

# New Markets Tax Credits 101



## **SPEAKING THE LANGUAGE**

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# Here is what you want to do...



- You want to fund a project.
- You have some of the capital it needs, but there is a gap.
- You qualify for NMTCs so you put together a team to get NMTC funding.
- You go through several steps and receive the funding.
- You have what you need to complete your project.



# Here is what you have to do...



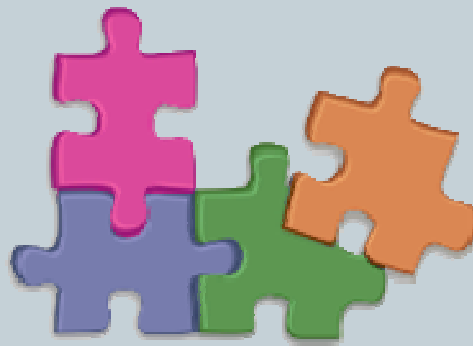
- Capitalize a **QEI**.
- Ensure the **QEI** is appropriately sized to provide the **B QLICI** you need.
- Find a **CDE**, a leverage lender and **NMTC** Investor.
- Set up a leverage fund, establish a **sub-CDE**, fund the **QEI** and receive **two QLICIs**.
- Ensure that the project has a reasonable expectation of remaining a **QALICB**.



# Do those two lists mean the same things?



- Yes.
  - Learn the language.
  - Understand what the pieces of the puzzle are (if not how they fit together).
  - Understand why you need all of these pieces in the first place.



# Who receives the money?



- The Qualified Active Low Income Community Business (**QALICB**) – the project.
  - Located in a low income community (**LIC**): census tract with 20 percent poverty or under 80 percent of median family income.
  - Engaged in a qualified line of business: not gaming, liquor stores, massage parlors, golf courses, residential rental, farming and a list of others.



# Who receives the money?



- The Qualified Active Low Income Community Business (**QALICB**) – the project.
  - A partnership or corporation for federal tax purposes.
  - Usually legally, technically separate from the project sponsor.
  - The funding it receives comes in the form of qualified low income community investments or **QLICIs**.



# Who provides the money?



- The Community Development Entity (CDE) – the conduit:
  - Primary mission of serving LICs.
  - Provides loans, equity investments (QLICIs) and financial counseling and other services (FCOS) to QALICBs and sometimes other CDEs.
  - Makes investments for economic reasons and mission reasons.



# Where does the CDE get the money?



- The leverage fund—aka the investment fund.
  - A single purpose investment vehicle, usually an LLC.
  - 100 percent owned by the NMTC investor in what is known as a “leveraged” transaction.
  - The leverage fund makes a qualified equity investment or QEI into the CDE.



# Where does the leverage fund get the money?



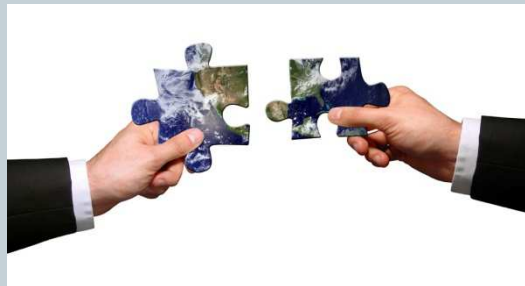
- **NMTC Investor:**
  - Usually a bank, investment bank, insurance company or large corporation.
  - Usually wants NMTCs only:
    - ✦ 5 percent per year for 3 years
    - + 6 percent per year for 4 years for a total of 39 percent over 7 years.
  - The NMTCs are a percentage of the QEI.



# Where does the leverage fund get the money?



- Could be virtually any party to the transaction.
  - Sometimes it's the project sponsor.
  - Sometimes it's the NMTC investor.
  - Sometimes it's another financial institutions that is not investing in the NMTCs.
  - Sometimes it's another non-profit funder.



# What does everyone get out of the deal?



- **QALICB**: receives project funding. The NMTC investment less fees and expenses; usually about 20 percent of project costs.
- **CDE**: receives fees or repayment of funds depending on mission and products.
- **Leverage Fund**: N/A, just exists to pool funds for NMTC investor.
- **NMTC investor**: tax benefits
- **Leverage lender**: repayment or other mission reasons

