

NEW MARKET TAX CREDIT (NMTC) OVERVIEW

BRIGHTBRIDGE
CAPITAL

Capital Resources for Business

CELEBRATING
40
YEARS

What We Do

- Non Profit
- CDFI
- Commercial Lender
 - SBA 504 Lender

Allocations

- **NMTC project consulting**
 - \$88 million of non-RGC allocation placed
 - Into project size of \$182 million
 - 322 thousand square feet real estate





CDE

- Makes loans to businesses primarily in the Southeast
- We focus on:
 - Quality job creation and retention
 - Job training

Allocations

\$132 million awarded in NMTC allocations, which funded:

- 4,060 permanent jobs
- 914 temporary jobs
- 1.5 million square feet of real estate

New Markets Tax Credit (NMTC) – Brief Facts

- Administered by Treasury Dept. – CDFI division
- Program objective – attract private investment that will facilitate economic and community development in low-income communities
- Entities certified by the Treasury Dept as a CDE (community development entity)
- Can apply for and be awarded a NMTC allocation by the CDFI fund

NMTC TAKEAWAY

Gap filler/Last part of
capital stack
15% - 18% of allocation

Geographic location
requirement

Limited Amount each
year/competitive

CDEs always looking
for good projects!!!!

Many
rules/requirements

- Don't need to know them
- Industry experts help –
attys/accts/consultants

NATUREPLEX PHARMACEUTICALS

- Victor Sanchez, owner, President
- Expansion into Memphis, from MS
- Used River Gorge Capital NMTC's in capital stack

CDEs

- Mission is to provide investment capital in LICs

Can be affiliates of
Non profits
Banks
Govt entities

Evaluate the projects
for LIC Impact

Responsible for
compliance and
reporting

Nuts and Bolts

- How does the program work?

*****Limited supply*****

A **competitive** annual application, Community Development Entities, (CDEs) are awarded NMTC allocation authority from the CDFI Fund (US Treasury)

CDEs attract investors to buy federal tax credits

The proceeds raised must be used to loan to or invest in qualified businesses or real estate developments
CDEs select project

New Market tax Credit (NMTC) major points

Flexible financing tool – uses and project type

Tax credit doesn't go to qualifying project

Provide method for CDE to raise \$

\$ loaned to qualifying businesses CDE chooses

Borrower must be in low income census tract (LIC)

* Loans made by CDE *

Common loan terms/structure

Low
interest
rate

non
amortizing
for 7 years

Convertible
feature

Equals
approx.
20% of
Allocation

Paired with
other
funding

- Equity
- Debt
- **Incentives**

Project Benefit

- 
- Capital to fund project
 - Cash comes in on front end of project

- Low cost capital
- Flexible loan terms, including longer amortization

- Potential debt conversion/ “forgiveness”

Qualifying Business - “QALICB”

Geographic restrictions

- Business located in a Low-Income Community

Technical requirements

- Project/business must stay qualifying for the entire compliance/tax credit period – 7 years

Non -Qualifying Businesses

- Ineligible activities

Residential rental property

- Mixed use is permitted so long as over 20% of the rental income is derived from commercial tenants

Straight acquisition or refinance of rental property

- must have “substantial rehab” or be owner occupied

Certain businesses

- Race tracks & gambling facilities
- Golf courses & country clubs
- Liquor Stores
- Farming
- Massage & tanning businesses
- Undeveloped land holding

PROJECT NMTC CHECKLIST

-  Project is located in a designated low income community
-  Business is not engaged in or leasing to a “sin” business
-  Project creates tangible community and economic outcomes
-  Project meets \$6 million threshold and has eligible costs \geq allocation

Project Selection

CDE's

Establish their own criteria for selecting businesses to fund – criteria might be

- High distress
- Jobs, good & services
- environmental sustainability

Evaluate them for community impact - including;

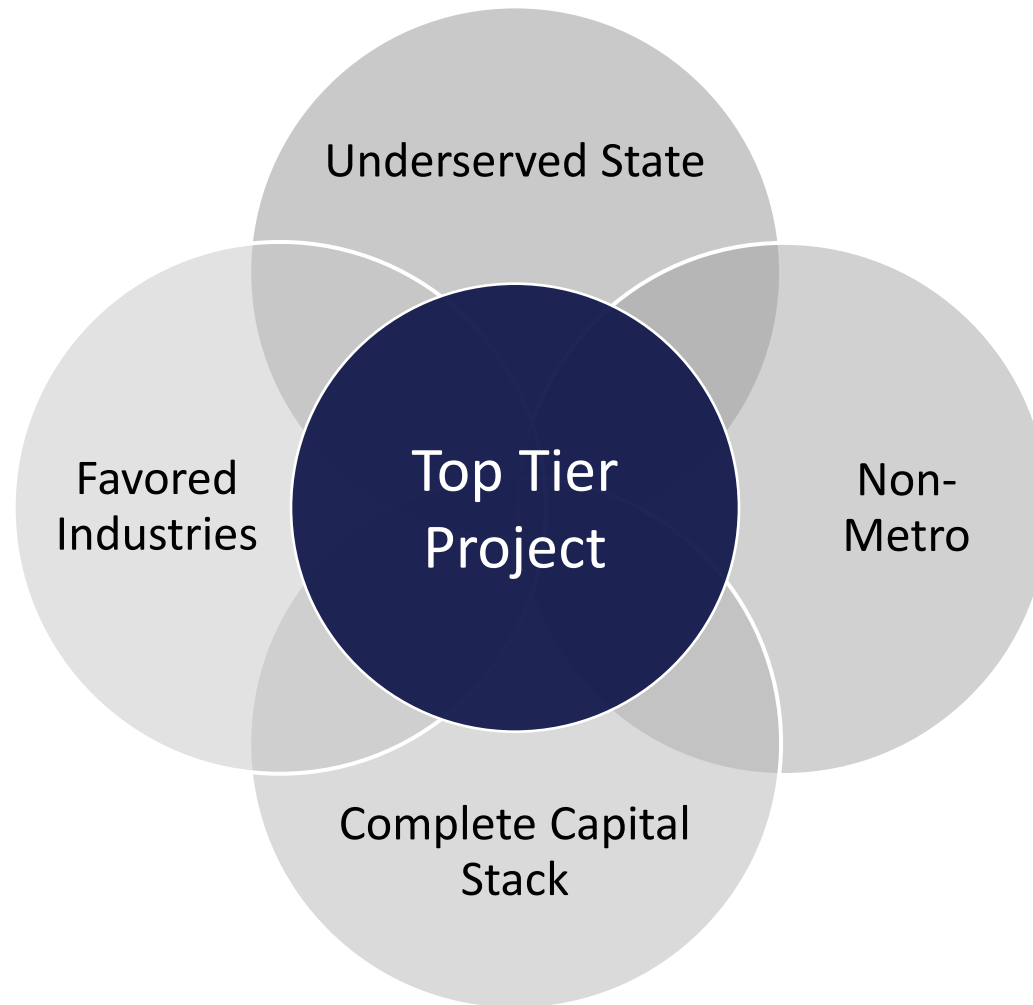
- Does it meet a need
- Part of a community development plan
- Is it “catalytic”
- Is it supported by the community

Make final decision on which project to fund

What makes a good Project candidate?

- Located in a “highly distressed” census tract – any one of the following:
 - Poverty > 30%
 - Median Income < 60% of statewide
 - Unemployment > 1.5 times national average
 - Non-metropolitan county
 - brownfield areas, medically underserved areas, food deserts, FEMA disaster areas, ARC distressed
- **Community impact**
 - Measurable Tangible community benefit –
 - job creation
 - Providing unmet goods & services to low-income communities (grocery stores, health care)
 - environmentally sustainable construction, etc.
 - Part of an existing plan for economic revitalization
 - Catalytic impact and ability to spur additional private investment
 - Has community support
- **Underserved State**
- “But for” test – NMTC fills a real funding gap and project would not have sufficient capital to move forward
- Timing - Ready to go
 - Has an NMTC consultant assist with project preparation
 - Other sources of funding are committed
 - Approvals all in place

Potential Great NMTC Project



Summary

CDE's Responsibility		
Apply for credits	Find investor – “user” of tax credits, to generate capital	Pick the project to fund

Project		
Locate in qualifying area	Provide measurable community impact	Stay qualifying for 7 year compliance period

Critical distinction

Unlike other tax credit programs, the NMTC does not “belong to” the qualified borrower. It was awarded to the CDE, to be monetized, with the proceeds invested in (or loaned to) a business that qualifies for the subsidy.

ALLOCATION



CASH

NMTC Life Cycle

Beginning

- CDE Commits allocation to a project
- Investor monetizes tax credits
- Investment Fund LLC is funded to equal allocation amount
- Investment Fund invests in CDE

Project Funding

- CDE makes loan to project

7 year compliance period

- Project makes interest only loan payments
- CDE makes distributions to Investment Fund
- Investment Fund LLC services leveraged debt

End of compliance period

At end of tax credit compliance period tax credit loan is bought by project sponsor
CDE and Investment Fund LLC structure “go away”

Example Project Assumptions

- Total project size \$15mm
- Project locates \$10mm NMTC allocation
- Investor pays \$0.75 for tax credits

Source of \$10mm = Allocation Amount



Monetizing the tax credit

NMTC Allocation	\$10,000,000
NMTC Rate	39%
Tax Credits	<u>\$3,900,000</u>
Investor Monetization (estimated \$0.75 per credit example)	\$2,925,000
(Less) Transaction costs	<u>(\$1,000,000)</u>
Estimated Net NMTC Cash to the Project (19% of allocation)	\$1,925,000

Leverage Loan

Total NMTC allocation	\$10,000,000
Net NMTC Equity	- <u>\$ 2,925,000</u>
Leverage needed	\$ 7,075,000

Investment Fund LLC

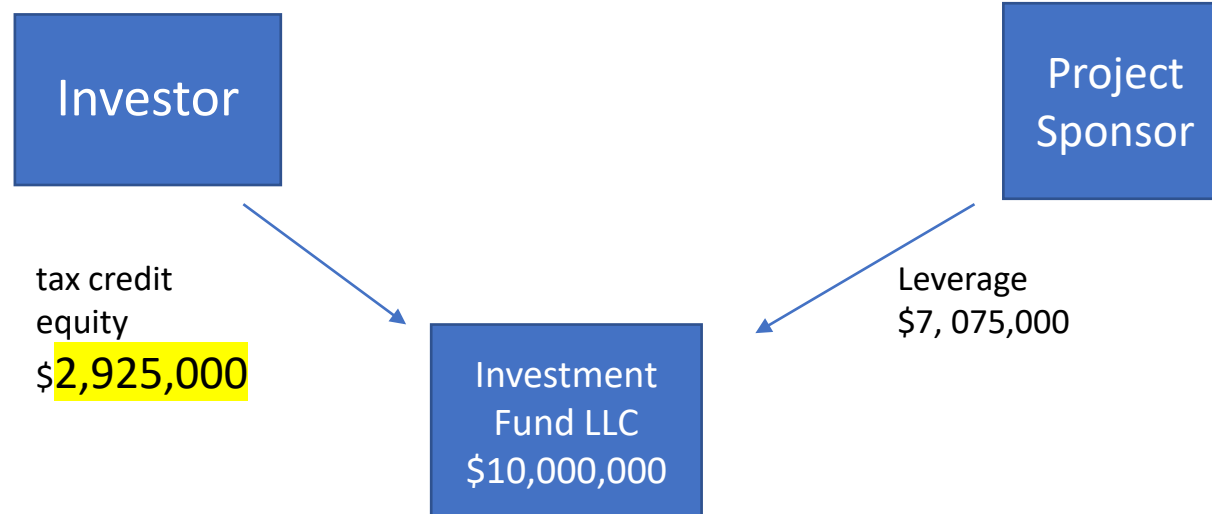
Source of Funds

Tax credit equity provided - \$2,925,000

Project sponsor provides other funding sources (leverage)

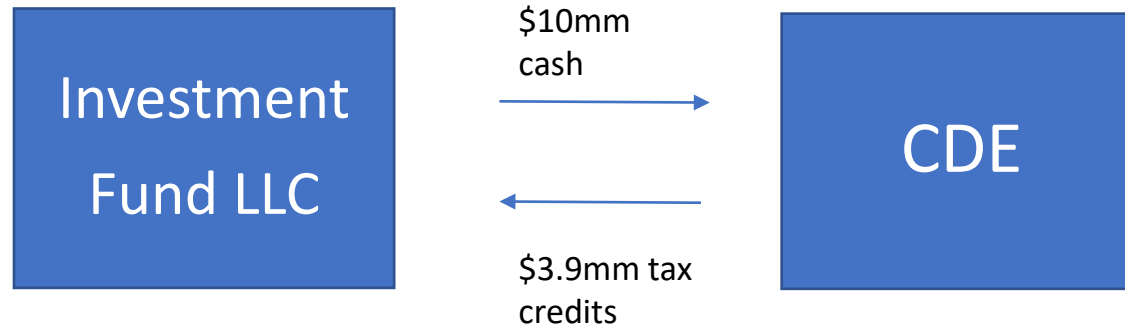
debt \$5,075,000

equity \$2,000,000



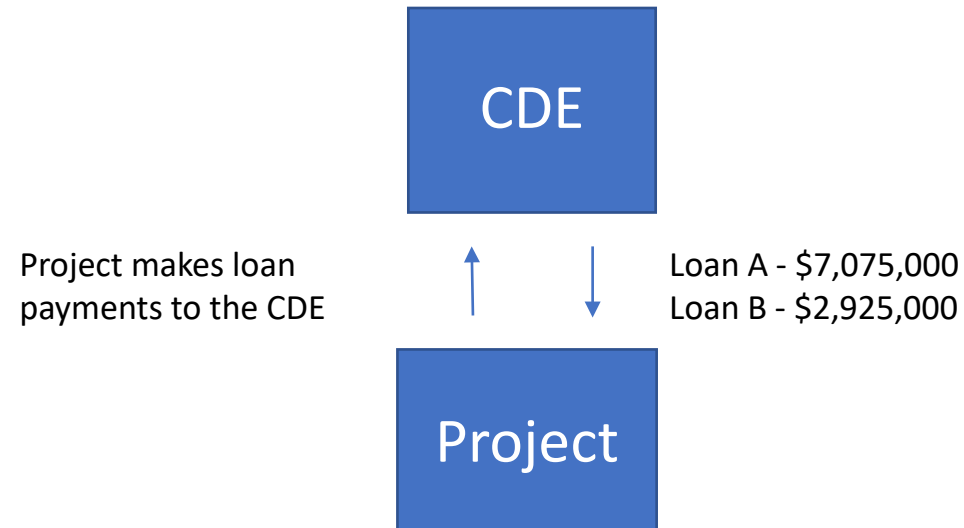
Investment into CDE

Investment Fund LLC makes Investment in the CDE, equal to the NMTC allocation. In return, the Investment Fund LLC gets to take 39% tax credit on the allocation amount over the next 7 years



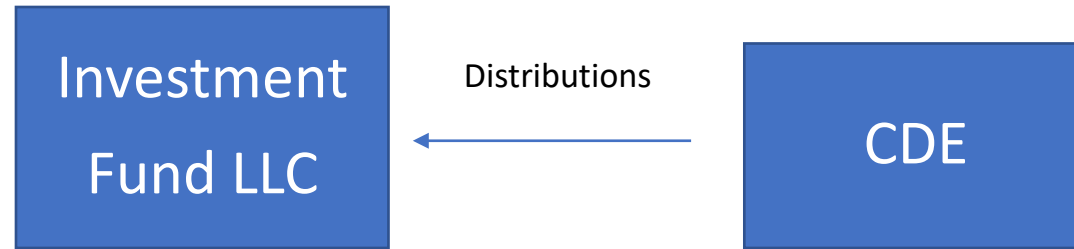
CDE loans to Project

- CDE makes loans to the project that mirror the investment sources
- Project makes loan payments to the CDE – for the 7-year compliance period



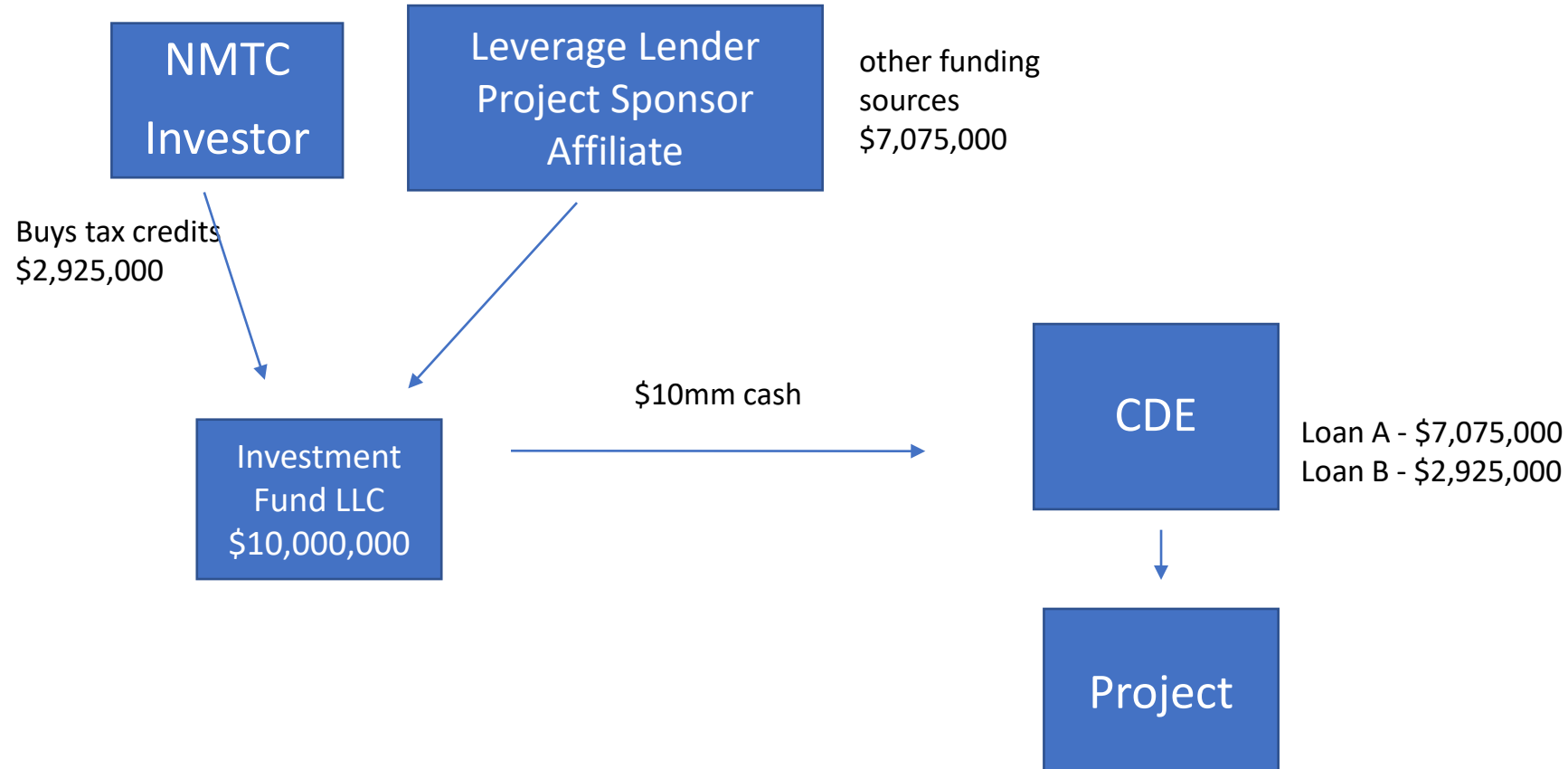
Compliance Period Payments

- CDE makes distributions from income to the Investment Fund LLC
- During the 7 year compliance period



Combined Flow Chart

Each box = legal entity



NMTC - Investor

- No economic interest/ownership in the Borrower
- Main concern is to avoid recapture
 - Make sure the project qualifies
 - Project stays qualifying during the compliance period
 - All regulatory criteria are met

New Market Tax Credit

39%
tax credit

Realized by the
investor over a
seven year
compliance period

Year	1	2	3	4	5	6	7	Total
Credit	5%	5%	5%	6%	6%	6%	6%	39%

How to Get NMTC's

- Eligibility location, impacts, size, timing
- CDE interest pipeline in app and/or closing
- CDE's commit numbers are firm and other sources of capital committed
- Find CDEs CDFI's website
Banks/NMTC attys
Consultant
- Consultant when project starts to gel
compensation
finding good consultant

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