

# New Markets Tax Credits and the Chicago Development Fund

Lorman Education Services  
Update on Incentives for Real Estate Development

August 30, 2007

Tony Q. Smith, AICP  
*S. B. Friedman & Company*

# Discussion Topics

- ***General Overview***
- What NMTC Can be Used For
- Typical Deal Structures
- Chicago Development Fund NMTC Program

# New Markets Tax Credits

- Created in 2000 as part of Community Renewal Tax Relief Act
- Companion program to Low-Income Housing Tax Credit
- Administered by CDFI Fund division of US Treasury
- Primarily support industrial, community facility, and commercial development in qualifying Census tracts

# Federal Authorization

2001-02	\$2.5 billion
2003-04	\$3.5 billion
2005	\$2 billion
2006	\$3.5 billion
2007	<u>\$3.5 billion</u>
<b>TOTAL</b>	<b>\$15 billion</b>

- Additional 2008 Allocation Round Approved
- Efforts to extend/make permanent

# New Markets Tax Credits (con't)

- 7-year stream of federal income tax credit benefits triggered by investment in a CDE (this investment is called a “QEI”)
- Increase access to and/or lower cost of capital (e.g., lower interest rates, partial loan forgiveness, etc.)
- Awarded on a competitive basis to public, private, and non-profit entities

# What is a CDE?

- Community Development Entity, certified by CDFI Fund (division of US Treasury)
- Domestic corporation or partnership
- Intermediary vehicle for the provision of loans or other investments in “Low-Income Communities” (LICs)
- CDEs are required to demonstrate that they:
  - Have a primary mission of serving LICs and/or Low-Income Persons
  - Are accountable to residents of the LICs that they serve

# What is the Tax Credit Benefit?

For investment (QEI) of \$1.00, investor would receive federal income tax relief of:

Years 1-3 Tax Credit at 5% = \$0.05 per year

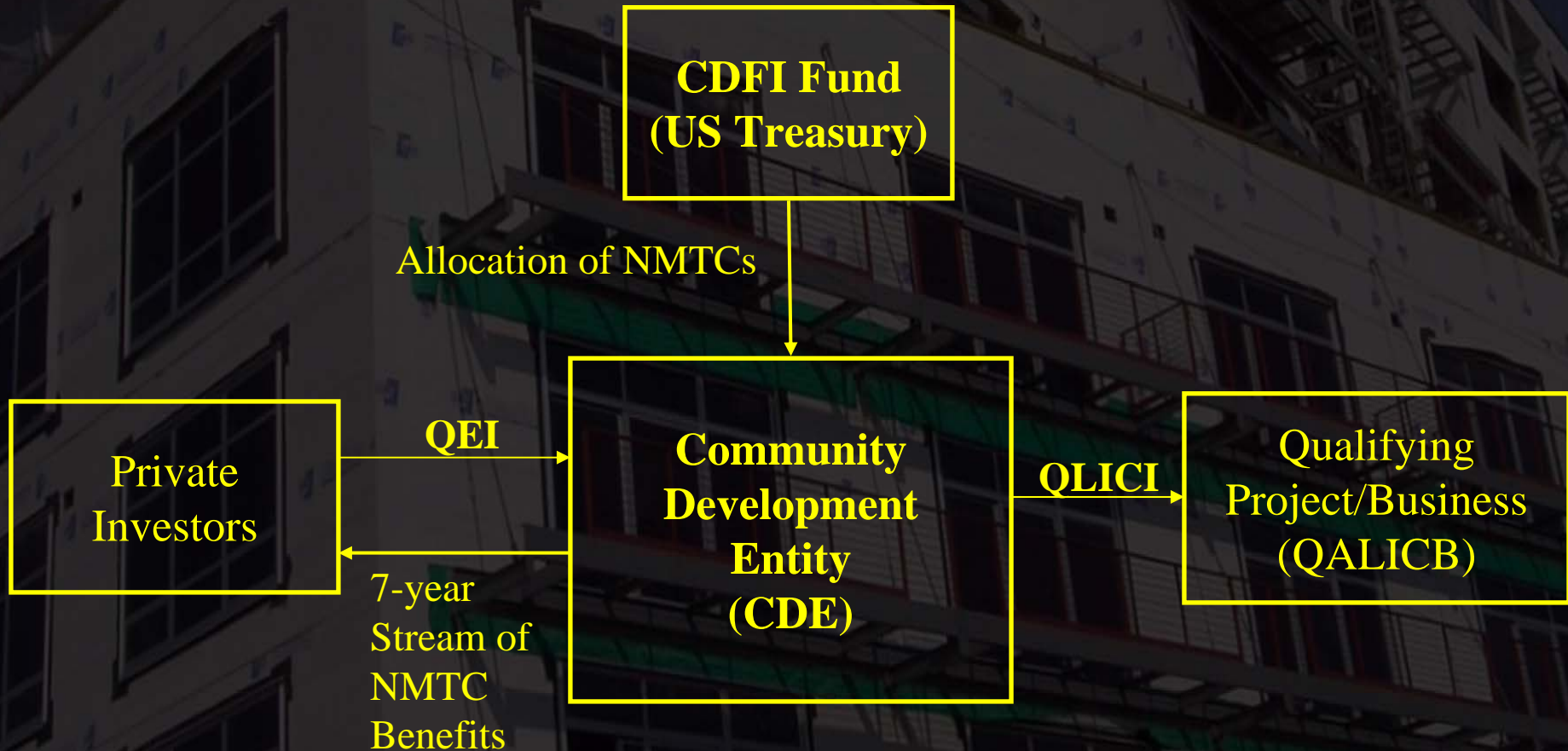
Years 4-7 Tax Credit at 6% = \$0.06 per year

TOTAL VALUE OVER 7 YEARS = \$0.39

Up-Front Discounted Value: Generally \$0.25 to \$0.30

Above example consumes \$1 of "Allocation"

# General Structure



# Qualified Low-Income Community Investments (QLICs)

- Any investment in or loan to a “Qualified Active Low-Income Community Business” (QALICB or “Qualifying Project”)
- Generally have term of 7 years
- Provided in the form of debt or equity with better-than-market terms
- Some potential for partial forgiveness by CDE at end of Year 7

# NMTC Benefits Flow to Investors if:

- CDE uses QEI proceeds to make QLICs
- CDE maintains compliance with federal regulations:
  - Keeping its QLICs invested for 7 years
  - Reporting to the CDFI Fund
  - Maintaining accountability to Low-Income Communities via board representation

# Discussion Topics

- General Overview
- ***What NMTC Can be Used For***
- Typical Deal Structures
- Chicago Development Fund NMTC Program

# Bethel Center: Chicago, IL

- Construction of 23,000-square-foot mixed-use facility in West Garfield Park
  - Employment services
  - Child development facilities
  - Community technology center
  - Six commercial storefronts
- \$1.5 million in NMTCs
- Additional grant funding



# Blackstone Hotel: Chicago, IL

- \$112 million restoration of South Loop hotel listed on National Register of Historic Places
- Job creation
  - 300 temporary construction jobs
  - 160 FTE permanent jobs
- Assisted through:
  - Federal Historic Tax Credits
  - NMTC
  - \$18 million in TIF



# Palermo Villa: Milwaukee, WI

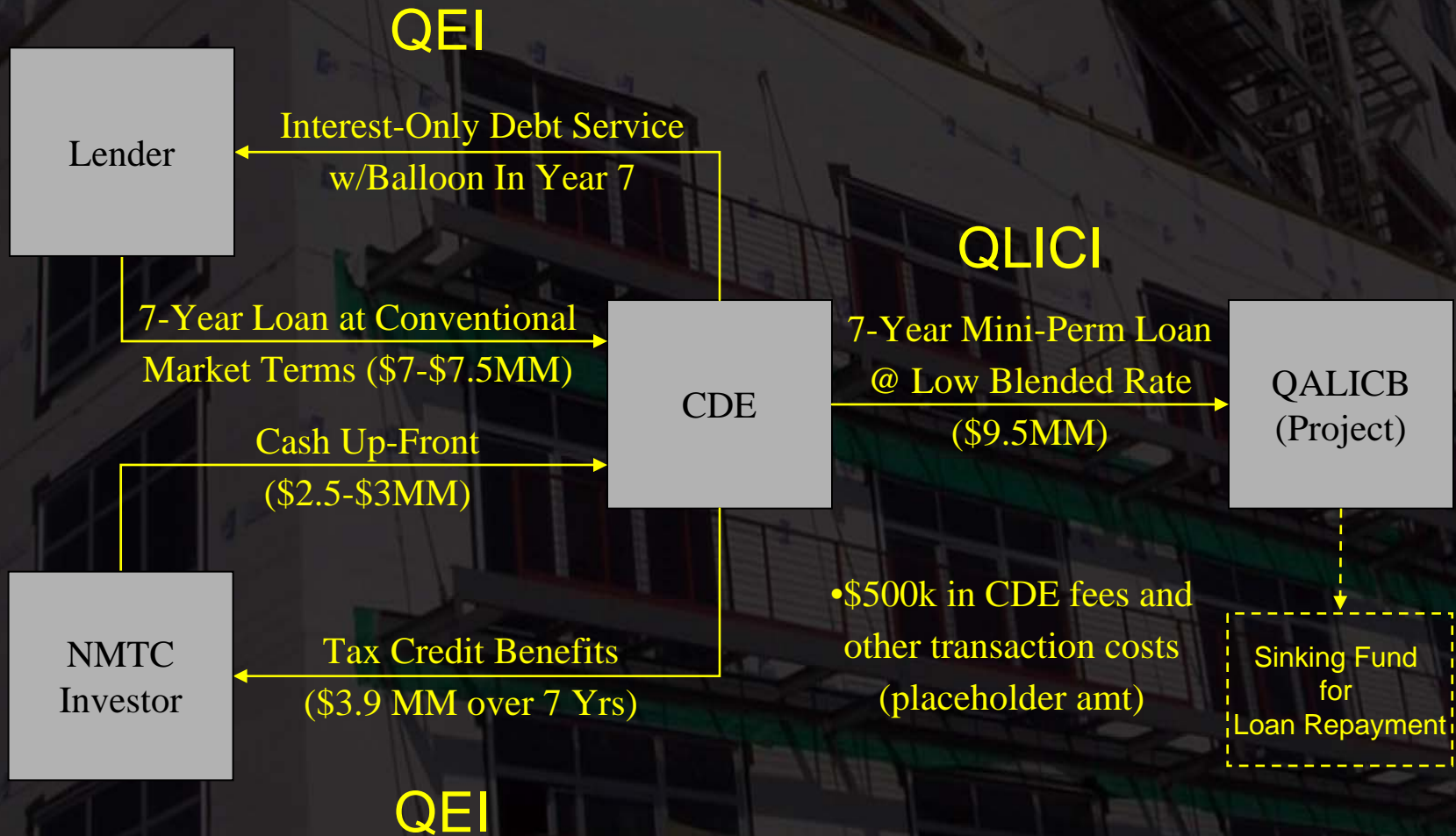
- Headquarters & state-of-the-art food manufacturing facility for family-owned business with local history
  - Increase plant capacity
  - Consolidate operations
- Created more than 150 high-quality jobs (full benefits)
- Assisted through \$22 million in NMTCs for building and equipment



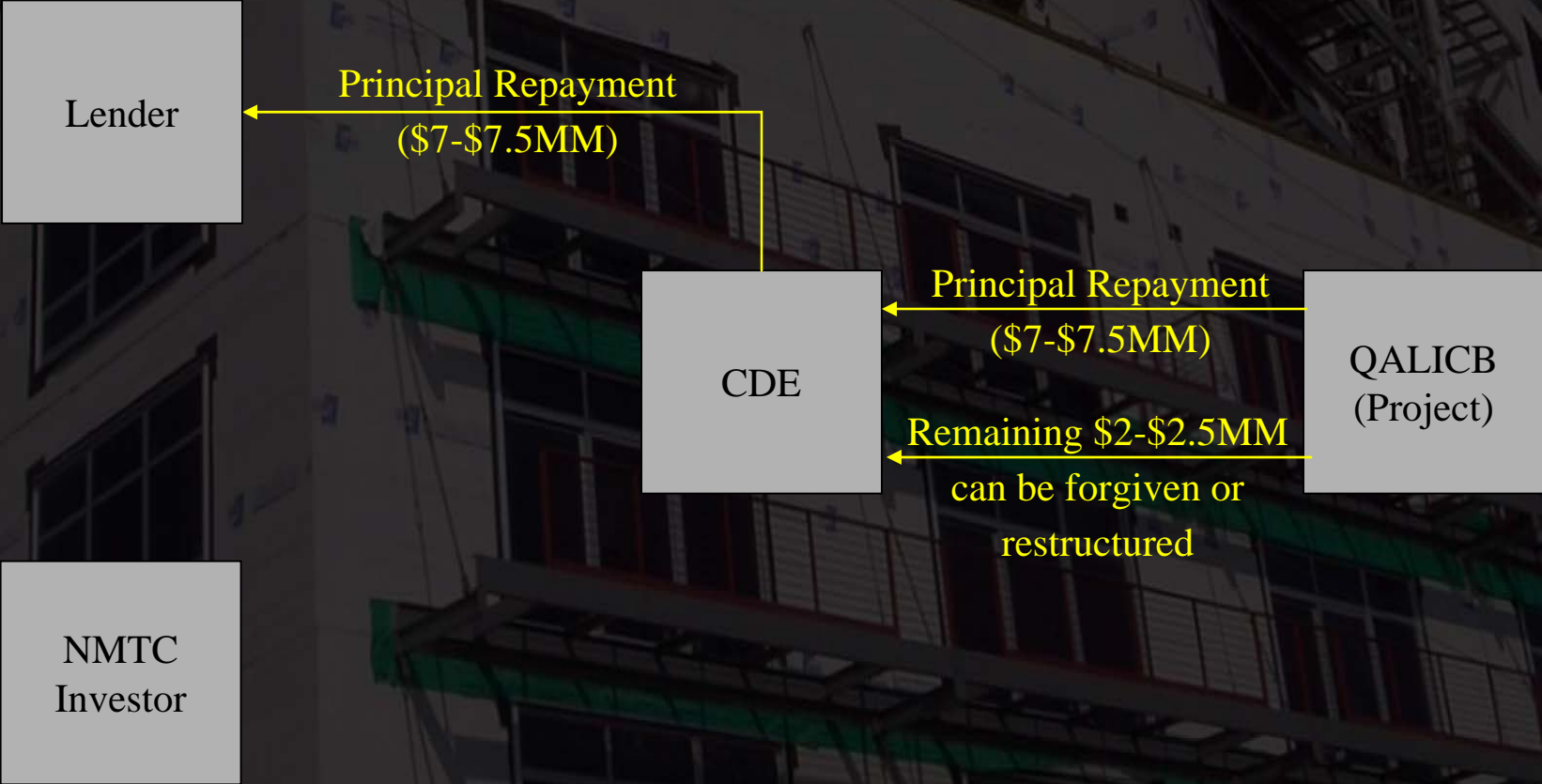
# Discussion Topics

- General Overview
- What NMTC Can be Used For
- ***Typical Deal Structures***
- Chicago Development Fund NMTC Program

# Enhancing Conventional Debt

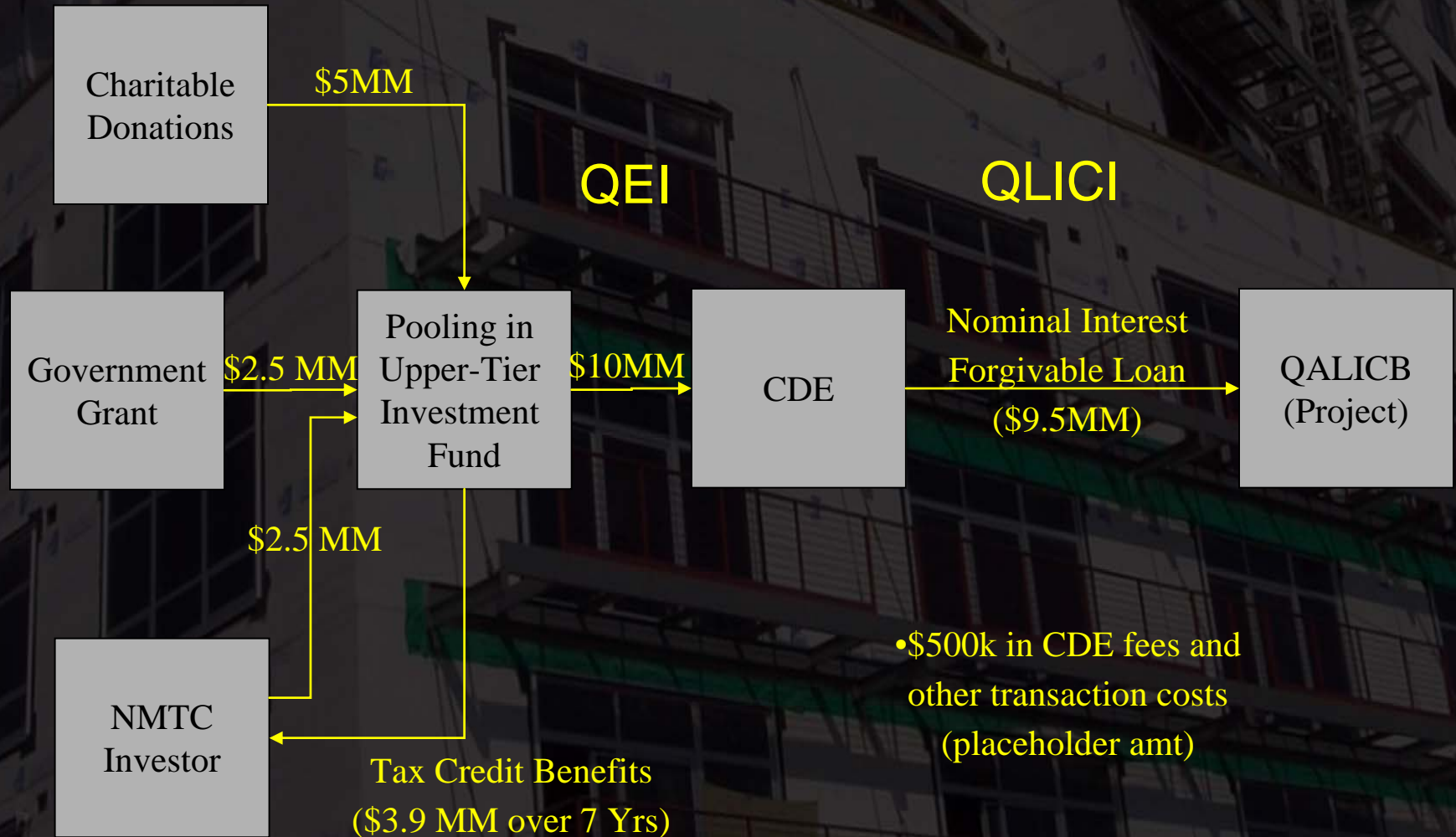


# Year 7



Return on and of capital provided via tax credits

# Increasing Available “Soft Money”



# Year 7



No  
Repayment  
Needed

Return on and of capital  
provided via tax credits

# Discussion Topics

- General Overview
- What NMTC Can be Used For
- Typical Deal Structures
- ***Chicago Development Fund NMTC Program***

# CDF's NMTC Allocation Timeline

<b>Date</b>	<b>Milestone</b>
Summer 2005	Creation of CDF by City of Chicago
September 2005	Application for NMTCs in 2006 round
June 2006	Notification of NMTC allocation award
February 2007	Draft Allocation Agreement received
June 2007	Execution of Allocation Agreement
Late 2007 to Mid-2010	Anticipated closing of NMTC transactions

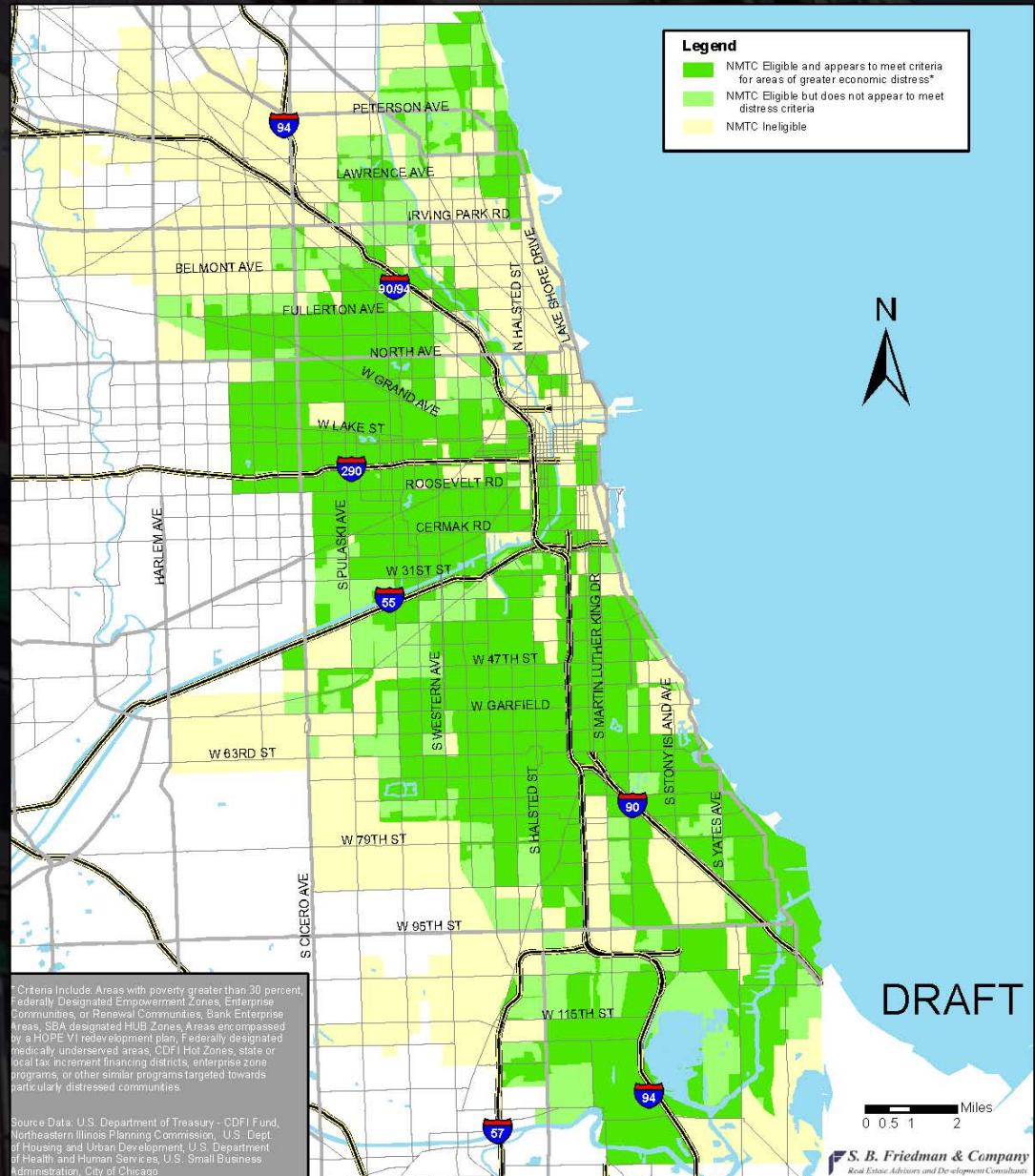
# Key Attributes

- One of only 2 city-controlled CDEs to win a 2006 allocation
- One of only 12 CDEs to win \$100 MM+
- Only CDE with local service area to win \$100 MM+

# Program Objectives

- Focus on three primary project types:
  - Industrial retention/expansion (33-50%)
  - Cultural, historic, and community facilities (33-50%)
  - Grocery-anchored retail in “food deserts” (0-33%)
- Direct 100% of allocation toward “Areas of Greater Economic Distress”
- Complement existing City assistance programs, particularly Tax Increment Financing (TIF)

# Areas of Eligibility and Greater Economic Distress



# Anticipated Financial Products

- All products to carry below-market terms such as:
  - Reduced interest rates
  - Higher-than-typical loan-to-value ratio
  - Partial loan forgiveness potential after yr. 7
- Senior Debt (33-50% of allocation)
- Mezzanine Debt w/TIF Credit Enhancement (0-33% of allocation)
- NMTC “Equity” (33-50% of allocation)