

New Markets Tax Credits

Building Blocks for Kansas City's Future



NMTC Program Fact Sheet

The New Markets Tax Credit (NMTC) program was designed to help direct the flow of capital into low-income communities by providing investors with a tax credit incentive for investing in a qualified Community Development Entity (CDE). The CDE, in turn, is charged with using substantially all of the investment to provide capital, typically in the form of a low-cost, interest only loan, to qualified low-income community businesses (QALICB), which can be a for-profit/non-profit business or real estate development entity. Investors receive a tax credit equal to 5 percent of the investment amount in the CDE in each of the first 3 years following the initial investment, and a credit equal to 6 percent of the investment amount in the CDE in each of the following 4 years. In total, investor receives a credit equal to 39 percent of the investment amount in the CDE.

The Program

- Created as part of the Community Renewal Tax Relief Act of 2000, Section 45D of the IRS
- Administered by Community Development Financial Institutions Fund (U.S. Treasury Department)
- Geographically-based program eligibility with activities limited to low-income communities is qualified census tracts

The Tax Credit

- Federal tax credit (Investor is typically a large C-Corporation)
- Purchase discount of tax credit results in annual after-tax IRR of up to 12-14%
- Credit eligibility tied to CDE, not performance of the financed business or development project

The Qualified Business/Development Project

- Qualified businesses include corporations (including a nonprofit corporation), partnerships or LLC
- Qualified development projects include commercial, industrial, and retail real estate projects as well as mixed-use development and some housing
- Eligible activities (**must represent at least \$6M in total costs/investment**)
 - Land/property acquisition
 - Construction costs (hard/soft)
 - Equipment purchase
 - Working Capital
 - Debt refinance

The Financing

- 7 year, interest-only loan
- Extended amortization period (up to 40 years)
- Below-market rate of interest
- Equity contribution at end of 7 years

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Kansas City, Missouri Community Development CDE (KC CDE)

Facts about the KC CDE:

- Awarded **\$40 million** in NMTC allocation authority by the CDFI Fund in 2008 (**\$26MM allocated, \$6MM committed**); Awarded **\$35 million** in NMTC allocation authority by the CDFI Fund in 2009 (**\$7MM allocated, \$19.5MM committed**);
- Targeting highly distressed, low-income communities (LIC) within the city limits of City of Kansas City, Missouri (census tracts that are characterized by populations with poverty rates greater than 30%, median family income less than 60% of statewide median family income and unemployment rate at least 1.5 times the national average);
- Programmatic priorities include targeting businesses as well as mixed-use, adaptive re-use and infill development projects that provide/support,
 - Vital goods and services to LICs
 - Living-wage jobs and workforce development support
 - Affordable housing options to Low-income Persons (LIP)
 - MBE/WBE/DBE utilization
 - Environmental/brownfields remediation
 - "Green" building practices, e.g. LEED
 - Multi-stakeholder collaboration including neighborhoods and community support agencies
 - Ownership opportunities by LIPs or LIC residents

Investment Portfolio:

- The KC CDE has facilitated financing for businesses/development projects representing **\$33 million** in investment in low-income communities to date:
 - **Greater Kansas City Boys & Girls Club** community center (**\$5MM investment**)
 - **Reeves Wiedeman Company** LEED Gold headquarter development - relocation from Lenexa, KS to Kansas City, MO (**\$5MM investment**)
 - **Posty Cards, Inc** LEED Platinum fabrication facility expansion project (**\$6MM investment**)
 - **Truman Medical Centers** Hospital Hill business financing (**\$10MM investment**)
 - **Synergy Services, Inc** business financing (**\$7MM investment**)

For more information about the Kansas City, Missouri Community Development CDE, please contact:

Ruben Alonso III

NMTC Program Manager

p: +1 (816) 513-1021

e: ruben_alonso@kcmo.org

<http://www.kcmo.org/CKCMO/Depts/Finance/NewMarketsTaxCredit/index.htm>