

New Markets Tax Credits



KANSAS CITY
MISSOURI

Building Blocks for Kansas City's Future



Kansas City, Missouri Community Development CDE

Tax Credit Investor Overview

New Markets Tax Credit (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 (LICs).
- Annual allocations of tax credits are made to Community Development Entities (CDEs) through an application process. CDEs have three years to use credits to support qualified development projects/businesses that represent investment in LICs.

NMTC Benefits – Investor

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

NMTC – Overview

- New Markets Tax Credit (NMTC) Investor purchases an allocation of tax credits – the proceeds are used by a community development entity (CDE) to make an investment in a qualifying development project/business.
- The federal tax credits are purchased at a discount and the NMTC investor has no residual economic interest in the investment made by the CDE.
- The tax credits are taken over a seven year period (approximately in even amounts). The purchase discount typically results in an annual after-tax return (IRR) to the investor of 10-14% for a direct purchase of tax credits.
- Participation/purchase of NMTC facilitates investment in low-income communities resulting in positive community impacts and in many cases satisfies the community reinvestment requirements of many corporations.

NMTC Basics – The Tax Credit

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

NMTC – Direct Purchase Option

- Opportunity to select and support a specific development project or business that would benefit from NMTC
- Higher return potential than a NMTC Fund
 - 10-14% annual after tax return
- No economic risk in the underlying investment made by the CDE with the purchase proceeds
 - NMTC Investor's sole return is based on the discounted purchase of the tax credits
- Requires annual monitoring (can be outsourced)
 - Zero instance of NMTC recapture in history of the program

NMTC – Direct Purchase Option

- Example Cash Flows

		<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>
Allocation Amount	\$ 10,000,000							
Tax Credit Rate	39%	5%	5%	5%	6%	6%	6%	6%
Tax Credits	\$ 3,900,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000
Purchase Rate	\$ 0.72							
Purchase Price	\$ 2,808,000							
Internal Rate of Return	11.9%							

NMTC – Indirect Purchase Option (Syndication)

- Lower returns compared to direct investment
 - Typically in the range of 5-7%
- Low maintenance
 - No monitoring – some funds guaranty against recapture
 - No need to outsource or internalize
- Pooled with a variety of CDEs – may not result in identifiable community impact

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

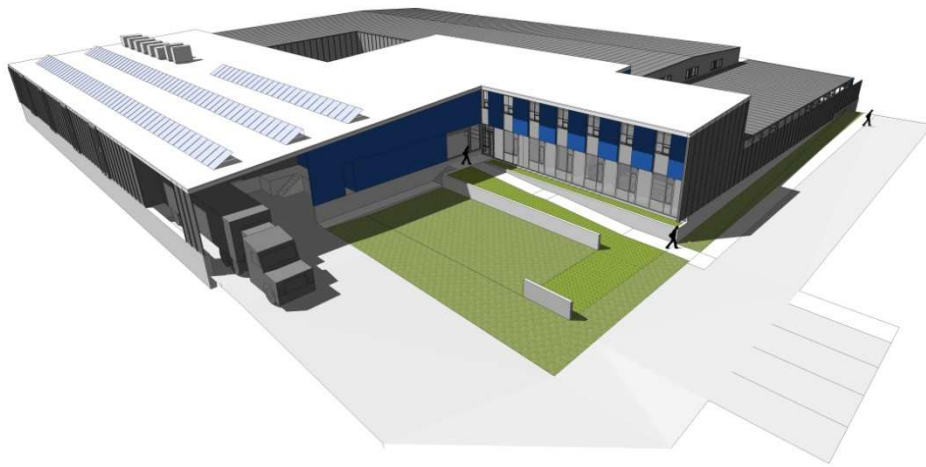
KC CDE – NMTC Program

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

KC CDE – Added Value

- Experienced CDE
 - Closed \$26MM in NMTC transactions
 - Baker Tilly – Provides CDE with transaction structuring assistance, post closing transaction management, compliance and reporting assistance.
- Largest pipeline of high impact projects and businesses in Kansas City, Missouri
 - KC CDE can match investment opportunities with corporate community reinvestment objectives.
- Only Kansas City, Missouri based minority, not-for-profit CDE

Projects – Posty Cards, Inc



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

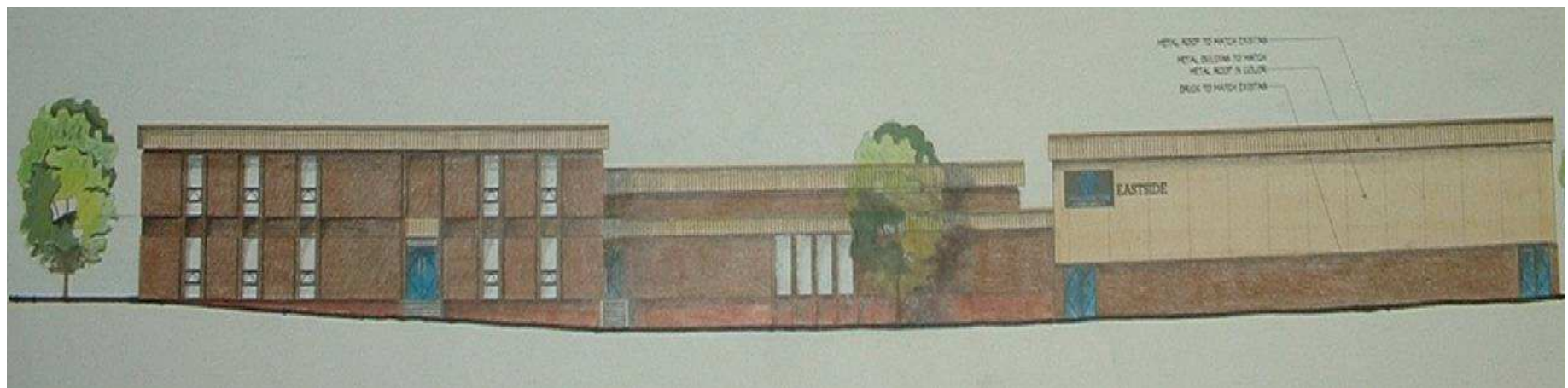
Projects – Reeves-Wiedeman Co.



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

Projects – Boys & Girls Club

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



Projects – Truman Medical Centers



- Private, non-profit hospital providing acute care and outpatient services to the City's urban core
- Located at 2301 Holmes Street
- \$15MM investment
- Business financing

Questions/Additional Information



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