

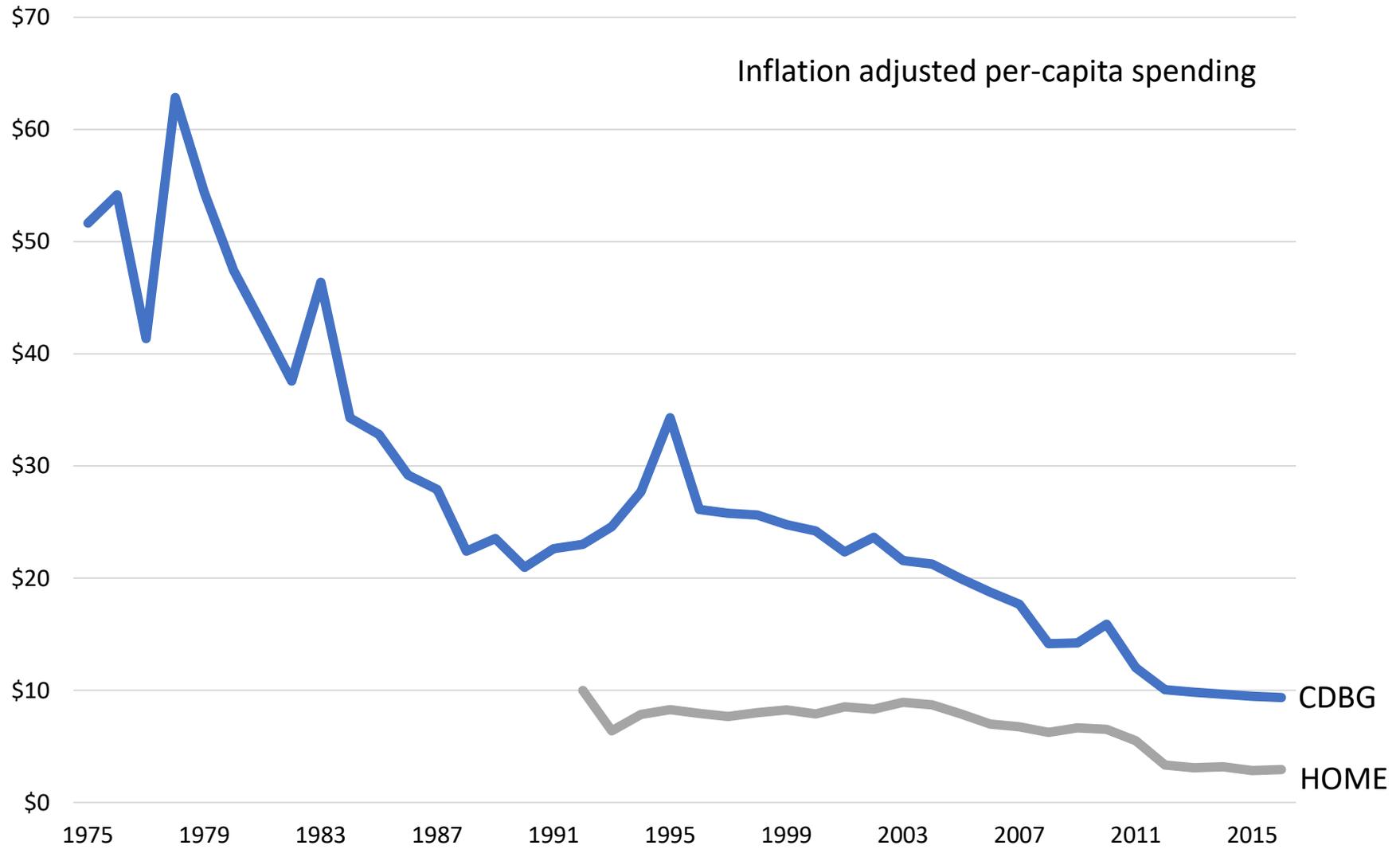


November 07, 2017

# Assessing the NMTC Program

*Brett Theodos*

# Context: Grant programs not keeping pace with inflation and population growth



Sources: HUD, Novogradac

## Context: Decreasing federal support, growing P3s

- Apart from the stimulus, **federal aid has for localities trending downwards**: Federal funds were 14% of local government revenues in the late 1970s, and today that number is 5.3%
- Public/private partnerships (P3s) are becoming an increasingly popular means for government to support development without shouldering all the cost
- Discussion has largely moved **from should** we use P3s **to how** governments can best facilitate P3s and identify the most cost-effective projects
- Pluses and minus to this broader approach (and it makes evaluation challenging)

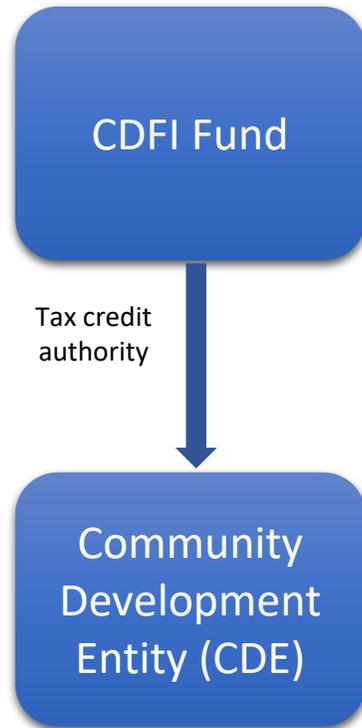
# How does the NMTC incentive work?

- Corporations and individuals take 39% tax reduction spread over 7 years in exchange for investments in mission-driven, for-profit intermediaries called Community Development Entities (CDEs)
- CDEs use funds generated from NMTCs to underwrite projects in distressed areas
- Projects include commercial and mixed-use developments, office buildings, arts centers, charter schools, medical clinics, and small business expansions

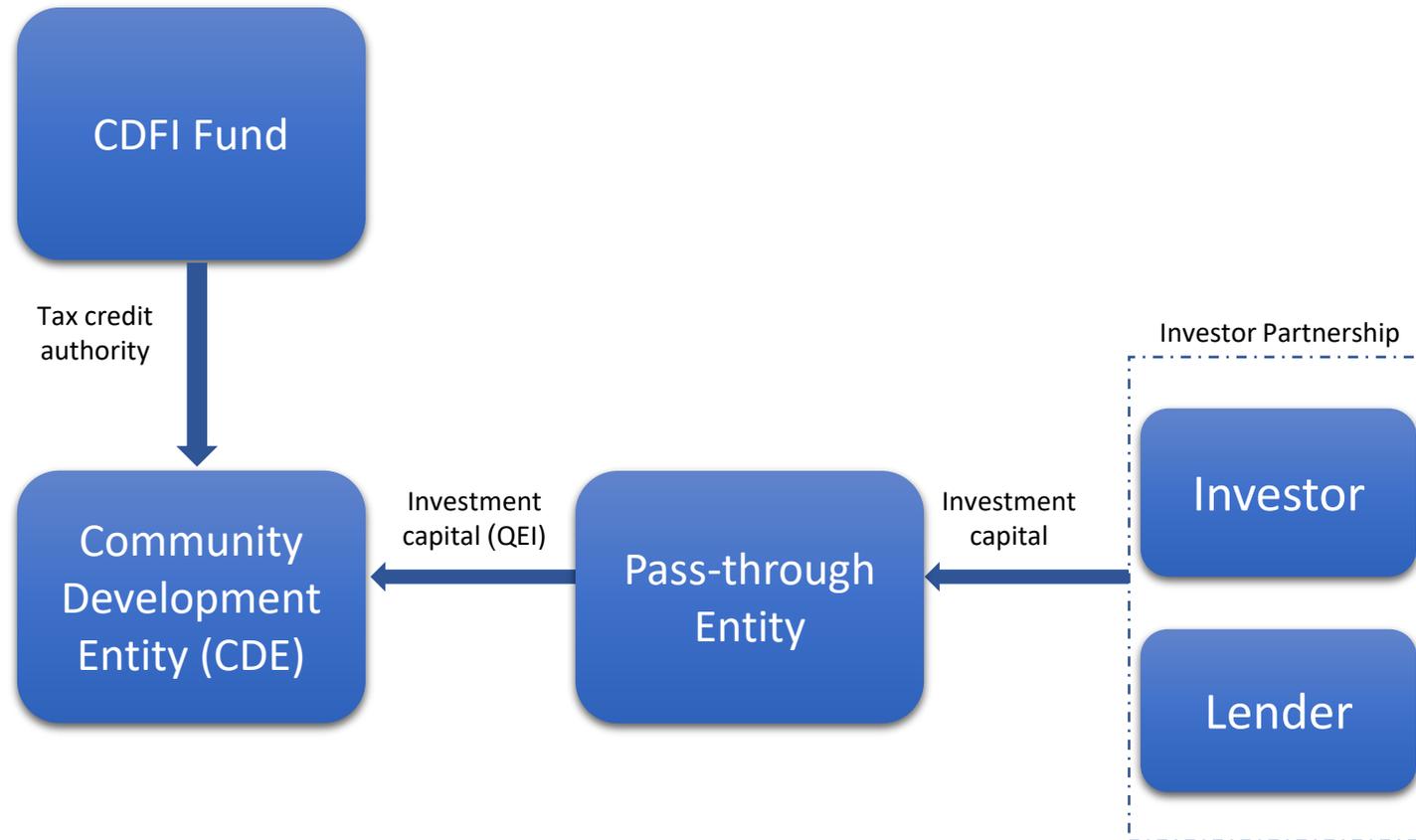
# Key players

- **CDEs.** Domestic corporations or partnerships serve as intermediaries for loans or investments to qualified low-income businesses (QALICBs)
- **Investors.** Primarily corporate entities, sometimes individuals, are eligible for NMTCs in return for making investments via CDEs
- **QALICBs.** Investment recipients, for-profit or nonprofit, carry out projects using CDE investments and, often, capital from other sources

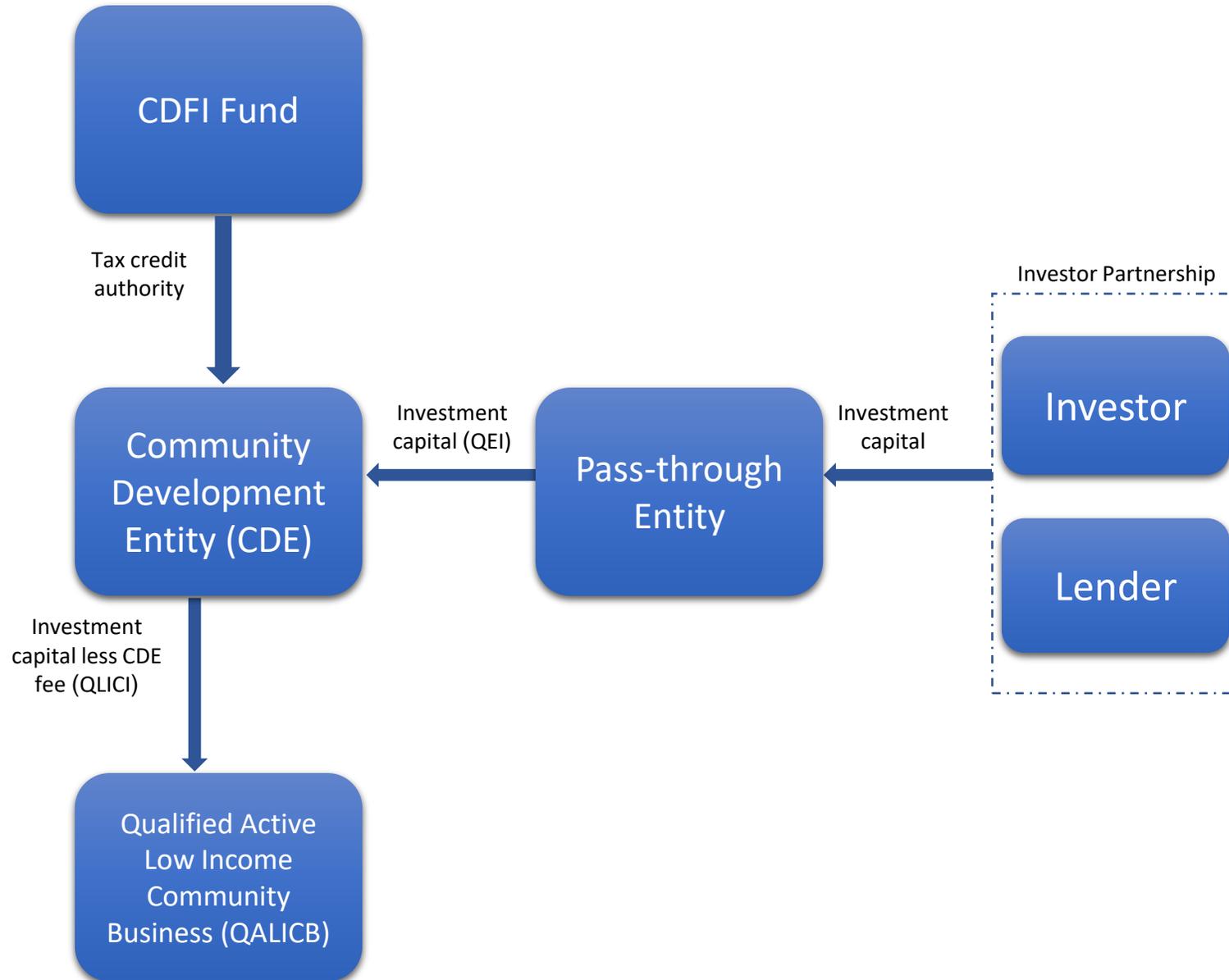
# NMTC leveraged investment model



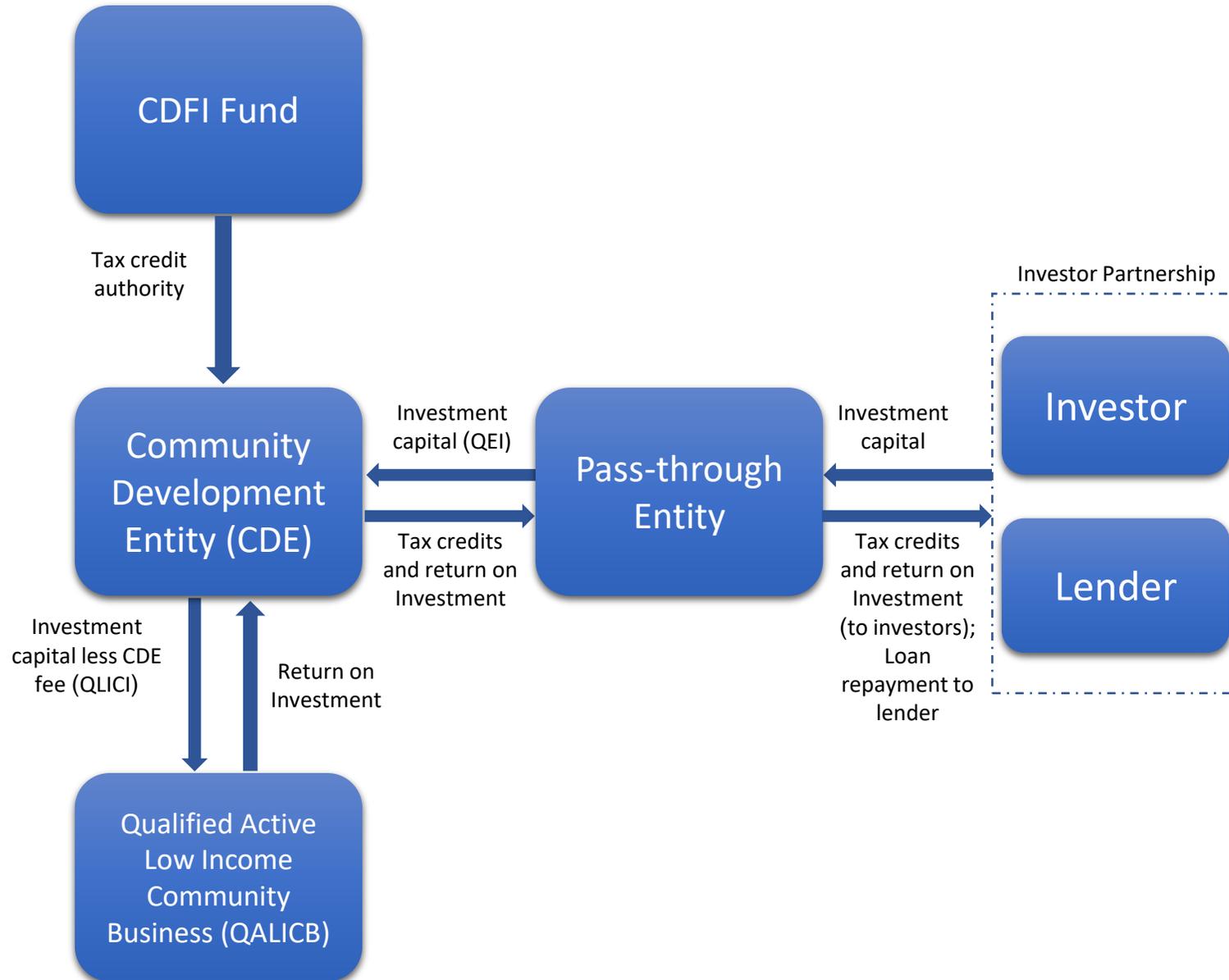
# NMTC leveraged investment model



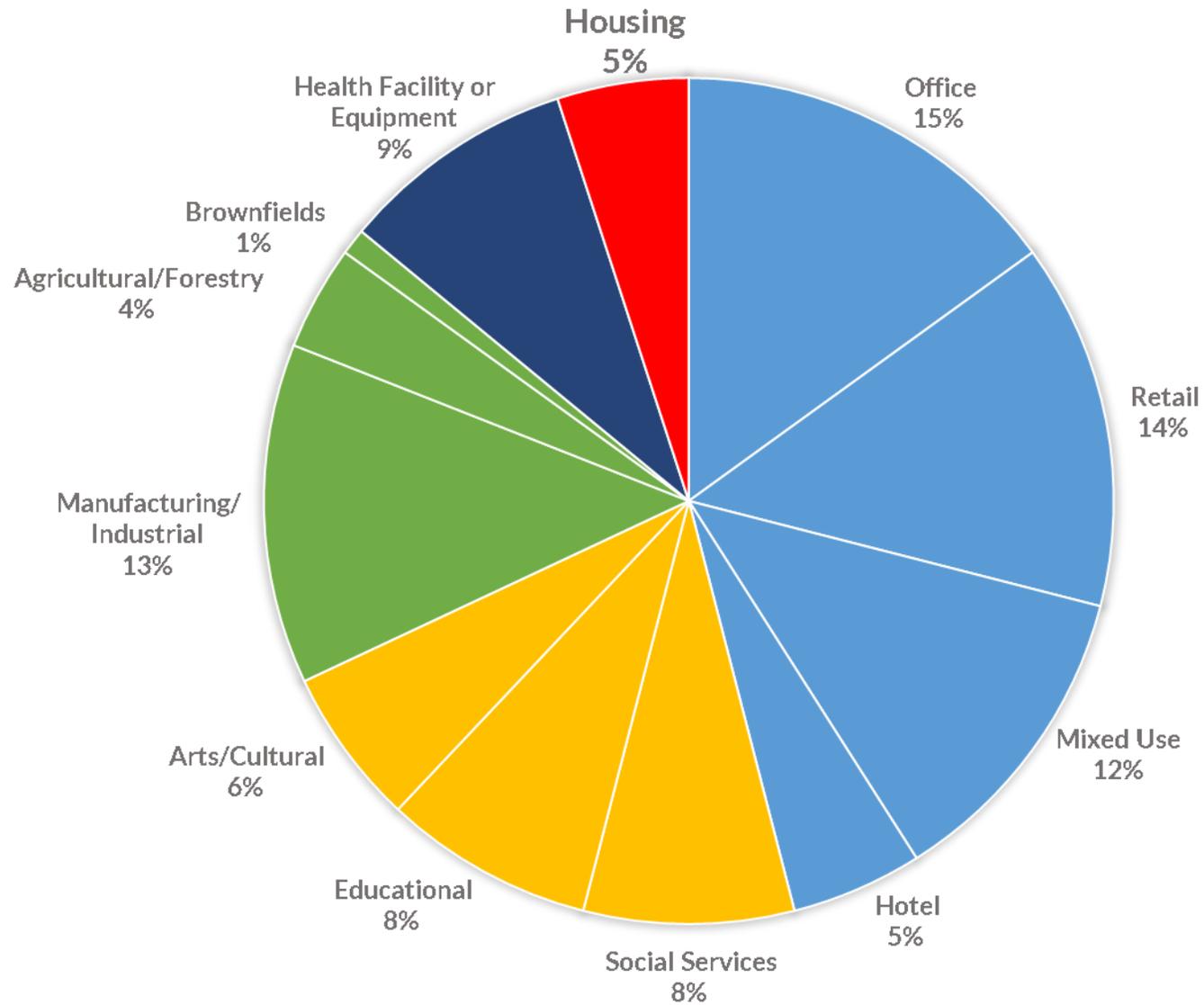
# NMTC leveraged investment model



# NMTC leveraged investment model



# What types of projects did NMTCs support?



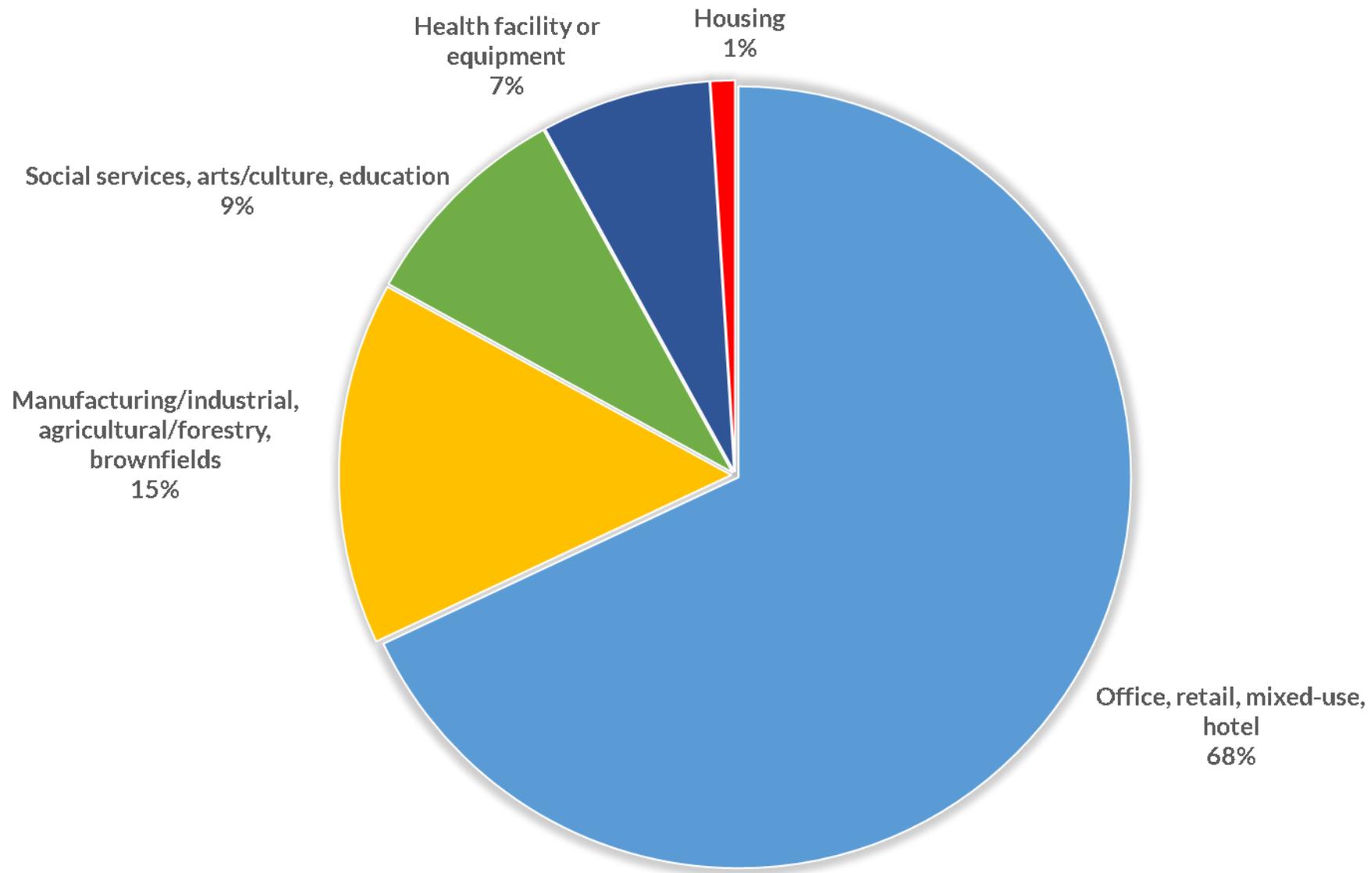
# NMTC investment in operation

- About four of every ten projects was located in areas with a poverty rate of more than 30 percent, areas CDFI Fund defines as having “higher distress”
- CDEs used NMTC financing to provide better rates or terms to just over 90 percent of projects
- Median size of projects: \$3.7 million

# Project-level results of NMTC investments

- Created or retained approximately 136,000 permanent jobs and 151,000 construction jobs
- NMTC investments per job generated for early-year projects are estimated to have been between \$32,658 and \$79,265, averaging \$53,162
- About two-thirds of projects, accounting for about three-quarters of all project costs, supported construction or rehabilitation of commercial or residential real estate

# Share of Jobs, by Project Type



# Project-level results of NMTC investments

- 10% of projects encouraged support for small businesses, start-ups and nonprofits
- 80% of projects enhanced the local tax base
- 88% of projects brought quality-of-life improvements to their communities—parks, playgrounds, shopping centers, health clinics, and other amenities

# NMTC results for neighborhoods

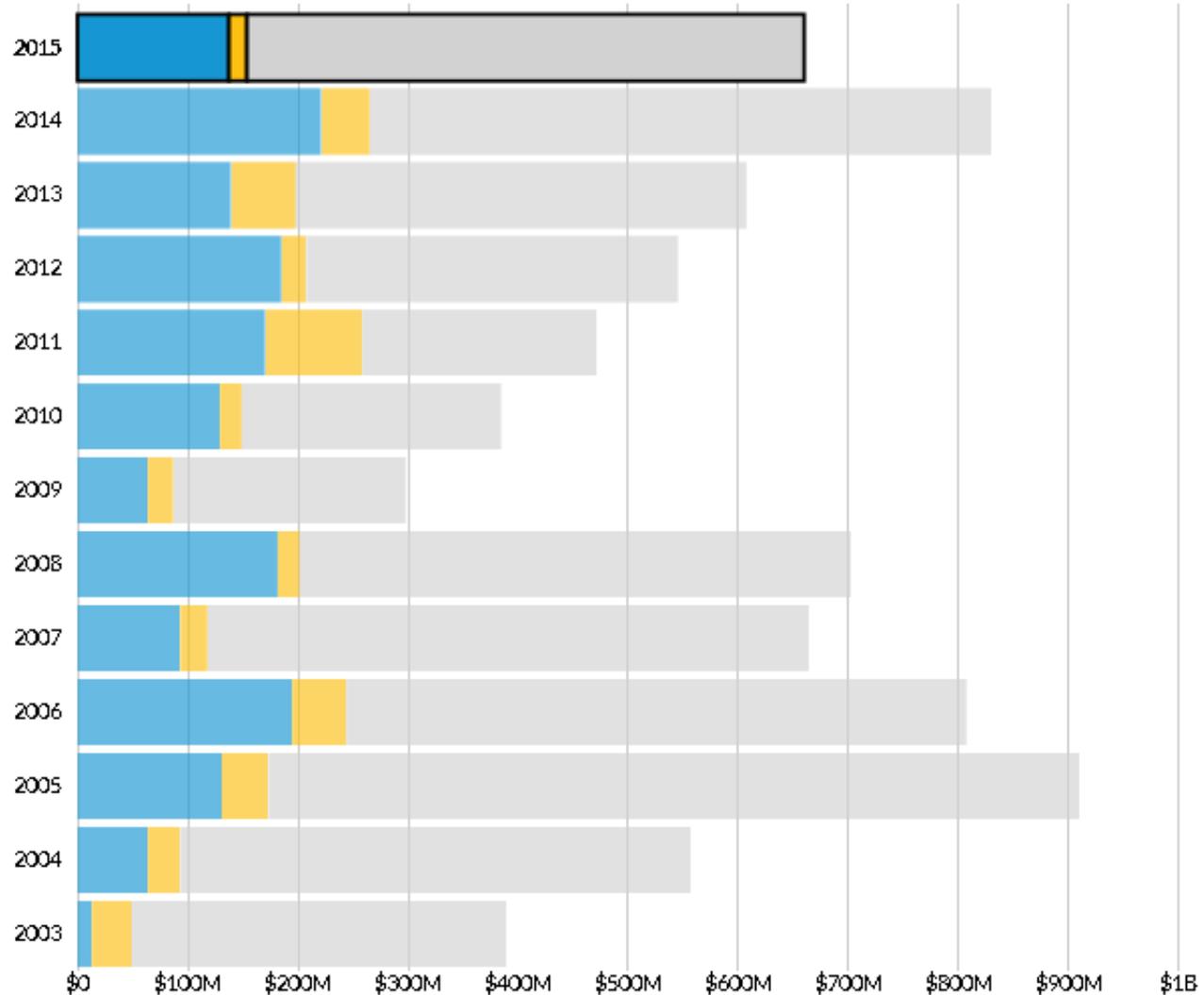
- Freedman (2012) found the program has moderate positive effects on neighborhood conditions, including reductions in poverty and unemployment rates
- *(the study only examined neighborhoods at the threshold of qualifying and effects may be amplified for more distressed neighborhoods)*
- Harger et al. (2015) found that NMTCs resulted in increased numbers of new establishments locally (in CA)
- GAO (2007) found NMTCs increased local investment, confirmed in qualitative work (Abravanel et al. 2013)

# Case study: Mission lending in Detroit

- Making active use of the NMTC program, mission capital, subsidy programs, and leveraged private financing for the same projects, were **responsible for 42 % of investment** in commercial, industrial, multifamily, and institutional real estate in Detroit from 2013–15
- Mission lenders have been **important for reasons far beyond the dollars they lend**. They also provide technical assistance to real estate developers, are willing to make riskier loans, and are flexible in underwriting and loan features

# Case study: Mission lending in Detroit

YEAR      MISSION      PRIVATE      MAINSTREAM  
2015      \$138,125,863      \$16,159,063      \$507,122,458





# Dayton, Ohio and New Market Tax Credits

Commissioner Christopher Shaw



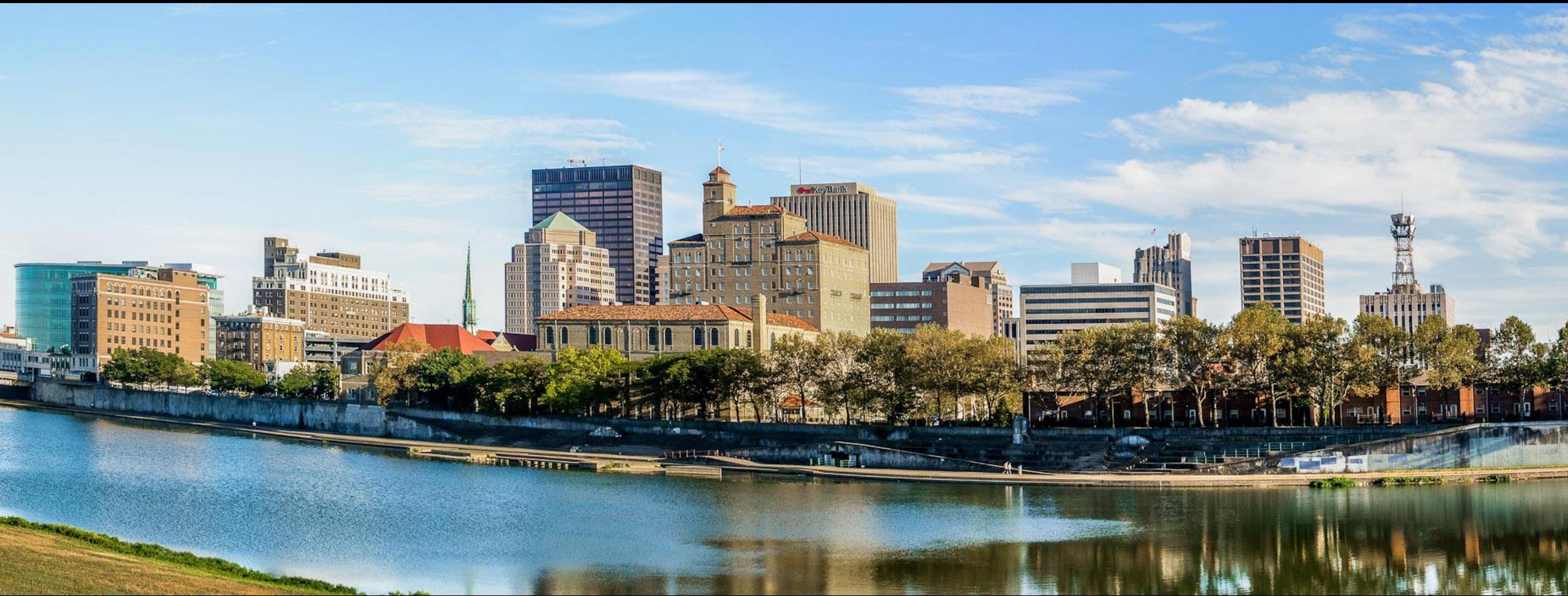
**United Rehabilitation Services**



**CARE House**



**Goodwill Easter Seals  
Miami Valley**



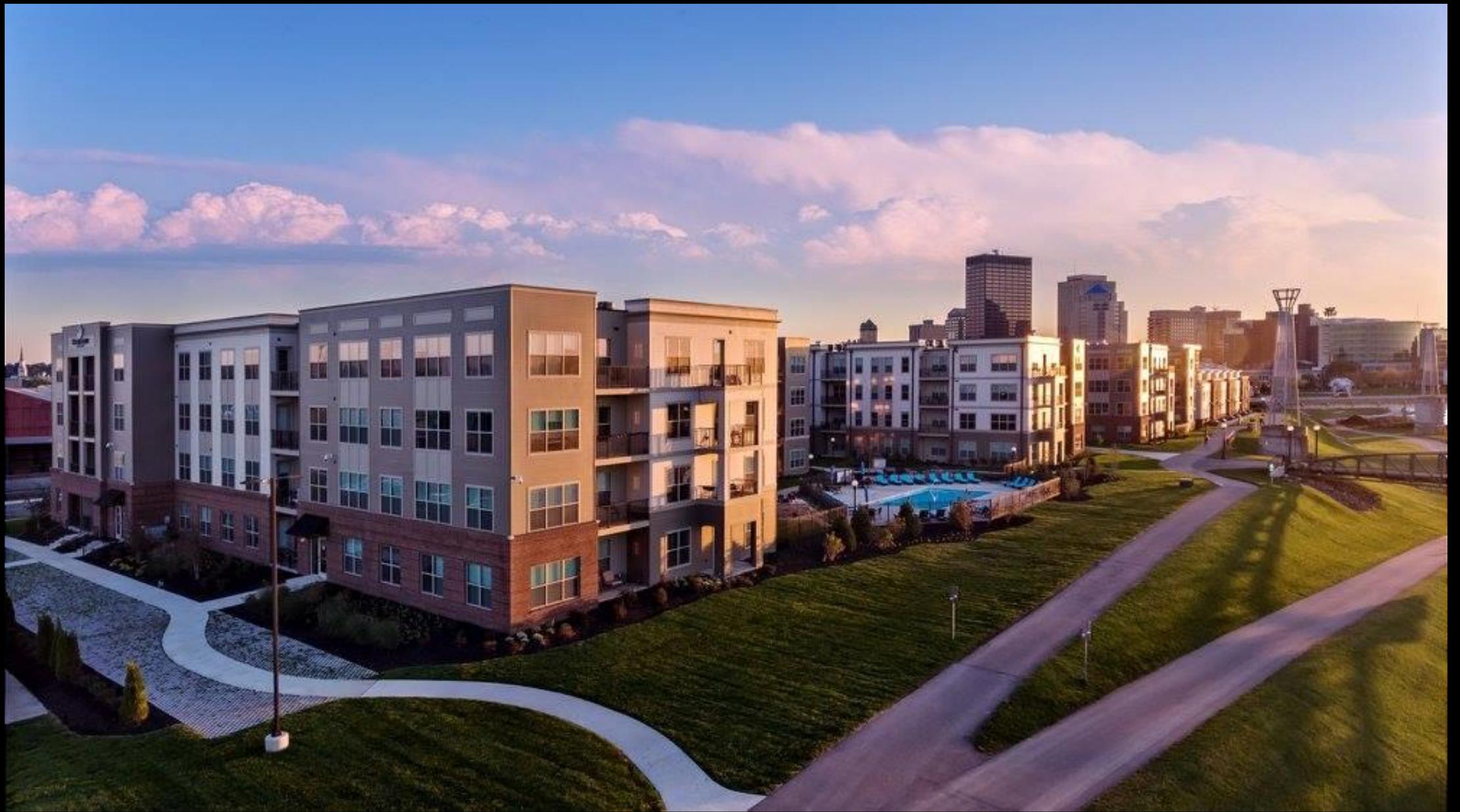
# Premier Health on Main Street





**Tech Town** — 35 businesses and over 450 employees





**Water Street Apartments – 215 new units**



The Delco Lofts From Renderings to Reality  
133 new units



# Emerson Climate Technologies



# Montgomery County Fairgrounds and future redevelopment



YWCA Dayton



Questions?

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NEW MARKETS  
TAX CREDIT COALITION

# NMTC: Driving Investment and Creating Jobs in Low-Income Rural and Urban Communities

Bob Rapoza

November 7, 2017

# NMTC Authorization and Tax Reform

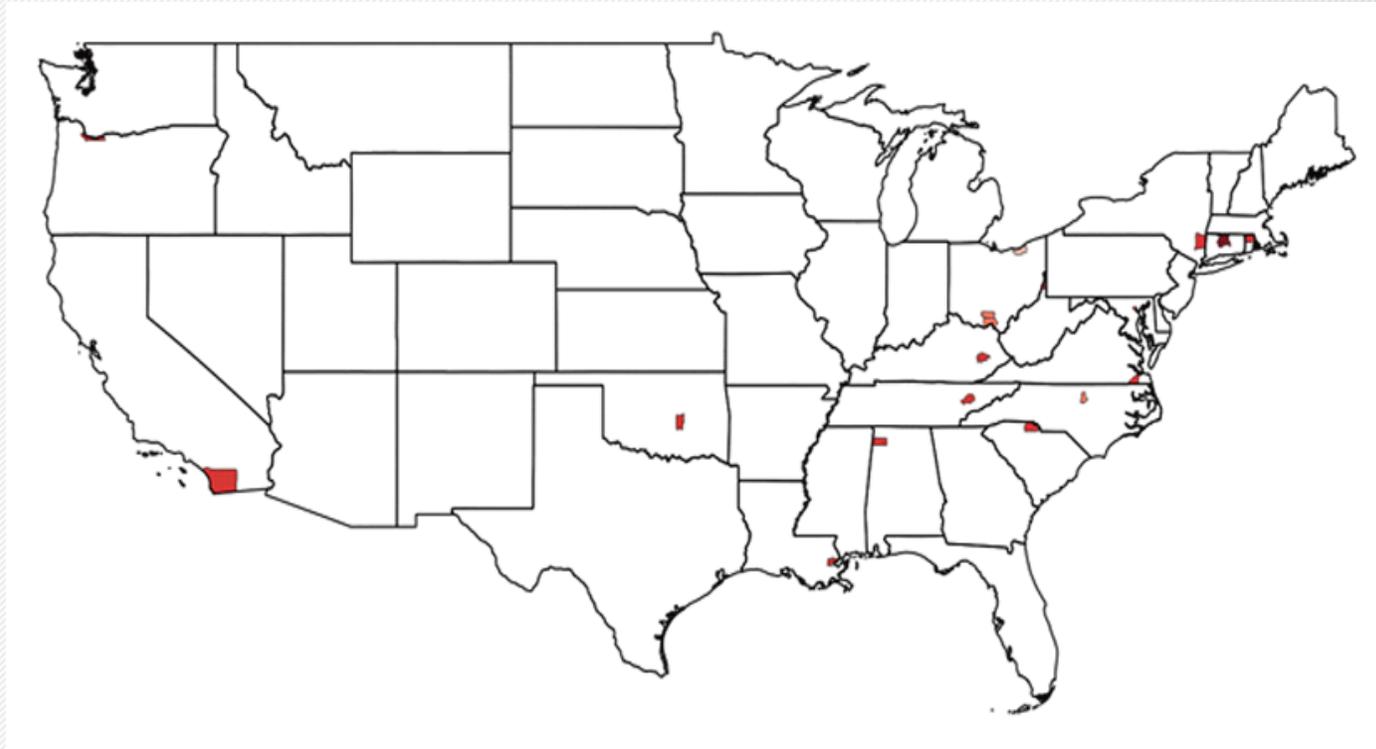
- The NMTC was in the bipartisan Community Renewal Tax Relief Act of 2000 (PL 106-554).
- After a series of short-term extensions, the NMTC was provided with a five-year extension (2015-2019) in the PATH Act, a bipartisan bill signed into law in December 2015.
- The NMTC Extension Act of 2017, led by Reps. Pat Tiberi, Richard E. Neal and Tom Reed, would expand and make the NMTC permanent. It has over 90 cosponsors.
- H.R. 1, would repeal the remaining two years of authorization for the NMTC (2018 and 2019) that was provided in the PATH Act.

# How the NMTC Attracts Private Capital

**Good business ideas and opportunities exist in low-income communities, but often lack access to patient, flexible capital.**

- **CDEs compete for NMTC allocations from the CDFI Fund**
  - Demand for the NMTCs far outpaces availability with CDEs requesting 3 to 4 times the amount available in awards each round
    - **NOTE:** Applicants must show that they have a project pipeline
- **CDEs provide private investors with a cumulative federal tax credit of 39% for investments made in businesses or economic development projects located in some of the most distressed communities in the nation**
  - Eligible census tracts where the individual poverty rate is at least 20 percent or where median family income does not exceed 80 percent of the area median.

# Before and After: NMTC Impact



# NMTC By The Numbers

- More than 72 percent of all NMTC investments have been in communities exhibiting severe economic distress, including:
  - unemployment rates more than 1.5 times the national average;
  - poverty rate of 30 percent or more; or
  - median income at or below 60 percent of the area median.
- Between 2003 and 2015, \$42 billion in NMTC investments leveraged over \$80 billion in total investments to businesses and revitalization projects in low-income rural and urban communities
- NMTC financed over 5,000 businesses, hospitals, daycare facilities, and manufacturing expansions and creating some 750,000 jobs since inception.

# Impact in Northeast/Midwest

- \$18.8 billion in NMTC financing went to 2,224 projects totaling \$38.1 billion in project costs
- 451,757 jobs



# Project types in Northeast/Midwest

- 347 manufacturing and industrial facilities
- 266 childcare centers, YMCAs, and community facilities
- 238 hospitals, health clinics, and residential healthcare facilities
- 150 schools and educational facilities



# NMTC Success Story

## Mason Manufacturing

### *Decatur, Illinois*

Decatur has a poverty rate of 60 percent and an unemployment rate of 18 percent. Since the late 2000s, the heat exchange manufacturer industry has started to come out of prolonged downturn. In May 2010, Mason Manufacturing was provided \$12.05 million in NMTC financing, allowing the business to ramp up production and add 21 full-time employees.

Mason Manufacturing currently employs 41 people and makes a concerted effort to use and support local machine shops, suppliers, and subcontractors in the Decatur area.



# NMTC Success Story

## High Point Treatment Center

*Middleborough, MA*

With a statewide shortage of inpatient beds for behavioral illnesses and an increasing rate of opioid overdoses and deaths, Massachusetts, like many states, is in critical need of additional treatment facilities. High Point Treatment Center's existing facilities were at capacity, but \$11 million in NMTC financing allowed the organization to purchase and redevelop the former St. Luke's Hospital, which sits at the edge of downtown Middleborough and had been vacant for over 10 years.

The new facility provides additional capacity for some 4,200 inpatient admissions and more than 13,000 outpatient and primary care visits annually. HPTC plans to offer a certificate training program for licensed alcohol and drug addiction counselors and will offer clinical work in social work, medicine and psychiatry at local colleges and universities. The transformation of a blighted and abandoned former hospital into a vibrant community mental healthcare facility caring for the most underserved low-income population, while creating 121 (with another 10 projected) full-time positions



# NMTC Success Story

## StreetSquash *New York, NY*

StreetSquash, located in Harlem, is an urban youth enrichment program founded in 1999. It combines academic activities, college preparation, community service, mentoring, and squash for boys and girls ages 9-18 to help them graduate from high school and move on to active and productive lives. In 2008, \$6.5 million in NMTC financing allowed the organization to build a new facility to serve more than 750 Harlem public school children each year, providing 4 classrooms and a library, as well as 8 squash courts, a workout area, locker rooms, and administrative offices. StreetSquash was able to expand its after-school program to serve more 160 children annually; provide College Prep Program to 100 students annually; expand the Summer Discovery and Youth Employment Program to serve over 300 students annually; create an Alumni Outreach Program for nearly 100 high school graduates; and launch the Physical Education for Public Schools Program that serves over 750 students annually through daytime squash instruction gym programs.

Now that it has the physical capacity to serve more students, the organization added six full-time positions and fifteen part-time positions – two of which are filled by parents who live in the neighborhood.





# NEW MARKETS

## TAX CREDIT COALITION

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