

# Economic Development Association of Alabama



2013 Winter Conference

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## An Introduction to the New Markets Tax Credit Program

# Agenda

- Introductions
- NMTC Benefits
- Federal NMTC Program
- Alabama New Markets Development Program
- Federal vs. Alabama Program comparison
- Project qualification
- Examples of NMTC financed projects
- Summary

# Introduction

## Linda Swann

As the Assistant Secretary of the Alabama Department of Commerce, Ms. Swann is a veteran economic developer who has been actively involved in some of the most successful economic development efforts in Alabama's history. Ms. Swann and the Department of Commerce will be responsible for administering the New Markets Development Program.



## Beau Byrd

Mr. Byrd is a Partner in the Birmingham office of Bradley Arant Boult Cummings, LLP (BABC). He has extensive experience representing developers, owners, and financial institutions in a wide variety of commercial real estate transactions, including New Markets Tax Credits, Senior Housing, Retail, Office, and Multi-Family. Mr. Byrd and BABC will provide counsel to the various participants in a New Markets Tax Credit transaction.



## Steven LeBlanc

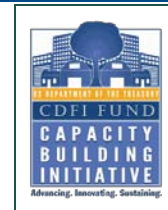
Mr. LeBlanc is an Assistant Vice President in Stonehenge's Columbus, OH office. He is engaged in the Firm's New Markets Tax Credit program operations with a primary focus on the origination and underwriting of junior capital investments with an emphasis on both state and federal New Market Tax Credit transactions. Mr. LeBlanc is actively pursuing investment opportunities in Alabama.



# Why New Markets Tax Credits?

- The New Markets Tax Credit (NMTC) Program is an alternative financing complement to conventional capital sources
- NMTCs are a tool that can be used to assist in the financing of projects that have a total project cost of \$5-\$100 million
- NMTC financing typically provides a 7 year, below market interest only loan that is approximately 15% - 20% of the allocation amount
  - A \$10 million project that utilized a \$10 million allocation can anticipate approximately \$2 million in subsidized financing
- Attract and retain businesses to the state of Alabama
- Encourage expansion

# Federal New Markets Tax Credit Program



- The New Markets Tax Credit (NMTC) Program was established with support from a bi-partisan Congress in 2000
- The NMTC Program is administered by the CDFI Fund, a department of the U.S. Treasury
- Program objective – attract private sector investment to spur economic growth in low-income communities that have traditionally had inadequate access to capital due to the *perceived* greater risk
- Congress has reauthorized the NMTC Program multiple times, allowing for a total of \$33 billion of qualified investment activity

# Federal New Markets Tax Credit Program



- A Certified Community Development Entity (CDE) submits an application to the CDFI Fund through a competitive process on an annual basis
- Corporate or individual taxpayers receive a 39% tax credit over 7 years for an equity investment in a CDE
- The CDE will then invest the capital into qualified real estate projects and businesses that satisfy a strategy outlined in the application
- The Taxpayer Relief Act of 2012 included an extension of the NMTC Program for 2012 and 2013

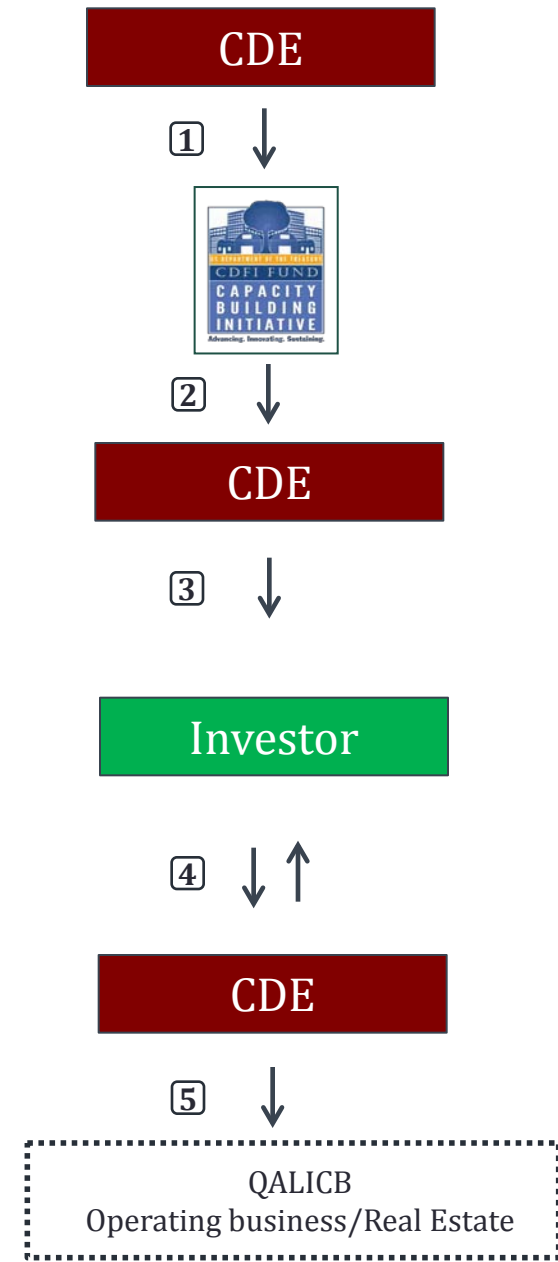


# Common Federal NMTC transaction characteristics

- Range - \$5 to \$100 million
- Crowd control – larger projects with greater NMTC allocation needs will increase the number of CDEs
- Optimal project size - \$10 - \$15 million
- A CDE will rarely commit an allocation greater than \$20 million
- 7 year compliance period
- Flexible financing terms

# Federal New Markets Tax Credit Program

1. A CDE submits an application to the CDFI fund to be considered for an allocation of NMTCs
2. After a competitive review of applications, the CDFI Fund awards an allocation of NMTCs to a CDE. The CDE works with various partners to identify operating businesses and real estate projects that are in need of investment
3. Once the project has been qualified and all documentation prepared, an investor will make an equity investment into the CDE
4. In exchange for the investment, the CDE provides the investor with tax credit authority equal to 39% of the investment
5. The CDE traditionally provides a loan to the qualified business





# Alabama New Markets Development Program



- Signed into law by Governor Robert Bentley on May 16, 2012
- Alabama Department of Commerce Promulgated Emergency Rule on August 24, 2012
- Allocation Awards were announced on October 23, 2012 to nine (9) different certified CDEs
- Program is administered by the Alabama Department of Commerce
- \$20,000,000 of Tax Credits Available Annually

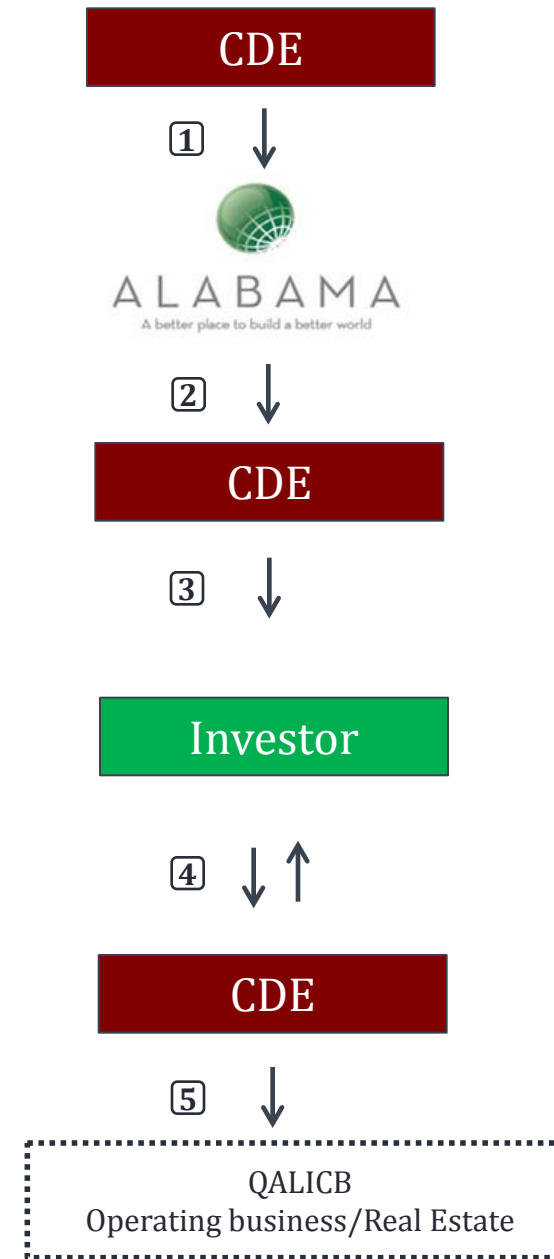
**Will support approximately \$240,000,000 of investment in the next 12 months!**

## Common State NMTC transaction characteristics

- Range - \$5 to \$100 million
- Crowd control – larger projects with greater NMTC allocation needs will increase the number of CDEs
- Optimal project size - \$5 - \$10 million
- 7 year compliance period
- Flexible financing terms

# Alabama New Markets Tax Development Program

1. CDEs submitted an application to the Alabama Department of Commerce to be considered for an allocation of NMTCs
2. The Alabama Department of Commerce awarded an allocation of NMTCs to 9 CDEs. The CDEs are currently working to identify operating businesses and real estate projects that are in need of investment
3. Once the project has been qualified and all documentation prepared, an investor will make an equity investment into the CDE
4. In exchange for the investment, the CDE provides the investor with tax credit authority equal to 50% of the investment
5. The CDE has 12 months to make an investment in the qualified business



# Program Comparison



Vs.



	Alabama	Federal
Years in existence	3 Months	11 Years
Total allocation	\$240 million	\$33 billion
Transaction CAP limits	\$10 million	No Cap
Credit to investors	50%	39%
Credit claimed	Y 1: 0%, Y 2-7: 8.33%	Y 1-3: 5%, Y 4-7: 6%
Governance	AL Dept. of Commerce	CDFI Fund
Intended uses	Real Estate/Operating Businesses	Real Estate/Operating Businesses
Deployment Schedule	12 months	5 years

## Project qualification - location



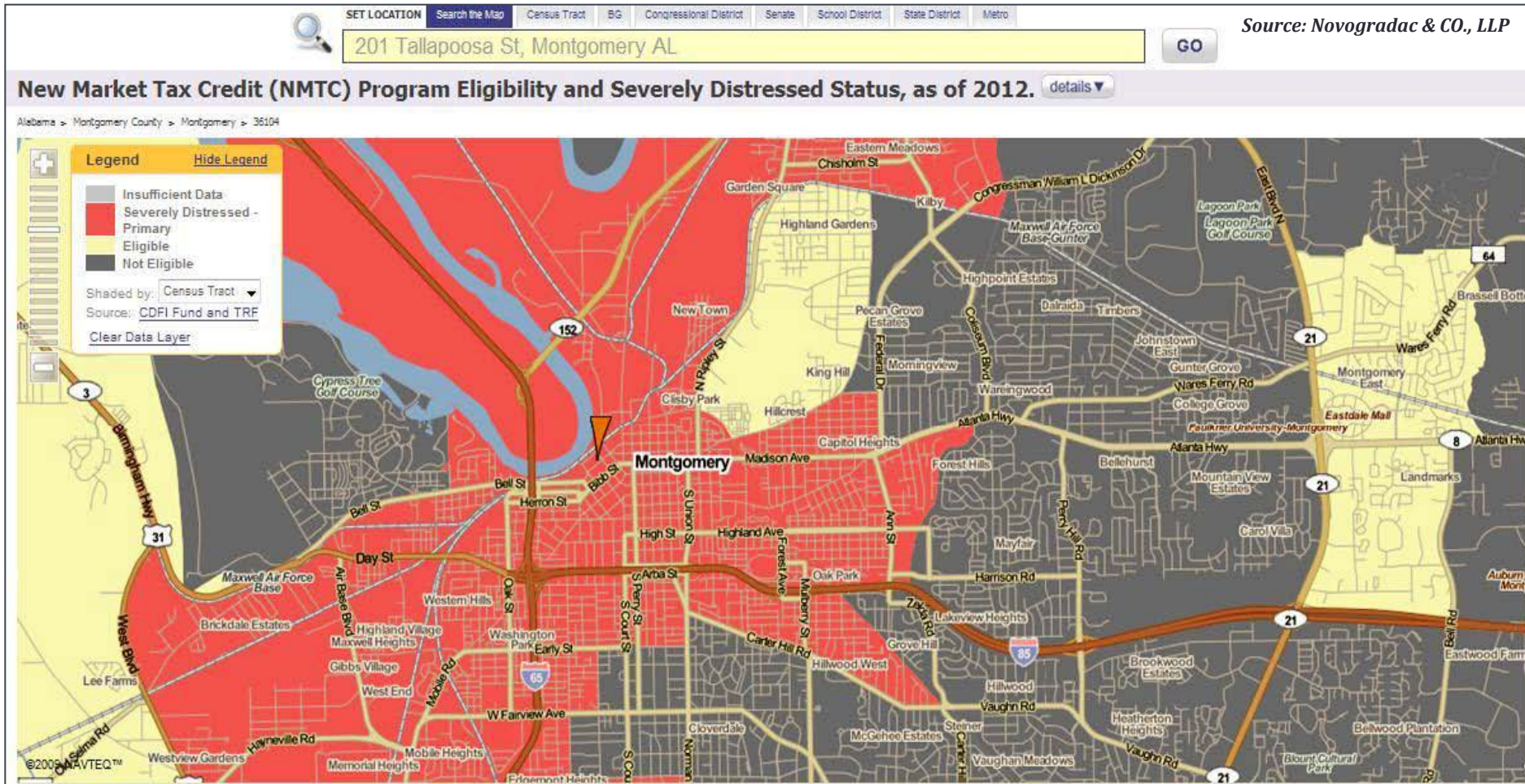
**Project location** – must be located in a qualified census tract that meets the determination of a low income community (LIC) as per the 2000 or 2006-2010 American Community Survey data

- LIC - Census tract where the poverty rate exceeds 20% or the family median income is below 80% of the statewide family income
- There must be a “reasonable expectation” that the company will continue to be located in a LIC for the term of the loan

# Project qualification - location



➤ Approximately 39% of all census tracts in the U.S. are eligible; about 36% of the US population lives in eligible census tracts



**Project location qualification should be discussed with a CDE or NMTC Advisor**

## Project qualification - location

- The table below captures the number of eligible census tracts in Alabama's most populous counties

	Total CTs	Not Qualified	Qualified	% Qualified
Jefferson	163	90	73	45%
Montgomery	65	35	30	46%
Mobile	115	57	58	50%
Madison	73	45	28	38%
Tuscaloosa	47	25	22	47%
Shelby	48	43	5	10%
Houston	22	14	8	36%
Morgan	27	19	8	30%
Lee	27	13	14	52%
Lauderdale	22	13	9	41%

*Source: 2006 - 2010 American Community Survey Data*

# Project qualification – project type



Qualified Active Low Income Community Businesses or QALICB – official term used to define the borrower in a NMTC financing

- Almost any active business or nonprofit located in a LIC
- Development of commercial, industrial and retail real estate projects (including community facilities)



# Project qualification - project type



## Ineligible Activities

- Non Qualified Businesses
  - Golf courses
  - Race tracks
  - Gambling facilities
  - Massage parlors/suntan facilities
  - Stores where the principal business is the sale of alcoholic beverages
  - Development of or holding of intangibles for sale or license
  
- Certain Farming Activities
  
- Residential rental property
  - Buildings which derive 80% or more of income from residential dwelling units

# Project types



- Federal NMTC Projects in AL
  - Wholesale parts distributorship
  - New Headquarters for company
  - Dog Food Plant
  - Sawmill
- Different Types of NMTC Projects
  - Office
  - Retail/Office
  - Mixed with Housing 20-80 Requirement
  - Entertainment/Theater/Museums
  - Grocery Store
  - Hotel
  - Non-profit organizations
  - Industrial
  - Manufacturing
  - Operating Business
  - Renewable energy
  - Health care

# Stonehenge NMTC projects

## The Nussbaum Center for Entrepreneurship

- **Location** – Greensboro, NC
  - **Project size** – \$11.5 million
  - **NMTC Allocation** - \$11.5 million, provided by Stonehenge only
  - **Investor** – Wells Fargo
  - **Closed** – 12/2/2011
- ❖ The Nussbaum Center is a business incubator that supports non-retail, new or emerging businesses
  - ❖ The NMTC financing supported the acquisition and renovation of a blighted building
  - ❖ Conventional financing was not available due to limited operating cash flow and inability to meet traditional credit considerations



Sources and Uses Summary

Sources		Uses	
Sponsor Loan	\$ 7,300,000	Land and Building	\$ 5,700,000
City Loan	\$ 1,275,000	Construction "Hard" Costs	\$ 2,246,000
Foundation Gifts	\$ 204,000	Contractor and Developer Fees	\$ 1,155,000
NMTC Equity	\$ 2,721,000	Soft Costs	\$ 2,399,000
<b>TOTAL</b>	<b>\$11,500,000</b>	<b>TOTAL</b>	<b>\$11,500,000</b>

### Benefits –

- Did not have to complete a capital campaign
- Longer than standard amortization
- Below market interest rates
- More lenient credit standards
- NMTC debt to be acquired through put/call

# Stonehenge NMTC projects

## University Plaza

- **Location** – Miami, FL
- **Project size** – \$25 million
- **NMTC Allocation** – 2 CDEs
  - Stonehenge - \$5mm federal/\$5mm state
  - TD CDC - \$19 million
- **Investor** – TD Bank and U.S. Bancorp CDC
- **Closed** – 8/24/2011



- ❖ University Plaza will be a 148-bed skilled nursing facility that will be a cornerstone of an Aging-in-Place Campus
- ❖ The NMTC financing supported the acquisition of land and construction of the facility
- ❖ As a result of the economic downturn, the project sponsors were unable to attract sufficient traditional financing to complete the project

Sources and Uses Summary			
Sources		Uses	
Leveraged Loan 1	\$ 13,706,178	Land/Construction	\$ 6,650,000
TD Federal NMTCs	\$ 4,204,700	Skilled Nursing Facility Building	\$ 12,177,974
Leverage Loan 2	\$ 3,871,780	Furniture, Fixtures, and Equipment	\$ 2,144,422
SCD Federal NMTCs	\$ 1,165,000	Contingency (5% of hard costs)	\$ 716,120
SCD State NMTCs	\$ 825,000	Soft Costs	\$ 1,971,885
Additional Equity	\$ 1,227,342	Contingency (3% of soft costs)	\$ 58,162
		Debt Service Reserve	\$ 1,281,437
<b>TOTAL</b>	<b>\$ 25,000,000</b>	<b>TOTAL</b>	<b>\$25,000,000</b>

## Benefits –

- Started construction in 2011
- Longer than standard amortization
- Below market interest rates
- More lenient credit standards
- NMTC debt to be acquired through put/call

# Stonehenge NMTC projects

## Solar Sink

- **Location** – Tallahassee, FL
- **Project size** – \$16 million
- **NMTC Allocation** – 2 CDEs
  - Stonehenge - \$10 million FL state NMTC allocation
  - FL Community Loan Fund - \$1 million
- **Investor** –U.S. Bancorp CDC
- **Closed** – 1/13/2011



- ❖ Solar Sink will manufacture heat sinks to be used in solar arrays
- ❖ The NMTC financing supported the acquisition of land and equipment necessary to manufacture heat sinks
- ❖ Solar Sink is a start up organization with a new technology and was unable to secure financing through conventional methods

### Sources and Uses Summary

Sources		Uses	
Sponsor Loan	\$ 7,541,000	Land	\$ 1,889,972
Federal NMTC Equity	\$ 1,950,000	Solar Panel Purchase and Installation	\$ 13,450,000
State NMTC Equity	\$ 1,869,000	Soft Costs	\$ 660,028
Equity	\$ 605,000		
1603 Grant Proceeds	\$ 4,035,000		
<b>TOTAL</b>	<b>\$ 16,000,000</b>	<b>TOTAL</b>	<b>\$ 16,000,000</b>

### Benefits –

- Longer than standard amortization
- Below market interest rates
- More lenient credit standards
- NMTC debt to be acquired through put/call

# Stonehenge NMTC projects

## Martco Plywood

- **Location** – Chopin, LA
  - **Project size** – \$90 million
  - **NMTC Allocation** – \$18.75 million, provided by Stonehenge
  - **Investor** – Capital One
  - **Closed** – 10/1/2006
- ❖ Martco Plywood manufactures plywood that is sold across the country and exported around the world
  - ❖ The NMTC financing supported the purchase of machinery and a plant to satisfy product demand
  - ❖ The project sponsors were unable to attract sufficient capital to purchase equipment associated with home construction



Sources and Uses Summary			
Sources		Uses	
Equity	\$ 70,250,000	Equipment	\$ 59,527,000
Leverage Loan	\$ 12,750,000	Indirect Costs	\$ 16,843,000
Federal NMTC Equity	\$ 6,000,000	Building	\$ 8,081,000
CDBG Grant	\$ 1,000,000	Improvements	\$ 5,549,000
<b>TOTAL</b>	<b>\$ 90,000,000</b>	<b>TOTAL</b>	<b>\$ 90,000,000</b>

### Benefits –

- Flexible terms provided to prevent relocation to Texas
- Longer than standard amortization
- Below market interest rates
- More lenient credit standards
- NMTC debt to be acquired through put/call

# Summary

- NMTC financing can fill a gap in project's capital stack
- Flexible financing terms
- NMTCs can be used to create jobs, encourage expansion, and attract and retain businesses in the state of Alabama
- The project must be located in a qualified census tract
- Used by for-profit and non-profit organizations
- 12 months to identify and close transactions

# Questions?



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