



Using the New Markets Tax Credit to Increase Capital

Presented by: Matt Drinen

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC,
an SEC-registered investment advisor. | ©2016 CliftonLarsonAllen LLP



Disclaimers

The information contained herein is general in nature and is not intended, and should not be construed, as legal, accounting, or tax advice or opinion provided by CliftonLarsonAllen LLP to the user. The user also is cautioned that this material may not be applicable to, or suitable for, the user's specific circumstances or needs, and may require consideration of non-tax and other tax factors if any action is to be contemplated. The user should contact his or her CliftonLarsonAllen LLP or other tax professional prior to taking any action based upon this information. CliftonLarsonAllen LLP assumes no obligation to inform the user of any changes in tax laws or other factors that could affect the information contained herein.



Housekeeping

- If you are experiencing technical difficulties, please dial: **800-422-3623**
- **Q&A session will be held at the end of the presentation**
 - Your questions can be submitted via the **Questions Function at any time during the presentation**
- The **PowerPoint presentation**, as well as the **webinar recording**, will be sent to you within the next 10 business days
- For future webinar invitations, subscribe at CLAconnect.com/subscribe
- Please complete our online survey



CPE Requirements

- Answer the polling questions
- If you are participating in a group, complete the CPE sign-in sheet and return within two business days
 - Contact webmaster@CLAconnect.com
- Allow four weeks for receipt of your certificate; it will be sent to you via email

* *This webinar, once recorded, has not been developed into a self study course. Therefore, watching the recording will not qualify for CPE credit.*



About CliftonLarsonAllen

- 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



Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC.





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 Credit investments. Prior to joining CLA, Matt spent six years at US Bancorp Community Development Corporation (USB CDC) 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 a MBA from Washington University – St. Louis.

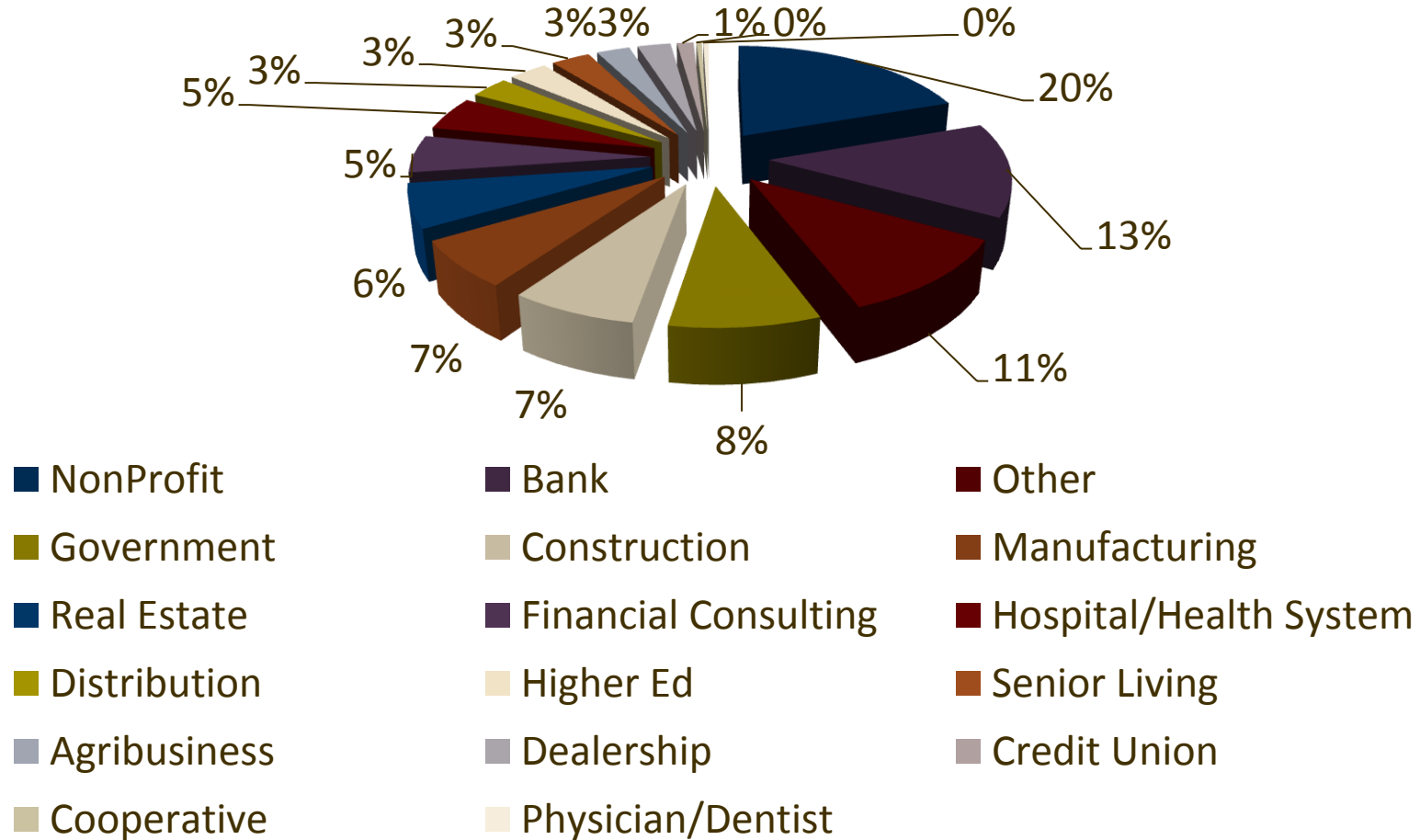


Learning Objectives

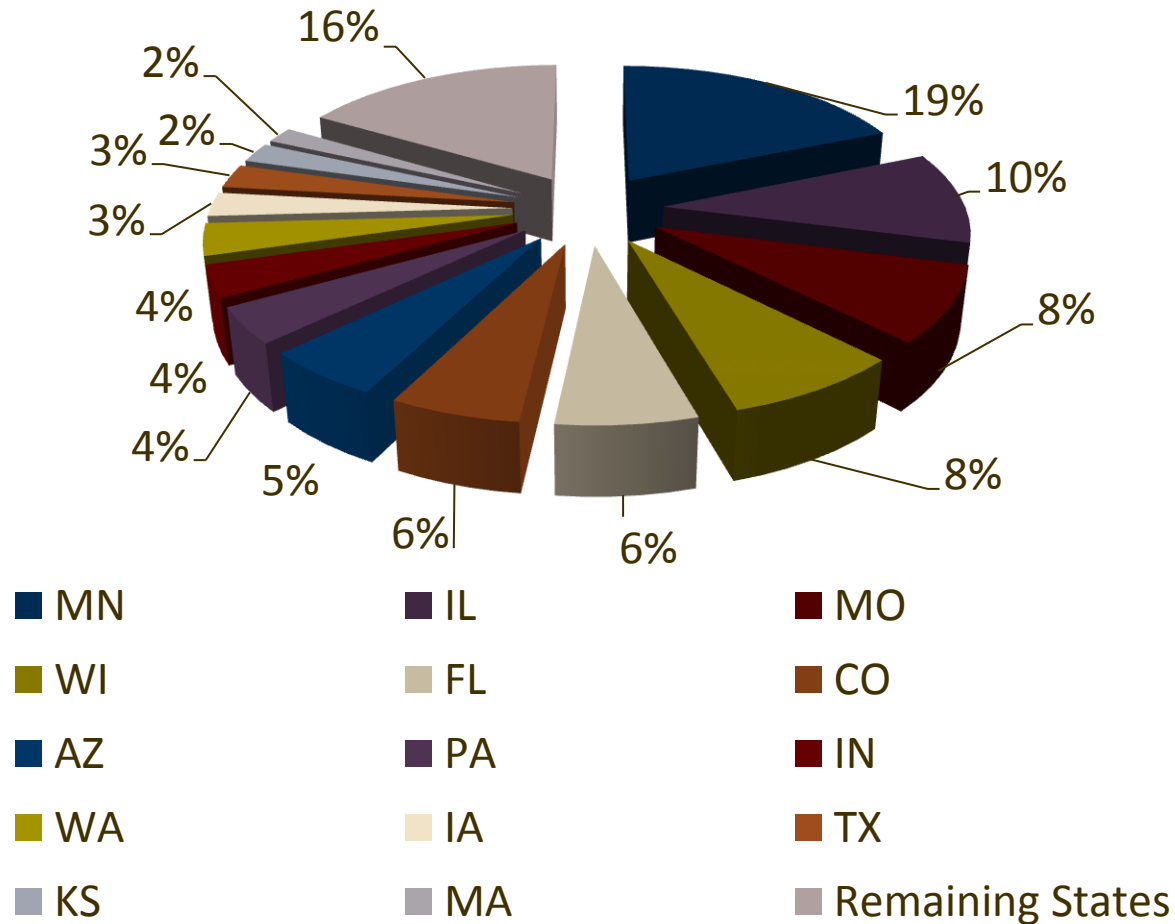
- At the end of this session, you will be able to:
 - Explain the background of the New Markets Tax Credit Program
 - Describe the typical investment structures of the New Markets Tax Credit Program
 - Recognize the different players/entities in the New Markets structures
 - Identify if a business/project would qualify for the New Markets Tax Credit
 - Summarize the benefits your business/project would receive from the New Markets program

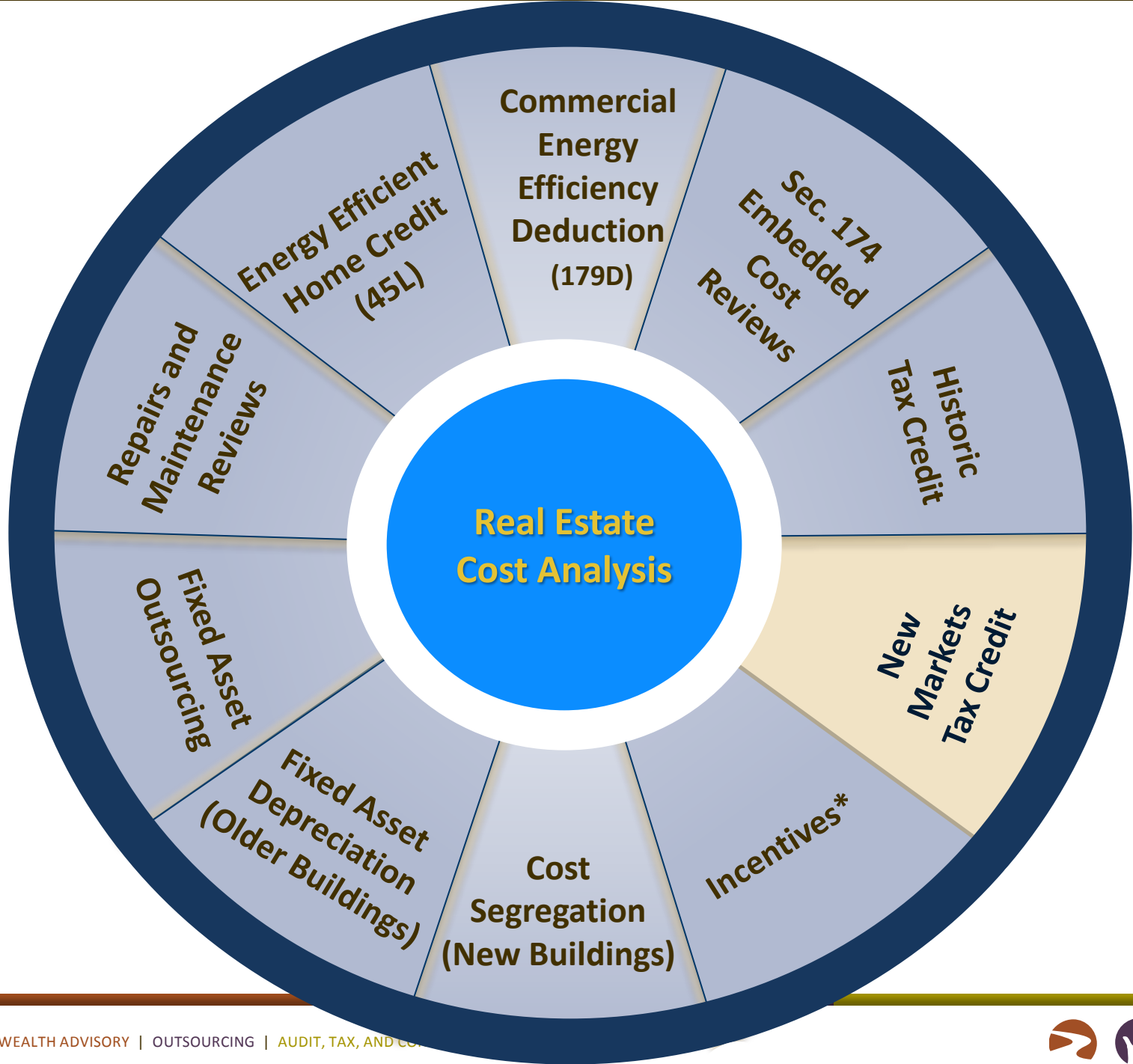


Industries Represented by Participants



States Represented by Participants





History of the New Markets Tax Credit Program (NMTC)

- 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

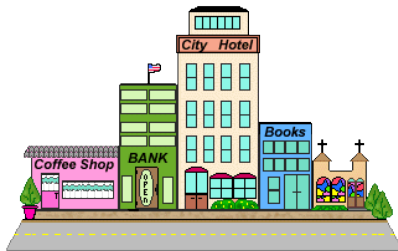


Purpose of the New Markets Tax Credit Program

- To encourage private investment in Low-Income Communities by incentivizing investors

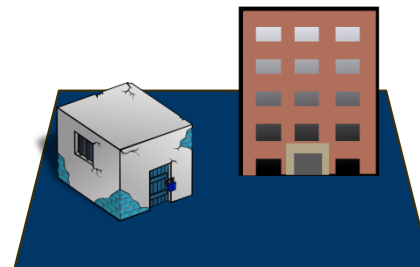
- Lower Risk
- More Favorable Returns

Thriving Community



- Higher Risk
- New Markets Tax Credit to incentivize Risk

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 & Equity) into the project.
 - 7 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 7 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 & 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 less than 80% of the area median income



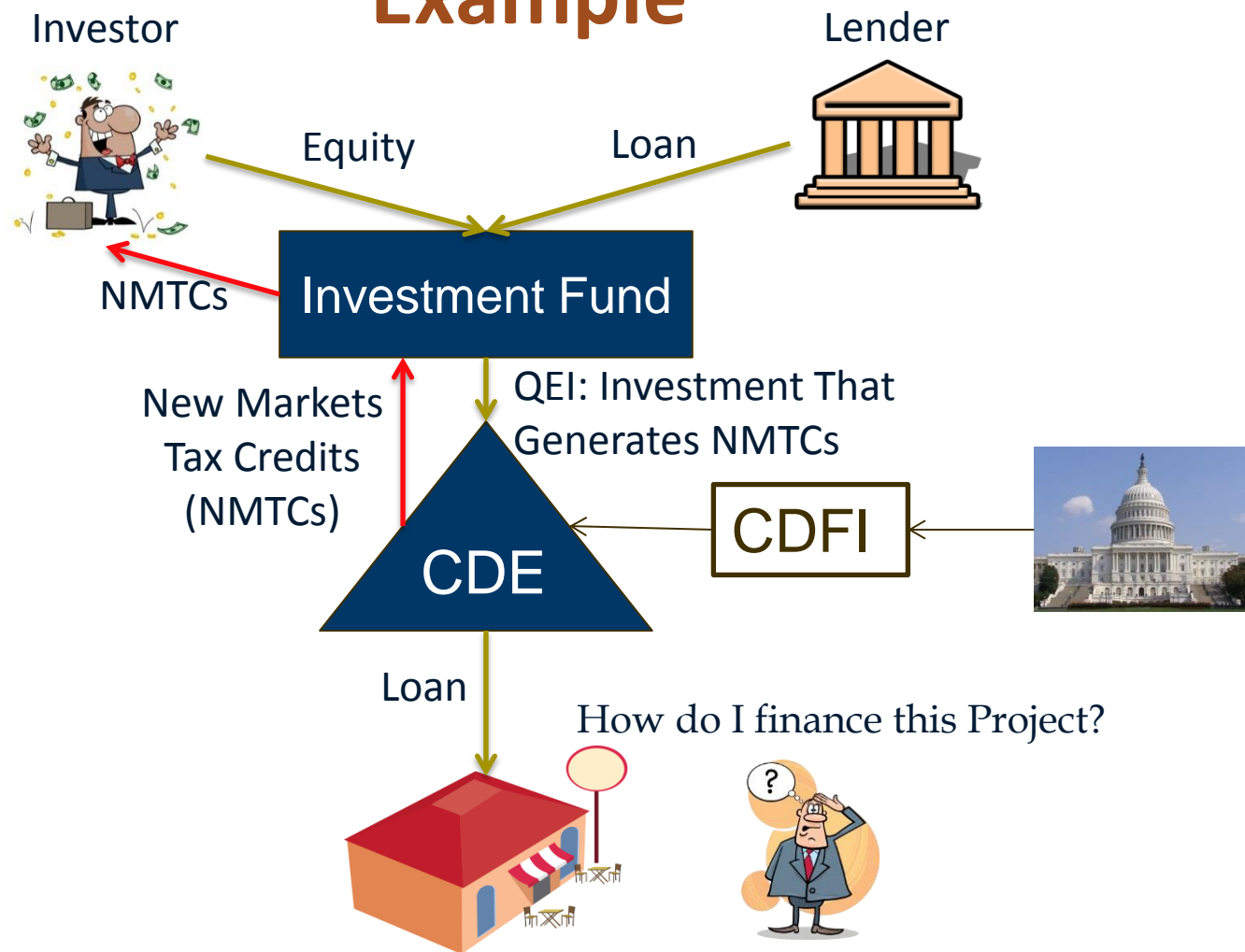
New Markets Tax Credit Example

Example

- A developer wants to build a \$10 million dollar mixed use building in a New Markets designated area and receives \$10 million dollars in New Markets financing. The generated tax credit would equal 39 percent (or \$3,900,000) over a seven year compliance period. The developer can then negotiate the sale of these credits and receive approximately \$3,000,000 from the New Markets Tax Credit investor to help finance the facility. At the end of the seven year compliance period, the \$3,000,000 in investor equity typically reverts to the developer.



New Markets Tax Credits Structure Example

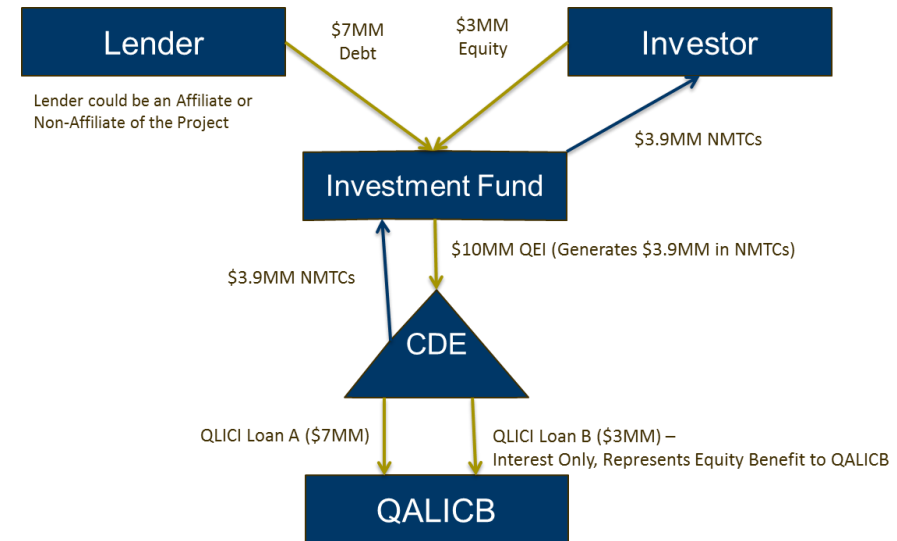




Community Development Entities (CDEs) and Investment Funds

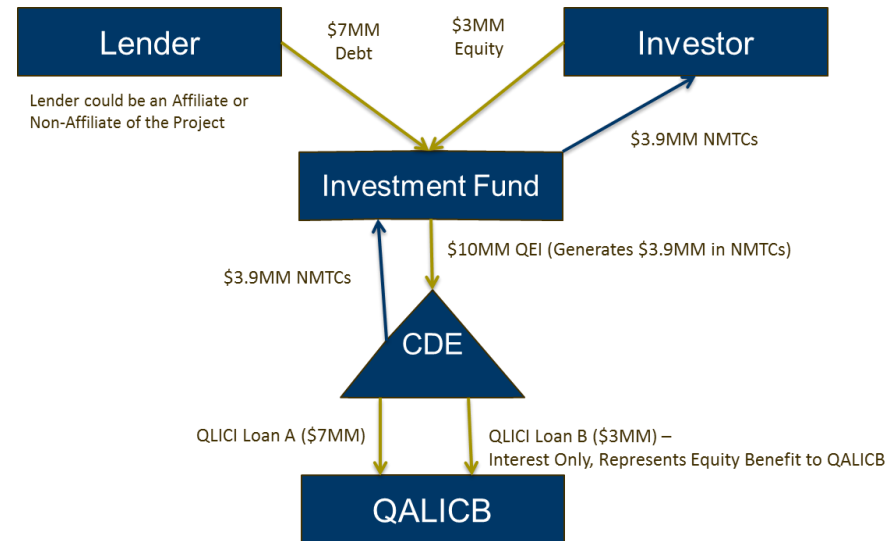
Community Development Entities (CDEs) & Investment Funds

- Investment Funds
 - Are created to pool both Investor and Lender Funds
- CDEs:
 - Are certified by the CDFI
 - Are awarded Allocation by the CDFI
 - Use Allocation to drive investment in LICs



Community Development Entities (CDEs)

- CDEs must contribute 85% of QEI proceeds to QALICB in the form of a QLICI.
- CDEs may not distribute more than 100% of their Operating Income to Investment Fund.

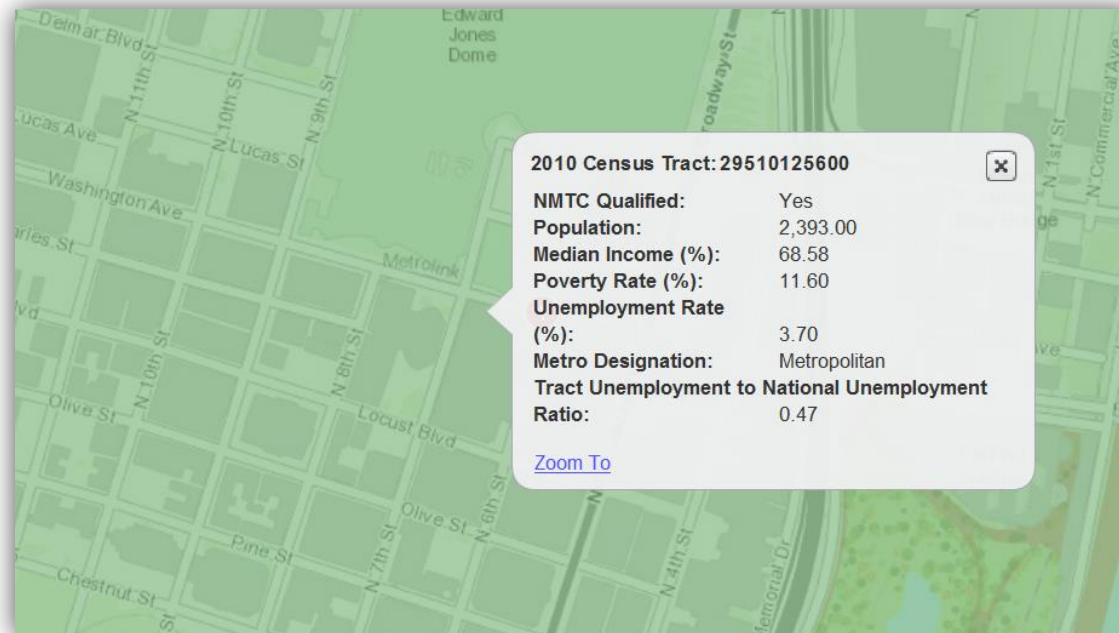




Qualified Active Low-Income Community Business (QALICB)

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.



Qualifying as a QALICB (Continued)

- A QALICB must demonstrate that it serves either:
 - (A) Low-Income Communities (LICs) or (B) Targeted Populations
- Option A: Serves a LIC (Location Based)
 - Gross Income: At least 50% of the gross income of the entity must be derived from within a LIC
 - Tangible Property: At least 40% of the use of tangible property must be within a LIC
 - Services Test: At least 40% of services within LIC



Qualifying as a QALICB (Continued)

- A QALICB must demonstrate that it serves either:
 - (A) Low-Income Communities (LICs) or (B) Targeted Populations
- Option B: Targeted Population – Must meet 1 of 3
 - Gross Income: At least 50% of the gross income of the entity must be derived from low-income Individuals.
 - Employees: At least 40% of the QALICB's employees are considered low-income.
 - Ownership: At least 50% of Business is owned by individuals who are considered low-income.



Compliance for QALICBs

- Collectibles Test: Collectibles cannot exceed 5% of the aggregate unadjusted basis of the property of such entity.
- Non-Qualified Financial Property (NQFP): NQFP cannot be more than 5% of the aggregate unadjusted basis of the property. NQFP includes:
 - Loans Receivable, Stock, Partnership Interests, Options, Futures Contract, Forward Contracts, Warrants, Intangibles, related party receivables.
- 80/20 Rule: At least 20% of income must be derived by commercial revenue.



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 & Single Family Homes



Prohibited Businesses

- Golf Course
- Country Club
- Racetrack or other gambling facility
- Any store where the principal purpose is the sale of alcoholic beverages for consumption off premise
- Farming



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





Benefits for Businesses with NMTC Financing

Benefits of NMTC Financing

Example

- A developer wants to build a \$10 million dollar mixed use building in a New Markets designated area and receives \$10 million dollars in New Markets financing. The generated tax credit would equal 39 percent (or \$3,900,000) over a seven year compliance period. The developer can then negotiate the sale of these credits and receive approximately \$3,000,000 from the New Markets Tax Credit investor to help finance the facility. At the end of the seven year compliance period, the \$3,000,000 in investor equity typically reverts to the developer.



Benefits To CLA's Clients

Example: A developer needs to finance a \$10MM mixed-use facility. With NMTCs, the developer would receive approximately \$2.85MM in net benefit from the NMTC financing.

Benefit Summary	
\$ 10,000,000	NMTC Allocation
39%	Tax Credit over 7 years
\$ 3,900,000	Tax Credit Benefit to Investor
\$ 0.86	Price Paid per dollar of NMTCs
\$ 3,354,000	Tax Credit investment
\$ (200,000)	Allocation Fee (Earned by CDE(s))
\$ 3,154,000	NMTC Loan to Project
\$ (300,000)	Closing Costs
\$ 2,854,000	Net Cash to Borrower

Net Present Value for Borrower								
	0	1	2	3	4	5	6	7
Loan Proceeds	\$ 3,154,000							
Closing Fees	\$ (300,000)							
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								\$ (1,103,900)
Before-Tax CF	\$ 2,854,000	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (70,500)
Before-Tax PV	\$ 2,854,000	\$ (65,566)	\$ (61,855)	\$ (58,354)	\$ (55,051)	\$ (51,934)	\$ (48,995)	\$ (46,887)
Cash Flow (Including COD)	\$ 2,854,000	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (69,500)	\$ (1,174,400)
After-Tax Present Value	\$ 2,854,000	\$ (65,566)	\$ (61,855)	\$ (58,354)	\$ (55,051)	\$ (51,934)	\$ (48,995)	\$ (781,043)

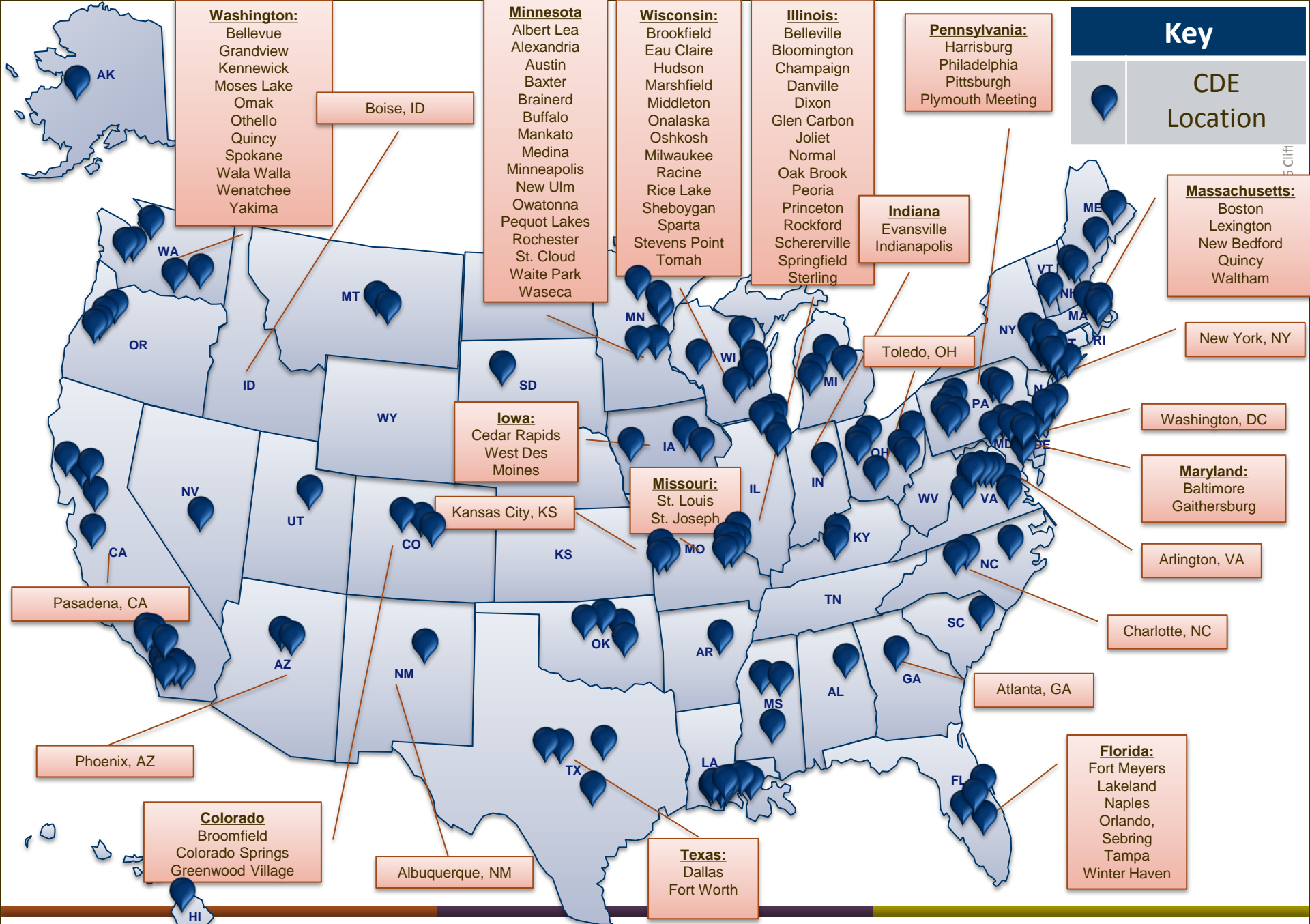
After-Tax Net Present Value	\$ 1,731,203
Pre-Tax Net Present Value	\$ 2,465,359



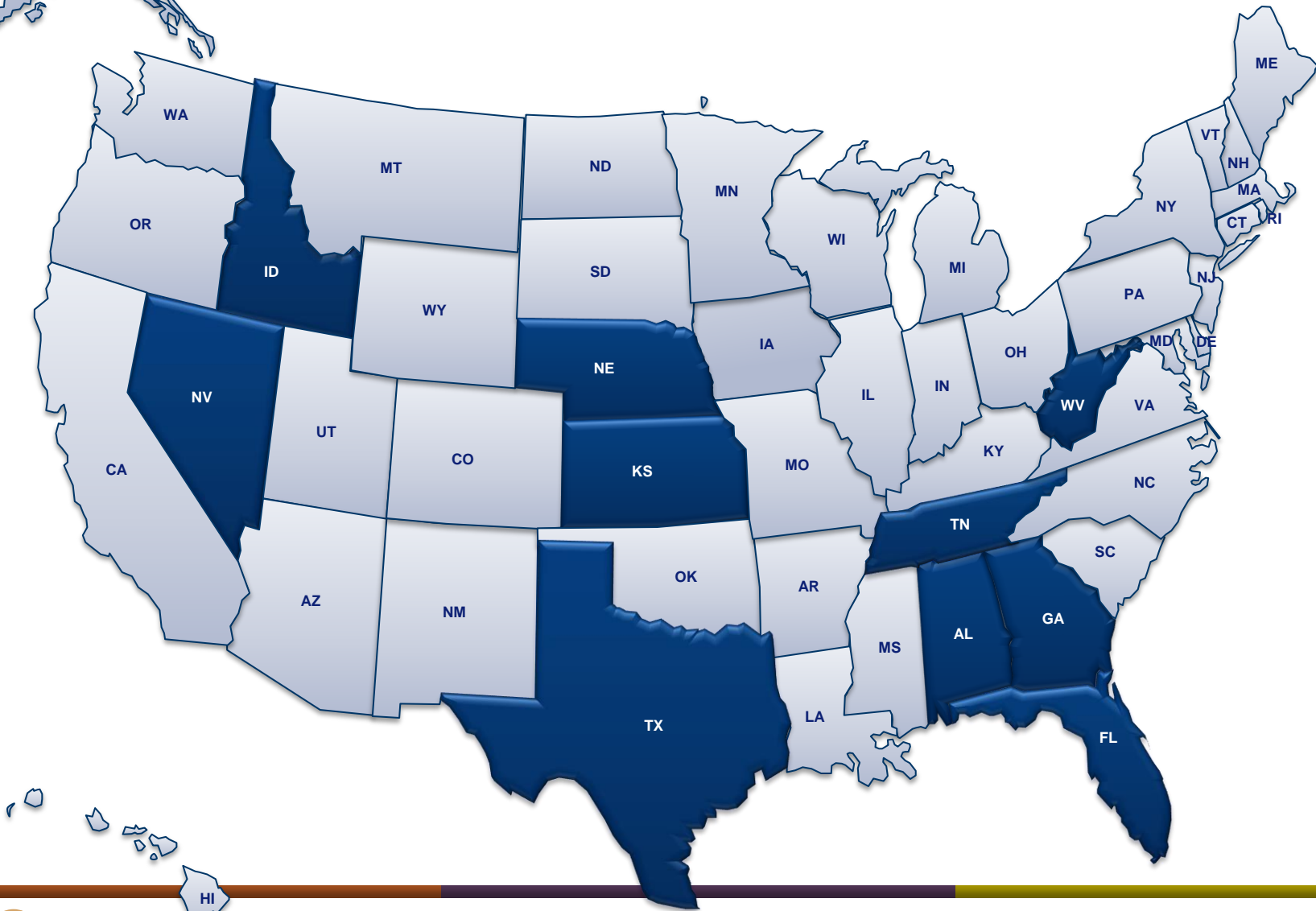
New Markets Tax Credit Outlook for 2016/17

- 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)

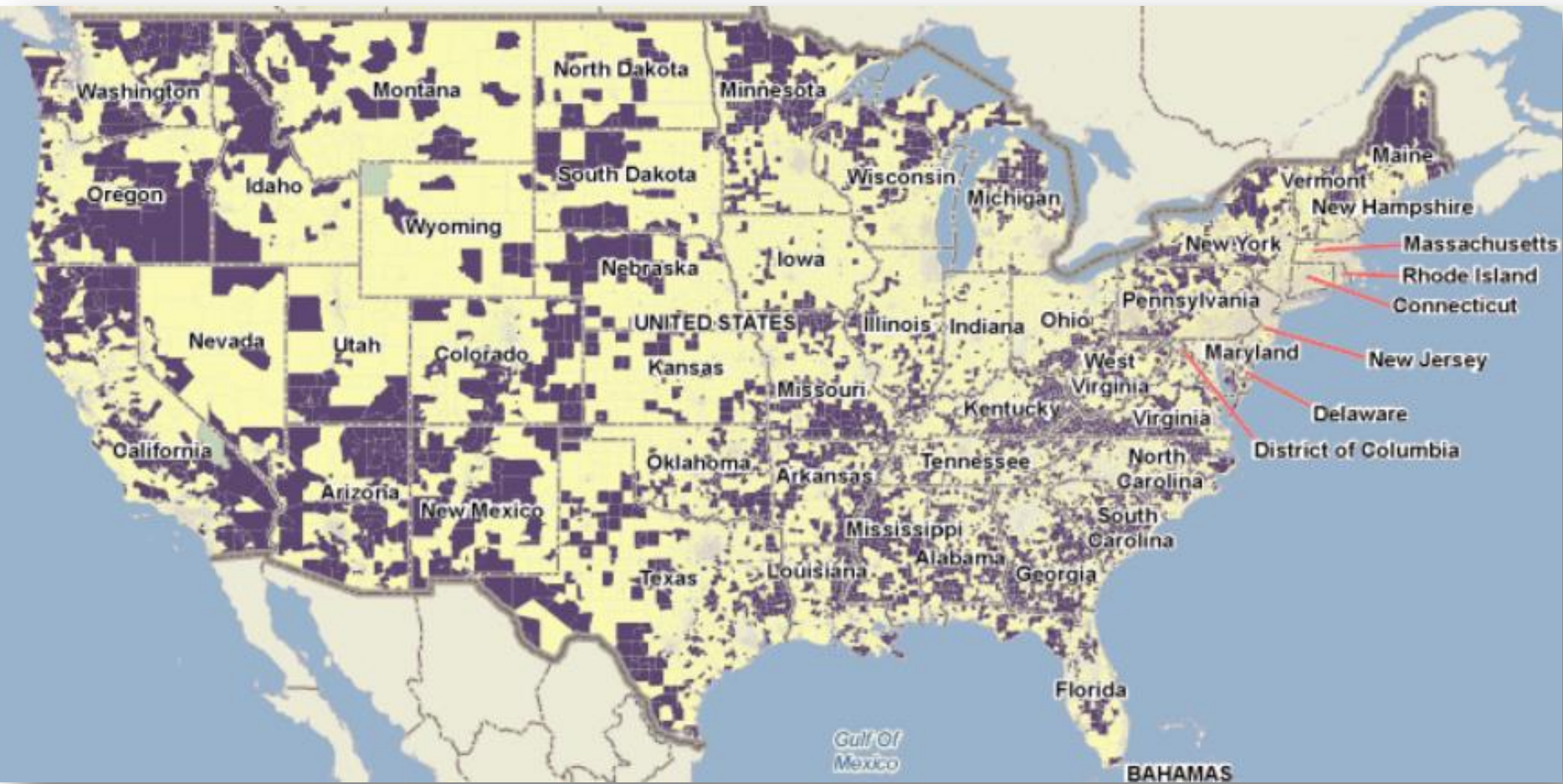




NMTC Underserved States

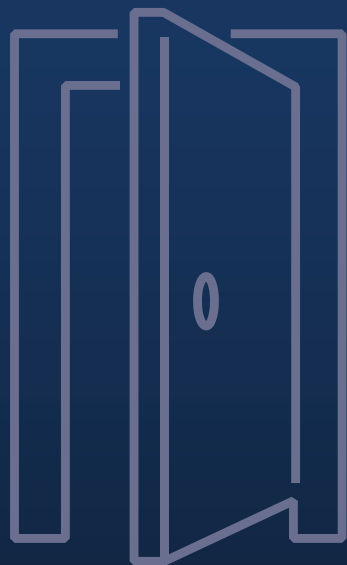


New Markets Tax Credit Census Tract



Questions?





Thank you!

Matt Drinen

Matt.Drinen@CLAconnect.com

Direct Number: 314-925-4381

CLAconnect.com