

New Markets Tax Credit Coalition Releases 2008 Progress Report; Calls for Program Reauthorization

By Janet Gregor, Rapoza Associates

The New Markets Tax Credit (NMTC) program continues to exceed expectations and fuel investment in distressed communities, according to survey findings by the New Markets Tax Credit Coalition in its latest report. The “2008 New Markets Tax Credit Progress Report” was released at the coalition’s public policy conference held in Washington, D.C. in June.

The report is the coalition’s fourth annual report on the implementation of the NMTC and is designed to provide policymakers and practitioners with an update on the program and its impact on low-income communities across the country. Survey responses were submitted by 84 allocatees that received 129 awards in rounds one through four, which are worth almost \$7.4 billion (64 percent of the total awards). The NMTC awards ranged from a low of \$500,000 to a high of \$162 million.

The report illustrates that community development entities (CDEs) continue to raise investments and deploy capital at a pace faster than required by law. The Community Development Financial Institutions (CDFI) Fund reported in May that \$10.3 billion of qualified equity investments (QEIs) had been made, far above the \$4.4 billion raised through May 2006. CDEs are also targeting poorer communities than required by law or regulations. The survey also revealed an increase in CDE debt and equity investments in other CDEs.

Following are some new findings in the 2008 NMTC Progress Report:

- The number of CDEs making investments in other CDEs jumped dramatically, from \$123 million to more than \$315 million. This is an indication of the program’s capacity to diversify investment options.

- NMTC capital is growing as CDEs return their qualified low-income community investments (QLICIs) to their communities. As QLICIs are paid back, CDEs are turning them around into new QLICIs and making new investments in their communities. The survey reported an additional \$300 million of redeployment this year.
- The number of QLICIs almost doubled, from 1,324 last year to 2,532 this year. In addition, the total value of QLICIs increased from \$3.9 billion to \$6.3 billion.
- Equity investments in non-real estate businesses jumped dramatically, from \$49.7 million reported in last year’s report to \$255 million this year (from 1 percent to 4 percent overall).
- 87 percent of CDEs reported additional leveraging at the project level.
- On average, CDEs are financing 40 percent of a project’s total cost using NMTC financing (CDEs are leveraging the remaining 60 percent from other public and private sources).
- \$6.3 billion in NMTC financing has leveraged an additional \$15 billion in financing for qualified low-income community businesses (QALICBs)

The 2008 NMTC Progress Report includes six “Stories from the Field,” illustrating the extent to which the NMTC is creating new jobs and stimulating economic opportunities in low-income urban and rural communities. The case studies include a three-building mixed-use development in a GO Zone in Baton Rouge, La.; revitalization projects in east and west Baltimore, Md.; a project in San Antonio, Texas that combines both the NMTC and the federal historic tax credit; an arts incubator project in downtown Pawtucket, R.I.; a project to rehabilitate an abandoned textile factory for mixed use in Durham, N.C.; and invest-

(continued on page 2)

2008 Progress Report

(continued from page 1)

ments by the only new markets venture capital program that is also a CDE in southern Appalachia.

NMTC Reauthorization Update

The CDFI Fund is presently reviewing applications for the sixth round of allocations and unless the NMTC is extended this will be the final round of allocations. Prompt extension of NMTC is necessary if the CDFI Fund is to stay on course to release its application for 2009, and it is also critical to extend the new markets tax credit in a timely fashion to maintain investor confidence in the program.

The NMTC Coalition continues to spearhead efforts on Capitol Hill to see that the NMTC is extended beyond 2008. As the *New Markets Tax Credit Report* went to print, the House of Representatives had passed a tax extender bill, H.R. 6049, which would extend and revise a package of tax provisions through 2009, including the NMTC with \$3.5 billion in new allocation authority for 2009. The Senate had not yet voted on a similar tax extender package though a vote was expected before the August recess. While there is wide support for tax extenders on both sides of the aisle and in both the House and the Senate, there is strong disagreement over whether or not the extenders should be paid for – with the vast majority of Republicans refusing to vote for a bill that includes offsets and the vast majority of Democrats refusing to vote for a bill that does not include offsets.

The NMTC Coalition is working to build pressure on Congress to act on the tax bill before recessing for the Fall campaign trail. Coalition members are working to highlight the work that the NMTC has done to date and to highlight projects that will get done with future allocations. ❖

(continued on page 3)

New Markets Tax Credit Report Editorial Board

Publisher ♦ Michael J. Novogradac, CPA
Editor ♦ Jane Bowar Zastrow
Managing Editor ♦ Alex Ruiz
Contributing Writers ♦ Janet Gregor, Anne Townsend
Technical Editor ♦ Owen P. Gray, CPA
Production ♦ Jesse Barredo

New Markets Tax Credit Report Advisory Board

Thomas G. Tracy ♦ Hunter Chase & Company
Frank Altman ♦ Community Reinvestment Fund
Bruce Bonjour ♦ Perkins Coie LLC
Rick Edson ♦ Housing Capital Advisors Inc.
Donald S. Holm III ♦ Farris Bobango PLC
Lewis M. Horowitz ♦ Lane Powell
Scott Lindquist ♦ Sonnenschein Nath & Rosenthal
Benson Roberts ♦ Local Initiatives Support Corporation
John Simon ♦ Sidley Austin Brown & Wood
Ruth Sparrow ♦ Future Unlimited Law PC
Herbert Stevens ♦ Nixon Peabody LLP
Mary Tingerthal ♦ Housing Partnership Network
Joseph A. Wesolowski ♦ Enterprise Community Investment Inc.

New Markets Tax Credit Report Information

Novogradac & Company LLP
246 First Street, 5th Floor
San Francisco, CA 94105
E-mail: cpas@novoco.com

Address all correspondence and editorial submissions to:
Jane Bowar Zastrow
Telephone: 415.356.8034

Address inquiries regarding advertising opportunities to:
Junhee Byun
Telephone: 415.356.8037

Editorial material in this publication is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding the low-income housing tax credit or any other material covered in this publication can only be obtained from your tax advisor.

© Novogradac & Company LLP, 2008 All rights reserved.

ISSN 1941-482X

2008 Progress Report

(continued from page 3)

This article first appeared in the August 2008 issue of the Novogradac New Markets Tax Credit Report.

© Novogradac & Company LLP 2008 - All Rights Reserved.

Notice pursuant to IRS regulations: Any U.S. federal tax advice contained in this article is not intended to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties under the Internal Revenue Code; nor is any such advice intended to be used to support the promotion or marketing of a transaction. Any advice expressed in this article is limited to the federal tax issues addressed in it. Additional issues may exist outside the limited scope of any advice provided – any such advice does not consider or provide a conclusion with respect to any additional issues. Taxpayers contemplating undertaking a transaction should seek advice based on their particular circumstances.

This editorial material is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding property compliance or any other material covered in this article can only be obtained from your tax advisor. For further information visit www.newmarketscredits.com.