

New Markets Tax Credits

Building Blocks for Kansas City's Future



KANSAS CITY
MISSOURI



Kansas City, Missouri Community Development CDE

NMTC Program

- Part of the Community Renewal Tax Relief Act of 2000, Section 45D of the Internal Revenue Code
- Administered by Community Development Financial Institutions (CDFI) Fund (U.S. Department of the Treasury)
- Purpose is to facilitate investment in low-income communities
- Geographically-based program eligibility with activities limited to qualified census tracts

Kansas City, Missouri CDE

- Public benefit corporation (formed in 2005)
- Principal purpose to serve or provide investment capital to LICs or LIPs
 - Technical assistance
 - Financial assistance

KC CDE – NMTC Program

- Awarded NMTC allocation authority
 - \$40MM (2008)
 - \$35MM (2009)
- Mission based
 - Targeted use
 - Programmatic priorities

KC CDE Allocation – Targeted Use

- Highly distressed census tracts characterized by the following:
 - > 30% poverty rate
 - 60% of median family income
 - 1.5x unemployment rate – national average

KC CDE – Programmatic Priorities

- Targeting businesses as well as mixed-use, adaptive re-use and infill projects that provide support:
 - Living wage jobs/workforce development support
 - Provision of vital goods and services to LICs
 - MBE/WBE/DBE utilization
 - Environmental/brownfields remediation
 - “Green” building practices, i.e. LEED
 - Affordable housing

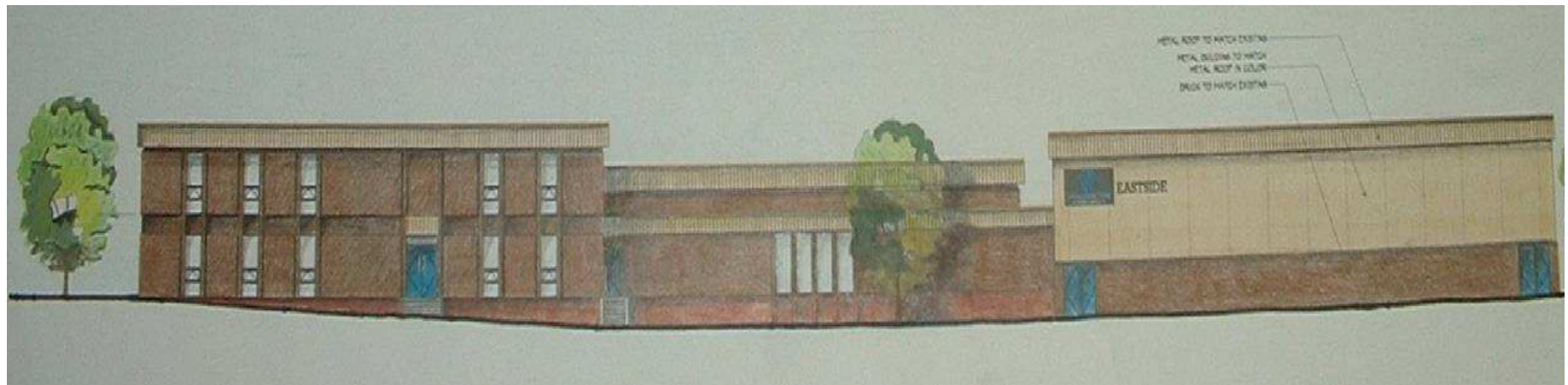
Projects – Reeves-Wiedeman Co.



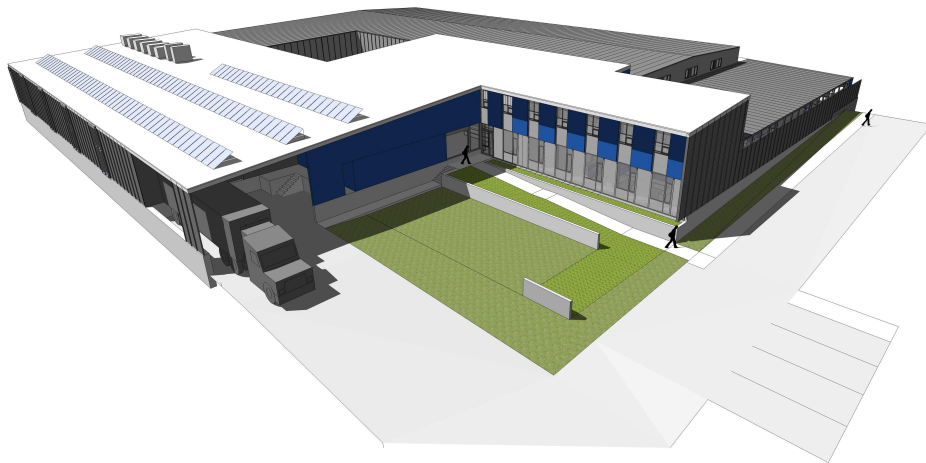
- 3635 Main Street
- \$5MM investment
- 15 new jobs created
- LEED™ Gold certified (planned)

Projects – Boys & Girls Club

- 2405 Elmwood
- \$5MM investment
- 13 new jobs created



Projects – Posty Cards, Inc



- 1600 Olive Street
- \$6MM investment
- 22 new jobs created
- LEED™ Gold certified (planned)

NMTC Basics – The Tax Credit

- Federal tax credit
- Based on 39% of a qualified equity investment in a community development entity (CDE)
- Claimed over 7 years
 - 5% in years 1-3; and
 - 6 % in years 4-7

NMTC Basics – The QEI

- Qualified Equity Investment made in a CDE
- Represents monetized tax credits (equity) plus leverage, i.e. debt or other funding sources
- Used to fund the CDE's Qualified Low Income Community Investment (QLICI) in a Qualified Low Income Community Business (QALICB)

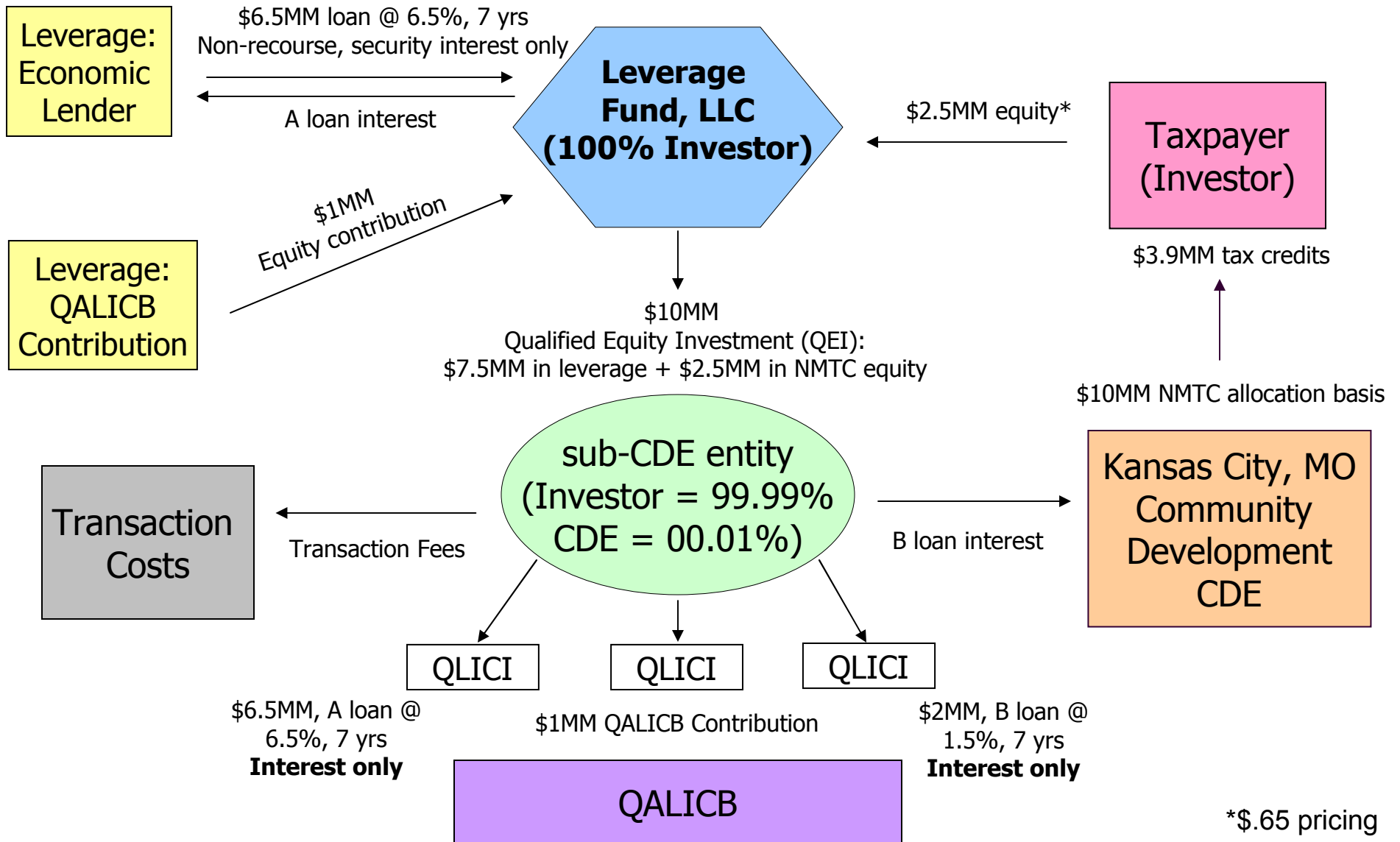
NMTC Basics – QALICB

- Qualified Low Income Community Business – any corporation (including a nonprofit corporation) or partnership if, for any taxable year:
 - At least 50% of total gross income of such entity is derived from the active conduct of qualified business within any Low-Income Community (LIC);
 - A substantial portion of the use of the tangible property of such entity (whether owned or leased) is within any LIC;
 - A substantial portion of the services performed for such entity by its employees are performed in any LIC

NMTC Basics – QLICI

- Eligible Activities
 - Land/property acquisition
 - Construction costs (hard/soft)
 - Equipment purchase
 - Working Capital

Sample Structure – Leveraged



NMTC Benefit – Investor

- Tax benefits – primarily reduction of federal tax liability
- Competitive investment yields
- CRA credit (if investor is bank)
- Double bottom line

NMTC Benefit – Economic Lender

- CRA credit
- Enhanced lending products
- Loan portfolio diversity

NMTC Benefit – Borrower

- Up-front funds
- Reduced cost of funds, i.e. below-market interest rates
- Interest only, seven-years
- Project subsidy at end of seven year compliance period (“instant” equity)

NMTC Nuances/Limitations

- Facilitated loan product; not a grant program
- For-profit investor requirement (price is market driven)
- Multi-party transaction
- 7-year transaction = 7-year compliance period
- Transaction complexity (highly underwritten transactions)

NMTC Advantage

- Highly flexible
- Access to capital/equity
- Inherent market disciplines
- Promotes public/private partnerships
- Focused on LIC

KC CDE – Application process

- Phase I – QALICB Application intake
- Phase II – QALICB Application review
- Phase III – Committee review
- Phase IV – Transaction Structuring/Closing

Questions/Additional Information



KANSAS CITY
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www.kcmo.org/CKCMO/Depts/Finance/NewMarketsTaxCredit/index.htm