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NMTC Program's Community Impact — Strategies and Results

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As the new markets tax credit (NMTC) industry seeks reauthorization of the program, participants are diligently looking for ways to demonstrate the credit's benefit. According to Kermit Billups, of GMAC Commercial Holding Capital Corporation, who spoke on a panel of industry professionals at Novogradac & Company LLP's New Markets Tax Credit Conference, January 25-27 in Phoenix, Ariz., the details of the program, as well as its impact on communities will be the determinant of whether or not the program will continue.

To obtain a better understanding of the program, Billups recommends looking at the NMTC program as a collage because of the program's many aspects. "Although the complexity involved in the program may appear to be negative, its strength and diversity is the program's greatest ally," Billups told conference attendees. The NMTC program has led to the creation of a wide variety of transactions and developments, disseminating into both new markets and low-income communities. The unrealized potential of the program has attracted private capital investors and has increased the flow of private capital into low-income communities.

The NMTC program has continued to evolve in many aspects since its inception, including the way projects are financed. Strategies being implemented by the industry to advance the program include focusing on subordinate or "mezzanine" lending, as opposed to sponsor or outside investor equity or low-cost, low-risk senior or first mortgage debt with a focus on short-term loans without lockouts. By focusing on mezzanine debt, Billups said, \$75 million in allocations leveraged \$360 million in investment, a ratio of almost five to one. He added that subsidies at the mezzanine debt level can be used for a shorter period, allowing NMTC capital to be recycled two to three times. To date, \$10 million in allocations has been recycled. Other strategies include attracting non-NMTC funds as well as community development pools, which clarify enhancements of a project, that local representative believe are necessary.

Determining suitable financing for a project is an important aspect when applying for an NMTC allocation. "Applicants should think about the allocation and what strategies can be used with the financing of the development. Be creative. Look tough, look at the deal, figure how you can finance the gap," said Charles Werhane, executive vice president and chief operating officer of The Enterprise Social Investment Corporation (ESIC).

Success of the program is evident in the increased financing activities in low-income communities, the panelists agreed. According to Billups, GMAC's financing activities in low-income communities since the program's implementation, although not directly related to the program, have increased from 23.8 percent (1999-2003) to 30.1 percent (2004-2005).

In order for the NMTC to continue to thrive, the experts agreed it is important that the credits are being distributed and utilized to their maximum potential. "Developers, investors and others included in a potential development should speak with local city officials and development groups, look at their redevelopment plans and see how the NMTC can be implemented successfully," Werhane said.

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NMTC Program's Community Impact

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When the program is working at its full potential, measuring the outcome of tax credits in relation to community development becomes easier. According to Werhane, answers to certain questions could provide a foundation to demonstrate the success of the program. These include: How are tax revenues spurred? How did the development funded by the new markets tax credit create jobs? Did it create housing for low-income individuals? Answers to these questions also spawn increased investments and help a potential developer determine how his or her plan can fit, he said. When figuring the financing of a project, Werhane suggests setting funds aside to measure the impact the development had on the community, making it possible to quantify the results of the development as well as the NMTC program.

Another major aspect for those applying for tax credits is determining what the other parties involved in the transaction, especially private investors, are looking for in a deal. Robert Wasserman, vice president of low-income housing, historic and new markets tax credit investments for US Bancorp Community Development Corporation, recommended working in conjunction with a CDE to prepare a document to send to investors. Once the document is completed, it can then be distributed to local officials and members of Congress to help demonstrate the success of the NMTC program. "The document should include environmental impacts of the project; funding of the project; and economic impacts, such as job creation. Investors look for a project that will help revitalize a community," Wasserman said.

The panelists agreed that finding a standard way for the industry to analyze and measure impact of the program still remains a challenge. Key aspects to examine include the direct, indirect and induced economic impact on the community; the types of jobs, including pay ranges being created; and the demographic makeup of the community. Even after the variables have been analyzed and the impact measured, continued research should take place in order to ensure that projections were valid and the community benefited.

As industry participants continue to examine and understand the many facets of the NMTC program, it can become increasingly possible to use the program to its fullest potential. The possibility for the program's success can continue to expand, increasing the likelihood of the program's extension. ❖

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