CY 2021 NMTC Allocation Awards Insights

The CDFI Fund late last month announced the calendar year 2021 (CY 2021) new markets tax credit (NMTC) allocation awards, allocating $5 billion in NMTC authority to 107 community development entities (CDEs). In this week's podcast, Michael Novogradac, CPA, is joined by Brad Elphick, CPA, and Rebecca Darling, CPA, to discuss what we learned from the awards announcement, as well as what CDEs should be doing now that the awards have been announced. After that, they examine what qualified businesses should be doing as they seek below-market-rate financing through the NMTC and wrap up with a look at what to expect for the CY 2022 application round.

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Transcript

Introduction

[00:00:10] **Michael J. Novogradac, CPA:** I'm Michael Novogradac and this is Tax Credit Tuesday. This is the Tuesday, November 8, 2022, podcast.

It seems like we've been waiting for quite a while, but one of the major community development tax incentives events of the year finally did occur. I'm speaking of course about the CDFI Fund's 2021 new markets tax credit awards announcement. It came roughly 10 days ago, Friday, October 28th to be exact. The new market tax credit awards announcement event was held in Maryland, while at the same time, over 700 new markets tax credit CDEs, professionals, investors and others were gathered at our Novogradac New Markets Tax Credit Conference in New Orleans. This made for a very exciting Friday morning in the Big Easy, as well as a nervous Thursday, as CDEs and others awaited and speculated as word of the announcement date and location had spread. The awards announcement means that now 107 community development entities or CDEs now know they will be receiving an allocation and they know the amount of that allocation.

It also means, unfortunately, that many worthy CDEs who applied for new markets tax credits now know they missed out on this round. For those receiving awards, they can now rev up their plans to begin making below-market loans to and equity investments in qualifying businesses in distressed areas. And for both those CDEs that received awards and those that did not, the countdown has now started to the opening of the calendar year 2022 application round. In fact, we are already at Novogradac assisting many CDEs apply for the next application round. And this may not be too surprising, CDEs that missed the cut are particularly focused on improving their applications for the next round.

Now, let me take a moment to summarize the high points of the recent awards announcement. This was the 18th allocation round. This round was for $5 billion of allocation authority. This round saw, as I noted earlier, 107 community development entities receive an award. The largest allocation award was $60 million and the smallest award was $20 million.

Joining me on today's podcast are two experts on new markets tax credits, my partners Brad Elphick and Rebecca Darling. They are both partners in Novogradac's Atlanta office. Brad and Rebecca have been on Tax Credit Tuesday before, so they're familiar to longtime listeners. Brad Elphick leads the New Markets Tax Credit Working Group and is the chair of our Fall New Markets Tax Credit Conference, which is the conference I referenced earlier in the podcast that was held a couple of weeks ago in New Orleans. I will note our next new markets tax credit conference is in San Diego. It's going to be held Thursday, Jan. 19th and Friday Jan. 20th, 2023.

Rebecca Darling works with clients in a range of tax incentives, but the new markets tax credit is a specific area of focus. She's very involved in the New Markets Tax Credit Working Group and Rebecca is a contributor to the Novogradac Journal of Tax Credits. Rebecca also leads our new markets tax credit basics workshop that we hold before every new markets tax credit conference. The next basics workshop will be held on Wednesday, January 18th, 2023, before our San Diego conference.

Both Brad and Rebecca assist community development entities in a variety of ways. Brad and Rebecca help review and prepare CDE allocation applications. Brad and Rebecca also help CDEs structure loans to and investments in qualified businesses, as well as they help businesses position themselves to attract and receive below-market financing from CDEs. And of course, as CPAs, they assist in financial modeling as well as they audit and prepare tax returns for CDEs and the businesses they finance. They also provide a lot of other regular consulting to CDEs. I will provide their contact information in today's show notes so you can reach out to them.

Now today's podcast is going to be separated into four segments. During the first segment, we'll discuss the allocation announcement and review some of the additional key takeaways. During the second segment, we'll outline some of the steps that those fortunate CDEs that received an allocation should be taking. And then from there, we're going to focus on businesses that are operating in distressed communities or those that are organizing planned businesses to open in distressed communities. We'll focus on them and share some tips that these businesses or proposed businesses can take to better their chance of attracting below-market-rate financing from CDEs that have received recent awards. And then in the fourth and final segment, we'll look a little bit more forward to the next round of new markets tax credit applications. And there we'll focus on steps CDEs, as well as their potential borrower investees can be taking now, or perhaps I should say should be taking now to increase their chances of success.

There's a lot to get to, so if you're ready, let's get started.

So, Brad and Rebecca, thanks for being back on the podcast.

[00:05:45] **Brad Elphick, CPA:** Thanks.

Key Takeaways from CY 2021 Awards

[00:05:49] **Michael J. Novogradac, CPA:** Super, super. So, before we go deeper and go through the various segments that I've outlined for the podcast, I wanted to get a quick overview from each of your thoughts. I did give the allocation ranges and a few of the high points from this recent awards announcement. For Brad, I'll start with you. You always do a lot of analytical work after each awards announcement and I know those that are members of the New Markets Tax Credit Working Group always enjoy hearing your thoughts and some of your key takeaways. So please kick off the podcast with what you noticed about this allocation round.

[00:06:26] **Brad Elphick, CPA:** Great. Thanks Mike. And doing all of that data analysis, it's a pleasure and a burden at the same time, being able to be a resource for those clients of ours in terms of what the trends are looking like. And so, I thought it might help to share some of those with our audience today and I'll start with the award amounts.

As you noted, Mike, the highest award amount in the most recent awards was $60 million. And that's been steadily decreasing over the last couple rounds and I assume that's somewhat intentional to try to spread allocation to more awardees. And I think we saw that also with the increase in the number of awardees. Last year, we had a $5 billion round as well, and there were 100 awards, whereas this year there was 107. I think that was a little surprising to some to see that increase, although it's somewhat nominal. But, it does appear that there is a goal of trying to spread these around more and by doing that, that also decreased the average award size from $50 million last year to $47 million this year.

One interesting change was the smallest award amount increased from $15 million up to $20 million. It had been $15 million all the way back to the 2012 round, so it is interesting to see that amount go up while the largest award amount come down some. We talked about that there's been an increase in the number of awards, but what's interesting is that there's also been a decrease in the number of applicants. So, for those that are applying, that obviously translates into a greater success rate: 107 out of 199 obviously is better than the year before, which was 100 out of 208. So it does show that applying is a good thing because you never know how many other applications that there will be. I usually tell people that they should assume that it's always going to be more in the next round, although that hasn't proven true in recent history. But we've definitely seen in each of these rounds, obviously an oversubscription in the amount of allocation being requested, so it remains highly competitive.

And then one final number I tend to track is the number of first-time awardees and this has been hovering anywhere between four to nine over the last several rounds. In this round in particular, we had six first-time awardees, so fairly consistent with that. But as you can see, six awards out of 107 awardees is a fairly low number, especially six awardees out of 199 applicants. So it still shows how important it is to have a very strong application, in that sometimes you may not get it the first time you apply, second time you apply, but once you do receive an award, there is some good data to show that it is more likely that will get future allocations and we'll talk a little bit more about that later.

[00:09:39] **Michael J. Novogradac, CPA:** Brad, with respect to the first-time awardees, and I know you don't know the answer per se, but if you were to speculate, how many of those first-time awardees you think were applying for the first time?

[00:09:52] **Brad Elphick, CPA:** It is speculation because unfortunately we don't, the CDFI Fund doesn't share that information, but my inclination is that it is probably not the first time that they applied. I think it is probably more rare to apply for the first time and also win the first time. But you know, there are different, and we'll talk about the different ways to increase those chances in terms of what's important for potential applicants to be doing for the next application round. But I would definitely say that, if I had to guess, that most have applied multiple times by the time they win their first allocation.

[00:10:32] **Michael J. Novogradac, CPA:** And I would just say if you're one of those first-time applicants, if you were a first-time applicant and first-time allocatee in this round, please send us an email. We'd love to hear from you. So, Rebecca, what were some of your key takeaways from this application round beyond what Brad noted?

[00:10:52] **Rebecca Darling, CPA:** Yeah. I think one of the things, Brad, you touched on just slightly that I wanted to expand on was repeat winners. So, we have looked historically to see applicants that have applied previously and have won, what their continued success rate is. So just to touch on that for a minute. So, 66 of the awardees in this round received an allocation in the prior round, so that's 62%. And then those that have received allocations the last two rounds, which are 79 awardees, received awards, so that's 74%. So, although I think the competition is pretty fierce, it does also appear if you've won before, it does help your chances applying going forward.

[00:11:42] **Brad Elphick, CPA:** Yeah. And I would just clarify too, in that look back to last two rounds, that's an award in either round, not necessarily both rounds. But that's been fairly consistent in terms of repeat winners from round to round. So, it's always interesting to see how that number changes. I do think that the 66 out of 107 was higher this year than it has been in the past.

[00:12:07] **Rebecca Darling, CPA:** And I think that's a great point, Brad. With a little bit of consistency of receiving a five-year extension of the new markets tax credit incentive, I think that gave some CDEs that received large awards to take a round off to focus on deployment. So, I think that's a helpful thing to keep in mind as well.

[00:12:31] **Michael J. Novogradac, CPA:** Thank you for that. Now this is the second of the recent rounds in which the CDFI Fund allocated $5 billion in awards after many years when the allocation amount was $3.5 billion. And I was wondering what you see, Brad, in terms of investment trends since this change was made. There's this extra $1.5 billion that could be awarded in a given round.

[00:12:54] **Brad Elphick, CPA:** Yeah, it's an interesting question and I hate to say that there haven't been many changes, but I do think that the industry has been fairly consistent in the types of investments that they make. One of the changes that we typically see are those investments that are in reaction to some kind of event. We obviously are coming out of a pandemic and now in an inflationary cycle. So I think that you have started to see allocation and investments be made into businesses that are responding to those needs created by that event. We saw similar things when the GO-Zone allocation was made that helped respond to redevelopment of those areas impacted by natural disaster. So I think that's probably been where I've seen the most changes is just in those types of, whatever the economic event is that we're in or natural event that has recently occurred, that new market tax credits continues to be really responsive. And we've seen that in the past when we've had legislation that awarded more allocation to address certain needs that new market tax credits has been one of those favored incentives to attract capital to respond quickly.

And this was consistent. I led a panel at our New Orleans conference a couple weeks ago, with investors and they essentially said the same thing that they are not seeing any asset classes necessarily left off that used to be invested in. So that's good and I think that as we typically see, the next, you know, we've got $5 billion. Now, obviously, these applicants, these awardees have indicated in their business strategy what they plan to do with it, but the CDFI Fund has also, in response to COVID, had previously provided some leeway for allocatees and how they use their allocation to be able to address the needs of businesses that may be a result of the pandemic. So you've seen this working relationship with the CDFI Fund that's administering the program and those investors and qualified businesses being able to really take advantage of this resource.

[00:15:10] **Michael J. Novogradac, CPA:** So, Rebecca, following up on trends, when the CDFI Fund releases the list of awardees, it also releases a lot of other data, which includes information as to where the financing's expected to go, the types of CDEs that received allocation and more. When you reviewed that data, what was some of the biggest takeaways for you?

[00:15:32] **Rebecca Darling, CPA:** Yeah. You know, for me, what I like to look at is what am I seeing as being consistent trends and then what am I seeing as outliers, something new to take away. And so, just to start with some of the consistencies, as a reminder, each CDE picks a service area, so it can be local, statewide, multi-state or national. And so we saw slight decreases in the multi-state and national service area allocatees, and then of course, a slight increase in the number of local and statewide service area awardees.

The Fund also gives us information about projected investment types. So operating businesses versus real estate and those have really been consistent percentages for a number of rounds. So, in this round, 78% was anticipated to be invested in operating businesses and 22% anticipated to be invested in real estate deals. The other item that I noticed that was fairly consistent was the urban versus rural investment areas. So, the allocation of intended investment to major urban, minor urban and rural areas has been consistent. But here's where we kind of deviate a little bit into some notable differences. So, the first one being rural CDEs, that number of rural CDE awardees has been fairly consistent. So, it was 17 in this last round and 16 in the 2020 round. But what I think is important to note is that number is still fairly consistent even before our $5 billion rounds and so we're not seeing kind of a proportional increase to the number of rural CDE awardees to this larger allocation pool. So, I think that's really important for everyone to be thinking about because in the notice of allocation authority, the NOAA, that the CDFI Fund releases with the application, it highlights two things related to rural commitments. The first one is the proportion of allocatees that are rural CDEs must, at a minimum, equal the proportion of highly qualified applicants that were rural CDEs. And then the second point is at least

20% of all QLICIs made by allocatees need to be invested in non-metro counties. And so a really key highlight that we noticed in the debriefing letters that went out to applicants that were unsuccessful is the CDFI Fund stated that they added one rural CDE to the allocatee pool to ensure that percentage of rural CDEs that received new markets allocations was equal to or greater than the percentage of rural CDEs in the highly qualified pool. So, I think that's something that all CDEs should be thinking about. There are plenty CDEs that they aren't going to be a rural CDE, they can't commit to that level of deployment, but they need to be aware of who their competition is and that I can foresee this being a continued issue if we don't see additional rural CDEs applying.

And then the last thing that I wanted to touch on was the minority- or native-owned or -controlled CDEs. We really saw a notable increase in the number of these awardees. So, in this last round we had 21 minority or native-owned or -controlled awardees, where we saw 14 in the prior round. So almost 20% of the awardees are minority- or native-owned or -controlled compared to only 14% in the prior round. We have not seen numbers this high since the CDFI Fund began reporting on the number of minority and native CDE allocatees back in 2009. I would anticipate this number will continue to be strong and most likely increase going forward. Brad, anything I'm forgetting there?

[00:19:41] **Brad Elphick, CPA:** That was very thorough, so I don't think I have any other insights. I think that covered most of the information that the CDFI Fund releases in their award booklet.

[00:19:51] **Rebecca Darling, CPA:** As my sister once said, she said, "You're entitled to your opinion and I'm entitled to the facts." So, when Brad and I love going through all this data because it is hard to argue with numbers. So, we like going back and looking at these trends.

Steps CDEs Should be Taking After Awards

[00:20:07] **Michael J. Novogradac, CPA:** I wanted to pivot now to a question that I know many of your award-winning CDEs are asking each of you. As a CDE that just received an allocation award: what should I be doing now? So that's the question I think you're getting asked. So, Rebecca, let's start with you. What are you telling your award-winning CDEs?

[00:20:28] **Rebecca Darling, CPA:** Yep. These were the conversations certainly that I was having last week quite a bit. So, I think there's a few things to really focus on. The first one is making sure you're organized, looking back and noting what were the various commitments that you made in your application, whether it be innovative uses or non-metro commitments, any of those types of things, making sure that you're really thinking about that so you can be planning deployment accordingly. But also the draft allocation agreements have recently been sent to the awardees, and so making sure that information ties in and you've got the right numbers is important. So, folks are reviewing their allocation agreements right now and sharing various questions.

Then I think the next focus is planning out deployment. Right now, CDEs are trying to plan on what pipeline projects they're going to be investing in, what that timeframe looks like and so forth. And so, I think it's really important that they're looking at their full pipeline picture right now of investment opportunities so that they can be deploying as quickly as possible.

And then honestly, as crazy as it sounds, we just received an award announcement and a lot of conversations I'm having still are about the next application and going ahead and getting started on that next application and thinking ahead.

[00:21:57] **Brad Elphick, CPA:** I think those are all great suggestions from Rebecca. And the only thing I kind of emphasize is the checking in and management of a CDE's pipeline. You know, we talked about that prior awardees seem to have the most success in each round. And I think a lot of that is due to those that can successfully manage their pipeline, because we are on a timeline for each round that is somewhat unknown. The CDFI Fund loves to give us seasons, but it really leaves open this uncertainty, I guess, related to when you will get an award, when you'll be able to sign and finalize your allocation agreement and actually start closing transactions. Having an understanding of where the projects and your pipeline stand and their ability to close, we're in a very different environment today than when we were when applications were made. Inflation hadn't really hit yet, so projects may have very different budgets and needs now, so understanding what those are will really allow, once the awards do come out, will allow the allocatees to really hit the ground running and close on transactions faster. Ultimately, the faster you close allocation, the better that makes your next application look because they do kind of want to see what your track record has looked like. And I think that the more that you can prove to the CDFI Fund that you have an ability to deploy allocation and probably deploy more than they have been giving you, I think is always a good thing for CDEs to keep in mind.

Then as you said, there's also CDEs that didn't receive awards and that's where we've seen a lot of them kind of doing this similar analysis and really kind of looking at their prior application. I know that we look at a lot of prior applications of unsuccessful CDEs to give them review and comments on areas that they can improve. So, I think that having that additional set of eyes on an application can also be helpful. So, whether you were successful or not, that's, I think, only going to help improve your chances in the next round that's quickly approaching.

[00:24:21] **Michael J. Novogradac, CPA:** Yes indeed. We'll get to that a bit because I want to get your thoughts on your analysis as to what we should be thinking about in terms of trying to anticipate the next round opening up. But before you get to that and number of other questions, and I don't know, Brad or Rebecca, which of you want to tackle this question, but as we look toward the end of the year, you mentioned that the allocation agreements are now out. What's the chances of transactions actually closing by the end of the year, given the timeframe that's left versus most of the deployment starting in the first quarter of next year? And don't speak at the same time.

[00:25:06] **Brad Elphick, CPA:** Rebecca, if it's all right, I'll at least share what I heard at our conference last a week-and-a-half-ago.

[00:25:12] **Michael J. Novogradac, CPA:** I thought you were going to say, when you stepped in, you say, you know something Mike? I think I'll let Rebecca answer this question.

[00:25:21] **Brad Elphick, CPA:** Hopefully she will just affirm what I have heard. But one of the constant themes and investors who were asked the same question is, we were as service providers, we are just as interested as qualified businesses, as investors, as CDEs are about what their year-end will look like, for personal reasons and professional reasons. And so, there was a lot of discussion about, OK, each year looks different. Last year was a very busy year end. The awards were announced at the beginning of September, which allowed for allocation agreements to be finalized before year end. And deals actually were able to close by year end. And so there was a big push, to accomplish those closings by year end. With the awards being announced October 28th, you know, nearly two months later, what we're anticipating is that it's really going to take almost until the end of the year for some, if not most, CDEs to get their allocation agreements finalized. And I think that's what's really going to hinder the potential for having transactions that close by year end, because obviously a CDE won't be able deploy new allocation until they have that allocation agreement. Things that in regards to the year end closings is if a CDE who has working on a transaction to close this year wants to add more allocation to it, that they may be able to do that, because the closing process is far enough along to be able to add the additional amount of allocation and close the transaction.

So, I think when qualified businesses or potential businesses are looking to and asking us, "Will I be able to get my transaction closed this year with new allocation?" I think it's probably unlikely in most cases. And what that means for everyone is that the first quarter of next year is likely to be very busy and depending on when the next round opens and the date that they release for the QEI issuance requirement, will help inform of how busy Q1 will be compared to Q2.

[00:27:35] **Michael J. Novogradac, CPA:** Thank you and I don't know if you had something you wanted to add, Rebecca?

[00:27:39] **Rebecca Darling, CPA:** No, Brad, the good news is I'm hearing the same thing, so you're not completely out with your expectations, But I agree. I feel like when I was at the conference and talking to various CDEs on Thursday, they didn't know if they were receiving an award or not, but a lot of their comments were, "if I get an award, this is the first deal I'm planning on doing. This is my first phone call to go ahead and get moving." And as we've progressed over the last week or so, a lot of those conversations have been around, it probably isn't going to close before year end. We're expecting first quarter of next year to start deployment. So, I do anticipate a little bit of probably tacking on some additional new allocation to some existing transactions that are already somewhat in the process, but otherwise I would expect next year to be quite busy.

[00:28:32] **Brad Elphick, CPA:** Yeah and one thing I would just add to touch on something that we mentioned before is the management of pipeline. I think it's a two-way street. I think you see the really good CDEs managing that throughout the year. But I think that if you were a project that was included in a CDEs pipeline, you should be also reaching out to understand what this looks like for that CDE, because we all know that they have more projects in their pipeline than just yours. And so having that open line of communication, I think will help set expectations for qualified businesses as well, in terms of when they may be able to expect being able to close on a transaction with new allocation.

What Qualified Businesses Should Consider

[00:29:15] **Michael J. Novogradac, CPA:** And I would just note that, and I know both of you agree, that while we talk about the closing unlikely to happen for many CDEs with respect to the most recent awards announcement by the end of the year. No doubt some will, but most significantly, when we talk about first quarter of next year, there will be a lot of financial modeling and all the rest going now so that transactions can start closing either by the end of the year or if it's spillover into next year that they can close in January or February and the like. So don't take what we're discussing here as a notion of saying, "Well, I can just wait until January." We're talking about the closing, which is the sort of the end of the process. There's a lot of wood to chop, if you will, during the process and you want to be very active right now, both as a CDE that's got an award that just won an award being active in terms of starting the process of deploying the capital, but also I wanted to ask some questions about qualified businesses out there. If I have a business that needs below-market financing and obviously with higher interest rates, the value of that financing and the need of that financing is only rising, with inflation and with higher interest rates. If I'm a business out there in need of below-market NMTC financing, doing work at a distressed area or I'm planning to open a business or some type of development in a distressed area, what should I be doing now to attract the interest of CDEs that recently received awards? And maybe Rebecca, maybe you could address that question first.

[00:30:56] **Rebecca Darling, CPA:** Sure. So, I think the first thing, and you know, I get a lot of phone calls from potential borrowers. We talk about this a lot in our basics workshop that you mentioned at the top of the podcast, is these businesses, they need to be social butterflies. You need to make as many friends as you can because you don't know who is going to win an allocation and who won't. So, the first thing I say is be reaching out to those awardees that you've already connected with previously. Be checking in, congratulating them, seeing what their game plans are, if your potential investment is something that they've already got in their short list to use their allocation. I think that's important. But also, I think there's a lot of awardees out there that you may not have already talked to. So, I think it's helpful to be reaching out to others. You can be looking even on our website we show a lot of information so you can be looking to see what CDEs serve different areas. So, if a CDE serves your state, you can be talking to them, or if they serve the asset class that you talk about, I think that's really important because in reality, many transactions are closed with multiple CDEs. So everybody needs to be working together to get deals done.

I think another thing that's really important is to be honest as far as expectations of readiness. Don't tell CDEs you're shovel-ready if you're not shovel-ready because they're trying to plan up their deployment right now. And what you don't want to happen is get started on the process you're really not ready. They've got to move on. So, the conversations I've had with CDEs have really emphasized how much they appreciate that honesty because it helps them in their planning process. But I will also say this: their pipelines are very fluid. They are constantly moving and deals that they're planning on investing in may fall off. And that's a perfect opportunity for one of your investment opportunities to come in. So don't get discouraged if you weren't included in someone's application and think, "all right, well, all hope's lost, no one's going to want to talk to me." No, I see this changing constantly. I was on the phone with a client last week and they said, "Yeah, we had about 20 projects in our pipeline and now we've got about 100. We have a lot of friends right now." But what's true is they get to look at all these great opportunities and decide how they're going to deploy and how they're really going to serve their business strategy, how they're going to make sure that they continue to deploy to the best investments possible to continue to hopefully receive allocation going forward.

[00:33:40] **Michael J. Novogradac, CPA:** In this last go-round, there are probably more pipeline developments that now have bigger gaps than they have when you started the process. So, I would expect the pipelines to be even less predictable as compared to prior years. But what you note there, Rebecca, is that a lot of CDEs are very focused on getting transactions, loans and equity investments closed over the next six to 12 months and as you're noting it to the extent that the pipeline, so the pipeline investments are getting stretched out, they might create capacity for additional businesses to sneak into the existing pipeline. But let's say, and maybe I'll ask you this question, Brad. Let's say that I'm a business and I know that I'm not going to be able to close for 12 months, say, which seems like it's outside of the notion of approaching existing awardees to use their existing allocation. But with that said, what should I be doing now if I'm in that situation?

[00:34:45] **Brad Elphick, CPA:** Well, I think first you should be congratulating yourself for doing what Rebecca said in terms of being honest about what your expectations are.

[00:34:52] **Michael J. Novogradac, CPA:** Good point.

[00:34:53] **Brad Elphick, CPA:** Everyone thinks that they were ready to close yesterday, but I think that one of the things that we do sometimes is help with those expectations as we are reviewing some of the information. So, I think getting that together is important. A lot of the same recommendations that Rebecca had are similar for projects that may be, or businesses that may be looking to use future allocation. We know that the allocation cycle is about 14 months between awards and so that kind of fits that 12-month timeframe that you hope you are alluding to that business or a project may be looking to be able to utilize. So I think that having and developing those relationships with CDEs that will be submitting applications is key because the more attractive your project is, the more likely they are to not only include it in their application, future application, but also if they do get an award, actually make investments in that transaction, in that project.

And so I think having somewhat of a shotgun approach to the number of CDEs that you're talking to is probably helpful, because we don't know who's going to win next round. So having those kinds of relationships and managing expectations between now until the point that they do receive an award, I think is important because if something were to change where you were able to reconfigure your project and truly close soon, they may have projects in their existing pipeline that drop out.

And I think it's always important to know that just because you go talk to a CDE about their current allocation and they say, "No, it's not ready." Or, two, we've already committed it to other projects. That's usually a soft no, not a hard no. Because these changes and as we see, as you mentioned Mike, with the impact of inflation and interest rates, there may be gaps that some projects can't necessarily fill with their existing assumptions and may have to go back to the drawing board and get other sources, so that may give another project the opportunity to receive allocation. But this is a very relational industry and relationships are very important, not only with CDEs, but I think also with service providers such as Novogradac, attorneys, new market tax credit consultants and so forth. Because one of the things that I feel like helps a project get attention is that behind them they have the right people helping them put together the information. So, if you have someone, like us for example, that's helped put together a preliminary model for your forecast, for your projects using new market tax credit financing, it's much easier for a CDE to look at that and go, "OK, this one makes sense from a transaction perspective."

But then also the last thing I would recommend is being able to use the new market tax credit lingo. There's definitely some aspects to new market tax credit transactions that are important and primarily that comes down to community outcomes. And I always tell clients that the new market tax credit application gives you a little bit of a roadmap of what CDEs are expecting and from your project in terms of the types of outcomes. And if you can kind of develop that list using the same terminology, it just, I think, helps open a door a little bit further than if you weren't using the correct lingo and didn't understand that there's these community outcomes that have to be delivered for these investments. And, so I think that's just as important.

[00:38:40] **Michael J. Novogradac, CPA:** So, I'll also tweet out a link to a prior podcast that we did on how to attract a CDE, how qualified business can attract a CDE, which goes in little more detail as to what the community impacts can be in the community outcomes are projected as means of attracting CDEs.

But I did want to now talk about the next application round. As I noted earlier and as we've been discussing, this year's allocation awards came out on October 28th. And as a general matter, application rounds generally begin a few months after the next round comes a few months after the allocation awards announcement date. So, Brad, I was wondering if you could share your thoughts, since you've looked at this many times over the years and have done lots of analysis, what are your thoughts as the timing of the opening of the 2022 application round for new markets tax credits?

Expectations for the CY 2022 Applications

[00:39:41] **Brad Elphick, CPA:** That's a great question and you've asked me this before and I'm asked this many times throughout a year, and I wish I could say I've been able to nail it down every time. But there is some uncertainty in terms of the timing. But as you mentioned, typically there's about, historically, there's been just over two months between when awards are made and when the next application is opened, the next application round is opened. So, if we look at October 28th and we assume the same number of days between award announcements and application opening as the last round, then that would tell me that the next round will open December 31st. Now do I think that's likely? No. I would be very surprised if they opened it on December 31st. And so really, I look at it as two questions. Do I think it will be opened in 2022 or do I think that they will push it in the 2023? And when I look at that question, I also look at what that may be based upon historical data and what that could be if the CDFI Fund were to change the way that they allocate the remaining $20 billion of allocation that's been authorized through current legislation through 2025. And so using the historical kind of data, I would be surprised that they open it in late December unless there is a desire for whatever reason, optics, political, whatever it may be, that round be opened in 2022. I have a hard time believing that's a primary driver, but it is a potential factor in terms of opening the round in 2022. What I think is more likely is that the round would open in 2023, sometime January, February timeframe. So that, that would move us into a January, February first-quarter opening of the round, probably with a due date somewhere, April, May and then again, based on what the average time has been, would push the award announcements to the end of 2023, if not into 2024.

[00:41:52] **Michael J. Novogradac, CPA:** Yep. So thank you for that. I wasn't sure. OK. I'm sorry. I interrupted you. You want to continue?

[00:41:58] **Brad Elphick, CPA:** Yeah, I was just going to say, so that's one approach that the CDFI Fund could take. One, another approach that there has been ongoing discussion recently about is proposing to the CDFI Fund–this is something that the New Markets Tax Credit Working Group has been discussing–of taking the remaining four rounds that have been authorized and instead of staying on this 14-month schedule between awards, which is somewhat unsustainable, that they take the four rounds and combine them into three rounds and hopefully maintain the same amount of time to review applications and make award announcements. And if they were to take four rounds of $20 billion and combine it together into three rounds of, for example, $6.5, $6.5 and $7 billion, that's just one potential that would allow the CDFI Fund using the same kind of timing that we've been discussing to actually allocate the remaining $20 billion a year, almost a year earlier, or not more than a year earlier than if they stay on the current track.

And so, I think that there's a lot of reasons why that would be attractive to new market tax credit stakeholders, but also the low-income communities which would receive the investment sooner. And I think that's important. I think the industry has shown that they can support and handle that level of allocation. So that's another potential and I have, if the CDFI Fund were to decide that's what they want to do, I'm not sure if they would open the next round in January, February, or if they would delay it a little bit to put everything in place to do three rounds instead of four. So those are just some guesses. My thoughts on the timing, I don't know if Rebecca, if you have any others.

[00:43:39] **Michael J. Novogradac, CPA:** Well, actually before Rebecca weighs in, I just wanted to sort of weigh in that that's obviously very interesting and, based upon past practice, that's good information to share. A listener could end up hearing that and thinking, I have lots of time to work on my application, you know, March, April, maybe longer so I don't really don't need to worry about it right now. And I just, I see you shaking your head. I just would encourage CDEs, potential applicants that they start now because we don't know what the timeframe will be and the application is a relatively robust process and you're always running out of time. So don't take what Brad's saying as, "Oh, I have lots of time. I don't really need to think about this now.” You really need to be, again, now thinking about the next application round. Maybe I took some the wind out of your sails, Rebecca, because that's probably what you were going to say.

[00:44:40] **Rebecca Darling, CPA:** Well, what I was going to say is anyone that participates in new markets knows the rumor mill is strong. Leading up to the award announcement, there was every guess. Everybody had heard from somebody how it was going to be this date or that date and so forth. And I would say the same thing is true as we're leading to the next application round. I've heard everything from, "Oh, it's coming out in two weeks" to, "It's not coming out until next summer." Because everybody heard it from somebody of this is the plan. And so, I completely agree with you, Mike. I am having weekly or biweekly calls with many of my CDE clients and we're going ahead and starting the next application focusing on there are plenty of different things to be working on, updating that whether you do it right now, you do it later, you've got to do it anyways. So, let's go ahead and stay on track, keep things moving, while we have this uncertainty of when the next round will be.

[00:45:40] **Brad Elphick, CPA:** And I remind clients the same thing because their competitors are doing that already. And, I think sometimes we get asked the question, "Well, how do I work on the next application if the next application hasn't been made available yet?" And I think that has been the case over the last several rounds, that there are no material changes really expected in the next application. The CDFI Fund did have to put it out for public comment as standard practice that they typically do every three years or so. So, I think we have a pretty good idea of what the application will be and there haven't been many changes. So, I think that gives applicants a little bit of relief in terms of am I going to be working on things that are going to change once the application is released.

[00:46:28] **Michael J. Novogradac, CPA:** Good, good points. So, we've covered a lot during the course of this podcast and we can't discuss everything. So given that, I would like to suggest to CDEs, qualified businesses or anyone else who works with new market tax credits that I'd like to encourage you to join the New Market Tax Credit Working Group. That's really a useful way to stay current with respect to the new markets tax credit incentive. It meets monthly. But Brad, you lead the group. So, I wanted you to take a moment to share with our listeners the benefits of joining the New Markets Tax Credit Working Group.

[00:47:06] **Brad Elphick, CPA:** Yeah, I'm happy to. The New Markets Tax Credit Working Group has been around from the beginning and one of the goals of this working group is to create a group that can respond to changes in the new market tax credit industry, propose changes to make it even more effective and also provide our members with different benefits such as the different tools that we provide, each application round to the members.

But one of the, I think, biggest benefits is that it allows people within the industry who are obviously invested in new market tax credit program and want to see its longevity, it gives them a voice to just have those types of discussions and ultimately make it into comment letters or form discussions with members of the CDFI Fund or the IRS or other aspects, other parts of Treasury, members of Congress. And it really allows them to do that from behind this working group rather than each individual group having to do this. And so, it really creates some consistency in the messaging and, one of the things that we do is that we try to work from a consensus. So, it allows for great discussion about different technical topics and if there isn't consensus, we're not going to make a recommendation related to that issue. And I think that's just as important as to the recommendations that we do make. So, I'm more than happy to share more about the working group. If anyone would like to reach out, you can reach us online at NMTCworkinggroup.com.

And we will be meeting in person at our San Diego conference in January. We just met in New Orleans and we also have monthly calls. So, if anyone's interested in joining that, feel free to reach out to me.

[00:48:57] **Michael J. Novogradac, CPA:** Rebecca, your thoughts? You work a lot with the New Markets Tax Credit Working Group. What are your thoughts in terms of some of the other benefits?

[00:49:05] **Rebecca Darling, CPA:** I do and many of my clients are also members of the working group and I think some of the key things that they really find value in is number one, we have a lot of relationships with different members at the CDFI Fund. So sometimes there's a question whether it comes up during the application process or allocation agreement process or whatever it may be, and they don't want to reach out themselves to ask the question, but it's a widespread common question. So, we can reach out to the CDFI Fund on behalf of the working group and get some additional clarity and sometimes even help point out some different areas for consideration, which I think has been really beneficial. And Brad touched on this just briefly, but I think one of the things that many of our members really appreciate are all the application resources that we provide. We do full analysis of comparing the applications from current year to prior year. Brad and I have utilized our brain cells to know every change that has happened in the application, all these key takeaways, but to be honest, this application process is highly competitive. It's only getting more competitive, and so you have to know what bullet points changed, what there was one word added to this sentence, you've got to make sure you get that in there. So, it's important to make sure you're really focused on those. So, I know everybody really appreciates all the resources we put out throughout the year.

[00:50:32] **Michael J. Novogradac, CPA:** Those are good points, Rebecca. And you mentioned asking questions of the CDFI Fund and the rest. What I like about being a part of the working group and being on the email distribution list is when Brad or you send an answer to a question that I didn't know to ask. And then there's a question or something or an observation that you make that we're, all of us together, know much more than any one of us individually. And that's really, to me, a great benefit. And I know a lot of the attorneys that are members of the group are the same way. They look at it and they're expert. They know a lot about the incentive and the rest, but every call there's something or two or three or four things that they learn or reminded of that's really additive to their practices. But, enough about that. That's a lot of information. I wasn't sure, Rebecca and Brad, if you had any closing comments.

[00:51:32] **Rebecca Darling, CPA:** I think I, to your point, we could probably talk all day about the application and our takeaways and so forth but I would say Brad and I are here. We see a lot of applications. We work with a lot of different clients. So, wherever you are, whether you are a successful CDE or unsuccessful, you know, we're here with ideas and suggestions to help strengthen your application going forward. So, we'd be happy to talk further.

Exit

[00:52:01] **Michael J. Novogradac, CPA:** And then obviously, to the extent that you are in the process of trying to close a transaction, need financial modeling and all the rest, or audit and tax services and all the rest, we're here to help. So I will provide links into the show in the show notes today to the CDFI Fund's award book. It's very interesting reading. I'll also provide a link to the New Markets Tax Credit Working Group in the event that you want to join the group or learn more about the group or you want to get Brad's analysis of the awards. I'll also share a link to the January conference in San Diego. That's both the Thursday, Friday full sessions as well as the basics workshop on the Wednesday before. And of course, many of our listeners right now are CDEs or businesses or others that probably going to want to reach out to Brad and Rebecca. So, I'll provide their email addresses in the show notes as well. And let me say to you, Brad, let me say to you, Rebecca, thank you for joining me in the podcast. Please do stick around a few minutes because I want to get to our Off-Mike segment where I'll ask you some questions that are totally unrelated to the new markets tax credit or at least maybe you'll find a way to link it back, but it's focused on getting some of your wisdom outside of new market tax credits.

And then to our listeners, today's podcast coincides with Election Day. If you're still listening to this podcast, I should say, on the day it's posted and the polls are still open, please be sure to vote. Today's national elections will have a significant effect, significant impact on the possibility of federal community development tax incentive legislation making its way through the coming lame duck session of Congress, as well as passing community development tax incentive legislation over the next two years.

And to that end, please be sure to tune into next week's Tax Credit Tuesday. I'll be discussing the results of this week's midterm elections with Peter Lawrence. Now Peter, as you know, has been a guest on prior podcasts. He's Novogradac's director of public policy. Peter and I will discuss what we know and what we don't know based on the election results. And when I talk about what we know and don't know, I'm not even sure how much of the election results we're going to know because there could be a runoff in Georgia, there could be additional vote counting going on in California for three or four more weeks that could affect the ultimate control of the Congress, both the Senate and the House. And if you're not quite sure what I'm just referencing there, that's all the more reason to listen to the podcast, because in addition to discussing election results, what we know about election results at the time, we'll also discuss what to expect during the upcoming lame duck session of Congress as well as for the next two years. And this is across all types of community development tax incentives. Peter will be able to provide insight into what the effect of all of this can have as we're looking forward and also discuss what advocates can be doing now to try to influence the outcome.

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Off-Mike

Now I'm pleased to reach our Off-Mike section, where listeners get to know more about our podcast guests when I get to ask them questions unrelated to the topic of the podcast. And I'm going to start with Brad. So, Brad, what's your best time-management tip? Or what's one of your–I know you have many bests–so give me a good or strong time-management tip.

[00:56:05] **Brad Elphick, CPA:** Mike, I'm sorry. I'm out of time. I don't know if I can really respond to this answer.

[00:56:11] **Michael J. Novogradac, CPA:** You're saying we didn't time well in the podcast.

[00:56:14] **Brad Elphick, CPA:** That's right. Time management's always something that I try to look at and work on. Not always successful, you know, I think we all struggle with it a little bit, but I admit that my Outlook calendar is a huge way for me to manage my time. I tend to work better when I put things on my calendar and what I've tried to do more recently is block off time not just have obviously fill, try to fill my time with meetings and client calls and such, but also just a block off time for not only work, but also later in the day. It's a lot of times, you could keep going, but you have other responsibilities, and I think it's just as important to block off some of that time for personal reasons as well. I've realized obviously, over the last couple years the importance of prioritizing my time with those that are important to me. I've got two high schoolers that are athletes and so they take a lot of my time after work, which I love going to cheer them on but just trying to make sure that I have a good management of not only my work time for my clients, but also the other work that has to get done, but also for my family.

[00:57:30] **Michael J. Novogradac, CPA:** OK. Rebecca, what about you?

[00:57:33] **Rebecca Darling, CPA** I agree. I use Outlook constantly to help manage my time. Also setting goals as far as timeframe. If you're looking at the new markets application, that is not something that you can just kind of knock out the week before and be done. So, I'm working with my clients. I like to take a large project and break it up into smaller bite-sized pieces that seem less overwhelming and so we'll look out at the calendar and kind of plan accordingly. But I think what's really important to remember that I plan on myself all the time is there will be a delay, there will be a problem, someone will have a computer problem, you will review an application and find something that needs to get changed. And so, I always try to build in extra time. And so the phrase I like to use all the time is under-promise and overdeliver. Have those goals because those goals are helpful on staying on track but know that you've got to plan ahead. And as an example, you know, last round the applications were due on Thursday and I had multiple clients submitting on Monday and Tuesday because I had been so bossy and organized and hey, we've got to manage our time, we have to plan, something will go wrong in that last week. And then if it didn't, they were like, well, we're just going to be done. But yeah, I think what's really important is breaking out and utilizing my tools. So I use Smartsheet, I use OneNote, I use Outlook. I've got to use all of these tools together to stay focused.

[00:59:05] **Michael J. Novogradac, CPA:** So what are some of the tools? You said them quickly.

[00:59:08] **Rebecca Darling, CPA:** Yeah, so OneNote is something that's on Office 365, and it's a great way to keep track of notes, reminders, because the biggest lie I tell to myself is I'll remember to do that. Nope, I've got to write it down or it doesn't happen. Another tool that we use is Smartsheet, which is essentially an online version of Excel. And so, I use that on multiple different types of engagements, whether it's managing my audit and tax practice with clients and open items and things like that, or managing the application process with clients. So, I use a lot of different tools, try to be I'm typically not the best with technology, but technology is my friend. So, I love when folks give me additional ways to utilize those tools to make them even more effective.

[00:59:59] **Michael J. Novogradac, CPA:** So, I am a big fan of OneNote. So I'm glad that you, are a fan as well and it really is nice. Because you know, we at Novogradac use Outlook and we use the Microsoft suite of products, surprise, surprise, as most businesses do. But the ability to incorporate OneNote with Outlook really allows me to be a zero email inbox person because a combination of Outlook, OneNote and the task function allows you to be filing away, not using your inbox as a file box and then create tasks all with just a few clicks.

And I found it's pretty good when I'm at the desktop. It's not so useful on the phone. I shouldn't say it's useful, but it's not as easy. I find within Outlook itself, you can just a few clicks and you can get a lot accomplished in terms of using your time and setting something, like I said, creating a reminder note, filing it a way, so on and so forth, versus having to struggle through my inbox that gets to be overwhelmed, so I appreciated that. And then Smartsheet is a good tool as well. And Brad, if you had any thoughts on OneNote or Smartsheet.

[01:01:20] **Brad Elphick, CPA:** Yeah, I've started using OneNote more. I don't think I've become as proficient at it as you may be, but I have found it, especially on my iPad, I have found that it's very useful in being able to access my notes there or in Outlook, but also just creating, instead of having to carry around a legal pad with all of my notes on it, I can access them anywhere, desktop, laptop, iPad, phone, and I've found that to be tremendously helpful.

[01:01:51] **Michael J. Novogradac, CPA:** That's a really good point about the OneNote on the iPad, because I do that as well. And, you know, at conferences and the rest when you see me up on the stage and I've got my iPad, I have all my notes and such and as I take additional notes, it's obviously instantly available now on my laptop in the rest. So, it's great way of sharing the information in that organized way.

[01:02:15] **Brad Elphick, CPA:** And you can use the Apple pencil in OneNote. So, it's easy. If you don't want to try to type something, you can just write it all out and those notes show up when you get back to the office. And it's been really helpful.

[01:02:26] **Michael J. Novogradac, CPA:** Great. Thank you for that. And thank you again, Brad. Thank you again, Rebecca. And once again, to our listeners, that's Brad Elphick and Rebecca Darling, partners in Novogradac's Atlanta office. Thank you for listening and I look forward to speaking with you again next week. Bye now.

Additional Resources

Awards Book

CDFI Fund Awards Book for CY 2021 Allocation Awards

Email

Rebecca Darling

Brad Elphick

Previous Podcast

Sept. 6, 2022: How Qualified Active Low-Income Community Businesses Can Attract NMTC Financing

Conference

Novogradac 23rd Annual New Markets Tax Credit Conference

Working Group

New Markets Tax Credit Working Group