

# **Introduction to Ohio New Markets Tax Credits**

Ohio Development Services Agency  
Office of Redevelopment

**Ohio**

**Development  
Services Agency**

# New Markets Tax Credits...

- Invest in Low-Income Communities
- Bridge funding gap in projects
- Provide strong return on investment through tax credits

# National and Ohio programs

- Available at both state and federal level
- Federal program passed in 2000
  - first awarded tax credits in 2003
- Ohio program passed in 2009
  - first awarded tax credits in 2010
- Ohio program leverages the federal program to produce more investment in the State

# What the Programs Do

- Provide 39% tax credit over 7 years to investors
- Investments help provide business loans and real estate investments in low-income communities

# Structure

Investor has money to invest



Qualified Active Low-Income  
Community Business  
receives funding

# But I'm Not a Magician!

- Don't have to be a magician to make it work
  - First, a **Community Development Entity (CDE)** is formed and applies for tax credits

# Community Development Entity

- Taxable Entity
- Primary mission of **CDE** is to serve low-income communities
- Applies to Community Development Financial Institutions (CDFI) Fund (Federal) or Ohio Development Services Agency (State) for tax credit allocation
- CDFI Fund allocates tax credits to CDEs in a competitive process
- Must have received a federal New Markets Tax Credit allocation to be eligible for state tax credit

# Who Are CDEs in Ohio?

- **Financial Institutions** (Key Bank, Chase, PNC, U.S. Bank, 5/3<sup>rd</sup>, etc.)
- **Nonprofits** (Greater Cleveland Partnership, Cincinnati Equity Fund, Ohio Finance Fund, National Trust for Historic Preservation, Enterprise Community Partners, LISC, etc.)
- **Private Equity** (Stonehenge Capital, Advantage Capital, etc.)
- **Community Development Corporations** (Uptown Consortium, University Circle Inc.)

# So Now What?

- First, a **Community Development Entity (CDE)** is formed and applies for tax credits
- Second, with tax credit authority secured, a **Community Development Entity (CDE)** looks for investors to provide a **Qualified Equity Investment (QEI)**

# Funding a CDE

- Can be structured different ways
  - Non-Leveraged
  - Leveraged
- In both structures, a **Community Development Entity (CDE)** receives funding from an investor to provide investments in low-income community businesses.

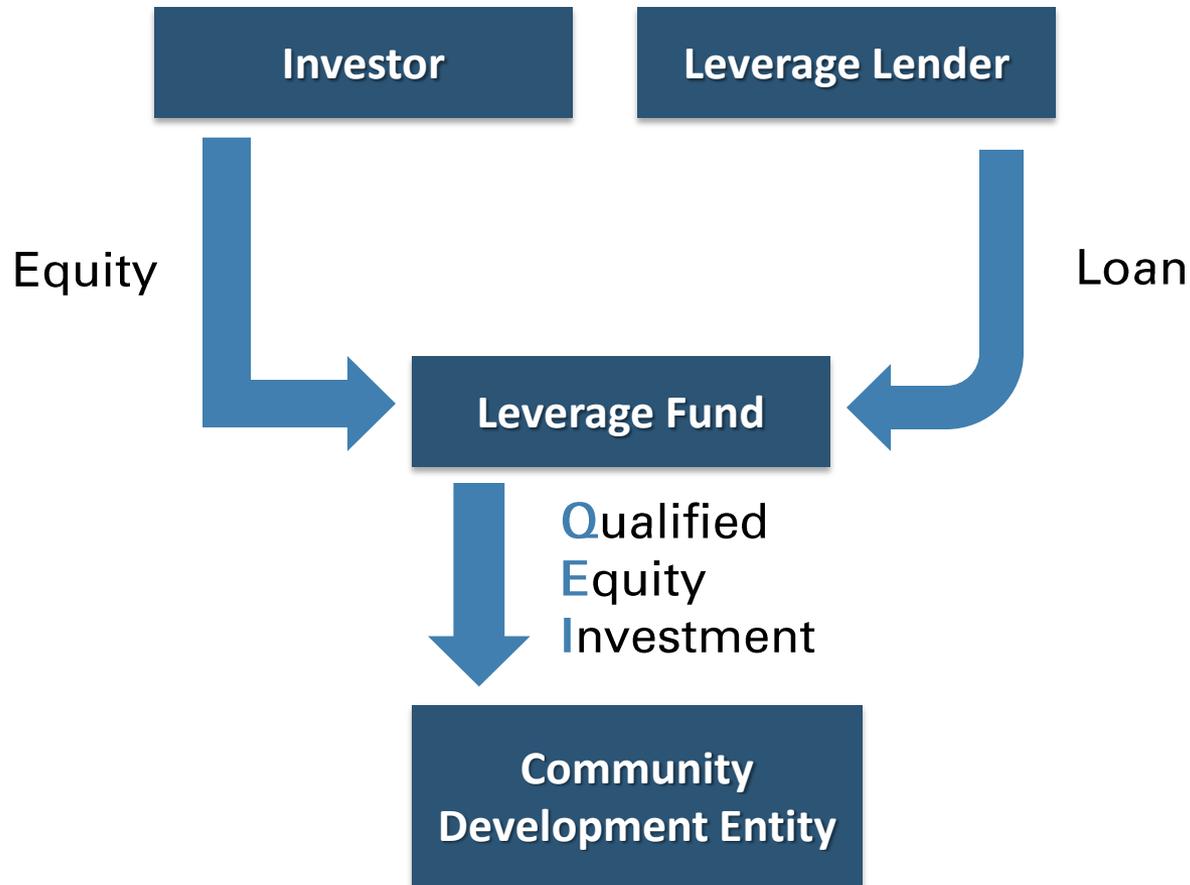
# Who can invest in a CDE?

- Federal New Markets Tax Credit investments in a CDE can be made by almost anyone:
  - Individuals
  - Banks
  - Companies (Sherwin Williams, Parker Hannifin, etc.)
- Per Ohio Revised Code, Ohio New Markets Tax Credit investors include only:
  - Insurance Companies
  - Financial Institutions

# Funding a CDE: Non-Leveraged



# Funding a CDE: Leveraged

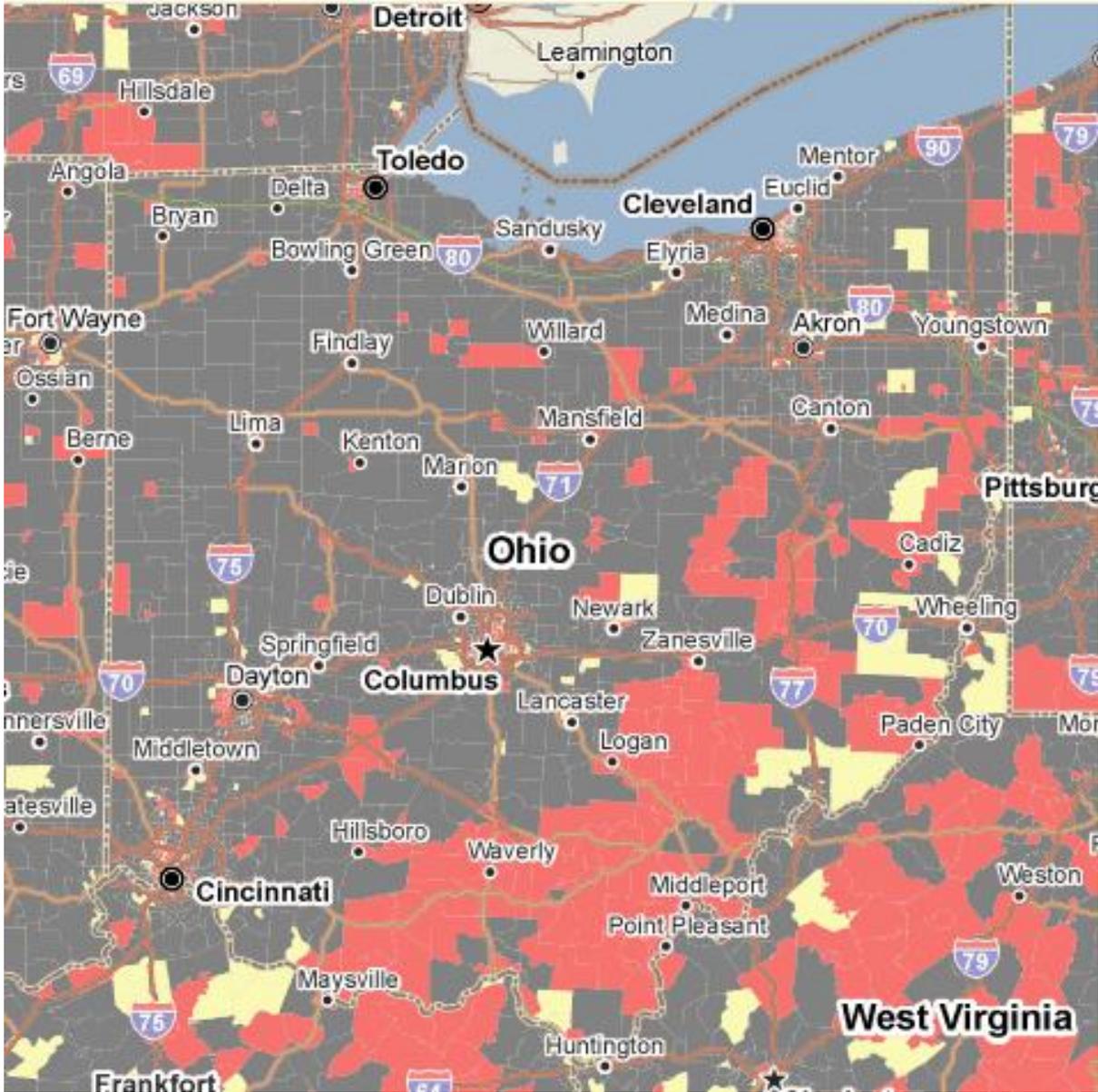


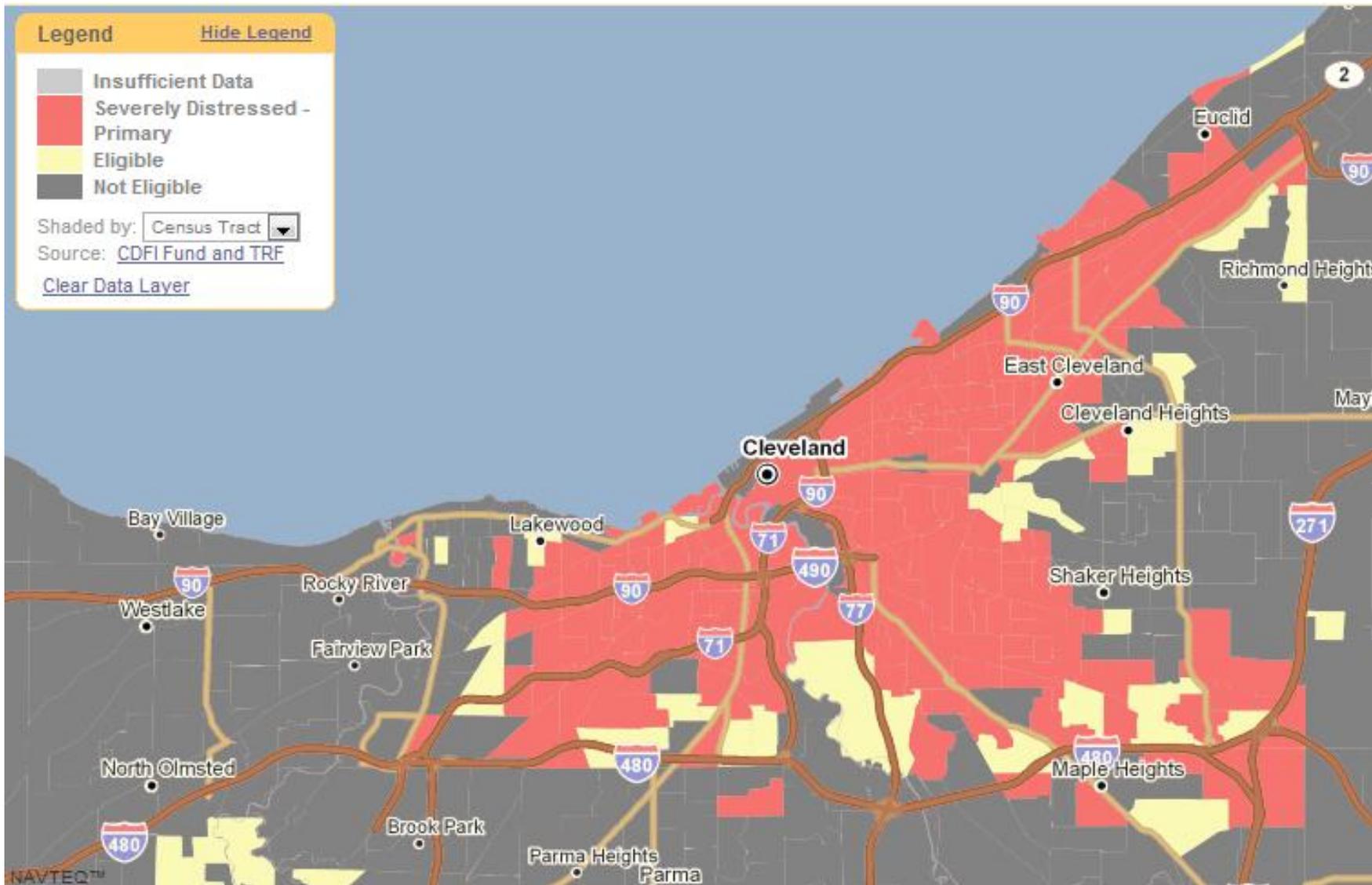
# So Now What?

- First, a **Community Development Entity (CDE)** is formed and applies for tax credits
- Second, with tax credit authority secured, a **Community Development Entity (CDE)** looks for investors to provide a **Qualified Equity Investment (QEI)**
- Third, a **Community Development Entity (CDE)** makes a **Qualified Low-Income Community Investment (QLICI)** in a **Qualified Active Low-Income Community Business (QALICB)**

# Low-Income Community

- CDE must invest in a **Low-Income Community (LIC)**
- In general, must meet one of two criteria:
  - Census tract where poverty rate >20%
  - Median income less than 80% of the greater of:
    - Statewide median income
    - Median income of metropolitan area





# CDE Investment



**QLICI** can take many forms including equity investments and loans

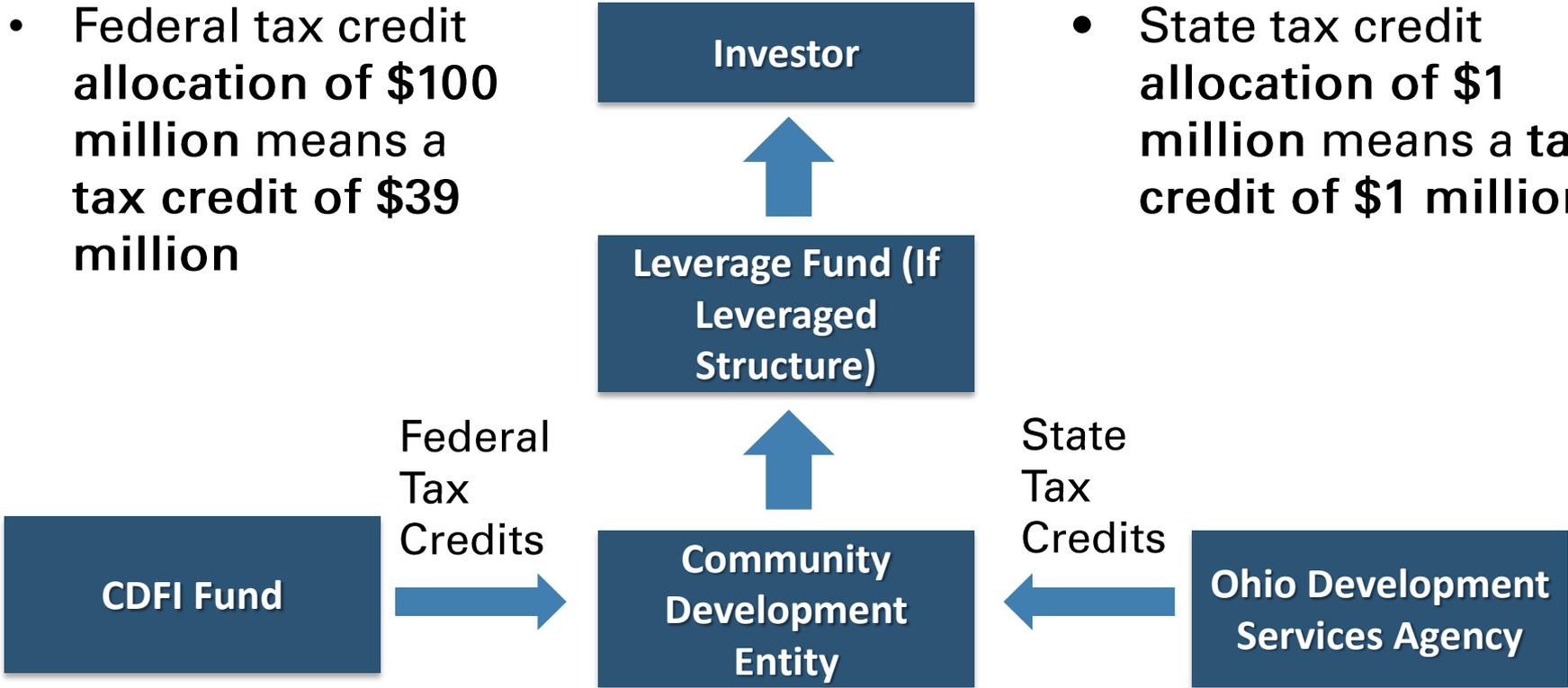
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- Third, a **Community Development Entity (CDE)** makes a **Qualified Low-Income Community Investment (QLICI)** in a **Qualified Active Low-Income Community Business (QALICB)**
- Fourth, the investor, **CDE**, and **Qualified Active Low Income Community Business (QALICB)** claim the benefits of a New Markets Tax Credit

# Tax Credit Flow

- Federal tax credit allocation of \$100 million means a tax credit of \$39 million

- State tax credit allocation of \$1 million means a tax credit of \$1 million



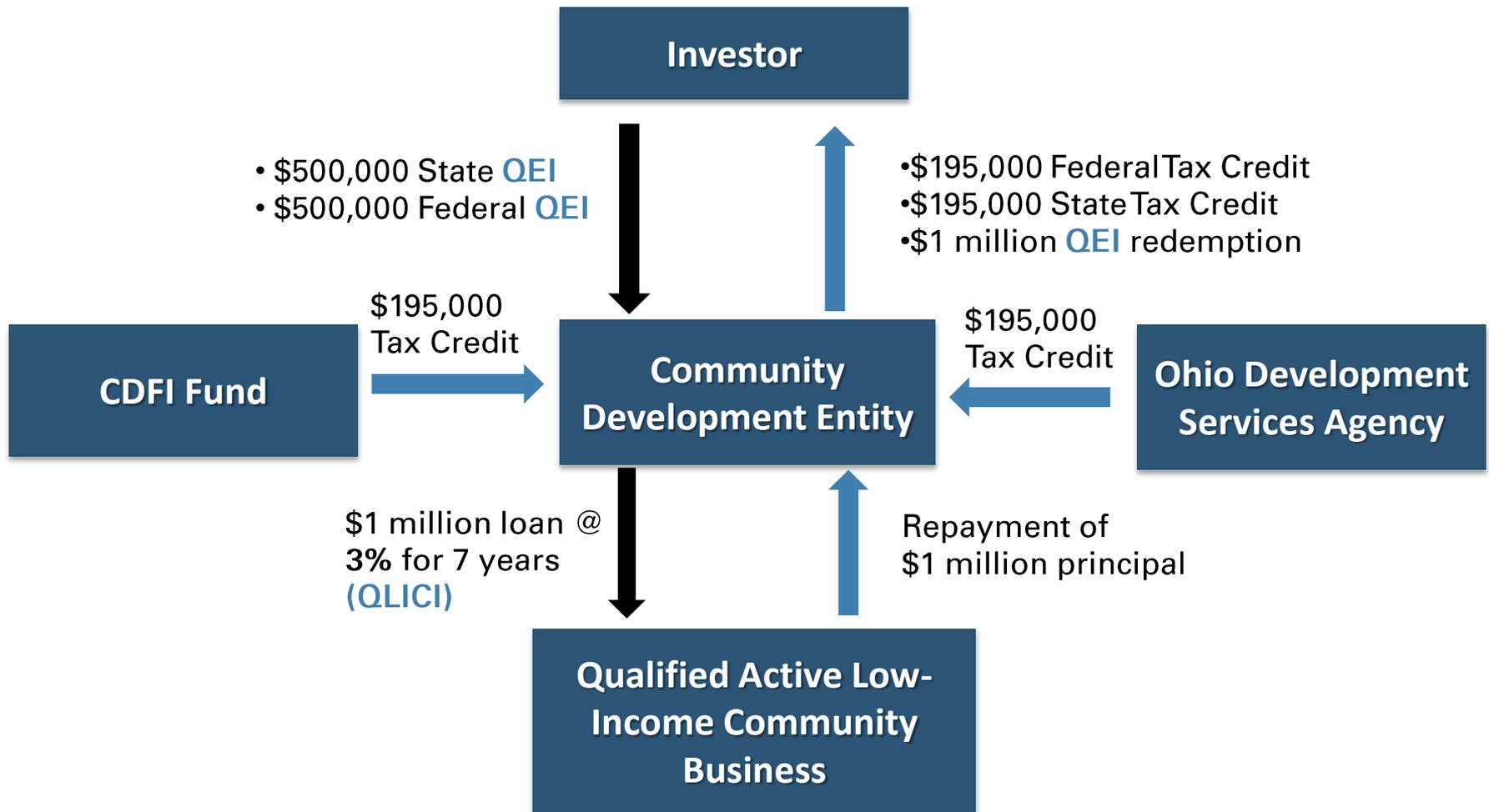
# Return on Investment

- In exchange for equity, the New Markets Tax Credit Investor receives:
  - Tax credit of 39% of **QEI** over 7 years
  - **QEI** can be redeemed after 7 years
- In exchange for a loan, the Leverage Lender receives:
  - Interest income over 7 years
  - Repayment of loan after 7 years

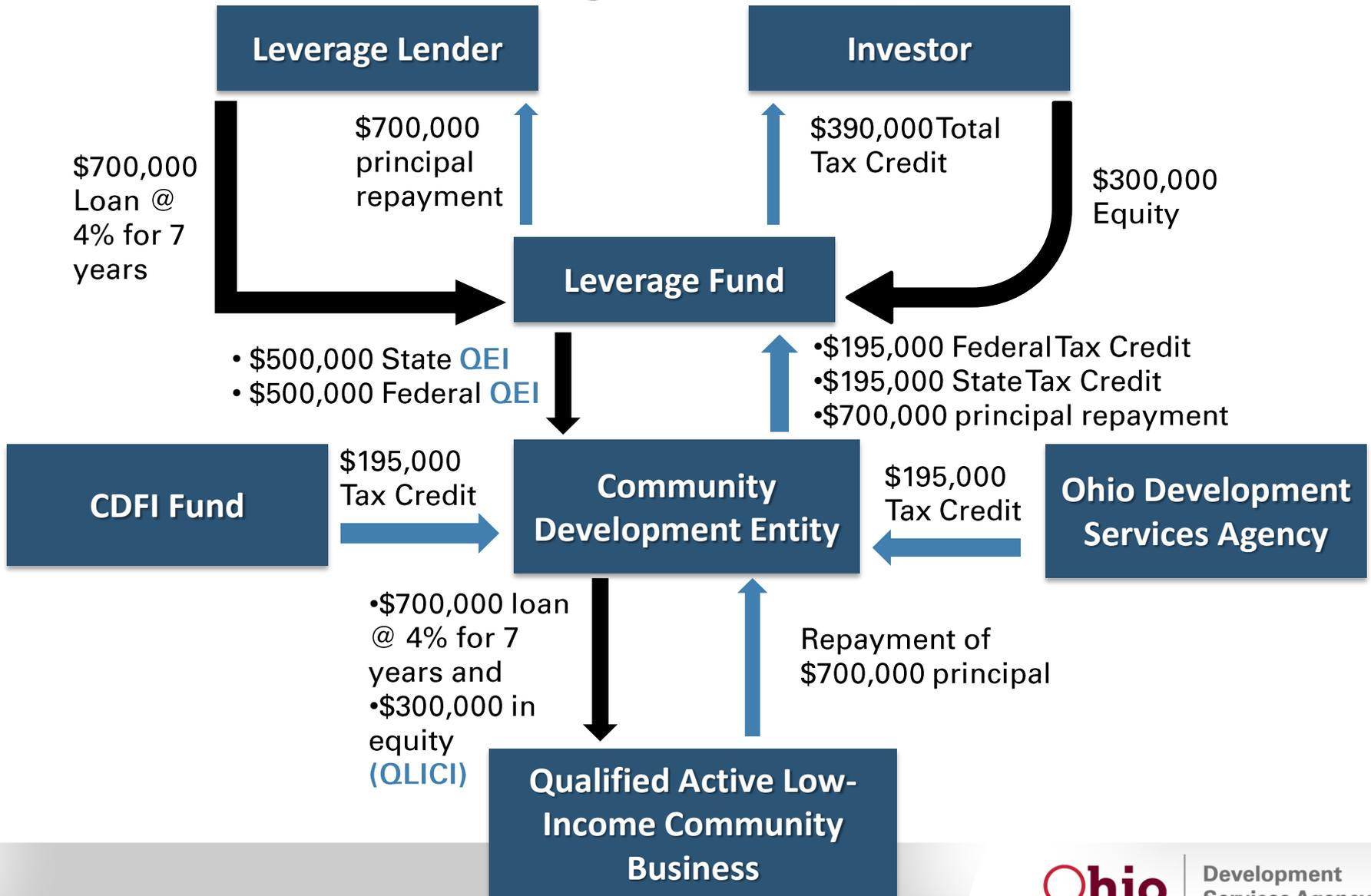
# Everyone Benefits!

- **Low-Income Community (LIC)** benefits from investment in community
  - Job creation
  - Increased access to goods and services
  - Lower prices
- The Investor gets tax credits and investment repayment
- The **QALICB** gets a better loan or money up front
- Leverage Lender receives interest and loan repayment

# Non-Leveraged Example

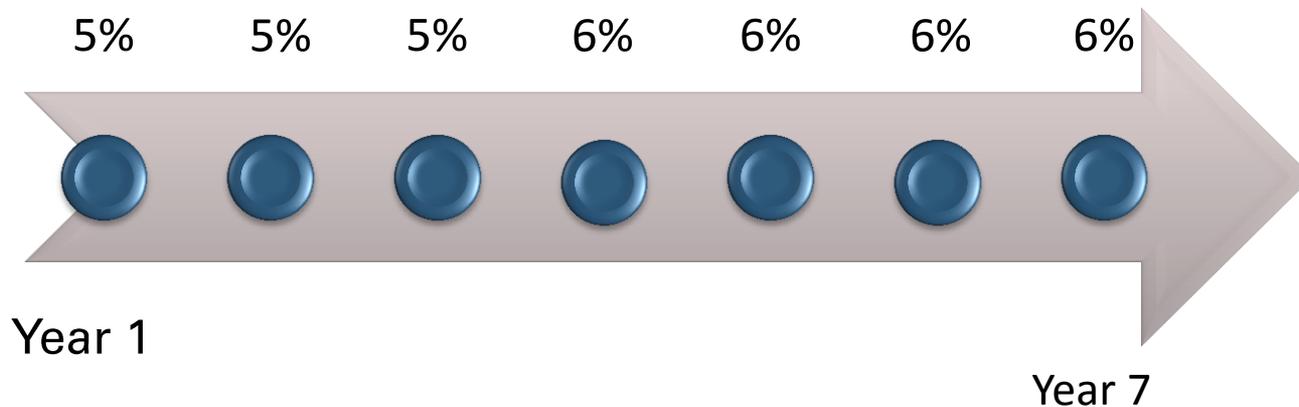


# Leveraged Example



# Federal Program

- Federal Tax Credit = 39% of **QEI**
- Claiming schedule:
  - 5% in years 1-3
  - 6% in year 4-7

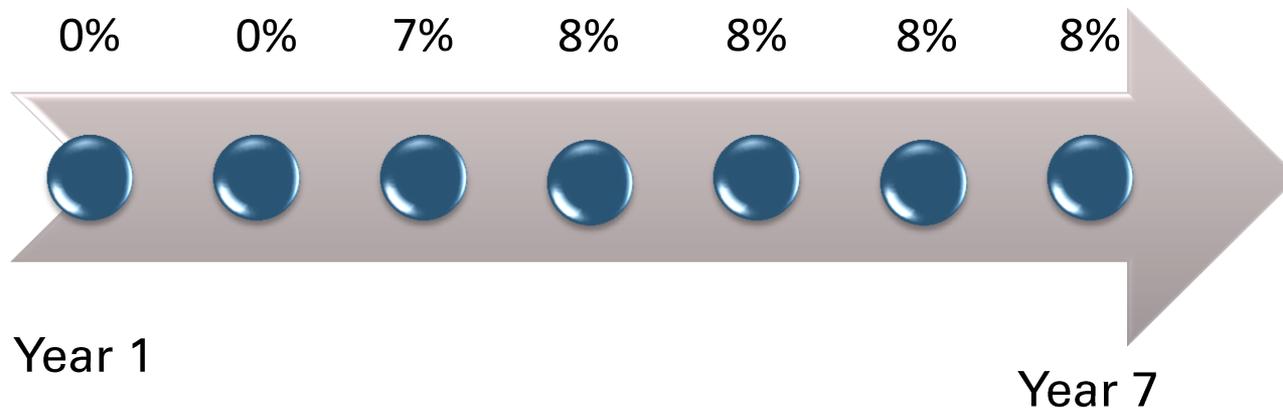


# Federal Program

- Prohibited QALICBs:
  - Country Club
  - Golf Course
  - Massage Parlor
  - Hot Tub Facility
  - Suntan Facility
  - Racetrack and Other Gambling Facilities
  - Liquor Store

# Ohio's Program

- State Tax Credit claiming schedule:
  - 0% in years 1-2
  - 7% in year 3
  - 8% in years 4-7



# Ohio's Program

- Tax credit only usable by financial institutions and insurance companies
- Tax credits available each year: \$10 million
- Maximum **QLICI** per business: \$2,564,000 (\$1 million in tax credits)

# Ohio's Program

- Prohibited QALICBs:
  - All QALICBs prohibited in federal program
  - Residential QALICBs
    - Business that derives more than 15% of revenue from the rental or sale of real property

# Hypothetical Example: Morgan Learning Center

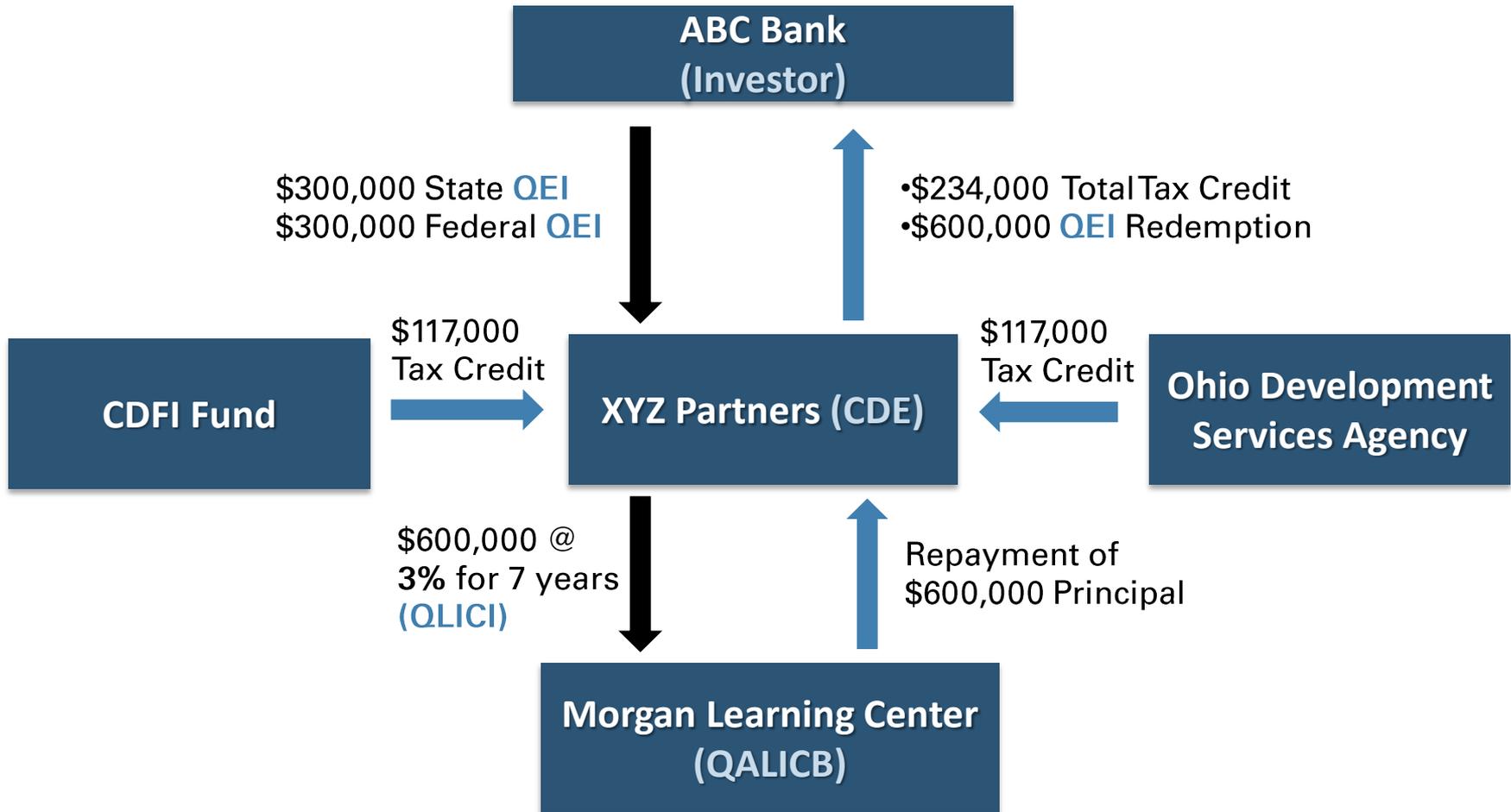
- Only licensed child-care provider in four county region
- Limited space and no option to renew lease, so a new building was needed
- Nonprofit organization with little equity to contribute to a project
- Contacted a **CDE** to help bridge funding gap

# Morgan Learning Center

- Purchased and renovated a former National Guard armory with the help of New Market Tax Credit funding.



# Morgan Learning Center



# Results

- 17 full-time jobs, 14 part-time jobs, 20 construction jobs
- Reuse of abandoned 14,880 square feet building
- Child care services for 136 children
- Building used for community events (Morgan County Business Fair, 4-H groups, etc.)

# Some projects we've helped fund

- Allen Theater - Cleveland
- Miceli's Dairy - Cleveland
- St. Aloysius - Cincinnati
- Solar Vision - Celina
- 21c Hotel - Cincinnati
- Lutheran Metropolitan Ministry, Richard Sering Center - Cleveland
- Mercer Commons - Cincinnati
- Premier Health Partners corporate office - Dayton
- Ronald McDonald House - Cleveland
- Kent State University Hotel & Conference Center - Kent

# St. Aloysius - Cincinnati



# Premier Health corporate office - Dayton



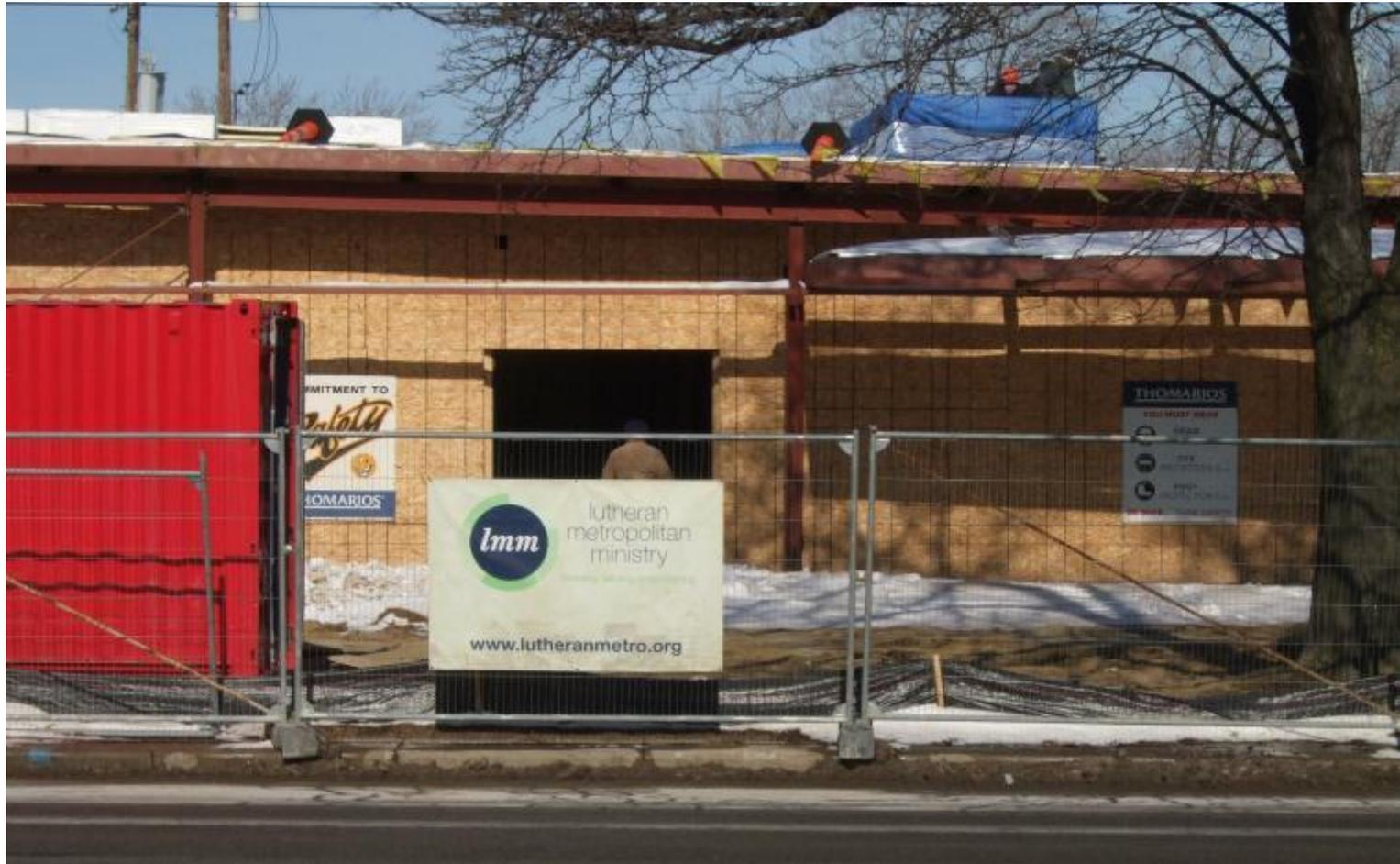
# Kent State University Hotel & Conference Center - Kent



# Mercer Commons - Cincinnati



# Lutheran Metropolitan Ministry, Richard Sering Center - Cleveland



# Contact Information

[http://development.ohio.gov/cs/cs\\_onmtcredit.htm](http://development.ohio.gov/cs/cs_onmtcredit.htm)

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