

New Markets Tax Credit Program

Frequently Asked Questions

Office of Economic Development – 12/7/09

What is the New Markets Tax Credit Program?

- The federal New Markets Tax Credit (“NMTC”) program provides a 39% credit against federal income taxes for business and real estate investments located in low-income areas
- The tax credit is claimed over a 7-year period

What areas qualify for NMTCs?

- In general, census tracts with a poverty rate of at least 20% or median income up to 80% meet the minimum qualifications
- City’s application committed to prioritize investment in areas with deeper levels of distress (25% poverty or 70% median income or 1.25 times citywide unemployment rate)

Who distributes the NMTCs?

- Only certain entities, known as Community Development Entities (“CDEs”), have the right to distribute tax credits and must obtain an allocation through the federal Treasury Department’s highly competitive application process
- CDEs must have a primary mission of serving/investing in low-income areas
 - Cities and other public entities generally do not have such a primary mission and therefore need to create a separate entity in order to qualify for tax credits
- OED has created a CDE known as the Seattle Investment Fund LLC to apply for tax credits

How do business and real estate projects benefit?

- NMTCs leverage equity for business and real estate projects
- In exchange for receiving tax credits, a NMTC investor is willing to make an upfront equity investment representing approximately 67% of the tax credit amount received.
- Hypothetical \$20 million project
 - Tax credits = \$7.8 million (i.e., \$20 million x .39).
 - Equity investment = \$5.2 million (i.e., \$7.8 million x .67)

What are some examples of NMTC-eligible projects?

- Businesses seeking to acquire and/or upgrade facilities
- Commercial real estate projects
- Community facilities
- Mixed-use projects with at least 20% income coming from non-residential sources
 - Housing projects with less than 20% income from commercial or other non-residential sources are ineligible
 - Housing projects using low-income housing tax credits are also ineligible

In the current economic recession, how active is the NMTC program –i.e., does anyone currently need tax credits?

- Numerous investors (including Community Reinvestment Act rated banks) are actively seeking NMTCs
- Seven year NMTC period is considered lower risk than 15+ year period for low income housing tax credits

- Economic downturn has slightly reduced the expected amount of equity investment for projects

Why does the City of Seattle need to obtain its own allocation of NMTCs?

- OED will maximize the availability of NMTCs for local projects
 - Currently, the vast majority of NMTCs are held by national banks/other institutions, and Seattle projects must compete nationally to obtain tax credits
- OED will ensure that projects receive the best terms --- flexible underwriting standards, low-interest, high equity investments

What is the City’s financial cost for participating in the NMTC program?

- OED’s participation in the program would have NO budget impact to the City
 - City’s allocation of NMTCs will leverage private investment
 - City will not invest any funds into NMTC projects (except for possibly HUD Section 108 loan proceeds or other federal sources)
 - City will not provide any guarantee or pledge any collateral/security for NMTC projects
 - Legal, asset management and other transactional costs will be absorbed by the individual projects

What is the City’s legal risk for participating in the NMTC program?

- City will act through a separate legal entity – Seattle Investment Fund LLC – that will be solely responsible for any legal liability

Does OED have experience with the NMTC program?

- OED has gained significant experience with the NMTC program through investments dating back to the inception of the program
- NMTC projects include
 - 17th and Jackson Project (CADA mixed-use project)
 - Bush Hotel (SCIDPDA commercial renovation)
 - Compass Center
 - Cadillac Hotel
 - LaSalle Project (Pike Place Market PDA renovation of housing and senior center)
 - New Central Project (SCIDPDA mixed-use renovation)

Does OED have capacity to manage a NMTC allocation?

- OED staff already has experience in performing financial structuring/underwriting with NMTCs as a financing source; NMTC allocation will be folded into our existing outreach efforts
- OED will use third party consultants to assist us in evaluating, closing and performing asset management of NMTC projects; consultant costs will be absorbed by individual projects

What are the next steps?

- After receiving an award of \$40 million in NMTC allocation authority, OED obtained City Council authorization for the Seattle Investment Fund LLC to enter into an Allocation Agreement and other contracts with the U.S. Department of Treasury
- OED will issue RFQs to develop a list of qualified legal and financial consultants to assist the Seattle Investment Fund LLC with a NMTC allocation
- OED will organize a seminar to explain the details of the NMTC program and describe the types of projects that could be supported with NMTCs