The New Markets Tax Credit

Progress Report 2011

A Report by the New Markets Tax Credit Coalition

June 2011

New Markets Tax Credit Coalition

1331 G Street, NW, 10th Floor • Washington, DC 20005
(202) 393-5225 • (202) 393-3034 fax • www.nmtccoalition.org

This report was prepared by Rapoza Associates for the New Markets Tax Credit Coalition.

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 policy analysis and government relations firm located in Washington, DC that specializes in providing comprehensive legislative and support services to community development organizations, associations and public agencies.

New Markets Tax Credit Coalition Board of Directors 2011:

The New Markets Tax Credit

Progress Report 2011

A Report by the New Markets Tax Credit Coalition

June 2011

■

Acknowledgements:

The following provided generous financial support for this publication:

Baker Tilly Virchow Krause, Madison, WI

Dudley Ventures, Phoenix, AZ

JP Morgan Chase, New York, NY

Novogradac & Company, LLP, San Francisco, CA

PNC Community Partners, Inc., Pittsburgh, PA

Reznick Group, Baltimore, MD

Rockland Trust, Rockland, MA

Sun Trust Community Capital LLC, Atlanta, GA

The following entities provided generous amounts of their time and talent to assist in the development of this report:

Dudley Ventures, Phoenix, AZ

Low Income Investment Fund, San Francisco, CA

Travois New Markets, Kansas City, MO

United Fund Advisors, Portland, OR

ampersand graphic design, Boulder, CO, provided valuable assistance in the preparation of this report.

New Markets Tax Credit Coalition

By the Numbers: 2011 Progress Report

★ ★ ★ ★

$4.43 billion: The amount of Qualified Equity Investments (QEIs) raised in 2010.

50: The percentage increase in QEIs raised over the 2009 level.

$202 billion: The demand for New Markets allocations through 2010.

86: The number of Community Development Entities (CDEs) responding to the 2010 NMTC Coalition survey.

$16 billion: Total allocation authority awarded to CDEs responding to the Coalition's 2010 Survey.

$3 billion: The amount of NMTC investments made in 2010 by CDEs surveyed.

626: The number of NMTC investments made by CDE respondents in 2010.

385: The number of businesses receiving NMTC financing from CDE respondents in 2010.

49: Number of states, plus the District of Columbia, where CDE respondents made NMTC investments in 2010.

96: The percentage of NMTC investments located in designated areas of higher economic distress:

- 50% ($1.53 billion) to census tracts with unemployment rates at least 1.5 times national average;
- 45% ($1.38 billion) to census tracts with lower median incomes than required by law; and
- 44% ($1.33 billion) to census tracts with poverty rates at or greater than 30%

$3.8 billion: The amount of investments CDE respondents anticipate making in 2011.

Contents

List of Charts and Tables

Introduction

This 2011 Progress Report was prepared by the New Markets Tax Credit Coalition, a national membership organization of Community Development Entities (CDEs) and investors organized to advocate on behalf of the New Markets Tax Credit (NMTC). This is the Coalition's seventh annual NMTC Progress Report and is designed to inform policymakers and practitioners on the Credit and how it is working.

The purpose of this report is to document the success of the New Markets Tax Credit in spurring revitalization in urban and rural communities across America. To accomplish this, there are two sections to this report. The first section contains findings from the Coalition's annual survey of CDEs that received NMTC allocations. The survey collected data from CDEs on their progress raising capital and making loans and investments in calendar year 2010 with NMTC. In addition, this report includes a series of stories from the field to illustrate how CDEs are using the NMTC to channel a variety of investment products to a 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. This year the Coalition profiled CDEs working in New York, Oregon, Illinois and New Mexico.

About the New Markets Tax Credit

In December 2000 President Bill Clinton signed into law the *Community Renewal Tax Relief Act* (P.L. 106-554) which authorized the New Markets Tax Credit (NMTC) program. This legislation was the product of collaboration between a Democratic President and U.S. Representative Dennis Hastert, Republican Speaker of the House.

At the time of enactment, the New Markets program was the latest iteration of federal efforts to revitalize low income communities through the tax code. Like previous efforts to stimulate economic growth and redevelopment through enterprise zones and finance affordable housing through the Low Income Housing Tax Credit (LIHTC), supporters and sponsors of NMTC eschewed traditional grant in aid strategies in favor of providing a tax incentive to accomplish a policy goal: stimulating private sector investment in low income communities.

The Clinton-Hastert agreement totaled $25 billion in new authority and included the creation of the New Markets Tax Credit, a companion New Markets Venture Capital program administered by the Small Business Administration, 40 new Community Renewal Zones and an increase in the Low Income Housing Tax Credit. The *Community Renewal Tax Relief Act* (P.L. 106-554) had supporters from across the political spectrum: Democrats such as Charles Rangel (NY), Jay Rockefeller (WV) and Ted Kennedy (MA); and Republicans such as Olympia Snowe (ME), JC Watts (OK) and James Talent (MO).

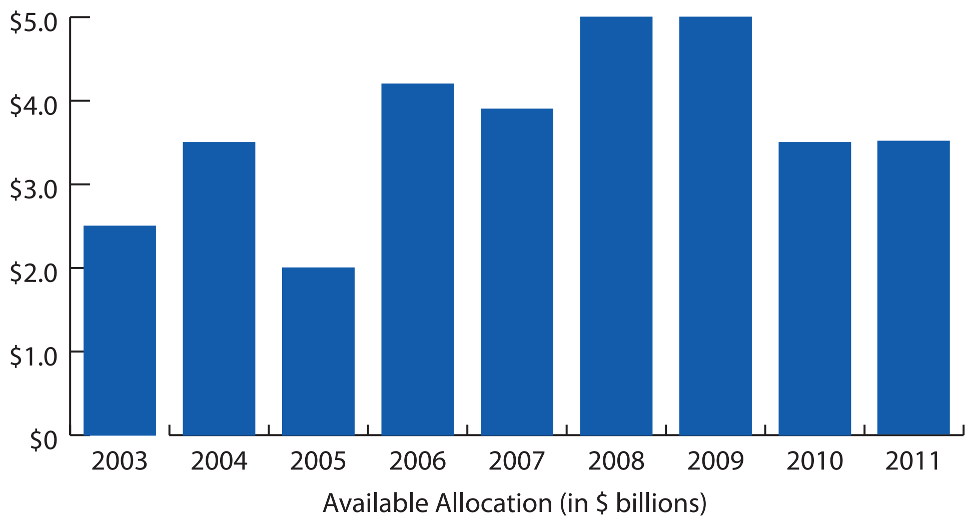
The Community Renewal law provided $15 billion in NMTC allocations between 2000 and 2007 (see Chart 1), which was divided out over five allocation rounds in years 2003 through 2007. In December 2005, an additional $1 billion was authorized in New Markets Tax Credit allocations for Gulf Coast communities devastated by Hurricane Katrina and those Credits were allocated in 2006 and 2007.

The *Tax Relief and Health Care Act of 2006* (P.L. 109-432) 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. Congress passed the *Emergency Economic Stabilization Act of 2008* (P.L. 110-343) that included an NMTC extension through 2009 within its package of tax extenders.

In February of 2009, Congress passed the *American Recovery and Reinvestment Act* (ARRA) (P.L. 111-5), the economic recovery package that included $3 billion in additional tax Credit authority divided equally between 2008 and 2009. ARRA increased the overall Credit authority to $5 billion annually.

In December 2010, Congress passed the *Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010* (P.L.111-312) that provided a two year extension (for 2010 and 2011) for NMTC with annual credit authority of $3.5 billion.

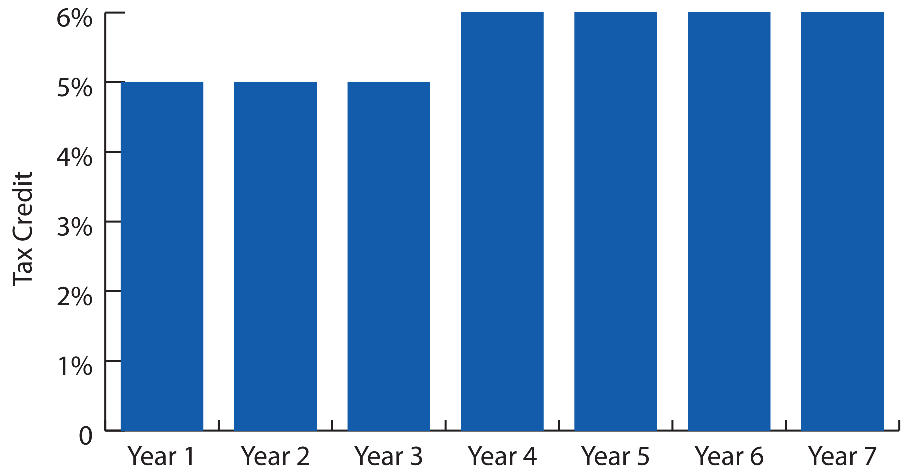
Chart 1:
NMTC Credit Allocation Authority by Year



Source: Rapoza Associates

The incentive provided by the Credit to private sector investors is a 39% federal tax credit over seven years – a 5% credit in each of the first three years and a 6% credit in each of the last four years (see Chart 2). The investor receives the Credit when it provides a Qualified Equity Investment in a Community Development Entity. The CDE in turn uses the capital derived from the Credit for the principal purpose of making loans or investments in businesses and projects in low income communities. These loans and investments are called Qualified Low Income Community Investments (QLICIs).

Chart 2:
Terms of the NMTC



Source: Rapoza Associates

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. Examples of a CDE include a Community Development Corporation, a Community Development Financial Institution, a private financial institution, or a Small Business Investment Company.

The CDFI Fund 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 it the authority to market the Credit to investors and begin implementing its New Markets Tax Credit business strategy.

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. The CDFI Fund has thus dictated a set of higher benchmarks[1], as described further in the body of this report.

1 CDFI Fund, NMTC Allocation Application Debriefing Document

Demand for Credits Remains Strong

Through February 24, 2011 the CDFI Fund has made 594 NMTC awards totaling $29.5 billion in allocation authority. And yet, demand for NMTC continues apace; CDEs have requested $202 billion in allocation authority since 2003, a demand of more than 7 times Credit availability (see Table 1).

Table 1: NMTC Application Demand, Available Allocations by Dollar and Number of Allocation Awards 2003-2010

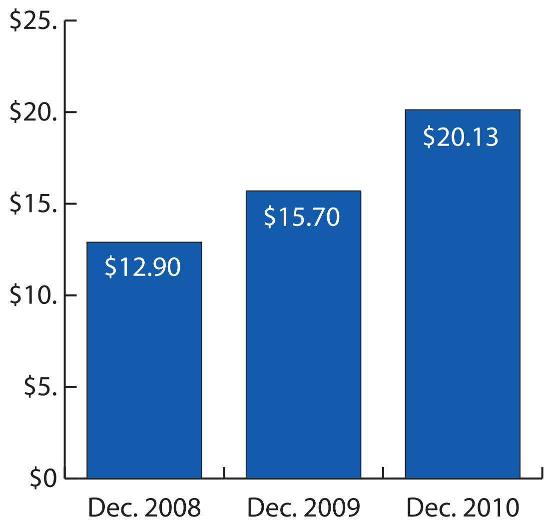
Year	Application Demand (in $ billions)	Available Allocation (in $ billions)	# of Allocations
2003	26.0	2.5	66
2004	30.0	3.5	63
2005	23.0	2.0	41
2006	28.3	4.1	63
2007	27.9	3.9	61
2008	21.3	5.0	102
2009	22.5	5.0	99
2010	23.5	3.5	99
TOTAL	**$202.5**	**$29.5**	**594**

Source: Rapoza Associates

The NMTC allocation application process is highly competitive. As shown in Table 1, between 2003 and 2010 the demand for allocations outstripped the availability of Credits by more than $173 billion. In June of 2010, two-hundred and fifty CDEs applied for $23.5 billion in allocations and in February 2011 the Treasury department awarded 99 CDEs with $3.5 billion in allocation authority.

This 2011 Progress Report provides a snapshot of activity in the program, a key tenet of which is to raise capital from the private sector. The investment climate during the recession was a difficult one, yet NMTC Qualified Equity Investments remained strong, averaging about $3 billion annually in 2007-2009. The improving economy in 2010 unleashed a substantial increase of NMTC activity. In 2010, QEIs totaled $4.43 billion, a 50% increase over 2009 and the most ever in a single year (see Chart 3).

**Chart 3:
Qualified Equity Investments 2008-2010
($ in billions)**



Source: CDFI Fund, QEI Locator Report

About this survey

In January 2011, the Coalition surveyed CDEs that had received an NMTC allocation and requested information on NMTC activity in 2010. A total of 86 CDEs responded. These CDEs hold more than $16 billion in allocation authority; more than half the total allocated through December 31, 2010. In 2010 these CDEs raised almost $3 billion in QEIs and deployed more than $3 billion through 626 NMTC loans or equity investments, financing over 385 businesses in 48 states and the District of Columbia. As such, these CDEs represent a substantial share of the activity in the program (see Table 2).

Over half of those responding have national or multi-state service areas. Several CDE respondents deployed capital in 2010 that had been raised prior to the year's start, and many CDEs reported being tapped out of Credits for the year, but demonstrated a strong pipeline of worthy business investments teed up and waiting for the next round of NMTC allocations. In total, 81 survey respondents anticipate making 419 investments totaling $3.8 billion in 2011.

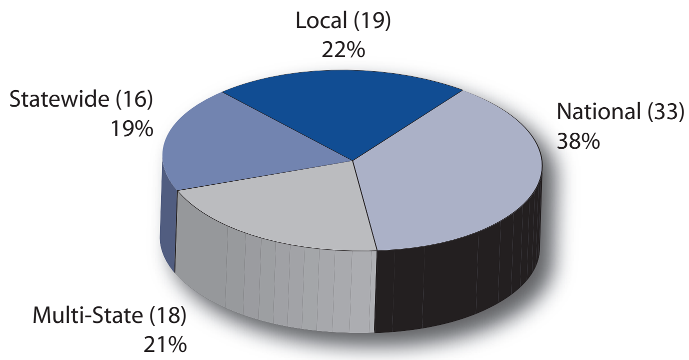
**Table 2:
CDE Survey Respondents: By Service Area, Allocation History,
QEIs and QLICIs in 2010**

	Number	$ Total Authority	2010 $ QEIs	# QLICIs	QLICIs ($)
National	33	$9,417,650,000	$1,705,493,840	389	$1,961,157,704
Multi-State	18	$2,964,500,000	$553,380,066	108	$468,539,709
Statewide	16	$2,353,000,000	$399,767,396	64	$369,745,911
Local	19	$1,319,000,000	$261,333,087	65	$253,435,741
Total	86	$16,054,150,000	$2,919,974,389	626	$3,052,879,065

Source: Rapoza Associates, survey of NMTC allocatee activity January 1 – December 31, 2010

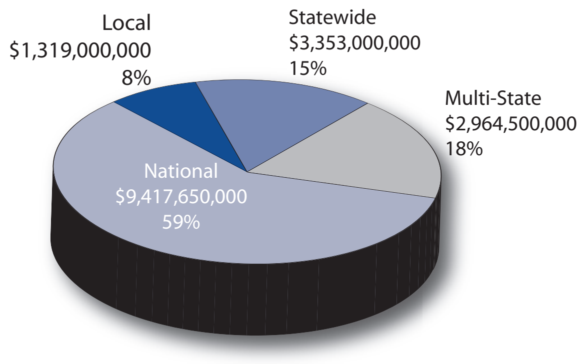
CDEs must specify their target geography for NMTC activity: local, state, multi-state or national. National CDEs comprised a little more than one-third of survey respondents. These organizations constituted over half the total Credit authority, the largest share of capital raised ($1.7 billion out of $2.9 billion), over half of the number loans and investment (QLICIs) and over 60% of the financing dollars (see Charts 4, 5, 6, and 7).

Chart 4:
Service Area by Number and Percent of CDEs



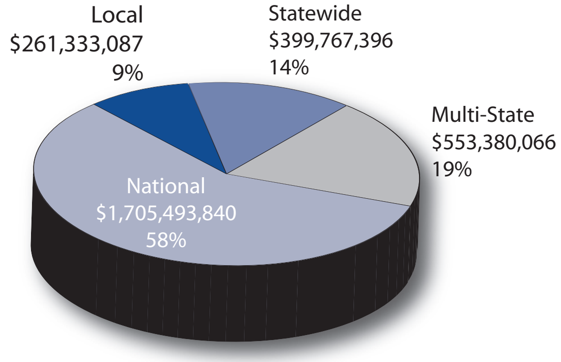
Source: Rapoza Associates, survey of NMTC allocatee activity January 1 – December 31, 2010

Chart 5:
Amount of Total Allocation by Dollar and Percent by Service Area



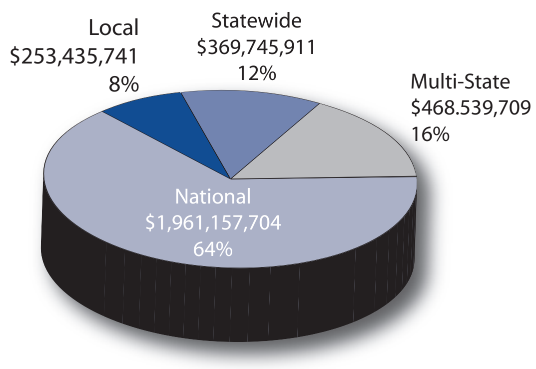
Source: Rapoza Associates, survey of NMTC allocatee activity January 1 – December 31, 2010

Chart 6: Amount of 2010 QEIs by Dollar and Percent by Service Area



Source: Rapoza Associates, survey of NMTC allocatee activity January 1 – December 31, 2010

Chart 7: Amount of 2010 QLICIs by Dollar and Percent by Service Area



Source: Rapoza Associates, survey of NMTC allocatee activity January 1 – December 31, 2010

NMTC: Catalyst for Effective Public-Private Partnerships

There are four key factors to consider when looking at the NMTC investment environment.

First, the New Markets Tax Credit provides a modest subsidy as compared to other targeted federal tax credits. As noted previously, a NMTC investor receives a federal tax credit equal to 39% of the total Qualified Equity Investment in a CDE and the Credit is realized over a seven-year period. In addition, the NMTC is a taxable credit so investors are taxed on any capital gains or profits generated from a QEI. Therefore, taxpayers investing in the NMTC look for solid business deals that will yield economic return beyond the tax subsidy.

Second, since the inception of the program, regulated financial institutions have constituted a principal source of investment capital for the Credit. This Progress Report indicates this trend continues with CDEs reporting that 80% of the QEI investment dollars secured in 2010 came from regulated depository institutions.

Third, NMTC investments are not exempt from the Alternative Minimum Tax (AMT), which restricts the size of the investor market and puts NMTC at a competitive disadvantage with other similar federal tax credits that are exempt from AMT. There is anecdotal evidence that the AMT requirement is an impediment to participation of regional and community banks, as well as other individual and corporate investors with an interest in the Credit.

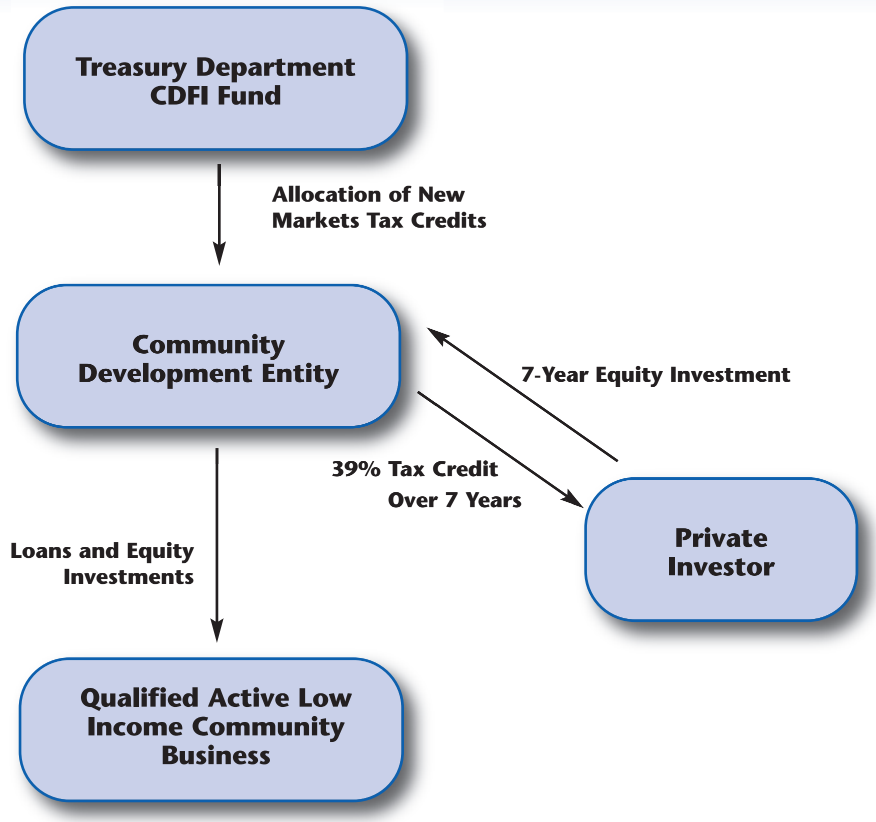
Fourth, as a federal tax credit the NMTC is only attractive to investors with a federal tax liability that they can offset. The NMTC is not attractive to financial interests or potential investors without federal tax liability such as local and state government agencies, non-profit pension funds, or private foundations.

To improve the investor market and provide CDEs with the tools to reach more distressed communities in 2003, the IRS issued a ruling that clarified several issues related to investing equity in a CDE in exchange for the NMTC. Internal Revenue Service' (IRS) Revenue Ruling 2003-20 clarified how an investment structure could be set up, as an intermediary entity between the NMTC investor and the CDE, to secure Qualified Equity Investments. The intermediary entity, structured as an LLC, can receive equity investments from NMTC investors as well as debt from other sources. All of the LLC's funding (debt and equity) is then invested as a QEI into the CDE. The CDE can then pass the federal tax credits to the LLC (its QEI investor), which, as a flow-through entity can pass the entire tax credit up the chain to its equity investor. The IRS ruling endorsed this investment structure now commonly referred to as 'leverage' (see Chart 8).

The leverage structure has enabled CDEs to raise capital from entities without federal tax liability, including pension funds and state and local governments, thereby increasing the sources of capital available for NMTC investments.

In 2010, 66 CDEs, representing 87% of the respondents, indicated they used a leverage structure to raise capital. Regulated financial institutions are the principal source of the QEI made in exchange for tax credits, even if made through a leveraged structure. The survey found that CDEs using the leveraged structure are looking to a variety of sources for their leveraged debt - including the NMTC equity investor, a financial institution other than the

Chart 8:
How the NMTC Works



Source: Rapoza Associates

equity investor, a charitable donor, the project sponsor or another business entity. The majority of these CDEs (58 out of the 66) credit investment LLCs with providing100% of their investment capital.

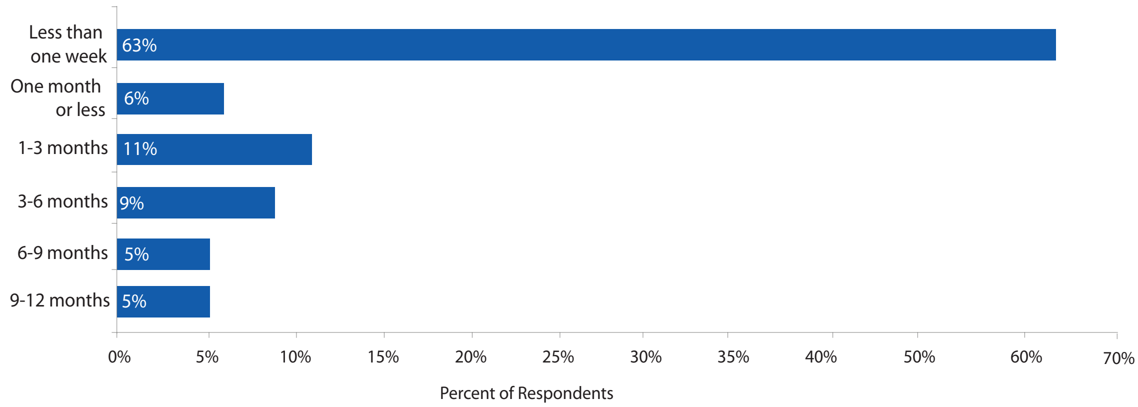
Deploying Investments

The law requires CDEs to have "substantially all" (at least 85% by regulation) of their QEIs deployed in Qualified Low Income Community Investments (QLICIs) within one year of issuance. Again, the CDFI Fund sets a higher bar in its application process, stating that a successful CDE applicant must show that it can close at least 80% of its QLICI activities within three years[2].

CDEs responding to the survey continue to make loans and investments at a faster rate than required by law and the standard set by the CDFI Fund. According to the CDEs responding to the survey, in 2010 65% of capital raised through QEIs was deployed in less than one week and almost 70% was deployed in a month or less (see Chart 9).

2 CDFI Fund, NMTC Allocation Application Debriefing Document

Chart 9:
Time Frame for Deploying NMTC Capital, by Percent of CDEs



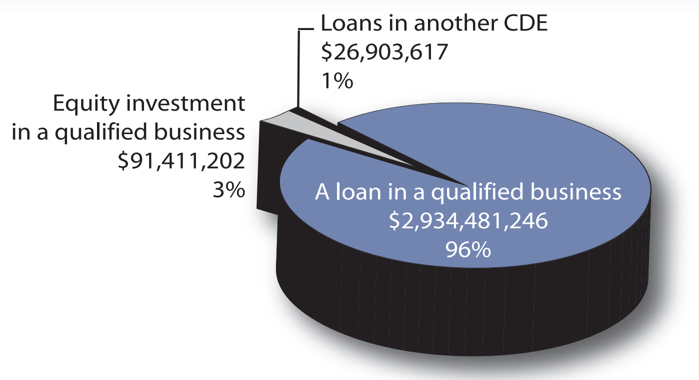
Source: Rapoza Associates, survey of NMTC allocatee activity January 1 – December 31, 2010

Lending and Investment

Survey respondents were asked to report on the financial products they made available through NMTC. CDEs make financing available to businesses through Qualified Low Income Community Investments. A QLICI can take the form of a loan to a qualified low income community business; an equity investment in a qualified low income community business; the purchase of a qualified loan from another CDE; or financial counseling to businesses or residents in a low income community (see Chart 10).

In 2010, the CDEs responding to the survey made more than 600 QLICIs, over $3 billion in new investments to more than 385 qualified businesses in low income communities. Of that number, 96% were in the form of loans to businesses (see Chart 10). A total of $699 million (23%) of the financing went businesses in located in non-metro areas (see Chart 11).

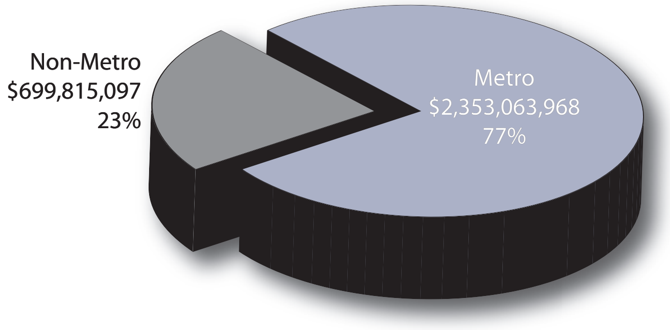
Chart 10:
Types of QLICIs in 2010 by Dollar and Percent



Source: Rapoza Associates, survey of NMTC allocatee activity January 1 – December 31, 2010

Businesses in low income communities need patient flexible capital to be successful. The survey findings show that CDEs offer a range of financial products and services. The vast majority of CDEs indicate that the loan products they offer to

Chart 11:
Amount and Percentage of QLICIs by Metro and Non-Metro Area in 2010

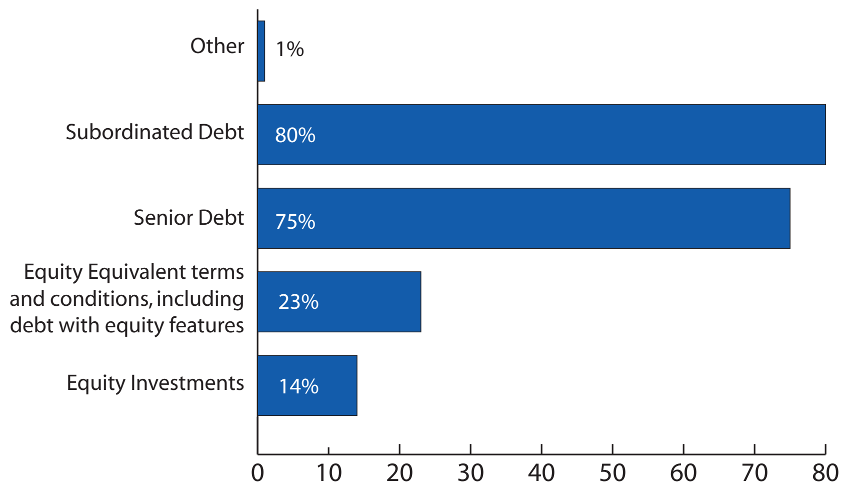


Source: Rapoza Associates, survey of NMTC allocatee activity January 1 – December 31, 2010

businesses are on below market terms and conditions including low interest loans, lower fees, longer terms and interest only loans.

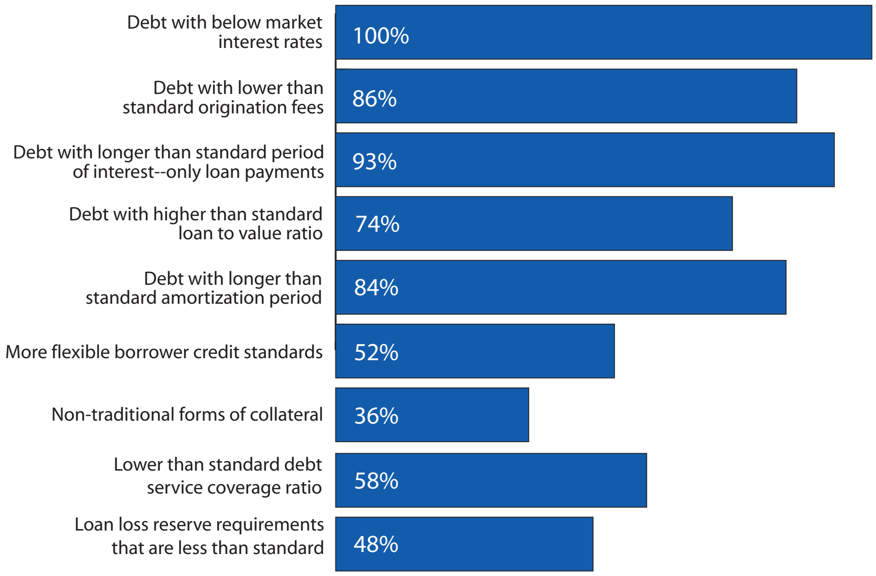
As Chart 12 indicates, the most common form of financial product offered by survey respondents is subordinated or senior debt. Chart 12 highlights the range of below market and non-traditional features associated with financing products. Below market debt, debt with longer than standard term of loan, debt with lower origination fees and long amortization periods were the most common.

Chart 12:
Financial Products Provided in NMTC Transactions, as Percentage of CDE Respondents



Source: Rapoza Associates, survey of NMTC allocatee activity January 1 – December 31, 2010

Chart 13:
Financial Products and Services Offered by CDEs, as Percentage of CDE Respondents



Source: Rapoza Associates, survey of NMTC allocatee activity January 1 – December 31, 2010

Types of Businesses Financed

All businesses eligible to receive financing under NMTC are called Qualified Active Low Income Community Businesses (QALICBs). To qualify as a QALICB, a business must be located in a low income community, conduct business and derive at least 50% of its income in a low income community.

The CDFI Fund defines businesses as either real estate or non-real estate. A business with a principal purpose of developing or managing real estate fits the former. An example of a real estate business is a development company that is assembling a parcel of land or adjacent buildings in a low income community that will, upon receiving an NMTC loan or equity investment, develop and build a mixed-use facility.

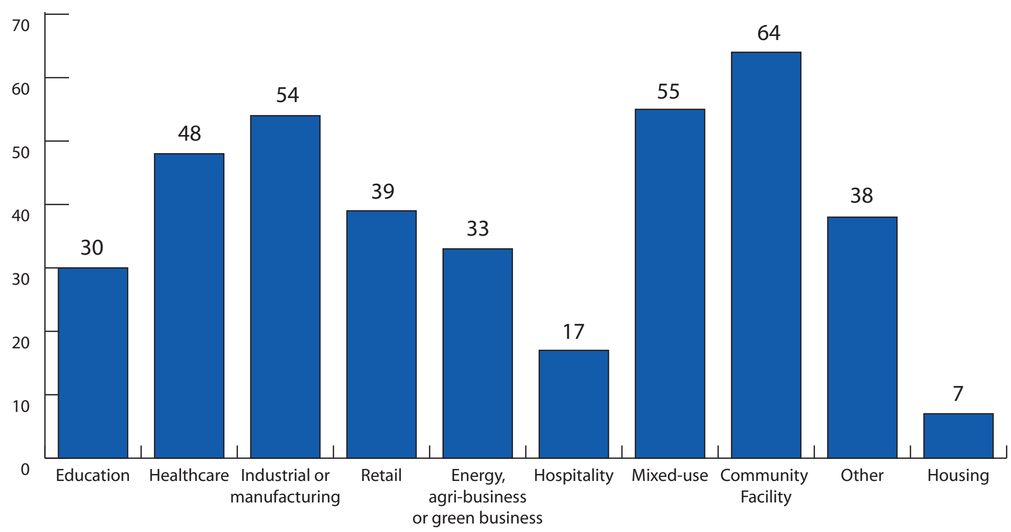
An example of a non-real estate business is a non-profit community health center, the principal purpose of which is to provide health services to low income individuals. A community health center could receive NMTC financing for working capital or to purchase equipment. However, it could also receive financing via the Credit to build or expand the health clinic. Because the principal purpose of the business is not real estate, the health center is deemed a non-real estate business regardless of the purpose of the NMTC financing.

The survey asked CDEs to provide the total number and dollar amount of real estate and non-real estate business investments made last year. In 2010, responding CDEs financed 172 real estate businesses for a total of $1.5 billion, and financed 213 non-real estate businesses with $1.48 billion. Because the definition for real estate and non-real estate businesses does not necessarily reveal the purpose for which NMTC financing is made available, the report has combined the data for real estate and non-real estate to better display the overall financing provided to various types of businesses.

The most common types of businesses included 64 community facilities, 55 mixed-use projects, 54 industrial or manufacturing businesses, and 48 healthcare facilities. Out of the 10 categories of businesses listed, these four types of businesses received a total of $1.7 billion or 56% of all NMTC investments in 2010 (see Chart 14). As noted, CDEs made a total of 626 investments in 385 businesses totaling $3 billion. Chart 15 displays the types of businesses financed with the Credit in 2010 as a percentage of dollars going to each business type.

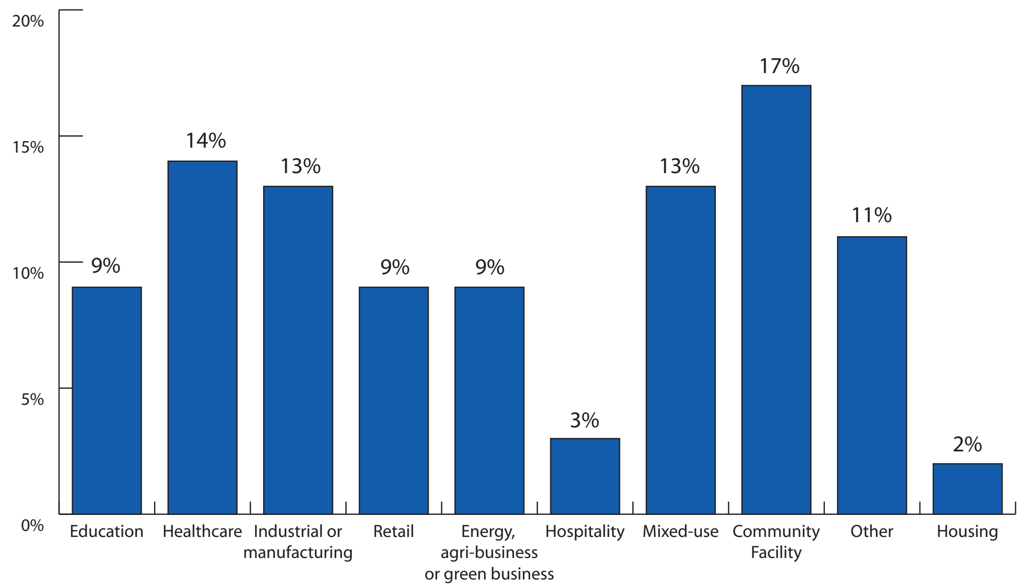
CDEs that described investments in "Other" types of businesses include a shipping and packaging company, a mortuary, computer graphics firm and film production. Types of energy investments include a manufacturer of “green” modular homes and a wind energy business.

Chart 14:
Types of Businesses Financed in 2010, by Number of Investments



Source: Rapoza Associates, survey of NMTC allocatee activity January 1 – December 31, 2010

Chart 15:
Types of Businesses Financed, by Percentage of QLICIs



Source: Rapoza Associates, survey of NMTC allocatee activity January 1 – December 31, 2010

Impact of NMTC: Capital to Distressed Communities

Financing under New Markets is limited to those census tracts with high rates of poverty or low median incomes. These census tracts are called *Low Income Communities* and must have poverty rates of at least 20% or median incomes of not more 80% of area median or, for census tracts located in non-metro areas, 80% of the statewide median income. So, by definition all NMTC projects are in low income communities. While median incomes are based on area or statewide data, the incidence of poverty and the unemployment rate are national numbers and using this measure is a way to understand the profile of the communities receiving NMTC financing.

In the Fall of 2010 the Census Bureau reported that for 2009, 44 million people in the United States were living below the poverty line. The poverty line for a family of four was $22,050. The poverty rate of 14.3% of the total population was the highest recorded since 1994.

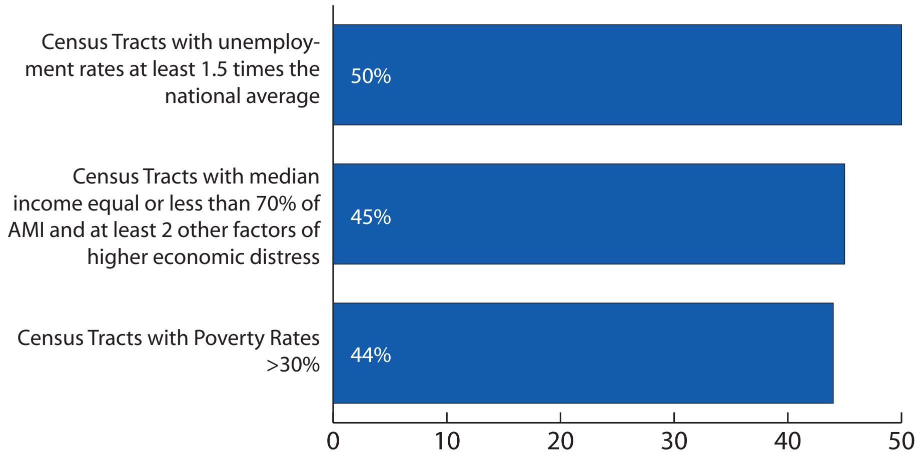
According to the Department of Labor and the Bureau of Labor Statistics the unemployment rate for 2010 was 10% in January and never dropped below 9% for the entire year.

This survey confirms that CDEs are making investments in more highly distressed communities – those where poverty is 30% or greater and where unemployment rates may be above 13.5% (at least 1.5 times the national average). There is also a high rate of investment in businesses in communities with low median incomes and other indicators of distress (see Chart 16).

The survey results confirm that the majority of NMTC investments in 2010 were made in areas of higher economic distress in order to benefit low income community residents and businesses (see Chart 17).

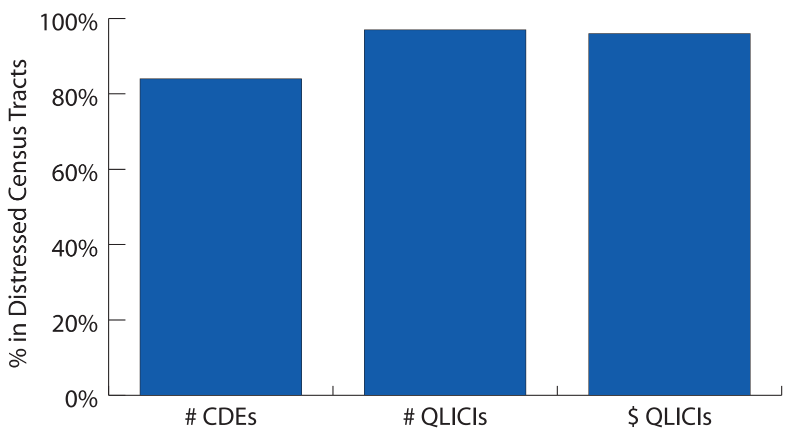
- **71 CDEs** (87.6 % of the total) invested in areas with at least one factor of higher economic distress;
- **601 QLICIs** (96% of all QLICIs) were in higher distress census tracts; and
- **$2.9 billion** (95.3% of the total $ amount invested) was invested in higher distress census tracts.

Chart 16:
Investments by Area of Higher Distress, as Percentage of $ QLICIs



Source: Rapoza Associates, survey of NMTC allocatee activity January 1 – December 31, 2010

Chart 17:
Percentage of Investments in Highly Distressed Census Tracts



Source: Rapoza Associates, survey of NMTC allocatee activity January 1 – December 31, 2010

Conclusion

These findings are consistent with the NMTC Coalition's 10th Anniversary Report that the majority of NMTC investments (89.5%, or $13.8 billion) have been made in communities with at least one factor of higher economic distress than required by law. That was during the years 2003 through 2009 in aggregate.

In December 2009, the Coalition released its 10th Anniversary Report, assessing the performance of the New Markets program since enactment of authorizing legislation in 2000. That report analyzed CDFI Fund data on 4000 transactions financing some 3000 businesses since the first allocations for the Credit in 2003 through December 31, 2009. That report found that almost 90% of the investments made via NMTC went to communities with at least one factor of high economic distress.

The findings from this Progress Report indicate that activity in 2010 picks up where 2009 left off. Virtually all of the qualified investments made by responding CDEs went to businesses in communities with extremely high poverty rates, very low median incomes or unemployment at least 1.5 times the national average.

The next section of this report highlights four examples of places where NMTC investments have helped finance businesses in these types of hard hit communities and have been able to create and sustain job growth and good opportunities for business development.

The NMTC Coalition continues to collect data and stories from CDEs and investors. Please check www.nmtccoalition.org for updates throughout the year.

Stories from the Field

Background on Project Sponsors

Jazz @ Walter Circle – East St. Louis, IL *p.19*

CDE: Hampton Roads Ventures / NMTC investor: Dudley Ventures

Hampton Roads Ventures is a community development investment firm. They partner with public, private sector and non-profit community development organizations to attract private sector investment capital for innovative real estate projects in lower income neighborhoods, particularly inner city and rural communities. Staffed by experienced community economic development professionals, Hampton Roads Ventures is extremely sensitive to the unique opportunities, challenges and constraints facing public sector and non-profit community development agencies.

The tax credit investor was DV VNB Community Investment Fund, a captive NMTC investment fund, created and administered by Dudley Ventures. Dudley Ventures is an investment and advisory services firm and has directly invested in real estate and alternative energy projects. Dudley Ventures and its affiliates have invested in and manage $1 billion in tax credit investments and its investor base includes national, regional and local financial institutions.

Part of the Solution (POTS) – Bronx, NY *p.20*

CDE: Low Income Investment Fund (LIIF)

The Low Income Investment Fund (LIIF) is a community development financial institution that provides innovative capital solutions to support healthy families and communities. Since 1984, LIIF has served more than 890,000 people by providing $950 million in financing and technical assistance to serve the nation's poorest and hardest-to-reach populations. Over its history, LIIF has supported efforts to create and preserve: 55,000 units of affordable housing; 170,000 child care spaces; 51,000 spaces in schools; and 3.5 million square feet of community facilities and commercial space. Through this work, LIIF has generated $19 billion in family income and societal benefits. LIIF has offices in San Francisco, Los Angeles, New York City and Washington, D.C.

Navajo Tribal Utility Authority – Navajo Nation, NM *p.21*

CDE: Travois New Markets

Created in 2006, Travois New Markets is dedicated to using the NMTC program to increase the volume and lower the cost of financing available to Indian Country (American Indian, Native Alaskan and Native Hawaiian) entrepreneurs and businesses. A travois is a set of trailing poles, lashed together with rope and pulled behind a horse. Plains Indians once used the tool to carry valuable effects across rough terrain. Their company motto is based in that metaphor: you know where you want to go; let us pull some of the weight. Travois New Markets has raised more than $60 million to support tribal commercial ventures through the NMTC program.

Small Business Loan Fund – Portland, OR *p.22*

CDE: Portland New Markets Fund I

Portland New Markets Fund I provides real estate loans for mixed-use developments, community facilities, for-sale housing and office building developments in extremely distressed census tracts, at significantly below market rates and on more favorable terms. In addition, the Fund offers small business loans in areas experiencing limited access to capital.

The Small Business Loan Fund is a partnership between Portland Family of Funds and the Portland Development Commission, a special-purpose government agency providing economic, housing, and urban renewal redevelopment activities for the City of Portland, Oregon. The fund is administered by United Fund Advisors and Micro-Enterprise Solutions of Oregon, a nonprofit that provides hands-on technical assistance to all borrowers.

East St. Louis Jazz @ Walter Circle

East St. Louis, IL

Jazz @ Walter Circle is a development of a 4-story mixed-use facility in East St. Louis. The project consists of the acquisition of land and the construction of a new LEED Gold certified mixed-use facility consisting of two wings connected by one central walkway at 15th Street between Bowman and Exchange Streets near the Emerson Park Community MetroLink stop in East St. Louis, Illinois.

The development will include a community center, several offices, a health-and-wellness facility, a grocery store and other retail space. Being LEED Gold certified, the development includes solar panels, a community garden and a rooftop terrace, among other green features.

East St. Louis Consortium for Progress, Development and Affordable Housing, an Illinois non-profit corporation will provide community and economic development programmatic services at the facility for the residents and the community, including jobs training and economic development incentive programs to attract retail subtenants. This dynamic project will encourage the revitalization of the City of East St. Louis.

The mixed-use nature of the building will help address the needs of this community. The community will have access to health and wellness services provided by the Southern Illinois Healthcare Foundation on the ground floor. Additionally, the Housing Authority of the City of East St. Louis ("ESLHA") will have an office on-site, and the remaining retail space will be community oriented. The 74 residential rental units located on the second through fourth floors will provide senior citizens with new, affordable housing. Jobs will be generated by both the construction of the project and the retail uses on the ground floor.

The project will create 18 new jobs upon completion and will generate local property tax revenue for the city. The City of East St. Louis is very supportive of the project, which is part of the ongoing revitalization effort undertaken by the City pursuant to the Consolidated Plan and Redevelopment Plan. ESLHA has submitted an application for job training for 25 public housing residents who could potentially benefit from job opportunities on site. ESLHA also has a plan in place to ensure area residents and businesses participate in and benefit from the development process.

The leverage lender was a non-profit affiliate of the Housing Authority, River East Ventures, Inc. The borrower was Eco Jazz, Inc. NFP, and the tax credit investor was DV VNB Community Investment Fund, a captive NMTC investment fund, created and administered by Dudley Ventures, with Valley National Bank acquiring the New Markets Tax Credits.

CDE

Hampton Roads Ventures

NMTC Investor

Dudley Ventures Investment Fund (Valley National Bank)

Community Profile

- Empowerment Zone
- Poverty Rate: 36.2%
- Median Household Income: 52.9% of AMI
- HUBZone qualified
- Medically Underserved Area
- NMTC investment: $17 million

Part of the Solution (POTS)

Bronx, NY

CDE

Low Income Investment Fund

Community Profile

- 40% poverty rate
- 12% unemployment rate
- Median income 50% of AMI

Project Highlights

- Total Project Cost: $8.8 million
- NMTC: $8.8 million
- Investor: JPMorgan Chase
- 28 construction jobs; 19 permanent jobs


POTS before renovation.


POTS during renovation.


After POTS renovation.

Founded in 1982, Part of the Solution (POTS) was one of the first emergency food providers in the Bronx. Today, POTS is a multi-service agency with a 15-member staff and a $1.8 million budget. It offers hot meals, a food pantry, legal assistance, social and medical services, used clothing and showers to 10,000 low income Bronx residents annually.

POTS serves an area of extremely high need. The organization is located in a census tract with a 40% poverty rate and a median income of 50% of Area Median Income (AMI). The Bronx was identified as the "hungriest" Congressional district in the nation by the Food Research and Action Center: 33% of Bronx residents reported having trouble affording food in the last two years. During that two year period, POTS saw an increase in the number of people seeking services and the number of meals it serves.

The Low Income Investment Fund (LIIF) provided an $8.8 million NMTC allocation to enable POTS to build an expanded facility adjacent to its current site. JPMorgan Chase was the equity investor and provided $2.4 million for the NMTC transaction. The NMTC transaction enabled POTS to acquire and redevelop a 10,000-square-foot building.

The new site will have more than three times the space of its current facility, which will allow POTS to house its staff, volunteers and current programs under one roof. In its new facility, POTS projects that it will be able to serve an additional 170,000 meals annually, a 50% increase. POTS plans to hire an additional four full-time staff members to manage their expanded offerings. Lastly, by relocating next door, POTS will be able to serve its current client base without losing anyone in the transition.

The tax credit transaction closed the feasibility gap for this project, providing a critical financing piece that served as a catalyst to complete a capital campaign for the endowment. The transaction fully repaid LIIF's original $2.4 million acquisition loan for the new site and covers the development costs of the property.

Navajo Tribal Utility Authority

Navajo Nation, NM

The Navajo Tribal Utility Authority (NTUA) is an enterprise of the Navajo Nation that provides electricity, water and natural gas service to America's largest Indian reservation. Its mandate is to run a self-supporting business while providing affordable utility service to some of America's poorest families. There is constant pressure on NTUA to keep its electricity costs as low as possible because of high rates of poverty on the reservation. NTUA must make frequent capital investments to upgrade its system but can't support those upgrades through rate increases. To sustain this, NTUA must take advantage of every creative financing program available. It used New Markets Tax Credits to meet its goals.

With a $6.4 million NMTC investment, Travois New Markets helped bring dependable electrical power to a remote region of the Navajo Nation Reservation in New Mexico. Travois filled a financing gap to help NTUA replace a 40-year-old failing electrical substation in Shiprock, N.M., and to construct a new substation to serve as a backup system in Cudeii, N.M. The total project cost was $6.4 million. NTUA used its own fund as a leverage loan and used NTMCs to close a funding gap. The investor, U.S. Bancorp Community Development Corporation, provided nearly $1.9 million in equity.

A substation is a small area that contains a transformer and associated electrical equipment. The equipment transfers the powerful current that runs through large lines to a less powerful current that runs through the lines connected to individual homes and businesses. The NMTC investment allowed NTUA to finance the project without raising its customers' rates and complete the project in one year instead of in phases. The substations catalyzed more than $40 million in other economic development for the Navajo Nation. Since the investment, the following projects were able to move forward:

- Regional behavioral health center ($16 million)
- Home for women and children ($12.2 million)
- Chaco River Apartments ($14 million)

CDE

Travois New Markets

Community Profile

- 37% poverty rate
- Median income 63% of AMI
- 17% unemployment rate

Project Highlights

- Infrastructure project
- Preserves quality NTUA jobs with high salary, health insurance and retirement benefits
- New capital infusion expanded NTUA service while keeping its monthly rates over $10 below the national average
- Total Project Cost: $6.4 million
- NMTC: $6.4 million from Travois New Markets

CDE

Portland New Markets Fund I

Partnership between

Portland Family of Funds, United Fund Advisors and

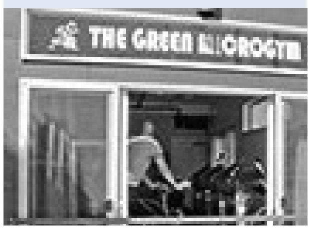
Portland Development Commission

Community Profile

- Poverty rates as high as 41.3%
- Median family incomes as low as 44.8% of AMI
- Unemployment rates as high as 2.8 times the national average

Project Highlights

- Small business lending fund
- All businesses operating in Low Income Communities
- Lending fund has helped diverse businesses grow and expand
- NMTC: $5.5 million from New Markets



Small Business Loan Fund

Portland, OR

The lack of access to affordable capital is an acute problem for small businesses in Portland, Oregon's low income communities. These businesses traditionally do not qualify for the larger minimum loan amounts that banks usually provide. With support from the Mayor's Office, Portland Family of Funds and United Fund Advisors partnered with Portland Development Commission, the city's economic development agency, and Micro-Enterprise Solutions of Oregon, a nonprofit technical assistance provider, to find a solution. Using the NMTC, these local partners raised capital to fund a small business loan fund.

The small business loan fund offers several primary products and services:

1) small business loans from $5,000 up to $50,000 to qualifying low-income community businesses in Portland; 2) individual real estate loans up to $1 million to small businesses located in low income communities within the City of Portland's designated Urban Renewal Areas; 3) home-based business grants; 4) technical assistance; and 5) loan loss reserves.

This innovative small business lending solution has had a significant impact on low income community businesses in Portland. The first small business loan was made in November of 2006 and has since made working capital loans to 20 borrowers totaling approximately $820,000. Dragonfly Chai, one of the first borrowers, is a local producer of organic tea. With the help of a $50,000 loan, the business has been able to more than triple the size of its production facility, creating new jobs and expanding its distribution. One of the more recent borrowers, Discovery Garden Day Care, utilized a $7,000 loan to add a second location and expand daycare services. Green Microgyms is another small business owner of a fitness center that gathers energy generated from their exercise equipment and sells it back to the Public Utility District. They received a $10,000 small business loan.

The $5.5 million of NMTC allocation leveraged capitalization of the small business loan fund, facilitating smaller, below market-rate loans with flexible terms for borrowers in low income communities. To date, the fund has successfully deployed $4 million in small business real estate loans to 6 borrowers and $821,300 in small business working capital to 20 borrowers. These loans have created jobs, facilitated wealth building and provided numerous goods and services in Portland's low income communities.

Appendix:
A New Markets Tax Credit Timeline

2000	
December	■ NMTC Program signed into law as part of the *Community Renewal Tax Relief Act of 2000* (P.L. 106-554)
2001	
December	■ IRS releases temporary NMTC regulations ■ CDFI Fund issues CDE certification application
2002	
October	■ First-round allocation applications submitted to CDFI Fund with $26 billion in 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 $30 billion in 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	■ *American Jobs Creation Act of 2004* (P.L. 108-357) passed with a provision expanding the definition of a low income community to include a Targeted Population
	■ Third-round allocation applications submitted to CDFI Fund with $23 billion in 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 that $2 billion in Qualified Equity Investments (QEIs) had been issued by NMTC allocatees to date
July	■ CDFI Fund awards $2 billion in third-round allocations
Fall/Winter	■ Third-round allocation agreements signed
December	■ *Gulf Opportunity Zone Act of 2005* (P.L. 109-135) is signed into law providing an additional $1 billion in NMTC allocation authority for CDEs working in communities affected by Hurricane Katrina – (GO Zone)

continued on p.24

2006	
March	■ CDFI Fund announces plans to award the first $600 million in Credits targeted to CDEs working in qualified communities in the GO Zone
June	■ CDFI Fund released fourth-round allocations and $600 million in Credits for the GO Zone
	■ IRS releases a notice on Targeted Populations
Fall/Winter	■ Fourth-round allocation agreements signed
December	■ *Tax Relief and Health Care Act of 2006* (P.L. 109-432) is signed into law with language to ensure that non-metro communities secure a proportional NMTC allocation of investments
2007	
March	■ Fifth-round allocation applications submitted to CDFI Fund with $28 billion in demand for $3.5 billion in available allocations
	■ CDFI Fund announces that $7.7 billion in QEIs had been issued by NMTC allocatees to date
April	■ *New Markets Tax Credit Extension Act of 2007* introduced in Congress (H.R. 2075, S. 1239)
October	■ The CDFI Fund awards $3.5 billion in fifth-round allocations and $400 million in credits for GO Zone
Fall/Winter	■ Fifth-round allocation agreements signed
2008	
February	■ President Bush calls for one-year extension of the NMTC in his Fiscal Year 2009 Budget
March	■ Sixth-round allocation applications submitted to the CDFI Fund with $21 billion in demand for $3.5 billion in available allocations
May	■ CDFI Fund announces that $10.3 billion in QEIs had been issued by NMTC allocatees to date
	■ Congress passes *Emergency Economic Stabilization Act of 2008* (P.L. 110-343) extending the NMTC through 2009
October	■ CDFI Fund awards $3.5 billion in sixth-round allocations
2009	
February	■ The *American Recovery and Reinvestment Act* (ARRA) (P.L. 111-5) was signed into law adding $3 billion in NMTC allocation authority equally divided between 2008 (sixth-round) and 2009 (seventh-round) bringing the annual NMTC allocation authority to $5 billion
April	■ Seventh-round allocation applications submitted to the CDFI Fund with $23 billion in demand for $5 billion in available allocations
May	■ CDFI Fund announces that $13.3 billion in QEIs had been issued by NMTC allocatees to date
	■ CDFI Fund awards $1.5 billion in 2008 allocations made available through ARRA to 32 CDEs
	■ *New Markets Tax Credit Extension Act of 2009* (H.R. 2628) is introduced by Congressmen Neal (D-MA) and Tiberi (R-OH)
August	■ *New Markets Tax Credit Extension Act of 2009* (S. 1583) is introduced by Senators Rockefeller (D-WV) and Snowe (R-ME)

2010	
February	■ President Obama's Fiscal Year 2011 Budget calls for a two-year extension of the NMTC, through 2011, with Alternative Minimum Tax (AMT) relief for NMTC investors
April	■ CDFI Fund releases eighth-round allocation applications for $5 billion in allocation authority
May	■ CDFI Fund announces that $16 billion in QEIs had been issued by NMTC allocatees to date
June	■ Eighth-round allocation applications submitted to the CDFI Fund with $23.5 billion in demand
	■ IRS issues revenue ruling clarifying that an individuals acquisition of a QEI in a CDE is not subject to passive activity limitations
September	■ Over 400 NMTC investors, CDEs and businesses sign a NMTC Coalition letter to Congress calling for immediate passage of NMTC extender legislation before the close of the 111th Congress
December	■ The *Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010* is signed into law (P.L. 111-312) providing a two-year extension of the NMTC (2010 and 2011) with annual credit authority of $3.5 billion (the pre-ARRA allocation level)
2011	
February	■ President Obama's Fiscal Year 2012 Budget calls for a one-year extension of the NMTC, through 2012, with $5 billion in NMTC allocation authority, and AMT relief for NMTC investors
	■ CDFI Fund awards $3.5 billion in 2010 allocations to 99 CDEs
May	■ *New Markets Tax Credit Extension Act of 2011* (S. 996) is introduced by Senators Rockefeller (D-WV) and Snowe (R-ME)

New Markets Tax Credit Coalition

1331 G Street, NW, 10th Floor
Washington, DC 20005
202-204-4500 (Phone)
202-393-3034 (Fax)
www.nmtccoalition.org