NEW MARKETS TAX CREDIT COALITION

BRIEFING PAPER ON THE
NEW MARKETS TAX CREDIT
FOR THE
MANUFACTURING
DEBT, EQUITY, AND CAPITAL
REAL ESTATE
FINANCIAL SERVICES
TAX REFORM WORKING GROUPS
OF THE WAYS AND MEANS COMMITTEE
APRIL 12, 2013

Introduction

As Congress considers legislation to reform the tax code, it is important to note that the New Markets Tax Credit (NMTC) has made significant contributions to the local economies in low income urban and rural communities. Between 2003 and 2011, NMTC investments directly created some 350,000 jobs at a cost to the federal government of $19,500 per job and leveraged $55 billion[1] in capital investment to communities with high poverty and unemployment rates[2]. The NMTC has done this without creating more complications for individual taxpayers – virtually all investors are corporations or private financial institutions. In addition, the decision-making and project underwriting are the responsibility of community development organizations with deep ties to the communities in which they work. Washington does not pick winners and losers. Finally, recent analysis by the NMTC Coalition, based on Treasury Department data, indicates that the tax revenue generated by the businesses financed by the NMTC and the jobs created by those businesses are substantial.

The New Markets Tax Credit is an established program with a record of achievement. We urge the Committee take the following steps that will improve the efficiency of NMTC:

1. permanently extend the New Markets Tax Credit;
2. provide an increase in credit authority; and
3. exempt NMTC investments from the Alternative Minimum Tax.

Background on the New Markets Tax Credit

In December 2000, the Community Renewal Tax Relief Act (P.L. 106-554) was signed into law. This legislation authorized the New Markets Tax Credit (NMTC) Program, which was designed to provide a modest tax incentive in order to increase the flow of private sector capital to communities long overlooked by market forces. While today's economy differs significantly from the 2000 economy, the challenge of attracting investment capital to underserved areas persists and in fact has intensified over the last few years.

Then – as now – the basis for the Credit is that business success depends on access to capital. There is substantial evidence that low and moderate income areas continue to be underserved by private sector capital. This lack of capital stifles entrepreneurs and impedes growth leading to urban decay and economic stagnation in small towns and farming communities, despite opportunities for investment.

[1] NMTC Coalition Preliminary Estimate of Total Project Costs 2003-2011
[2] CDFI Fund's FY 2012 Agency Financial Report

According to a Federal Reserve Bank of San Francisco publication on small business lending in low and moderate income neighborhoods:

> *"Over the last three years (2007-2009), the financial crisis and ensuing recession have led to tectonic shifts in the availability of credit, especially for small businesses. Data shows that the number of loans to small businesses has dropped from 5.2 million loans in 2007 to 1.6 million in 2009. The drop in the number of dollars available in credit to small businesses is also dramatic: in 2007, small businesses accessed nearly $137 billion in loans and lines of credit; in 2009, this amount had dropped by nearly half, to $73 billion".*[3]

Further, an analysis of Community Reinvestment Act (CRA) data compiled by the Institute for a Competitive Inner City indicates that the lowest income census tracts in inner cities receive only about 79% of the loans they would expect to receive based on the number of firms operating in those census tracts.[4]

These are precisely the communities and neighborhoods receiving the bulk of NMTC financing.

Legislative History

The Community Renewal Tax Relief Act was the product of collaboration between a Democratic President (Clinton) and a Republican Speaker of the House (Rep. Dennis Hastert (R-IL). Fundamentally, the Community Renewal Tax Relief Act was anti-poverty legislation and its intention was to reduce poverty through economic growth. And the best way to spur economic growth was through private sector investment in low income communities.

The idea behind the NMTC legislation was that there are good business opportunities in low income communities, but the cost and availability of capital in these 'New Markets' is an impediment to economic growth. A HUD study highlighted two gaps–capital and information–that hold back the growth of inner city economies. The capital gap deprives inner city businesses of the investment dollars they need to set up shop and expand. As a result, low income communities were under-retailed as inner city residents went out their neighborhoods to shop.[5]

The purpose of the legislation was to stimulate private sector investment in urban and rural low income communities and build a delivery system of private for-profit and non-profit entities that could provide technical and financial assistance to economically distressed urban and rural communities and their businesses.

The enactment of the Community Renewal Tax Relief Act of 2000 was the culmination of efforts led by former HUD Secretary and Congressman Jack Kemp who had long argued for employing the tax code to incentivize private sector investment in low income communities. Beginning with the Tax Reform Act of 1986 (P.L. 99-514), Congress increasingly followed Kemp's lead. The 1986 Act established the Low Income Housing Tax Credit (LIHTC), which is now the nation's largest financier of affordable housing. The Omnibus Reconciliation Act of 1993 (P.L. 103-66) permanently codified the LIHTC and also created

[3] Working Paper 2010-05: The Community Reinvestment Act and Small Business Lending in Low- and Moderate-Income Neighborhoods during the Financial Crisis.
[4] Source : Federal Financial Institutions Examination Council (EFIEC), "Findings from Analysis of Nationwide Summary Statistics for Community Reinvestment Act Data", various years; Initiative for a Competitive Inner City analysis
[5] Retail Buying Power and Sales Gaps in Inner-City New Markets, Department of Housing and Urban Development, 1999

Renewal Communities, Empowerment Zones and Enterprise Communities, programs with defined geographies for revitalization.

Building on the success of that model, the Clinton-Hastert legislation included $25 billion in new authorities including: establishment of the New Markets Tax Credit; creation of a companion New Markets Venture Capital program administered by the Small Business Administration; 40 new Community Renewal Zones; and an increase in the Low Income Housing Tax Credit.

The Community Renewal Tax Relief Act drew support from across the political spectrum including prominent Republican Members of Congress such as Senator Olympia Snowe (ME), Sen. Rick Santorum (PA), Rep. JC Watts (OK), and then Rep. James Talent (MO). This tradition of bi-partisan support continues to this day. In the 112th Congress, both the House and Senate bills extending the Credit (H.R. 2655 and S.996) received strong support from Members of Congress from both political parties – including Reps. Jim Gerlach (PA), Pat Tiberi (OH), Charles Boustany (LA), Aaron Schock (IL), Erik Paulsen (MN), John Lewis, (GA), James McDermott (WA), Richard Neal (MA), Charles Rangel (NY), Earl Blumenauer (OR), William Pascrell (NJ), and Senators Rockefeller, Cardin (MD), Cantwell (WA), Snowe, Blunt (MO) , Murkowski (AK), Brown (MA), and Collins (ME).

The Bush Administration successfully launched the program, publishing the interim rule that initially governed the NMTC and allocating the first rounds of Credits from 2003-2007. The Bush Administration proposed and signed into law extension of NMTC 2008 and 2009. According to an article published in the Hoover Institution's *Policy Review*[6], the New Markets Tax Credit, along with the Low Income Housing Tax Credit were "the two main pillars of the President's (Bush) urban renewal program."

To date, Congress has authorized some $40 billion in NMTC. Of this amount:

- $15 billion was made available for 2001-2007 in the Community Renewal and Tax Relief Act;
- An additional $1 billion was made available for communities hard hit by Gulf Coast hurricanes, Gulf Opportunity Zone Act of 2005 (P.L. 109-135);
- In 2006, Congress extended the NMTC for 2008 at $3.5 billion in annual credit authority through the Tax Relief and Health Care Act of 2006 (P.L. 109-432);
- The Emergency Economic Stabilization Act of 2008 (P.L. 110-343) extended the Credit for 2009, again at $3.5 billion in annual credit authority;
- The American Recovery and Reinvestment Act of 2009 (P.L. 111-16), increased credit authority to $5 billion for both 2008 and 2009; and
- The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (P.L. 111-312) provided a two-year extension of the NMTC (2010 and 2011) with annual credit authority of $3.5 billion; and
- The American Taxpayer Relief Act of 2012 (P.L. 112–240) provided a two-year extension of the NMTC (2012 and 2013) with annual credit authority of $3.5 billion.

Through the end of 2012, some $31 billion in credit authority had been allocated[7]. The total cost, in terms of revenue forgone, for allocated Credits, is $8.1 billion.[8] While the nominal rate for the investor

[6] Hendrickson, K. (2004). Hoover Institution. Policy Review, No. 126. *Bush and the Cities*.
[7] CDFI Fund's Qualified Equity Investment Issuance Report, January 2013.
[8] The cost basis of the investment is reduced by the amount of the credits claimed. Therefore, the investor pays taxes (generally at a corporate tax rate of 35%) on the 39 cents of credits claimed, which reduces the cost of the credit to the Federal government from 39 cents to approximately 26 cents.

in NMTC is a 39% credit taken against federal income taxes over seven years, the effective rate in terms of revenue loss (and cost to the government) is 26%.

The Treasury Department is expected to announce the 2012 NMTC allocation awards in the next 30 days. Applications for the $3.5 billion in NMTC allocation authority available in 2013 credit will be released later this year.

About the New Markets Tax Credit – How it Works

Community Development Entities

NMTC authorizing statute created a new category of investment intermediary, a Community Development Entity (CDE). CDEs are the investment vehicle for the NMTC and an organization must be certified as a CDE by the CDFI Fund within the Treasury Departments before it can apply for an allocation of New Markets Tax Credits. In order to qualify as a CDE, an organization must:

- be a domestic corporation or partnership at the time of the certification application;
- demonstrate a primary a mission of serving, or providing investment capital for, low-income communities or low-income persons; and
- maintain accountability to residents of low-income communities through representation on a governing board of or advisory board to the entity

Applying for an Allocation of NMTCs

Once certified, a CDE can apply to the CDFI Fund for an allocation of NMTCs. The CDFI Fund issues and allocation application on an annual basis and the competition for Credits is steep and applications are scored in four areas:

- Community Impact – the extent to which a CDE targets economically distressed communities, has the active participation of community representatives and can demonstrate programmatic impacts;
- Business Strategy – A CDE must describe the economic distress and needs of the target area and demonstrate how it plans to provide financial products and services that address the needs of the community;
- Capitalization Strategy – A CDE must demonstrate that it has investors committed to or interested in investing in the CDE or a strategy for securing investments; and
- Management Capacity – A CDE must demonstrate that it has the experience and the staff and partners to execute and effective NMTC strategy

The CDFI Fund typically receives enough highly rates applications that in order to be competitive, a CDE must exceed the minimum standards set for raising capital and for serving communities of high economic distress. The CDFI Fund has dictated a set of performance benchmarks that have helped drive NMTC investment into areas of high distress.

Upon receipt on a NMTC allocation, a CDE must sign an allocation agreement with the CDFI Fund giving the CDE the authority to market the Credit to investors and implement its NMTC business strategy as described in its application.

Securing Private Investors

Once the allocation agreement is signed, a CDE proceeds to securing investments from taxpayers. These investments are called Qualified Equity Investments (QEIs). In return for making a QEI in a CDE, an investor receives a credit against federal income tax equal to 39% of the QEI. The credit is taken over a 7-year period, with a 5% credit taken in the first 3 years and a 6% credit taken in years 4 through 7.

NMTC investors are required to reduce the adjusted basis of a QEI investment by an amount equal to the amount of credits taken over the seven-year term and investors are required to pay taxes at capital gain rates to the extent the basis adjustment exceeds the investors QEI.

Within one year of receipt of a QEI a CDE must deploy "substantially all" (85%) of the investments in one of more Qualified Low Income Community Investments (QLICIs) – which are typically structures as loans or equity investments in businesses located in a NMTC qualified low income community.

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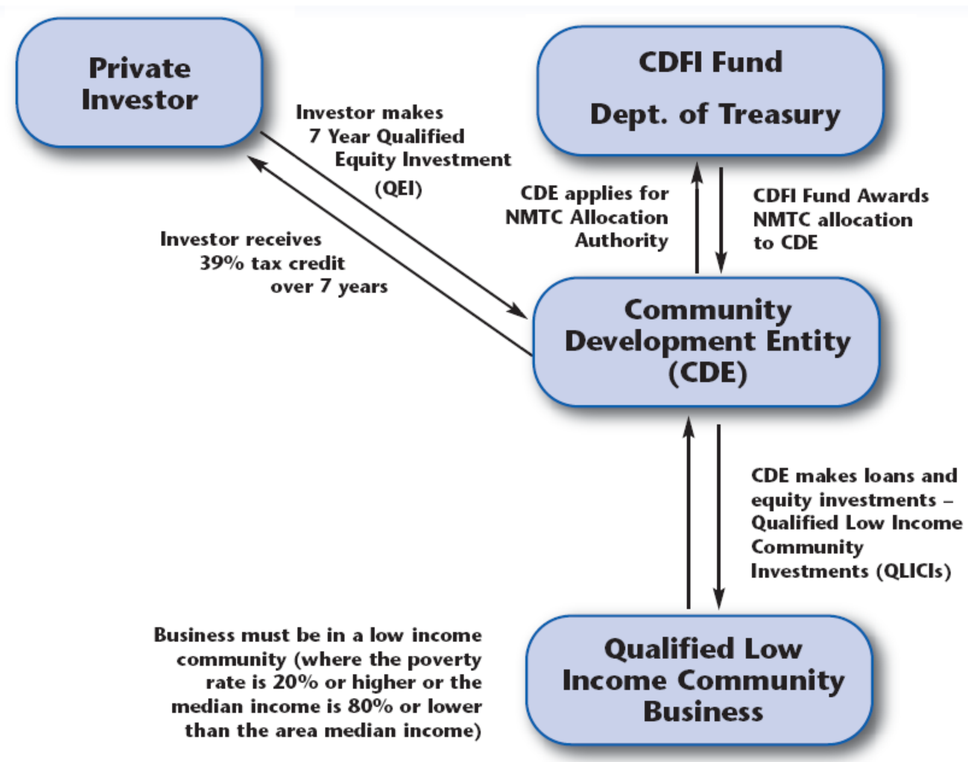


NMTC Track Record

For 2003-2011, the total investment in NMTC financed businesses came to $55 billion[9], of which nearly $27 billion was NMTC capital, with the balance coming from other sources. During this time period, those businesses directly generated some 358,832 jobs, including 111,277 full-time jobs and 247,555

[9] NMTC Coalition Preliminary Estimate of Total Project Costs 2003-2011

construction jobs[10]. NMTC financing cost the federal government $7 billion in revenue lost[11], resulting in a cost per job of $19,500.

Some 71% of NMTC investments were made in some of the poorest urban and rural communities in America with the characteristics of economic distress far exceeding that required by law.

Of the total dollar amount invested in NMTC eligible census tracts between 2003 and 2011:

- More than 50% was invested in communities with unemployment rates more than 1.5 times the national average;
- More than 55% was invested in communities where incomes were less than 60% of area median; and
- Nearly 48% was invested in communities where poverty rates exceeded 30%.

In 2011 alone, $5 billion in NMTC investments created over 83,000 jobs. Nearly $1 billion (about 20%) went to non-metro communities.

Economic Impact of the NMTC

In December, 2012 the New Markets Tax Credit Coalition released an economic impact report the purpose of which was to ascertain the result of NMTC investments in terms of jobs and tax revenue generated. The report analyzed NMTC transaction data between 2003 and 2010. Among its findings:

- NMTC investments between 2003 and 2010 are responsible for creating over 500,000 jobs in economically distressed communities across America (see table to right);
- These investments in businesses in low income communities and the jobs created by those businesses generated over $5.3 billion in federal tax revenue and over $3 billion in state and local tax revenue between 2003 and 2010;
- The federal tax revenue generated by NMTC investments more than covers the cost of the program as measured in terms foregone federal tax revenue (see table below); and
- Through 2010, NMTC investments directly generated over 124,000 operational (permanent) jobs. In 2010 alone, NMTC investments in operational activities generated almost $1.1 billion in federal tax revenue, easily offsetting the estimated $720 million cost of the program for the federal government and providing a 50% return on the federal investment.

Jobs Generated, 2003-2010

Category	**Direct Jobs**	**Indirect Jobs**	**Induced Jobs**	**Total Jobs**
Construction	171,804	65,822	97,711	335,337
Operational	124,773	31,058	44,706	200,537
Total	**296,577**	**96,880**	**142,417**	**535,874**

Federal Return on Investment

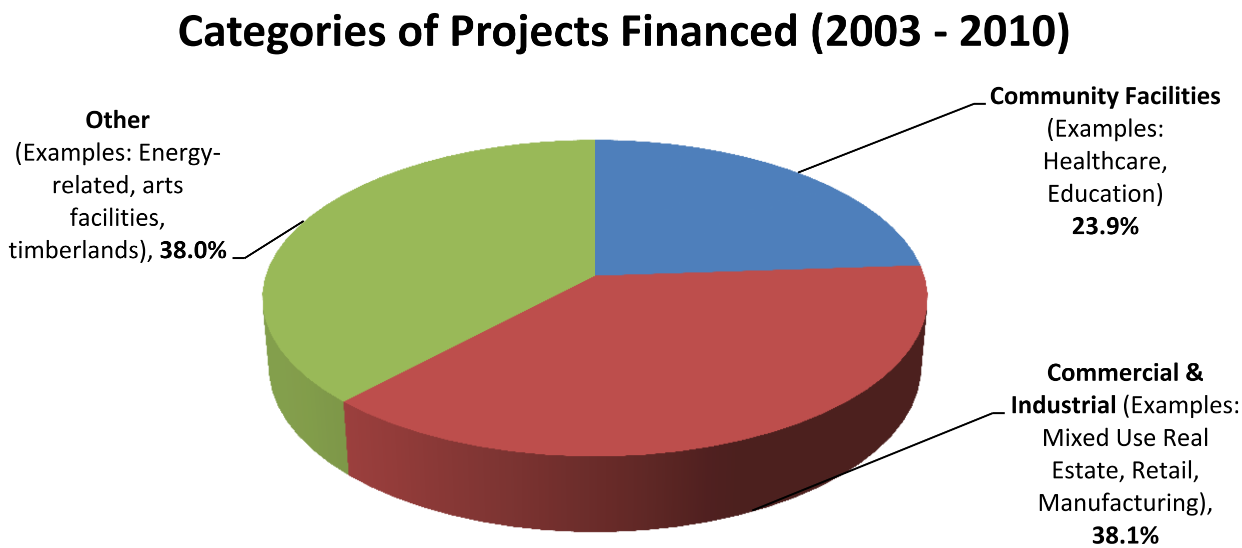
Category	Amount
Federal Revenue from Operational Jobs (2010)	$3,535,868,962
Federal Revenue from Construction Jobs (2003-2010)	$1,850,938,603
Total Federal Revenue Reported	**$5,386,807,565**
Estimated Cost to Federal Government	**$5,273,856,987**

[10] CDFI Fund FY 2012 Year in Review
[11] Based on JCT estimates.

Businesses Financed by NMTC

Over 60% of all NMTC investments go to commercial and industrial business and facilities and community facilities. An addition 38% is in business related to energy, cultural facilities and natural resources or timberlands. These investments are most often loans with below markets terms and conditions. For example, the Credit has financed a manufacturing center in Michigan, a school in Florida, and revitalization in rural Ohio. NMTC financed real estate investments create hundreds of thousands of construction jobs. Real estate investments such as these make up about 60% of the total investments.

Non-real estate investment categories include small business loan funds, working capital loans and financing for equipment upgrades. The Credit has financed a small business loan fund in Portland, Oregon, financed the acquisition of equipment in Quinnesec, Michigan, and provided needed financing to high-tech start-ups in Fort Collins, Colorado.



Characteristics of NMTC Investments

CDEs make financing available to qualified low income community businesses through Qualified Low Income Community Investments (QLICIs). According to CDFI Fund transaction data for 2003-2010, a vast majority of QLICIs are structured as term loans (see chart on next page):

QLICIs (2003-2010)[12]		
Transaction Type	**Number of QLICIs**	**Percent of Total**
Term Loan	4943	88.8%
Equity Investment	369	6.6%
Debt with Equity	194	3.5%
Line of Credit	49	0.9%
Other	12	0.2%

Every year the NMTC Coalition surveys CDEs on their NMTC investment activity. Our 2012 NMTC Progress Report includes information for CDE transactions in 2011. Among the findings, over 90% of

[12] CDFI Fund NMTC Transaction Level Data, 2003-2010

financing was in the form of loans with below market terms and conditions including below market interest rates, longer than standard time period of interest only loan payments, lower fees and higher than standard debt to equity ratio.

NMTC and Tax Expenditures

The NMTC represents just a small fraction of federal tax expenditures to support real estate development. According to a report by Smart Growth America[13], tax expenditures supporting real estate accounted for nearly $680 billion in cost between FY 2007 and FY 2011. The New Markets Tax Credit, which is targeted specifically to low income communities, represented just $3 billion of the $680 billion cost for the same period, or less than 0.5%.

According to a recent GAO report[14] annual tax expenditures on community development total $10 billion. Of this amount, over $6 billion supports the development of rental housing, which benefits low income households but not necessarily low income communities.

Annual Federal Cost of Tax Incentives for Community Development (2011)

Program	**Annual amount**
LIHTC	$5,650,000,000
Exclusion of interest on rental housing bonds	$1,050,000,000
Empowerment zones	$730,000,000
Historic Tax Credit (20%) + 10% rehab credit	$410,000,000
NMTC	$720,000,000
Recovery zone bonds	$60,000,000
Tribal economic development bonds	$10,000,000
Brownfields redevelopment	$80,000,000
Credit for holders of qualified academy bonds	$200,000,000
Exclusion of interest for airport, dock, and similar bonds	$840,000,000
Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	$460,000,000
Total	$10,210,000,000

Other credits in the same community development tax expenditure category, such as the Recovery Zone Bonds and Tribal Economic Development Bonds serve a similar purpose, but they both expired at the end of 2010 and both had a narrow list of targeted communities. The increased Section 179 deduction for businesses within Empowerment Zones (EZs) allows businesses located in one of about 80 low income communities to claim a larger deduction for certain assets (accelerated depreciation for capital expenditures) but the Section 179 deduction does not directly incentivize outside financing like the NMTC *(Note: Businesses may claim an increased deduction of up to the smaller of $35,000 or the cost of eligible property purchases (including equipment and machinery) for businesses in an EZ)*. The only other incentive that drives capital to businesses in low income communities is the Brownfields redevelopment program, which is narrowly targeted to areas needing environmental remediation.

[13] Federal Involvement in Real Estate: A call for examination. Smart Growth America, January, 2013.
[14] U.S. Government Accountability Office (2012). "Limited Information on the Use and Effectiveness of Tax Expenditures Could Be Mitigated Through Congressional Attention." GAO-12-262

The New Markets Tax Credit makes up only about 7% of annual tax expenditures for community development. However, NMTC stands alone as the sole economic development incentive that is generally available for low income communities. NMTC transforms private sector capital into patient, flexible capital for credit-starved businesses in low income communities. NMTC is the only incentive that provides both (1) the flexibility to finance a variety of businesses and projects in these communities along with (2) an effective established system to deliver that financing.

Because of reductions in federal spending, tax expenditures for community development are an increasing important element in the federal support for housing, economic and community development. According to data from OMB, as measured as percentage of GDP, federal spending for community development – HUD, Agriculture, Commerce, Interior, -- has fallen by 75% since 1980[15]. Indeed in FY 12, federal community development spending fell by 17% and in FY 13 that amount was reduced by at least 5% more due to the sequester required by the Budget Control Act.

Moving Private Sector Capital

There is substantial evidence that the NMTC is an effective incentive to encourage private sector investment in underserved low income areas. A 2007 report[1] published by the U.S. Government Accountability Office (GAO) indicated that 88% of investors surveyed would not have made the investment in the low income community without the Credit, and a total of 69% of the investors indicated that they had not made an investment in a low income community project prior to working with NMTC.

The Community Reinvestment Act (CRA), authorized in 1977, requires regulated financial institutions "to help meet the credit needs of the local communities in which they are chartered consistent with the safe and sound operation of such institutions." While CRA has effectively prompted banks to lend, invest and provide services to low and moderate income communities, and while banks receive CRA credit for NMTC investments, it is safe to say that banks would not be investing in the typical NMTC business if not for the Credit.

In fact, there is not a specific requirement nor is there an incentive in CRA for banks to lend in the very low income communities that are the target of NMTC investments. As noted previously, an analysis of Community Reinvestment Act (CRA) data compiled by the Institute for a Competitive Inner City indicates that the lowest income census tracts in inner cities receive only about 79% of the loans they would expect to receive based on the number of firms operating in those census tracts. [2] CRA alone does not ensure that underserved communities low income communities receive the capital they need.

Bank investors are important partners in the NMTC program and provide the private sector capital necessary for Community Development Entities (CDEs) to invest in meaningful community and economic development projects in underserved areas. In fact, the NMTC Coalition *2012 Progress Report* noted that regulated financial institutions are the most common source of NMTC investment, with CDEs reporting that 86% of Qualified Equity Investments coming from this type of investor. However, the

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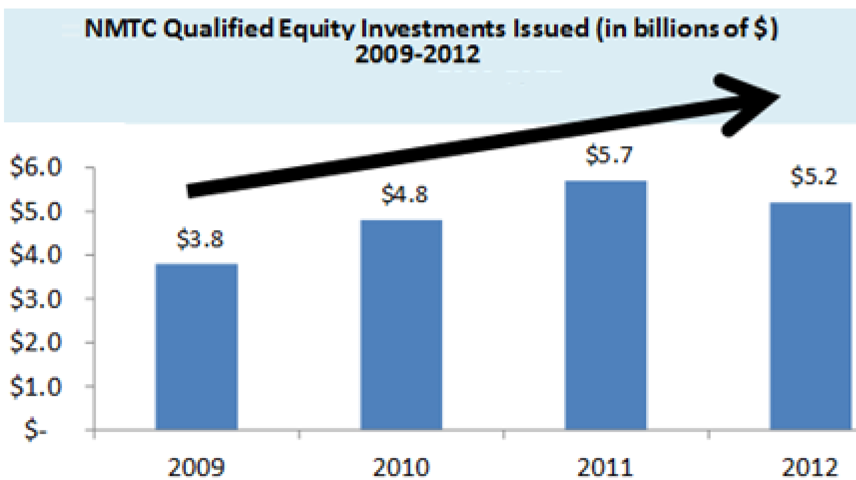
[15] United States Office of Management and Budget, Historical Tables – FY 1976 – FY 2013.

[1] U.S. Government Accountability Office. (2007). Report to Congressional Committees, GAO-07-296, Tax Policy.

[2] Source : Federal Financial Institutions Examination Council (EFIEC), "Findings from Analysis of Nationwide Summary Statistics for Community Reinvestment Act Data", various years; Initiative for a Competitive Inner City analysis

remaining balance (14%) came from other entities for which CRA does not apply, including investment banks, security firms, mortgage lenders, corporations, individuals, or non-bank lenders.

These investments have increased in volume over the past several years. During the economic difficulties of 2008-2009, NMTC private sector investment averaged about $3 billion annually. In 2010 and 2011, with the economy improving (slightly) along with the increased certainty of a multi-year extension, private sector investments in NMTC took off. Investments in 2010 totaled $4.8 billion and in 2011 investments totaled $5.7 billion, the most ever and 67% higher than 2009. Investment remained high in 2012 at $5.2 billion.



However, the impact of NMTC investments cannot only be measured in terms of the dollars, but the pace at which capital is deployed in local communities. Without question, few, if any federal programs obligate capital at the pace of NMTC. According to the New Market Tax Credit Coalition's most recent survey (of 2011 CDE Activity), CDEs are deploying investments at a faster rate than required by law and the standard set by the CDFI Fund. Survey respondents reported that 66% of the capital raised from investors in 2011 was deployed as investments into low income community businesses in less than one week and almost 80% was deployed in no more than a month.[3]

Improving Efficiency

Congress can take steps to increase the NMTC's efficiency. The real obstacles to greater efficiency are the lack of a longer time horizon for the program and an exemption from the Alternative Minimum Tax (AMT) for New Markets investments. A long term or permanent authorization will provide investors and CDEs more time to plan and invest in the infrastructure necessary to support the program.

Exemption from the AMT would diversify the pool of investors who could invest in the NMTC. Unlike other investment tax credits –including the Low Income Housing Tax Credit (LIHTC) and the Historic Tax Credit (HTC) – NMTC investments are subject to the AMT. Providing an AMT exemption for NMTC investments would bring the NMTC in line with those other credits and open up the NMTC investor market to new investors, including community banks and corporate investors who are currently restrained by AMT. Broadening the NMTC investor base would increase competition and efficiency,

[3] *New Markets Tax Credit 2012 Progress Report.* Prepared by the New Markets Tax Credit Coalition, June '12.

leading to better pricing, and driving even more subsidy to businesses operating in NMTC qualified communities.

We do not, however, agree with the recommendation that all or a portion of the NMTC allocation authority be provided in the form of a grant. In our view this runs counter to the purpose of the legislation establishing the Credit. The success of the New Markets program is a direct result of the participation of the private sector. A shift away from tax incentives to direct appropriations will drive out private dollars for public dollars, and any savings on transaction cost will be shifted to the public side of ledger. There is also the plain fact that at this moment in the history of our government it is extremely unlikely that domestic discretionary appropriations could accommodate programs anywhere near the size of the current NMTC program.

As noted, from 2003-2011, NMTC investments total $27 billion and total project for NMTC-financed businesses came to $55 billion[16]. The cost to the federal government in terms of revenue loss for the NMTC investments is $7 billion. For every dollar in NMTC investments, eight dollars in invested in the poorest communities in America creating jobs and business opportunity and improving facilities and services. Few if any grant programs can match that record.

In summary, NMTC has met its essential purpose of incentivizing private sector investment in economically distressed urban and rural communities. It has done so at a relatively low cost to the government in terms of revenue forgone and great efficiency in terms of cost per job.

About the New Markets Tax Credit Coalition

The New Markets Tax Credit (NMTC) Coalition is a national membership organization founded in 1998 to advocate on behalf of the NMTC program. The Coalition, which now includes more than 150 members, is managed by Rapoza Associates, a public interest lobbying, policy analysis and government relations firm located in Washington, DC that specializes in providing comprehensive legislative and support services to community development organizations, associations and public agencies.

The Coalition worked with the Clinton Administration to design the Credit and collaborated with the Bush Administration to launch the program including the original rules, regulations and application.

Case Studies

Attached are four case studies that demonstrate the effectiveness of the NMTC at delivering capital and creating jobs in low income communities.

[16] NMTC Coalition Preliminary Estimate of Total Project Costs 2003-2011

New Markets Tax Credit

MASSACHUSETTS

NMTC ALLOCATEE

Massachusetts Housing Investment Corporation
Boston, MA
Andrea Daskalakis
617.850.1033

COMMUNITY PROFILE

- Holyoke, MA
- 69.1% poverty rate
- 11.5% unemployment rate
- Median income 11.4% of Area Median Income

PROJECT HIGHLIGHTS

- Historic renovation of three connected commercial buildings into a health center
- Total Project Cost: $21.9 million
- NMTC: $18.9 million
- Investor: Multi-investor fund
- Jobs: 238 construction, 252 new permanent

Top: Holyoke Health Center in Holyoke, MA

Bottom: New patient rooms in Holyoke Health Center

Holyoke Health Center

Holyoke Health Center (HHC) is a Federally Qualified Health Center (FQHC) established in 1970 to provide comprehensive, coordinated, accessible, culturally competent and affordable health services to low-income people in Holyoke, one of the poorest and most distressed cities in Massachusetts. Holyoke contains the highest rate of mortality, teen births, and HIV-related deaths in the state.

By 2000, Holyoke Health Center had outgrown its space and sought to renovate three vacant commercial buildings in Holyoke's struggling central business district into a full-service medical complex. Holyoke's expansion had strong local support and was the city's top redevelopment priority and a key component of downtown revitalization plan. After 4 years of unsuccessful attempts to obtain financing, HHC approached Massachusetts Housing Investment Corporation, a Boston-based Community Development Entity, which provided $18.9 million in NMTC financing. This NMTC financing, combined with funding from the Health Resources and Services Administration, helped meet the $21.9 million total project cost and within 6 months, construction on the new Health Center was under way.

The new state-of-the-art facility was completed in December 2005 and houses primary care and laboratory services, an on-site pharmacy, a dental clinic, counseling services, an HIV treatment program, a diabetes initiative, and a full pharmacy. HHC now serves 25,500 patients. The project generated 238 construction related job and 252 new permanent jobs.

The local, regional, and statewide impact of the HHC has been overwhelmingly positive. The project has improved the quality of life for an underserved population by providing comprehensive and affordable health care and by creating high-quality jobs with good benefits. The Center has been an anchor for other new commercial development, including a new restaurant, an Internet business, and a job training center.

New Markets Tax Credit

MICHIGAN

NMTC ALLOCATEE

Michigan Magnet Fund
Huntington Woods, MI
Al Bogdan
313.445.1843

COMMUNITY PROFILE

- Hamtramck, MI
- 27% poverty rate
- 17% unemployment rate
- Median income 62% of Area Median Income

PROJECT HIGHLIGHTS

- Purchase and rehabilitation of a vacant building for a recycling plant
- Total Project Cost: $6.4 million
- NMTC: $5.8 million
- Investor: PNC Bank
- Jobs: 43 new permanent, 26 of which will be certified low income

Top: Artist rendering of the Hamtramck Recycling Center in Hamtramck, MI

Bottom: The previously vacant building has been gutted and construction on the new Hamtramck Recycling Center has begun

Hamtramck Recycling & Transfer Center

Hamtramck Recycling LLC is a family owned green recycling business located in Hamtramck, Michigan, which currently employs 11 people. In 2012, Hamtramck Recycling encountered increased demand from local manufacturers interested in recycling their waste, rather than depositing it in landfills. To accommodate the increased demand and increase capacity, Hamtramck sought to purchase and renovate an old waste-transfer building.

With support from the State of Michigan, and $4 million in NMTC financing provided by the Michigan Magnet Fund, a Michigan based Community Development Entity, Hamtramck Recycling is now in the process of transforming the vacant building into a new, state-of-the-art, 32,000 square foot recycling & transfer center. Expected to be operational in 2013, the facility will sort out paper, plastics, Styrofoam and other office waste products, as well as light industrial metals, and turn them around into usable recycled materials. The modernized recycling facility will also include an assembly line that permits the use of such technology as overhead cameras to examine truck contents upon entry to price its recyclable mix, and will use automated equipment to permit easier sorting and separation of materials. Hamtramck Recycling also intends to build a new transfer station and tailor it to accommodate Industrial Dry Waste, recovering recyclable materials from the waste stream.

The recycling center will create 32 new jobs in a distressed community with a 27% poverty rate. These jobs will be targeted to Hamtramck residents and 60% of the jobs will be reserved for low-income persons with a family income less than 80% of the area median family income.

In addition to Hamtramck Recycling's expected economic returns, other significant benefits of this facility will be its contribution to enhancing green efforts throughout the Detroit metropolitan area, adding economic stability in a distressed area of the community.

New Markets Tax Credit

MICHIGAN

NMTC ALLOCATEES

Local Initiatives Support Corporation (LISC)
New York, NY
Robert Poznanski: 269.343.5472

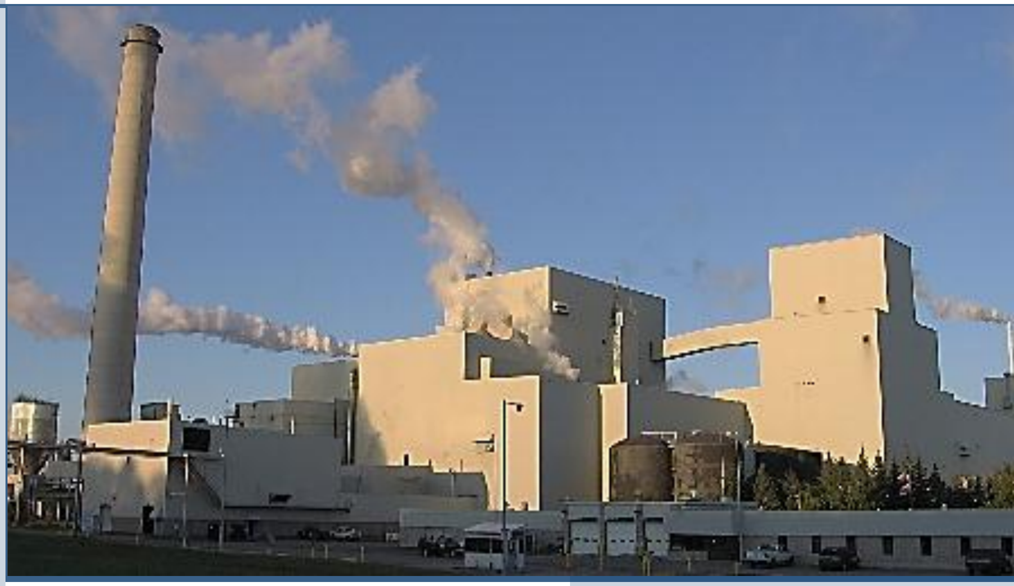
Michigan Magnet Fund
Huntington Woods, MI
Al Bogdan 313.445.1843

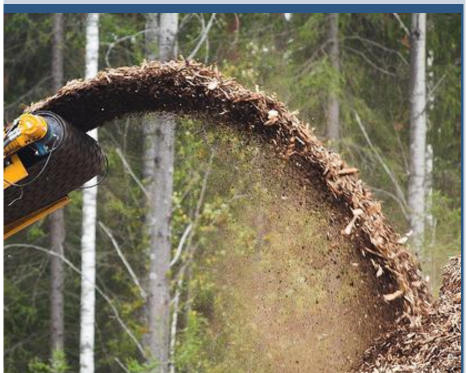
COMMUNITY PROFILE

- Quinnesec, MI
- Unemployment 1.1 times national average
- Median income 78.8% of Area Median Income
- Forest Products Processing Renaissance Zone

PROJECT HIGHLIGHTS

- Equipment and facility upgrades to paper mill
- Total Project Cost: $50.3 million
- NMTC: $32 million
- Co-Allocatee: CapFund New Markets, LLC
- Investor: Chase
- Jobs: 90 construction, 475, retained, 50 new indirect





Top: Verso Paper Quinnesec Mill

Bottom: The renewable energy project converts wood scraps into biomass to power the paper mill

Verso Paper Quinnesec Mill

In 2010, Verso Paper, a pulp and paper company with plants across the country, announced plans for a Renewable Energy Project to help its mill in Quinnesec, Michigan meet more than 95 percent of the company's on-site energy needs by using renewable biomass sources.

State and local funding sources were not enough to finance the $50.3 million project cost, so Local Initiatives Support Corporation, working with the Michigan Magnet Fund, and CapFund New Markets LLC, provided a total of $32 million in NMTC financing for equipment and facility upgrades, allowing Verso's Quinnesec Renewable Energy Project to become a reality.

The project included upgrades to the mill's existing combination boiler, a new biomass handling system, and a new turbine generator. The project is delivering 28 megawatts of additional green energy for consumption within the mill, equivalent to the amount of electricity consumed by 18,000 homes each year. The project will make the plant cost-competitive in an increasingly competitive commodity market, will support 50 local, indirect jobs, 90 construction jobs, and will keep the mill's 475 current employees working in a community with an unemployment rate well above the national average.

Additionally, the Quinnesec Renewable Energy Project will reduce dependence on purchased electricity and create a new revenue stream with Renewable Energy Credit sales. Both of these factors will increase the long-term viability of the mill, which is a critical economic driver for the local economy. The mill will also purchase approximately $6 million annually in biomass to support the project, creating new, long-term employment in the Forest Products industry in the region. The replacement of fossil fuel-based generation with biomass-based generation will reduce greenhouse gas emissions.

"This investment is an important part of Michigan's commitment to its rural areas. It not only makes our basic industry more competitive, but it does so by developing and using renewable resources and reducing Michigan's dependence on fossil fuel," said Ted Rozeboom, President of Michigan Magnet Fund.

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PENNSYLVANIA

NMTC ALLOCATEE

National City New Market Fund *
Pittsburgh, PA
David Gibson
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*An affiliate of PNC Financial Services

COMMUNITY PROFILE

- Erie, PA
- 25.8% poverty rate
- Median income 48.6% of Area Median Income
- 14.2% unemployment rate

PROJECT HIGHLIGHTS

- Manufacturing plant modernization
- Total project cost: $8 million
- NMTC: $7.3 million
- Investor: PNC Bank
- Jobs: approximately 130 high-skill jobs retained

Top: New electric melt furnace installed at Zurn Industries in Erie, PA

Above: Zurn is investing in upgraded facilities in Erie.

Zurn Industries, LLC

Since its founding in 1900, Zurn Industries, LLC has been a recognized leader in commercial, municipal, and industrial markets and manufactures the largest breadth of engineered water solutions in the industry, including a wide spectrum of sustainable plumbing products. Zurn delivers total building solutions for new construction and retrofit applications that enhance any building's environment.

In 2007, Zurn was acquired by Rexnord, a leading worldwide multi-platform industrial company specializing in highly engineered solutions for a broad range of industries including water management. To remain strong in an increasingly competitive and global market, Rexnord knew it needed to upgrade the equipment and infrastructure at its foundry but the cost of the retooling effort was prohibitive. Rexnord officials reached out to local city leaders, and the EDC of Erie County which contacted PNC's NMTC team for assistance.

PNC, a national bank with a sizeable community development footprint in Pennsylvania, stepped in and made a $7.3 million NMTC investment that helped Zurn finance equipment upgrades at the Erie foundry. The Commonwealth of Pennsylvania also provided funding through a $275,000 Opportunity Grant.

The plant upgrades made it financially feasible for the company to maintain their century-long presence in Erie. Without a NMTC investment making the modernization feasible, the company would have struggled to maintain the approximately130 skilled-labor manufacturing jobs that average over $25/hour. Beyond sustaining the plant and its good paying jobs, these upgrades allowed Zurn to reduce operating costs and become more efficient and competitive in the market.

The NMTC investment provided the capital that allowed a longstanding business to finance the modernization of one of its manufacturing plants, thereby shoring up efforts to revive the manufacturing base in a community with a 25.8% poverty rate and a median family income that is 48.6% of the area median income.