



Navigating the New Markets Tax Credit (NMTC) Program

FORV/S

FORVIS is a trademark of FORVIS, LLP, registration of which is pending with the U.S. Patent and Trademark Office

Agenda

- **Introductions & Learning Objectives**

- **What is the NMTC Program?**

- **The CDE Lifecycle: Project Selection**

- **Q&A and One Minute Summary**

Today's Learning Objectives

1. **What is the NMTC Program and how does it work?**
2. **Understand how Community Development Entities (CDEs) and Investors evaluate and make NMTC investment decisions.**
3. **Understand what facts and circumstances make a project more viable for NMTC funding.**
4. **Understand the aspects of project readiness that are critical for NMTC project success.**

Setting the Stage:

Q: What is your level of familiarity with the NMTC Program?

1. I'm clueless
2. I've heard of it, but have not participated in a transaction
3. I've heard of it and understand the concepts
4. I've worked on a project that received NMTC funding

What is the NMTC Program?

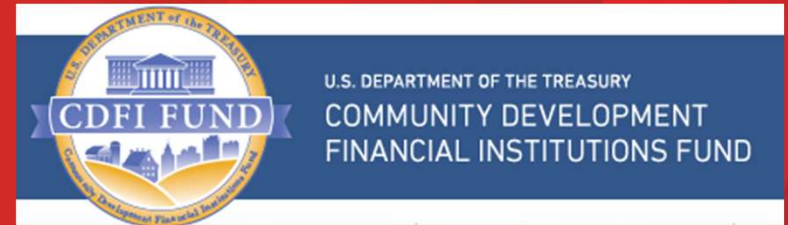
FORVIS

FORVIS is a trademark of FORVIS, LLP, registration of which is pending with the U.S. Patent and Trademark Office.

What is the NMTC Program?

- It is a **community development** program administered by the Community Development Financial Institutions (CDFI) Fund, a division of Treasury
- The NMTC Program incentivizes community development and economic growth through the use of tax credits that attract *private investment* to distressed communities
- It is a financing tool that provides projects and businesses access to low-cost capital to fund important community development initiatives

NMTC Program Brief Facts



- Established by Congress in 2000
- Estimated to generate \$8 of investment for every \$1 in federal funding
- Limited annual amount – it's a competitive process
 - \$5 billion awarded annually but more than \$15B is requested
- NMTC benefit provides only a PORTION of the project financing – it's paired with other sources of capital
- Approximately 15%-20% of allocation amount is provided as a loan that can be forgiven after the NMTC compliance period

FORV/S

Who are the NMTC Program participants?

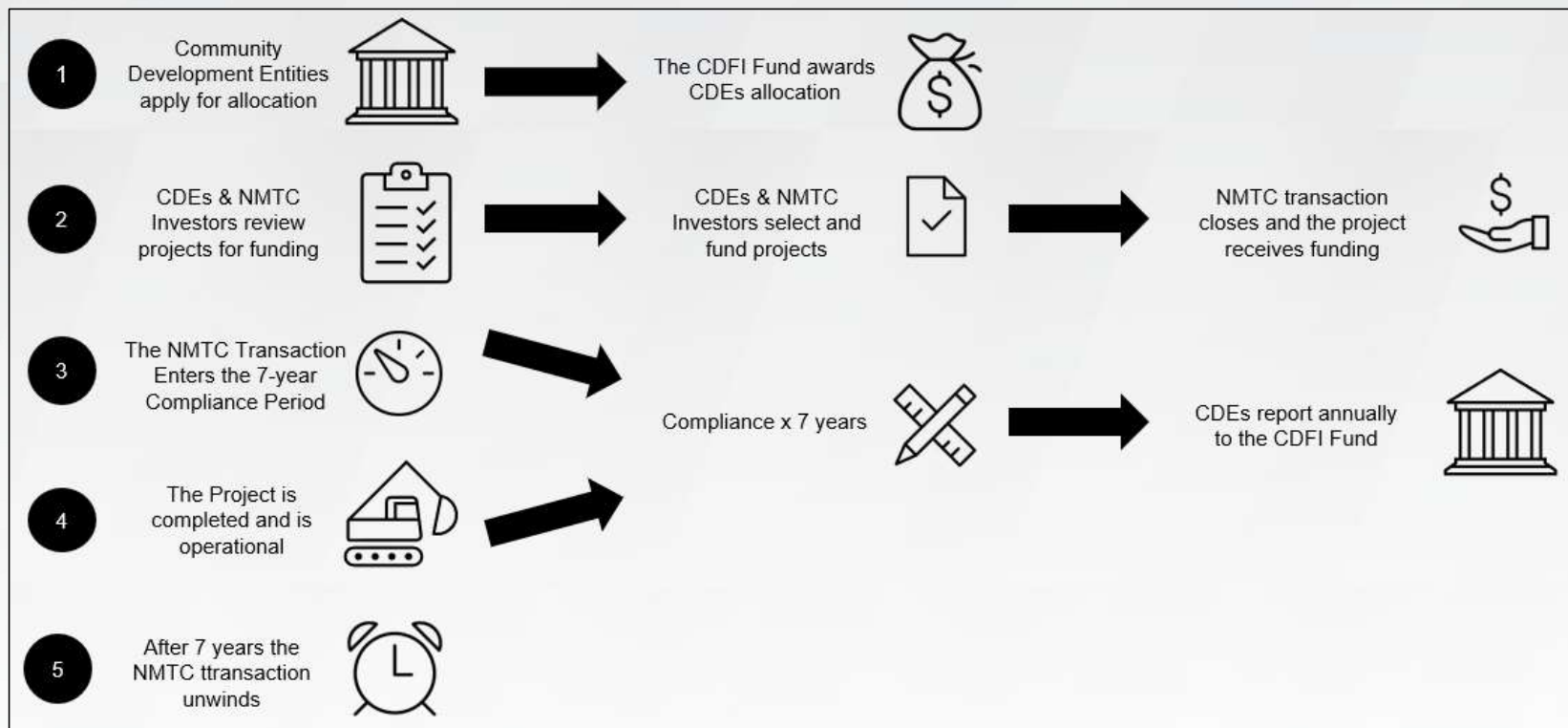
- **A Community Development Entity (a CDE)**
 - CDEs must be certified by the CDFI Fund
 - CDEs may be setup as partnerships of corporations
 - CDEs may be for profit or nonprofit
 - CDE Certification is intended for community development financing intermediaries
- **An NMTC Investor**
 - Typically, a bank or financial institution (i.e. U.S Bank, Chase, Wells Fargo)
- **A Project or Business**
 - Projects must meet location eligibility before they can be considered by CDEs and Investors
 - Most projects and investment types can benefit from the NMTC Program

The CDE Life Cycle: Project Selection

FORV/S

FORVIS is a trademark of FORVIS, LLP, registration of which is pending with the U.S. Patent and Trademark Office.

Annual Competition for NMTC Allocation



Annual Competition for NMTC Allocation



- Eligible CDEs apply to the CDFI Fund for NMTC Tax Credit Allocation Authority
- The CDFI Fund reviews applications and scores each CDE's application
- Allocation is awarded to the highest ranked CDEs, generally 9 months following the application due date (recently, awards have been announced in late Fall)
- In the most recent award round, 197 CDEs applied for \$14.8 billion in allocations. 102 CDEs (52%) were awarded \$5 billion (34% of the requested amount) on September 22, 2023
- The next award is expected in Fall 2024

Annual Competition for NMTC Allocation

Summary By Round

	Round Year	Award Amount	Amount Finalized	Amount Remaining
Round 1	(2001-2002)	\$2,485,699,042.00	\$2,485,699,041.87	\$0.00
Round 2	(2003-2004)	\$3,493,786,204.00	\$3,493,786,204.29	\$0.00
Round 3	(2005)	\$1,964,688,856.00	\$1,964,688,855.60	\$0.00
Round 4	(2006)	\$4,099,765,000.00	\$4,099,765,000.00	\$0.00
Round 5	(2007)	\$3,892,249,021.00	\$3,892,249,020.48	\$0.36
Round 6	(2008)	\$4,964,500,010.00	\$4,964,500,009.34	\$0.00
Round 7	(2009)	\$4,987,650,000.00	\$4,987,649,999.17	\$0.83
Round 8	(2010)	\$3,475,000,000.00	\$3,475,000,000.00	\$0.00
Round 9	(2011)	\$3,622,919,753.00	\$3,622,919,753.00	\$0.00
Round 10	(2012)	\$3,500,000,000.00	\$3,500,000,000.00	\$0.00
Round 11	(2013)	\$3,494,907,113.00	\$3,494,907,113.00	\$0.00
Round 12	(2014)	\$3,512,350,000.00	\$3,512,350,000.00	\$0.00
Round 13	(2015-2016)	\$6,953,500,000.00	\$6,953,500,000.00	\$0.00
Round 14	(2017)	\$3,500,000,000.00	\$3,500,000,000.00	\$0.00
Round 15	(2018)	\$3,500,000,000.00	\$3,498,568,202.80	\$1,431,797.20
Round 16	(2019)	\$3,548,485,000.00	\$3,532,281,630.00	\$16,203,370.00
Round 17	(2020)	\$5,000,000,000.00	\$4,742,126,787.75	\$257,873,212.25
Round 18	(2021)	\$5,004,500,000.00	\$3,824,240,000.00	\$1,180,260,000.00
Round 19	(2022)	\$5,000,000,000.00	\$1,957,951,242.89	\$3,042,048,757.11
	TOTAL	\$75,999,999,999.00	\$71,502,182,860.19	\$4,497,817,137.75

Name of Allocatee: National New Markets Tax Credit Fund, Inc.

Year of Award: 2009
Service Area: National
Controlling Entity: Community Reinvestment Fund, Inc.
Contact Person: Hyeok Jae Kang, (612) 305-2057, james@crfusa.com
Predominant Financing: Business financing
Predominant Market Served: California, Colorado, Illinois, Minnesota, New York, Ohio, Wisconsin
Innovative Activities:

Total Allocation: \$75,000,000.00
Amount Finalized: \$74,999,999.17
Amount Remaining: \$0.83
Non-Metro Commitment: 18%

Name of Allocatee: National New Markets Tax Credit Fund, Inc.

Year of Award: 2022
Service Area: National service area
Controlling Entity: Community Reinvestment Fund, Inc.
Contact Person: Hyeok Jae Kang, (612) 305-2057, james@crfusa.com
Predominant Financing: Real Estate Financing - Industrial/Manufacturing
Predominant Market Served: CA,FL,IN,IA,MN,NC,TX
Innovative Activities: Targeting Identified States

Total Allocation: \$50,000,000.00
Amount Finalized: \$12,000,000.00
Amount Remaining: \$38,000,000.00
Non-Metro Commitment: 35%

NMTC Program Competitiveness

- Project funding is highly competitive
- Many worthy projects are not selected
- Timing of a CDE application and NMTC allocation awards are not consistent
- Project factors play an important role
 - Timing
 - Funding needed
 - Project size
- CDEs must meet application metrics as well as allocation agreement requirements

FORV/S

CDE & Investor Project Selection



- CDEs and Investors continuously seek projects with community benefits that match their stated goals
- Before selecting a project, both CDEs and Investors evaluate and underwrite the investment to gain comfort that the project will close successfully and provide a stable benefit to the community
- A CDE and Investor will issue a project a term sheet (an offer of financing). If all parties agree to the terms, the project will begin a NMTC closing.
- A closing generally lasts 60-90 days
- At closing, the project will receive funding or will have access to a disbursement account to draw upon for qualified project expenditures

How do CDEs evaluate pipeline?



Application and Allocation agreement requirements: Project types, Project outcomes



Mission alignment



Geographic needs



Pipeline needs



Award timing



Application timing

FORV/S

“3 Keys” to Project Selection

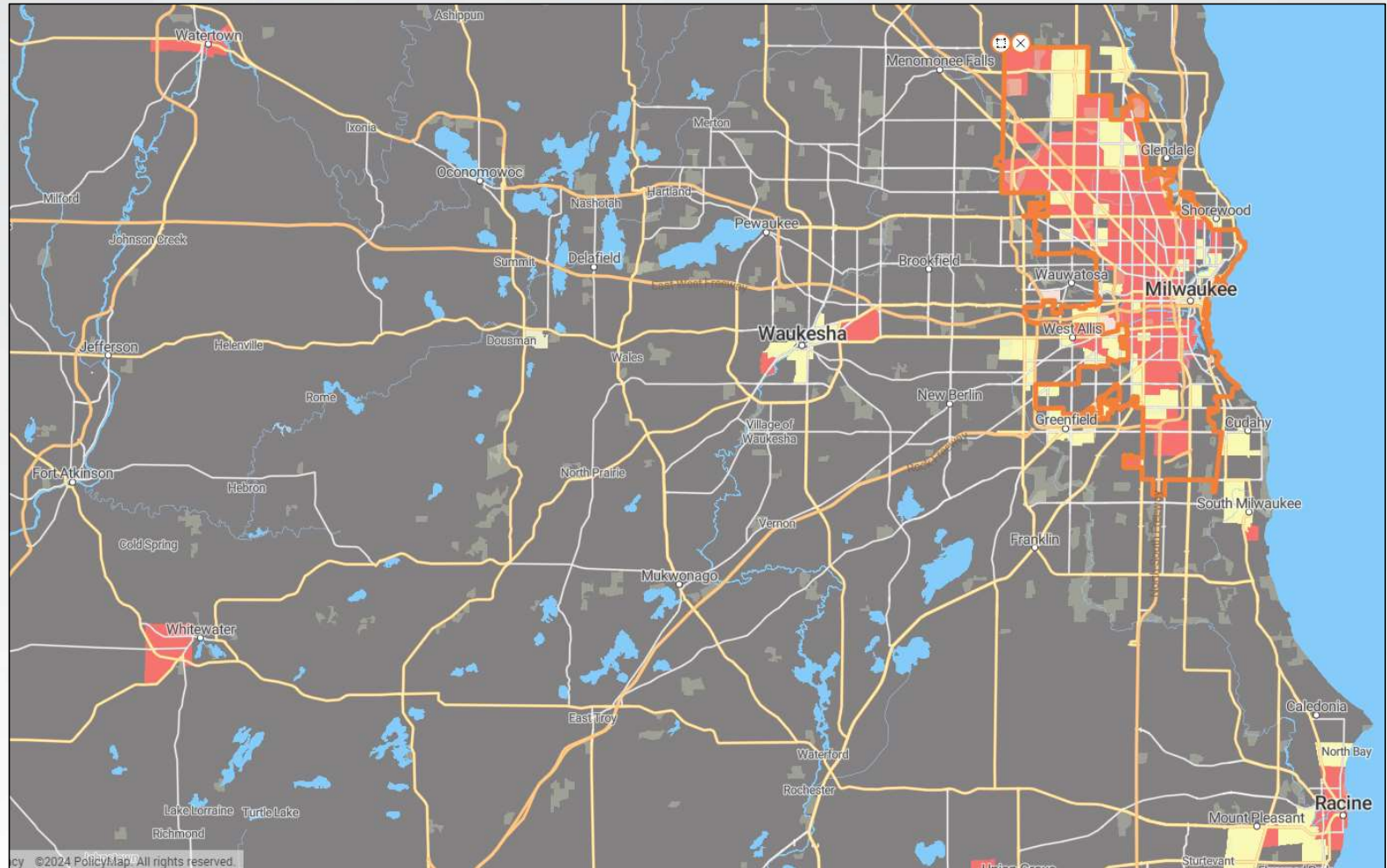
Qualified Location

Qualified Activity

Community Impact

Qualified
Location

The first
step is to
determine
location
eligibility



Qualified Activity

Geographic restrictions

- Is the project/business located in a Low-Income Community

Technical requirements

- Project/business must stay qualifying for the entire compliance/tax credit period – 7 years

Residential rental property

- Mixed use is permitted so long as over 20% of the rental income is derived from commercial tenants

Straight acquisition or refinance of rental property

- Must have “substantial rehab” or be owner occupied

Certain disallowed businesses

- Racetracks & gambling facilities, Golf courses, Liquor Stores, Farming, Massage & tanning businesses, Undeveloped land holding

FORVIS

FORVIS is a trademark of FORVIS, LLP, registration of which is pending with the U.S. Patent and Trademark Office.

Community Impact

- How does the project impact both Low-income persons and the Low-Income community?
 1. Is it tangible?
 2. Is it quantifiable?
 3. Does it address a community need?
 4. Examples may include:
 - a) Job creation (accessible and living wage)
 - b) Goods and services provided
 - c) Environmental needs met
 - d) Minority needs met

Key Project Indicators for Readiness

- Funding – status of the capital stack
- Timing – can the project move forward? when?
- “Shovel Ready” – project development status
- The But For
- NMTC Life Cycle

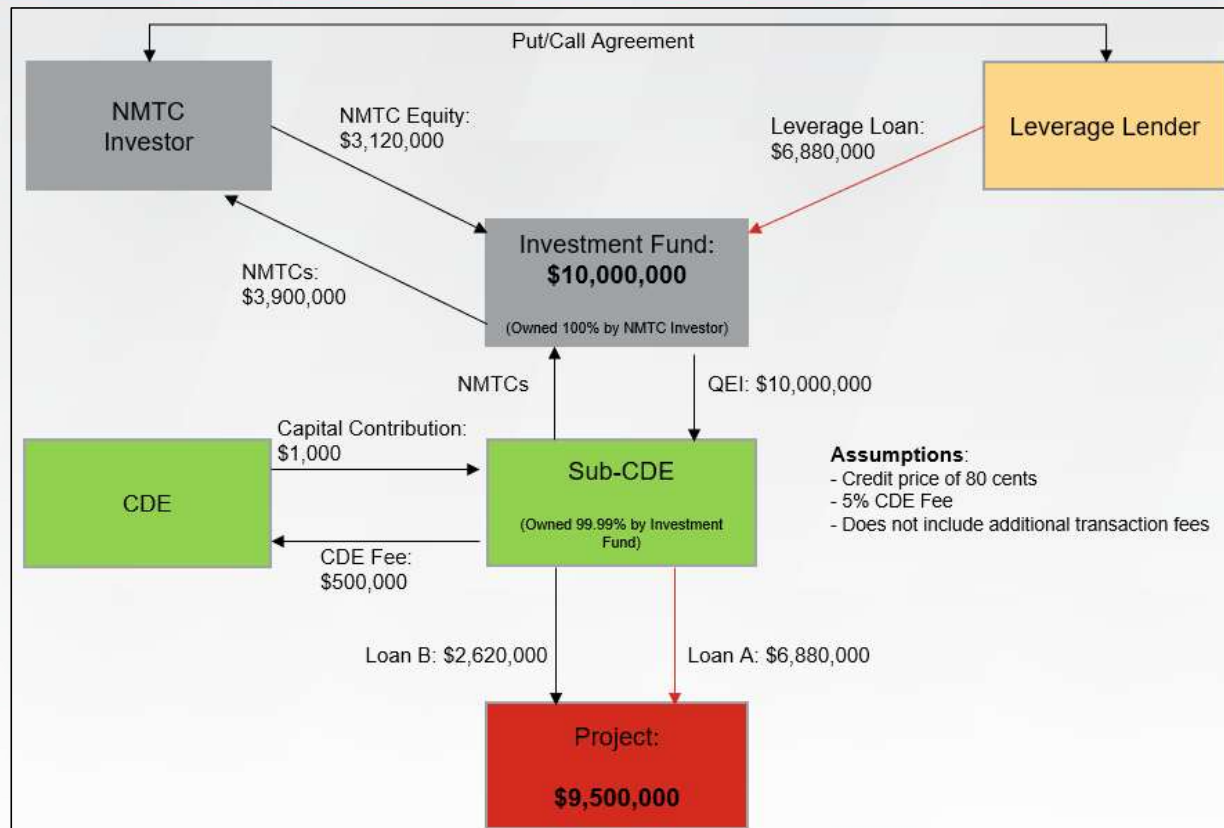
Project Level Due Diligence:	
Status	Item
	Overall Project Budget
	Overall Project Sources & Uses
	Project Proforma/Operating Projections (3//5/7/10 year with escalation)
	Construction Budget - finalized
	General Contractor Agreement
	Architects Agreement
	Plans & Specs
	Permitting Status
	Proposed NMTC Structure

Project Level Financing:	
Status	Item
	Status of Financing
	Planned Leverage Source
	Term sheets/Evidence of Financing
	Timing of Financing
	Proposed Capital Stack

Financials	
Status	Item
	Financial Statements (prior 3 years) of project and/or Sponsor
	Tax Returns (prior 3 years)

Other Documentation (as needed)	
Status	Item
	Organizational Structure
	Board Members (if applicable)

NMTC Structure



NMTC Estimated Benefits

New Markets Tax Credit Cash Flow

<u>Tax Credit Equity Calculation</u>	<u>At Closing</u>
Allocation Amount	\$ 10,000,000.00
Tax Credit Generated (39%)	\$ 3,900,000.00
Credit Purchase Price (varies by Investor)	\$ 0.80
NMTC Equity (Tax Credit * Purchase Price)	\$ 3,120,000.00

NMTC Cash flow to Project

NMTC Equity contribution to an Investment Fund	\$ 3,120,000.00
Leverage Loan to an Investment Fund	\$ 6,880,000.00
Total to the Investment Fund	\$ 10,000,000.00
Total Qualified Equity Investment (QEI) to Sub-CDE	\$ 10,000,000.00
(Less Sub-CDE Fee - 5%)	\$ (500,000.00)
Cash Available for Project Funding	\$ 9,500,000.00

Loans to Project (QLICs)

Loan A	\$ 6,880,000.00
Loan B	\$ 2,620,000.00
Total Loans to Project	\$ 9,500,000.00

Total Loan Proceeds available to Project

Loan A Proceeds	\$ 6,880,000.00
Loan B Proceeds	\$ 2,620,000.00
Less NMTC Costs	
Legal Fees	\$ (300,000.00)
Forecast/Modeling Cost	\$ (40,000.00)
Total Loan Proceeds to Project	\$ 9,160,000.00

Estimated Benefit to Project

Total Loan Proceeds to Project	\$ 9,160,000.00
Less: Loan A Proceeds	\$ (6,880,000.00)
Total Estimated Benefit at Closing	\$ 2,280,000.00

Assumptions:

- Credit price of 80 cents
- 5% CDE Fee
- Does not include on-going transaction fees
- Does not include interest payments on Loans
- Actual fee structure may vary
- Actual fees will vary by CDE, Investor, and by transaction

Questions?

FORV/S

FORV/S is a trademark of FORV/S, LLP, registration of which is pending with the U.S. Patent and Trademark Office.

One Minute Summary

FORV/S

FORV/S is a trademark of FORV/S, LLP, registration of which is pending with the U.S. Patent and Trademark Office.

What do CDEs look for when selecting projects?

1. Well, it varies → with over 100 award winners, you will see 100 different approaches
2. However, several overarching themes hold true:

Geography

- Highly distressed/Non metro (rural)
- Other distress indicators:
 - Brownfields
 - Medically underserved
 - ARC distressed
- Underserved state

Community Impact

- Tangible and Measurable:
 - Jobs created
 - People served
- Addresses needs of Community with Quality Impacts
- Project has a need for the tax credits

FORV/S

NMTC Contacts



Mike Roney

Senior Manager, Federal Tax Specialty
National NMTC Practice Leader

Mike.Roney@forvis.com

D: 412.348.5094

M: 630.251.8968



Wes Ernst

Director
NMTC Practice Co-Leader

Wes.Ernst@forvis.com

D: 513.562.5515

M: 513.706.1421

E-mail the NMTC team – NMTC@forvis.com

Thank you!

forvis.com

The information set forth in this presentation contains the analysis and conclusions of the author(s) based upon his/her/their research and analysis of industry information and legal authorities. Such analysis and conclusions should not be deemed opinions or conclusions by FORVIS or the author(s) as to any individual situation as situations are fact specific. The reader should perform its own analysis and form its own conclusions regarding any specific situation. Further, the author(s) conclusions may be revised without notice with or without changes in industry information and legal authorities. FORVIS has been registered in the U.S. Patent and Trademark Office, which registration is pending.

FORVIS

Assurance / Tax / Advisory