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The New Markets Tax Credit Program

Capital Impact Partners Policy Brief

The New Markets Tax Credit Program is a proven tool for helping community development organizations such as Capital Impact Partners **attract private sector capital to communities where new investment is needed most.**

The New Markets Tax Credit Program: Bringing high-impact investment to low-income communities



One of the persistent economic challenges our nation's low-income communities face is the lack of access to private investment capital for local businesses and real estate projects.

This lack of capital means that there is a lack of opportunity in these communities. It means that there are fewer local businesses and local jobs. It means that household incomes are lower and unemployment and poverty rates are higher. It means that the roots of economic hardship remain tenacious and deep.

The New Markets Tax Credit Program (NMTC Program) was established to generate new investment—and new opportunity—in low-income communities. Over the past decade and a half, the program has had a tremendous impact, developing critical real estate projects and community facilities, creating new businesses and jobs, reviving local economies, and expanding the tax base of local governments.

The purpose of the NMTC Program is to attract private investment into low-income communities.

Designed to attract new capital

The NMTC Program was enacted in 2000 as part of the bipartisan Community Renewal Tax Relief Act. The program is administered by the Community Development Financial Institutions Fund (CDFI Fund), an agency within the U.S. Department of the Treasury that is dedicated to increasing economic opportunity in distressed communities throughout the United States.

The purpose of the NMTC Program is to attract private investment capital to low-income communities by giving individual and corporate investors a federal tax credit in exchange for making equity investments in Community Development Entities (CDEs)—financial intermediaries that specialize in providing loans, investments, and financial counseling to low-income communities.

To be eligible to participate in the NMTC Program a CDE must be certified by the CDFI Fund. Today, there are certified CDEs headquartered in 49 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

Effective Public-Private Partnerships: An innovative model for community development

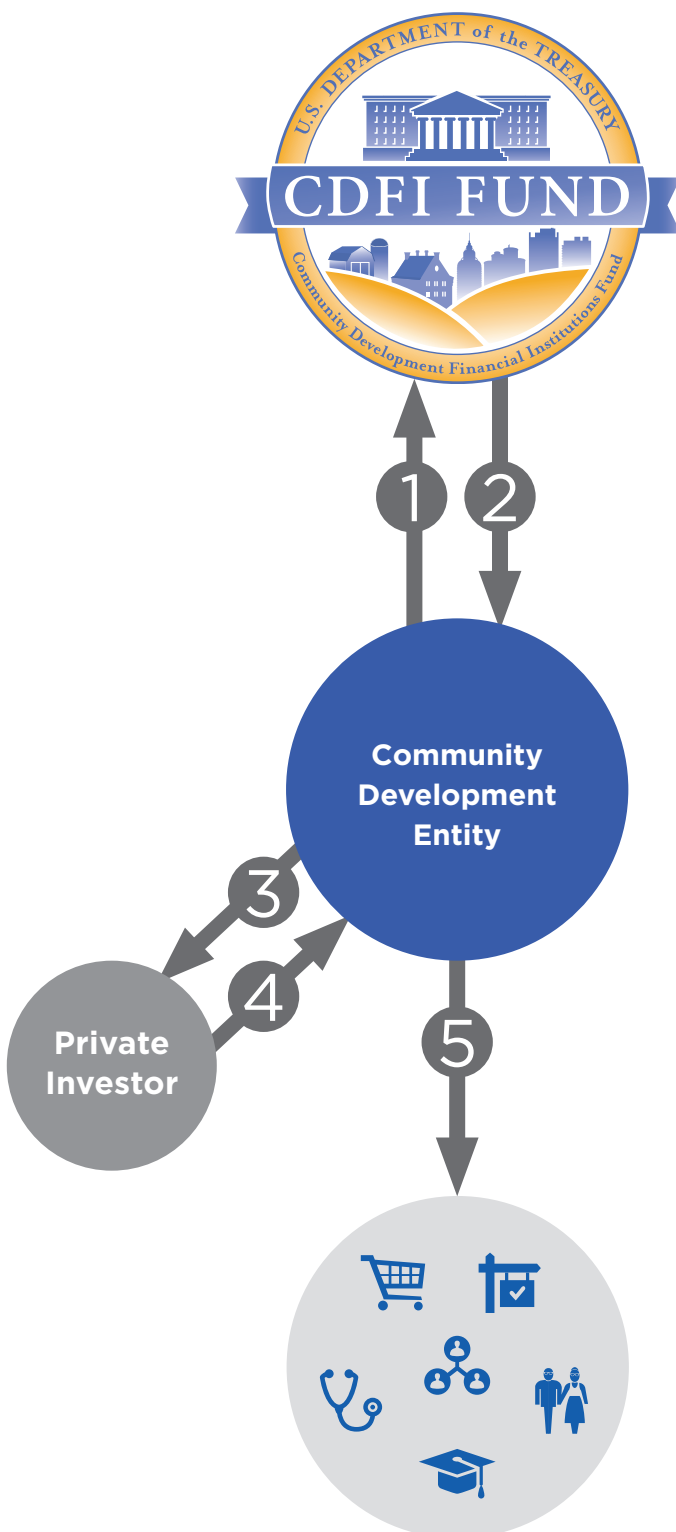
How the NMTC Program works

The CDFI Fund makes NMTC awards to certified CDEs through a competitive application process. Here's how the program works:

- 1 A CDE submits an application to the CDFI Fund requesting the authority to allocate a specific dollar amount of tax credits.
- 2 If its application is approved, the CDE is awarded the authority to allocate tax credits to an investor.
- 3 The investor chosen by the CDE receives a tax credit totaling 39 percent of the cost of the investment. The investor can claim that tax credit over a period of seven years.
- 4 In exchange for those tax credits, the investor makes a Qualified Equity Investment (QEI) in the CDE.
- 5 The CDE must use the QEIs it receives from the investor to finance businesses or real estate projects in low-income communities where the poverty rate is 20% or higher, or the median income is 80% or lower of the area median income. The CDE also has the option of investing in other CDEs making loans in low-income areas.

Since the inception of the NMTC Program, the CDFI Fund has conducted 12 award rounds and has made 912 awards, allocating a total of \$43.5 billion in tax credit authority to CDEs.

Demand for the NMTC Program remains strong. In the 2014 award round, 76 CDEs in 27 states and the District of Columbia received awards totaling \$3.5 billion. These 76 awardees were selected from a pool of 263 applicants requesting \$19.9 billion in allocation authority—more than five and a half times the amount that was available.



The NMTC Program has made **912** awards totaling **\$43.5 billion** in tax credits authority to community development entities.

Impact of New Markets Tax Credit Investments:

A track record of proven results

A tangible impact

According to the CDFI Fund, for every \$1 invested by the federal government, the NMTC Program generates more than \$8 in private investment. The CDFI Fund estimates that, since 2003, the program has created or retained 197,585 jobs and has supported the construction of 32.4 million square feet of manufacturing space, 74.8 million square feet of office space, and 57.5 million square feet of retail space.¹

A study by the New Markets Tax Credit Coalition offers further insight into the program's impact. The study found that from 2003-2013, the program generated investments that supported more than 1,200 essential community amenities projects, including health care facilities, schools, day care centers, and nonprofit service providers.²

It also found that an overwhelming majority of NMTC investment has targeted communities that far exceed the program's minimum requirements for poverty and income. From 2003-2012, 76 percent of NMTC projects were located in severely distressed census tracts with poverty rates above 30 percent, median incomes below 60 percent of the area median income, or unemployment rates one-and-a-half times the national average.³

An efficient use of federal resources

In addition to generating new economic activity in low-income communities, the NMTC Program generates new tax revenue. In 2012 alone, the NMTC Program spurred \$15.2 billion in economic activity, which in turn yielded \$984 million in federal tax revenue—more than enough to offset the \$800 million in tax revenue that the government lost through the use of the tax credits that year.⁴ The NMTC also generated \$542 million in state and local tax revenue in 2012.⁵

1. CDFI Fund, New Markets Tax Credit Program Fact Sheet, January 2016, https://www.cdfifund.gov/Documents/NMTC_Fact_Sheet_Jan2016v2.pdf.

2. Paul Anderson et al., A Decade of the New Markets Tax Credit: An Economic Impact Analysis (Washington, DC: New Markets Tax Credit Coalition, December 2014), pg. 4.

3. Ibid., pg. 3.

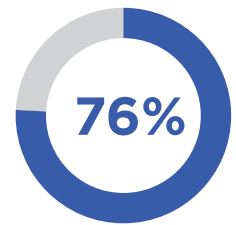
4. Ibid., pg. 13.

5. Ibid., pg. 14.

Building Strong and Vibrant Communities

8:1

private investment dollars leveraged for every federal dollar



NMTC projects located in severely distressed census tracts

164,000,000



sq. ft of office, retail, & manufacturing spaces in low-income communities

1,200 projects built,

including health clinics, schools, healthy food retailers, affordable housing, and mixed-used facilities



\$985 MILLION

in federal tax revenue **+** \$542 MILLION in state and local tax revenue, far offsetting the costs of tax credit allocations

Capital Impact Partners: A leader in New Markets Tax Credit financing

Generating impact nationwide

Capital Impact Partners is nonprofit, national CDFI and CDE headquartered in Arlington, Virginia, with local offices in Detroit, Michigan, and Oakland, California. Its mission is to build healthy, sustainable communities by making strategic, high-impact investments that create and maintain quality jobs while delivering essential products and services to residents of low-income communities.

Capital Impact Partners has a strong track record in the NMTC Program. Through the first 12 rounds of the program, the organization received seven NMTC awards totaling \$492 million in tax credit allocation authority. Capital Impact Partners also manages more than \$300 million worth of NMTCs for other CDEs.

Through 2015, Capital Impact Partners has closed more than 64 NMTC transactions across the nation to support a variety of health care, housing, independent aging, healthy foods, and education projects in communities with an urgent need for new investment capital.

Capital Impact's NMTC Success:

32,000

permanent jobs created

1.5 MILLION

patients given access to health care

231 MILLION

charter school seats created

35,000

affordable housing units built

2 MILLION

people given access to healthy food



NMTC Financing in Action: Success Stories from Capital Impact Partners

Union Mill

Baltimore, Maryland



Built in 1866, Union Mill was once Maryland's largest stone mill and the world's leading producer of cotton duck, a tightly woven canvas used for boat sails, ropes, and work clothing. A variety of manufacturers occupied the factory over the years, but by the time the last one moved out in 2007, the once-grand Italianate structure had suffered years of neglect.

But Union Mill began a new life a few years later, when the Seawall Development Company—with support from an NMTC investment from Capital Impact Partners—transformed the aging, abandoned property into an innovative mixed-use development complex that is dedicated to truly making a difference in the community.

The new Union Mill opened in November 2013. It utilizes the latest green design features and provides 56 modern, below-market-rate apartments—all of them reserved for teachers who work in the city's public and private schools, including some who work in the Teach for America program. It also provides more than 25,000 square feet of office space for local nonprofits, such as the Maryland Association of Nonprofit Organizations and the Maryland Disability Law Center.

Total project cost

\$23.5 MILLION

NMTC financing provided by Capital Impact Partners

\$10.5 MILLION

The Rev. Dr. Morris L. Shearin Sr. Community Life Center

Washington, D.C.



Capital Impact Partners' NMTC investment helped support the creation of the Rev. Dr. Morris L. Shearin Sr. Community Life Center, a new community facility in northeast Washington that includes a 29,000-square-foot community health center and a 13,000-square-foot multipurpose community facilities space offering an array of critical social services programs.

The center was sponsored by Israel Manor Inc., a nonprofit, faith-based organization established in 1996 by Israel Baptist Church to enable much-needed development projects and programs in its underserved community. The Center's community health center is operated by Unity Health Care, the largest private provider of primary medical care to the District of Columbia's homeless and low-income population, and is expected to increase patient visits in the community by at least 9,000 each year.

Since opening in June 2015, the new center has offered residents of the community easy access to childcare services, after-school and summer camp programs, adult literacy and GED programs, and senior exercise and wellness programs. The center has already generated 85 full-time jobs, as well as more than 30 new and 350 continuing construction jobs.

Total project cost

\$15.8 MILLION

NMTC financing provided by Capital Impact Partners

\$9.2 MILLION



NMTC Financing in Action: Success Stories from Capital Impact Partners

Northgate González Market

Los Angeles, California



Northgate González Markets is a family-owned chain of supermarkets located in Los Angeles and San Diego. Northgate focuses on providing high-quality produce, meats, and specialty services in densely populated, underserved Latino communities.

Capital Impact Partners has provided NMTC financing to support the development of three new full-service González supermarkets in low-income neighborhoods. The most recent investment helped create a market in a severely distressed area of South Los Angeles that has a poverty rate of more than 27 percent and was classified by the U.S. Department of Agriculture as a food desert—a community with limited access to stores that sell affordable, nutritious food.

The new store is not only bringing healthy food within reach of the people in its community but also employs 100 full- and part-time employees and prioritizes the hiring of local residents. It also offers employees a variety of valuable benefits, including competitive wages, paid time off for vacation and sickness, health care and disability benefits, an employer-sponsored 401(k) plan, and tuition reimbursement.

Total project cost

\$8 MILLION

NMTC financing provided by Capital Impact Partners

\$8 MILLION

Henry Ford Academy: Elementary School

Detroit, Michigan



The Henry Ford Academy: Elementary School is a tuition-free charter school developed by the Henry Ford Learning Institute, a nonprofit organization launched in 2003 by The Henry Ford and Ford Motor Company Fund to create innovative small schools and hands-on learning programs. During the 2014–2015 school year, the Institute and its partners served more than 2,250 middle and high school students at four Henry Ford academies in Detroit, Chicago, San Antonio, and Dearborn, Michigan.

The Henry Ford Academy: Elementary School's educational philosophy is based on a nationally recognized model first implemented at the Henry Ford Academy in Dearborn, which focuses on preparing students to succeed in college and career. The goal of the elementary school is to ensure that, by graduation, all students have developed a love of learning, a solid foundation in core subjects, and specific skills and strategies for problem solving.

Capital Impact Partners' investment in the Henry Ford Academy: Elementary School transformed a vacant historic Detroit public school building into a 58,000-square-foot facility serving 380 students in grades K-5. With its small classes and low student/teacher ratio, the school offers its students outstanding opportunities to develop the skills they will need to succeed.

Total project cost

\$11 MILLION

NMTC financing provided by Capital Impact Partners

\$11 MILLION



NMTC Financing in Action: Success Stories from Capital Impact Partners

Neighborcare Health at Meridian Seattle, Washington



Since its founding more than 40 years ago, Neighborcare Health has become Seattle's largest provider of health care for low-income and uninsured residents. The organization is a Federally Qualified Health Center that operates 24 sites throughout the city and each year serves 52,000 patients—66 percent of whom live at or below the federal poverty level.

Thanks in part to NMTC financing from Capital Impact Partners, Neighborcare Health created an innovative new center that is dramatically expanding opportunities for care in Seattle's north end, home to the city's largest low-income population with limited access to primary care.

The new 44,000-square-foot Neighborcare Health at Meridian provides an array of services—including primary medical and dental care, specialty mental health and recovery services, and nutritional programs and support services for mothers and children—under one roof. The facility serves 14,000 patients annually—double the number that Neighborcare Health served at its prior facility in the north end.

Equitas Academy Charter Schools Los Angeles, California



Equitas Academy Charter Schools are free public schools created to serve Pico Union, a primarily Latino neighborhood of Los Angeles. Founded in 2009, Equitas Academy is guided by a powerful mission: to provide a structured, achievement-based environment to prepare students—beginning in kindergarten—for college.

In 2013, Equitas Academy opened a middle school that now serves 220 students in grades 5-6. The middle school was established in a temporary facility that the organization soon outgrew. An NMTC financing package from Capital Impact Partners enabled the organization to acquire a 23,574-square-foot commercial property in the community and redevelop it as a permanent home for the middle school. The new facility opened in fall 2015 and is expected to serve 350 students, in grades 5-8, by the 2017-2018 school year.

Although Equitas Academy has been in existence for only six years, it has already achieved recognition for academic excellence. Its elementary school was named a California Distinguished School by the California Department of Education in the 2013-2014 school year.

Total project cost

\$26 MILLION

NMTC financing provided by Capital Impact Partners

\$4.9 MILLION

Total project cost

\$8.2 MILLION

NMTC financing provided by Capital Impact Partners

\$8.2 MILLION



NMTC Financing in Action: Success Stories from Capital Impact Partners

The Argonaut Building

Detroit, Michigan



Designed by the famous Detroit architect Albert Kahn, the Argonaut Building was constructed in 1928 and served as General Motors' automotive design center for decades. In 2007, GM donated the building, which had been vacant since 1999, to the College for Creative Studies, a leading institution for art and design education.

The renovation of the 11-story, 760,000-square-foot Argonaut Building has been one of the most important downtown redevelopment projects in Detroit's New Center. Rechristened in 2009 as the A. Alfred Taubman Center for Design Education, the building now houses several of the College for Creative Studies' undergraduate departments, as well as its graduate programs in design and transportation design, and is establishing the school as a vital part of the city's new creative economy.

The Taubman Center also is home to a creative business accelerator, a 400-seat auditorium available for public use, a 360-seat dining hall, 300 beds of student housing for the college, and a charter school with a full gymnasium and cafeteria.

Washington County Green House®

Akron, Colorado



Capital Impact Partners has used NMTC Program financing to help create the first two long-term care facilities in Colorado that utilize the innovative Green House model. The most recent of these facilities is the county-owned, not-for-profit Washington County Nursing Home, in Akron, Colorado.

The Green House model derives from the vision of Dr. Bill Thomas, an elder-care pioneer who is committed to transforming America's approach to caring for its aging population. Dr. Thomas's Green House model re-envisioned almost every component of the traditional nursing home, from the philosophy of care to the design of the facility to the structure of the organization.

The new Washington County Nursing Home replaces an outdated traditional skilled nursing facility in Colorado's rural northeast region. The \$10.7 million NMTC Program investment financed the construction of four separate homes, each housing 10 residents, that provide 24-hour nursing care and a wide range of other high-quality, personalized services. Approximately 60 percent of the beds are reserved for low-income residents covered by Medicaid.

Total project cost

\$150 MILLION

NMTC financing provided by Capital Impact Partners

\$15 MILLION

Total project cost

\$10.7 MILLION

NMTC financing provided by Capital Impact Partners

\$5.5 MILLION



Looking Ahead: The future of the NMTC Program

A promising development

When Congress enacted the NMTC Program in 2000, it authorized the program only through 2007. Since then, Congress has voted to extend the program several times. The most recent extension, which authorized the program's 2014 award round, expired on December 31, 2014.

President Obama's recent budget requests have proposed a permanent extension of the NMTC Program and an increase in the annual allocation amount to \$5 billion. Bipartisan bills that are consistent with the president's proposals have been introduced in the House and the Senate, and there is strong support for the program in both chambers.

Congress has yet to authorize a permanent extension, but in 2015 Congressional leaders and the White House came to a major agreement on a tax extender deal. The legislation enacted included a five-year extension (2015-2019) of the NMTC Program at a level of \$3.5 billion annually.

This long-term extension was made possible because the NMTC Program has proven to be an invaluable tool for attracting new capital to communities left out of the economic mainstream. In the halls of Congress and beyond, there is a growing awareness that the NMTC Program is creating opportunity in places where new opportunity is needed most.



Capital Impact Partners' Financing Solutions: Committed to meeting your needs

Financing is one of the most important tools we use to create strong, vibrant communities. As a Community Development Financial Institution, we ensure that projects in underserved areas that are often overlooked by traditional banks have access to investment capital. We recognize the

special dynamics of lending in these communities and can get even the most complicated transactions done. For more than 30 years, we've helped forward-thinking entrepreneurs, organizations, and businesses revitalize neighborhoods and deliver social impact.



ACQUISITION LOANS
to purchase land and buildings



BRIDGE LOANS
to bridge grant funding or tax-credit equity investment



CONSTRUCTION LOANS
to finance from-the-ground-up construction and renovation projects



PRE-DEVELOPMENT LOANS
for feasibility planning, architectural drawings, and other early needs



TENANT IMPROVEMENT LOANS
to finance renovation at a leased facility



TERM LOANS
to take out construction loans or leverage New Markets Tax Credit transactions



EQUIPMENT LOANS
to purchase equipment



WORKING CAPITAL LOANS
to finance operating cash flow needs



LEVERAGE GOVERNMENT PROGRAMS
to offer New Markets Tax Credits and Federally Guaranteed Bonds

Capital Impact is Now Part of Momentum Capital

The Momentum Capital family of organizations is dedicated to ensuring local leaders have equitable access to the capital & opportunities they deserve. Rooted in social mission, we support locally led solutions through our continuum of

lending, impact investments, training programs, & technology platforms. Leveraging 80+ years of combined experience, we are transforming how the financial sector can help communities build health & generational wealth. Learn more at momentumcap.org

