

Utilizing NTCIC's New Markets Tax Credit Allocation



**National Trust
COMMUNITY
INVESTMENT
Corporation**
a subsidiary of
**NATIONAL TRUST FOR
HISTORIC PRESERVATION**

The National Trust Community Investment Corporation (“NTCIC”) has been a certified community development entity (“CDE”) since the beginning of the New Markets Tax Credit (“NMTC”) Program. Since 2003, NTCIC has received \$343 million in NMTC allocation authority in Rounds 1 and 4-8 to provide equity and loans to real estate projects that rehabilitate strategic vacant properties in locally designated economic development districts. NTCIC’s focus is on historic rehabilitation projects that have a strong economic revitalization impact on the surrounding low-income community and all projects must demonstrate that they are providing direct community benefit. Our projects have included housing, office, retail and mixed-use developments, and nonprofit-sponsored community facilities. All NTCIC NMTC transactions also earn the federal historic tax credits as well as state historic credits when available, which allow NTCIC to provide deeper subsidy and take on projects with higher community impact.

Due to the increased competitiveness of the NMTC Program in recent years, CDEs are now seeking projects that go above and beyond the minimum requirements for eligibility set by the CDFI Fund. NTCIC uses the following guidelines to ensure that its allocation is used for those projects that need and will benefit from NMTCs the most.

I. MINIMUM ELIGIBILITY CRITERIA

A. Additionally Distressed Criteria

In addition to meeting the minimum NMTC Program requirements by primarily serving low-income communities (“LICs”), NTCIC has committed to using **all** of its Allocation in areas of greater economic distress. These areas may include census tracts with demographics such as poverty rates greater than 30%; unemployment rates at least 1.5 times the national average; median family income that does not exceed 60% of statewide median family income; and non-metropolitan (“rural”) areas. Please refer to Exhibit A for the full list of additionally distressed criteria.

B. Eligible Uses of Investment

NTCIC must use substantially all of the proceeds of its qualified equity investments (“QEIs”) for investments and/or loans to qualified active low-income community businesses (“QALICBs”) whose principal activities involve the rehabilitation of real estate. The proceeds of the loan or investment must be primarily used for:

- 1) Costs in connection with the substantial rehabilitation of such property;
- 2) Costs in connection with the acquisition of such property; OR
- 3) Take-out financing for a loan, equity investment, or other financing, the proceeds of which were used for items (1) and/or (2).

C. Better Rates and Terms

NTCIC has committed to offering better rates and terms to all of its projects. As such, 100% of investments will be either equity or equity-equivalent financing; interest rates that are 50% lower than market; or satisfy at least 5 of the indicia of flexible or non-traditional rates and terms.

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D. Unrelated Entity Requirement

NTCIC must use substantially all (**85%**) of the proceeds of its QEIs to make qualified low-income community investments (“QLICs”) in one or more businesses in which persons unrelated to NTCIC hold the majority equity interest. Therefore, NTCIC may, at all fundings, provide less than 50% of the equity to a QALICB or Lessor. The transaction will be structured to put all available developer equity, soft debt and grants into the Lessor as the developer’s equity interest. Any of NTCIC’s equity above the 50% threshold could be provided to the project in the form of a flexible loan, which may have similar terms as NTCIC’s equity (i.e., no principal paid for at least 7 years; lower interest rates; interest paid from cash flow; and subordinate to other debt).

II. STRATEGIC PRIORITIES

A. Economic Development Districts

All of NTCIC’s projects must be located in a state and/or municipal economic development district, and the local government agency must identify the project as both strategic and catalytic. In doing so, the project must obtain a letter of support from the local economic development agency. Examples of eligible economic development districts include:

- Enterprise or Empowerment Zone/Community
- Urban Renewal Zone
- Tax Increment Financing (TIF) District
- Business Improvement District
- Special Planning Area
- Historic District
- Area affected by a major plant or facility closing resulting in permanent layoffs
- Area of unusually high commercial vacancy rates
- Area designated for the establishment of a regional technology/business center
- Area affected by federal military base closings

B. Demonstrated Financial Need

NTCIC will only fund projects with NMTCs that have a financial need for the subsidy. The project will need to demonstrate that the subsidy will:

- 1) Cover a funding gap (no other sources of funds available);
- 2) Provide additional reserves to meet investor requirements or stabilize project;
- 3) Reduce the private fundraising burden or need for grants, which typically causes significant delays for community and cultural facilities;
- 4) Reduce commercial or residential rents for locally-owned businesses or low-income residents;
- 5) Reduce debt to achieve sufficient debt service coverage per lender/investor requirements or replace more expensive debt to achieve the same objective; OR
- 6) Provide a reasonable return on equity to the developer

C. Community Benefits Agreements (CBAs)

Developers must execute a Community Benefits Agreement (“CBA”) with NTCIC, which ensures that NMTC investments are directly benefiting low-income residents and the surrounding communities. The CBA must be executed in tandem with the project’s operating and/or credit agreements, and compliance will be monitored during the 7-year NMTC compliance period. NTCIC’s New Markets Program Manager will assist developers with identifying the appropriate goals that will ensure demonstrable community impact. These options include, but are not limited to:

- Below market rents and concessions to nonprofit organizations, minority-owned companies, and small start-up businesses
- Higher than required minority construction subcontracting participation
- Hiring low-income persons for construction and permanent jobs

- Creating workforce development and job training programs for permanent employees
- Posting job announcements at local job banks
- Partnership with local public schools to offer free or discounted space for cultural education and programs
- Resident participation in the project planning and design process
- Providing space for critical community needs such as grocery stores and social service agencies
- Affordable residential housing

Please refer to Exhibit B for more information on the Community Benefits Agreements.

D. Project Set Aside Requirements

The developer must agree to set-aside at least 20% of the construction subcontracting opportunities for minority- and/or women business enterprises (“M/WBEs”). Developers must also set-aside a certain percentage of the project’s net rentable square footage for at least one of the following community uses:

- 20% of all **rental housing units** must be affordable to households earning 80% of area median income;
- 20% of **office space** must be made available to nonprofit tenants and/or MBEs at below market rates or other favorable terms; OR
- 20% of **retail space** must reflect identified needs of the low-income community

NTCIC will give preference to either non-profit sponsored projects or to for-profits that dedicate at least 50% of leasable space for a community benefit (i.e., affordable housing, community facilities, M/WBEs, or community-serving retail). NTCIC will also give preference to projects that will seek LEED Silver certification, use alternative energy sources or employ green building techniques.

E. Reporting

All NTCIC projects must submit annual reports during the 7-year NMTC compliance period, which provides a snapshot of the various community impacts achieved. These data points are used for NTCIC’s reports to the U.S. Department of Treasury, NMTC investors, and are highlighted in NTCIC’s annual NMTC application.

EXHIBIT A

ADDITIONALLY DISTRESSED ANALYSIS

NTCIC has agreed to allocate 100% of its activity in distressed areas meeting one criterion in either Tier 1 or 2 AND 75% of its activities in areas meeting either one criterion from Tier 1 or two criteria from Tier 2.

Distress Factor Tier 1 (at least 1)	
1.	Census tracts with poverty rates greater than 30 percent; OR Census tracts with, if located within a Non-Metropolitan Area, median family income that does not exceed 60 percent of statewide median family income, or, if located within a Metropolitan Area, median family income that does not exceed 60 percent of the greater of the statewide median family income or the Metropolitan Area median family income; OR Census tracts with unemployment rates at least 1.5 times the national average.
2.	Qualifying census tracts that are located in counties not contained within a Metropolitan Statistical Area (MSA), as defined in OMB Bulletin No. 99-04, with respect to the 2000 Census data.
3.	As permitted by IRS and related CDFI Fund guidance materials, projects serving Targeted Populations to the extent that: (a) such projects are 60% owned by low-income persons (LIPs); or (b) at least 60% of employees are LIPs; or (c) at least 60% of customers are LIPs.
Distress Factor Tier 2 (at least 2)	
4.	Census tracts with one of the following: (i) poverty rates greater than 25%; or (ii) if located within a non-Metropolitan Area, median family income that does not exceed 70% of statewide median family income, or, if located within a Metropolitan Area, median family income that does not exceed 70% of the greater of the statewide median family income or the Metropolitan Area median family income; or (iii) unemployment rates at least 1.25 times the national average.
5.	Federally designated Empowerment Zones, Enterprise Communities, or Renewal Communities
6.	SBA HUB Zone
7.	Federally designated Brownfields redevelopment areas
8.	HOPE VI Redevelopment
9.	Federal Native Areas
10.	Areas designated as distressed by the Appalachian Regional Commission or Delta Regional Authority
11.	Colonias Areas
12.	Federal Medically Underserved Areas
13.	State Enterprise zone programs, or other similar state/local programs targeted towards particularly economically distressed communities.
14.	Counties for which the Federal Emergency Management Agency (FEMA) has: issued a "major disaster declaration" and made a determination that such County is eligible for both "individual and public assistance"; provided that the initial investment will be made within 24 months of the disaster declaration.
15.	Trade Adjustment Assistance

EXHIBIT B

COMMUNITY BENEFITS AGREEMENTS OVERVIEW

NTCIC will only invest in projects that can demonstrate a high standard of community impact. Developers must execute a Community Benefits Agreement (“CBA”) with NTCIC, which ensures that NMTC investments are directly benefiting low-income residents and the surrounding communities. The CBA will include various construction phase and operational goals that are agreed to by the developer and NTCIC. The CBA will be a legally binding agreement that is entered into at closing. The project will be required to submit annual reports during the 7-year NMTC compliance period, which highlight its progress towards achieving the various CBA goals. The CBA may include some of the following impacts: (1) create or retain construction and permanent jobs for low-income persons; (2) increase wages or incomes for construction and permanent employees; (3) implement workforce development programs for permanent employees; (4) offer below market rents or other favorable terms for nonprofits, LIC serving retail, and minority- and women business enterprises (“M/WBEs”); (5) award construction contracts to M/WBEs; or (6) partner with local school districts to offer cultural programs to students.

More specifically:

□ Job Generation and Low-Income Jobs

This section of the CBA would describe the number of jobs created and the efforts that will be made to hire low-income persons. Examples of these efforts would include (1) working with local government or a nonprofit entity that provides job training to low-income residents, the unemployed, recent immigrants or welfare recipients; (2) posting job openings with community job banks or training centers before opening them up to others; (3) committing to hire a higher percentage of minority contractors and laborers than the local government requirement; and (4) entering into lease arrangements that apply some of these employment practices to building tenants.

□ Job Benefits

This part of the CBA would describe job benefits and training opportunities provided to low-income employees. For example, these may include employee medical benefits not typically provided in similar kinds of jobs, apprenticeships or mentoring programs.

□ Community Revitalization

This section would be an agreement to conduct or provide studies illustrating the economic development benefits this project will have or has had. Our experience tells us that the greatest economic impact of most projects is indirect, coming from its affect on investment decisions in the immediate commercial neighborhood. Documenting these impacts is especially important.

□ Project Specific Impacts

This CBA element would describe benefits for low-income residents and communities that are specific to the project. Examples may include (1) affordable rents for residential units; (2) affordable rents to businesses owned by, primarily serving or hiring low-income or minority residents; or (3) community outreach programs or access to facilities for low-income or minority residents