

Combining the Historic Tax Credit with Other Tax Credits (New Markets)

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New Markets Tax Credit Program

- Enacted on December 21, 2000 as part of the Community Renewal Tax Relief Act of 2000.
- Creates a federal tax credit for equity investments in Community Development Entities (CDEs).
- Competitively allocated tax credits are used to induce equity capital into CDEs.
 - \$23 billion in investments will be generated by NMTCs from allocations through 2009; this creates approximately \$8.97 billion in credits.
 - \$16 billion of investments authorized in first five rounds: announcements. *(includes \$1 billion of Hurricane Katrina GO Zone Authority)*
 - Sixth and seventh rounds, \$3.5 billion in investment authority for each of 2008 and 2009, requires proportional investment in rural areas.

SOURCES and USES: Before NMTCs

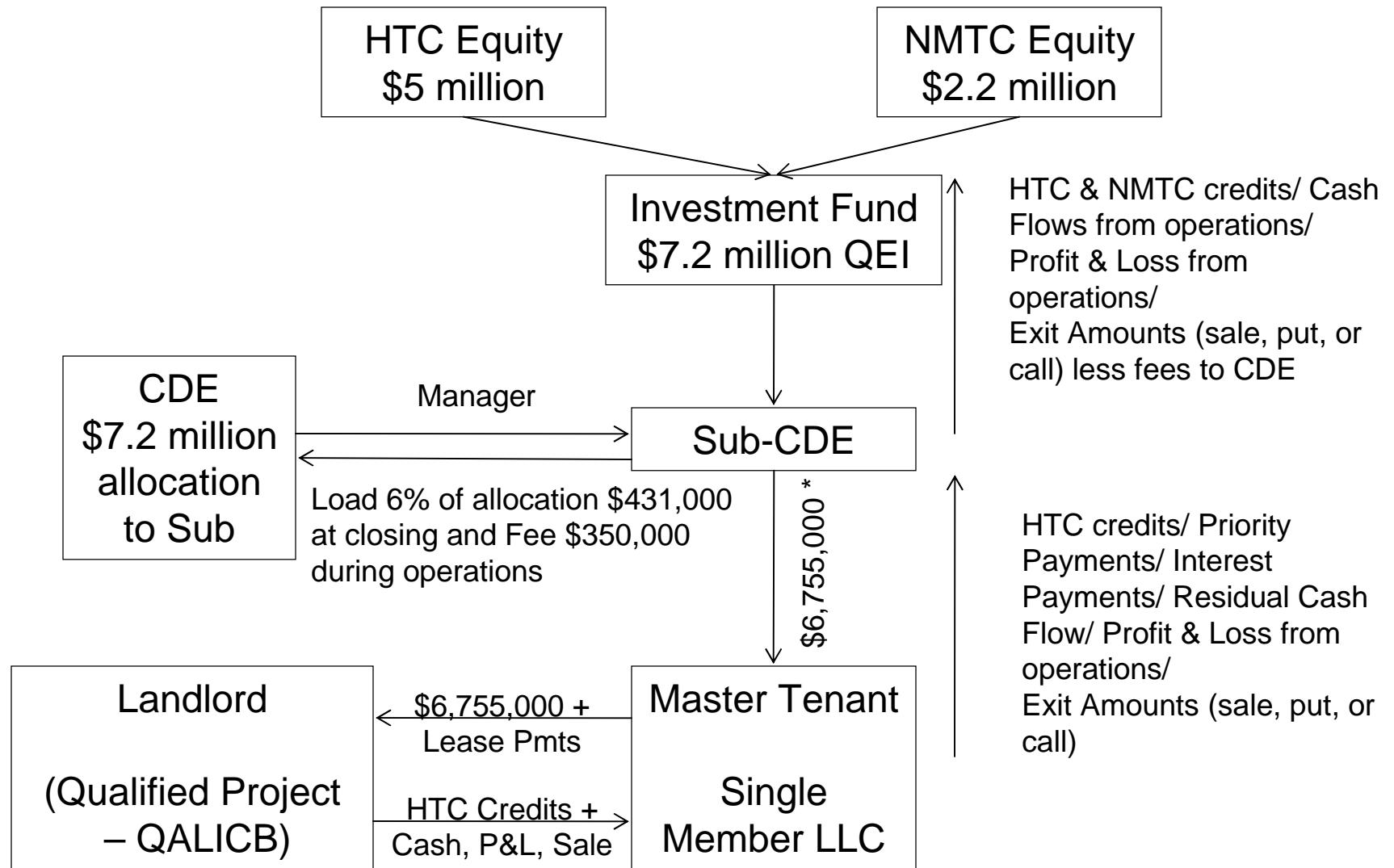
Sources:

First Mortgage Debt	20,842,692	70% LTC
HTC	5,000,000	\$1.10 per credit, 20% credits
Developer Equity	2,336,582	Maximum amount of equity that can be supported
Gap	1,596,000	Unidentified Source
TOTAL SOURCES:	29,775,275	

Uses:

	Total	Qualified Rehabilitation Expenditures	Depreciable Non-Eligible Basis	Funded Expense	Other
Acquisition Costs-Land	800,000	-	-	-	800,000
Acquisition Cost- Building	3,600,000	-	3,600,000	-	-
Construction Period Interest for Rehab	989,385	989,385	-	-	-
Permanent/Construction Loan Fee	300,000	50,000	-	250,000	-
Achitectural, Engineering	1,400,000	1,400,000	-	-	-
Construction Contract	13,833,344	13,833,344	-	-	-
Site Improvements	250,000	-	250,000	-	-
Contingency	1,750,000	1,750,000	-	-	-
Appliances	890,000	-	890,000	-	-
Professional Fees	250,000	166,667	-	-	83,333
Insurance and RE Taxes During Construction	750,000	750,000	-	-	-
Development Fee	4,962,546	3,787,879	1,174,667	-	-
TOTAL USES:	29,775,275	22,227,275	5,914,667	250,000	883,333

New Markets Tax Credit Transaction Diagram



*Related party issues assumed away or dealt with through book-up.

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Calculation of New Markets Tax Credit

- CDE deploys \$7.2 million allocation of NMTCs for a project.
- This means that the CDE must raise \$7.2 million of equity that it will lend or invest into a low-income community.
- In our example \$5 million in Historic Tax Credit equity combines with \$2.2 million in NMTC equity (78 cents per NMTC credit) to create \$7.2 million in equity.

If a single investor made the \$7.2 million investment into the CDE today then the investor will receive tax credits over time equal to...

The end of the compliance period for the tax credits is February 5, 2016.

February 5, 2009	@ 5% = \$0.36 million
February 5, 2010	@ 5% = \$0.36 million
February 5, 2011	@ 5% = \$0.36 million
February 5, 2012	@ 6% = \$0.43 million
February 5, 2013	@ 6% = \$0.43 million
February 5, 2014	@ 6% = \$0.43 million
February 5, 2015	@ 6% = \$0.43 million
7 Years	@ 39% = \$2.80 million

SOURCES and USES: After NMTCs

Sources:

First Mortgage Debt	20,842,692	Original Loan Amount
NMTC Capital	6,755,000	Includes HTC and NMTC benefits after load
Developer Equity	2,357,582	Developer Equity remains Constant
Gap	0	Gap is closed
TOTAL SOURCES:	29,955,275	

Uses:

	Total	Qualified Rehabilitation Expenditures	Depreciable Non-Eligible Basis	Funded Expense	Other
Acquisition Costs-Land	800,000	-	-	-	800,000
Acquisition Cost- Building	3,600,000	-	3,600,000	-	-
Construction Period Interest for Rehab	989,385	989,385	-	-	-
Permanent/Construction Loan Fee	300,000	50,000	-	250,000	-
Achitectural, Engineering	1,400,000	1,400,000	-	-	-
Construction Contract	13,833,344	13,833,344	-	-	-
Site Improvements	250,000	-	250,000	-	-
Contingency	1,750,000	1,750,000	-	-	-
Appliances	890,000	-	890,000	-	-
Professional Fees	400,000	166,667	-	-	233,333
Insurance and RE Taxes During Construction	750,000	750,000	-	-	-
Development Fee	4,992,546	3,787,879	1,204,667	-	-
TOTAL USES:	29,955,275	22,727,275	5,944,667	250,000	1,033,333

Net Benefit of \$7.2 Million NMTC Allocation Leveraging HTC Equity Only

+ \$1,755,000	• Equity/Equity Equivalent Debt based on \$7.2 million allocation (after 6% load)
- \$150,000	• Additional transaction costs at closing
- \$350,000	• Additional Fees during operations (7 years)
- \$175,550	• Less Exit (“put” option exercise) 10% of Equity/Equity Equivalent Debt
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= \$1,079,450	• Net of all costs

Background

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What is a Qualified Real Estate Project?

- A business venture with no employees (*e.g., real estate partnership*) meets the services and gross income tests if at least 85% of its tangible property is in a low-income census tract.
- Eligible RE activity
 - Office, retail, industrial, hotel, community facility, and mixed-use projects, and
 - For-sale housing, and
 - New construction and rehabilitation (*twinning with Section 47 Historic Rehabilitation Tax Credits*), and
 - Properties owned by not-for-profits, and
 - Owner occupied real estate (*considered a business activity by CDFI Fund*).

What is a Qualified Real Estate Project?

(continued)

- Ineligible RE activity

- Operation of residential rental property which derives 80% or more gross rental income from dwelling units, or
- Rental of real property where no substantial improvements are made, or
- Development of property which is not expected to generate revenues for more than 36 months from date of loan/investment from the CDE, or
- Rental of real property to the extent that any lessee is not an eligible business (e.g., liquor store), or
- Twining with Section 42 Low Income Housing Tax Credits, or
- Operation of golf courses, race tracks, gambling facilities, certain farming businesses, or liquor stores.

Where are Low-Income Communities?

Generally, Low-Income Communities are;

- Census tracts with at least 20% poverty, or
- Census tracts where the median family income is below 80% of the area family median income.

Exceptions created by the American Jobs Creation Act of 2004:

1. High out-migration rural counties (10% net out-migration over the past 20 years) may use a MFI threshold of 85% instead of 80% to determine eligibility.
2. Low populations census tracts (population less than 2,000) within an empowerment zone and contiguous to one or more low-income communities are eligible low-income communities.

Where are particularly economically distressed low-income communities?

Particularly economically distressed low-income communities are either:

- (1) characterized by at least one of items 1-3 on the below list; or
- (2) characterized by at least two of items 4-18 on the below list for each loan/investment.

1. [30% POVERTY] Census tracts with poverty rates greater than 30%.
2. [60% MEDIAN FAMILY INCOME] Census tracts with, if located within a non-Metropolitan Area, median family income that does not exceed 60% of statewide median family income, or, if located within a Metropolitan Area, median family income that does not exceed 60% of the greater of the statewide median family income or the Metropolitan Area median family income.
3. [1.5 UNEMPLOYMENT RATE] Census tracts with unemployment rates at least 1.5 times the national average.

4. [25% POVERTY/70% MEDIAN FAMILY INCOME/1.25 UNEMPLOYMENT RATE] Census tracts with one of the following: (i) poverty rates greater than 25%; or (ii) if located within a non-Metropolitan Area, median family income that does not exceed 70% of statewide median family income, or, if located within a Metropolitan Area, median family income that does not exceed 70% of the greater of the statewide median family income or the Metropolitan Area median family income; or (iii) unemployment rates at least 1.25 times the national average.
5. [FEDERAL ECONOMIC DEVELOPMENT ZONES] Federally designated Empowerment Zones, Enterprise Communities, or Renewal Communities.

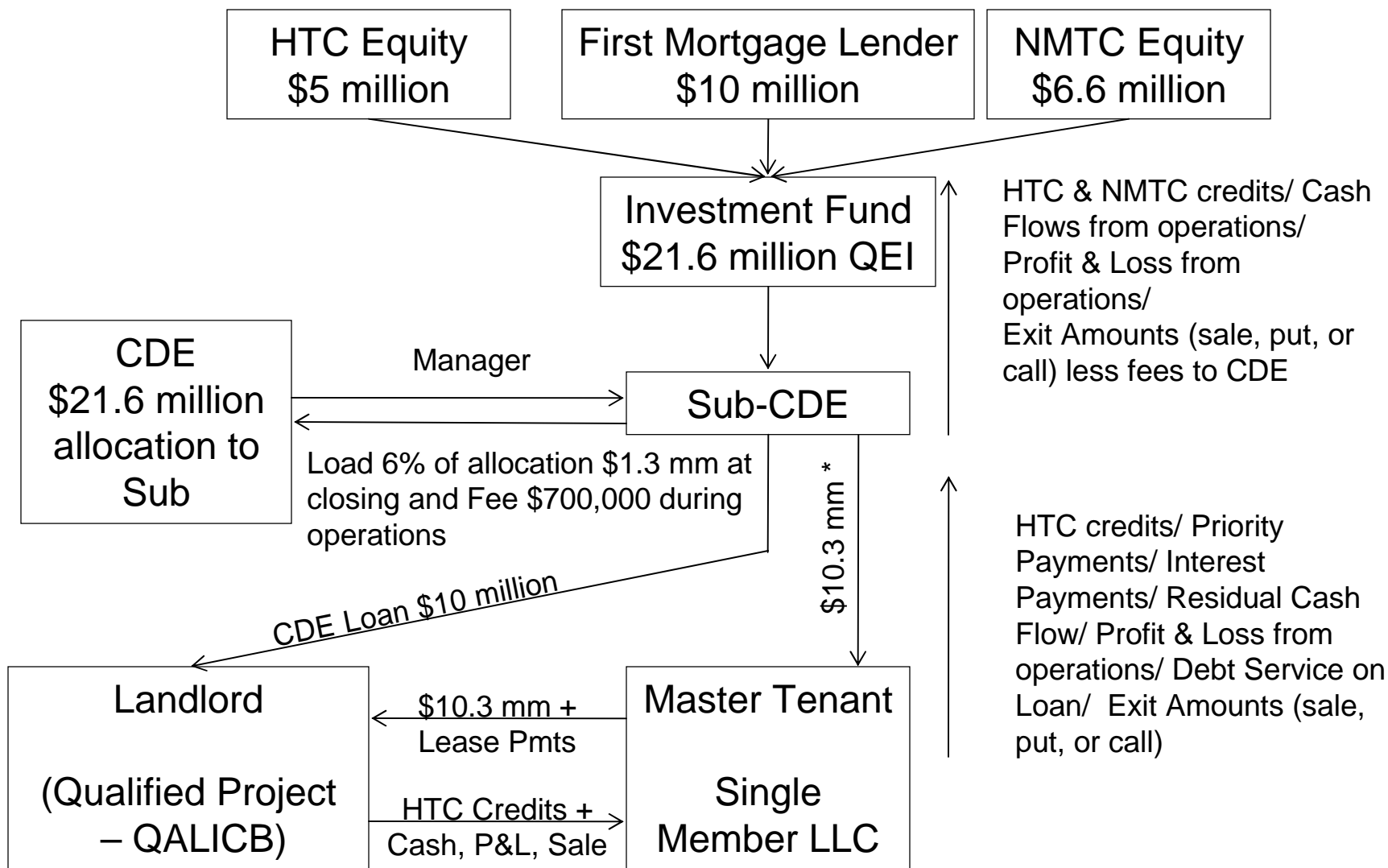
Where are particularly economically distressed low-income communities? (continued)

6. [SBA HUB ZONES] SBA designated HUB Zones to the extent *QLICs* will support businesses that obtain HUB Zone certification by the SBA.
7. [BROWNFIELDS] Brownfield sites as defined under 42 U.S.C. 9601(39).
8. [HOPE VI REDEVELOPMENT] Areas encompassed by a HOPE VI redevelopment plan.
9. [FEDERAL NATIVE AREAS] Federally designated Native American or Alaskan Native areas, Hawaiian Homelands, or redevelopment areas by the appropriate Tribal or other authority.
10. [ARC/DRA AREAS] Areas designated as distressed by the Appalachian Regional Commission or Delta Regional Authority.
11. [COLONIAS AREAS] Colonias areas as designated by the U.S. Department of Housing and Urban Development.
12. [FEDERAL MEDICALLY UNDERSERVED AREAS] Federally designated medically underserved areas, to the extent *QLIC* activities will result in the support of health related services.
13. [TARGETED POPULATIONS] As permitted by IRS and related CDFI Fund guidance materials, projects serving *Targeted Populations* to the extent that: (a) such projects are located in non-metropolitan areas; or (b) such projects are 60 percent owned by *low-income persons* (LIPs); or (c) at least 60 percent of employees are LIPs; or (d) at least 60% of customers are LIPs.
14. [HIGH MIGRATION] *High Migration Rural County*.

Where are particularly economically distressed low-income communities? (continued)

15. [STATE/LOCAL ECONOMIC ZONES] State Enterprise zone programs, or other similar state/local programs targeted towards particularly economically distressed communities.
16. [NON-METROPOLITAN COUNTIES]
17. [FEMA DISASTER AREAS] Counties for which the Federal Emergency Management Agency (FEMA) has: issued a “major disaster declaration” and made a determination that such County is eligible for both “individual and public assistance”; provided that the initial investment will be made within 24 months of the disaster declaration.
18. [TRADE ADJUSTMENT ASSISTANCE] Businesses certified by the Department of Commerce as eligible for assistance under the Trade Adjustment Assistance for Firms (TAA) Program

Leveraging Debt and HTC with \$21.6 Million NMTCs



*Related party issues assumed away or dealt with through book-up.

SOURCES and USES: After \$21.6 Million NMTC Allocation

Sources:

First Mortgage Debt	7,332,692	Reduced by CDE Loan & additional NMTC capital
CDE Loan	10,000,000	First Mortgage Lender uses NMTC structure
NMTC Capital	10,265,000	HTC and NMTC after load, NMTC larger
Developer Equity	2,357,582	
Gap	0	
TOTAL SOURCES:	29,955,275	

Uses:

	Total	Qualified Rehabilitation Expenditures	Depreciable Non-Eligible Basis	Funded Expense	Other
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Professional Fees	400,000	166,667	-	-	233,333
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Net Benefit of \$21.6 Million NMTC Allocation

+ \$5,265,000	• Equity/Equity Equivalent Debt based on \$21.6 million allocation (after 6% load)
- \$150,000	• Additional transaction costs at closing
- \$700,000	• Additional Fees during operations (7 years)
- \$526,500	• Less Exit (“put” option exercise) 10% of Equity/Equity Equivalent Debt
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= \$3,888,500	• Net of all costs