New Markets Tax Credits

Progress Report 2007

A Report by the New Markets Tax Credit Coalition

May 2007

New Markets Tax Credit Coalition

1250 Eye Street NW, Suite 902 • Washington, DC 20005
(202) 204-4500 • (202) 393-3034 fax • www.newmarketstaxcreditcoalition.org

This report was prepared by Rapoza Associates for the New Markets Tax Credit Coalition. Bob Rapoza, Alison Feighan, Matt Kopac and Staci Alexander contributed to the report.

The New Markets Tax Credit (NMTC) Coalition is a national membership organization that advocates on behalf of the NMTC program. The Coalition is managed by Rapoza Associates, a public interest lobbying and government relations firm located in Washington D.C. that specializes in providing comprehensive legislative and support services to community development organizations, associations and public agencies.

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Introduction

The *2007 Progress Report* was prepared by the New Markets Tax Credit Coalition, a national membership organization that advocates on behalf of the Credit. The report is designed to provide policymakers and practitioners with an update on the Credit and its impact on low income communities across the country.

The Coalition's first report released in 2005 gave a snapshot of how Round I Allocatees were working with investors and deploying private capital as the Credit first began to gain recognition as a viable and valuable economic development tool. Last year's report, based on a survey of Round I and II Allocatees, showed that the Credit was working at a faster pace and reaching poorer communities than required by law or regulation.

For its *2007 Progress Report* the Coalition surveyed Round I (2003), Round II (2004) and Round III (2005) Allocatees. The results of the survey show that Allocatees are continuing to raise capital from investors and deploy it into qualified businesses at a remarkably fast pace. In fact, the results indicate that demand for the Credit by CDEs and investors has made the program a more efficient development tool and has encouraged greater targeting to communities experiencing severe economic distress.

As with the previous two reports, the *2007 Progress Report* includes a series of stories from the field, which illustrate how Allocatees are using the NMTC to channel a variety of investment products to a full range of businesses and community development projects in low income communities. The stories also describe the reach of the Credit into both urban and rural areas in Washington, Minnesota, Massachusetts, Ohio, and Georgia.

Background on the New Markets Tax Credit

The purpose of the New Markets Tax Credit is to stimulate private investment and economic growth in low income communities that are often overlooked by conventional investors. These economically distressed communities lack access to the patient investment capital necessary to support business and economic development.

The Credit attracts private sector investors to low income areas by offering them a 39 percent federal tax credit over seven years – a 5 percent credit in each of the first three years and a 6 percent credit in each of the last four years. The investor receives the Credit when it provides a Qualified Equity Investment (QEI) in a Community Development Entity (CDE). The CDE in turn uses the capital derived from the Credit to make loans or investments in businesses and projects in low income communities. These loans and investments are called Qualified Low Income Community Investments (QLICIs).

The Department of the Treasury's Community Development Financial Institutions (CDFI) Fund, which administers the New Market Tax Credit program, starts the allocation process by certifying CDEs. In general, a CDE is a domestic corporation with a track record in community development and is accountable to the residents of the low income communities it serves (i.e. by having such residents represented on the CDE's governing or advisory boards). Examples of a CDE are a Community Development Corporation, a Community Development Financial Institution, a private financial institution, or a Small Business Investment Company.

The CDFI Fund also oversees the competitive Credit allocation application process that determines which CDEs are awarded New Markets Tax Credits. If a CDE is awarded an allocation of Credits it must sign an Allocation Agreement with the CDFI Fund, giving the Allocatee the authority to market the Credit to investors and begin implementing its New Markets Tax Credit business strategy.

Authorized NMTC Investment Exceeds $19 Billion

In the 109th Congress $4.5 billion in Credit authority was added to the NMTC, bringing the total program authorization to $19.5 billion. The original authorization, part of the Community Renewal Tax Relief Act (P.L. 106-554), provides $15 billion in Credit allocations between 2000 and 2007. Congress then authorized an additional $1 billion in New Markets Tax Credit allocations in December 2005 for Gulf Coast communities devastated by Hurricane Katrina, of which the first $600 million was awarded by the CDFI Fund in June 2006. Finally, the Tax Relief and Health Care Act of 2006 extended the Credit through 2008 with an additional $3.5 billion in Credit authority and language requiring the Department of Treasury to better target the Credit to non-metro areas.

As of May 2007, the CDFI Fund had awarded four rounds of Credit allocations totaling $12.1 billion. Allocations are currently pending for the fifth allocation round. The CDFI Fund received $27.9 billion in requests from 258 CDEs for the $3.9 billion of available Credits. Applications were submitted in March 2007 and Credit awards will be made in fall 2007.

The sixth NMTC allocation round will commence in spring of 2008.

As this report goes to press, the Treasury Department reports that CDEs have raised over $7.7 billion in Quality Equity Investments. Therefore, the Credit has already brought close to $8 billion in new investment capital to low income communities.

Soaring Demand for Credits Magnifies Impact

When a CDE submits an application to the CDFI Fund, it must detail its intended efforts in four areas: business strategy, capitalization strategy, management capacity, and community impact. Each of these four areas is scored equally, and the stiff competition requires that successful applicants score well in all four categories. The CDFI Fund typically receives so many highly rated applications that in order for a CDE applicant to be successful, it must in fact exceed the standard for raising and deploying capital, as well as for penetrating areas of high economic distress, as established by law and regulation.

Chart 1:
Allocation Availabilty and Demand

Application Round	Available Allocation	Application Demand
Round I (2003)	$2.5 billion	$26 billion
Round II (2004)	$3.5 billion	$30 billion
Round III (2005)	$2 billion	$23 billion
Round IV[1] (2006)	$4.1 billion	$28 billion
Round V (2007)	$3.9 billion	$28 billion
TOTAL	**$16 billion**	**$135 billion**

As shown in Chart 1, the demand to date has outstripped the availability of credits by more than $120 billion. This *2007 Progress Report* will detail how Credit recipients from the first three allocation rounds are responding to this competition by continuing to surpass the statutory and regulatory standards established for the New Markets Tax Credit.

1 These figures include the additional $600 million in allocation volume provided to the GO Zones as well as the additional demand it generated.

Survey Findings

The Survey Sample

The CDFI Fund made 170 allocation awards to 147 Community Development Entities (CDEs) in Rounds I, II and III.[2] This survey sample includes 99 New Markets Tax Credit (NMTC) allocation awards to 76 CDEs from those three rounds. The CDEs responding to this year's survey hold nearly $5.5 billion in NMTC allocations – more than $2 billion in Round I Credits, over $2.1 billion in Round II allocation awards, and almost $1.3 billion in Round III awards – of the total $8 billion made available in Rounds I, II and III.

Of the CDEs surveyed:

- Fifty-three percent received a Round I allocation, 48 percent a Round II allocation, and 30 percent a Round III allocation;
- Fifty-six received one allocation award and 20 received awards in two or more rounds; and
- Thirty-four percent represent a national service area, 12 percent a multi-state area, 22 percent a statewide service area, and 33 percent a local service area[3].

2 Eighteen CDEs were awarded allocations in a total of two rounds and three CDEs received allocations in all three rounds – for a total of 147 CDEs receiving awards.

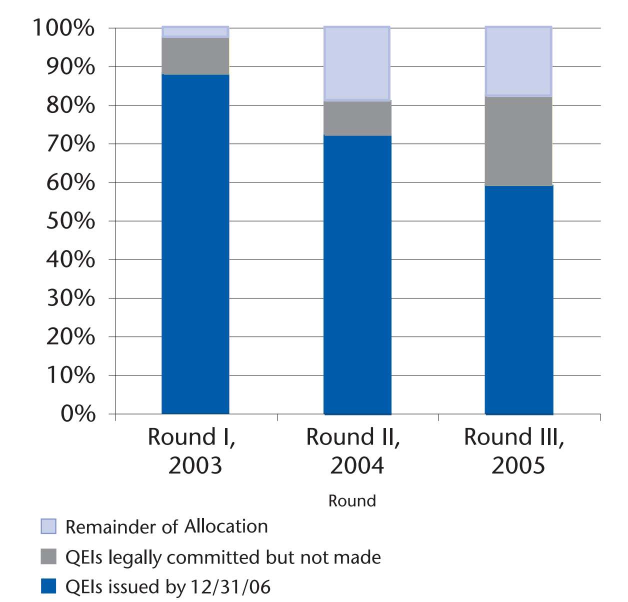
3 Percentages total greater than 100 percent because one multi-round Allocatee is serving different service areas for two separate allocation rounds.

CDEs Issuing QEIs at Increasingly Rapid Pace

CDE survey respondents were asked to report on their progress in securing capital from investors in the form of Qualified Equity Investments (QEIs), which are made in exchange for the Credit. CDEs continue to secure investments and issue QEIs at a faster pace than required by law or regulations. By law, a CDE must issue its QEIs within five years of receiving a Credit allocation.

By the end of 2006 the Round I CDEs surveyed had already issued $1.8 billion (88 percent) of their Credit allocations as QEIs and had legally committed[4] an additional $189 million (Chart 2).

Chart 2: QEIs Issued and Committed by Percent of Allocations (by Round)



Source: Survey Respondents.

By the end of 2006, the Round II award recipients had issued $1.5 billion (72 percent) of their Credit allocations as QEIs and had legally Committed another $186 million (Chart 2).

By December 31, 2006, Round III CDEs surveyed had issued $762 million in QEIs (59 percent) and had legally committed $297 million (Chart 2). On a percentage basis, this result indicates that Round III Allocatees are issuing QEIs at a faster rate than their predecessors. This corresponds with a recent GAO study (see page 18) that reports that investors appear increasingly willing to invest in CDEs through the NMTC program as more allocation rounds take place[5]. The GAO report also states that the expected rate of return for NMTC investments has decreased as investors have become more familiar with the program and as perceptions of risk have declined[6]. More than a third of all Round III Allocatees are

4 A legally binding contract signed between a CDE and an investor whereby the latter agrees to make an investment or a series of investments according to a determined schedule.

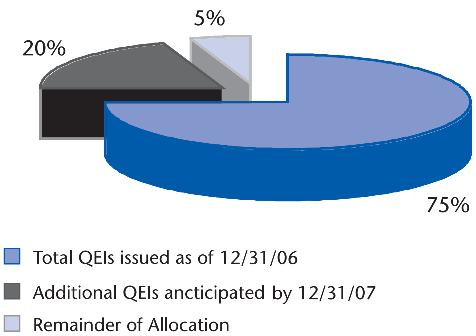
5 Government Accountability Office, *New Markets Tax Credit Appears to Increase Investment by Investors in Low-Income Communities, But Opportunities Exist to Better Monitor Compliance*, GAO-07-296 Tax Policy (Washington, DC: Jan. 31, 2007)

6 CDFI Fund data showed that NMTC investments made in 2003 averaged a return of 8.2 percent while investments in later years averaged just 6.8 percent. GAO, *New Markets Tax Credit Appears to Increase Investment by Investors in Low-Income Communities, But Opportunities Exist to Better Monitor Compliance* (p. 27).

repeat recipients, which may contribute to investor confidence as Allocatees build on existing relationships with investors and bring increased efficiency to the market.

In aggregate, the Rounds I-III Allocatees surveyed had issued over $4 billion in QEIs – 75 percent of their total allocations – and legally committed another $673 million as of December 31, 2006. By the end of 2007, these CDEs report that 95 percent of their allocations, or $5.2 billion, will be issued as QEIs (Chart 3).

Chart 3: QEIs Issued as Percent of Total Rounds I-III Allocations



Source: Survey Respondents.

NMTC Investor Market Continues to Develop

CDEs were asked to indicate the types of institutions to which they had issued QEIs. Forty-six percent of the CDEs responding indicated that they had secured investments from more than one type of investor.

Chart 4 shows the diversity of institutional investors engaged in the Credit, displaying the percentage of survey respondents that issued at least one QEI to each investor type. The most commonly utilized investment sources are national banks (59 percent), local community banks (26 percent), and regional banks (25 percent).

As represented in Chart 5, the bulk of QEIs are issued to private regulated financial institutions. Two-thirds of CDE respondents received a majority of their investments from regulated national, regional, or local banks.

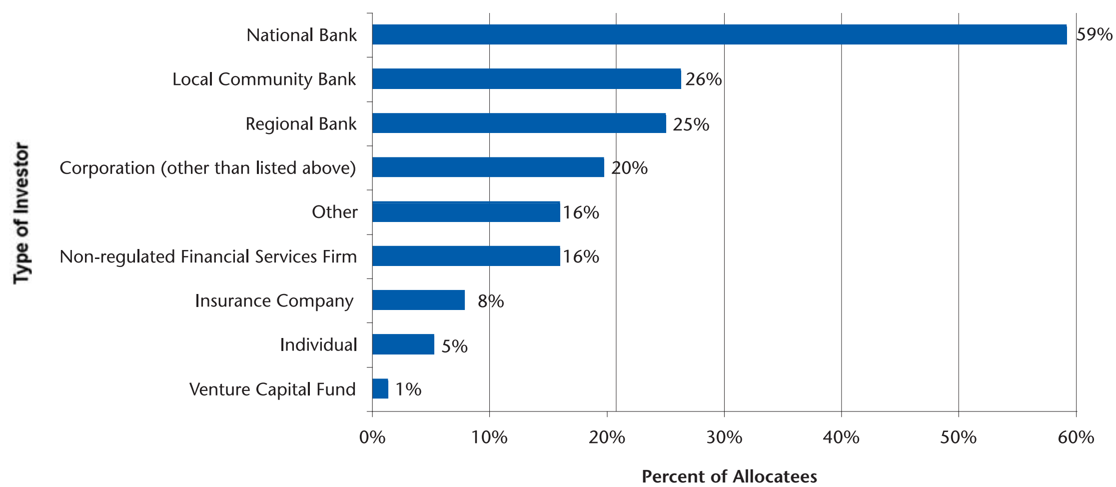
In addition, Chart 5 shows that non-regulated financial institutions continue to play a significant role as investors in CDEs: 13 percent of CDEs stated they had issued more than 50 percent of their QEIs to non-regulated financial services firms.

The "Other" sources of investment reflected in Charts 4 and 5 include upper-tier investment funds, for-profit community development corporations, government sponsored enterprises, foundations, nonprofits, and limited partnerships, reflecting further the diverse sources of capital invested in underserved communities through the NMTC program.

Other data collected by the Coalition reveals that 54 percent of survey respondents issued all of their Rounds I-III QEIs to one type of investor, often to a single private financial institution. Twenty-five percent of the CDEs issued 100 percent of their QEIs to national banks while 9 percent of the CDEs issued 100 percent of their QEIs to local community banks. The data indicates that CDEs working with national and local banks are more likely to work exclusively with those institutions. Forty-two percent of all CDEs that issued QEIs to national banks and 33 percent of CDEs that issued QEIs to community banks did not secure investments from any other type of investor.

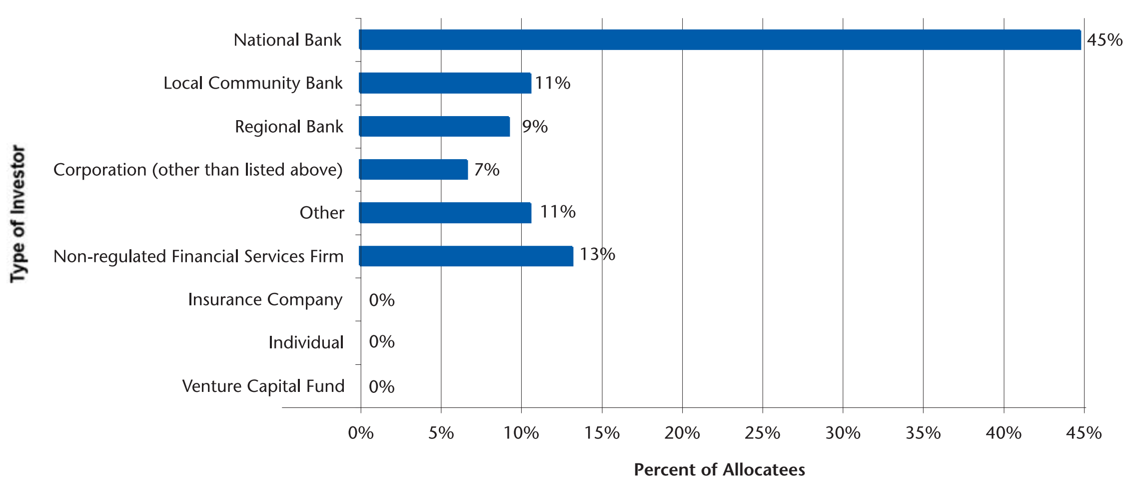
At time same time it is important to note that 16 percent of CDEs responding are regulated banks. It is not uncommon for these institutions to be both Allocatees and NMTC investors, and in some cases to self-invest, which may contribute to the predominance of these investor types.

Chart 4:
Percent of CDEs Issuing at Least One QEI to Investor Type



Source: Survey Respondents. (NB: Some CDEs have multiple investors)

Chart 5:
Percent of CDEs Issuing More Than 50 Percent of QEIs to Investor Type



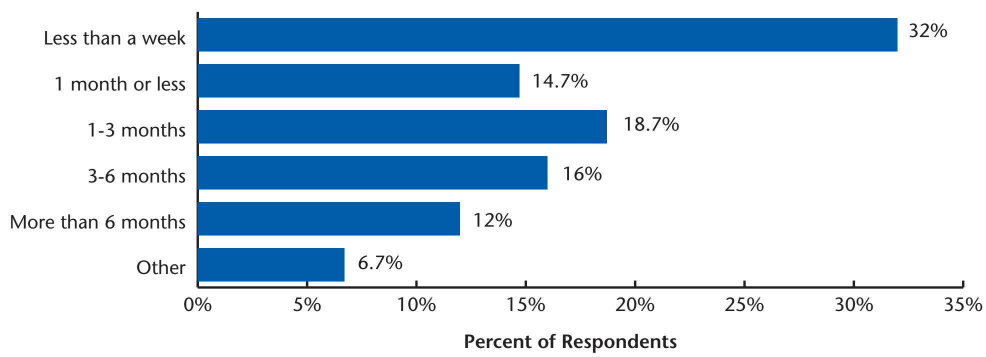
Source: Survey Respondents. (NB: Some CDEs have multiple investors)

Progress Deploying New Markets Tax Credit Capital

CDEs responding to the survey continue to get loans and investments into the field at a faster rate than required by law. The law requires CDEs to have "Substantially All" (at least 85 percent by regulation) of their QEIs deployed in Qualified Low Income Community Investments (QLICIs) within one year of issuance. This requirement means that once a CDE raises its investment capital and issues a QEI to the investor, it has one year to get the capital deployed into QLICIs.

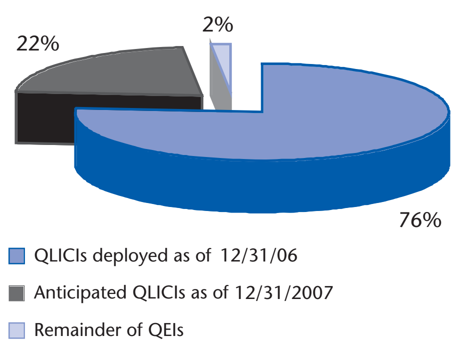
Thirty-two percent of the CDEs surveyed indicated that they deploy their capital in less than a week after issuing a QEI, 47 percent within thirty days, and 65 percent deploy their capital within three months (Chart 6).

Chart 6:
Time Required to Deploy Capital



Source: Survey Respondents.

Chart 7:
Capital Deployment



Source: Survey Respondents.

As of December 31, 2006, survey respondents had collectively made a total of 1,324 QLICIs totaling $3.9 billion. This dollar figure represents over 96 percent of the total $4 billion of QEIs issued as of the same date. The CDEs anticipate making an additional $1.1 billion in QLICIs by the end of 2007 bringing the total to more than $5 billion and over 98 percent of QEIs issued[7] (Chart 7).

7 QLICIs as a percent of QEIs could in theory exceed 100 percent since some CDEs re-lend or re-invest the proceeds of amortized loans

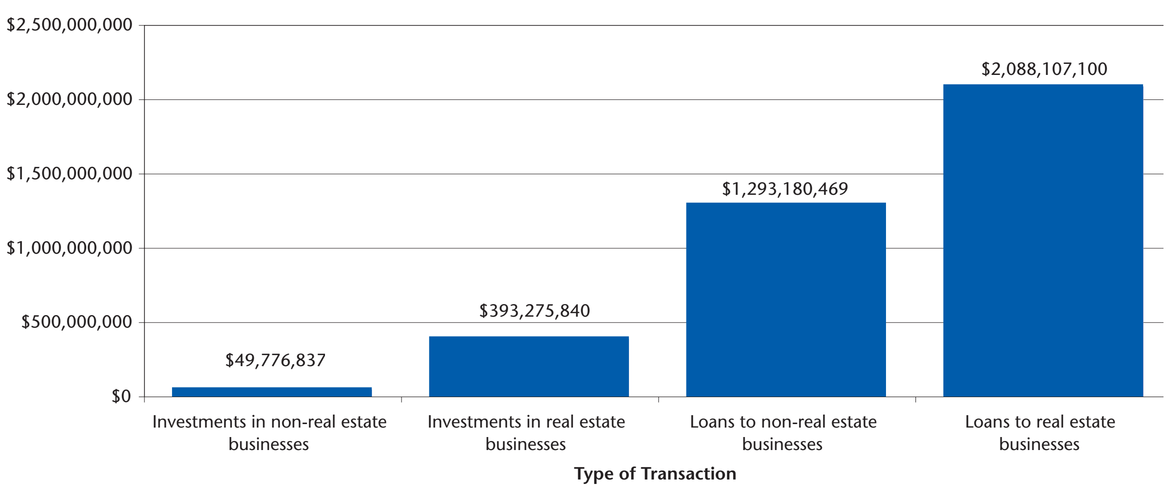
Types of Loans and Investments

A QLICI can take the form of (1) an investment or loan in a qualified business; (2) equity investments and loans in another CDE; (3) the purchase of a qualified loan from another CDE; and (4) financial counseling to businesses or residents in a low income community.

Most of the nearly $4 billion in QLICIs deployed by the CDEs surveyed as of December 31, 2006 falls under the first category: investments and loans to qualified businesses. Eighty-six percent of the total QLICIs took the form of debt financing to QALICBs while 11 percent was invested as equity. Approximately one-third of respondents indicated that they use the Credit to provide both debt and equity products to qualified businesses, often packaging them together.

The CDEs report that more than $1.3 billion in debt and equity financing went to non-real estate businesses and more than $2.4 billion in loans and investment went to real estate businesses[8] (Chart 8). As Chart 9 indicates, non-real estate transactions account for 34 percent of the overall QLICIs reported and real estate for 63 percent. These findings are in line with the Coalition's two previous reports and other studies released by the CDFI Fund. More detailed data on "other activities" can be found in Chart 13.

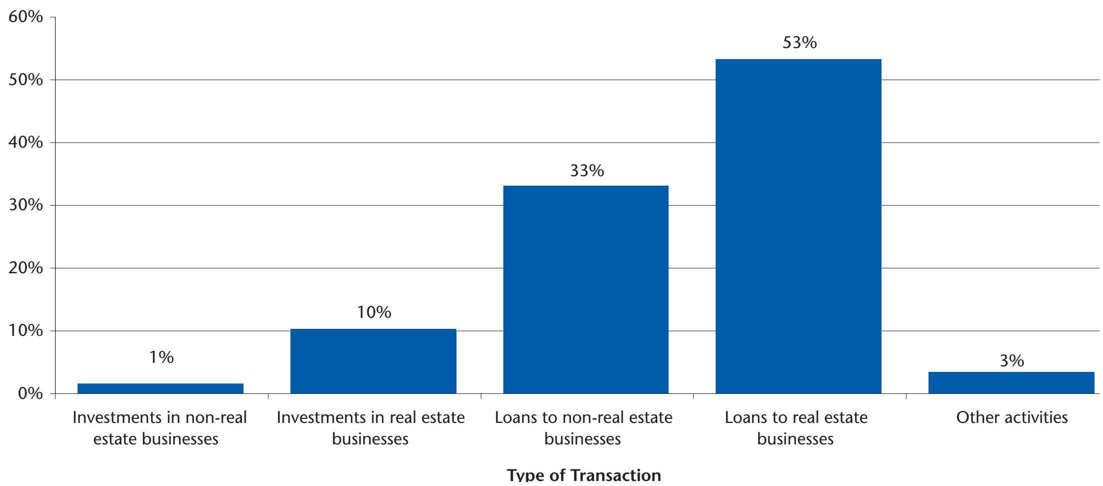
Chart 8:
Loans and Investments in Real Estate and Non-Real Estate Businesses



Source: Survey Respondents.

8 The CDFI Fund defines a real estate business as a business that is principally engaged in the development of a specific real estate project or projects. Investments in real estate businesses (development, management or other) in support of their business operations, as opposed to a specific project or projects, are considered non-real estate business transactions.

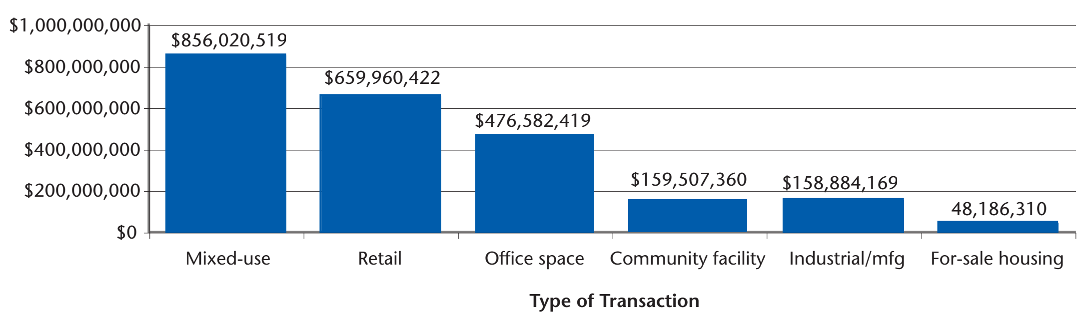
Chart 9:
Type of Transactions as Percentage of Overall Transactions



Source: Survey Respondents

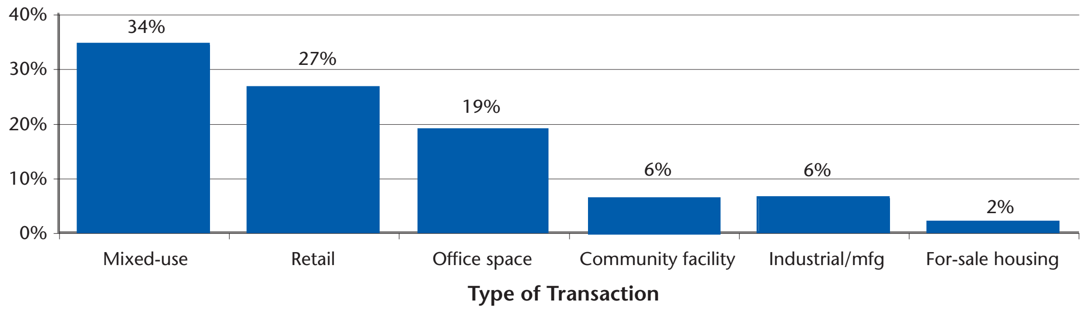
Charts 10 and 11 reveal the prominence of mixed use and retail projects among the real estate transactions. Mixed-use deals account for 34 percent of real-estate made by the survey respondents. The second most common real estate project type is retail at almost $660 million, over 27 percent of all real estate deals. The survey results bear out the continuing need for affordable housing, commercial space for small and large businesses, and community facilities in low income communities.

Chart 10:
Value of Real Estate Transactions by Type



Source: Survey Respondents.

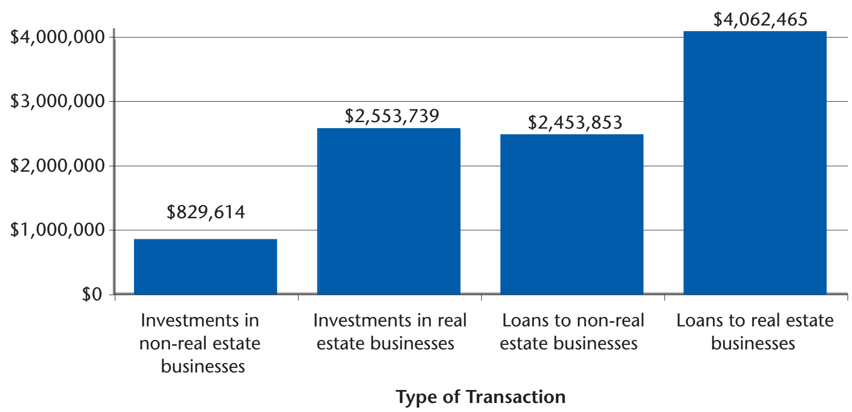
Chart 11:
Percent of Total Real Estate Transactions by Type



Source: Survey Respondents.

On average, the survey found that NMTC loans are larger than equity investments (Chart 12) and real estate transactions are typically larger than non-real estate.

Chart 12:
Average Size of NMTC Transactions

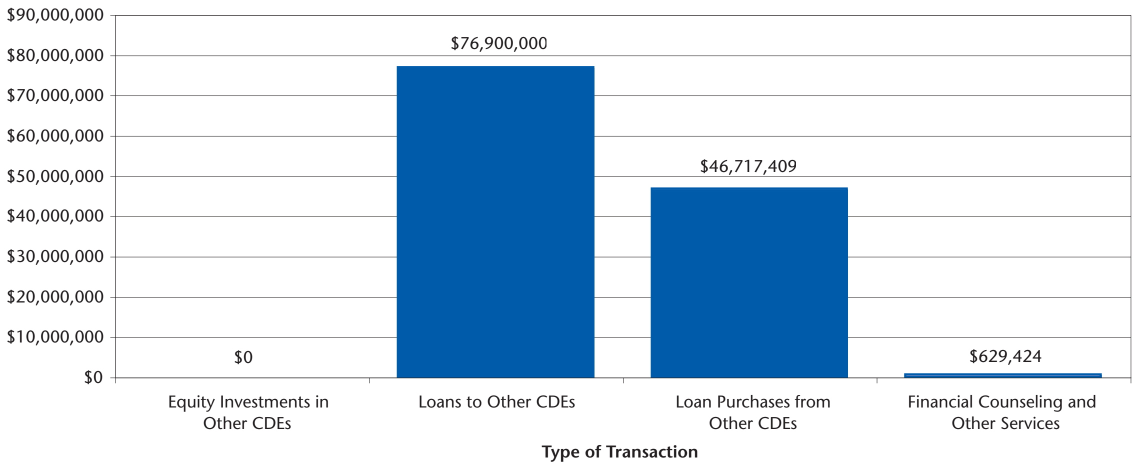


Source: Survey Respondents.

For the first time, the Coalition asked Allocatees to report on other investment activities tracked by the CDFI Fund including equity investments in other CDEs, loans to other CDEs, loan purchases from other CDEs, and financial counseling. These activities represent 3 percent of the total QLICIs (from Chart 9) deployed by CDE respondents. As can be seen in Chart 13, the most utilized of these other activities are loans to and loan purchases from other CDEs.

In many cases the Allocatees who engage in these transactions are large, established organizations that not only direct needed capital to low income communities; they also build the capacity of smaller, locally grown CDEs. There was an expectation in the design of the NMTC Program that Allocatees would use their allocations to make loans to and purchase loans from other CDEs. This *2007 Progress Report* marks the first time that significant activity in these two categories has been reported with over $100 million in loans to CDEs and loan purchases to CDEs.

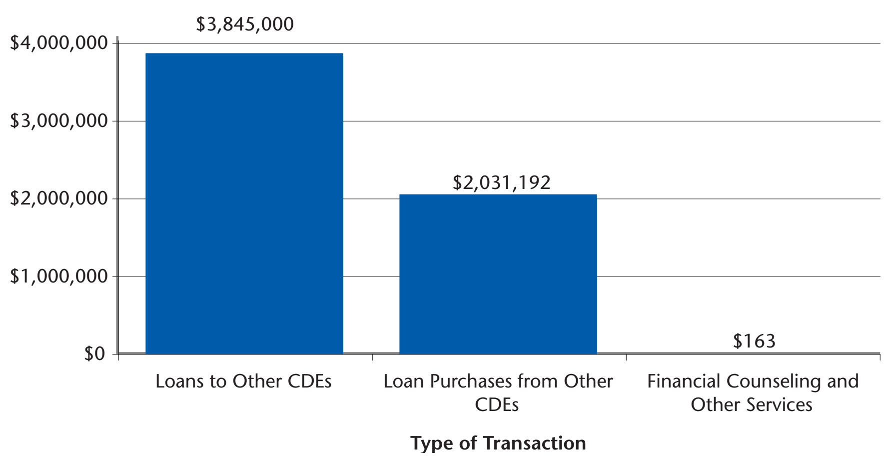
Chart 13:
Other Investment Activities



Source: Survey Respondents.

Chart 14 shows the average transaction size for these other activities, specifically loans to other CDEs, loan purchases from other CDEs and financial counseling.

Chart 14:
Average Size of Other Investment Activities



Source: Survey Respondents.

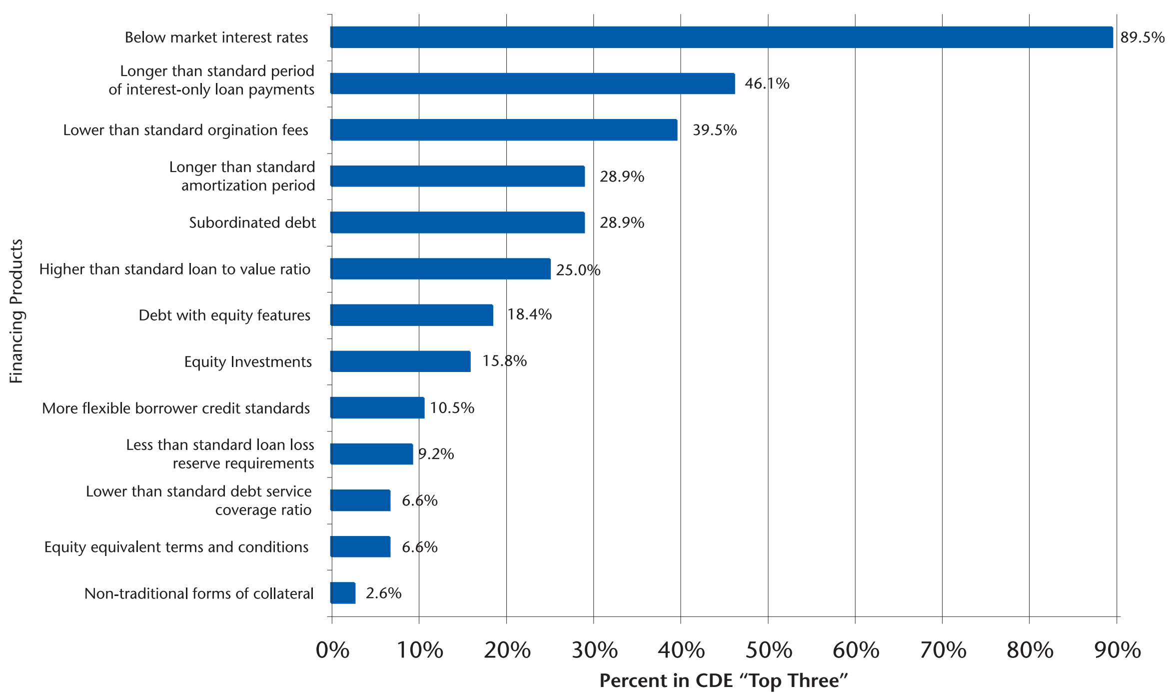
Offering Patient, Flexible Financing Products

While using the Credit to provide a range of both debt and equity products to qualified businesses, CDEs have designed flexible financing products to address the financing needs of the businesses in the communities they serve. The flexibility of the Credit has allowed CDEs to structure financing products and strategies based on the needs of the business, the profile of the community, and the financing gaps in the market.

In fact, in order to succeed in the competitive allocation process, CDEs must show how they will target poor communities and demonstrate how the Credit will be used to provide patient, flexible capital at terms and conditions not otherwise available in the market. The CDFI Fund has continued to add application questions on the types of flexible products offered and award points to CDEs committed to making use of them.

Survey respondents were asked to identify their three most frequently utilized flexible or non-traditional financing products out of a list of products identified by the CDFI Fund (Chart 15).

Chart 15:
Most Popular Flexible and Non-traditional Financing Products



Source: Survey Respondents.

Over 89 percent of survey respondents indicated that providing debt with below market interest rates is among the CDE's most utilized products. Among other "top three" products offered by the CDE surveyed:

- Longer than standard period of interest-only loan payments – 41.6 percent
- Lower than standard origination fees – 39.5 percent
- Subordinated debt – 28.9 percent
- Longer than standard amortization period – 28.9 percent

As seen previously in Chart 8, the majority of financing to businesses in low income communities through the NMTC has come in the form of loans. Accordingly, the majority of the flexible and non-traditional financing products listed in Chart 15 relate to debt products. This data corroborates the recent GAO study which reports that below markets interest rates and lower than standard origination fees are the two most commonly utilized flexible products[9].

While most CDEs continue to use the Credit primarily to provide flexible debt financing products, it is important to note that CDEs are also using the Credit to provide equity products. Patient capital, particularly equity capital, is often the most difficult financing to secure particularly for projects in low income communities. The ability to use the Credit to address this capital gap is important even if it is most often combined with debt.

Leveraging Additional Investment into Target Communities

Neither the law nor regulation requires NMTC Allocatees to leverage additional resources from outside investors when implementing deals. The New Markets Tax Credit program is by its very definition leverage: as originally authorized, the program generates $15 billion of investment in poor communities at a cost of $4.5 billion to the federal government over ten years[10]. However, at the same time CDEs have proven adept at leveraging additional dollars into target communities at the project level.

As originators of investments in poor communities, CDEs perform three critical functions. The first is to act as initial and exclusive investor in underserved urban and rural areas that lack private financing options. In some instances CDEs use their QEIs to provide 100 percent financing to local businesses.

Second, a CDE may be the first investor in a deal, thus helping to lower the deal's risk profile and attract other private and public investors. Finally, CDEs provide gap financing. In this case, while other investment capital may be pledged to a project, an additional, critical piece of patient capital may be required to finalize the deal. In some instances, gap financing takes the form of equity or subordinated debt to make the project feasible.

To further explore the magnitude of additional leveraging performed by CDEs, the Coalition asked a leveraging question in its survey for the first time. Sixteen of the survey's 76 respondents reported having solely financed 100 percent of their deals at the project level. The remaining 60 CDEs (79 percent) routinely provided either the initial capital that attracted other investors or the gap financing required to close a deal. Collectively, the 76 respondents reported they leveraged an average of an additional $3.25 for every QLICI dollar invested.

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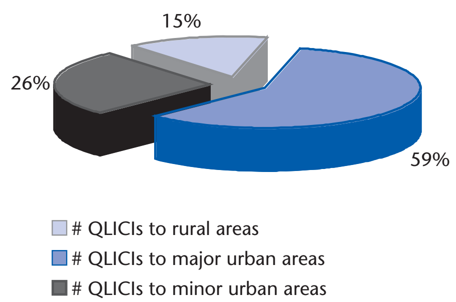
9 GAO, *New Markets Tax Credit Appears to Increase Investment by Investors in Low-Income Communities, But Opportunities Exist to Better Monitor Compliance* (pp. 31-32).

10 Joint Committee on Taxation cost estimate as included in the Community Renewal Tax Relief Act of 2000

Credit Activity in Rural, Major Urban, Minor Urban Areas

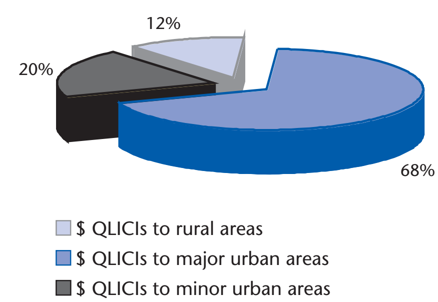
Allocatees surveyed reported 15 percent of the total QLICIs went to rural areas[11] (Chart 16). In terms of dollars invested, the survey respondents report $474 million of investments in rural areas, or 12 percent of the total QLICIs dollars made. Major urban areas received almost $2.7 billion of investment and minor urban areas garnered $766 million, together totaling 88 percent of the total QLICI dollars (Chart 17).

Chart 16:
Percent of QLICIs to Rural, Major Urban and Minor Urban Areas



Source: Survey Respondents.

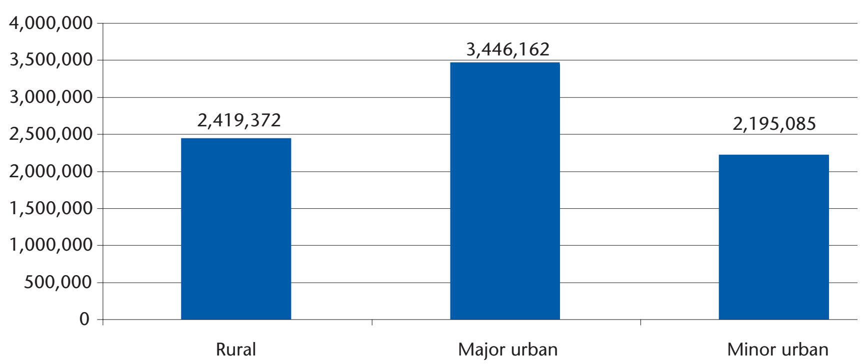
Chart 17:
Percent of QLICIs Dollars to Rural, Major Urban and Minor Urban Areas



Source: Survey Respondents.

The discrepancy between urban and rural figures is explained in part by the difference in the average investment size in the different geographic areas. The average investment in major urban areas was 42 percent greater than in rural areas (Chart 18).

Chart 18:
Average Size of Transaction to Rural, Major Urban and Minor Urban Areas



Source: Survey Respondents.

11 CDFI Fund Definitions:

- **Major Urban Area** - a metropolitan area with a population equal to or greater than 1 million, including both central city and surrounding suburbs.
- **Minor Urban Area** - a metropolitan area with a population less than 1 million, including both central city and surrounding suburbs.
- **Rural Area** - areas not contained within major urban or minor urban areas.

Interestingly, the average investment size is actually smaller for minor urban areas than for rural areas – approximately $2.2 million as compared to $2.4 million. However, even when factoring in the lower average figure for minor urban areas, rural areas still receive 26 percent less capital per deal than urban areas.

However, larger questions surround the lack of penetration of the Credit into rural markets. A reason for the general shortfall in rural areas is that many rural census tracks – even those with high economic distress – do not meet the median income and poverty limits established under the Credit. Many rural census tracks have too few people or the settlement patterns are such that they do not lend themselves to a census track-based measure.

It is clear that NMTC investments in rural areas lag considerably behind those in urban areas, particularly when compared to the overall rural share of the U.S. population – approximately 21 percent according to the Economic Research Service[12]. While similar reports, such as a March 2006 CDFI Fund report[13] show rural areas getting approximately 18 percent of projects financed through the Credit, it is nonetheless evident that the Credit's lack of penetration into rural areas remains an issue.

Targeting Communities of High Distress

The law and regulations that govern the Credit require CDEs to invest in low income communities, which are defined as census tracts with (1) A poverty rate of at least 20 percent; (2) A median family income of up to 80 percent of the metropolitan area or statewide median, whichever is greater; or (3) for non-metro census tracts, a median family income of up to 80 percent of the statewide median.

Therefore, the CDFI Fund tracks other indicators of high distress to determine whether and which CDEs are targeting NMTC dollars to the communities that need them most. Recognizing that different communities face different barriers to economic development, the CDFI Fund utilizes an extensive list of high distress criteria.

Survey respondents were asked to report on the number of QLICIs that were made in these areas of high economic distress. Overall, the CDEs report that 91 percent of their total QLICIs were made in communities with an average of two or more high economic distress factors. Most notably, the greatest percentage of survey respondents pointed to the following criteria of high economic distress (Chart 19):

- Forty-five percent of the QLICIs are in areas with median incomes of less than 60 percent of area median income;
- Thirty-four percent of the QLICIs are in areas where the poverty rate is greater than 30 percent; and

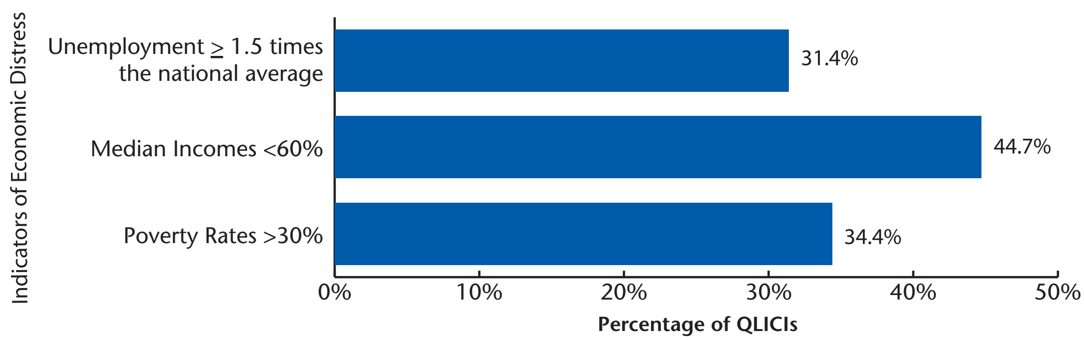
12 ERS, *Measuring Rurality: What is Rural?,* www.ers.usda.gov/Briefing/Rurality/WhatisRural/ (Mar. 22, 2007)

13 CDFI Fund, *New Markets Tax Credit Transaction Report* (Mar. 2006)

- Thirty-one percent of the QLICIs are in areas with unemployment greater than 1.5 times the national average.

Two factors contribute to this high level of targeting to more economically distressed communities. First, there is significant need and demand for flexible investment capital in low income communities. Second, as represented in Chart 1, CDE demand ($69 billion) for Credits in the first three allocation rounds significantly exceeded the amount available ($8 billion). Because of CDFI Fund policy, CDEs that target their investments to more economically distressed areas are more competitive in the application process.

Chart 19:
QLICIs in Areas of Economic Distress



Source: Survey Respondents (NB: One investment can feature multiple indicators of distress at the same time)

The Government Accountability Office Reports…

"The purpose of the NMTC program is to encourage investment and development in low income communities. Our analysis indicates that the program may be accomplishing that part of the objective. In our investor survey, most participating investors said that they increased investments in low income communities because of the credit."

The Community Renewal Tax Relief Act, the legislation authorizing the New Markets Tax Credit, requires the Government Accountability Office (GAO) to conduct three studies of Credit: in January 2004, January 2007 and January 2010. The first report looked at CDEs that received first round allocations and evaluated compliance measures in place at the time.

The January 2007 GAO Report entitled *New Markets Tax Credit Appears to Increase Investment by Investors in Low Income Communities, But Opportunities Exist to Better Monitor Compliance,* takes a look at the record of the Credit though 2006 with a particular focus on investors.

The January 2007 study reports on the status of the NMTC program, examines the characteristics of NMTC investors and CDE, analyzes the success of the Credit in providing an incentive for greater private sector investment to low income communities, and assesses Treasury Department compliance measures. Between July and December of 2006 GAO consulted with interest groups, Treasury Department officials – including CDFI, Tax Policy and IRS officials – relevant committees in Congress and investors.

The importance of this report cannot be understated. When the Clinton administration proposed the New Market Tax Credit in 1999, the *Treasury Department's Revenue Estimate* stated the there was a lack of capital in low income communities and a new tax credit was needed to help attract new capital to businesses in these communities. The Clinton Administration believed that there were good business opportunities in low income communities and a modest federal incentive could attract investment capital to these new markets.

The baseline test for the success of the New Market Tax Credit is whether it lures investment capital to poor communities in urban and rural America.

We know the numbers: as this report goes to press the CDFI Fund reports a total of $7.7 billion in QEIs issued. Through the Coalition's *Progress Reports* and CDFI Fund CISS data, we know that CDEs are raising capital at a faster pace than required by the law. We also know that because of the intense demand, CDEs are making qualified investments in communities with higher levels of economic distress than required by law.

The report finds that corporate and individual investors comprise 70 percent of all investors. It appears that individuals are bringing new money to the program while corporate investors are shifting funds from other purposes.

Among the key findings of the report:

- Eighty-eight percent of investors surveyed indicated they would not have made the same investment without the Credit;
- Sixty-four percent of investors surveyed stated that they increased their investment budgets for low income communities because of the Credit;
- Sixty-nine percent of surveyed investors said that they had not previously made investments in CDEs. These results indicate that investors and CDEs are forming new partnerships to invest in low income communities;
- The return on Credits has dropped from 8.2 percent to 6.8 percent, suggesting greater efficiency in the program;
- Some 90 percent of investors stated that their desire to improve conditions in low income communities was an important factor in their decision to participate in the NMTC program; and
- State and local tax abatements constitute the largest single tax incentive used in the conjunction with NMTC, indicating local government support for projects financed with

Stories from the Field

The following stories describe how a cross section of CDEs and investors are using the New Markets Tax Credit to generate private sector investment, expand businesses, create quality jobs, finance community facilities, and revitalize neighborhoods that have suffered from disinvestment and economic neglect. The potential of the Credit is perhaps most effectively illustrated through these stories from the field that describe how the Credit is making a difference in communities.

Story from the Field: Revitalizing a Historic Urban Corridor

Allocatee:	Integral Urban New Markets CDE
Headquarters:	Atlanta, GA
Service Area:	Local
Allocation:	$57 million total: $17 million (Round II); $40 million (Round III)

The Integral Group is a privately held real estate development and investment management company based in Atlanta, Georgia that is utilizing the New Markets Tax Credit to support its work revitalizing once thriving urban neighborhoods and business corridors that have suffered from disinvestment and neglect.

Founded in 1993, Integral has been an industry leader in bringing private sector, market based approaches to the public sector through the development of partnerships. Though based in Atlanta, Integral operates in 10 urban markets across the country with the goal of creating value in target cities through thoughtful, responsible and economically viable real estate development.

Integral specializes in urban mixed-use development projects. Based on their commitment to bringing quality rental housing to low income communities, Integral developed the first Hope VI project in the United States in Atlanta. This pioneering Hope VI development created a national model for mixed-use, mixed-income housing that increases the quality of housing stock in once blighted communities. Working cooperatively with local governments, nonprofits, and faith-based organizations, Integral is responsible for $100 million in development projects each year. The company's real estate portfolio is diverse and includes innovative publicly financed developments as well as conventionally financed projects.

Integral recognized the New Markets Tax Credit as a perfect compliment to its existing development activities. In 2002 Integral Urban New Markets CDE was established to generate investment for commercial and mixed-use facilities in distressed communities throughout metropolitan Atlanta. Integral CDE has been awarded $57 million in NMTC allocations over two rounds and has successfully placed 100 percent of its Credits in qualified investments and deployed all of its capital. NMTC has allowed Integral to leverage its role as a developer to take on projects that will change the face of local communities.

The NMTC played a vital role in one of Integral's showcase developments, Renaissance Walk, that helped to revitalize a historic neighborhood in downtown Atlanta.

Renaissance Walk at Sweet Auburn

Renaissance Walk is the anchor revitalization project located on the historic Sweet Auburn Avenue in Atlanta, located within the Martin Luther King Jr. Historic District.

Once the civic, cultural, and economic heart of Atlanta's African-American community, the neighborhood has experienced significant decline and suffered from a loss of African-American owned businesses and lack of investment. More than 31 percent of the community residents are currently living in poverty.

Big Bethel AME, one of Atlanta's oldest African-American churches, was committed to restoring Sweet Auburn Avenue while at the same time preserving the area's history. While the church lacked the expertise to be the developer, it did have control of the land. Over the past decade, the church purchased almost all of the properties in the neighborhood with the goal of having control over revitalization of "Sweet Auburn." Big Bethel selected Integral as its development partner based on the company's reputation as a skilled inner-city developer that works in partnership with community stakeholders.

Currently under construction, the Renaissance Walk development will create 159 one and two bedroom condominiums, construct 27,000 square feet of retail space, and put in place 4,000 square feet of adaptive reuse museum space. Several 1950's and 1960's era historic buildings will be readapted for modern uses thus preserving the historical integrity of the neighborhood. Approximately 13,000 square feet of retail space will be devoted exclusively to neighborhood and small minority entrepreneurs to ensure that local community ventures maintain their stake in the market as the community revitalization process moves forward.

Integral's Renaissance Walk

Photo: Integral Urban New Markets

The total project cost of the Renaissance Walk is in excess of $48 million of which $19.5 million was made available through Integral's CDE. TransCapital Community Improvement Fund of Phoenix, Arizona in conjunction with Morgan Stanley invested a $19.5 million QEI in Integral CDE. Integral thereby provided below market financing and subordinated debt to the project. In addition, Integral worked with the City of Atlanta to secure $4 million in tax increment financing as well as a grant of $150,000 which served as project equity. This facilitated a $27.3 million construction loan for the project from Bank of America.

The Renaissance Walk project would not have happened without NMTC. The Sweet Auburn community had not seen significant private investment in decades because conventional lenders were unwilling to assume the risk of investing in an economically depressed neighborhood. The NMTC was the tool that allowed Integral to assemble a financing package that not only provided flexible patient capital but also lowered the risk profile of the deal, allowing private sector investors to participate in the project. Bank of America, the construction lender, was so impressed with the project that it is featured in its 2006 annual report.

Story from the Field: Breaking New Ground–Financing Health Care Facilities

Allocatee:	Massachusetts Housing Investment Corporation
Headquarters:	Boston, MA
Service Area:	Statewide
Allocation:	$259 million total: $25 million (Round I); $90 million (Round II); $54 million (Round III); $90 million (Round IV)

The Massachusetts Housing Investment Corporation (MHIC) is a private nonprofit lender and investor specializing in the financing of affordable housing and community development in Massachusetts. Founded by a consortium of banks and other corporate investors in 1990, MHIC was created to fill a critical gap in meeting the credit needs of affordable housing developers and owners who were unable to obtain financing from conventional lenders.

Since MHIC was founded, it has invested more than $1.1 billion in affordable housing and community development throughout Massachusetts and has financed the creation or preservation of nearly 12,000 housing units. MHIC has developed a broad range of innovative debt and investment products to ensure that the projects they support are sustainable in the long term.

MHIC's major product lines include loans for property acquisition, new construction or rehabilitation, investments in low income housing tax credit projects, and most recently loans and investments made through the New Markets Tax Credit. MHIC recognized that the NMTC program presented an opportunity to significantly expand its product line to include financing of commercial projects in business centers of low income neighborhoods. In many instances, these are the same neighborhoods in which MHIC had financed affordable housing.

With four successive NMTC awards, MHIC has financed commercial and industrial real estate projects in the most disadvantaged neighborhoods in Massachusetts. Prior to the Credit these projects simply would not pencil out. Through New Markets, MHIC provides a comprehensive financing package that includes both senior and subordinate construction and permanent loans and equity investments. With the Credit, MHIC is able to enhance the impact of its housing investments with commercial and economic development and, thus, further achieve its goal of comprehensive neighborhood revitalization.

With the NMTC MHIC utilizes a leveraged pooled structure raising capital from a pool of investors to finance a series of projects. This allows MHIC to efficiently raise capital, manage risk, finance diverse projects, and most importantly increase the value and benefit of the NMTC.

Holyoke Health Center

Holyoke Health Center (HHC), a federally-qualified health center located in one of Massachusetts' most distressed cities, recently completed the final development phase of a full-service medical care complex in downtown Holyoke. Holyoke, a community of 40,000 with 26.5 percent of the population below the poverty line, needed better access to affordable healthcare. Holyoke has the highest per capita mortality rate, rate of teen births, of AIDS and HIV related-deaths, of alcohol and drug-related deaths, and of deaths from suicide and homicide in the United States.

The project is strategically located in Holyoke's struggling central business district and encompasses the renovation of three connected, formerly vacant commercial buildings. The combined facility is a full-service medical complex. The project was the city's top redevelopment priority and identified as a key component of downtown revitalization efforts.

After many unsuccessful attempts to obtain financing, HHC approached MHIC. MHIC moved quickly and within six months the project was approved and construction was underway. Using the Credit, MHIC assembled financing for the largest single investment ever made in downtown Holyoke. This transaction represents the first of its kind combining the federal loan guarantee program available to nonprofit community health centers from the Health Resources and Services Administration (HRSA) with NMTC and state historic tax credit financing.

Total development costs for HHC were almost $22 million, with a number of sources providing financing. The MHIC investors included TD Banknorth, AEGON USA Realty, Berkshire Bank, Boston Private Bank & Trust Company, Citizens Bank, Eastern Bank, Peoples Bank, and State Street Bank.

Photo: MHIC

The NMTC financed a total of $18.9 million to the project, with an infusion of $5.6 million in equity, two separate below market rate loans totaling $11.7 million (at 6.67 percent and 1 percent, respectively) and a $1.6 million leveraged sponsor loan. The leveraged lender that funded the larger tranche of the senior mortgage loan securing the project was Access Capital Strategies Community Investment Fund, Inc., of Boston, MA. Historic tax credit financing and sponsor equity investments financed the balance of the package.

The new state-of-the-art Holyoke facility houses primary care and laboratory services, an on-site pharmacy, a dental clinic and counseling services. Other services include an HIV treatment program, a diabetes initiative, and a full pharmacy. A planned behavioral health center is scheduled to open in the late spring 2007 and a day care facility on the first floor accommodating 100 preschool children is scheduled to open late summer 2007.

With New Markets at the core of the financing package, Holyoke gained a new community asset that serves a broad range of health needs. In addition HHC will provide training and job opportunities for community residents and serve as an important element in downtown revitalization. An estimated 210 FTE construction related jobs and 239 FTE permanent jobs were created through the development of HHC. Most employees live in the immediate and surrounding low income communities, and for many, this is their first significant job, providing full health insurance and other important benefits. The project has also improved the quality of life for an underserved population by providing comprehensive and affordable community health care.

MHIC recently put together a similar package to finance a community health center in Boston. Boston Health Care for the Homeless includes the renovation and restoration of a historic building in a low income neighborhood in Boston. When completed it will become the central hub for this nonprofit organization and will create a homeless health care bridge to the mainstream health care system unlike any in the U.S.

Story from the Field: Keeping Rural Manufacturers

Allocatee:	Midwest Minnesota Community Development Corporation
Headquarters:	Minnesota
Service Area:	Statewide
Allocation:	$115 million total: $35 million (Round II); $80 million (Round IV)

Competitive

Midwest Minnesota Community Development Corporation (MMCDC) is a leading private nonprofit company providing commercial lending, housing development, mortgage lending, business and community development services to low income communities throughout rural Minnesota. Created in 1971, MMCDC's primary interest is providing capital to rural residents, businesses and communities with special focus on low income individuals.

Job creation and retention are the principal goals driving MMCDC's business lending activity. MMCDC is focused on maintaining and expanding manufacturing jobs in rural Minnesota particularly in communities with populations of between 1,200 and 13,500 that have been hit particularly hard by the loss of manufacturing jobs over the last decade.

The number of manufacturing jobs in Minnesota has been steadily decreasing. As reported in *Halftime Highlights: Minnesota at Mid-Decade* prepared by the Minnesota State Demographic Center, goods-producing employment lost nearly 39,000 jobs from 2001 to 2005. While job growth has picked up somewhat since 2003, most of that growth has been in service sector jobs being created in urban areas.

The New Markets Tax Credit has allowed MMCDC to expand its rural manufacturing initiative by significantly expanding its lending and investing capacity. Prior to the Credit, MMCDCs average business loan was $100,000, which is well below what most manufacturing businesses require. MMCDC has used the Credit to bring in new investment capital from established bank partners in the state as well as from new investors that previously had no presence in rural Minnesota. Through its CDE, MMCDC is able to meet the financing needs of rural Minnesota manufacturers by offering larger loan products.

MMCDC has longstanding relationships with banks throughout the state. For example, in 1993, MMCDC helped create Minnesota's Community Development Company (MCDC), a consortium of small banks created to support community development lending and provide access to capital in rural Minnesota.

Using the Credit, MMCDC leveraged its bank relationships by bringing a consortium of rural Minnesota banks together with US Bancorp CDC in a NMTC transaction that financed two separate manufacturing facilities. By combining the two projects into one equity investment, legal and financing costs were contained and the total QEI on these transactions was $4.9 million. US Bancorp CDC served as the NMTC equity investor for this transaction and the MCDC bank consortium served as the lender for both projects.

The first manufacturing facility is based in Bagley, Minnesota which is one of the poorest counties in the state with more than 20 percent of the population living below the poverty line and an unemployment rate of 15 percent. TEAM Industries has a facility in Bagley that manufactures high-end machine components that provide power-train solutions to a variety of markets including all-terrain vehicles, snowmobiles, and agricultural and construction products. Over the last 16 years MMCDC has worked with TEAM Industries providing financing and technical assistance to support the company's growth as it expanded to 1,100 employees across six Minnesota facilities, five of which are in rural areas.

Photo: MMCDC

While TEAM Industries experienced increased demands for its products, it also faced considerable price pressure from overseas manufacturers. If the company was going to stay competitive, TEAM had to make technological improvements and expand its Bagley facility. To do so, the company needed a flexible source of capital.

MMCDC provided a $1.37 million, 7-year, interest-only loan to finance the company's expansion. The Credit allowed MMCDC to buy down the interest rate to 25 percent below market, which was critical to making the overall finance package work. The expansion added 30 new high-skilled jobs to the current 260 full-time positions at the Bagley plant.

Like TEAM Industries, ShoreMaster, based in Fergus Falls, is also facing stiff competition from overseas. The company manufactures shoreline and dock equipment and has been in operation since 1985. ShoreMaster experienced rapid growth and opened a second facility in 2002. As demand continued to increase, the company needed to expand again but could not absorb additional costs without impacting its pricing structure.

Through use of the Credit, MMCDC provided a $3.14 million, 7-year, interest-only loan with a rate of 15 to 17 percent below market to finance the expansion. In addition, MMCDC structured the loan so that after the 7-year loan term, equity will be left in the business. The City of Fergus Falls supported the project by purchasing the new facility under a long-term lease-back option structure. Minnesota's Department of Employment and Economic Development provided equipment financing. The expansion of ShoreMaster retained 300 jobs and created 30 new jobs in a community of 13,000.

New Markets Tax Credits have helped to stabilize these rural manufacturing facilities in Minnesota. TEAM Industries benefited from below market interest rate terms and interest-only payments to support its growth, and ShoreMaster benefited from a flexible debt instrument and attractive financing rates and terms which allow equity to remain in the business after 7 years, further ensuring that the plant will remain viable.

Through this unique transaction MMCDC increased the capacity of local lenders to utilize the Credit as a financing tool. The Credit also helped to open up a new market for US Bancorp, who had not placed many investments in rural Minnesota prior to the MMCDC transaction. As a result of the success of these projects, US Bancorp CDC has committed to investing in a large number of current and prospective NMTC projects with MMCDC.

Story from the Field: Innovation in the Heartland

Allocatee:	Ohio Community Development Finance Fund
Headquarters:	Ohio
Service Area:	Statewide
Allocation:	$55 million total: $15 million (Round I); $15 million (Round II); $25 million (Round IV)

The Ohio Community Development Finance Fund (Finance Fund) is a private, nonprofit corporation that supports and promotes the revitalization of disadvantaged communities in Ohio. Finance Fund partners with community-based organizations, financial institutions, philanthropic organizations, and state and local governments to promote economically healthy urban and rural neighborhoods.

Launched in 1987, Finance Fund engages in creative approaches that build bridges between capital markets and distressed communities. Currently, Finance Fund manages more than $87 million in assets and administers six programs that support housing, economic development and other community initiatives. Finance Fund has extensive relationships with local, regional and national banks that have worked with them on affordable housing and community development initiatives. The organization has utilized innovative tools, including its Linked Deposit Fund, to provide low-cost financing for investments in low income communities.

The Linked Deposit Fund provides community-based nonprofit developers access to affordable financing from local lenders for housing and economic development projects. The Finance Fund makes deposits in local banks and in return the banks use the interest earned to provide low-cost permanent financing for eligible projects.

Recognizing the New Markets Tax Credit as a tool to increase direct investment in distressed communities, Finance Fund created the Community Loan Fund, a blind pool of NMTC investors. Based on trust in Finance Fund's ability to identify sound, mission-oriented investments as demonstrated through the Linked Deposit Fund, the consortium of investors had full faith in Finance Fund's ability to utilize the Credit. These bank investors include Fifth Third Bank, M & I, Peoples Bank and Key Bank.

Since 2003, Finance Fund has received three NMTC awards totaling $55 million in tax credit allocations. These awards and the creation of the Community Loan Fund have allowed the Finance Fund to finance a wide range of business and community facility projects including a downtown revialization in rural Appalachian Ohio and the creation of a psychiatric youth facility in inner-city Columbus.

Little Cities of the Black Diamonds

The Little Cities of Black Diamonds region is made up of a series of small towns and rural townships in the rugged hills of southern Perry, northern Athens, eastern Hocking and western Morgan Counties of Ohio. Once a prosperous railroad region rich in coal resources, the Little Cities area has experienced consistent economic decline and population loss since the 1920's.

The Shawnee-New Straitsville Downtown Revitalization project focuses on promoting the historic Main Street district in two of the Little Cities of Black Diamonds. Sunday Creek Associates, a local Appalachian community development corporation, working with the Finance Fund's Credit allocation and Linked Deposit Fund, refinanced and rehabilitated five property projects that comprise the Shawnee-New Straitsville Main Street. The total project cost for renovation of three residential and two commercial properties was $306,450. Through NMTC the Finance Fund provided a $160,000, 7-year interest-only loan, with a 5 percent interest rate, amortized over 30 years. The Fund also utilized its Linked Deposit Fund to bring the interest rate down to 5 percent on the project's commercial debt of $246,450.

Thanks to the Credit, a deteriorated downtown in a rural Appalachian community has been revitalized. Where nearly condemned buildings once stood local owners now operate a restaurant and barbershop. This project now serves as the anchor from which new businesses will grow.

The rehabilitation of these properties created 13 construction jobs, provided 10,000 feet of commercial space, increased tourism and is expected to create 10 full time jobs, for the Shawnee-New Straitsville Main Street.

Pomegranate Health Systems


Rendering: Finance Fund

Pomegranate Health Systems provides inpatient and outpatient mental health services to children and their families. Pomegranate provides state-of the-art residential treatment for children and adolescents while sustaining and strengthening their relationships with their families and home communities.

Pomegranate, owned and operated by physicians, sought to construct a 70-bed, 45,000 square foot psychiatric facility near downtown Columbus in the West Edge Business Center. In 2005 Columbus, Ohio was ranked as the United States 15th largest city, with 730,657 residents as part of a 1.5 million metropolitan area. The median income for a household in the city was $37,897, in the Franklinton neighborhood, the site of Pomegrante Health Systems; nearly 30 percent of households earn less than $10,000 annually. In the largest city in Ohio, access to mental health services for youth was limited. With the closest inpatient facilities located far outside the city center, youths were sometimes required to travel as far away as West Virginia for services.

The owners of Pomegranate experienced difficulties securing conventional financing to construct the new $7 million facility. Lenders were willing to offer bond financing, but not for the full amount of the project. Although the owners contributed substantial equity to the project, a healthcare facility dependent on an unpredictable revenue stream, was unattractive to conventional lenders. Using NMTC, Finance Fund and Key Bank worked together to finance the facility. Key Bank financed a $5 million bond offering; and Finance Fund provided a $1.62 million NMTC loan, at 5 percent over 7 years with the remainder of funding being owner equity.

With NMTC, the Finance Fund was able to work with a local lender and local business owners to place a vital community asset in a distressed community. This site will provide care for children 8 to 17 years of age and operate an outpatient center. With the development of Pomegranate facility, 150 full time and 198 construction jobs will be created in the predominantly lower income Franklinton neighborhood.

The NMTC has enabled Finance Fund to extend its reach to underserved rural and urban communities that lack capacity and access to capital. James Klein, CEO of Finance Fund, indicated that with its third NMTC allocation, the Finance Fund will direct additional investments to rural communities. The Finance Fund is researching an Ambassador program to market the NMTC and other investment products in rural Ohio through direct relationships with decision makers in those areas. Finance Fund will continue to build upon its successful use of NMTC to collaborate with investors to create more flexible loans and products that direct investments to low income communities throughout Ohio.

Story from the Field: Making Retail a Success in Rural America

Allocatee:	Rural Community Assistance Corporation (Rural One LLC)
Headquarters:	West Sacramento, CA
Service Area:	Multi-state (western U.S.)
Allocation:	$8 million (Round I)

RCAC, founded in 1978, is dedicated to strengthening and building the capacity of nonprofit agencies that serve low income people in rural communities. Operating in 13 western states, RCAC, through its subsidiary Rural One LLC, is working to fill the financing gaps and serve the communities traditionally underserved by conventional markets.

RCAC operates a loan fund and also provides training and technical assistance to rural communities. RCAC regularly makes loans to nonprofit affordable housing organizations as well as small communities in need of affordable housing. RCAC also provides loans for rural infrastructure and community facilities. With NMTC, RCAC has the tools to expand its mission of building the capacity of low income communities by investing in facilities that generate employment and support local economies.

In Whidbey Island, Washington, RCAC used 100 percent of its $8 million New Markets Tax Credit allocation to work with a community bank and local nonprofit community fund to renovate a community shopping center. With the first NMTC transaction in rural Washington, the residents of the Langley community on south Whidbey Island now have a place to shop, dine and receive basic services.

Located about 30 miles north of Seattle, Whidbey Island, population 58,000, is one of nine islands in Island County, Washington. Due to the presence of the Naval Air Station, North Whidbey has a strong economy with employment and retail chains. In contrast, South Whidbey, home of Langley's Bayview community, is a more rural, primarily farming community with limited access to retail outlets for goods and services. In addition, access to medical care is also very limited on the south end of the Island. The Bayview shopping center is one of the few retail outlets in the low income Langley community easily accessible to residents.

The Bayview shopping center, a 33,000 square foot 1970's vintage neighborhood facility and a popular location for local goods, was deteriorating and in need of major renovations. The shopping center was a vital retail outlet for the Langley community and a significant community owned asset. The owner of the shopping center, the Goosefoot Community Fund, could not afford to make costly renovations without raising the rents beyond the reach of their commercial tenants. However, without investment, the shopping center risked being lost to a private developer and the community would lose control.

The Goosefoot Community Fund is a nonprofit corporation dedicated to local economic development and preserving and enhancing the rural character of Whidbey Island. Its projects include sustainable economic development, preservation and restoration of historic structures and protection of open space.

RCAC saw preservation of the Bayview shopping center as central to its mission in Washington State and stepped in to help Goosefoot obtain financing needed for renovation. RCAC persuaded the locally owned Whidbey Island Bank to make a $8 million QEI in exchange for the Credit. Whidbey Island Bank is a wholly-owned subsidiary of Washington Banking Company and operates 20 branches located in five counties in Northwestern Washington.

Utilizing the Credit, RCAC provided an interest only loan of $8 million at an interest rate of 5 percent over 7 years. RCAC's initial loan of $6.84 million was disbursed at closing and the remaining funds are being held in the borrowers account at Whidbey Island Bank for future draws over the next three years. This transaction was the bank's first NMTC deal and the first NMTC-financed project to take place in rural Washington.

Photo: RCAC

With the Credit, the Goosefoot Community Fund was able to finance the revitalization of the Bayview shopping center and acquire and develop the site for a healthcare clinic. Renovations to the shopping center provided critical infrastructure improvements including replacing a septic system that was at capacity (there is no public sewer system) which prevented expansion of the shopping center's existing enterprises. This infrastructure work was essential to increasing revenues and laying the groundwork for further expansion.

With financing provided by the Credit, the shopping center has been able to sustain affordable rents, creating an environment for local entrepreneurs to thrive.

Conclusion

Look How Far We Have Come

It has been three and a half years since the first NMTC Allocatees signed Allocation Agreements with the Treasury Department making the Credit available to investors and officially introducing it to the market. Much has taken place in this relatively short period of time, not the least of which is that $7.7 billion in private capital has been invested in poor communities across the country thanks to the Credit.

In addition, over the last three years an effective infrastructure has been put in place within the Treasury Departments to administer the New Markets Tax Credit. Treasury brought together the Community Development Financial Institutions (CDFI) Fund with the Internal Revenue Service (IRS) and the Office of Tax Policy in a unique partnership to administer the Credit. This team brings together the CDFI Fund's expertise in community development with the tax compliance and market disciplines of Tax Policy and IRS. This has encouraged the community development industry to more fully engage the Treasury Department in a discussion about community development in low income communities.

Furthermore, over the last three years an industry of Community Development Entities (CDEs) has emerged and matured. More than 200 CDEs have been awarded Credit Allocations to date. In addition to these CDE Allocatees, the CDFI Fund has certified more than 2,000 CDEs that are taking advantage of the Credit as subsidiaries of CDE Allocatees, as recipients of loans or investments from other CDEs or by selling qualified loans to CDEs.

As the CDE industry matures new types of partnerships are evolving. Allocatees are looking at different ways to work with other community organizations and investors. Disadvantaged communities are inviting CDEs to assist them with revitalization efforts. The profiles of the Ohio Finance Fund and Rural Community Assistance Corporation included in this report illustrate how CDEs are working with smaller community development organizations and making the benefits of the Credit available to them.

Over the last three years a vibrant investor market has emerged to support the Credit. According to the CDFI Fund, close to 600 distinct investors have taken advantage of the NMTC to date. The GAO reports the vast majority of these investors would not have invested in a NMTC deal if not for the Credit. In this as well as in previous reports there are examples of how CDEs are using the Credit to attract private investors to new communities. This year's report profiles Midwest Minnesota CDC and describes how the Credit allowed it to secure an investment from a major financial institution that previously had no presence in rural Minnesota.

It is apparent that as the skill and capacity of CDEs increases and the comfort level of investors rise, low income communities are seeing additional benefits from the Credit. As this report indicates CDEs are financing deals with below market terms and conditions. These projects help to jump start the economy of some of America's poorest communities by providing services, creating jobs and opportunities. CDEs are also finding ways to use revenue derived from the Credit to further promote community revitalization, including financing micro business, women's business and minority business loan funds, and community centers. In other cases, CDEs are leaving capital in the qualified business after the end of the Credit period, thereby allowing a long term source of patient capital to sustain and enhance growth. From Holyoke, Massachusetts to Atlanta, Georgia CDEs are finding creative ways to extend the benefits of the Credit.

In short, we have seen a vibrant New Markets Tax Credit industry evolve over the last three and a half years. The terms CDE, QEI and QALICB have become part of the community development lexicon. Members of Congress are becoming increasingly familiar with this NMTC vocabulary as they see business and development projects in their communities that have directly benefited from the NMTC.

This Year's Progress Report *Finds:*

We are pleased to report that the findings of the *2007 NMTC Progress Report* are consistent with the Coalition's previous reports: Allocatees are effectively raising private capital, developing flexible financing products not otherwise available in the market, and investing in businesses and development projects in very poor communities.

The CDE Allocatees surveyed are continuing to go beyond what is required by law and regulation in terms of raising and deploying capital in a timely manner. In addition, CDEs continue to report that they are working in very poor communities with significantly higher poverty rates and lower median incomes that required by law.

The competition for Credits has been an effective force in driving the market to provide products not otherwise available in the marketplace particularly for financing businesses or development in low income communities. This competitive market is taking a federal program that is already targeted to low income communities and driving it to serve communities of greatest need.

- First, CDEs are raising Qualified Equity Investments at a faster pace than required by law or regulation. CDEs had issued 87 percent of their QEIs as of December 31, 2006 and expect that 95 percent of their allocations, or $5.2 billion, will be issued as QEIs by the end of 2007.
- Second, Allocatees are deploying capital into qualified businesses more rapidly than the law mandates. Thirty-two percent report that they invest their NMTC proceeds into loans and investments in low income communities in less than one week, and 47 percent deploy capital within three months. These CDEs have deployed almost $4 billion into qualified businesses and anticipate investing $1.1 billion more before the end of the year. This would represent more than 98 percent of QEIs issued.

CDEs are offering financing products at rates and terms well below market. Debt products with below market interest rates are the most common NMTC product. More than 89 percent of CDEs report that below market interest rates are one of their top three most utilized flexible financing products.

Finally, CDEs continue to target proceeds of the Credit to poorer communities than required by the law or regulations. CDEs report that 91 percent of Qualified Low Income Community Investments were made into businesses with one or more indicators of high economic distress that exceed the minimum required by law.

We Are Just Getting Started

Members of the New Markets Tax Credit Coalition are committed to documenting how the Credit is working and taking these stories to policy makers in Washington. Our efforts are focused on educating Members of Congress and the Administration on how the Credit is being used to attract new private capital to poor communities and generate investment and development to better the economies of those communities.

The success of the Coalition's work is directly tied to the good work of CDEs and investors and the impact of the Credit on low income communities across the country.

The Credit has been successful in rural and urban communities and in Republican and Democratic districts. Because of this the Coalition has been able to assemble bi-partisan congressional coalitions to support legislation to extend the Credit.

The Coalition's annual *NMTC Progress Reports* are a vital tool in this education and advocacy effort. This report coupled with the GAO report and transaction reports released by the CDFI Fund all point to the New Markets Tax Credit as a program that is fulfilling its mission – to attract private capital to low income communities that have been overlooked by traditional investor markets.

The Coalition will continue to report on the activity of the vibrant and growing New Markets industry and work to deepen support for the Credit in Washington.

Information about the New Markets Tax Credit Extension Act of 2007 can be found in Appendices C and D and additional information on the Coalition's efforts to support this legislation can be found on the New Markets Tax Credit Coalition's website.

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Appendix A:

NEW MARKETS TAX CREDIT COALITION

NMTC Survey of Round I, II, & III Allocatees

Part I. Basic Information

Name of Allocatee:____

Name of Parent/Controlling Entity:____

Allocatee Service Area – check all those that apply to allocations you have received:
__ Local
__ Statewide
__Multi-state
__National

If Allocatee Service Area is Local (e.g. Los Angeles), please specify: _____________________

If Allocatee Service Area is Statewide, please specify the state: _________________________

For all Rounds, if Allocatee Service Area is Multi-state or National, please list all the states in which you have at least one QLICI as of 12/31/2006 :

____

____

Rounds Receiving Allocations:
__ Round I
__ Round II
__ Round III

Contact Person and Title:____

Telephone:____

E-mail: ____

Would you like additional information about the NMTC Coalition?____Yes _____No

Are you willing to engage in a follow-up interview after completing this written survey?
____Yes _____No

NMTC Survey of Round I, II, & III Allocatees

Part II. Securing Investors and Issuing Qualified Equity Investments (QEIs)

		Round I	Round II	Round III
13.	What is the total dollar amount of your NMTC Allocation award in Rounds I, II, and/or III?	$	$	$
14.	What date did you sign your Allocation Agreement (mm/dd/yyyy)?			
15.	As of 12/31/06, what was the total dollar amount in QEIs your CDE had issued?	$	$	$
16.	As of 12/31/06, what was the total dollar amount in QEIs legally committed but not yet issued?	$	$	$
17.	What is the total dollar amount of ***additional*** QEIs you anticipate issuing by December 31, 2007? (This figure should reflect the total dollar amount of QEIs you anticipate issuing between 1/1/07 and 12/31/07.)	$	$	$

18. Aggregating all the Rounds in which you have received allocations, please estimate the percentage share of dollars your CDE has issued in QEIs to the following types of institutions (should add up to 100%)

Regulated National Bank ____%
Regulated Regional Bank ____%
Regulated Local Community Bank ____%

Unregulated financial services firm
(e.g., GE Capital, Capmark Finance, Bear Stearns, etc.) ____%
Insurance company ____%
Venture capital fund ____%

Corporation (other than listed above) ____%
Individual ____%
*Other (please specify below) ____%

*Other: ______________________________

19. On average, how many dollars are **leveraged** (either public or private) for every dollar the CDE invests or lends using capital derived from a QEI? (e.g. $7.00) $

NMTC Survey of Round I, II, & III Allocatees

Part III: Deploying Qualified Low Income Community Investments (QLICIs)

20. Once your CDE has issued a QEI, how long does it take, on average, to place the proceeds of that investment in a QLICI? Please check only one.

- ❏ Less than one week
- ❏ One month or less
- ❏ 1-3 months
- ❏ 3-6 months
- ❏ More than 6 months
- ❏ *Other (please specify below)

*Other: ____

21. What are the flexible or non-traditional financing products offered most frequently by your CDE? Please check the top three.

- ❏ *Equity Investments*
- ❏ *Equity Equivalent* terms and conditions
- ❏ Debt w/equity features
  (e.g., debt w/royalties; debt w/warrants; convertible debt)
- ❏ Subordinated debt
- ❏ Below market interest rates
- ❏ Lower than standard origination fees
- ❏ Longer than standard period of interest-only loan payments
- ❏ Higher than standard loan to value ratio
- ❏ Longer than standard amortization period
- ❏ More flexible borrower credit standards
- ❏ Non-traditional forms of collateral
- ❏ Lower than standard debt service coverage ratio
- ❏ Loan loss reserve requirements that are less than standard

NMTC Survey of Round I, II, & III Allocatees

Part IV: Deploying QLICIs – Rural, Minor Urban & Major Urban Areas[1]

Part IV. Instructions:
In this section, we are looking to get a sense of the total number of Qualified Low Income Community Investments (QLICIs) and dollar amount of those QLICIs you directed towards rural, major urban, and minor urban areas as of 12/31/2006.

By QLICI, we mean an individual transaction that could take the form of:

- a loan or investment in a qualified business;
- the purchase of a qualified loan from another CDE;
- financial counseling to businesses or residents in a low income community;
- loans and equity investments in another CDE.

Thus, even if you made multiple QLICIs in a single QALICB, you should record all of the QLICIs here.

	Round I	Round II	Round III
22. As of 12/31/06, what was the total number of QLICIs that you deployed for each round?			
23. As of 12/31/06, what was the total dollar amount of QLICIs that you deployed for each round?	$	$	$
24. As of 12/31/06, what was the total number of QLICIs that you deployed to rural areas for each round?			
25. As of 12/31/06, what was the total number of QLICIs that you have deployed to major urban areas for each round?			
26. As of 12/31/06, what was the total number of QLICIs that you deployed to minor urban areas for each round?			
27. As of 12/31/06, what was the total dollar amount of QLICIs that you deployed to rural areas for each round?	$	$	$
28. As of 12/31/06, what was the total dollar amount of QLICIs that you deployed to major urban areas for each round?	$	$	$
29. As of 12/31/06, what was the total dollar amount of QLICIs that you deployed to minor urban areas for each round?	$	$	$

1 CDFI Fund Definitions:

- **Major Urban Area** - a metropolitan area with a population equal to or greater than 1 million, including both central city and surrounding suburbs.
- **Minor Urban Area** - a metropolitan area with a population less than 1 million, including both central city and surrounding suburbs.
- **Rural Area** - areas not contained within major urban or minor urban areas.

NMTC Survey of Round I, II, & III Allocatees

Part V: Deploying QLICIs – Non-Real Estate & Real Estate Businesses[2]

Part V. Instructions:

In this section please indicate the types of Qualified Low Income Community Investments (QLICIs) that were made using your allocation(s) in Round I, II, and/or III in *non*-real estate and real estate businesses as of 12/31/2006. You will be asked about the total number of QLICIs and dollar amount of QLICIs (first for equity investments and then for loans further down on the page) for both non-real estate and real estate.

	Round I	Round II	Round III
	Investments in non-real estate businesses		
30. Total *number* of equity investments in *non*-real estate businesses.			
31. Total *dollar* amount of equity investments in *non*-real estate businesses.	$	$	$
	Investments in real estate businesses		
32. Total *number* of equity investments in real estate businesses (and please break down by type below).			

Each project should be recorded only once. For example, if you list an investment here for a Mixed-Use project, you should not also list it under Office Space.

The number of investments for each round in question 34 should add up to the total in question 33.

	Round I	Round II	Round III
33. Retail			
Office Space			
Mixed-Use			
Industrial/Mfg.			
For-Sale Housing			
Community Facility			
*Other (please specify in question 39)			

34. *Please specify "Other" equity investments from question 33: ______________________

	Round I	Round II	Round III
35. Total *dollar* amount of equity investments in real estate businesses (please break down by type below).	$	$	$
Retail	$	$	$
Office Space	$	$	$
Mixed-Use	$	$	$
Industrial/Mfg.	$	$	$
For-Sale Housing	$	$	$
Community Facility	$	$	$
Other	$	$	$

2 The CDFI Fund defines a real estate business as a business that is principally engaged in the development of a specific real estate project or projects. Investments in real estate businesses (development, management or other) in support of their business operations, as opposed to a specific project or projects, are considered non-real estate business transactions.

NMTC Survey of Round I, II, & III Allocatees

	Round I	Round II	Round III
	Loans to non-real estate businesses		
36. Total *number* of loans to *non*-real estate businesses.			
37. Total *dollar* amount of loans to *non*-real estate businesses.	$	$	$
	Loans to real estate businesses		
38. Total number of loans to real estate businesses (please specify below).			

Each project should be recorded only once. For example, if you list a loan here for a Mixed-Use project, you <u>should not</u> also list it under Office Space.

The number of loans for each round in question 39 should add up to the total in question 38.

	Round I	Round II	Round III
39. Retail			
Office Space			
Mixed-Use			
Industrial/Mfg.			
For-Sale Housing			
Community Facility			
*Other			

40. *Please specify "Other" loans from question 39:______________________________

	Round I	Round II	Round III
41. Total dollar amount of loans to real estate businesses (please break down by type below).	$	$	$
Retail	$	$	$
Office Space	$	$	$
Mixed-Use	$	$	$
Industrial/Mfg.	$	$	$
For-Sale Housing	$	$	$
Community Facility	$	$	$
Other	$	$	$

NMTC Survey of Round I, II, & III Allocatees

Part VI: Deploying QLICIs — Other

Part VI. Instructions:

In this section, you will be asked about the total number and dollar amount of investments in other CDEs, loans to other CDEs, loan purchases from other CDEs, and financial counseling and other services as of 12/31/2006.

	Round I	Round II	Round III
	Investments in other CDEs		
42. Total number of equity investments in other CDEs.			
43. Total dollar amount of equity investments in other CDEs.	$	$	$
	Loans to other CDEs		
44. Total number of loans to other CDEs.			
45. Total dollar amount of loans to other CDEs.	$	$	$
	Loan purchases from other CDEs		
46. Total number of loan purchases from other CDEs.			
47. Total dollar amount of loan purchases from other CDEs.	$	$	$
	Financial counseling and other services		
48. Total number of financial counseling and other services provided.			
49. Total dollar amount of financial counseling and other services provided.	$	$	$

NMTC Survey of Round I, II, & III Allocatees

Part VII: Deploying QLICIs – Economically Distressed or Underserved Communities

	Round I	Round II	Round III
50. As of 12/31/06, what was the **total number of QLICIs** that you made in each of the following classifications of economically distressed or underserved communities? *Note: The CDFI Fund's* Transaction Level Report *requires this documentation and we recognize that more than one category may be checked for a single transaction*. Please do not merely check the categories "yes" or "no" – again, the total number of transactions is needed.			
Poverty Rates >30%			
Median Incomes <60%			
Unemployment ≥ 1.5 times the national average			
Federally-designated EZ, EC, or RC			
SBA-designated HUBZones			
Brownfield redevelopment areas			
Areas encompassed by a HOPE VI redevelopment plan			
Federally-designated Native American, Alaskan Native area, Hawaiian Homelands, or Tribal area			
Area designated as distressed by the Appalachian Regional Commission or the Delta Regional Authority			
Colonias areas designated by HUD			
Federally-designated medically underserved areas			
CDFI Hot Zone			
High migration rural county			
State or local tax increment financing districts, EZs or other locally designated areas of distress			

	Round I	Round II	Round III
51. What percentage of your total number of QLICIs was used to finance activities in one or more of the economically distressed areas identified above?	%	%	%

Part VIII: Pipeline of QLICIs

Part VIII. Instructions:
Please answer the following questions based on your current project pipeline and your experience to date in terms of deploying Qualified Low Income Community Investments (QLICIs). This question is designed to determine the demand for NMTC financing.

		Round I	Round II	Round III
52.	What is the total number of transactions in your pipeline that you anticipate closing between 1/1/07 and 12/31/07?			
53.	What is the total dollar amount of transactions in your pipeline that you anticipate closing between 1/1/07 and 12/31/07?	$	$	$

Part IX: Describe a NMTC Project

Part IX. Instructions:
Please send to the NMTC Coalition a description (or descriptions) of a NMTC project (or projects) that you closed on or before 12/31/2006. The description should be a press release or a short project summary that you have on hand.

As with the Coalition's two previous reports, the 2007 Progress Report will include "Stories from the Field" to highlight the ways the Credit is creating jobs and economic opportunities in underserved communities.

We are also continuing to expand our database of projects to use when advocating for the NMTC Program on Capitol Hill.

Please send all examples to Matt Kopac at matt@rapoza.org.

Appendix B: A New Markets Tax Credit Timeline

2000	
December	■ NMTC Program signed into law as part of the Community Renewal Tax Relief Act of 2004 (PL 105-554)
2001	
December	■ IRS releases temporary NMTC regulations ■ CDFI Fund issues CDE certification application
2002	
October	■ First-round allocation applications submitted to CDFI Fund with a $26 billion demand for $2.5 billion in available allocations
2003	
March	■ CDFI Fund awards $2.5 billion in first-round allocations
October	■ Second-round allocation applications submitted to CDFI Fund with a $30 billion demand for $3.5 billion in available allocations
November/ December	■ First-round allocation agreements signed
2004	
March	■ IRS releases revised temporary NMTC regulations
May	■ CDFI Fund awards $3.5 billion in second-round allocations
October	■ Corporate Tax Bill (HR 4520) passed with provision allowing the targeting low-income communities by place and population ■ Third-round allocation applications submitted to CDFI Fund with a $23 billion demand for $2 billion in available allocations
Fall/Winter	■ Second-round allocation agreements signed
December	■ IRS releases final NMTC regulations
2005	
March	■ CDFI Fund announces $2 billion in QEIs issued by first-and second-round allocatees
July	■ CDFI Fund awards $2 billion in third-round allocations
Fall/Winter	■ Third-round allocation agreements signed
December	■ Gulf Opportunity Zone Act (P.L. 109-135), which provides an additional $1 billion in New Markets Tax Credit volume for areas affected by Hurricane Katrina, signed into law.

continued on page 44

2006	
March	■ The CDFI Fund announces plans to award the first $600 million in targeted Credits to CDEs working in qualified communities in the Gulf States
June	■ CDFI Fund awards $3.5 billion fourth-round allocations and $600 million in Credits for Go Zone
	■ IRS issues notice on Targeted Populations
Fall/Winter	■ Fourth-round allocation agreements signed
December	■ Tax Relief and Health Care Act (PL 109-432) including one-year reauthorization of NMTC and language targeting Credit to non-metro areas, signed into law
2007	
March	■ Fifth-round allocation applications submitted to CDFI Fund with $28 billion demand for $3.5 billion in available allocations
	■ CDFI announces $7.7 billion in QEIs issued by first, second, and third-round allocatees
April	■ New Markets Tax Credit Extension Act of 2007 introduced in Congress
Fall 2007	■ CDFI Fund expected to award $3.5 billion in fifth-round allocations and an additional $400 million targeted to Go Zones

Appendix C:
H.R. 2075, New Markets Tax Credit Extension Act of 2007

110TH CONGRESS
1ST SESSION

H. R. 2075

To amend the Internal Revenue Code of 1986 to extend the new markets tax credit through 2013, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

APRIL 30, 2007

Mr. NEAL of Massachusetts (for himself, Mr. LEWIS of Kentucky, Mr. MCDERMOTT, Mr. ENGLISH of Pennsylvania, Mrs. JONES of Ohio, Mr. RAMSTAD, Mr. BLUMENAUER, Ms. PRYCE of Ohio, Mr. JEFFERSON, Mr. BISHOP of Georgia, and Mr. LUCAS) introduced the following bill; which was referred to the Committee on Ways and Means

---

A BILL

To amend the Internal Revenue Code of 1986 to extend the new markets tax credit through 2013, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "New Markets Tax Credit Extension Act of 2007".

SEC. 2. EXTENSION OF NEW MARKETS TAX CREDIT.

(a) EXTENSION.—

(1) In general.—Subparagraph (D) of section 45D(f)(1) of the Internal Revenue Code of 1986 (relating to national limitation on amount of investments designated) is amended by striking "2006, 2007, and 2008" and inserting "each of calendar years 2006 through 2013".

(2) Conforming amendment.—Section 45D(f)(3) of such Code is amended by striking "2014" and inserting "2020".

(b) Inflation Adjustment.—Section 45D(f) of the Internal Revenue Code of 1986 is amended by inserting at the end the following new paragraph:

"(4) Inflation adjustment.—

"(A) In general.—In the case of any calendar year beginning after 2008, the dollar amount in paragraph (1)(D) shall be increased by an amount equal to—

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year, determined by substituting 'calendar year 2007' for 'calendar year 1992' in subparagraph (B) thereof.

"(B) Rounding rule.—If a dollar amount in paragraph (1)(D), as increased

3

under subparagraph (A), is not a multiple of $1,000,000, such amount shall be rounded to the nearest multiple of $1,000,000.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

○

Appendix D:
S. 1239, New Markets Tax Credit Extension Act of 2007

II

110TH CONGRESS
1ST SESSION

S. 1239

To amend the Internal Revenue Code of 1986 to extend the new markets tax credit through 2013, and for other purposes.

IN THE SENATE OF THE UNITED STATES

APRIL 26, 2007

Mr. ROCKEFELLER (for himself, Ms. SNOWE, Mr. SCHUMER, Mr. KERRY, Mr. BINGAMAN, Ms. STABENOW, Mr. SMITH, Mr. BROWN, and Mrs. DOLE) introduced the following bill; which was read twice and referred to the Committee on Finance

---

A BILL

To amend the Internal Revenue Code of 1986 to extend the new markets tax credit through 2013, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "New Markets Tax Credit Extension Act of 2007".

SEC. 2. EXTENSION OF NEW MARKETS TAX CREDIT.

(a) EXTENSION.—

(1) IN GENERAL.—Subparagraph (D) of section 45D(f)(1) of the Internal Revenue Code of 1986 (re-

lating to national limitation on amount of investments designated) is amended by striking "2006, 2007, and 2008" and inserting "each of calendar years 2006 through 2013".

(2) CONFORMING AMENDMENT.—Section 45D(f)(3) of such Code is amended by striking "2014" and inserting "2020".

(b) INFLATION ADJUSTMENT.—Section 45D(f) of the Internal Revenue Code of 1986 is amended by inserting at the end the following new paragraph:

"(4) INFLATION ADJUSTMENT.—

"(A) IN GENERAL.—In the case of any calendar year beginning after 2008, the dollar amount in paragraph (1)(D) shall be increased by an amount equal to—

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year, determined by substituting 'calendar year 2007' for 'calendar year 1992' in subparagraph (B) thereof.

"(B) ROUNDING RULE.—If a dollar amount in paragraph (1)(D), as increased under subparagraph (A), is not a multiple of

$1,000,000, such amount shall be rounded to the nearest multiple of $1,000,000.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

○

Appendix E: Floor Statement by the Honorable Richard Neal on the Extension of the New Markets Tax Credit

E888 CONGRESSIONAL RECORD — *Extensions of Remarks* April 30, 2007

say that though he is the President, it's Debbie that does all the work. In 1994, Debbie was diagnosed with Multiple Sclerosis. Several times during her battle with this debilitating disease, Debbie has had to be hospitalized or homebound. Each time, she has demanded her work be brought to her home and she always showed more concern for the men and women the Association serves than for her own health.

Robert Criss has been a part of the Association since 1991. He retired as a Captain from the Highland Park Police Department in 1999. His first-hand knowledge of the needs of the law enforcement officers the Association serves has made him an invaluable volunteer. And, by all accounts, Bob Criss volunteers "excessive amounts of time" to this work, perhaps most importantly as the Chair of the Youth and Child Identification program.

The New Jersey State Law Enforcement Officers Association will be seventy years old next year. Its members serve the people of New Jersey as Federal, State, county, and municipal law enforcement officers, special police, and auxiliaries. It is the outstanding commitment of people like Debbie Ferroni and Bob Criss that allows the Association to serve these brave officers so well.

As it does each year, this past weekend, the Association honored several of its members for their valor and bravery in the line of duty. I join the Association in the pride they show for these officers and I am proud to honor Debbie and Bob for their sense of duty as well.

RECOGNIZING LOGAN JAMES REED FOR ACHIEVING THE RANK OF EAGLE SCOUT

HON. SAM GRAVES

OF MISSOURI

IN THE HOUSE OF REPRESENTATIVES

Monday, April 30, 2007

Mr. GRAVES. Madam Speaker, I proudly pause to recognize Logan James Reed, a very special young man who has exemplified the finest qualities of citizenship and leadership by taking an active part in the Boy Scouts of America, Troop 374, and in earning the most prestigious award of Eagle Scout.

Logan has been very active with his troop, participating in many scout activities. Over the years Logan has been involved with scouting, he has earned 31 merit badges and held numerous leadership positions, serving as Assistant Patrol Leader and Patrol Leader. 1Logan has earned the Master Camper Award and became a warrior in the Tribe of Mic-O-Say.

Logan used his leadership skills to lead a group of boys and adults in constructing two pre-fabricated water fountains and benches with a concrete pad that is handicap accessible on the walking trail in Kearney. He is a member of the Northern Hills Baptist Church and attends the Excelsior Springs Area Career Center for the HVAC program.

Madam Speaker, I proudly ask you to join me in commending Logan James Reed for his accomplishments with the Boy Scouts of America and for his efforts put forth in achieving the highest distinction of Eagle Scout.

EXPRESSING SORROW OF THE HOUSE AT THE DEATH OF THE HONORABLE JUANITA MILLENDER-MCDONALD, MEMBER OF CONGRESS FROM THE STATE OF CALIFORNIA

SPEECH OF

HON. GARY G. MILLER

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

Monday, April 23, 2007

Mr. GARY G. MILLER of California. Madam Speaker, I rise today to honor JUANITA MILLENDER-MCDONALD. She was my colleague and, more importantly, she was my friend.

JUANITA and I served together in the California State Assembly and later in Congress. Each week we shared a flight back and forth from Southern California and we grew to be very good friends.

In Congress, we partnered on the House Transportation and Infrastructure Committee to address the unique and pressing transportation needs of Southern California. We joined together to bring a national focus to the importance of Southern California's goods movement, highway financing, and transit needs. As conferees for the SAFETEA–LU Act, together we worked hard to bring historic levels of Federal transportation funding back to the Southern California region.

I am saddened by the loss of a great public servant and colleague that fought for the needs of her constituents and the Southern California region with grace, dedication, and honor.

I am also saddened by the loss of a dear personal friend.

JUANITA was a kind and gentle soul who was called home far too soon. Her wisdom and leadership in Congress will be sorely missed. I join my colleagues in praying that she is in a better place and that her family is able to find peace in knowing the tremendous contributions she made to her State and Nation during her years of public service.

INTRODUCTION OF NEW MARKETS TAX CREDIT BILL

HON. RICHARD E. NEAL

OF MASSACHUSETTS

IN THE HOUSE OF REPRESENTATIVES

Monday, April 30, 2007

Mr. NEAL of Massachusetts. Madam Speaker, I rise to offer legislation to extend the New Markets Tax Credit program for an additional five years. I am pleased to be joined by Rep. RON LEWIS in offering this bill, along with several other cosponsors.

The New Markets Tax Credit program has proved to be a remarkably successful way to revitalize communities. Current authority for the program, however, is due to expire at the end of next year. It is important that we extend this credit soon and that we provide for a long-term extension.

The credit was first enacted in 2000 as part of the Community Renewal Tax Relief Act. From enactment through fiscal year 2005, the New Markets Tax Credit has generated financing for the construction or rehabilitation of over 43 million square feet of real estate, and has helped to create or retain 72,000 construction jobs and 20,000 full time equivalent jobs in low-income community businesses.

The credit stimulates investment and economic growth in low-income urban neighborhoods and rural communities. Investors receive over seven years a 39 percent Federal tax credit for Qualified Equity Investments, with a 5 percent credit during the first three years and 6 percent during the next four years. These investments are made through vehicles known as Community Development Entities (CDEs), which raises capital from the tax credits and then makes loans to or investments in worthy businesses and projects in low-income areas. These CDEs must be domestic corporations or partnerships with a primary mission of providing investment capital to low-income persons or communities, must provide accountability to the communities or residents, and must be certified by the Treasury Secretary as an eligible entity.

Eligible communities, which include both metropolitan and rural areas, are low-income communities with a high poverty rate or low median family income. In the 2006 extension of this credit, the Treasury Secretary was directed to prescribe regulations ensuring that there was a balance in allocations between metropolitan and nonmetropolitan counties. Further, the Treasury Secretary may also designate targeted populations as low-income communities if certain individuals or an identifiable group of individuals, including an Indian tribe, are low-income persons or lack adequate access to loans or equity investments. Some have recently argued that service-connected disabled veterans are such a group and I encourage the Treasury Secretary to look into this reasonable suggestion.

Finally, the law requires that businesses, in order to be eligible for such investments, show that at least half of the total gross income of the business is derived from active operations in a low-income community, and that a substantial portion of the business property and the services performed by the employees are located in a low-income community.

I believe that all of these rules ensure that the credit is appropriately targeted. A recent GAO report found that the program is very effective at increasing investment in low-income communities. To date, New Markets Tax Credit investments in low-income communities total over $7.7 billion. The tax credit has been used to support a wide variety of community and economic development initiatives including, among others, the financing of charter schools, health care facilities, manufacturing businesses, grocery-anchored retail centers, and numerous other commercial and mixed-use real estate projects.

Now, despite this explanation, some of my colleagues may be wondering how these credits really work. Let me detail one local success story from my Congressional district, and encourage my colleagues to look into projects in their districts as well. Hot Mama's Foods is a Massachusetts-based food company, specializing in salsas, pestos, and other spreads. Recently, the company was able to secure a loan from the Massachusetts Development Finance Agency, a CDE, along with other financing in order to relocate to a USDA-certified food production facility in Springfield, which is in my district. That relocation and expansion meant the company could add an additional 10 jobs to its 50-person workforce and revitalize a neighborhood.

Appendix F: Floor Statement by the Honorable Ron Lewis, Introducing Legislation to Extend the New Markets Tax Credit

E890 CONGRESSIONAL RECORD — *Extensions of Remarks* *April 30, 2007*

Thank you for your attention to this matter.

Sincerely,

BART GORDON,
Chairman.

GREATER MARYVILLE CHAMBER OF COMMERCE

HON. SAM GRAVES

OF MISSOURI

IN THE HOUSE OF REPRESENTATIVES

Monday, April 30, 2007

Mr. GRAVES. Madam Speaker, I proudly pause to congratulate the Greater Maryville Chamber of Commerce on their Centennial Anniversary. On April 23, 1907, the chamber was created when area businessmen came together to improve the economic vitality by promoting businesses and community and enhancing the quality of life in Maryville, Missouri.

The mission of the Greater Maryville Chamber of Commerce is to support advancing agriculture, education, industry, legislation, retail, professional services, recreation, and tourism of the City of Maryville and its surrounding area.

The City of Maryville, organized on February 14, 1845, has become the commercial, educational and entertainment center for the region by hosting such events as fairs, auto shows, and rodeos.

Madam Speaker, I am proud to represent the Greater Maryville Chamber of Commerce and congratulate them on 100 years of service and I look forward to future celebrations.

INTRODUCTION OF NEW MARKETS TAX CREDIT BILL

HON. RON LEWIS

OF KENTUCKY

IN THE HOUSE OF REPRESENTATIVES

Monday, April 30, 2007

Mr. LEWIS of Kentucky. Madam Speaker, I am pleased to join my colleague Congressman NEAL in introducing legislation to extend New Markets Tax Credit program for an additional five years through 2013.

Originally authorized in 2000 as part of the bi-partisan Community Renewal Tax Relief Act, the New Markets Tax Credit has been successful in meeting its principal goal—namely, mobilizing capital to economically distressed urban and rural communities.

Reports from the U.S. Department of the Treasury, reveals that interest in the NMTC from the investor market continues to increase at a rapid pace. More than $7.7 billion in new private capital has already been raised from 560 distinct investors. A recent report released by GAO indicates that 88% of investors in New Markets Tax Credit projects would not have made the same investment without the Credit.

In addition to stimulating private investment, the credit is creating jobs and financing business development in low-income communities across the United States. In my home state of Kentucky, the credit has been very active. Seven Kentucky-based community development entities (CDEs) have received credit allocations totaling $153.5 million since 2003. One of these CDEs, Kentucky Highlands Investment Corporation, is using its $22 million allocation to invest in health-related businesses and health care facilities in rural Kentucky. Community Ventures Corporation, also secured $24 million in credits to invest in new and expanding businesses throughout the Commonwealth. These projects have the potential to create new jobs. To date, Community Ventures Corporation has used its credits to raise $24 million in investment that has been deployed in businesses throughout the state and it has a pipeline of qualified businesses seeking more that $121 million in NMTC financing that will have to wait until they can secure additional credits.

I believe the NMTC is a successful program because it brings diverse groups together—public and private sectors, investment banks and community development corporations—to attract private capital and jobs into some of the nation's most impoverished areas.

The NMTC has been successful because of the emphasis it places on community involvement. Private sector investment flows through entities like Kentucky Highlands Investment Corporation and Community Ventures Corporation that are extremely knowledgeable about the communities they serve and are experienced in providing the types of patient, flexible capital which conventional lenders and investors are unable to provide directly in that market.

The NMTC continues to be a catalyst for small business development. It has fostered start-ups, technology firms, manufacturers, neighborhood retail stores, and shopping centers in low-income communities. These investments in turn have created many jobs.

In addition, the NMTC has been used to finance vital community facilities that are often lacking in poor communities—charter schools, community health centers, biotechnology campuses, employment training centers, day care facilities, as well as mixed-use commercial and housing developments. These facilities are essential to help qualified communities grow and thrive.

I am a strong believer in the potential of the New Markets Tax Credit to bring capital to communities that have traditionally been left behind. I was pleased to be one of the leaders of the campaign to extend the Credit in 109th Congress and am proud of our accomplishments during that period of time. I continue to believe that Congress should extend the New Markets Tax Credit for several years, or provide a permanent authorization. Investors, CDE's and businesses need greater certainty in planning and implementing revitalization strategies in economically distressed urban and rural communities.

For this reason, I believe this legislation takes the correct course by authorizing this program for 5 years. I urge my colleagues to join us in co-sponsoring the New Markets Tax Credit Extension Act of 2007.

WILD FREE-ROAMING HORSES AND BURROS SALE AND SLAUGHTER PROHIBITION

SPEECH OF

HON. SAM FARR

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

Thursday, April 26, 2007

Mr. FARR. Mr. Chairman, I rise today in strong support of H.R. 249, to ban the commercial sale and slaughter of wild free-roaming horses and burros.

At the beginning of the 20th century, there were an estimated 2 million wild horses and burros, but by the 1950s there were only 20,000. Today, the number of horses has increased to 32,000. The population is mainly controlled through adoption. Since 1972, almost 217,000 horses have been adopted.

This is mostly due to the Wild Free-Roaming Horses and Burros Act of 1971, which has sought to preserve wild horses and burros on federal lands and has made the Bureau of Land Management (BLM) responsible for their preservation.

In 2004, the Wild Free-Roaming Horses and Burros Act was amended to reverse the long-standing policy that protected wild horses from being shipped off to slaughterhouses. It also removed the criminal penalties that are imposed for such actions. Seeking to correct this injustice is H.R. 249, which would once again place a prohibition on the commercial sale and slaughter of wild horses and burros.

As a compassionate society, we have an obligation to protect all animals. Some scientists have found that America's wild horses have greater genetic diversity, as compared to their domestic counterparts, due to little inbreeding.

Sadly, this bill is too late to save some horses. There have been several cases of horses that were purchased for seemingly innocuous reasons and then sent immediately to slaughter. H.R. 249 would protect the more than 8,400 horses that are in jeopardy of being slaughtered.

Mr. Chairman, I urge my colleagues to pass H.R. 249, which would restore the prohibition on the commercial sale and slaughter of wild free-roaming horses and burros.

RECOGNIZING MAXWELL ''MAX'' WILLIAM ELDON PEPPER FOR ACHIEVING THE RANK OF EAGLE SCOUT

HON. SAM GRAVES

OF MISSOURI

IN THE HOUSE OF REPRESENTATIVES

Monday, April 30, 2007

Mr. GRAVES. Madam Speaker, I proudly pause to recognize Maxwell ''Max'' William Eldon Pepper, a very special young man who has exemplified the finest qualities of citizenship and leadership by taking an active part in the Boy Scouts of America, Troop 376, and in earning the most prestigious award of Eagle Scout.

Maxwell has been very active with his troop, participating in many scout activities. Over the years Maxwell has been involved with scouting, he has earned 28 merit badges and held numerous leadership positions, serving as Librarian, Assistant Patrol Leader, and Quartermaster. Maxwell is an Ordeal Member in the Order of the Arrow and a Warrior in the Tribe of Mic-O-Say.

Madam Speaker, I proudly ask you to join me in commending Maxwell ''Max'' William Eldon Pepper for his accomplishments with the Boy Scouts of America and for his efforts put forth in achieving the highest distinction of Eagle Scout.

Appendix G: House of Representatives Dear Colleague Letter by Representatives Richard Neal and Ron Lewis

Congress of the United States
Washington, DC 20515

April 16, 2007

Dear Colleague:

Many of you are already aware of the successful track record of the New Markets Tax Credit (NMTC) over the last few years. Through fiscal year 2005, the NMTC has generated financing for the construction or rehabilitation of over 43 million square feet of real estate, and had helped to create or retain 72,000 construction jobs and 20,000 full time equivalent jobs in low-income community businesses. That is why we will soon be filing legislation to extend this successful tax credit and we hope you will join us.

Our bill will extend for five years the allocation authority, which is currently set to expire next year. The credit was last extended in December of 2006, but was first enacted in 2000 as part of the Community Renewal Tax Relief Act. The credit was designed to stimulate investment and economic growth in low-income urban neighborhoods and rural communities. Investors receive a seven-year, 39% federal tax credit for Qualified Equity Investments made through investment vehicles known as Community Development Entities (CDE). These CDEs use capital derived from the tax credits to make loans to or investments in businesses and projects in low-income areas.

A recent GAO report found that the program is very effective at increasing investment in low-income communities. The credit program is actually administered by the Department of Treasury through the Community Development Financial Institutions (CDFI) Fund. To date, NMTC investments in low income communities total over $7.7 billion. The tax credit has been used to support a wide variety of community and economic development initiatives including, among others, the financing of charter schools, health care facilities, manufacturing businesses, grocery-anchored retail centers, and numerous other commercial and mixed-use real estate projects.

If you would like to be an original cosponsor of this legislation, please contact Melissa Mueller (Rep. Neal) at 225-5522 or Eric Bergren (Rep. Lewis) at 225-3501.

Sincerely,

Richard Neal

Rep. Richard Neal

Ron Lewis

Rep. Ron Lewis

Appendix H: Press Release by Senators John D. Rockefeller and Olympia Snowe

UNITED STATES SENATE

NEWS FROM SENATORS SNOWE, ROCKEFELLER

FOR IMMEDIATE RELEASE:
Tuesday, May 1, 2007

CONTACTS: David Snepp
(Snowe)
202-224-1304
Steven Broderick
(Rockefeller)
(202) 224-6101

Rockefeller, Snowe Introduce Legislation to Promote Economic Growth in Low-Income Communities

WASHINGTON, D.C. – U.S. Senators Jay Rockefeller (D-WV) and Olympia J. Snowe (R-ME) today introduced the New Markets Tax Credit Extension Act of 2007, which would extend the New Markets Tax Credit Program (NMTC) for five years through 2013, adjusted for inflation. The NMTC has a longstanding history of promoting investment and economic growth opportunities in low-income, rural communities. Last year, Senators Rockefeller and Snowe were successful in securing a one-year extension for the program through 2008.

"The New Markets Tax Credit has been a priority of mine since its inception," said Rockefeller. "We created this program seven years ago to stimulate investment and economic growth and it has been overwhelmingly successful. Investors have created growth and new jobs – making a real difference in small towns across the country. Where abandoned buildings and closed store fronts once were, real estate and commercial development have now brought life and prospect back into low-income communities. By providing investors with sufficient tax incentives, the program has given families and businesses in distressed neighborhoods a new sense of economic hope and opportunity."

"Since its inception, the New Markets Tax Program has made major investments in low-income communities in Maine and throughout the country," said Senator Snowe. "It is imperative that Congress reauthorizes this essential program for a full five years to ensure that Congress invests in our rural communities that depend on these economic tools to thrive."

The NMTC program was enacted in December 2000 as part of the Community Renewal Tax Relief Act and is administered by the Department of the Treasury through the Community Development Financial Institutions Fund. The purpose of the Credit is to stimulate increased investment and economic growth in low-income communities.

NMTC offers a seven-year, 39 percent federal tax credit for Qualified Equity Investments made through investment vehicles known as Community Development Entities (CDEs). CDEs use private capital derived from tax credits to make loans to or investments in businesses and projects in low-income communities.

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New Markets Tax Credit Coalition

1250 Eye Street NW, Suite 902
Washington, DC 20005
(202) 204-4500
(202) 393-3034 fax
www.newmarketstaxcreditcoalition.org