



New Markets Tax Credits

Ohio Department of Development
Urban Development Division

New Markets Tax Credits...

- Invest in Low-Income Communities
 - Bridge Funding Gap in Projects
 - Provide Strong Return on Investment Through Tax Credits
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National and Ohio Programs

- Available at both state and federal level
- National program passed in 2000, first awarded tax credits in 2003
- Ohio program passed in 2009, will award credits in 2010
- Ohio program leverages the national 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 Department of Development (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, US Bank, 5/3rd, 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)**
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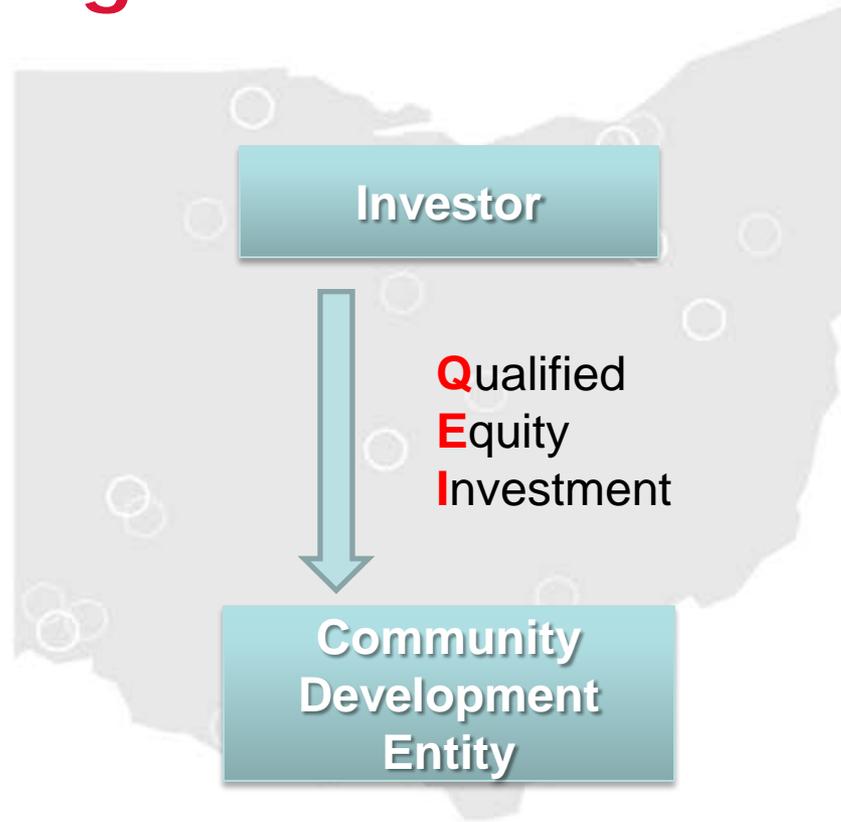
Funding a CDE

- 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.
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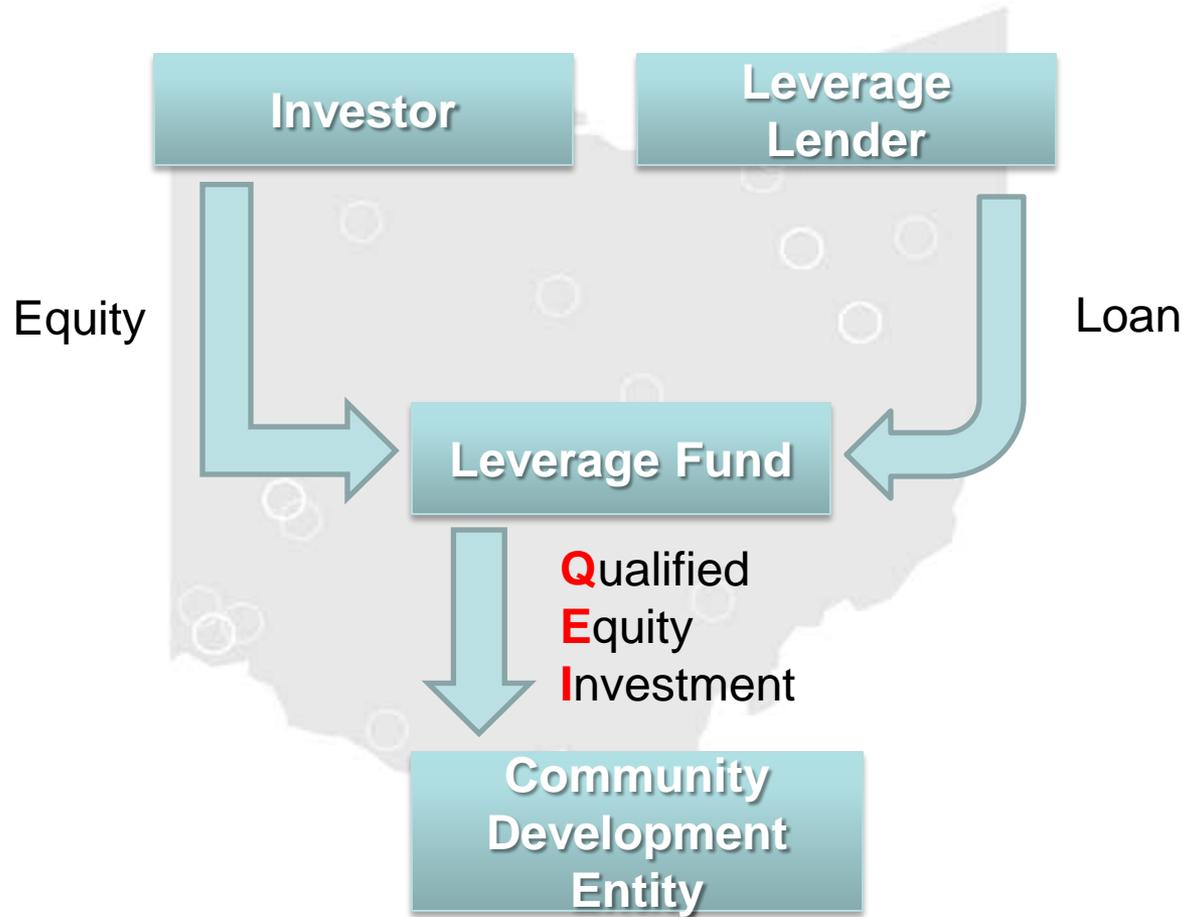
Who can invest in a CDE?

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



Funding a CDE: Leveraged



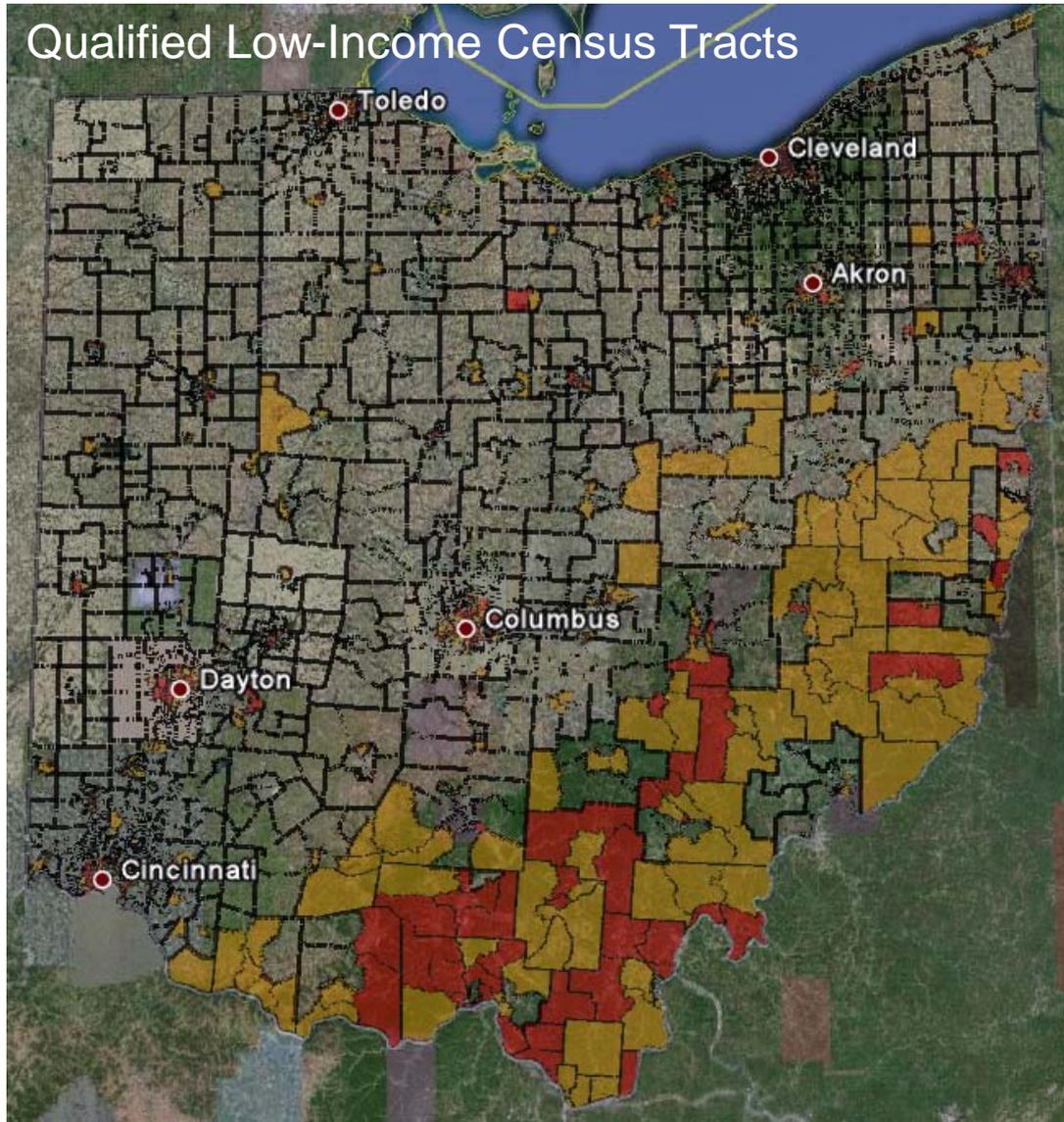
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- Second, with tax credit authority secured, a **Community Development Entity (CDE)** looks for investors to provide a **Qualified Equity Investment (QEI)**
- Third, a **Community Development Entity (CDE)** makes a **Qualified Low-Income Community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

Low-Income Community

- **CDE** must invest in **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
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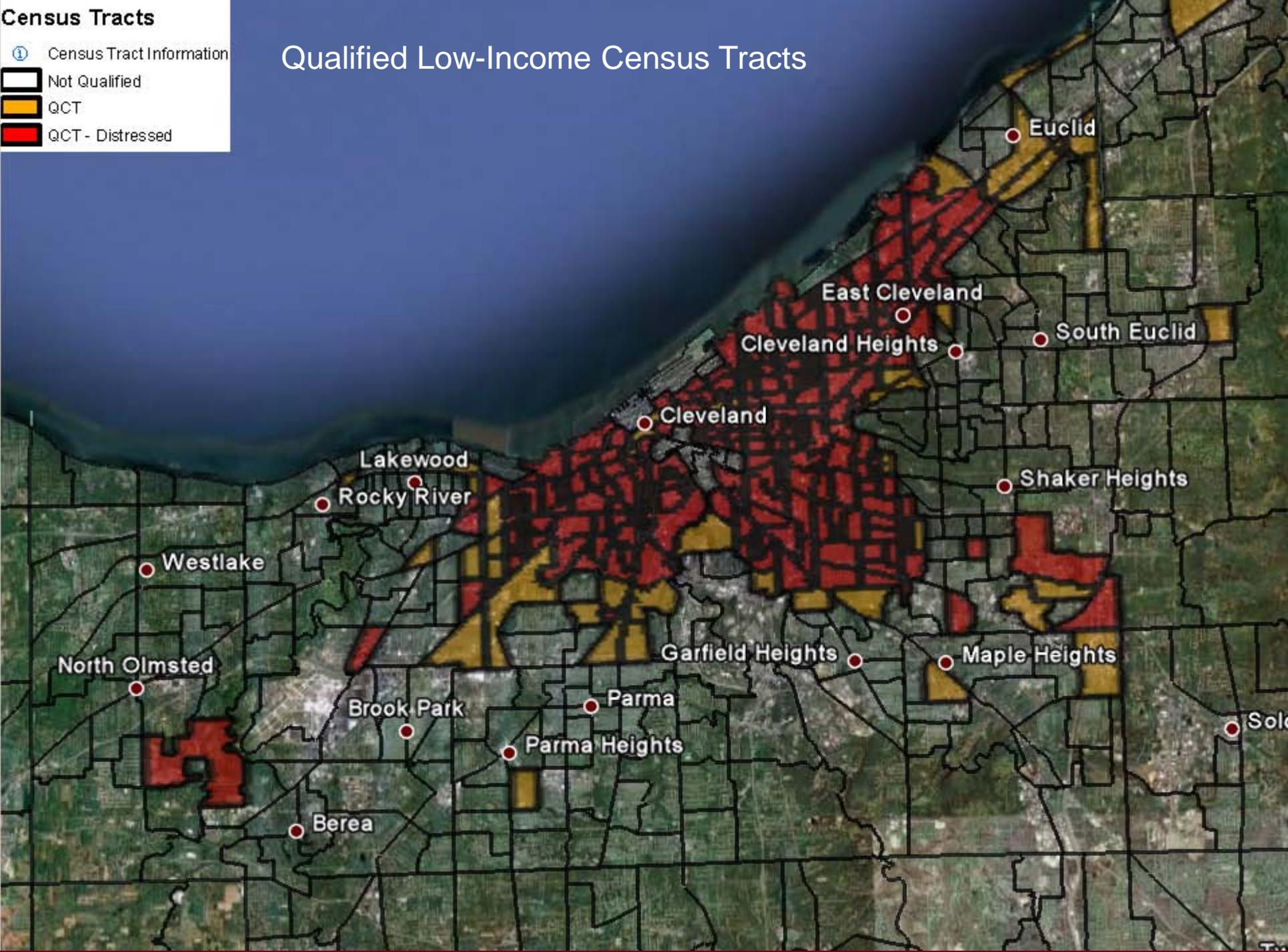
Qualified Low-Income Census Tracts



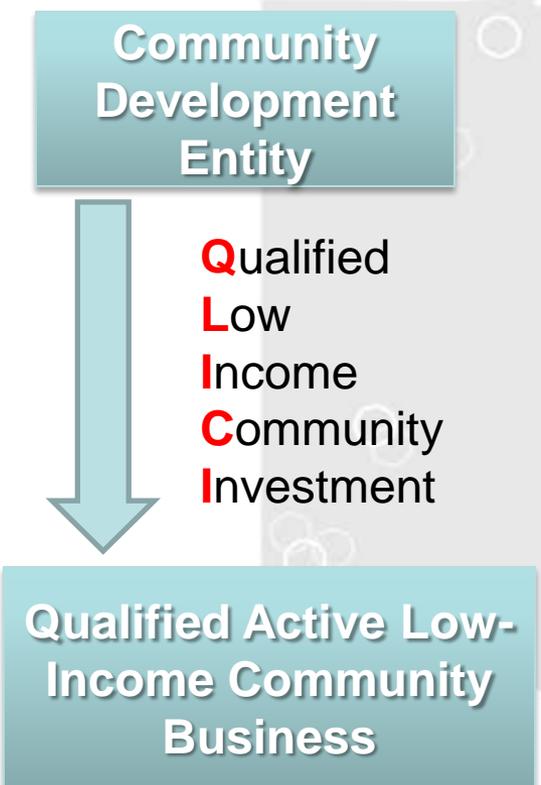
Census Tracts

- ① Census Tract Information
- Not Qualified
- QCT
- QCT - Distressed

Qualified Low-Income Census Tracts



CDE Investment



Community
Development
Entity

Qualified
Low
Income
Community
Investment

Qualified Active Low-
Income Community
Business

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

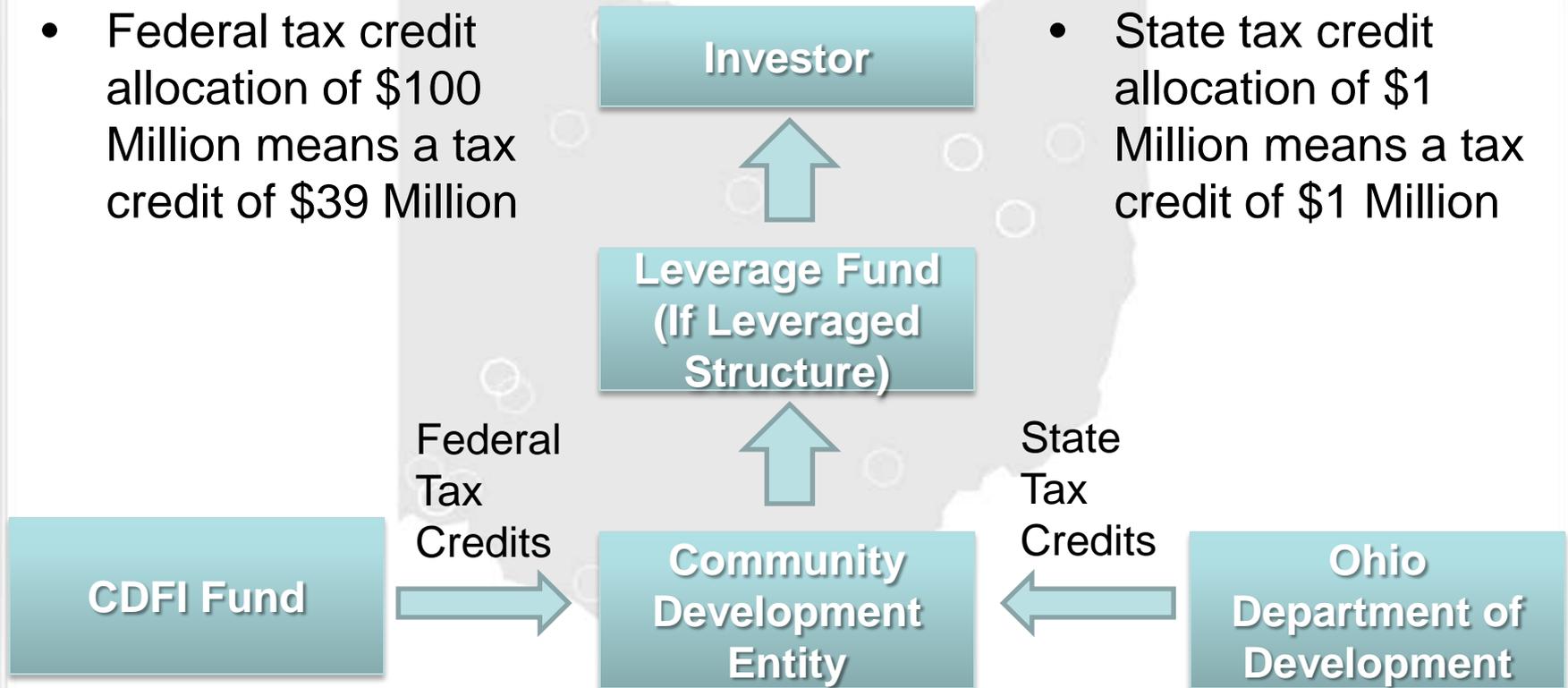
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- Fourth, the investor, **CDE**, and **Qualified Active Low Income Community Business (QALICB)** claim the benefits of a New Markets Tax Credit

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



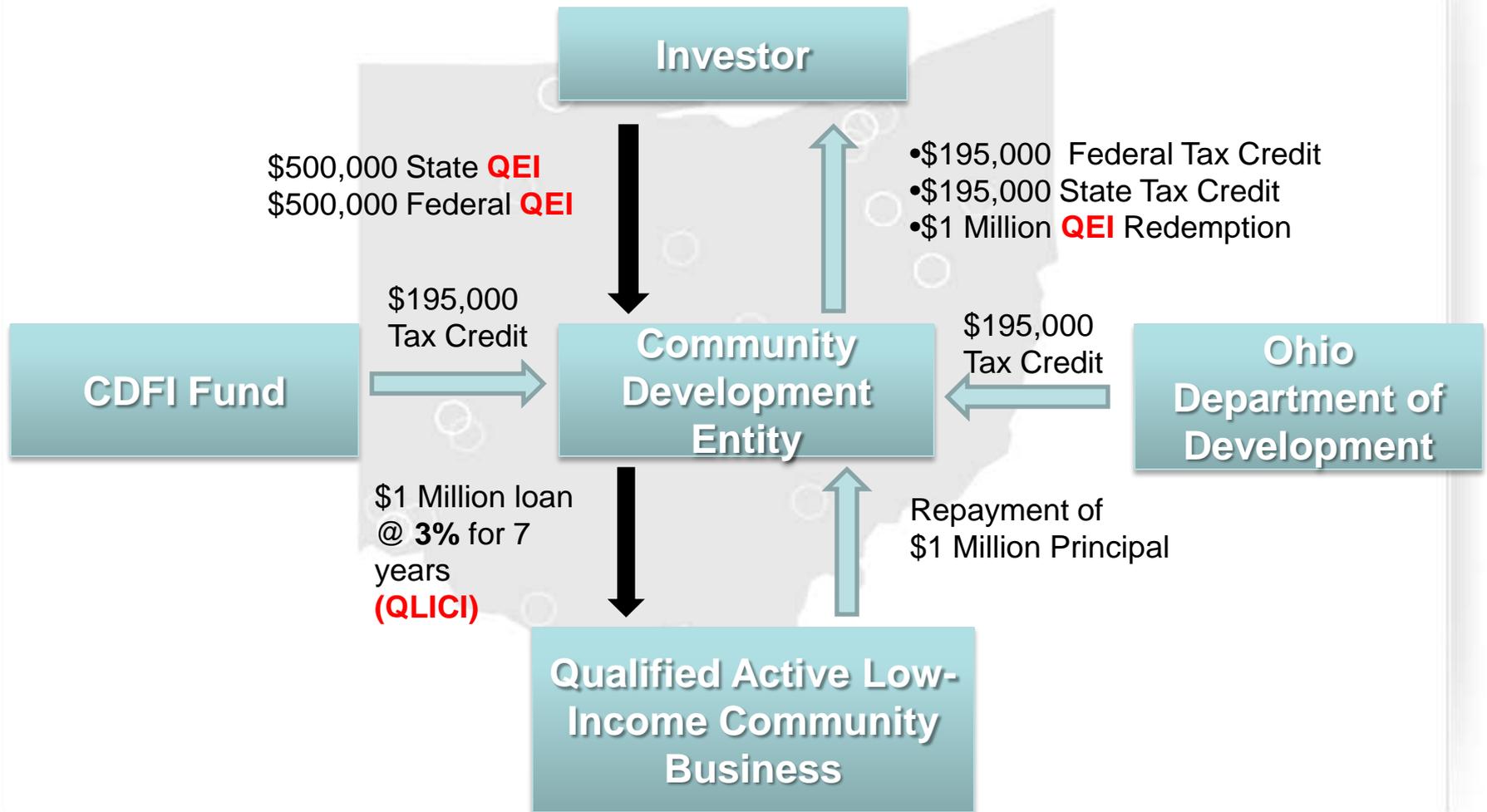
Return on Investment

- 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

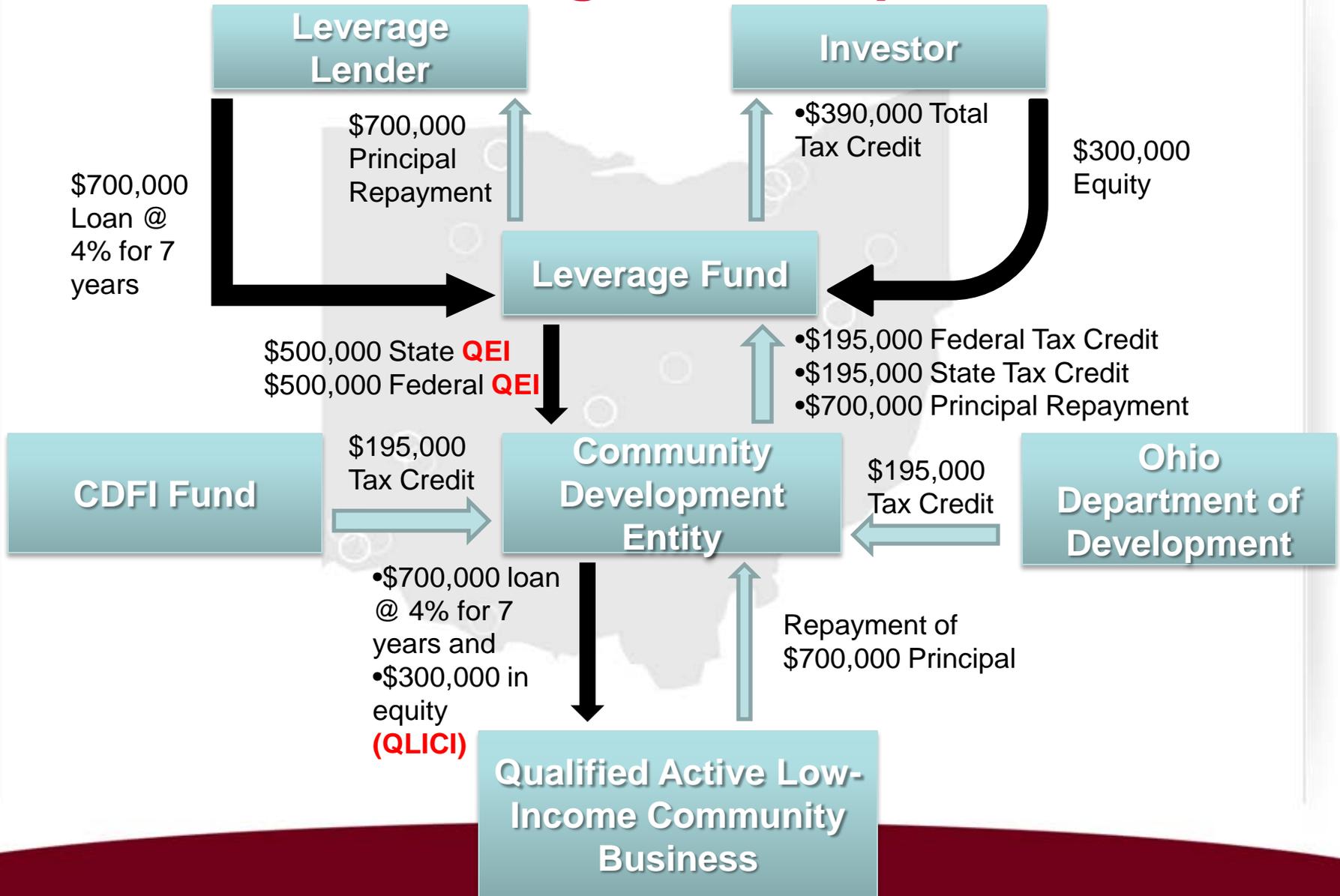
Everyone Benefits!

- **Low-Income Community (LIC)** benefits from investment in community
 - Job creation
 - Increased access to goods and services
 - Cheaper 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

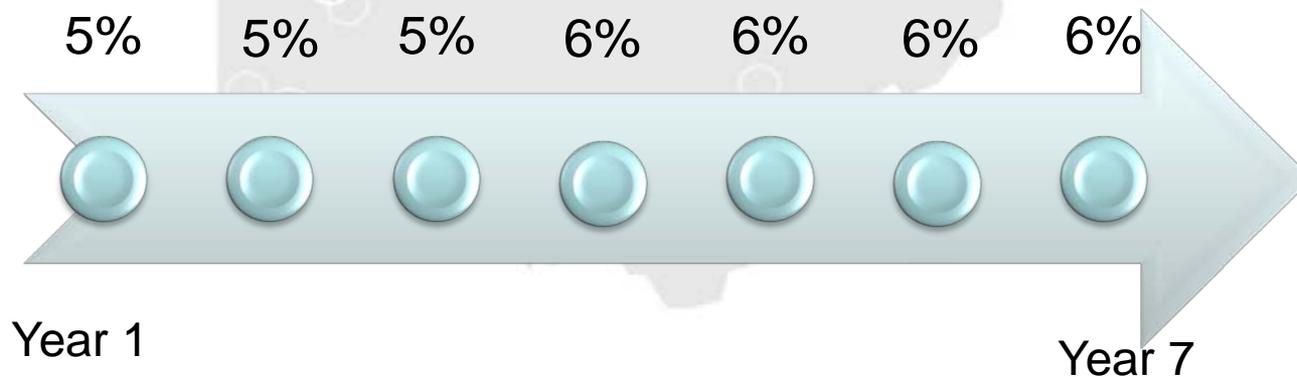


Leveraged Example



National Program

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

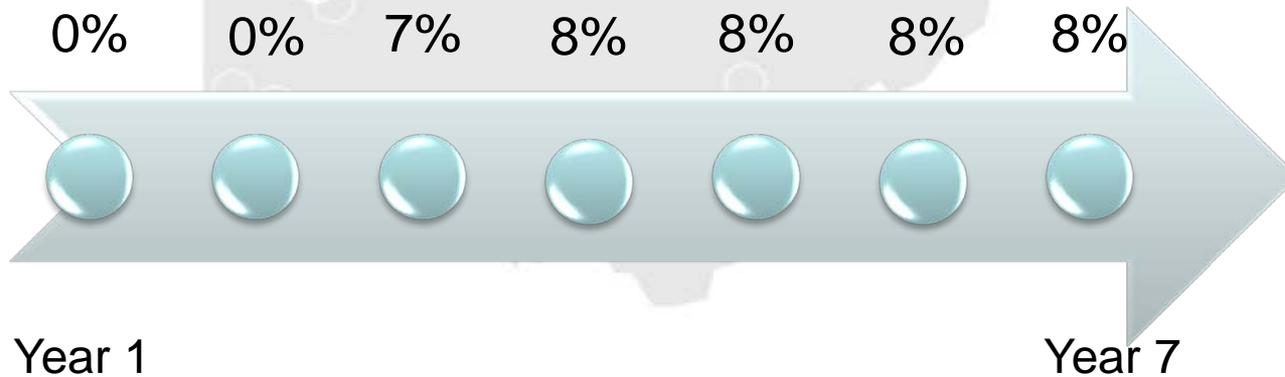


National Continued

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

Ohio

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

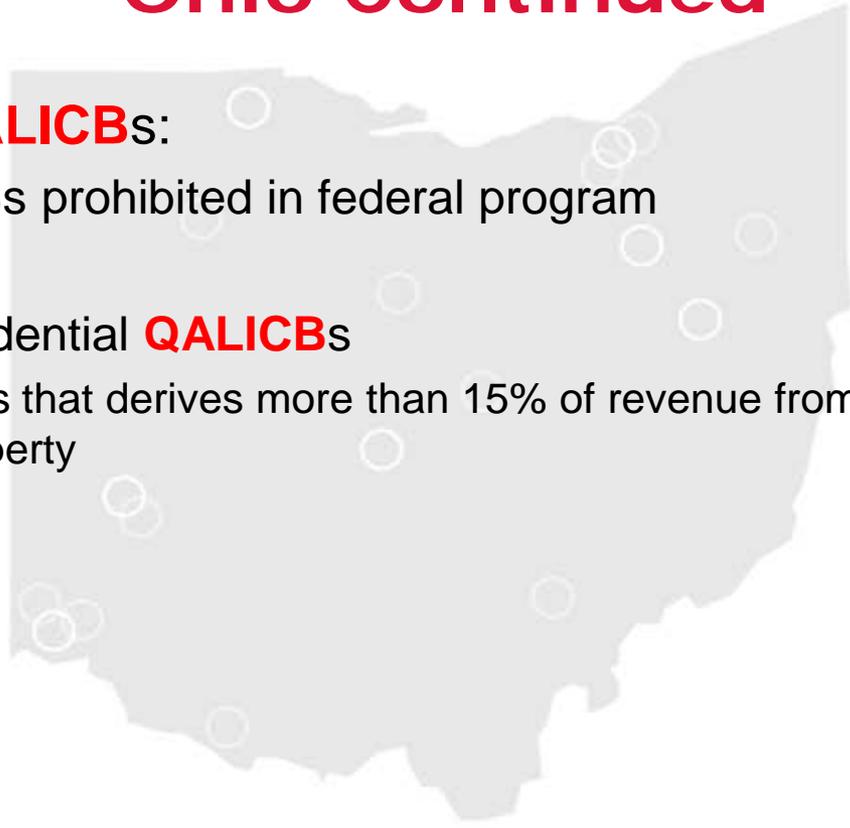


Ohio Continued

- 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 Continued

- Prohibited **QALICBs**:
 - All **QALICBs** prohibited in federal program
 - Not for residential **QALICBs**
 - Business that derives more than 15% of revenue from the rental or sale of real property



Ohio Program Objectives

- All Ohio New Market Tax Credit Investments must correspond to at least one of the following objectives:
 - 1. Physical redevelopment or business investments in urban areas
 - 2. Physical redevelopment or business investments in a company actively working with a small business incubator network or an Ohio Edison Center.

Hypothetical Example: Morgan Learning Center

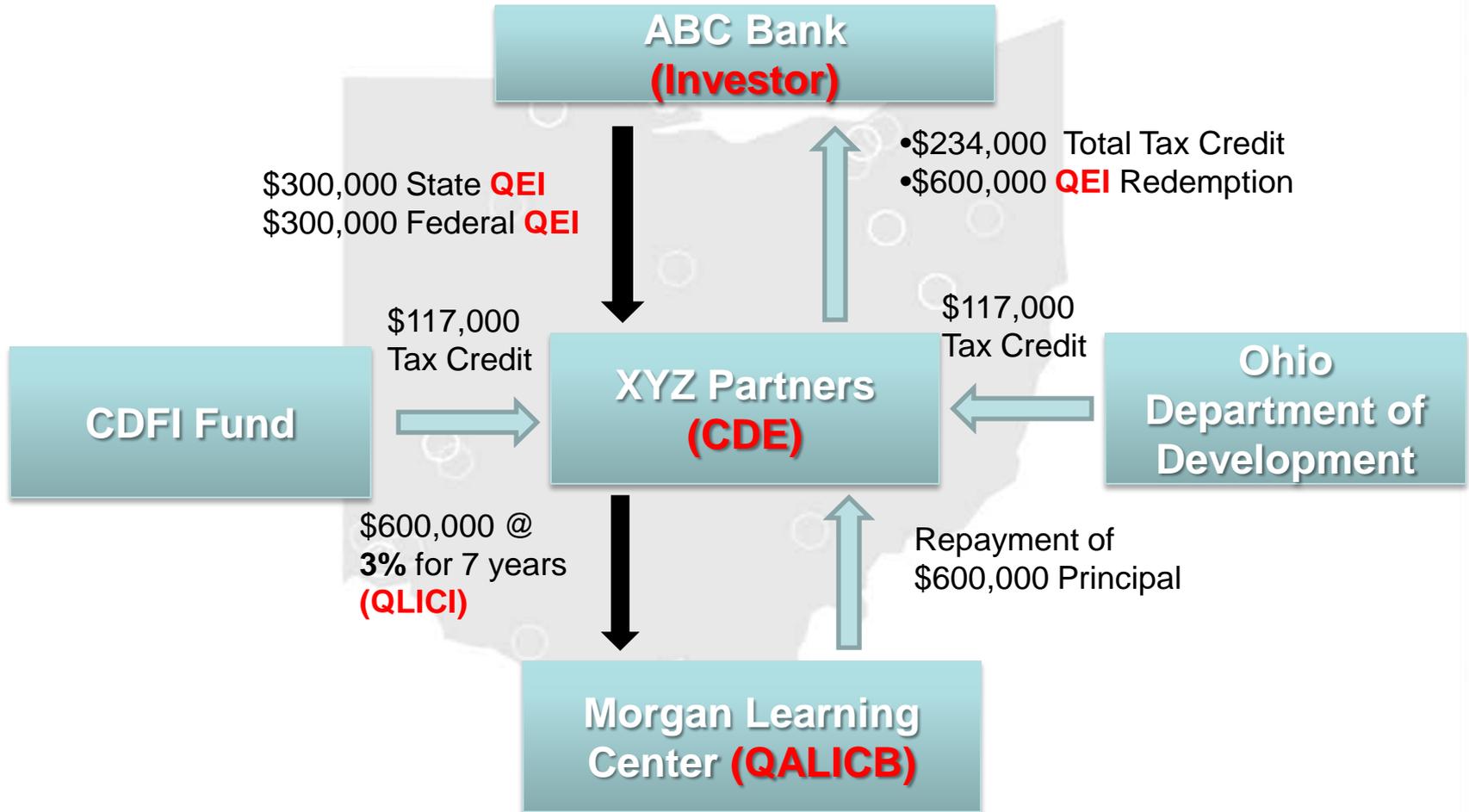
- Only licensed child-care provider in four county region
- Limited space and no option to renew lease, so a new building was needed
- Nonprofit organization with little equity to contribute to a project
- Contacted a **CDE** to help bridge funding gap

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, ext.)

Urban Development Division

<http://development.ohio.gov/urban/ONM>

Urban Development Division

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