



Using New Markets Tax Credits to Raise Capital for Health Care Organizations

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- A professional services firm with three distinct business lines
 - Wealth Advisory
 - Outsourcing
 - Audit, Tax, and Consulting
- More than 4,500 employees
- Offices coast to coast
- Serve more than 6,800 health care clients



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Learning Objectives

- At the end of this session, you will be able to:
 - Explain the background of the New Markets Tax Credit Program
 - Describe the typical investment structures of the New Markets Tax Credit Program
 - Recognize the different participants in the New Markets structures
 - Identify if your organization/project would qualify for the New Markets Tax Credit
 - Summarize the benefits your organization/project would receive from the New Markets program and provide examples of health care related transactions.



Speaker Introductions

Mitch Gerstein

Mitch is a principal and national health care tax leader with CLA. Mitch has nearly 30 years providing tax advisory services for senior living, multi-specialty groups and physician groups. His specialties include tax compliance and planning consultation. He is the primary business advisor for many clients in the northeast region and large clients nationally. Mitch's well-rounded career gives him key insights that enable him to advise all types of clients on a wide variety of high-level tax and business issues including complex corporate tax planning and structuring.

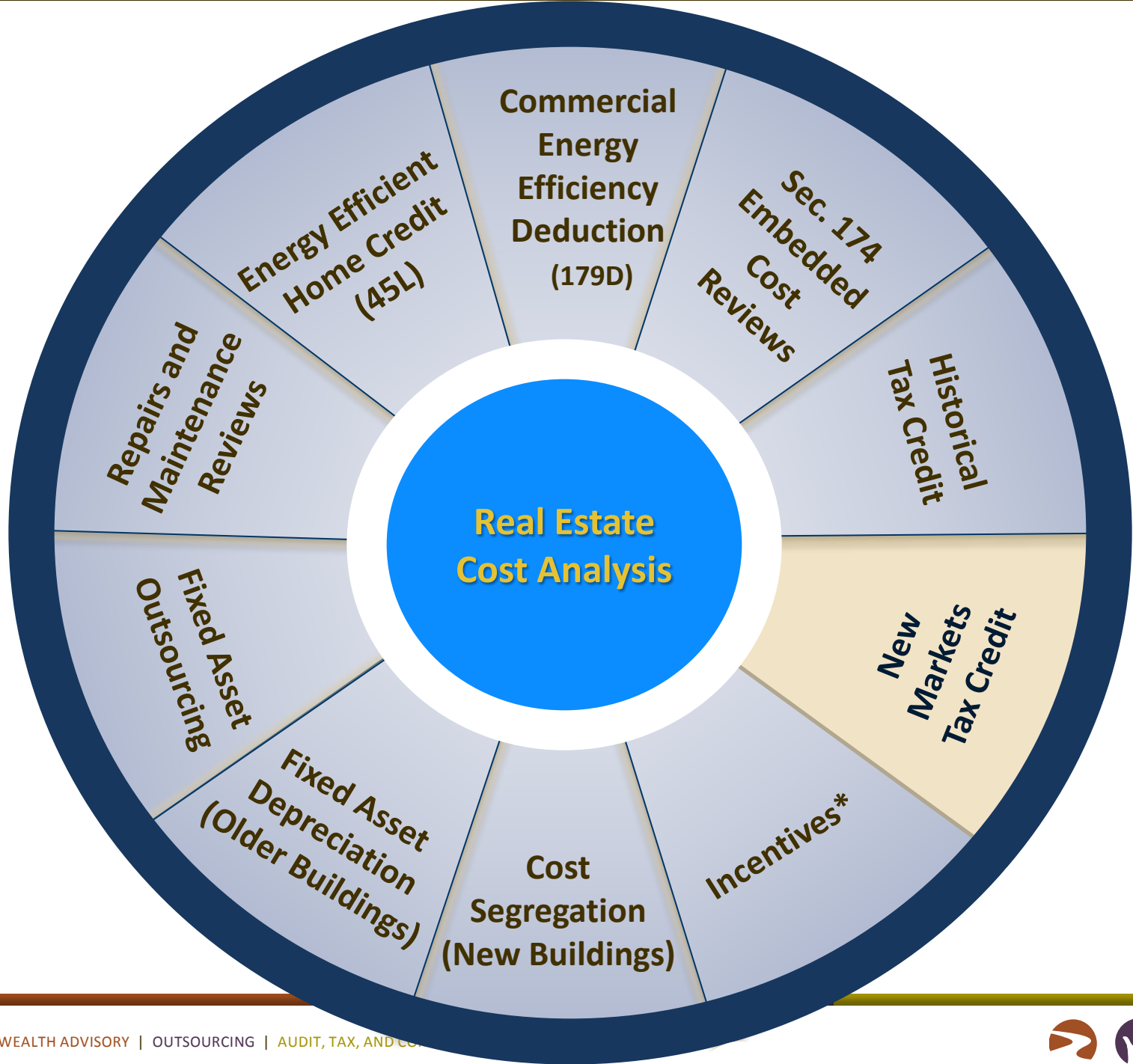


Speaker Introduction

Matt Drinen

Matt Drinen is the Director of Tax Credit Services at CliftonLarsonAllen (CLA). His background and experience is in finance and banking with respect to primarily New Markets and Historic Tax Credits investments. Prior to joining CLA, Matt spent 6 years at US Bancorp Community Development Corporation (USBCDC) where he served time as a Senior Analyst and as an Asset Manager-Officer. Matt has experience and knowledge in analyzing, underwriting, managing, restructuring, and compliance requirements for New Markets and Historic Tax Credit Investments. He holds a BSBA from the University of Missouri (Columbia) in Finance and Real Estate and an MBA from Washington University – St. Louis.





History of the New Markets Tax Credit Program

- Created by Congress as part of the Community Renewal Tax Relief Act of 2000
- Codified in Section 45D of the Internal Revenue Code
- Administered by the CDFI Fund (Community Development Financial Institutions Fund)
- Non-permanent program
 - Most recently extended through 2019 at \$3.5B/year
- Bipartisan support for permanent expansion



Purpose of the New Markets Tax Credit Program

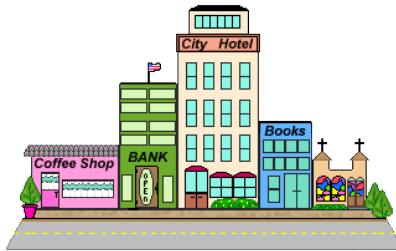
- To encourage private investment in low-income communities by incentivizing investors to do so.

- Lower risk
- More favorable returns

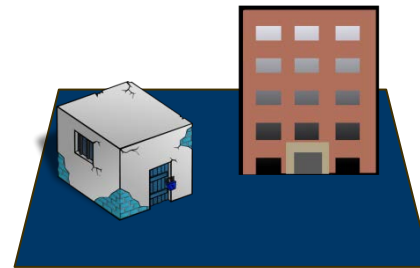


- Higher risk
- New Markets Tax Credit to incentivize risk

Thriving community



Low-income community



The New Markets Tax Credit Process

- Federal government authorizes annual credit authority for NMTCs
- The CDFI fund oversees the program and awards the amounts to Community Development Entities (CDEs)
- CDEs will determine what projects will be funded.
- Projects that are awarded will receive favorable below market financing with the opportunity of a forgivable loan at the end of the compliance period.
- Investors will receive a 39% tax credit based on the total qualified equity investment made.



Benefits of the NMTC Program

- Allows investors to receive 39% federal income tax credit based on the amount of investment (loans and equity) into the project.
 - Seven year compliance period
 - Investor receives 5% of tax credits in years 1-3
 - Investor receives 6% of tax credits in years 4-7
- For projects/businesses: allows the project to receive a significant benefit at the end of the seven year compliance period in the form of equity. Clients will also receive below market interest rates on their loan which will save them in debt service payments.



Program Definition and Essential Acronyms

CDE must use....

Sub All of the proceeds from....

QEIs to make....

QLICIs in....

QALICBs located in....

LICs.



Breakdown of Definition

Community Development Entities must use...

Substantially All of the proceeds from...

Qualified Equity Investments to make...

Qualified Low-Income Community Investments in...

Qualified Active Low-Income Community Businesses located in..

Low-Income Communities.

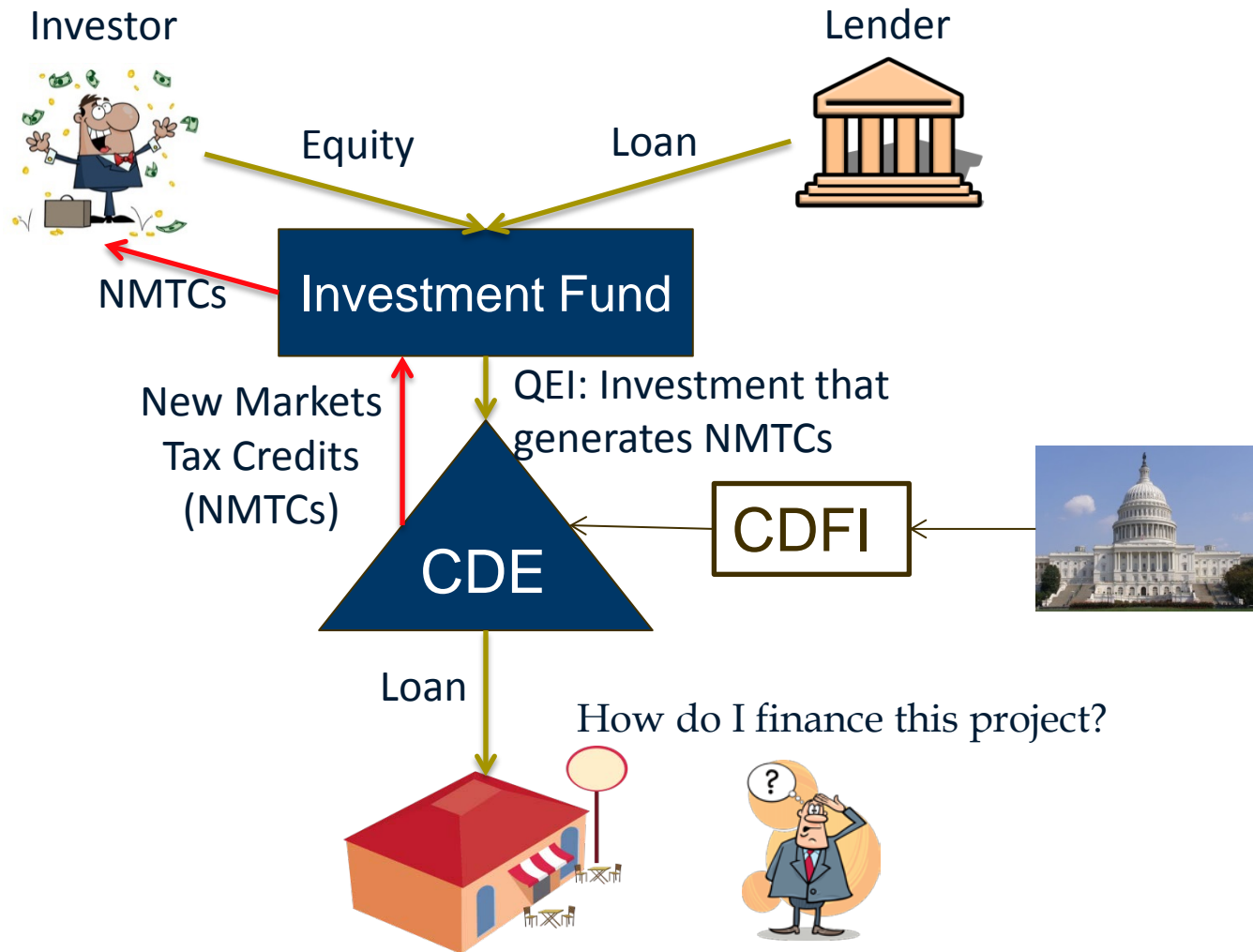


Breakdown of Acronyms

- **CDE**: “Community Development Entity”: an entity that is certified by the CDFI Fund as an entity with a primary mission to serve or provide capital to low-income communities or persons
- **QEI**: “Qualified Equity Investment”: an equity investment in a CDE that triggers the availability of the NMTC to the equity investor
- **QLICI**: “Qualified Low-Income Community Investment”: an equity investment or loan to a QALICB from a CDE.
- **QALICB**: “Qualified Active Low-Income Community Business”: a corporation, partnership, or LLC that is qualified to receive QLICIs
- **LIC**: “Low-Income Community”: is a census tract with a poverty rate more than 20% or median family income is less than 80% of the area median income.



New Markets Tax Credits Structure Example

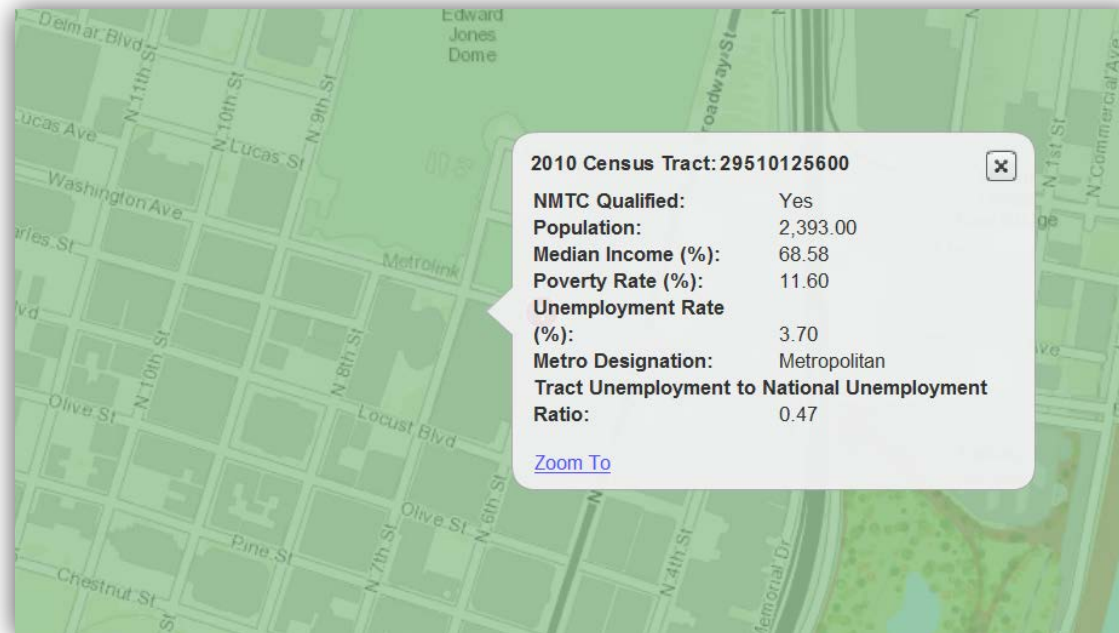




Qualified Active Low-Income Community Business (QALICB)

Qualifying as a QALICB

- At a minimum, the client's existing or proposed project must be located in a "Qualified Census Tract" deemed by the CDFI or is serving a targeted population.



Typical Projects (But Not Limited To)

- Mixed-use real estate
- Office
- Retail
- Non-profit
- **Health related facilities**
- **Medical facilities**
- Manufacturing/industrial
- Operating businesses
- Hotels
- Community centers
- Schools, universities, vocational training, other educational services
- Theatres, museums, restaurants, and other entertainment venues
- For sale housing: condos and single family homes



QALICB Selling Points

- Creates or maintains quality jobs
- Increases wages
- Assistance to low-income businesses
- Assistance to minority or women-owned businesses
- Increases home ownership
- Provides goods and services
- Increases environmental services



Best Practices: How to Get Your Project NMTC Allocation

- Capital stack in place
- Permits in place
 - Building, site, electrical, plumbing, city, etc.
- Community approval
- Having your team in place
 - Legal, accounting, consultants, etc.
- Shovel ready
- Not to do: overstate the readiness of project



NMTCs and Health Care by the Numbers

- NMTC coalition CDE survey
 - 16% projects financed through NMTC program were health care related (2nd largest industry behind manufacturing – 26.8%)
 - NMTC allocation used toward health care: \$317,761,298
 - ◇ Total project costs: \$533,423,339
 - FTE jobs created or retained in health care: 4,932
 - Construction jobs created in health care: 3,733





Health Care Affiliated Examples

Examples of Health Care Projects (Not Limited To)

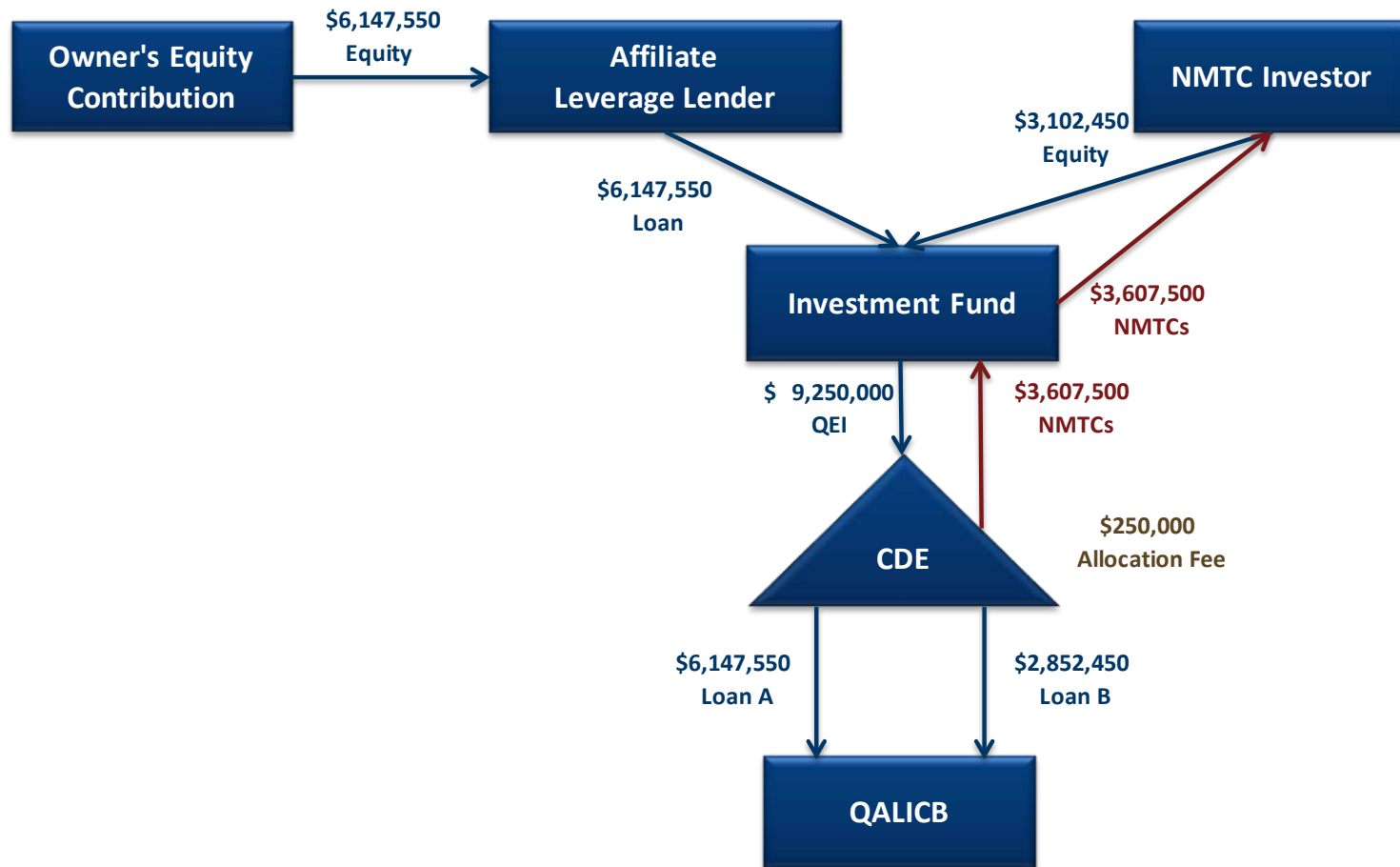
- Federal Qualified Health Centers
- Hospitals
- Assisted living facility
- Post acute
- Surgical centers
- Rehab facility
- Memory care
- Respite care
- Many others....

Health Care Examples – Assisted Living Facility

- New assisted living facility - \$9MM facility
 - 20% of revenues will be considered commercial
- Potential savings of approximately \$2MM in financing the project
- Job creator, service provider to community
- Located in a rural area in a state that is considered underserved in New Markets Tax Credit industry
- CDEs highly interested



Assisted Living Facility Deal Diagram



Assisted Living Facility Deal Diagram

Net Present Value for Borrower								
	0	1	2	3	4	5	6	7
Loan Proceeds	\$ 2,852,450							
Closing Fees	\$ (400,000)							
AM Fees		\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)
Put Fee								\$ (1,000)
Deferred 35% tax on COD income								\$ (998,358)
Before-Tax CF	\$ 2,452,450	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (70,500)
Before-Tax PV	\$ 2,452,450	\$ (65,566)	\$ (61,855)	\$ (58,354)	\$ (55,051)	\$ (51,934)	\$ (48,995)	\$ (46,887)
Cash Flow (Including COD Tax)	\$ 2,452,450	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (1,068,858)
After-Tax Present Value	\$ 2,452,450	\$ (65,566)	\$ (61,855)	\$ (58,354)	\$ (55,051)	\$ (51,934)	\$ (48,995)	\$ (710,851)

After-Tax Net Present Value	\$ 1,399,845
Pre-Tax Net Present Value	\$ 2,063,809

Benefit Summary	
\$ 9,250,000	NMTC Allocation
39%	Tax Credit over 7 years
\$ 3,607,500	Tax Credit Benefit to Investor
\$ 0.86	Price Paid per dollar of NMTCs
\$ 3,102,450	Tax Credit investment
\$ (250,000)	Allocation Fee (Earned by CDE(s))
\$ 2,852,450	NMTC Loan to Project
\$ (400,000)	Closing Costs (Legal, Accounting, etc.)
\$ 2,452,450	Net Cash to Borrower

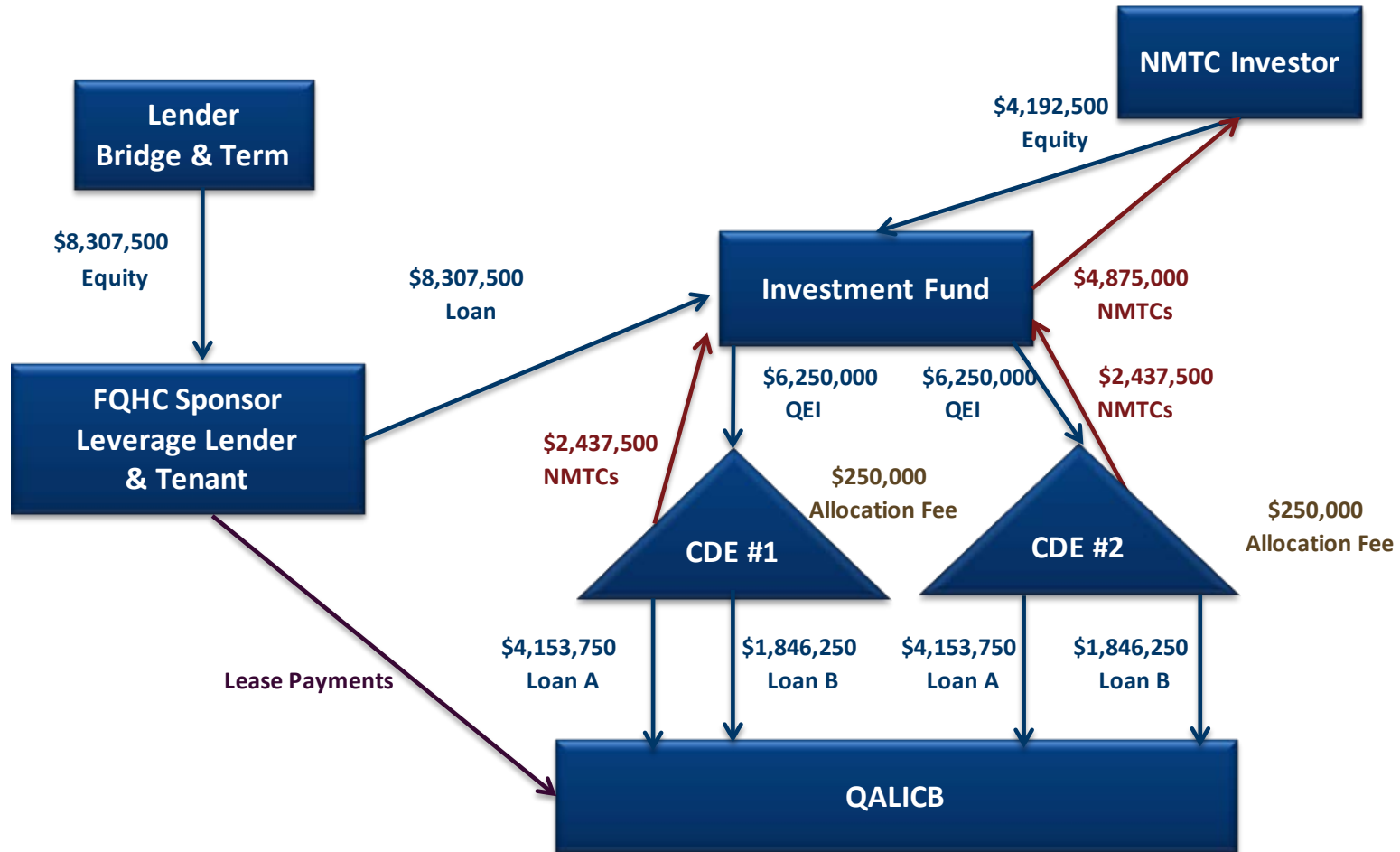


Federally Qualified Health Center Example

- A Federally Qualified Health Center (FQHC) plans to build a \$12MM facility.
- The new facility will allow the FQHC to increase their patient capacity and offer new services such as dental, behavioral health, vision, pharmacy, health education, and other services.
- This project will also create new jobs and services as mentioned above.
- The FQHC will potentially realize a net benefit of approximately \$3MM.



FQHC Example Diagram



FQHC Example - Benefits

Net Present Value for Borrower								
	0	1	2	3	4	5	6	7
Loan Proceeds	\$ 3,942,500							
Closing Fees	\$ (500,000)							
AM Fees		\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)
Put Fee								\$ (1,000)
Defferred 35% tax on COD income								\$ (1,379,875)
Before-Tax CF	\$ 3,442,500	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (70,500)
Before-Tax PV	\$ 3,442,500	\$ (65,566)	\$ (61,855)	\$ (58,354)	\$ (55,051)	\$ (51,934)	\$ (48,995)	\$ (46,887)

Pre-Tax Net Present Value	\$ 3,053,859
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Benefit Summary	
\$ 12,500,000	NMTC Allocation
39%	Tax Credit over 7 years
\$ 4,875,000	Tax Credit Benefit to Investor
\$ 0.86	Price Paid per dollar of NMTCs
\$ 4,192,500	Tax Credit investment
\$ (500,000)	Allocation Fee (Earned by CDE(s))
\$ 3,692,500	NMTC Loan to Project
\$ (500,000)	Closing Costs (Legal, Accounting, etc.)
\$ 3,192,500	Net Cash to Borrower

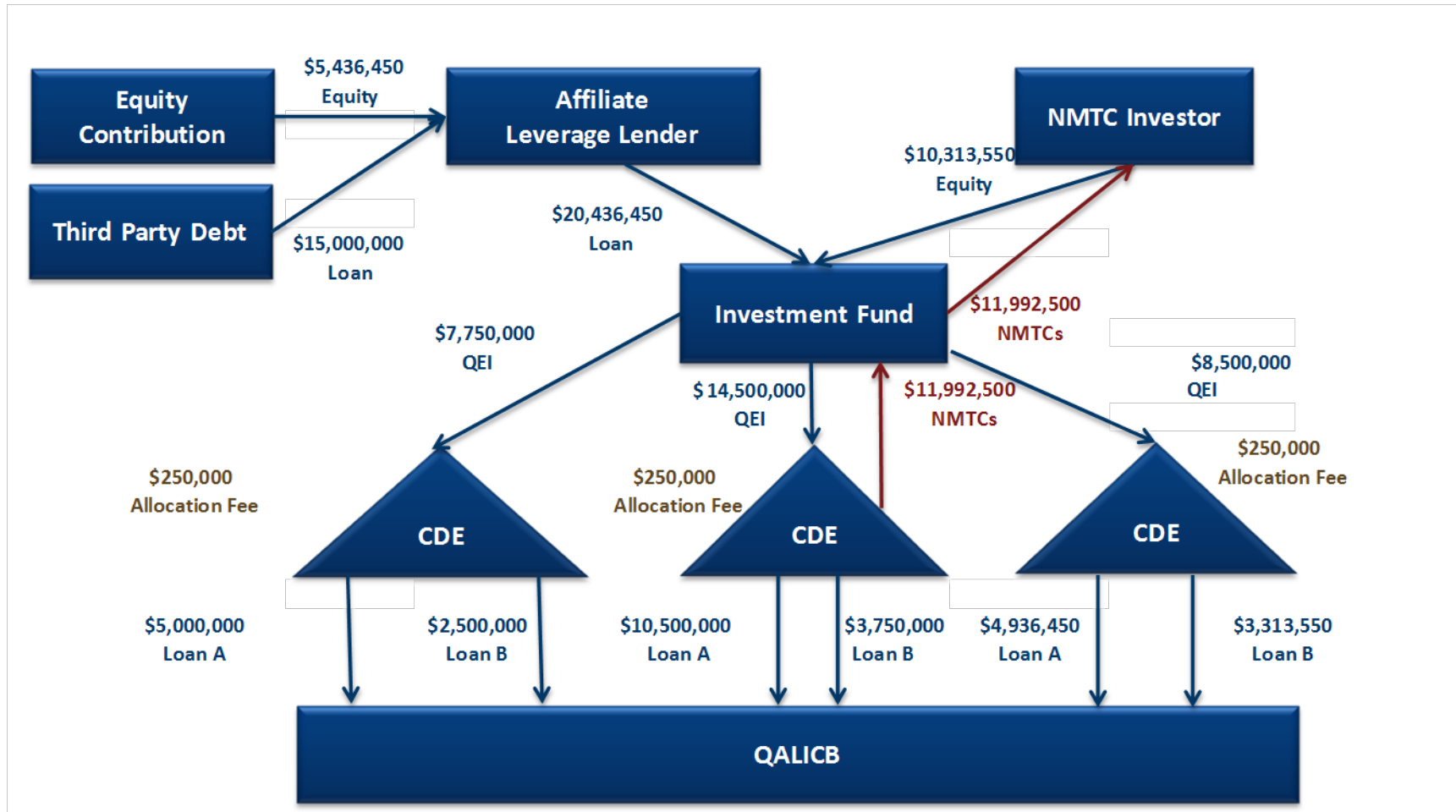


Health Care Examples – Hospital

- Purchase and rehabilitation of existing hospital for approximately \$30MM
- Potential savings of approximately \$9MM in financing the purchase/rehabilitation
- Job creator, services to medically underserved census tract
- CDEs highly interested



Hospital Acquisition Deal Diagram



Hospital Acquisition Benefits

Net Present Value for Borrower								
	0	1	2	3	4	5	6	7
Loan Proceeds	\$ 9,563,550							
Closing Fees	\$ (600,000)							
AM Fees		\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)
Put Fee								\$ (1,000)
Deferred 35% tax on COD income								\$ (3,347,243)
Before-Tax CF	\$ 8,963,550	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (70,500)
Before-Tax PV	\$ 8,963,550	\$ (65,566)	\$ (61,855)	\$ (58,354)	\$ (55,051)	\$ (51,934)	\$ (48,995)	\$ (46,887)
Cash Flow (Including COD Tax)	\$ 8,963,550	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (3,417,743)
After-Tax Present Value	\$ 8,963,550	\$ (65,566)	\$ (61,855)	\$ (58,354)	\$ (55,051)	\$ (51,934)	\$ (48,995)	\$ (2,272,994)

After-Tax Net Present Value	\$ 6,348,802
Pre-Tax Net Present Value	\$ 8,574,909

Benefit Summary	
\$ 30,750,000	NMTC Allocation
39%	Tax Credit over 7 years
\$ 11,992,500	Tax Credit Benefit to Investor
\$ 0.86	Price Paid per dollar of NMTCs
\$ 10,313,550	Tax Credit investment
\$ (750,000)	Allocation Fee (Earned by CDE(s))
\$ 9,563,550	NMTC Loan to Project
\$ (600,000)	Closing Costs (Legal, Accounting, etc.)
\$ 8,963,550	Net Cash to Borrower



Planning to Take Advantage of the NMTC Benefit

- The NMTC program should be in the forefront of planning.
 - Location: If deciding on multiple sites that are equivalent, one might be NMTC eligible while the other might not be.
 - Services: Start thinking about what type of services will be provided.
 - ◇ Will it focus on new services to a community?
 - ◇ Will it focus on helping low-income individuals?
 - Jobs: What type of jobs will this new project create?
 - ◇ Better paying jobs to low-income individuals?
 - ◇ Full-time jobs, part-time, construction, maintaining jobs, etc.



New Markets Tax Credit Outlook for 2016/17

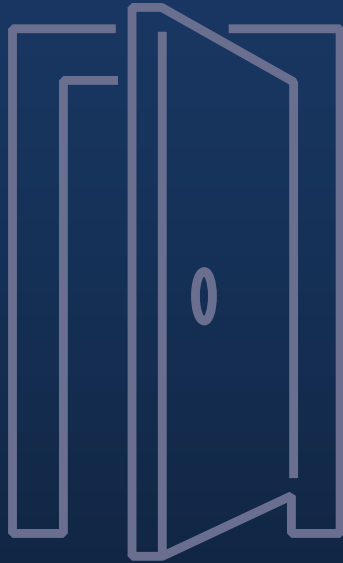
- CDFI fund doubling allocation for 2016 at \$7B
- The result:
 - Per Bob Ibanez and Annie Donovan (CDFI Fund): More CDEs to be awarded rather than a smaller number of CDEs receiving higher NMTC awards.
 - Increased number of projects/businesses to receive financing in 2017 than ever before.
 - CDEs will be able to do larger deals (to an extent).



Questions?



Thank You



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