VEDA
Virginia Economic Developers Association
Working to Ensure Virginia's Prosperity

NEW MARKETS TAX CREDITS

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October 8, 2014

PROGRAM ACRONYMS

CDE	Community Development Entity
CDFI Fund	Community Development Financial Institutions Fund (part of US Treasury)
LIC	Low-Income Community
QALICB	Qualified Active Low-Income Community Business
QEI	Qualified Equity Investment
QLICI	Qualified Low-Income Community Investment

NEW MARKETS TAX CREDIT ("NMTC") PROGRAM

- Enacted into law by President Clinton on December 21, 2000 as part of the Community Renewal and Tax Relief Act of 2000
- Subject to reauthorization since 2006
- Jointly administered by the Community Development Financial Institutions ("CDFI") Fund and the Internal Revenue Service (Section 45D of IRC)
- MISSION: To encourage investment in low-income areas by providing tax incentives to community development leaders and investors
- Tax Credit is claimed over a seven (7) year period ("Compliance Period")
- Total credit equals 39% of the original amount invested in the CDE

BASICS

NMTCs provide a credit against Federal income taxes for

Investors
who make

Qualified Equity Investments ("QEIs")

in certified financial intermediaries called
Community Development Entities ("CDEs")
that use "substantially all" of these proceeds to make

Qualified Low-Income Community Investments ("QLICIs")

in
Qualified Active Low-Income Community Businesses ('QALICBs")
Located in Low-Income Communities ("LICs")

COMMUNITY DEVELOPMENT ENTITIES ("CDEs")

- CDE is a domestic partnership or corporation that serves as an intermediary vehicle for provision of loans to QALICBs. Only for-profit entities can issue QEIs to investors.

- To qualify as a CDE, an entity must apply for and receive certification from the CDFI Fund, have a primary mission of serving LICs and maintain accountability to LICs through representation on its governing or advisory board.

ACCOUNTABILITY

- A CDE, when applying for a NMTC allocation, must:
  - Identify the service area that it will serve
  - Identify a pipeline of representative QALICBs and projected community impact
  - Demonstrate investor commitments for the use of the allocation
  - Demonstrate that it maintains accountability to residents of LICs in selected service area

- Accountability maintained through Governing Board and/or Advisory Board representative of LICs in selected service area

- Must remain in compliance with CDFI Fund requirements, IRS requirements and investors' requirements for seven (7) years.

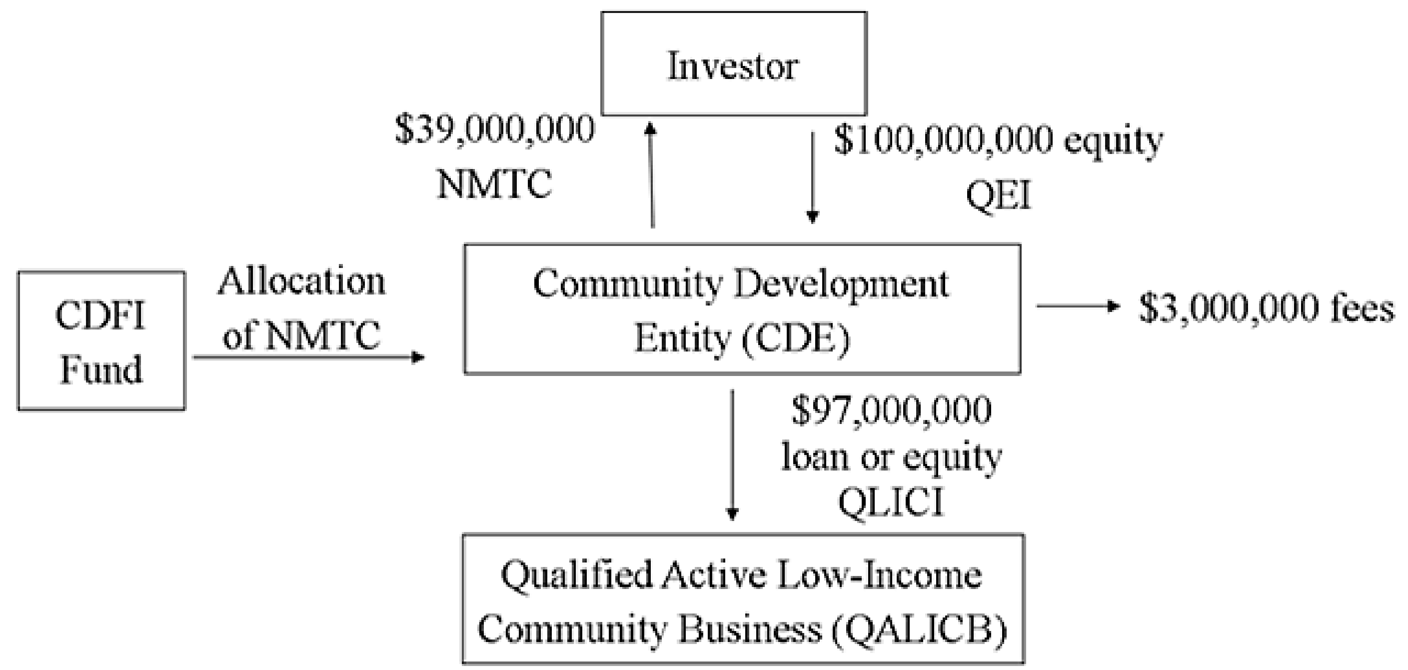
QUALIFIED EQUITY INVESTMENTS (“QEIs”)

- A QEI is an investor’s equity contribution to a CDE in the form of cash
- Cannot be redeemed for seven (7) years
- “Substantially all” of the investor’s cash must be used by the CDE to make QLICIs

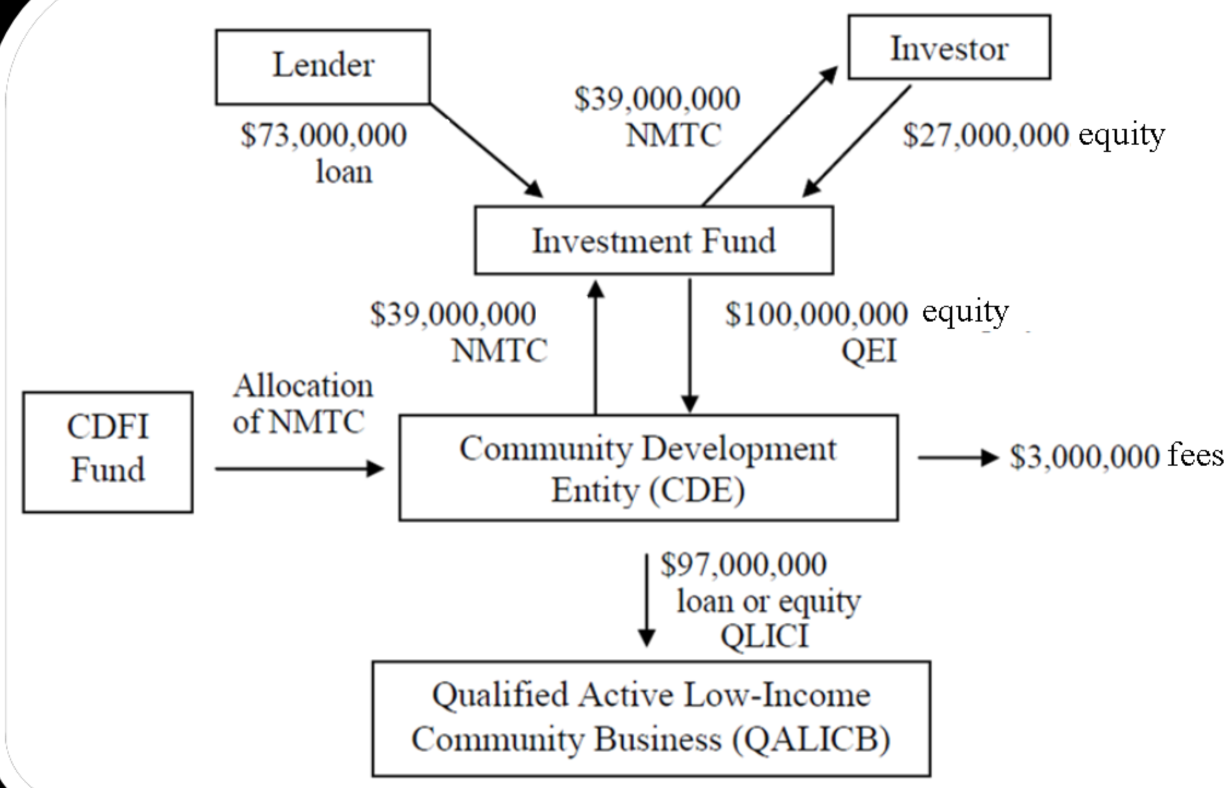
QEIs – “SUBSTANTIALLY ALL” TEST

- CDE must use at least 85% of the QEI in a QLICI
- Includes up to 5% loan loss reserve
- Does not include costs, fees and CDE overhead
- The test is performed twice a year
- Failure to meet the test triggers recapture

THE BASIC "NON-LEVERAGED" STRUCTURE



THE "LEVERAGED" STRUCTURE



QUALIFIED LOW-INCOME COMMUNITY INVESTMENTS ("QLICIs")

- An equity investment in, or a loan to, a QALICB
- Financial counseling to businesses and residents of a LIC
- The purchase from another CDE of any QLICI loan made by that other CDE to a QALICB
- Equity investments in or loans to another CDE (subject to requirements on use of funds)

REINVESTMENT OBLIGATION

- 7 year compliance period
- During the first 6 years, principal loan repayments by the QALICB to the CDE or equity distributions back to the CDE must be reinvested in another QLICI within 12 months
- Reinvestment obligation prevents returns **of** capital to the CDE, not returns **on** capital

QUALIFIED ACTIVE LOW-INCOME COMMUNITY BUSINESS (“QALICB”)

A QALICB **must**:

- Be located in a Low-Income Community in a **qualifying census tract** which, generally, has
  - A poverty rate of at least 20% or
  - A median family income that does not exceed 80% of AMI
- Derive 50% of its gross income from active conduct of its business in LICs
- Use at least 40% of its tangible property within LICs
- Ensure that at least 40% of the services performed by its employees take place in LICs
- Ensure that less than 5% of the average of the aggregate unadjusted basis of the business property is attributable to collectibles or non-qualified financial property (“NQFP”)

RECAPTURE

- NMTCs may be recaptured from investors during the Compliance Period under certain conditions

- Recapture is triggered if:
  - The CDE ceases to qualify as a CDE
  - The CDE redeems the investment
  - The QEI fails to meet the “substantially all” requirement:
    - Failure to invest 85% of the original QEI; or
    - Failure to meet QALICB requirements; or
    - Failure to meet one (1) year investment/reinvestment requirement

- The amount of recapture (the “Credit Recapture Amount”) equals:
  - Total tax credits claimed for all prior taxable years *plus*
  - Interest at the IRS underpayment rate and penalties

ADDING COMPLEXITY: COMBINING THE NMTC WITH OTHER PROGRAMS

- Historic Rehabilitation Tax Credits
- Tax-Exempt Bonds
- CDBG funds, TIF proceeds, Grants
- Renewable Energy Tax Credits and Section 1603 grants
- LIHTC: Not in the same ownership structure. "Side by Side"
- HUD public housing funds
- HRSA grants

SAMPLE PROJECTS IN VIRGINIA

The Historic Crispus Attucks Theatre, Norfolk, Virginia
CWM structured the NMTC financing for the renovation of this 86-year old theatre, which is one of the few remaining venues that were part of the historic "Chitlin Circuit."

SpringHill Suites by Marriott at Old Dominion University, Norfolk, Virginia
In 2006, CWM attorneys established a groundbreaking financial model to fund the construction of a SpringHill Suites by Marriott hotel near the campus of Old Dominion University in Norfolk. This innovative financing structure combined NMTC and tax-exempt Empowerment Zone bonds to fund a $13.3 million loan to help complete the 114-room hotel.

SAMPLE PROJECTS IN VIRGINIA

The Hilton Garden Inn (formerly Miller & Rhoads Department Store), Richmond, Virginia

The former Miller & Rhoads Department Store was transformed into a 250-room hotel with 24,000 sq. ft. of retail space and 133 condos. This project was completed with the use of NMTCs to spark economic growth as part of the Downtown Broad Street Redevelopment initiative.

Blue Ridge Medical Center, Arrington, Virginia

In 2011, the use of NMTCs combined with a Health Resources and Services Administration (HRSA) grant enabled the construction of a $7.2 million medical center and dental clinic which provide comprehensive medical and dental care, as well as rural health outreach programs, to medically underserved communities in rural Virginia.

SAMPLE PROJECTS IN VIRGINIA

Gypsy Hill Place (Former Robert E. Lee High School), Staunton, Virginia
The use of NMTCs combined with state and federal historic tax credits enabled the redevelopment of this historic landmark into a senior living and cultural center, providing space for community agencies such as Valley Program for Aging Services, Inc. and ShenanArts.

The Waynesboro Heritage Museum, Waynesboro, Virginia
CWM attorneys structured the financing for this transaction using NMTCs, historic tax credits and funding provided by Virginia Housing Development Authority to restore this 90-year old building which now houses the Waynesboro Heritage Museum as well as six housing units and office/retail space.

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