

# New Markets Tax Credits

October 2005



## Special points of interest:

- Administered through the U.S. Department of the Treasury CDFI Fund.
- Stimulates investment within economically distressed communities
- Leverages public & private resources with traditional commercial financing.
- Provides federal tax relief to corporate and individual investors.
- Emphasizes local decision-making and participation.
- Allows for equity investment into qualified projects and businesses, subsidy of finance costs, or a combination of all three.

For more copies of this newsletter, please contact Funding Partners or visit our website at [www.fundingpartners.org](http://www.fundingpartners.org)

## Funding Partners

### What are New Markets Tax Credits?

Congress enacted the New Markets Credit Program (NMTC), part of the Community Renewal Tax Relief Act of 2000, to stimulate investment within low-income communities. The program is authorized to allocate up to \$15 billion in aggregate credits, with 170 awards totaling \$8 billion allocated through 2005.

Through a competitive process, Qualified Community Development Entities (CDEs) apply to the Community Development Financial Institutions (CDFI) Fund each year for an allocation of NMTC. The CDE then solicits taxpayers, typically corporations with large tax liabilities, to make Qualified Equity Investments in the CDE in exchange for use of the federal credits. The CDE, in turn, is required to use substantially all of the equity

investment to make Qualified Low-Income Community Investments in or to Qualified Active Low-Income Businesses (QALICBs) located in Low-Income Communities. The taxpayer will be eligible to claim a tax credit equal to 5 percent of its equity investment in the CDE for each of the first three years and a 6 percent credit for each of the next four years (39 percent in total).

Utilizing local knowledge and other resources, the CDE applies its expertise to determine what businesses to invest in or lend to with the equity funds raised from investors. Most businesses that are within or primarily serve low-income communities could qualify for loans or equity investment from the CDE. Eligible businesses could include: manufacturing, light industrial, inner-city shopping

centers, small technology firms, retail stores, cultural amenities, business services or micro-entrepreneurs. Residential rental property does not qualify as an active low-income business.

Now into the fourth round of allocation awards, definitions, systems and expertise in applying and monitoring the NMTC program have demonstrated a high demand for both the credits and the economic stimulus qualified projects deliver to the local community.



### What is a CDE?

To qualify as a Community Development Entity, an organization must be a domestic corporation or partnership that:

- 1) Has a mission of serving, or providing investment capital for, low-income communities or low-income persons.
- 2) Maintains accountability to residents of low-income communities through their representation on a governing board of or advisory board to the entity.
- 3) has been certified as a CDE by the CDFI Fund.

A CDE may be a wholly-owned subsidiary of a not-for-profit corporation and serves as the conduit for delivery of tax credits to NMTC investors. The CDE is charged with determining eligibility of qualified investments, businesses or other activities, sale of tax credits, monitoring performance and regular reporting through the seven-year compliance period to both investors and the CDFI Fund.

Through the allocation application process, the CDE

identifies: general terms and structure for qualified investments, how credits will be leveraged with other resources, project identification, managerial capacity, needs analysis, experience serving low-income communities and outcome measurements.

A CDE is eligible to re-apply for credit allocations in subsequent rounds, based upon performance in previous cycles and ability to demonstrate additional need in its identified target markets.

## Who is Funding Partners?



**The Northern Hotel**

**A Fort Collins landmark preserved using federal tax credits**

*“NMTC is about creating jobs, while FP is about creating beds where those jobs can afford to sleep.”*



**Dedicated to Colorado's Workforce**

Incorporated in 1996 as a 501c3 and subsequently certified as a Community Development Financial Institution (CDFI) in 1999, Funding Partners is governed by a volunteer Board of Trustees representing human service providers, housing agencies, private enterprise and banking institutions.

As a CDFI, Funding Partners (FP) is charged with creating access to capital and credit within underserved markets and among target populations throughout the state of Colorado. Attracting investments from local and federal government, corporations, foundations, associations and regulated

financial institutions, FP pursues this objective through lending activity which places below-market capital into projects and entities that expand availability of residential units deemed affordable for very low to moderate-income households.

Administering two revolving loan pools, FP is able to assist first-time homebuyers with down payment assistance through the House to Home Ownership (H2O) Program®, while the Mammel Affordable Housing Loan Fund (MAHLF) provides pre-development, acquisition and gap financing to individuals and organizations

that create, rehabilitate or otherwise preserve both rental and for sale housing for families below the median income level. FP also provides third-party loan servicing for other entities seeking to assist similar markets with greater efficiency at minimal expense. Ultimately, FP provides a highly effective conduit to engage households with traditional financial service providers.

FP has originated over 900 down payment assistance loans and funded 45 projects for aggregate loan production in excess of \$15 million, encompassing over 2,500 residential units.

## FP New Markets CDE

To further extend the impacts of organizational capacities, FP has applied for the maximum allocation of credits to support \$150 million in job-creating projects. This amount will attract \$58.5 million of aggregate tax credits that are sold to investors at less than face value. To utilize the credits, FP will create a wholly-owned for-profit subsidiary known as FP New Markets CDE (FPNM). That entity will receive

and sell the credits, underwrite individual projects, assemble other public and private financing, place credit investments into the projects, establish baseline data and perform ongoing monitoring to investors and the CDFI Fund. At the completion of the 7-year compliance period, FPNM will exercise an exit strategy from the project, whereby full ownership of each project reverts to initial enterprise.

While the NMTC program does allow investments to support business finance products, FPNM will focus upon real estate-based investments that function like owner equity in the project. However, abundant latitude has been designed into the overall program to allow highly adaptive use of equity capital to meet the needs and objectives of individual projects and the populations they serve.

## Timeline

Under the current program cycle, allocation awardees will be notified by April/May 2006 as to the aggregate credits they will be able to offer investors. Subsequently, each awardee will formalize an agreement, complete with performance measurements and reporting requirements, with the CDFI Fund. Upon execution of the federal contract, the receiving CDEs are able to formalize

investment agreements and negotiate pricing for the credits with equity investors. Rather than selling all credits in bulk however, each qualified project will be individually structured and capitalized simultaneously to property acquisition and/or closing of companion financing.

As there is significant benefit to all parties in deploying NMTC credits as quickly as possible, FPNM will be working with our

partner communities to establish feasibility and structure of proposed projects well in advance of knowing whether NMTC will be available. Additionally, FPNM has already begun the process of lining up investors, public entities and other participants in each community to insure projects are ready to proceed very quickly after credits are in place.

## Colorado Springs

Through a consortium of Urban Renewal Districts within the City, FPNM will partner primarily with private-sector entities to create both regional and local shopping centers within established neighborhoods. As well, the program will provide the financial impetus behind a 20-year old vision to create a downtown arts district.

As the City has grown into a major urban center, urban infill has been difficult to achieve, as smaller parcels, topography and deteriorating infrastructure have limited most efforts to

subsidized rental housing and office development, surrounded by undervalued neighborhoods. A considerable deterrent to sustained revitalization of older neighborhoods has been the lack of commercial development to bring services in proximity to residents. With expanded shopping and personal services, surrounding neighborhoods will generate a more inviting atmosphere and lessen the demand for outward physical expansion of the City.

Among other projects to stimulate commercial activity

within established neighborhoods is a project proposed by the Downtown Arts District Association (DADA). This project would bring impetus to a long sought vision of an arts district southwest of the downtown area, providing affordable studio and living space, open air market, outdoor amphitheater and sculpture garden to compliment a new community park. The DADA project is expected to stimulate redevelopment of this former industrial site into a mixed-use neighborhood.

***“With a focus on inner-city redevelopment, the FPNM program brings capital into lower-income neighborhoods and promotes economic expansion without urban sprawl”***

## Fort Collins

In cooperation with the City of Fort Collins Downtown Development Authority, a tax increment district encompassing Old Town and surrounding neighborhoods, FPNM will establish joint ventures with non-profit agencies and private entities in support of the Downtown Cultural District Plan.

This plan envisions limited redevelopment and considerable new development

of venues that support cultural amenities to strengthen the communities position as a hub for such attractions within the Northern Colorado region. Projects on this list include: year-round farmers market and culinary school, children’s and historic museums, music college, boutique hotels and mixed-use (live/work) properties that promote vibrancy within the area.

With increased competition

from greenfield development outside the City, the NMTC program will create a more competitive environment that redirects activity into areas where infrastructure already exists.

The City will participate indirectly through the allowance of certain public finance tools that minimize exposure to project risks, while encouraging timely and equitable development review.



**Concert Crowd in Old Town Fort Collins**

## Pueblo

Through the Pueblo Urban Renewal Authority, FPNM will create partnerships with non-profit entities, public agencies and private-sector interests to expand the viability of the Historic Arkansas Riverwalk Project (HARP) within the City’s core.

Initiated in 1996 through a \$12.5 million public bond issue and supported by an additional \$8 million in private donations, this 26-acre district has re-established the historic river channel through town, while

creating a highly desirable venue for civic and cultural events, shopping, dining and recreational amenities. While this project has attracted widespread recognition from visitors and urban designers alike, there has been very limited companion development to elevate the area as truly ‘vibrant’.

In attracting both base employment, year-round visitations and residential uses, the City will focus NMTC equity on projects that include:

mixed-use (live/work) development, sporting museum, convention center, both public and private employment facilities and parking structures. With an emphasis on 24-hour use, greater private-sector investment will fulfill the vision of this district.

Please note, however, the FPNM program is unaffiliated with, and does not financially support, proposals associated with limited stakes gambling within the community.



**Channel at DeRose Sculpture Garden along Pueblo’s Historic Riverwalk Project.**

## **Funding Partners**

214 S. College Avenue  
2nd Floor  
Fort Collins, CO 80524-2870

Phone: 970.494.2021  
Fax: 970.494.2022  
E-mail: [joe@fundingpartners.org](mailto:joe@fundingpartners.org)

**Creating Access to Capital &  
Credit To Low-Income  
Communities Across Colorado**



With many communities in Colorado facing similar fiscal constraints, though no shortage of vision in ways to address the challenges, Funding Partners will utilize its capacity and expertise in community development to continue the NMTC program. If your community is interested to participate in future allocation applications, we invite you to contact our office for more information.

As described in this brochure, FP is organizing partners for future rounds and engaging other experts in economic development and public/private finance to provide technical guidance for creating a comprehensive action plan. As well, FP is eager to involve other organizations active in your area to nurture cooperative initiatives and capacity transfer that will enhance long-lasting benefits to future generations!

Visit our website at  
[www.fundingpartners.org](http://www.fundingpartners.org)

## How Can Your Organization Participate?

The success Funding Partners has enjoyed since inception is largely attributed to the ability to attract partners that share a common goal of expanding economic opportunities for underserved markets and lower-income populations. Once identified, all players are positioned in such a way that relative capacities and expertise are maximized. Rather than relying upon trial and error then looking to improve next time around, FP is committed to building upon the success of others to lay the foundation for even greater success in the future.

A successful NMTC program is built upon collaboration to emphasize local participation, regional expertise and national

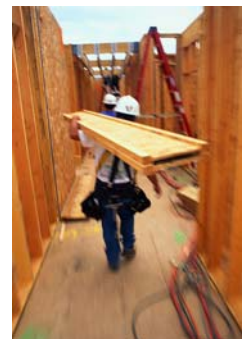
resources. With that in mind, FPNM will actively solicit partners in each community to enhance the effect and long-term viability of each project. A sample of local participants may include:

- Financial Institutions (investors and commercial debt providers)
- Corporate Entities (investors and project owners)
- Developers (project participation)
- Economic & Business Development Agencies (referral and network sources)

- Service Providers (target population representatives)

Additional resources are brought to bare through collaboration with other entities that possess particular expertise in structuring commercial and public finance vehicles, successful use of tax credit programs and technical training capacities.

While the current application has identified specific projects within three communities, FPNM will begin a process to identify new communities with different needs for future allocation rounds. If your community might benefit from this program, please contact our office to see if Funding Partners can assist in such efforts.



**In the business of  
building a better  
tomorrow**