The New Markets Tax Credit Program

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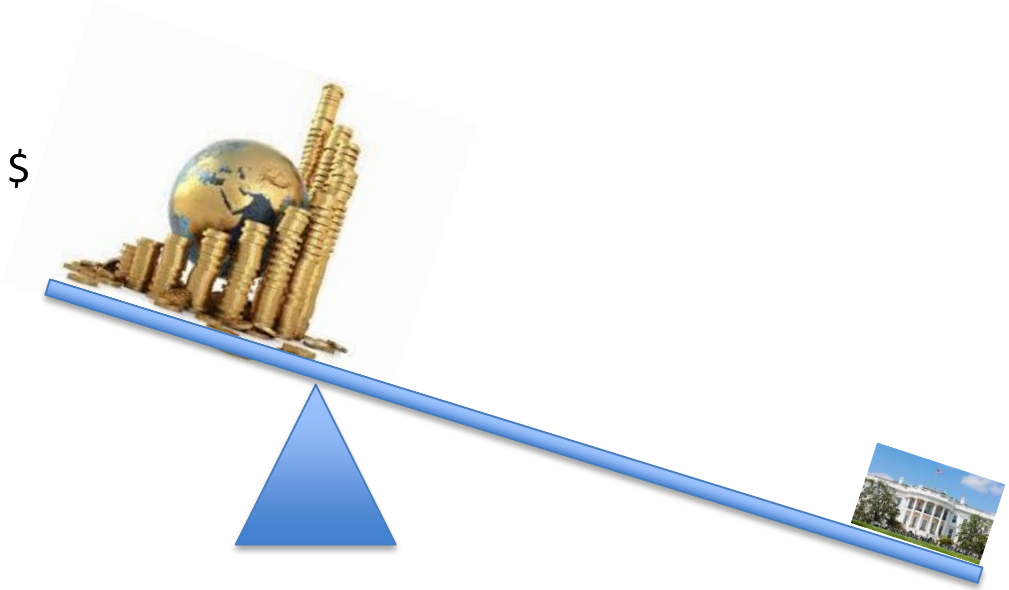
What are New Markets Tax Credits?

- **ORIGINATION** – Program enacted by Congress in 2000 and is administered by the CDFI, a Department of the Treasury.
- **PURPOSE** – Provide incentives for investment in communities with high unemployment / below average income and/or targeted populations.
- **PHILOSOPHY** – Managed by private sector; incentives require long term commitments; small federal incentive should leverage significant private investment; subsidy should result in better than market rates and terms to the project.

Stimulate Investment
in Low Income and Distressed Communities

- Provide access to Capital
- Leverage public $ to attract private $
- Target specific sectors:
  - Native
  - Appalachia
  - Brownfields
  - Food deserts
  - FEMA



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What can NMTC money be used for?

- New Markets Tax Credits are a flexible financing tool. Nearly everything that spurs economic development can be financed: for-profit businesses, medical clinics, real estate development, non-profit service centers, and more. New Markets Tax Credits are often times used to fill the “gap” left when traditional financing falls short.

What NMTC money can't be used for:

The following businesses are prohibited under the NMTC program:

- Massage parlor
- Hot tub facility
- Suntan facility
- Country club
- Racetrack or other facility used for gambling
- Store whose principal purpose is the sale of alcoholic beverages for consumption off premises
- Development or holding of intangibles for sale
- Private or commercial golf course
- Certain farming businesses

The Program and its Acronyms

- **Community Development Financial Institutions Fund (CDFI)** is a department of the Treasury created to promote economic revitalization & community development.
- **New Markets Tax Credit Program (NMTC)** Program designed to spur new or increased investments located in low income communities. Generally a 'new market' for most investors.
- **Community Development Entity (CDE)** is an domestic organization certified by the CDFI to be eligible for NMTCs.
- **Qualified Equity Investments (QEI)** is interest in a qualified CDE in the form of stock or capital in exchange for cash.
- **Qualified Active Low Income Business (QALICB)** is an active business meeting certain criteria set by the CDFI.
- **Qualified Low Income Community Investment (QLICI)** are investments made into qualified businesses which may include loans, lines of credits, debt, equity investments purchase of loans made by other CDEs or financial counseling and other related services.
- **Low Income Community (LIC)** is either a population census tract that meet certain criteria or specific areas designated by the Secretary

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What is a Low Income Community?

Primary Eligibility (one of the following criteria):

- Severe distress: Poverty rate greater than 30 percent; median family income not exceeding 60 percent of statewide median; or unemployment rates at least 1.5 times the national average
- Targeted populations as permitted by the Internal Revenue Service and related CDFI Fund guidance to the extent that businesses are 60 percent owned by low-income persons, at least 60 percent of employees are low-income persons, or at least 60 percent of customers are low-income persons
- Qualified non-metropolitan counties

What is a Low Income Community?

Secondary Eligibility (two of the following):

- Poverty rate greater than 25 percent; median family income not exceeding 70 percent; or unemployment rates at least 1.25 times the national average
- Federally designated Empowerment Zone, Enterprise Community or Renewal Community
- SBA designated HUB Zone, when NMTC financing will support businesses that obtain HUB Zone certification by the SBA
- Brownfield sites as defined under 42 U.S.C. 9601 (39)
- Area encompassed by a HOPE VI redevelopment plan
- Native American or Alaskan Native areas, Hawaiian Homelands, or redevelopment areas by the appropriate Tribal or other authority
- Areas designated as distressed by the Appalachian Regional Commission of Delta Regional Authority
- Colonias areas as designated by the U.S. Department of Housing and Urban Development

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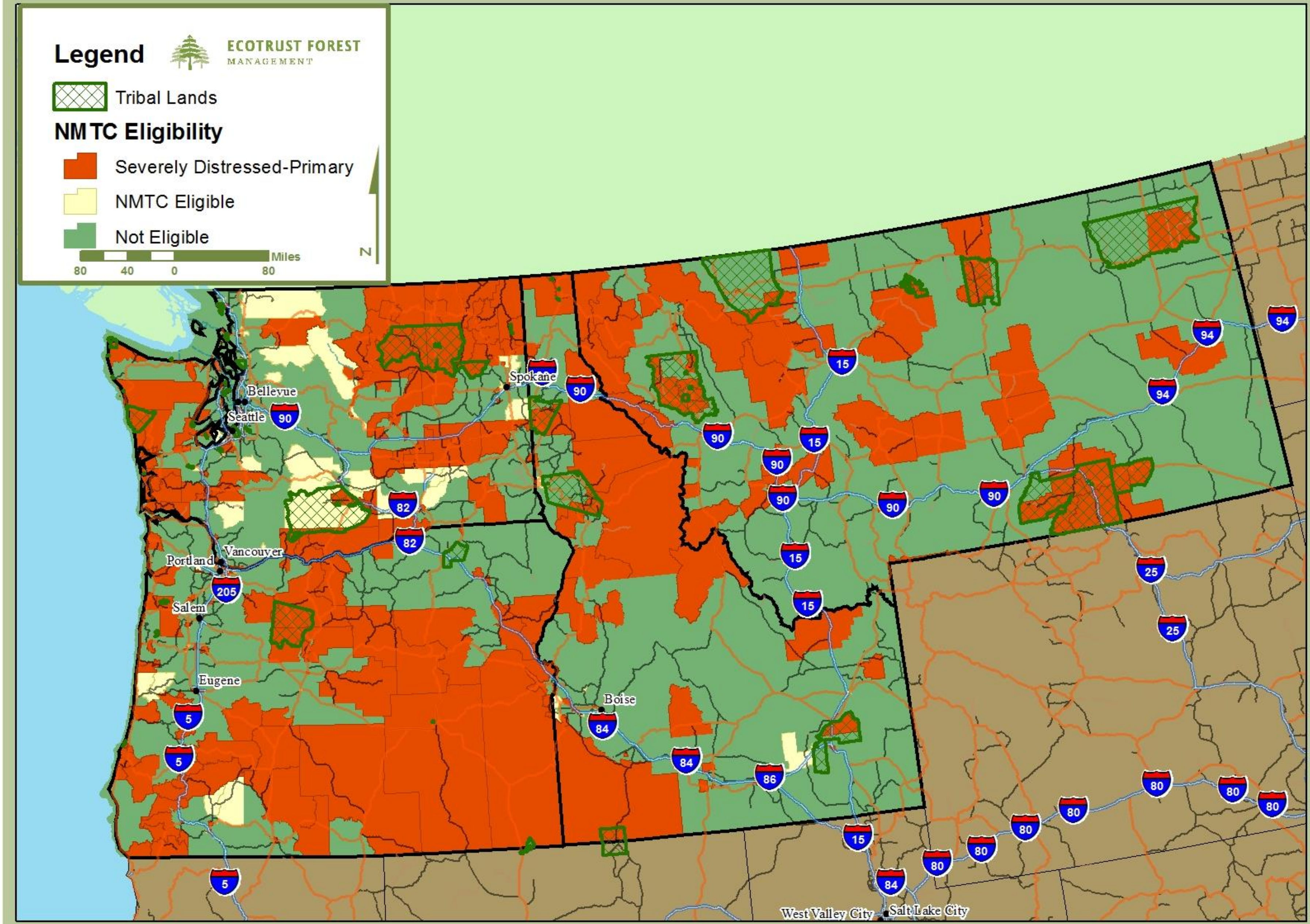
What is a Low Income Community?

Continued

- Federally designated medically underserved area, when NMTC financing activities will result in the support of health-related services
- State Enterprise Zone, or other similar state/local programs targeted towards economically distressed communities
- Counties for which the Federal Emergency Management Agency has issued a "major disaster declaration" and made a determination that such county is eligible for both "individual and public assistance" provided that initial investment be made within 24 months of the disaster declaration
- Businesses certified by the Department of Commerce as eligible for assistance under the Trade Adjustment Assistance for Firms program
- Businesses located in food deserts under the Healthy Food Financing Initiative definition (USDA-ERS) to the extent NMTC financing will increase access to healthy food

Regional NMTC Eligibility Map



What Makes A Borrower (QALICB) Qualified?

- Business is a corporation or partnership
- 50% of its active business is with low income communities
- 40% of its tangible assets are within low income communities
- 40% of the services performed is within low income communities
- 7 year compliance requirement

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What's in it for the Tax Credit Investor

- Investors get a 39 percent tax credit over a seven-year period. Investors receive a tax credit of 5 percent of the QEI per year in the first three years and 6 percent per year in the final four years.

Year	Tax Credit %	Capital Invested in Project	Tax Savings for Tax Credit Investor
1	5%	10MM	500K
2	5%		500K
3	5%		500K
4	6%		600K
5	6%		600K
6	6%		600K
7	6%		600K
Total	39%	10MM	3.9MM

While NMTC transactions can be structured in different ways the mechanisms described here are common.

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What's in it for the CDE

- CDEs, both for profit and non-profit, receive fees associated with NMTC Transactions
- Most fees are based on a percentage of the tax credits provided to the transaction
    - Up front fees usually range from 2% to 5%
    - Annual fees usually range from .35% to .6%
    - Some CDEs also negotiate fees paid at the end of the compliance period
- CDEs report to the CDFI what fees are charged.
- The competitiveness of CDEs for future tax credit allocations is based, at least in part, on fees charged.

How to attract allocation

- Compelling, high quality job creation
- High probability of closing in a timely manner
- Strong community impact
- Low default risk
- Financial and project management capacity
- Project that matches well with CDE strategy

Benefits

- Finance 25% of an eligible project through this mechanism
- Low cost capital (~1% interest only debt) during the 7 year compliance period
- Many CDEs structure the debt to be forgiven after 7 years
- Create high quality jobs for tribal members
- Work with CDEs to achieve financial, social and environmental goals

Challenges

- Minimum deal size usually $5 million.
- Consistency in governance over NMTC project development period
- Deals usually take at least 6 months to structure
- Prohibited activities: alcohol sales, gambling houses, massage parlors, golf courses and country clubs
- 7 years of reporting requirements

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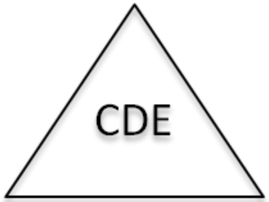
What to watch out for

- Some deal structures don't forgive debt at end of 7 years which would require a refinancing of the debt
- Some NMTC consultants charge very high rates (3-4% of allocation amount) for 6 months of work
- Look for partners that share your values
- CDEs charge different fees. The lower the fees higher the tax credit subsidy to the project.
- Tax credit investors pay different rates for the credits. The higher the rate the better the subsidy for the project.

NMTC – How it works

A CDE is a specially created entity that:

- *is certified by the federal government*
- *has a primary mission to serve low-income communities and/or people*
- *is governed by a body that is accountable to residents of low-income communities*



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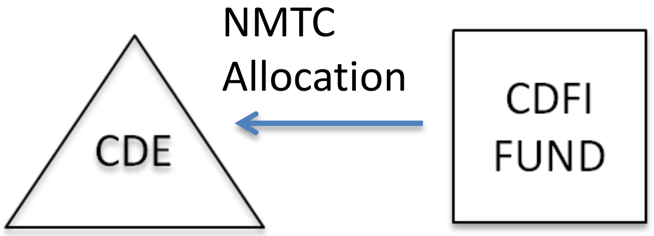
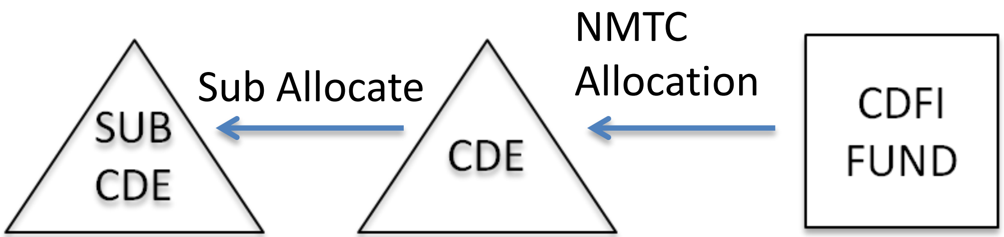
NMTC – How it works

Successful applicants are awarded an allocation of tax credits from the US Department of the Treasury through a competitive annual application process.



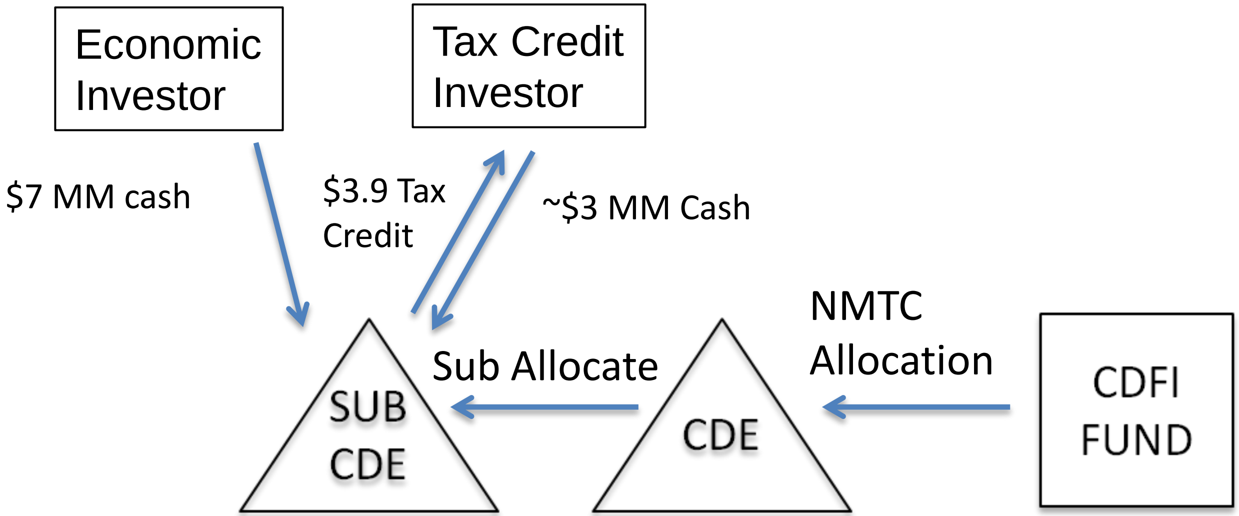
NMTC – How it works

CDE's sub allocate a portion of their award to a special purpose entity for a specific project.



NMTC – How it works

A NMTC financing package typically requires an economic investor to provide around 70-75% of the total project cost while the tax credit investor provides the remaining funds as tax credit equity. These dollars are pooled together and the tax credit investor makes a QEI cash investment into the Sub CDE.



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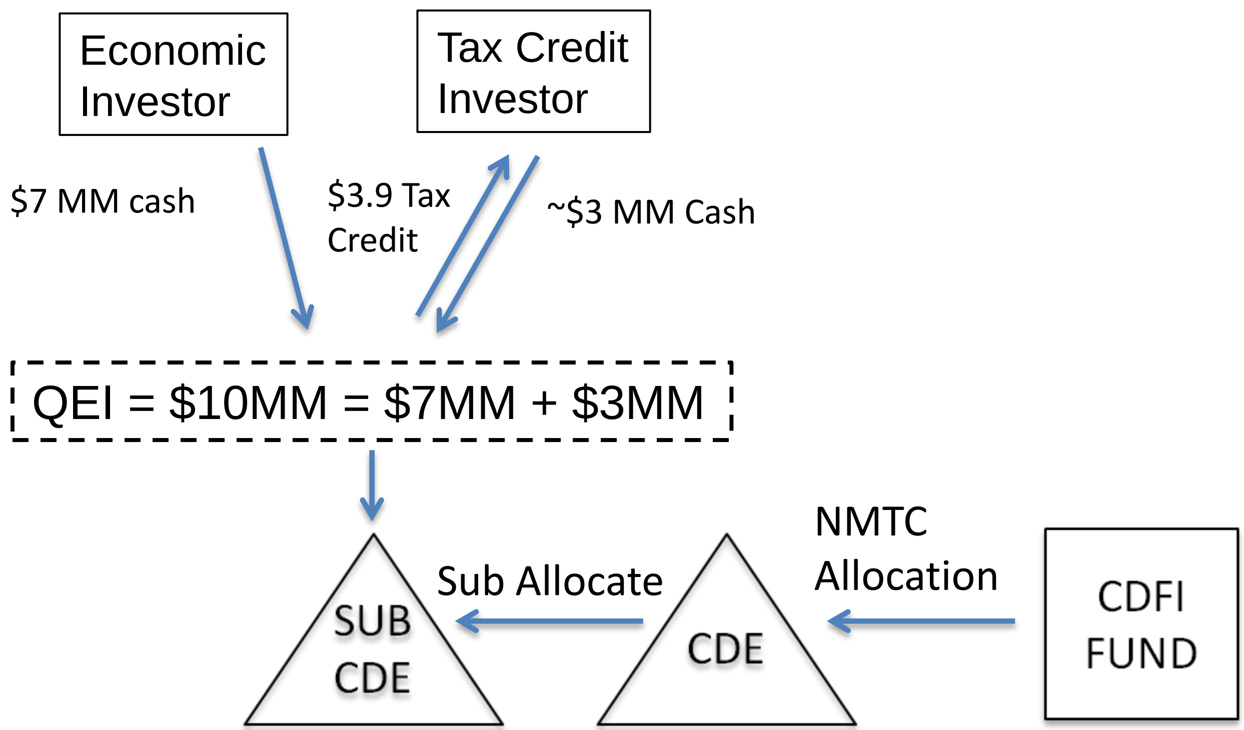
NMTC – How it works

For every $1 of Qualified Equity Investment (QEI) the sub CDE receives from the investor, the Sub CDE transfers $1 of tax credits to the investor. If this happened all at once at the time of the deal close, the credits, at the maximum federal tax rate would be worth 39 cents.



Investors use tax credits to offset their tax liability over 7 years.

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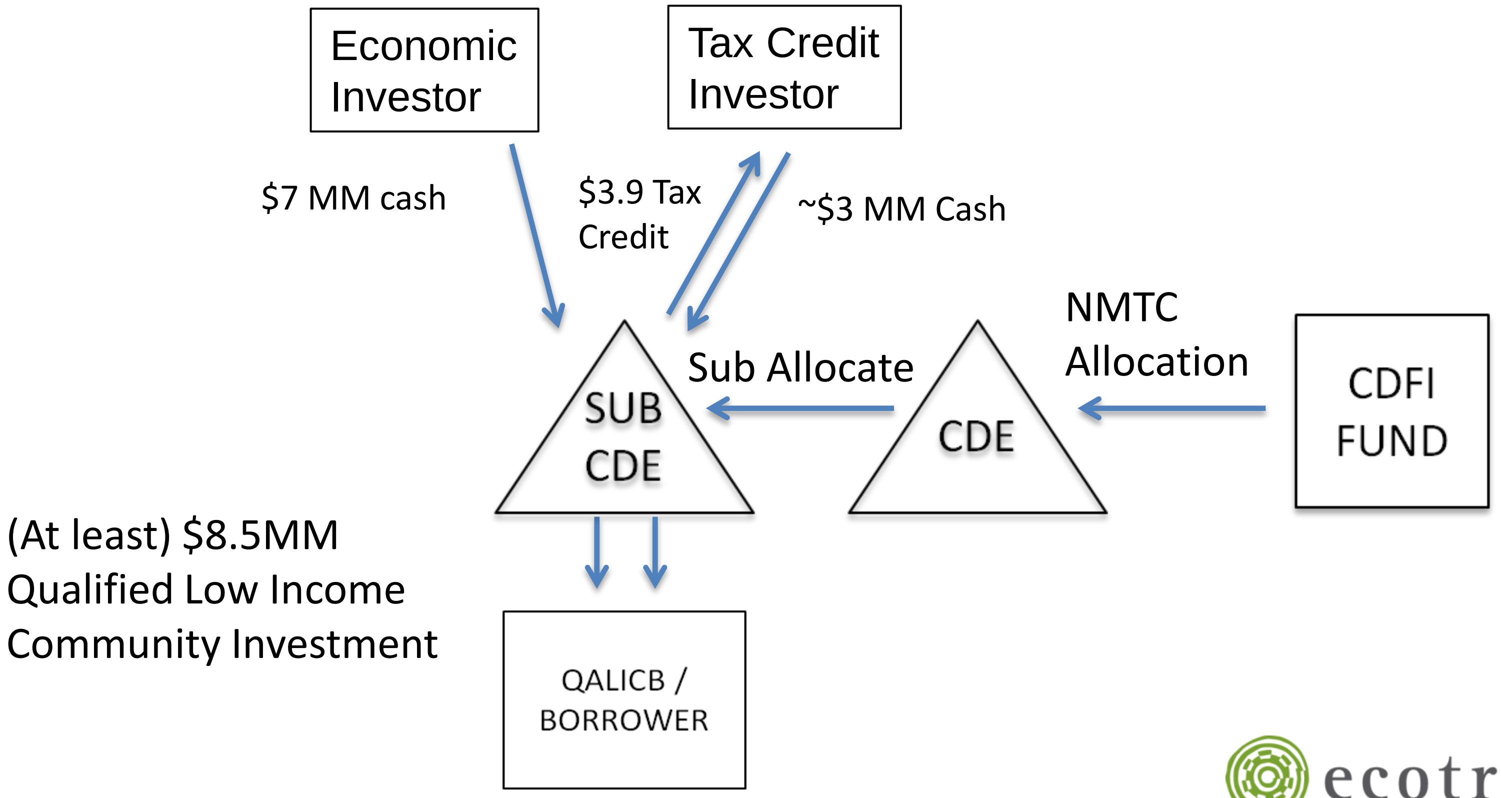
NMTC – How it works

The Sub CDE invests at least 85% of the QEI proceeds into a qualified low income community business.



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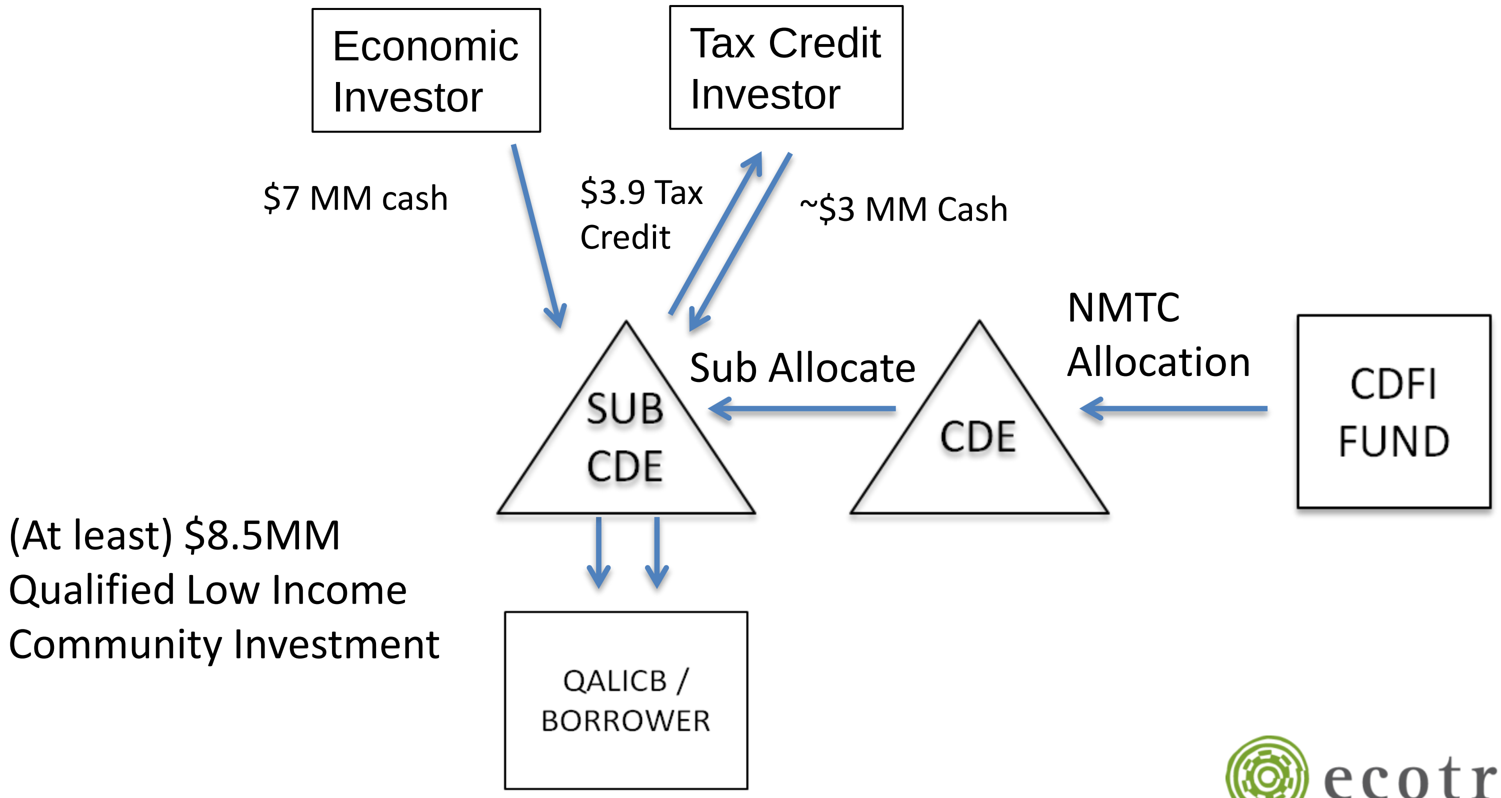
NMTC – How it works

The Sub CDE's investment in a qualified low income community business is typically debt financing which mirror the financing sources the tax credit investor used to make the QEI, one loan mirrors the leverage loan and the other loan is the NMTC subsidy, the gap financing source.



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Ecotrust NMTC Program Goals

- Ecotrust CDE makes investments in natural resource dependent businesses that are located in primarily rural, economically distressed areas with a focus on **job creation**, **community revitalization** and **long term ecological restoration**.
- Ecotrust also has a strong commitment to working with minority controlled /owned entities, including Tribal organizations to facilitate land acquisition, employment opportunities, revitalization of manufacturing facilities and capacity building.

To date, Ecotrust CDE and EFM has placed over **$154.5M NMTCs in 13 businesses** that are creating green jobs in economically distressed rural and urban communities across the country

Ecotrust CDE focus sectors :

- Forestland acquisition and restoration;
- Natural resource value-added processing facilities
- Community infrastructure/green building
- Waste to energy, waste to materials

Ecotrust CDE has a successful track-record in securing NMTC allocation

Round 3: $50M
Round 7: $30M
Round 8: $42M
Round 10: $45M
Round 11: $35M

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A Sampling of the Participants

PROJECT: Businesses that need capital:

Kalispel Tribe

Coquille Tribe

Colville Tribe

CDE: Community Development Entity that provides capital to low income communities / businesses:

TRAVOIS™

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CEI

Capital *for* Opportunity *and* Change

TAX CREDIT INVESTOR: Purchaser of tax credits to lower tax bill:

usbank

CHASE

Capital One Investing™

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Recent Tribal NMT Deals: Kalispel

- Description: Relocation & upgrade of wastewater treatment facilities. Relocation of buffalo preserve.
- Project Size: $11.1MM
- Collateral: leasehold deeds of trust, with an assignment of leases and rents, security agreements, and fixture filing
- NMTC investor: Wells Fargo
- Allocation Provider:
  - Federal: Ecotrust CDE
  - State: Wells Fargo

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Recent Tribal NMT Deals: Coquille

- Description: Purchase of ancestral forestland
- Budget: $9.0MM
- Collateral: Leasehold deed of trust and timber contract
- NMTC investor: Capital One, N.A.
- Allocation Providers
  - Ecotrust and Enhanced Community Development

Recent Tribal NMT Deals: Colville

- Description: Development of tribal headquarters and community center
- Project Budget: $44.4MM
- Project Collateral: a construction leasehold deed of trust with assignment of leases and rents, security agreements, and fixture filing
- NMTC investor: U.S. Bancorp
- Allocation Provider: Ecotrust CDE

Tribally owned & focused CDEs

Tribally owned:

- Alaska Growth Capital (owned by Arctic Slope Regional Native Corporation, three-time awardee, not focused solely on Native communities)
- Chickasaw Nation Community Development Endeavor (recently formed, first application submitted)
- Cherokee Nation Business (one-time awardee)
- Lower Brule Community Development Enterprise (one-time awardee)
- National Tribal Development Association (now inactive, one-time awardee)

Tribally focused:

- Ecotrust CDE
- Travois (not tribally owned but tribally focused, three-time awardee)

Total estimated tribal deal activity: 35 transactions totaling $350 M in allocation.

NMTC and Broadband: GCI-Terra

- Alaska's General Communication Inc. (GCI) began the TERRA project in 2010 to bring broadband service to rural Alaska through the construction of a terrestrial microwave and fiber optic network. TERRA-SW, completed in the fall of 2011, provides broadband service to more than 9,000 households, 750 business and many health care institutions.
- For TERRA-NW, the second phase of the project, GCI's subsidiary Unicom received $78 million in NMTC allocation from three CDEs: Alaska Growth Capital, Waveland Ventures and Travois New Markets.
- U.S. Bancorp Community Development Corporation provided the equity investment, and the state of Alaska and a sponsor loan covered the remaining costs. Of the $34.5 million in estimated project costs, U.S. Bank and Travois provided $6.7 million of the total $16.5 million NMTC financing.