



Planning Tips for Community Development Entities Heading into 2021

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Many community development entities (CDEs) have annual intentions to start projects earlier and be more organized than the year before.

While their intentions may be good, many times these goals slip away as the year approaches its close. CDEs often juggle multiple projects and tasks with limited resources.

Here are some considerations, ideas and tips CDEs can use now as they plan for 2021.

Information and Reporting

New deals can be closed at any time of the year. Regardless of when a deal closes, it's important for a CDE to consider the required information and reporting. Will an audit be required of the subsidiary CDE? The answer to this question will most likely change what will need to be provided. In addition, regardless of whether the subsidiary CDE has an audit requirement, all allocatee CDEs are required

to be audited and thus will need information on the subsidiary CDE deal closing.

History shows that the best practice for a CDE is to keep in touch with its audit and/or tax professional throughout the year. By doing so, the CDE is able to inform its audit and/or tax professional as new deals close, as well as allowing discussion about what documentation is needed. In addition, by providing this documentation to its audit and/or tax professional shortly after closing, the CDE can avoid the hassle of having to track down the documents later in the year (often during a busier time of the year).

Making and Maintaining Connections

When it comes to long-term sustainability and growth, relationships between CDEs and investors



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are key. CDEs should always be on the lookout for new ways to connect with investors, regardless of whether a relationship already exists. At a time when the equity market is constantly evolving, the more quality connections a CDE has with investors, the more likely a CDE can close qualified equity investments (QEIs) quickly.

Monitoring Compliance Requirements

It is also important for a CDE to monitor its compliance requirements throughout the year. Every CDE that has been allocated new markets tax credits (NMTCs) authority is required to comply with certain compliance requirements in their allocation agreement with the Community Development Financial Institutions (CDFI) Fund. For example, for CDEs with a calendar year-end, various reporting in the CDFI Fund's Awards Management Information System (AMIS) was recently completed. While this is still fresh in the minds of those at the CDE, consider making notes of ways to improve the process internally or note the challenges that were encountered so such challenges can be better addressed going forward.

Revisiting Policies and Procedures

This can be a good time for the CDE to update outdated policies or procedures. For example, there is uncertainty surrounding the extent of the impact of the spread of the COVID-19. CDEs may want to revisit their loan modification policies as the current terms of qualified low-income community investment (QLICI) loans may no longer be economically feasible for the borrowers. However, keep in mind, if QLICI loans are modified between the subsidiary CDE and the qualified active low-income community business (QALICB), modifications may also be needed on loans between the leverage lender and the investment fund (the leverage loan) in order for the investment fund to have sufficient funds to cover debt service payments.

Preparing for the Next NMTC Round

This can also be an ideal time for information gathering and tracking that could be used for the upcoming

NMTC allocation application round. For example, track-record information since the previous round can be gathered in preparation of the opening of the next round. Additionally, CDEs should constantly revisit their pipeline of potential investments and determine which potential investments will be highlighted in allocation application. For those potential investments, CDEs should ensure a full intake form is completed and should follow up on missing information. Substantial community outcome information is required as part of the allocation application. CDEs should consider revisiting their data records to determine if information is missing that would be needed for their allocation application. Once the allocation application round is open, the CDE will be busy preparing its application—time gathering additional data is often time a CDE does not have. As noted in the CY 2019 NMTC Program Allocation Application Frequently Asked Questions, CDEs will score more favorably if metrics are obtained from third-party sources rather than the CDE's own record. Due to this guidance, CDEs have spent considerable time gathering third-party metrics to support the projected outcomes documented in the allocation application. Before the round opens is an excellent time to revisit those third-party sources as well as identify new sources.

Novogradac offers a wide range of services to help you meet your goals. If you have any questions on any of the topics discussed above, please do not hesitate to reach out to a Novogradac NMTC expert. ❖

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