

## **New Markets Tax Credit Public Data Release: 2003-2014 Summary Report**

Date: August 11, 2016

The U.S. Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund) today released data collected on New Markets Tax Credit (NMTC) investments across the nation through fiscal year (FY) 2014<sup>1</sup>. The CDFI Fund requires all Community Development Entities (CDEs) that have been awarded NMTC allocations to submit an annual report detailing how they invested Qualified Equity Investment (QEI) proceeds in low-income communities. These reports must be submitted to the CDFI Fund by the CDEs, along with their audited financial statements, within six months after the end of their fiscal year.

The NMTC Program enables economically distressed communities to leverage private investment capital by providing investors with a federal tax credit. All NMTC investments must meet statutory qualifications for their investors to be able to claim the tax credit. The vast majority of NMTC investments are made within statutorily defined "Low-Income Communities." Low-Income Communities are census tracts with a poverty rate of 20 percent or greater, or a median family income at or below 80 percent of the applicable area median family income. In addition to investments located in Low-Income Communities, investments can qualify for NMTCs by using other statutory provisions designed to target certain areas or populations, including provisions for High-Migration Rural Counties, and Low-Income Targeted Populations.

Through the first 12 application rounds of the NMTC Program, the CDFI Fund has made 912 awards, allocating a total of \$43.5 billion in tax credit authority to CDEs through a competitive application process. This \$43.5 billion includes \$3 billion in Recovery Act allocations and \$1 billion of special allocation authority to be used for the recovery and redevelopment of the Gulf Opportunity Zone.

CDEs are required to report their NMTC investments in the CDFI Fund's Community Investment Impact System (CIIS) for a period of seven years. Due to a time lag in reporting, NMTC investments reported in CIIS are less than the total amount allocated for the NMTC Program.

### **UNDERSTANDING THE CUMULATIVE NMTC FY 2014 DATA RELEASE**

The cumulative FY 2014 NMTC data release is presented in two different formats: (1) NMTC transaction level data and (2) NMTC project level data. The transaction level data shows each investment or financial note that was associated with a real estate-related activity or operating business. The project level data shows the total NMTC investment received by each business. A business may be the recipient of more than one financial note as part of the same financing package. For example, the CDE may offer a business two financial notes: one that is structured as senior debt for \$1 million and another that is structured as subordinate debt for \$500,000. In this case, there would be two records in the transaction level data (one for the \$1,000,000 note and one for the \$500,000 note) and one in the project level data

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<sup>1</sup> The data represented was submitted by allocatees prior to September 30, 2015. Allocatees are given an additional 6 months after the end of their fiscal year to submit their annual report to the Fund, therefore the data submitted by September 30, 2014 represents nearly all investments for FY 2014.

(showing a total \$1,500,000 in NMTC financing received by the business). The FY 2014 NMTC data shows 10,239 financial notes (or investments) made to 4,541 businesses.

## WHEN WERE INVESTMENTS MADE?<sup>2</sup>

NMTC investments have been reported from FY 2003 through FY 2014. The amount of each year's NMTC allocation authority has a direct impact on the amount of yearly investments.

<b>Fiscal Year</b>	<b>Amount of Investment<sup>3</sup></b>	<b>Percent of Total Investment</b>	<b>Number of QALICBs</b>	<b>Number of Financial Note Transactions</b>
2003	\$97,427,013	0.3	18	23
2004	\$772,642,892	2.0	170	278
2005	\$2,062,880,823	5.4	331	589
2006	\$3,152,147,936	8.2	507	854
2007	\$3,818,198,304	9.9	580	1,140
2008	\$3,201,095,889	8.3	476	918
2009	\$3,588,751,007	9.3	460	918
2010	\$4,953,192,770	12.9	425	1,054
2011	\$5,267,068,076	13.7	428	1,225
2012	\$4,768,396,789	12.4	435	1,216
2013	\$4,020,467,469	10.4	393	1,165
2014	\$2,775,898,095	7.2	318	859
<b>Total</b>	<b>\$38,478,167,063</b>	<b>100.0</b>	<b>4,541</b>	<b>10,239</b>

Table 1: NMTC Investment by Year

## WHAT TYPES OF BUSINESSES RECEIVED NMTC INVESTMENTS?

Through the FY 2014 reporting period, CDEs disbursed a total of \$38,478,167,063 in QEI proceeds to 4,541 Qualified Active Low-Income Community Businesses (QALICBs) –investing in both real estate development activities and operating businesses in low-income communities.

- 1,985 QALICBs (43.7 percent) were Real Estate QALICBs, where the principal activity is the development or leasing of real estate. These QALICBs received \$19,411,129,333 in NMTC investments (50.4 percent).
- 2,489 QALICBs (54.8 percent) were Non-Real Estate QALICBs, or operating businesses. These businesses received \$18,322,377,740 in NMTC investments (47.6 percent).
- 67 QALICBs (1.5 percent) were the beneficiaries of loans or investments made by CDEs through other unrelated CDEs without allocations. These investments totaled \$744,659,990 (1.9 percent).

<sup>2</sup> Fiscal year indicates the CDFI Fund fiscal year in which an NMTC transaction was first reported in CIIS.

<sup>3</sup> Please note that both dollar amounts and percentages cited throughout the document contain slight rounding differences.

## WHAT WERE THE PURPOSES OF INVESTMENT?

The 10,239 NMTC investments (or transactions) made through FY 2014 can be broadly categorized into three purposes: real estate development, operating business, and “other.” See table below for the more detailed purpose categories and investments.

- 6,289 (61.4 percent) of the total number of NMTC investments, in the amount of \$25,752,420,354<sup>4</sup> (66.9 percent), were in real estate development and leasing activities.
- 3,755 (36.7 percent) of the total number of NMTC investments in the amount of \$12,098,992,430 (31.4 percent) were in operating businesses. A small fraction of investments in operating businesses, totaling \$398,684, were in microenterprises.
- 171 (1.7 percent) of the total number of NMTC investments in the amount of \$626,355,594 (1.6 percent) were in other financing purposes.

Purpose of Investment	Amount of Investment	Percent of Total QLICs	Number of QLICs	Percent of Total Investment
Operating Business	\$12,098,992,430	31.4	3,755	36.7
Microenterprise	\$398,684	0.0	24	0.2
Other financing purpose	\$626,355,594	1.6	171	1.7
Real Estate –Construction/Permanent/ Acquisition w/o Rehab –Commercial	\$13,995,680,648	36.4	3,223	31.5
Real Estate – Construction – Housing- Multi Family	\$135,972,881	0.4	45	0.4
Real Estate – Construction – Housing -Single Family	\$342,923,464	0.9	119	1.2
Real Estate – Rehabilitation–Housing – Single Family	\$60,852,029	0.2	22	0.2
Real Estate – Rehabilitation–Housing - Multi Family	\$70,384,063	0.2	25	0.2
Real Estate–Rehabilitation– Commercial	\$11,146,607,269	29.0	2,855	27.9
<b>Total</b>	<b>\$38,478,167,063</b>	<b>100.0</b>	<b>10,239</b>	<b>100.0</b>

Table 2: NMTC Investment by Purpose of Investment

## WHERE WERE INVESTMENTS MADE?

### *Areas of Higher Distress*

There is a competitive application process to award New Markets Tax Credit allocations. CDEs that commit to directing a significant percentage of their NMTC investments to CDFI Fund-designated areas

<sup>4</sup> Both real estate and non-real estate type businesses may direct their investments toward real estate purposes. Out of the \$25,752,420,354 in investments for real estate purposes, \$4,603,309,229 (17.9 percent) were made by non-real estate or operating businesses.

of higher distress will generally score well in that section of the Allocation Application. A comprehensive list of areas of higher distress appears in the Allocation Application. For the latest allocation round for calendar year (CY) 2014, all 76 of the allocatees indicated that they would devote at least 75 percent of their investments to areas of higher distress.

One way CDEs can meet their commitment to areas of higher distress is by investing in census tracts that meet at least one of the following three “severe distress” criteria: (1) poverty rates of 30 percent or greater; (2) median family income at or below 60 percent of applicable area median income; or (3) unemployment rates at least 1.5 times the national average.

- 3,326 (73.2 percent) projects<sup>5</sup>, in the amount of \$28,368,182,428 (73.7 percent), were located in census tracts that met one of the three indicators of “severe distress.”
- 1,117 (24.6 percent) projects, in the amount of \$9,592,229,959 (24.9 percent), were located in census tracts that met all three indicators of “severe distress.”

### ***Non-Metropolitan Counties***

Through the Tax Relief and Health Care Act of 2006, Congress required that the New Markets Tax Credit Program direct a proportional amount of investment to non-metropolitan counties. Beginning with the CY 2008 allocation round, the NMTC Program used 20 percent as the appropriate benchmark for ensuring a proportional allocation of QLICIs in non-metropolitan areas which approximated the percentage of the U.S. population that CDFI Fund data indicated resided in non-metropolitan counties.

In 2014, CDEs made 984 NMTC investments totaling \$3,053,270,282<sup>6</sup>. These investments were located in both metropolitan and non-metropolitan counties:

- 766 QLICIs (77.8 percent) were directed to metropolitan areas. These QLICIs provided \$2,244,296,621 in NMTC investments (73.5 percent).
- 215 QLICIs (21.9 percent) were directed to non-metropolitan areas. These QLICIs provided \$798,973,661 in NMTC investments (26.2 percent).
- 3 QLICIs (less than 1.0 percent) were directed to multi-census tract projects that spanned both metropolitan and non-metropolitan areas. These QLICIs provided \$10,000,000 in NMTC investments (1.0 percent).

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<sup>5</sup> These figures are based on self-reported, project-level TLR data in CIIS. In cases where CDFI Fund staff grouped multiple projects into a single project based on common characteristics (see Definition of an NMTC Project below for more information), one response was selected to represent the entire project.

<sup>6</sup>The year refers to the CDE fiscal year in which the NMTC investment/loan was made.

Since its inception, the New Markets Tax Credit Program has directed \$6,053,446,174 in investments to non-metropolitan areas and supported 807 businesses in those areas.

<b>Metro/ Non-Metro</b>	<b>Amount of Investment</b>	<b>Percent of Total Investment</b>	<b>Number of QALICBs</b>	<b>Percent of Total QALICBs</b>
Metro	\$31,933,537,915	83.0	3,704	81.6
Non-Metro	\$6,053,446,174	15.7	807	17.8
Both	\$491,182,973	1.3	30	0.7
<b>Total</b>	<b>\$38,478,167,063</b>	<b>100.0</b>	<b>4,541</b>	<b>100.0</b>

Table 3: NMTC Investments in Metropolitan and Non-Metropolitan Areas

## MULTI-CDE INVESTMENTS

In August 2012, the CDFI Fund implemented new reporting requirements for NMTC projects involving multiple CDEs. The new guidelines require that either a “Lead CDE” be designated to serve as a single point of contact for the CDFI Fund or participating CDEs develop a coordinated approach for reporting to the CDFI Fund. These new measures were adopted to address the potential for double-counting or undercounting project outcomes and to help the CDFI Fund better understand the outcomes of NMTC projects by receiving more reliable information.<sup>7</sup>

In preparing the FY 2014 CIIS<sup>8</sup> data for public release, the CDFI Fund identified multi-CDE investments within the current data. Based on the cleaning process outlined below, the CDFI Fund estimates that out of the 4,541 NMTC projects, 3,831 have a single CDE and 710 have multiple CDEs.

## MULTI-CENSUS TRACT INVESTMENTS

The CDFI Fund has identified NMTC transactions and projects that span multiple addresses and census tracts. The census tract fields for these transactions, which could not all be disclosed in the data release, are identified as ‘Multi-Tract QLICB’ in the data release table. Multi-tract projects include investments in telecommunications infrastructure in vast areas of rural Alaska and low-income, for-sale housing projects in areas affected by Hurricane Katrina in Louisiana and Mississippi. The CDFI Fund estimates that out of 4,541 NMTC-financed projects, 235 are multi-tract projects.<sup>9</sup>

## DEFINITION OF NMTC PROJECT

The CDFI Fund groups individual financial notes reported in the NMTC Transaction Level Report (TLR) into “projects.” Generally, multiple CDE investments may be associated with the same project for two reasons. Either the project is funded by the same CDE financial note, or it is funded by multiple financial

<sup>7</sup>The General Accountability Office (GAO) noted that multiple CDEs may provide financing for a single project (see GAO, *New Markets Tax Credit: The credit Helps Fund a Variety of Projects in Low-Income Communities, but Could Be Simplified*, [GAO-10-334](#) (Washington, D.C., Jan 29, 2010)). GAO recommended that the CDFI Fund continue improving strategies for collecting NMTC project-level data that clearly identify the potential outcomes of each project without the potential for double-counting the outcomes of some projects or undercounting the outcomes of others.

<sup>8</sup> CIIS data is self-reported and outliers and data entry errors are subject to verification and cleansing by the CDFI Fund.

<sup>9</sup> The CDFI Fund reviews all multi-tract projects to ensure consistent reporting of project characteristics.

notes and takes place at the same project address and has identical or similar project characteristics. The following project characteristics were used to group NMTC financial note transactions into projects:

- A similar or identical address for single-address projects or a similar or identical group of addresses for multi-tract projects
- An identical Total Project Cost
- An identical Project Number
- An identical Organization Number (for single-CDE projects)
- An identical Multi-CDE number (for multi-CDE projects)
- A similar or identical business description

Where multiple investments were grouped into a single project, the sum of all QLICIs (Original Amount) must remain less than the Total Project Cost. If multiple values exist for the Total Project Cost, the highest value is selected.

The 2014 NMTC project level data was produced using the analytic techniques described above for identifying multi-CDE projects based on self-reported data from CDEs. With the publication of this report, CDEs and other allocatees may identify updates or corrections related to the multi-CDE project information reported, particularly the linkages of transactions to projects. In such cases, the CDEs may contact the CDFI Fund's Financial Strategies & Research department at [CDFI-FinancialStrategiesandResearch@cdfi.treas.gov](mailto:CDFI-FinancialStrategiesandResearch@cdfi.treas.gov). Please provide the Originator Transaction ID, Project Number, Project Address and Project FIPS for the data records you wish to modify. The CDFI Fund will incorporate such information in future NMTC public data releases. Please do not attempt to make such corrections in the CIIS TLR unless instructed to do so through guidance published by the CDFI Fund.