



The New Markets Tax Credits Issue

NMTC Has Record of Success and Wide Support: The Time for Permanence is Now

Making the NMTC permanent would drive even greater investment into low-income communities.

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Looking Back at 20 Years Since the First NMTC Allocation Round

CDEs reflect on the inaugural 2003 NMTC allocation awards round.

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More Than Half of Applicants Receive NMTC Allocation Authority Through \$5 Billion CY 2022 Round

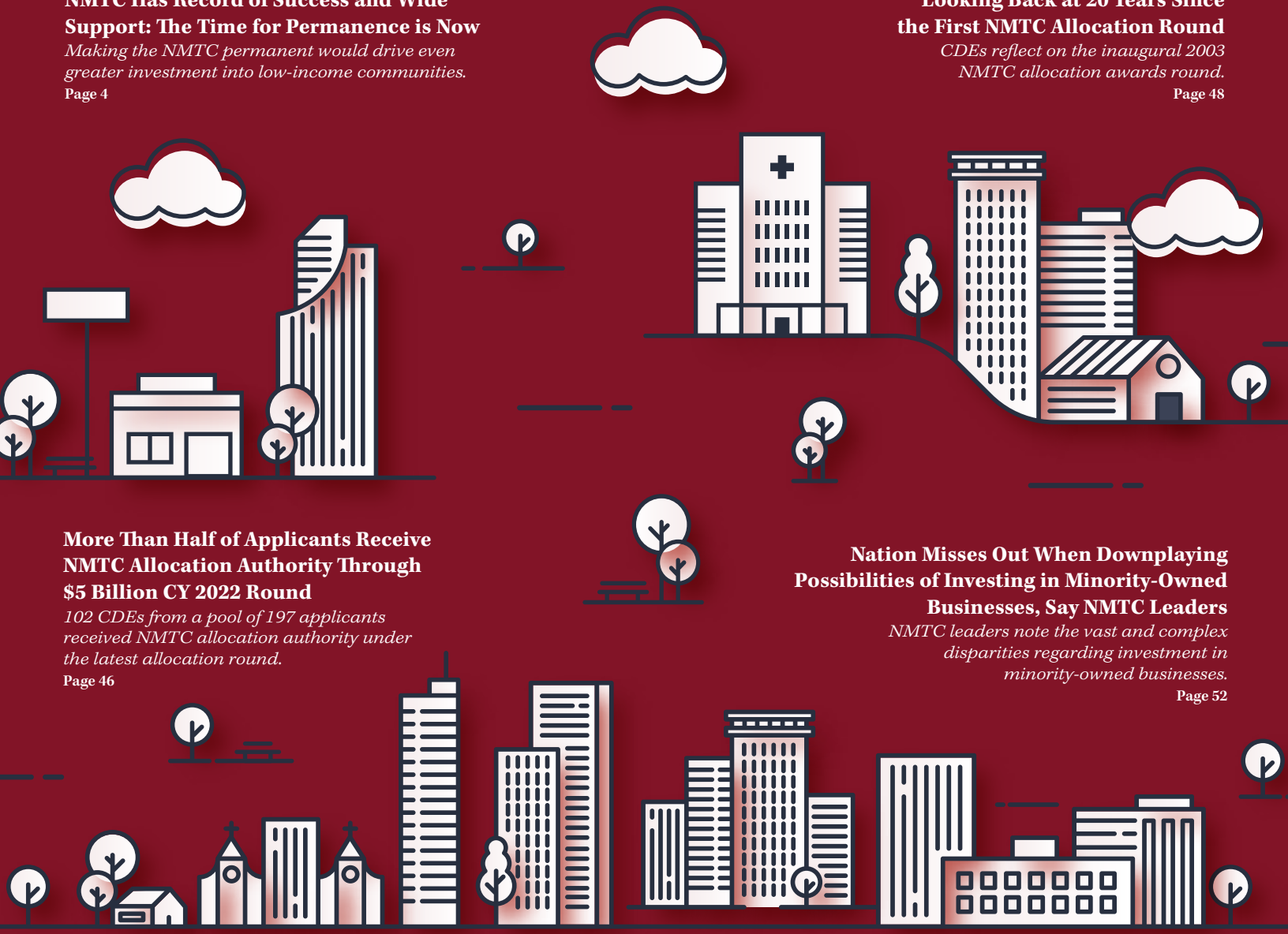
102 CDEs from a pool of 197 applicants received NMTC allocation authority under the latest allocation round.

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Nation Misses Out When Downplaying Possibilities of Investing in Minority-Owned Businesses, Say NMTC Leaders

NMTC leaders note the vast and complex disparities regarding investment in minority-owned businesses.

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‘We Had No Idea How Much to Ask For’: Twenty Years Later, Memories of First NMTC Allocations

BRAD STANHOPE, SENIOR EDITOR, NOVOGRADAC

In early 2003, Bob Rapoza got a call from the Treasury Department.

The first round of new markets tax credit (NMTC) allocations—\$2.5 billion worth—would soon be announced by the Community Development Financial Institutions (CDFI) Fund and Rapoza was head of the fledgling New Markets Tax Credit Coalition (NMTCC).

“I got a call before the awards were published from a Treasury decision-maker, who asked what I thought the reaction would be if they gave \$500 million to one organization,” Rapoza said. “They wanted to know if I thought that would be a bad idea. I said that would be *really bad*.”

Twenty years later, when NMTC awards typically range from \$20 million to \$60 million, the idea of a half-billion-dollar allocation seems extreme. Then? It was an open question—although Rapoza surmised there would be resentment of a \$500 million allocation to one community development entity (CDE).

“We had no idea how much to ask for,” said Deborah Favreau, chief development officer of the Massachusetts Housing Investment Corporation (MHIC). “We asked for \$25 million, which in hindsight was ridiculous. Nobody knew how it would be structured ... at the beginning, we didn’t completely understand the level of subsidy.”

MHIC received \$25 million March 14, 2003—one of 66 CDEs to receive allocation awards through the new community development tax incentive, which was

introduced to the tax code as part of the Consolidated Appropriations Act of 2001.

The original legislation included \$15 billion in allocation through 2007. The first application came out in June 2002 and 345 CDEs applied, seeking a combined \$25.3 billion in allocation authority.

FIRST-ROUND NMTC ALLOCATIONS

Announced: March 14, 2003

Allocation authority: \$2.5 billion

CDEs awarded: 66

Average allocation amount: \$38 million
(median amount: \$18 million)

Range: \$500,000 to \$170 million

Source: CDFI Fund, Novogradac

Getting Familiar

For Favreau, the NMTC originally appeared to be a complimentary tool.

“We were working exclusively in affordable housing at that point,” said Favreau. “There were very limited tools for non-housing economic development, and we saw so many opportunities in the low-income neighborhoods where we were building that needed commercial revitalization. This was a phenomenal tool that complemented and reinforced our investments in housing.”

Michael Johnson, now managing director at Advantage Capital, said, “We kind of stumbled upon

the actual NMTC program. It hadn't been our focus, but we looked at it and it looked a lot like what we were doing on the state level. ... We started kicking it around to see what we might be able to do with it.

"Honestly, at the time, we viewed new markets as a complementary business to our then-current business, which was managing state funds with a focus on low-income communities," Johnson said. "It was a pot of money to amplify the impact we were having on those. Fast-forward 20 years and the NMTC is a huge part of what we do."

Meanwhile, the National Trust Community Investment Corporation (NTCIC) saw the NMTC as complimentary to historic preservation.

"It was absolutely seen as an opportunity to get another tool to help finance historic tax credit projects," said Suzanne Brown, interim president at NTCIC. "Up to that point, [NTCIC] had a small CDFI that did pre-development funding. This was a huge opportunity."

First, CDEs had to apply.

NMTC ALLOCATION HISTORY

(Through Round 19, announced Sept. 22, 2023)

Total allocation awards: 1,563

Total NMTC authority: \$76 billion

Amount invested in low-income communities*: \$62.9 billion

Jobs created: 857,096

*Through CDFI Fund report of August 2, 2023
Source: CDFI Fund, Novogradac

Applications and Award Announcement

After the release of the application, Rapoza said CDEs sought guidance from the NMTCC. He said some applicants were experienced in community development. "Others were just flying blind," Rapoza said.

When the CDFI Fund announced the awards—via a press release at 9 a.m. ET March 14, 2003—there was excitement.

"We were all on pins and needles," said Bill Bynum, CEO of Hope Enterprise Corporation, which was then known as Enterprise Corporation of the Delta. "No one knew what to expect. It was a bit of a lottery because the program was way oversubscribed for the demand. We felt we had a strong application and the area needed it. ... we had our fingers crossed."

His group received a \$15 million allocation. The overall allocation authority range was wide: 20 CDEs received less than \$10 million (with Northside Community Development Fund in Pittsburgh getting the smallest award, \$500,000) and six received more than \$100 million (with Phoenix Community Development and Investment Corporation getting \$170 million).

"I think the Phoenix award was a surprise," Rapoza said. "One thing that I recall was that some of the allocation awards were quite low. And it was a sort of moment where we said, 'Oh, we have a lot to figure out here.'"

Johnson said Advantage was thrilled with its allocation of \$110 million.

"Being turned down was as likely an outcome as getting a big allocation," Johnson said. "The award we received was validation. [We thought] now we've got the tiger by the tail."

Favreau said MHIC talked to partners when considering how to use the NMTC subsidy.

"We started talking to people we knew across the state, saying we have this potentially great tool. We don't exactly know how to use it, but we're figuring it out," Favreau said. "A lot of towns and cities had redevelopment projects on the drawing boards that were stalled due to capital gaps, so we focused on going to cities and towns and community-based organizations and asked what their priorities were."

Adapting to the Incentive

"The smart lawyers in the community development space jumped in and figured out how to use this

credit pretty quickly,” said Kevin Boes, now president and CEO of New Markets Support Company (which changed its name to Broadstreet Impact Services in September), who was at the National Equity Fund in 2003. “If you look at the first deals, they’re not that different from the structure deals that are getting done today.”

First-round allocatees had plenty of work to do. NTCIC’s Brown was then at Enterprise and hit the ground running shortly after the first allocations.

“When I got to Enterprise, they were just deploying allocations from the first round,” Brown said. “They hadn’t set up accounting or compliance departments for it, so my job was to figure that out. When you think about all the acronyms—CDE, QLIC, QEI, QALICB—I had to get a handle on that and understand the requirements, as well as understand the accounting, compliance and figure out the audit and tax requirements. I remember having more questions than answers at the time.”

Jennifer Novak, current senior vice president, capital markets at Community Reinvestment Fund USA (CRF), was assistant vice president at Piper Jaffray & Co. in 2003, when the allocations were announced. In 2004, she joined CRF, a client with whom she worked closely. CRF won a \$162.5 million first-time award—funds were used to scale CRF’s business lending activities throughout the nation with access to 25-year fixed-rate financing for small businesses and nonprofits.

“I started with a stack of papers a mile high with the goal to implement compliance, monitoring and investor reporting,” Novak said. “The beauty was that while working at Piper, I had developed extensive relationships with the investor base because of CRF’s secondary market activity. We were all learning.”

Subsequent Changes

As expected, lessons were learned from that first round.

Johnson said his experience at NMTC events—including Novogradac conferences—continued to open

his eyes to the possibilities for types of developments, structuring and more. Favreau said by the second allocation—and the onset of the leverage model—things became more standardized.

Leah Rogan, managing director of NMTCs at Enterprise, said the biggest change in working with the NMTC over time was a shift in focus.

“The early deals were all over the place geographically,” Rogan said. “Now we have a more defined strategy. The other glaring difference from the early years is the amount of allocation we put into deals. ... Where we may have put \$25 million in one development, we now look at a different range. If we win a \$60 million award, it may be seven deals, creating more impact and investing in more projects.”

Others recognized that, too.

“The early deals were basically small deals, they ranged from \$500,000 to \$3.5 million,” said Ronald Wong, program director, economic development at New Jersey Community Capital, which operated as the Community Loan Fund of New Jersey in 2003. “Now, in our typical years—especially since the 2014-2015 round—our deals are from \$7.5 million to \$10 million, so it’s quite a difference in size.”

20 Years Later

After 20 years and 18 allocation rounds, there is plenty of evidence of success, but Brown said the competition has been constant.

“Then, like now, the demand for the credit is way larger than any of us get in allocation,” Brown said. “So, we have to figure out what projects are attractive and what strategy is best. As the program became more specific, it became harder to choose projects that fit your strategy and meet allocation requirements and give you good statistics going forward for when you apply again.

“Is it a work in progress? The answer is still yes,” Brown said. “Every time [the CDFI Fund] comes up with new questions and tweaks, we’re trying to figure out what they are really asking and why did they make

the change. It's sort of a mystery on our side of what they're looking for and it's continued for 20 years. You just do your best and make your way through it."

Novak agreed.

"Competition is fierce—an efficient, effective and compliant program does not guarantee an organization a future award," Novak said.

Transformative for Everyone

The NMTC has created a cottage industry of experts.

"It's definitely a lot more structured," Wong said. "At the start, it didn't quite have the professional structure of financial modeling, working with accountants and legal documents that go along with it. It's definitely matured over the years. There's a more standardized process and structure than initially."

Bynum, who estimates that Hope has received allocations on about 50% of applications, said the incentive requires passion.

"The new markets tax credit is not for the faint of heart," Bynum said. "It has many moving parts, and a lot of work has to be done to make sure you're making the eligible investments and providing Treasury with the data they need. We keep swinging because it's an incredibly important economic and community development tool. It's been a great program."

Twenty years later, Rapoza—seen by many as a founding father of the NMTC—sees it as a success.

"I think this credit is sort of in a spot where regardless of where you fit on the spectrum, you like it," Rapoza said. "The combination of a tax credit that works is very appealing to conservatives and those on the left. Everyone sees that concrete benefits going to the poorest communities in America. I'm very proud of it and I think it's done people and communities a lot of good." ❖

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