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An Update on Past and Future Allocation, Application Rounds

By Alex Ruiz, Managing Editor, Novogradac & Company LLP

The Community Development Financial Institutions (CDFI) Fund recently made several announcements about past, present and future activity under the New Markets Tax Credit (NMTC) program. In addition to releasing updated information about almost \$3 billion in funds dispersed through the fiscal year 2005 reporting period, the CDFI Fund has begun outlining its plans for the upcoming application and allocation round.

NMTC Projects Financed Through 2005 Approaches \$3 Billion

Through the fiscal year (FY) 2005 reporting period, community development entities (CDEs) disbursed a total of \$2,975,204,230 to 686 different qualified active low-income community businesses (QALICBs) — including real estate projects and operating businesses in low-income communities, according to the CDFI Fund.

The CDFI Fund requires all CDEs that receive NMTC allocations to provide annual reports detailing how the NMTC proceeds were invested in low-income communities. These reports along with their audited financial statements are made available by CDEs within six months of the end of their fiscal years. On July 18, the CDFI Fund provided a summary of the investments made through the FY 2005 reporting period.

Metro v. Non-Metro

Five hundred forty-eight projects (79.88 percent of the total number of projects) were located in metropolitan areas. These projects received \$2,666,427,613 in NMTC financing (89.62 percent of the total amount of funds dispersed). One hundred thirty-eight projects (20.12 percent of the projects) were located in non-metropolitan areas. These projects received \$308,766,617 in NMTC financing (10.38 percent of total funds dispersed).

Use of Funds

The principal use of funds in 338 projects (nearly half of all projects) was to support real estate development/acquisition/rehabilitation. These projects received \$1,962,343,995 in NMTC financing (or 65.96 percent of all funding dispersed through the FY 2005 reporting period). The principal use of funds in the remaining 348 projects (50.73 percent) was to support general business operations (e.g., working capital loans, equipment loans). These 348 projects received \$1,012,860,236, or 34.04 percent of total NMTC financing through FY 2005.

Speaking to an audience at the National Housing & Rehabilitation Association's 2007 Summer Institute, CDFI Fund Director Kimberly Reed noted that of the almost \$3 billion in transactions, nearly \$2 billion was closed in FY 2005 alone. A report listing all QALICBs financed by CDEs through FY 2005 can be found at www.cdfifund.gov.

What's in Store

In the first four allocation rounds, the CDFI Fund received 1,078 applications requesting more than \$107 billion in total NMTC allocation authority — almost nine times the amount available. In this year's allocation round, the CDFI Fund has the authority to award \$3.9 billion in tax credits, for which the CDFI Fund received 258 applications requesting nearly \$28 billion in NMTC allocation authority.

"The total amount requested for this round, as in every other round, far outstrips what the CDFI Fund has available to award," Reed told her audience on July 25. "We expect fifth round allocatees to respond to the program's competitiveness with higher cost efficiency in their transactions, as well as by increasing their impact in the communities in which they invest. After four rounds

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Application Rounds

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of the program, we are also looking to see that allocatees raise the bar in terms of: 1) the level of economic distress in the areas that they invest in; 2) the amount of QEI proceeds that they intend to invest in low-income communities; and 3) the innovativeness and flexibility of their products, compared with others in the marketplace."

Fifth Round Awards

Reed reiterated the goal set in earlier statements by CDFI Fund staff, that they anticipate announcing the fifth round of awards in October. She added that after CDEs are notified that they have been selected for an award, the CDFI Fund anticipates making allocation agreements available to allocatees before the end of the year. Reed also reminded the audience that even before each allocatee receives its allocation agreement, fifth round allocatees are allowed to solicit investors in anticipation of the signing of the agreement.

Sixth Round Applications

Reed said CDEs and the public can look to this year's calendar as a general guideline on what they can expect for the next round. "The CDFI Fund anticipates publishing the sixth round Notice of Allocation Availability in the *Federal Register* in December of 2007," she said. "CDEs that apply under the sixth round can expect to be required to have their applications in to the CDFI Fund in February 2008, or 75 to 90 days after the notice is published in the *Federal Register*."

However, she noted that these are just tentative goals. "There is the possibility that if there is a significant amount of detailed analysis and updates to the sixth round application due to the new investment requirements for non-metropolitan counties, some of these timelines may need to be pushed back," Reed said.

The full text of her remarks on July 25 can be found online at www.cdfifund.gov. ❖

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NMTC 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
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