TEDC

Texas Economic Development Council (TEDC)

May 18, 2016 Webinar

Economic Developer's Guide to New Market Tax Credits

Steve Gilbert, VP Real Estate & Site Selection

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Top 10 Rejected Session Titles

1. This ***$#!+*** Ain’t Easy, But Its Worth It!
2. The Art of the Deal: A Practitioner’s Perspective
3. Stakeholders 101: Partnerships Make or Break a Deal
4. Stick to the Script: The Role of Elected Officials in Economic Development
5. Economic Development: A Team Sport
6. Arrows in the Quiver: The Development Finance Tool Box
7. Show Me the Money: Navigating the Capital Stack
8. Accessing Resources: Setting the Table for Development Finance
9. Out of the Weeds: Development Finance from 50,000 Feet
10. Development Finance: How to Feed the Monster

Site Selection | Incentives

CAPITAL STRATEGIES | IMPLEMENTATION

Plan | Build | Deliver

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Strategic Growth Partners

Dedicated, Experience Professionals

- ✓ Solid reputation for quality, value and integrity.
- ✓ Broad range of site selection experience.
- ✓ Owner and operator's point-of-view.
- ✓ Professional services and financial solutions.
- ✓ Design and program management services.
- ✓ Focused approach that can make the difference between your project getting the green light or being shelved.

Capital Stack

Site Selection | Incentives

CAPITAL STRATEGIES | IMPLEMENTATION

Plan | Build | Deliver

Self Leveraged	Cash
Owner Equity	Investors, Venture Capital
Debt	Conventional, Guaranteed
Bonds	Exempt, Taxable
P3 (Public Private Partnerships)	Private Funded & Owned w/Long-term Lease Back
Special Districts	Tax Increment Financing (TIF), Tax Reinvestment Zones (TIRZ), Historic Districts, Special Development Districts
State & Local Incentives	Cash, Land, Buildings, Loans, Abatements, Training, Tax Credits
Federal Incentives	New Market Tax Credits, Historic Tax Credits, Housing Tax Credits

HWH GROUP

Purpose

To bring world-class know-how to small town America, to make differentiated, sustainable and durable impacts on communities.

Our Services

Specialty Consulting

Accelerate development for project owners focusing on Site Selection, Incentives and New Market Tax Credits.

Real Estate Development

Develop, own and operate mixed-use real estate projects in emerging micropolitan areas with populations of 10,000 to 50,000.

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Value Proposition

Reputation and Technical Expertise

- Robust Pipeline of High-Quality Projects.
- Structure and Package NMTC Transaction (Tell Project Story).
- Understand Deal Closing Critical Success Factors.
- Coordinate Complex Schedule and Closing Timelines in Sync with Project Timelines.

Our Critical Relationships

- CDEs – To Secure Allocation of Tax Credits.
- Investors – To Monetize Credits at Maximum Value.
- Expert Lawyers – To Structure Deal.
- Bankers (Lenders) – To Facilitate Understanding, Comfort Level and Acceptance.
- Local, State and Federal Government Agencies, Non-Profits, Community-Based and Economic Development Organizations.

Project Owner Representation

- Wide range of industrial and commercial clients.
- Project owner's advocate.
- Watch out for your best interest.
- Maximize the cash your company receives.
- Help you with compliance.
- Get the deal structured and closed.

Local Toolbox

Non-Monetary (Role of Knowledgeable Expert)

- Be an Advocate
- Navigate Relationships & Open Doors
- Entitlement Process Assistance
- Broker State & Federal Incentives (e.g. Application Assistance)
- Inform of Strings & Clawbacks

Monetary

1. **Site Ready Land** (Deed, Lease, Sell)
2. **Local Sales Tax – Types A & B**
   A. Cash & Reimbursements
   B. Infrastructure (Site Prep., Utility, Transportation, etc.)
   C. Application Fees
3. **Workforce Development** (Training & Recruiting Assistance)
4. **Tax Abatements** (10 Yr./100%) and **Exemptions** (Freeport)
5. **Chapters 380 & 381**
   A. Agreements w City/County
   B. Sales Tax Reimbursement
   C. Infrastructure
6. **PIDs**: Tax Increment Reinvestment Zone (TIRZ/TIF)
7. **Enterprise Zone** Nominations

Local, State & Federal Toolbox

Monetary (continued)

1. Bank Participation Loans
2. Bridge/Low Interest Loans
3. Lines of Credit
4. Loan Guarantees (Guarantee of Collection)
5. Industrial Development Bonds
6. Fee Waivers & Subsidies

Utilities & Infrastructure

1. Water
2. Sewer
3. Stormwater
4. Electric
5. Gas
6. Fiber
7. Roads

Small Business & Entrepreneurial Support

1. Incubator
2. Small Business Development Center (SBDC)
3. SBA Lenders
4. Investor Forums
5. Revolving Loan Fund (Capitalized by USDA, EDA & Others)

Councils of Government (COGs)

- Conduit to State & Federal Agencies, Programs and Funds (e.g. DOC-ED Administration)

Local, State & Federal Toolbox

Governor's Ofc. - Tourism & Economic Development

- ED Bank – Wide-Range of Programs
- Enterprise Zone Program
- TX Enterprise (Deal Closing) Fund
- Emerging Technology Fund
- *Economic Development Team*

TX Department of Agriculture

- TX Capital Fund, Others (Conduit to USDA)

TX Workforce Commission

- Skills Development Fund
- Conduit to USDOL Grants

College & University Resources

- TMAC and TEEX
- Other Local and Regional Resources

Transportation

1. TXDOT/City/County
2. Regional Mobility Authorities (RMAs)
3. TXDOT Revolving Loan Fund
4. Railroads (Class I and Shortlines)

State & Federal Tax Credits

1. New Market (NMTC)
2. Historic (HTC)
3. Housing

Emerging Tools

1. P3 Opportunities
2. PACE – Property Assisted Clean Energy www.keepingpaceintexas.org

New Market Tax Credits

New Market Tax Credits
Transaction Model

$3B /Yr

How New Market Tax Credits Flow Into a Deal

Program Starts Under President Bill Clinton NMTC Continues to Enjoy Bi-Partisan Support

US Department of Treasury

Community Development Financial Institution (CDFI) Fund

Apply for CDFI or CDE Designation

CDE's Compete Annually for NMTC Allocations

With Allocation Award CDE Looks for Good Projects for their Geographic Service Area & Niche Focus

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Robust Project Pipeline of Good Projects in Qualified Communities

Tax Credit Investor Relationships (Big Banks)

Secure Letter of Intent from CDE & TC Investor for our Client's Project

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New Market Tax Credits
The Basics

- Federal Tax Credit: Enacted by Congress in 2000 as a part of the Community Renewal Tax Relief Act of 2000 and administered by the CDFI Fund of U.S. Treasury.
- **Incentivizes new private investments in qualified communities and promotes economic development in low income communities.**
- Qualified communities are designated by census tracts.
- **Net Benefit to Project = Increase in Capital to Project at Closing of 15 – 20%. Translates to a likely permanent subsidy to the project at the end of the 7 year structure.**
- Tax credit investor receives 39% tax credit available over 7 years: 5% for first 3 years and 6% in the last 4 years and contributes to project with "purchase" of tax credits.
- **Wide range of investments qualify** including:
  - Commercial and Mixed Use
  - Industrial
  - Non Profit and Community Facilities
  - Operating Businesses

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New Market Tax Credits
The Basics

- **Community Development Entities (CDEs)** award tax credits to qualifying projects.
- **Eligible project costs** include:
  - Equipment
  - Site Prep
  - Land Acquisition
  - Rehabilitation
  - Soft costs (Closing costs, tenant improvements, as well as working capital reserves permitted depending on circumstances)
- **7 Year Financing Structure** tailored to accommodate various goals of parties
- **Variety of investment sources**:
  - Loans
  - Bonds
  - Equity
  - Other federal, state and local grants
  - Donations
  - Private grants
  - Other funding sources compatible structure

New Market Tax Credits
Players in a NMTC Deal

Community Development Entity (CDE)

- Serve as a financial intermediary, and administers the program
- Apply for status and certification from CDFI
- Can be non-profit, private for-profit, or governmental entities
- Accountable to low income communities served under their agreement with CDFI (can be local, multi-state or national)
- After certification as a CDE, entity may apply for NMTC allocation award under a competitive application process
- Receives equity contribution from tax credit investor and lends to the qualified project
- $40B in allocation awards since inception of program

Tax Credit Investor

- Makes an equity contribution into the project at a discounted rate in exchange for tax credits
- Eligible to claim 39% tax credit over 7 years: 5% for first 3 years and 6% in the last 4 years
- Tax credit investor equity contributed to CDE and available to project at closing
- Remain invested in the transaction for 7 year period

New Market Tax Credits

Prohibited Projects & Uses

- Store where the principal balance of which is the sale of alcoholic beverages for consumption off premises.
- Trade or business where the principal activity is farming, or as of the close of the taxable year the sum aggregate basis (or if greater, the fair market value) of the assets owned and the aggregate value of the asset leased exceeds $500,000.
- Residential rental property under Section 168(e) (2)(A) of the Internal Revenue Code to the extent eighty percent (80%) or more of the gross revenues come from "dwelling units".
- Business engaged in the rental of real property to a lessee that is engaged in prohibited businesses, including:
  - Tanning salon
  - Development or holding of intangibles for sale or license
  - Private or commercial golf course
  - Country club
  - Massage parlor
  - Hot tub facility
  - Racetrack or other facility used for gambling

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New Market Tax Credits
What Makes a Good Project

- Must be located in a qualifying census tract
- Strong impact on Low Income Communities residents
- Strong community support (evidenced by community support letters)
- Jobs: Creation and retention, quality of jobs, accessibility training
- Minimum investment of $5M
- Strong funding potential for costs not funded by NMTC benefit
- Minority-owned businesses
- Goods and services for underserved population (for example: Education, Fresh Food, Healthcare)
- Sustainable Businesses
  - Brownfields
  - Renewable energy
  - Green buildings and businesses

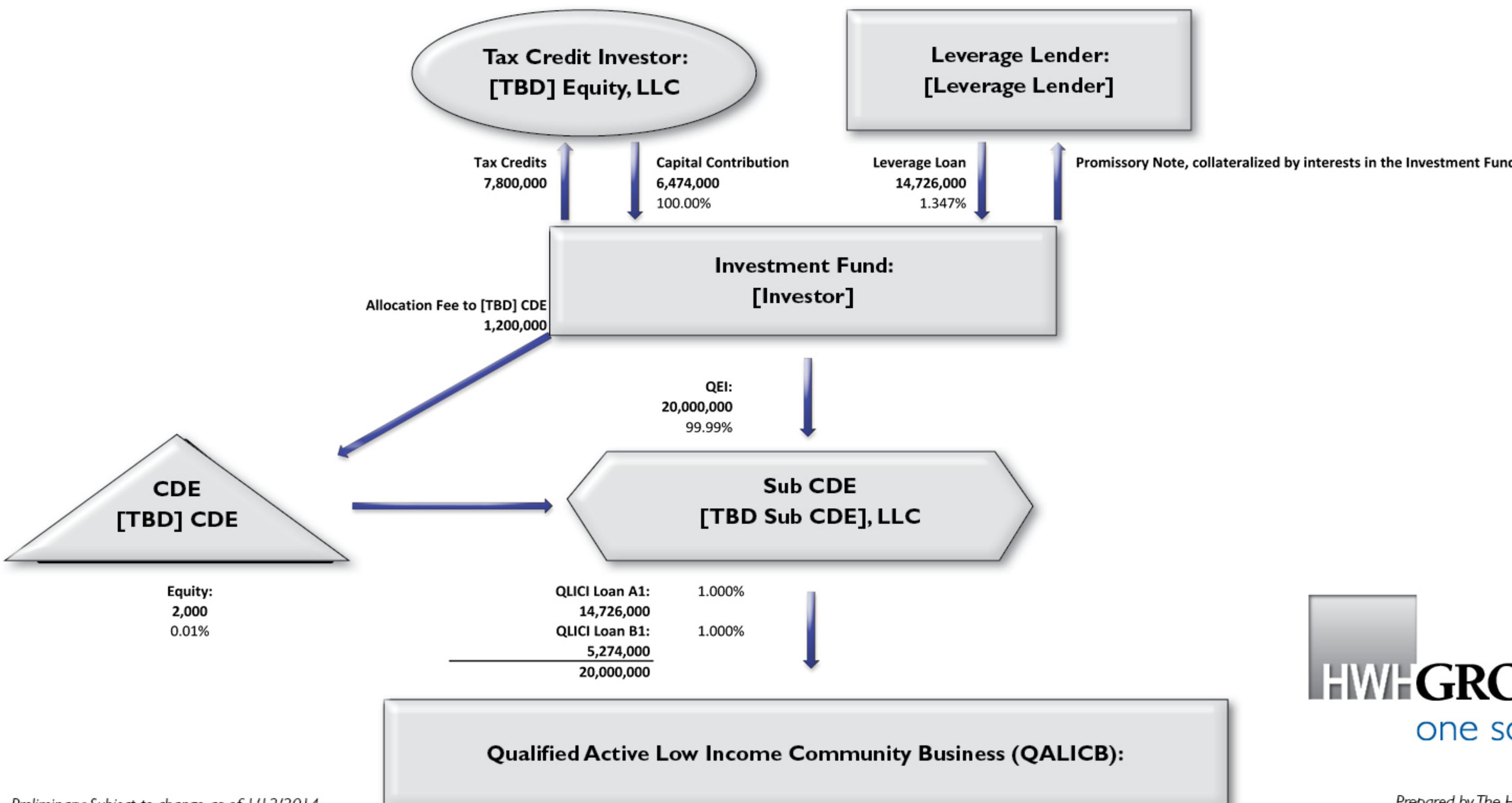
NMTC Structure

Qualified Equity Investment (includes NMTC Transaction Costs)	20,000,000
39% Tax Credit	7,800,000
Estimated Tax Credit Investor Equity ("Purchase" of Credits)	6,474,000
Net NMTC Benefit, After all Transactional Costs	**3,924,000**
Non NMTC Financing Sources Needed for Project (QLICI A Notes)	14,726,000

A Loan: 7 Yr int Only Collateralized Loan to CDE w/ Corresponding Terms to Leveraged Lender.

B Loan: Loan with Put / Call Agreement at unwind in 7 years (Pays Annual Fees and Residual Transaction Costs. All included in total transaction cost estimate and reserved at closing).

Net Benefit After Residual Costs = **3,924,000**



Preliminary; Subject to change as of 1/12/2014

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Prepared by The HWH Group

NMTCs: *Show Me The Money*

Following the Money in a NMTC $20M Project		
Qualified Equity Investment (Total Project Costs) (Value of TCs Allocated by CDE)	**$ 20,000,000**	
Owner Equity or Debt into the Project (QLICI Loan A1)	**$ 14,726,000**	**74%**
NMTC Capital Into Project (QLICI Loan B1) (Cash Available after CDE Fees)	**5,274,000**	**26%**
QEI (Qualified Equity Investment)	**$ 20,000,000**	**100%**
Tax Credit Investor and Monitization of TCs		
39% Tax Credit (of **$20M** TC Allocation) to **TC Investor** (Taken over 7 Years @ ~6% to 7%/Yr.) (Value of TCs to **TC Investor**)		**$ 7,800,000**
Tax Credit Investor Equity (Purchase & Monitize TCs @ $.83 per $1 for **$7.8M**) (Amount "**Monitized**")		**$ 6,474,000**
Transaction Fees (What Everyone Gets Paid at Closing)		
	Amount	**% TC Investor Equity**
Cash from TC Investor (TC Investor Equity)	**$ 6,474,000**	**100%**
Fees to CDE (Who Allocates Tax Credit Allocation they were awarded by US Treasury)	**1,200,000**	**19%**
Cash Available after CDE Fees	**$ 5,274,000**	
Net Benefit to Project Owner (20% of $20M Project Costs) After CDE & Professional Fees	**$ 3,924,000**	**61%**
Professional Fees to (3) Lawyers, (3) Accountants and Consultant(s)	**1,350,000**	**21%**
Cash Available after CDE Fees	**$ 5,274,000**	
Summary		
Total Amount in the 7-Year NMTC Structure (Requires Annual Reporting for **Owner** Compliance)	**$ 18,650,000**	
Professional Fees to (3) Lawyers, (3) Accountants and Consultant(s)	**1,350,000**	
QEI (Qualified Equity Investment)	**$ 20,000,000**	

NMTC Maps

NMTC Client Engagement Process

1. Execute NDA
2. Discuss Project Details
3. Execute Engagement Agreement
4. Complete HWH Group Intake Form
5. Pursue CDE & TC Investor Pipelines
6. Develop Detailed Project NMTC Proposal
7. Secure CDE LOI for Allocation of TCs
8. Secure TC Investor
9. Initiate Project Closing Process (Sausage)

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Partnership Opportunities

- Multi-generation, family owned & operated.
- Maximizing value for customers and partners.
- Entrepreneurial culture.
- Vertical integration of development services.
- Serve Fortune 500 companies.
- Delivery of quality projects.

Q & A

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We will provide a clean, safe place, where people can grow, prosper and be proud as they contribute to making the world a better place.

Godspeed,

Chip Harper
Paris, Texas

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Capital Group

Site Location | Incentives Consulting | Capital Stack Structures | Historic and New Market Tax Credits

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BUILDERS · ENGINEERS

Construction

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Manufacturing

Retail Fixtures | Custom Millwork

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Logistics Advantages & Supply Chain Solutions

3rd Party Logistics