center, Wash.

The Jim Wiley Community Center was recently acquired and renovated through a \$11.5 million new markets tax credit transaction partnership of the Greenbridge Foundation, King County Housing Authority, Washington Mutual Community Development Inc. and ESIC New Markets Partners LP, a community development entity controlled by Enterprise Community Partners. The 22,265-square-foot community center is located in the heart of the Greenbridge HOPE VI redevelopment project in White Center, Wash. The Greenbridge HOPE VI revitalization project will replace 569 units of dilapidated public housing with a vibrant mixed-income community that will be home to more than 1,000 households.

The community center will house non-profit tenants including the SW King County Boys & Girls Club and Neighborhood House, and will provide classroom space for Highline Community College. Through programs by the SW King County Boys & Girls Club,



Photo by Amber Trillo

Neighborhood House and Highline Community College, the community center is able to offer youth sports and mentoring, computer training, tutoring, training and assistance for adults with children, nutritional counseling and English as a second language classes.

The project was made possible in part by the participation of Enterprise Community Partners Inc. and its community development entity, ESIC New Markets Partners LP. Using a leveraged new markets tax credit financing structure, an \$11.5 million investment fund was capitalized with a \$7.9 million loan from King County Housing Authority and \$3.6 million in new markets tax credit created equity

from Washington Mutual Community Development Inc. The investment fund made a qualified equity investment into an Enterprise-managed community development entity. The community development entity then made an approximately \$11 million, 1 percent interest only loan to finance the acquisition and rehabilitation of the Jim Wiley Center (<http://www.enterprisecommunity.org/>).

State of Missouri new markets tax credit program

Purpose

Provide supplemental funding for investment entities that have been approved for the Federal New Markets Tax Credit Program in order to direct more funding to Missouri projects. The program provides state and federal tax credits to investors that make investments into approved funds, which will make investments in eligible projects located in low-income census tracts in Missouri. This program does not provide tax credits directly to businesses.

Eligibility criteria

A community development entity may make an investment (loan or equity) into a Qualified Active Low-Income Community Business, which is any corporation, including a non-profit corporation or partnership that meets the following criteria for any taxable year:

- At least 50 percent of total gross income of the Qualified Active Low-Income Community Business is derived within any low-income community. A substantial portion of the use of the tangible property of the Qualified Active Low-Income Community Business (whether owned or leased) is within any low-income community.
- A substantial portion of the services performed by its employees are performed in any low-income community.
- Less than 5 percent of the average of the aggregate unadjusted bases of the property of the business is attributable to collectibles, other than collectibles that are held primarily for sale to customers in the ordinary course of such business; and
- Less than 5 percent of the average of the aggregate unadjusted bases of the property of the business is attributed to non-qualified financial property. Any business that derives or projects to derive 15 percent or more of its annual revenue from the rental or sale of real estate shall not be considered to be a Qualified Active Low-Income Community Business.

Eligible areas

Low-income communities are census tracts that have a poverty rate of 20 percent or more, or the median income is below 80 percent of the greater than (a) statewide median income; or (b) metropolitan median income.

Eligible applicants

Community development entities that have been allocated federal new markets tax credits for Missouri. The state new markets tax credits are provided to investors that invest in the funds established by a community development entity for projects in Missouri.

Program benefits/eligible uses

The tax credit amount shall be equal to the applicable percentage of the adjusted purchase price paid to the issuer of such qualified investment:

- 0 percent for each of the first two credit allowance dates
- 7 percent for the third credit allowance date
- 8 percent for the next four credit allowance dates

Funding limits

The amount of tax credit claimed shall not exceed the amount of the taxpayer's state tax liability for the tax year for which the tax credit is claimed. The maximum state tax credit in any fiscal year for all community development entities is \$15 million. There is no limit per entity, and state tax credits are allocated on a first come basis.

State new markets tax credit program contact information:

Missouri Department of Economic Development
 Division of Business and Community Services
 Development Finance Team
 301 W. High St., Room 770
 P.O. Box 118
 Jefferson City, MO 65102
 Phone: (573) 751-4539 Fax: (573) 522-4322
 E-mail: dedfin@ded.mo.gov

Partnership spotlight



Central Bank of Kansas City is still accepting applications for new markets tax credit eligible projects. Central Bank of Kansas City was awarded \$50 million in allocation authority from the CDFI Fund last year. The City participated in the award-winning application and has been working with Central Bank of Kansas City to deploy new markets tax credits in the community. Contact Paula Willett at Central Bank of Kansas City or Ruben Alonso at the City of Kansas City, Mo., for more information on how to apply.

Quick fact

The U.S. Department of the Treasury's New Markets Tax Credit Program was named one of the top 50 government programs in the prestigious 2008 Innovations in American Government Award.

Upcoming news:

- **New Markets Tax Credit Summit – save the date: Jan. 21, 2009**
- **Central Bank of Kansas City Loan Pool program**
- **New markets tax credits and charter schools**

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