An Analysis of New Markets Tax Credits

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INTRODUCTION

CONGRESS ESTABLISHED THE NEW MARKETS TAX CREDIT (NMTC) Program as part of the Community Renewal Tax Relief Act of 2000 to encourage investors to make investments in impoverished, low-income communities that traditionally lack access to capital. Conventional access to credit and investment capital for developing small businesses, creating and retaining jobs, and revitalizing neighborhoods is often limited in economically distressed communities or in communities with large low-income populations. The NMTC provides investors (individuals, financial institutions, other corporations, etc.) with a tax credit for investing in communities that are economically distressed or consist of low-income populations.[1]

OVERVIEW OF THE FEDERAL PROCESS

The NMTC Program is intended to spur the investment of private sector capital into low-income areas by permitting taxpayers to receive a credit against federal income taxes for making qualified equity investments (QEIs) in designated Community Development Entities (CDEs).

The credit provided to the investor totals 39 percent of the investment in a CDE and is claimed over a seven-year credit allowance period. In each of the first three years, the investor receives a credit equal to five percent of the total amount paid for the stock or capital interest at the time of purchase. For the final four years, the value of the credit is six percent annually. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period.

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CDE CERTIFICATION

To qualify as a CDE, an entity must be a domestic corporation or partnership that:

- has a mission of serving, or providing investment capital for low-income communities or low-income persons;
- maintains accountability to residents of low-income communities through their representation on a governing board of, or advisory board to, the entity;
- has been certified as a CDE by the Community Development Financial Institutions (CDFI) Fund.

Applicants may submit CDE certification applications to the CDFI Fund throughout the year.

A low-income community (LIC) is any population census tract that meets the following criteria (as reported in the most recently completed Decennial Census published by the U.S. Bureau of the Census):

a) the poverty rate for such census tract is at least 20 percent; or;

b) the Median Family Income (MFI) of such census tract does not exceed 80 percent of:

- the statewide MFI, if the tract is not located within a metropolitan area, or;
- the greater of statewide MFI or the metropolitan area MFI, if the tract is located within a metropolitan area.

ALLOCATION OF NMTCS

The CDFI Fund allocates NMTCs to CDEs through an annual competitive application process. Throughout the life of the NMTC Program, the CDFI Fund allocates tax credit authority to support investment in CDEs. See Figure 1 for a list of the largest 2010 allocatees. A complete list of allocatees and more details concerning each allocatee is available at *www.cdfifund.gov.*

USE OF QEI PROCEEDS

A CDE that is awarded an allocation of NMTCs by the CDFI Fund has five years from the date of notification of its allocation to close QEIs with its investors. The CDE has 12 months to place "substantially all" of the proceeds from the QEIs into Qualified Low Income Community Investments (QLICIs), which generally are:

- loans to, or investments in, qualifying businesses (including certain real estate projects);
- loans to, or investments in, other CDEs;

Figure 1

Largest Federal New Market Tax Credit Allocatees – 2010 *(in alphabetical order)*

Allocatee Name	Headquarters	Predominant Markets	Allocation Amount
Capital One Community Renewal Fund, LLC	McLean, VA	DC, LA, MD, NJ, NY, TX, VA	$63,000,000
City First New Markets Fund II, LLC	Washington, DC	DE, DC, MD, PA, VA	$70,000,000
Coastal Enterprises, Inc.	Wiscasset, ME	ME, MA, NH, NY, OR, VT, WV	$77,000,000
Community Hospitality Healthcare Services, LLC	Placida, FL	FL, KY, MD, NC, PA, VA, WV	$63,000,000
ESIC New Markets Partners LP	Columbia, MD	CA, DC, LA, MD, NY, OH, WA	$62,000,000
HEDC New Markets, Inc.	New York, NY	CT, IL, NY, OH, TN, TX, WA	$63,000,000
Local Initiatives Support Corporation	New York, NY	CA, DC, IL, LA, MA, MI NY	$70,000,000
MHIC NE New Markets CDE II, LLC	Boston, MA	CT, ME, MA, NH, RI, VT	$63,000,000
Midwest Minnesota Community Development Corporation	Detroit Lakes, MN	MN, ND, SD, WY	$74,000,000
National Community Fund I, LLC	Portland, OR	CT, IN, IA, MN, NY, OR, PA	$77,000,000
National New Markets Tax Credit Fund, Inc.	Minneapolis, MN	CA, CO, FL, MN, OR, TX, WI	$77,000,000
Rural Development Partners, LLC	Mason City, IA	IA, KS, MO, NM, ND, TX, WI	$77,000,000

Source: http://www.cdfifund.gov/docs/2010/nmtc/2010NMTCProgramAllocateeList.pdf

- the purchase of qualifying loans originated by other CDEs;
- counseling to low-income community businesses.

CDEs have used NMTC proceeds to finance a variety of activities in distressed urban and rural communities throughout the United States, including alternative energy companies, charter schools, health care facilities, affordable housing, timberlands, childcare providers, supermarkets, restaurants, museums, hotels, performing arts centers, manufacturers, processors, distributors, business incubators, office buildings, shopping centers, substance abuse treatment facilities and facilities for the homeless.

IMPACT OF FEDERAL NEW MARKETS TAX CREDITS

The following information was gathered by the NMTC Coalition through a Freedom of Information Act request filed with the CDFI Fund of the Department of the Treasury in September 2010. The NMTC Coalition issued its report in December 2010. The information was based on projects financed by federal NMTCs from 2003, when the first allocations were made, through 2009, the last full year of allocations. This information included data on more than 4,000 transactions that financed nearly 3,000 business enterprises.

From the *New Markets Tax Credit 10th Anniversary Report* Key Findings:[2]

- While the NMTC statute requires that projects be located in census tracts where the poverty rate is at least 20 percent or median family income does not exceed 80 percent of the area median, in fact, the preponderance of NMTC activity is in extremely disadvantaged communities with high distress factors far exceeding the minimum requirements in the law. Over 61 percent of investments are made in communities with unemployment rates exceeding 1.5 times the national average, 57 percent are in communities with poverty rates exceeding 30 percent and 60 percent of the investments are in places where median incomes are at or below 60 percent of the area median.
- Between 2003 and 2009 NMTC leveraged $8 in private investment for every $1 of cost to the government. The New Markets program generated almost $50 billion in financing to businesses in low-income communities. Of that amount $15.5 billion came from direct NMTC investments, which cost the federal government $6 billion in lost revenue (39 percent of $15.5 billion). The balance, totaling $34 billion, came from other public and private sources of capital.
- NMTC financed a wide range of projects, from the first supermarket in a generation in southeast Washington, D.C., to a loan for a school in Florida, a health center in rural Louisiana, a solar company in New Mexico, and a series of revitalization projects in Iowa, Michigan and Virginia. While a substantial portion of projects financed by the Credit were real estate—community facilities, industrial and commercial facilities, mixed-use buildings with affordable housing—many were non-real estate projects that provided financing to operating businesses for equipment and working capital.
- Demand for NMTC far exceeds availability. To date, CDEs have requested a total of $202 billion in allocation authority since 2003, a demand of more than seven times credit availability.
- Using federal Recovery Act standards, the NMTC Coalition estimates that NMTC-financed projects have created or retained up to 500,000 jobs, at a cost to the federal government of less than $12,000 per job.
- The vast majority of NMTC investments (89.5 percent, or $13.8 billion) have been made in communities with at least one factor of higher economic distress than required by law.

STATE-LEVEL NEW MARKETS TAX CREDITS—ACTIVE

As of January 2011, only four states have state-level NMTCs in place. Those states are Florida, Illinois, Mississippi and Ohio. Two states—Louisiana and Missouri—had NMTC programs but have defunded them. The state NMTC programs basically parallel the federal program and usually require the CDE to be federally certified before it can be certified by the state. Also, most of the same definitions contained in Internal Revenue Code Section 45 for NMTCs are applied at the state level.

Florida

Florida House Bill 485, which became effective July 1, 2009, authorizes tax credits for investments in low-income communities. The program is designed to encourage private investment in low-income communities in the state, and is modeled after the federal NMTC Program. Investors who make qualified investments are eligible to receive tax credit allocations to offset corporate income or insurance premium tax liabilities. The program is designed to make Florida more attractive to national investors who are deciding where to invest funds raised under the federal program.

A CDE needs to be a CDE for federal purposes and needs to be authorized to serve businesses in Florida. The state of Florida charges a $1,000 nonrefundable application fee. The annual state cap under this program is $20 million, and a qualified active low-income community business may not receive more than $10 million in qualified low-income community investments under this program. The credit is 39 percent of the purchase price of the qualified investment, making the total credit (federal plus state) 78 percent of the qualifying investment. The credit is taken against the state corporate tax or the state insurance tax. The state NMTC is claimed as follows: years one and two: zero percent; year three: seven percent; and years four through seven: eight percent.

A Qualified Active Low-Income Community Business (QALICB) in Florida is defined using federal requirements. Under the federal requirements, a QALICB is a business in a low-income community where:

- at least 50 percent of total gross income of such entity is derived from the active conduct of qualified business within any *Low-Income Community*;
- a substantial portion of the use of the tangible property of such entity (whether owned or leased) is within any *Low-Income Community*;
- a substantial portion of the services performed for such entity by its employees are performed in any *Low-Income Community*;
- less than five percent of the average of the aggregate unadjusted bases of the property of such entity is attributable to collectibles (as defined in IRC § 408 (m)(2)) other than collectibles that are held primarily for sale to customers in the ordinary course of such business;
- less than five percent of the average of the aggregate unadjusted bases of the property of such entity (as defined in IRC § 1397C (e)) is attributable to nonqualified financial property (e.g., debt instruments with a term of more than 18 months).

In addition to the federal requirements, Florida added the following requirements:

- Performs a substantial portion of its services through its employees in a low-income community for any taxable year;
- Does not derive or project to derive 15 percent or more of its annual revenue from the rental or sale of real estate;
- Will create or retain jobs that pay an average wage of at least 115 percent of the federal poverty income guidelines for a family of four;
- A qualified community development entity may not make a qualified low-income community investment in a business unless the principal activities of the business are within an eligible industry. (The Office of Tourism, Trade, and Economic Development, in consultation with Enterprise Florida, Inc., shall designate industries, using the North American Industry Classification System, that are eligible to receive low-income community investments.)

Illinois

Illinois Senate bill 2015, which established a NMTC for the state of Illinois, was signed by the governor on Dec. 31, 2008, and took effect in 2009. The bill established a new state incentive for investment entities that have been approved for the federal NMTC Program. The law supports small and developing businesses by making capital funds more easily available and makes the state more attractive to possible investors.

Only a CDE that is certified by the federal NMTC Program and has entered into an allocation agreement with the CDFI is eligible to apply for the Illinois NMTC Program. The CDE must apply to the Department of Commerce and Economic Opportunity (DCEO) on a first come, first served basis, with a non-refundable $5,000 application fee. Once eligibility is determined, DCEO will issue a preliminary letter of approval to the CDE which will include an allocated amount of Illinois NMTC contingent upon QEIs being made within 30 days of the date of the preliminary letter of approval.[3]

A person or entity that makes a QEI earns a vested right to tax credits. On each credit allowance date of the QEI, the purchaser of the QEI, or subsequent holder of the QEI, is entitled to a tax credit during the taxable year. The tax credit amount is equal to the applicable percentage of the purchase price paid to the issuer of the QEI and is claimed as follows: no credit for each of the first two credit allowance dates; seven percent for the third credit allowance date; and eight percent for the next four credit allowance dates (total credit is 39 percent). This credit is addition to the federal credit, so the credit is doubled to 78 percent of the qualifying investment.[4] The annual cap under this program is $10 million with no limit (other than the annual cap) on how much can be allocated to one transaction. A credit may be claimed against any income, franchise or insurance premium tax under Illinois law. A Qualified Active Low-Income Community Business (QALICB) is defined the same as federal requirements.

Mississippi

The state of Mississippi enacted a state-level credit called the Equity Investment Tax Credit [EITC] which is essentially a NMTC. The credit to Mississippi income or insurance premium tax is available for eligible investments made by CDEs in designated low-income census tracts in the state, as defined by the U.S. Census Bureau. These credits are state credits that act as companion credits to the NMTC Program. Mississippi allows a state credit equal to 24 percent of the QEI in addition to the credits awarded through the federal program.

Equity Investment Credits are calculated as eight percent of the QEI, and are available as of the Mississippi Credit Allowance Date, and annually for two additional years, so the credit is eight percent for the first three years of the investment. Credits are based on a Mississippi investment being maintained for a minimum of seven years, as required under the federal program. If all state and federal program requirements are not met, all credits may be recaptured by the State Tax Commission. Annual program reporting requirements must be met.

The maximum investment eligible for credits on any project cannot exceed $10 million. The total Mississippi EITCs that can be awarded is capped at $15 million per year. Credits can be used to offset up to 50 percent of the entity's income tax liability after all other credits have been taken, and unused investment tax credits can be carried forward up to five years. Mississippi EITCs must be awarded and certified by the Mississippi Development Authority prior to funding. Usage of credits is administered by the Mississippi State Tax Commission.[5]

Ohio

The Ohio New Markets Tax program is designed to leverage the highly successful and innovative federal NMTC Program by offering state tax credits to attract additional federal tax credits and private investments into Ohio businesses. The program will help finance business investments in low-income communities by providing investors with state tax credits in exchange for delivering below-market rate investment options to Ohio businesses. Ohio has already attracted more than $1.1 billion dollars in federal NMTCs. The state believes the Ohio program will give itself a significant competitive advantage nationally because very few states have a companion program to leverage and attract federal New Markets investments. As private credit markets have struggled, financial mechanisms like NMTCs have become increasingly important for businesses that need access to capital.

The Ohio NMTC program passed the legislature in 2009, with the first allocations made on or after October 2010. The tax credits are structured to be used for investments over the course of seven years. The total tax credit value will be 39 percent with the yearly percentage of tax credits as follows: zero percent for each of the first two years; seven percent for the third year; eight percent for the next four years. The amount of tax credit claimed shall not exceed the amount of the taxpayer's state tax liability for the tax year for which the tax credit is claimed. The maximum state tax credit impact in any fiscal year shall not exceed $10 million (state annual cap). There is a $4 million limit per CDE, and the maximum amount of state tax credits for one project shall not exceed $1 million. The state credit is in addition to any federal credits allowable.[6] The credit is allocated only to insurance companies and financial institutions.

A QALICB is defined similar to federal requirements. Excluded are businesses that derive or expect to derive 15 percent or more of their annual revenue from rental or sale of real property. An exception is made for Single Purpose Entities principally owned by a principal user of the property that is formed solely for the purpose of renting or selling the real property back to such principal.

STATE-LEVEL NEW MARKETS TAX CREDITS—INACTIVE

Louisiana

Louisiana had a state-level NMTC available from July 1, 2007, through the 2010 fiscal year. As of January 2011, the credit had not been extended. Under the Louisiana law, a CDE had to be federally certified and apply to the state of Louisiana. Investors were required to make application to the Louisiana Department of Revenue and the credits were allocated on a first come, first served basis. Investors were eligible for the tax credit if the CDE met federal guidelines, the CDE made qualified low-income community investments, and no more than 25 percent of its investments in low-income communities were in the form of loans.

The cap on the credit for initial investments made after July 1, 2007, was $50 million. The $25 million dollar cap for investments made in the 2008 fiscal year was reached. The $12.5 million dollar cap for investments made in the 2009 fiscal year was also reached. Finally, Act 463 of the 2009 Regular Legislative Session made the last $12.5 million in NMTCs available on or after Dec. 1, 2009.[7]

The maximum amount that could be issued by a single business could not exceed $7.5 million. The credit was 25 percent of the qualified equity investment as follows: five percent in year one and 10 percent in years two and three. The credit was in addition to the federal NMTC. The QALICB had to meet federal requirements and the credit had a seven-year compliance period similar to the federal NMTC law. The credit could be carried forward for up to 10 years and could be transferred. It was administered by the Louisiana Department of Revenue.

Missouri

The state of Missouri enacted a NMTC in 2007. The credit provided supplemental funding for investment entities that had been approved for the federal NMTC Program in order to direct more funding to Missouri projects. The Program provided state and federal tax credits to investors who made investments into approved funds that made investments in eligible projects located in low-income census tracts in Missouri. Eligible applicants were CDEs that had been allocated federal NMTCs for the state of Missouri.

The tax credit amount was equal to the applicable percentage of the adjusted purchase price paid to the issuer of a qualified investment as follows: zero percent for each of the first two years; seven percent for the third year; eight percent for the next four years for a total credit of 39 percent. This credit was in addition to the 39 percent federal NMTC.

The amount of tax credit claimed could not exceed the amount of the taxpayer's state tax liability for the tax year in which the tax credit was claimed. The maximum state tax credit in any fiscal year for all CDEs (state cap) was $25 million. There was no limit per CDE, and state tax credits were allocated on a first-come basis. A QALICB was defined by federal law. The Missouri NMTC was administered by the Missouri Department of Economic Development.

SAMPLE SUCCESS STORIES RESULTING FROM FEDERAL NEW MARKETS TAX CREDITS

The following success stories are among the 50 detailed in *New Markets Tax Credit: 50 Projects—50 States.* A Report by the New Markets Tax Credit Coalition, December 2008. The full report can be found online at *http://newmarketstaxcreditcoalition.org/*.

Entrepreneurial Center, Inc.
Birmingham, Alabama

An old Sears store that lay vacant for more than 20 years is the new site of the Entrepreneurial Center located in the heart of Birmingham's Downtown West Urban Redevelopment District. The $17.8 million renovation project includes the redevelopment of an entire city block in a rundown section of downtown Birmingham. The Sears building has become the consolidated space for the Business Incubator for the Entrepreneurial Center (EC) and the University of Alabama at Birmingham's (UAB) Biotechnology / Life Sciences Incubator. The combined effort was renamed The Innovation Depot. The CDE, Wachovia Community Development Enterprises, offered NMTC financing of $14 million from its 2005 allocation.

The EC is a public/private, not-for-profit economic development organization and its purpose is to provide an environment in which emerging businesses can develop, grow and succeed. The EC received cash and multi-year funding commitments from the City of Birmingham, UAB and Jefferson County. The EC currently houses the Birmingham Business Resources Center and works closely with the UAB Research Foundation and various UAB departments. Some 60–80 prospective entrepreneurs who were located in the two previous facilities were consolidated and relocated to the new building. It is estimated that approximately 755 individuals will benefit from the EC, and the facilities will employ workers who are low-income residents in the community. Additionally, the project has provided a greater demand for local goods and services, resulting in indirect job creation for residents of the low-income community.

As a non-profit endeavor, the EC generated enough revenues to cover its cost of operation but could not attract private capital sufficient to accomplish the substantial $17.8 million acquisition and renovation project. Wachovia Community Development Enterprise's NMTC loan of $14 million was the key ingredient that made this project viable. It is having an enormous impact on revitalizing downtown Birmingham while fostering the growth of new entrepreneurs that, in turn, will provide new economic stimulus to the area.

Project Highlights

- Real estate: rehab mixed use;
- Total project cost: $17.8 million;

- NMTC: $14 million debt (amount available for 39 percent credit);
- Other Financing: City of Birmingham, Borrower;
- 100-plus companies have graduated from the two business incubation programs;
- $1 billion economic impact for the Birmingham region.

Decatur Street Project
Atlanta, Georgia

The Decatur Street project is located within an economically disadvantaged community in Atlanta's central business district, four blocks from the State Capitol. The site lies within a federal Empowerment Zone, Renewal Community, Enterprise Zone, and special "Tax Allocation District."

The CDE, Wachovia Community Development Enterprises, provided a $7.5 million NMTC loan that was used to fund construction of a 40,000-square-foot, three-story commercial office building and an additional 12,000-square-foot facility; replace existing construction financing; and reimburse the guarantor for equity infused into the project for direct construction costs. The property site consists of three commercial buildings: a three-story, brick, 100-year-old building renovated into "loft" style office space now occupied by the city of Atlanta; a factory building renovated for Excellatron, a start-up manufacturer of advanced multi-layer lithium ion batteries; and a third building, an 80,000-square-foot metal and brick building, renovated for telecom switching operations. Space will be made available to a regional nonprofit agency, the Georgia Alliance for Children.

The developer, as part of its business strategy, is committed to creating jobs for low-income citizens. With NMTC, the project was able to secure a significant portion of the funding with a substantial reduction in interest/financing costs. Wachovia served as both investor and lender for this $8.7 million project. The deal team has worked closely with the developers since 2001 to find an appropriate financing vehicle for this project. With the NMTC Program, Wachovia was able to provide creative solutions to make this project a reality.

Project Highlights

- Real estate: commercial rehab;
- Total project cost: $8.7 million;
- NMTC: $7.5 million (eligible for 39 percent credit);
- Other financing: developer;
- Jobs: 100 created/retained.

The Syndicate Building
St. Louis, Missouri

The Old Post Office historic district of downtown St. Louis is the site of revitalization projects including the Syndicate Building, considered a key historic building that was in a state of advanced deterioration. In fact, the condition of the building and potential threat it posed for the future of the surrounding buildings caused the city's Land Clearance for Redevelopment Authority to purchase the property in 2002.

Turning this problem into a revitalization opportunity, the CDE, Valued Advisor Fund (VAF), provided a one percent NMTC loan of $2.19 million in partnership with the local CDFI, the Central Bank of Kansas City, for the market-rate units and commercial space portion of this ambitious project.

The project produced considerable changes: redevelopment of a blighted cornerstone property; 28 affordable rental units, 42 market rate units; 102 for-sale condominiums; 19,600 square feet of commercial space; 125 new units of downtown parking; and an estimated $1.5 million of new tax base within the community.

The property included several energy-efficient and green features including a water loop and efficient HVAC and lighting systems. VAF assembled the financing package for the project that included a NMTC, low-income housing tax credits, tax increment financing, historic tax credits and private sector debt.

VAF worked directly with the city and also worked in coordination with the developers, investors, its local CDFI partner and other financial resources provided to help structure the complex layers of the transaction.

Project Highlights

- Real estate: historic rehab for mixed use;
- Total project cost: $70 million;
- NMTC: $2.19 million (eligible for 39 percent credit);
- Other financing: TIF, historic tax credits, low-income housing tax credits, private sector;
- Jobs: 207 construction, 133 permanent.

Golden Belt Complex
Durham, North Carolina

Throughout the late 19th and into the 20th century, downtown Durham was a vibrant manufacturing center engaged in the tobacco and textile industries. As these industries declined in the 1960s, so too did the vitality of downtown Durham. Steady disinvestment led to physical deterioration, made worse by the industrial waste left behind.

Golden Belt was a textile factory that produced pouches for Bull Durham loose leaf tobacco and then paper cigarette cartons. When tobacco moved out, the Golden Belt complex was donated to the Durham Housing Authority (DHA). DHA provided space for the Center for Employment Training's operations and sought partners to redevelop the larger facility. The DHA eventually sold a majority of the facility in 2006 to Scientific Properties, LLC, a North Carolina-based real estate and development company. Scientific Properties approached Self-Help with a plan to convert the historic site into a mixed-use commercial, arts and residential space.

Self-Help recognized the project's potential to anchor the area's revitalization, and worked with Wachovia to share the loan by borrowing a portion of Wachovia's NMTC allocation. Self-Help made an $8.15 million loan and secured $3.85 million from Wachovia's NMTC allocation to reach the $12 million necessary to make the project viable. The loan was a seven-year term, amortizing over 25 years with an initial 18-month interest-only period and a 5.4 percent fixed interest rate. The $12 million loan, combined with $10 million in state and federal historic tax credit equity, enabled the project developers to ensure affordable rents and leases for the community.

This project will put six warehouses back into use, has utilized environmentally friendly design features and is seeking silver LEED certification. The Golden Belt complex will provide affordable commercial and office space for local businesses and non-profits that serve community residents, including the Center for Employment Training. The project will provide 35 artist studios at below-market rents, an art gallery, 37 affordable loft apartments, office space, a live music venue and ground floor retail space.

Project Highlights

- Real estate: rehab for mixed use;
- Total project cost: $26.3 million;
- NMTC: $12 million (eligible for 39 percent credit);
- Other financing: federal and state historic tax credits;
- Jobs: 140 construction and 400 permanent.

SAMPLE SUCCESS STORIES USING STATE AND FEDERAL NEW MARKETS TAX CREDITS

Kress-Knox-Levy Project—GO Zone
Baton Rouge, Louisiana

The Kress-Knox-Levy Project is named after the three historic buildings being revitalized to accommodate the growing population in Baton Rouge's central downtown district, an area with a 27 percent poverty rate. Baton Rouge has been affected by a changing economy due in large part to an influx of residents from devastated coastal areas inland, including the more than 250,000 New Orleans residents that fled to the vicinity after Hurricane Katrina. This migration included individuals and families as well as commercial businesses. In the long run, Baton Rouge's population is expected to increase 20 percent or by 50,000 residents.

The Kress-Knox-Levy buildings are on the National Register of Historic Places and the renovation will rejuvenate 65,000 square feet as mixed-use development, including office and retail space, 16 rental apartments and three condominiums. The buildings lie on the edge of the city's primary entertainment and retail strip, but are surrounded by underutilized property. In addition to meeting the demand for high quality office space and housing brought on by the influx of New Orleans residents and businesses, it will also prompt the revitalization of the area.

Without the NMTC, the project would not have moved forward because rents in the area would not have supported the acquisition and renovation of the buildings without a below-market component. The NMTC is helping Baton Rouge address three important issues: a lack of high quality commercial and residential space; preservation of its architectural history; and revitalization of its central business district. Using Chase New Markets Corporation NMTC financing, it provided a $7.6 million construction and mini-perm loan with a seven-year interest-only period, a seven-year no amortization period, and an interest rate that was 300 basis points below JPMorgan Chase's conventional rate.

Once completed, the Kress-Knox-Levy Project will create 150 construction jobs, save three historic buildings from demolition and bring them back into use, and create 75 new permanent jobs in a growing community.

Project Highlights

- Real estate: historic rehab for mixed use;
- Total project cost: $21.7 million;
- NMTC: $7.6 million (eligible for federal and state credit);
- Other financing: Chase federal and state historic tax credits;
- Jobs: 150 construction, 75 permanent.

King Edward Hotel
Jackson, Mississippi

Built in 1923, the historic King Edward Hotel is an iconic building. Once the hub of social and political activity in the

Jackson downtown business district, the hotel sat vacant for 41 years, becoming severely blighted. Citizens of Jackson were divided between wanting to demolish or preserve the site, given the costs. The abandoned building has had a substantial negative impact for decades, contributing to the downturn in this section of Jackson.

Ultimately, preservation prevailed and NMTC financing came from several CDEs, including the National New Markets Fund (NNMF) for $15 million. All of the CDEs involved were committed to making the King Edwards Hotel renovation a reality.

The $89.5 million King Edward restoration has transformed the historic King Edward Hotel (313,000 square feet) into a 186-room hotel with restaurants and a state-of-the-art business conference center, with development of 64 apartment units and additional retail space. Sixteen one-bedroom units will be set aside for individuals earning less than 60 percent of the area median income, renting at a $200 per month market discount.

This project is regenerating the surrounding community and is a catalyst in bringing in necessary community and business amenities to support focused redevelopment of the area. The CDEs worked with the lead investors, the state of Mississippi, co-allocatees, and the developer to secure the necessary funding sources available for the project. This enabled the developer to utilize tax-exempt bonds, historic and NMTCs, grants and other below-market loans. NNMF worked to ensure that the developer would commit to reach out to local women- and minority-owned subcontractors and give priority to low-income employees for the hotel and its construction. The internal costs of capital and the required return on a traditional equity investment far outpaced the available return to investors, given the very high cost of reusing the historic building, and created a significant gap in the project's financing. The NMTC funding has enabled the redevelopment of the historic King Edward Hotel to become a reality.

Project Highlights

- Real estate: historic hotel rehab;
- Total project cost: $89.5 million;
- NMTC: $74.1 million (eligible for federal and state credit);
- Other financing: historic tax credits, GO Zone bonds, MS Development Authority, tax increment financing.

PROBLEMS WITH STATE NEW MARKETS TAX CREDITS

One of the problems with state new markets tax credit programs is that most of the states do not have any mechanism in place to track the effectiveness of the state-level programs. Two of the states included in this report were contacted by the authors, and the directors said they did not keep that kind of data because it was not required by the state law that authorized the state NMTC. This makes it difficult, if not impossible, to determine how many jobs were created or how much money was attracted for investment because of the state-level credits.

Another problem that makes it difficult, if not impossible, to determine the number of jobs that were created through a state NMTC program is the fact that the NMTC is often combined with numerous other incentives such as historic tax credits and Small Business Administration loans.

State legislatures should establish procedures that require state economic development offices to measure the effectiveness of state-level NMTCs in terms of jobs created, investment dollars attracted, square footage improved, property tax base increase or other appropriate measurement.

CONCLUSION AND RECOMMENDATIONS

Federal NMTCs help accomplish three objectives:

- bring additional funding into low-income communities;
- bridge funding gaps in projects;
- provide strong returns on investment to those willing to risk their capital.

The federal government benefits from NMTCs through jobs creation, while states benefit by having more taxpayers in the state pool and a higher property tax base from property improvements. An additional benefit is the reduction of urban sprawl and the improvement of living/working conditions in previously distressed communities. States such as Mississippi, Louisiana, Florida, Illinois, Missouri and Ohio that have leveraged state NMTCs with federal credits have seen much larger investments in their states than they would likely have had with only the federal NMTCs.

As noted above, most states do not track job creation and other economic impacts of the state-level NMTCs. This is an item that should be a component of any legislation that creates a state-level NMTC. The relevant state development office can be charged with this task and can report annually on the effectiveness of the program to the governor and the legislature.

Does the political will exist to continue offering the NMTC in the future and encourage investing in communities that are economically distressed or consist of low-income populations? It appears that there is political will for various governments to continue offering the NMTC. For example, President Obama's budget proposal released on Feb. 13, 2012, included a provision to extend and modify the NMTC. The budget proposal would extend the NMTC through 2013 with $5 billion allocated for the credit. In addition, U.S. senators Rockefeller (D-West Virginia), Snowe (R-Maine) and Menendez (D-New Jersey) added an amendment to a bill on Feb. 7, 2012, that would extend the NMTC through 2012. with $3.5 billion available for the credit. Also, several state legislatures have recently proposed bills to add or extend NMTC at the state level. These states include California (Jan. 6, 2012), Indiana (Jan. 16, 2012) and Hawaii (Jan. 27, 2012). ■

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