The New Markets Tax Credit and the Low-Income Housing Tax Credit: Can They Be Joined Efficiently?

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Chapter 1: Introduction

Introduction

Over the past five years the market environment has left countless families homeless and jobless. Providing American citizens with a decent and affordable home has never been an easy task. However, we are now challenged more than ever with the financial constraints we must work with to develop housing that is affordable. Community economic development and affordable housing initiatives have been a focus of the US Government since the early 1930’s, when a collapsing economy prompted a series of federal programs which had broad political and economic concerns. Since then, there have been many initiatives aimed at low-income communities, bringing hope and economic investment to disenfranchised neighborhoods throughout the US by providing affordable housing options, supporting local businesses and increasing job opportunities for low-income individuals. These programs have helped transform low-income communities, which typically lack access to capital, into productive and positive environments for low-income individuals, particularly in such a constrained economic environment.

Federal tax credits have been a popular financial tool used to fund real estate community economic developments. Developers can choose from several options of tax credits depending on project eligibility; the Low-Income Housing Tax Credit (LIHTC), the New Markets Tax Credit (NMTC), historic tax credits, and several environmental tax credits are among those that are available.

Allowing organizations that develop housing and community developments the ability to incorporate all of these credits into their projects under one entity could decrease the burden necessary to create these developments and create greater cost-effectiveness and efficiency through the increase in capital available for one project. This would make mixed-use projects more financially feasible and increase opportunities for low-income individuals by providing housing and employment opportunities at the same time.

This thesis will attempt to answer the question of whether two programs that have been designed to improve the lives of low-income individuals, the NMTC and the LIHTC, should be combined, thereby presumably increasing efficiency in the development process of projects in low-income communities. My hypothesis is that if these two programs would be allowed to work together more easily, it would ease the production of mixed-use, mixed-income developments in low-income communities for the community development corporations (CDCs), and for other non-profit and for-profit entities sponsoring these projects.

Programs Assessed

The LIHTC is one of the more widely known and most popular tax credit used to develop affordable housing. The LIHTC provides housing developers tax incentives to sell to investors with an agreement that a certain percentage of their residential units will remain affordable for a period of ten years. While the LIHTC adds funding for a project's development, the tax credit's impact on the project's financial feasibility is not enough; alone this credit does not have the ability to fill the equity gaps necessary for a housing development. In order for this credit to work on a typical affordable housing development, it is usually combined with 8 to 10 additional funding sources in the form of loans, grants and other federal tax incentives.

The NMTC is a community economic development tool used to promote investment in low-income communities. The Program provides funding to Community Development Entities (CDE's) whose primary mission is to invest in ventures that directly benefit low-income populations; these entities can be for-profit or non-profit organizations. For ten years, the NMTC has fostered the development of small businesses, real estate development and community-based initiatives for low-income communities through its attractive investment tools. Established in December 2000, this tax credit was introduced as part of the Community Renewal Tax Relief Act; it is run through the Community Development Financial Institutions Fund (www.cdfifund.gov/what_we_do/programs, 2011) under the Department of the Treasury. Since its inception, the program has been extended and increased several times because of its high demand; the ratio of applicants to awardees has generally been about 10 to 1 (Lawrence, 2009).

Combining the NMTC & the LIHTC

Similar to the LIHTC, the NMTC credit can be used in conjunction with several other federal, state and local tax credit programs, such as the historic preservation tax credit and the renewable energy tax credit. However, the LIHTC is excluded from the list. Therefore, CDEs that develop mixed-use projects that combine affordable housing with another use such as a community center or small business, must do so through a separate ownership entity if the LIHTC will be used: the housing must be developed by an owner that uses the LIHTC and the other building must be owned and developed by a different entity using the NMTC. This constraint produces additional challenges for CDEs to create mixed-use projects that incorporate affordable housing. In addition to this limitation the two credits have conflicting goals. While the goal of the NMTC is to revitalize distressed, low-income communities, the goal of the LIHTC is to provide affordable housing options that would not otherwise exist and is very often steered away from distressed neighborhoods to avoid a concentration of poverty. If the NMTC Program were modified to permit these two credits to be combined, it would allow for a more efficient use of both programs and promote the creation of mixed-use developments that incorporate affordable housing. This thesis will evaluate how the NMTC program supports low-income communities, how organizations are devising strategies to combine the NMTC and the LIHTC to create mixed-use affordable housing developments, and it presents feedback from professionals in the development field concerning whether it would be beneficial to low-income communities for the rule that limits combining the two credits to be modified.

Methodology

The CDFI Fund produces a document each year, The NMTC Program Award Allocatee Profiles, which provides information on each applicant awarded funding. This report gives the background of the CDE, the core development areas their entity focuses on and the area for which the NMTC will be used: business, real estate ventures, community facilities and mixed- use (www.cdfifund.gov/what_we_do/programs, 2011). In order to gain insights into the benefits and challenges involved in using the two credits together, I conducted case studies on projects that were made possible due to the work of two CDEs that had received NMTC funding in the past three years and had used or plan to use it in conjunction with the LIHTC to support the commercial component of mixed-use developments in conjunction with affordable housing financed with the LIHTC.

The selection of the CDEs chosen for this research came from the 2008 NMTC Allocatee Awards reports; there are 102 CDEs on this list. This time period was chosen because my goal was to speak with housing development teams who had already applied the funding towards a project that was at or near the development stages. My experience in the real estate development field has shown that it is difficult to obtain necessary data from developers whose projects have been completed for more than 3 years. See Appendix I for a full list of the 102 CDEs across the US that received a NMTC award in 2008.

From this list, a sub-list was created including CDEs that specified a plan to use the credits for a mixed-use commercial real estate development. The hope was that one of the uses in the project incorporated affordable housing. This list is shown in Appendix II and includes32 CDEs. The next step involved contacting every CDE on this list of 32 to determine which, if any, created mixed-use developments incorporating affordable housing using the NMTC and LIHTC together. I reached out to all 32 CDEs via email and received feedback from 18 professionals in the field; of the 18, only three CDEs had the experience necessary to answer my central research question; in fact, most of the 18 professionals had little experience with the LIHTC, in general.

The three CDEs contacted had experience using both tax credits to create at least one project that included mixed-use affordable housing. Two of these CDEs are located in the same city, Boston, MA, and the second is located in Cincinnati, OH. Having the two case studies located in the same city was not ideal, therefore the Cincinnati CDE was chosen as the first case study. Lastly, one of the two Boston developments was selected due to the high level of complexity and the large scale of the project that was nearing completion. The development is part of a large campus style project that will incorporate the use of the NMTC and the LIHTC in more than one mixed-use building. I thought the level of complexity of this particularly project would provide a deeper insight into why and how these credits are used together, especially on such a large scale development, and if the organization would consider combining these credits again based on that experience. This organization was also further along in their development stages than the other Boston organization, thereby providing more information to answer my research question.

Several interviews were conducted with key members of the project teams at the two CDCs using the NMTC financing to create mixed-use affordable housing developments: Cincinnati Center City Development Corporation based in

Cincinnati, OH and Jamaica Plain Neighborhood Development Corporation based in Jamaica Plain, MA, which is a neighborhood of Boston. The series of interview questions included the scope of the work, the financial constraints developments encountered through an inability to use the NMTC and LIHTC together under a single ownership entity, interviewees' thoughts on whether and how the NMTC would benefit from the ability to be combined with LIHTC. In addition, project team members were asked how they felt the NMTC had added value to the communities in which they work and if the extension of the program is necessary from their perspective. Figure 1 lists the interviewees from the case studies as well as several interviewees contacted, from the 18 that responded to my initial email, to answer questions specifically on their opinions of the success and weaknesses of the NMTC.

Figure 1: List of Interviewees & Organizations Contacted

Interviewee Name	Title	Organization
Andy Waxman	Associate Director of Real Estate	JPNDC
Bill Seddon	Deputy Director - Business Development	The City of St. Louis
Chad Munitz	Executive Vice President of Development & Operations	3CDC
Adam Gelter	Vice President of Development	3CDC
Chuck Depew	Development Consultant	Kitsap County NMTC Facilitators I, LLC
Andrea R. Daskalakis	Chief Investment Officer of Development	Massachusetts Housing Investment Corporation
Ruben Alonso III	Executive Director	Kansas City, Missouri Community Development CDE
Annonmous	Loan Officer	Boston Community Capital
Roberta Rubin	Lawyer	Klein Hornig LLP

To answer the central research question regarding the feasibility of combining the NMTC and the LIHTC, this thesis first looks at prior community economic development and affordable housing programs that have been joined together to benefit low-income communities. These include the Model Cities program, Community Development Block Grant program, and the Choice Neighborhoods program that was recently implemented.

The thesis then presents background information on the two programs that are being evaluated, the LIHTC and the NMTC, giving a brief history of how the programs were created, how they work and what they have done for communities in the U.S. Two case studies are presented of projects in the preliminary development stages, in Cincinnati and Boston, and which are combining the NMTC and the LIHTC to create mixed-use, mixed-income developments. Background on the CDCs completing these developments is provided, detailing their experience in the development field and with the NMTC and LIHTC programs. Several interviews with members of the development teams for the projects were conducted, to answer the question of whether these professionals felt the rule prohibiting the combination of the NMTC and the LIHTC should be revised and if they thought the NMTC has been a successful program in the community economic development field. The final chapter brings together the information gathered from the case studies, provides answers to the central questions asked about the NMTC and the LIHTC programs, and offers policy recommendations on suggested changes to the NMTC program.

Significance

Many developers are working with extremely tight budgets and are undergoing difficult financial constraints due to the economic environment the country is currently experiencing. Therefore, it is important to develop efficient strategies to produce affordable housing and community economic development projects to allow for low-income communities to progress. Combining these two credits under one ownership entity may provide the funding and efficiency developers that work in low-income communities need to accomplish this goal.

This thesis connects to the current place-based focus on many federal policies. According to the federal government, "Place policies target the prosperity, equity, sustainability and livability of places -- how well or how poorly they function as places and how they change over time. Place policy leverages investments by focusing resources in targeted places and drawing on the compounding effect of cooperative arrangements" (http://www.whitehouse.gov/sites/default/files/omb/assets/memoranda_fy2009/m09-28.pdf). Choice Neighborhoods and Promise Neighborhoods are two place-based policy grant programs established to improve distressed neighborhoods and create sustainable mixed-income neighborhoods that support housing and community economic vitality (http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/ph/cn). Consistent with the idea of combining the NMTC and the LIHTC, these programs work to transform neighborhoods into positive environments for families, and especially children, to prosper. The programs not only push the envelope by incorporating entire communities versus just a small area, they also require the implementation of different design techniques. Specifically, they work to provide safe neighborhoods that provide their community with better schools, housing and job opportunities and combine these factors all in one area, often all in one building. The Hope VI program is another example where housing and economic development policies were joined together to create positive changes in low-income neighborhoods. Allowing the NMTC and LITHC to be combined under one ownership entity would continue on this trend of combining housing and economic policies to create place-based initiatives transforming our distressed communities into vibrant neighborhoods. But is this both feasible and a good idea?

Chapter 2: Prior Community Economic Development & Housing Initiatives

Introduction

Creating developments with the use of both the NMTC and the LITHC would not be the first time a community economic development initiative has been combined with a low-income housing initiative to improve disenfranchised communities. This chapter reviews the Model Cities program, the Community Development Block Grant program, and Choice Neighborhoods program.

Model Cities

Following his 1964 War on Poverty initiative and partially created as a response to the failed Community Action Program, President Lyndon Johnson developed a place-based community economic development program called Model Cities, which ran from 1966-1974. The program combined previous housing and social service programs and provided a comprehensive community renewal approach to economic development and planning by concentrating on the key local issues of affordable housing, unemployment, homelessness, health and drug abuse, and blight to create social change in specific US cities. The program allowed local city residents to plan and control the federal funds invested into their communities with the idea that local residents living in these communities would have a better idea of what their city needs than outside professional planners and politicians that do not have the benefit of everyday experience with these neighborhoods (O’Connor, 1999).

The program has been called, “the most highly-endowed source of non-categorical funds for urban development available in this nation,” where a vast array of community economic development and planning initiatives were supported (Olken, 1971). It not only included economic development and affordable housing, but also issues such as crime, homelessness and other aliments affecting inner-city communities. The Model Cities program had a short life of only eight years; however, its place-based strategies and the bottom-up resident approaches that it encouraged remain alive in community economic development programs today. The goal of the Model Cities program, to revitalize distressed communities, is similar to what the policy allowing the NMTC and the LITHC together would do, however the process is very different. Neither the NMTC nor the LIHTC program allows for the bottom-up, community organized leadership and control of the credits that the Model Cities program allowed. Instead, these programs are administered by experienced professionals in the investment and development field.

Community Development Block Grants

Replacing the Model Cities program, the Community Development Block Grant (CDBG) program was created in 1974 to, much like its predecessor, enable cities to have greater control over how federal government funds available for their communities were spent (Judd & Swanstorm, 1994). The program was shaped through the combination of several housing and social service programs formed by the US Department of Housing and Urban Development (HUD). Similar to the other federal tax programs intended for low-income communities, funds from the CDBG program are allocated on an annual basis, decided by a formula to select the communities in most need. Congress' goal for the funds is that they should be dedicated to the rehabilitation of impoverished communities in need of economic revitalization and to meet other pressing local needs (Keating and Krumholz, 1999).

Initially, unlike urban renewal and the model cities program, the funds from the CDBG program were directed to the south, southwest and suburban cities where the principal goal was to benefit not only low-income but also moderate-income families as well. The CDBG program, which still exists today has been both praised and criticized. It has been said "to have brought significant change in the overall distribution of funds, both within and between different kinds of communities, increasing funding in the suburbs and away from central cities and rural areas, providing more services and benefits to middle-class recipients," (O'Connor, page 110, 1999). Unlike the NMTC, the program's goals are not solely dedicated to the improvement of low-income communities; it has served less as a program of redistribution of funding and more as a program that is spreading its benefits as widely as possible (Keating and Krumholz, 1999).

Choice Neighborhoods

Created by the Obama administration though the U.S. Department of Housing and Urban Development (HUD) in 2009, the Choice Neighborhoods program was a policy built upon the success of the Hope VI program, an initiative created in 1992 to revitalize severely distressed public housing developments (http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housi ng/programs/ph/cn, 2011). Choice Neighborhoods takes the target of the Hope VI program a step further by not only transforming distressed housing, but entire neighborhoods in need of economic investment and repair. It is a planning program that directly connects housing with community development by concentrating on a local community's needs in terms of housing, social services, schools, transportation, and jobs and links them all to create vibrant, mixed-income neighborhoods. (www.portal.hud.gov/programs/ph/cn.com, 2011).

Missouri Republican Senator Christopher Bond described the idea behind the program in an interview with the Washington Times in May 2009: "the idea is to see if we can do something in a coordinated effective effort to end the cycle of poverty and distress … and empower the local residents to have more control over their life" (Bellantoni, C. "Choice neighborhoods to combat poverty cycle." Washington Times May, 12, 2009.) In August 2011 HUD awarded Choice Neighborhood grants to the first five cities which were Boston, Chicago, New Orleans, San Francisco and Seattle. The cities received a total of $122 million to redevelop and transform low-income, distressed communities into healthy productive neighborhoods (http://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2011/HUDNo.11-181, 2011). President Barack Obama had this to say about the program when the awardees were announced: "We'll win the future only if we can ensure that people in every community – even those living in our most troubled neighborhoods – have access to the American Dream. With HUD's Choice Neighborhoods grants, my Administration has brought local communities an innovative new tool to ensure that all families can access the quality affordable housing, safe streets, and good schools they need to compete in the 21st century economy" (http://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2011/HUDNo.11-181, 2011).

Conclusion

Combining efforts to provide community development initiatives and affordable housing opportunities is not a new concept. There have been several programs in recent history that have combined the elements of housing and community development to improve the conditions of low-income communities and the lives of those living in these communities. The reason these programs were created is because policy makers recognized that in order to revitalize these low-income communities both housing and community development are necessary. Housing and community development are so closely intertwined it seems that the most logical action would be to combine the two efforts under one program much like the Model Cities, CDBG and the Choice Neighborhoods program. The next chapter presents the background and workings of the NMTC and the LIHTC and analyzes the potential of combining the two under one ownership entity.

Chapter 3: LIHTC & NMTC

The goal of this thesis is to evaluate if and how two widely used federal tax credits, the LIHTC and the NMTC, should be permitted to be combined under one ownership entity. Could such a change create greater efficiency in the financing process of large scale projects in low-income communities and increase the production of mixed-use mixed-income developments? In order to evaluate this question effectively an analysis of each credit's background, outcomes, success and shortcomings is necessary.

Low Income Housing Tax Credit

Background

Created by the Tax Reform Act of 1986 the Low Income Housing Tax Credit (LIHTC) entirely changed investment opportunities in low-income housing. Prior to 1986, the largest investor tax expenditure was the depreciation allowance, which primarily benefited the moderate to high income population of the nation (Schwartz, 2010). The 1986 Tax Reform made the LIHTC the largest subsidy for low-income rental housing and has become one of the most successful affordable housing programs in the country (Schwartz, 2010).

The LIHTC is an indirect federal tax subsidy program created to benefit low- income families providing institutional investors with tax credits in exchange for funding used to finance low-income rental housing. The LIHTC is targeted specifically for affordable housing and enforces rent and use restrictions on a development. The tax credit is responsible for the development of 1.8 million affordable housing units around the country (www.hud.gov/offices/cpd/affordablehousing/lihtc/, November 2010). In the highly productive years prior to the market crash of 2008, the program was generating approximately 200,000 new or rehabilitated units each year. (www.novoco.com/low_income_housing/resources/program_summary.php, 2011).

Operations

The program allows investors to reduce their taxable income by one dollar for every tax credit received. The credit runs for 10 years starting from when the housing development is built, not when the credit is allocated. The housing the credit supports remains affordable for low-income households for 15 year period (Schwartz, 2010). On a yearly basis, tax credits are awarded to housing developments by selected state agencies; these credits are allocated based on the population of the state. A minimum of 10 percent of each state's LIHTC allocations must to go non-profit housing developers, however non-profit developers usually account for more than double this amount (Schwartz, 2010).

A project's LIHTC allocation is determined by the size of the project and the number of units in the development that will be set at reduced rents for low-income families. The eligible basis, the total development costs minus the cost of land, is multiplied by the number of low-income units in the project and used to determine the qualified basis. The qualified basis is then multiplied by the credit rate to determine the size of the tax credit the project can receive. Figure 2 presents an example of how the eligible and qualified basis is calculated.

Figure 2: Example of Calculating Eligible & Qualified Basis

Example of Eligible and Qualified Basis:	
Total Units	200
Total Low-Income Units	40
Total Development Cost/Unit	$200,000
Applicable Fraction (Percentage of units that are affordable)	20%
Eligible Basis (Total Dev Cost per Unit x Total Units)	$40,000,000
Qualified Basis (Applicable Fraction x Eligible Basis)	$8,000,000

The example in Figure 2 assumes a development with a total of 200 units, 40 of which are set at affordable rents. This gives the project the applicable fraction, the percentage of units that are affordable, of 20%. The total development costs per unit for the project is $200,000 giving the project an eligible basis of $40 million; ($200,000 x 200 units). Finally the qualified basis is determined by taking the 20% applicable fraction of affordable housing units and multiplying this by the $40 million eligible basis, allocating the project a total of $8 million in tax credits.

New construction and substantial rehabilitation developments usually receive a 9 percent tax credit; smaller renovation developments typically receive a 4 percent tax credit.[1] An additional 130% "basis boost" is given to a project if it is

[1] Tax credits for new construction and substantial rehabilitation are based on 70% of the present value of the qualified basis; this is typically between 8-9%. Projects that are less $3,000 in renovation costs per unit or for developments that received federal subsidies or tax-exempt financing base the tax credit percentage on 30% of the present value of the qualified basis; this is usually between 3%-4% (Schwartz, 2010).

located in a qualified census tract, where at least half of the population is at 60% or less of the area median income (AMI), or the poverty rate is 25% or higher, or the project must be in a difficult development area where the cost of housing is high relative to the AMI (Schwartz, 2010). A project is eligible for LITHC if the building will have at least 20 percent of its units designated for low-income households that make 50 percent or less of the area median family income or 40 percent of its units designated for low-income households that make 60 percent or less of the area median family income (Schwartz, 2010). Any increase in the number of high income units necessitates an increase in the number of low-income units.

The tax credits are most often sold to private investors or syndicators. Syndicators are organizations that act as a limited partnership and sell a bundle of credits together from several developments to other investors in exchange for tax credits, making the transaction more valuable and less risky through the act of leveraging the tax credits. The disadvantage of this method is that additional transaction fees are generated due to the use of a middleman, the syndicator. The majority of the LITHC transactions are done through syndicators to private corporate investors (Schwartz 2010).

Brief Assessment

The largest issue both non-profit and for-profit developers run into when using the LIHTC is that it does not provide sufficient funds to finance a project; a project would still need additional funding to fill in the gaps left by the LIHTC.

Furthermore, the transaction costs associated with using the credits take a substantial portion of the funding away from the development of a project and are put toward syndication and legal fees and investor profits (Schwartz, 2010). A budget for an affordable housing project is typically very tight since the rents an owner can charge low-income tenants will not support enough debt to cover the project costs. Additional sources are necessary to reduce the debt service costs.

The additional funding sources for a low-income rental apartment development can come from many sources. These sources end up coming into the project as loans and are structured as soft debt. Two popular programs that are typically used in conjunction with the LIHTC are HOME funds and CDBG financing options. The NMTC statute also excludes these programs from being combined with the NMTC.

The economic turmoil the United States has experienced in the last five years has added a new challenged with the LIHTC. After the collapse of the economy in 2008 the demand for tax-credits decreased significantly. This led to lower prices for the tax credits which decreased the value for developers (New York Times, 2011). This disruption resulted in thousands of projects, which would have otherwise produced tens of thousands of housing units, being stalled for several years (What Works Collaborative, 2009). A report produced by the What Works Collaborative, an organization that conducts analysis and research on housing and urban policy, noted an important detail about this problem with the LIHTC stating, "It is important to recognize that the LIHTC crisis is due to a drop in investor demand in the wake of the worst financial crisis since the Great

Depression, not with the performance of the program to date in delivering affordable housing at a very low loss rate" (What Works Collaborative, 2009, p. 1).

This program is thought of by many to be a stable, productive and successful in the field of affordable housing development. Political support for the credit is significant– so much so that the leadership of the 11th Congress included important and beneficial changes to the program in the Housing and Economic Recovery Act (HERA) of July 2008(www.novoco.com/low_income_housing/resources/program_summary.php, 2011). Historically projects completed with the use of the LIHTC have experienced high transaction fees and complex financing structures. This issue has not been eliminated, but with time the program has become more standardized and efficient.

New Markets Tax Credit

Background

Congress established the New Markets Tax Credit (NMTC) program as part of the Community Renewal Tax Relief Act of 2000. The NMTC is administered through the Community Development Financial Institutions Fund (www.cdfifund.gov/what_we_do/programs, 2011) in the Department of The Treasury. The program was created to encourage investors to make investments, particularly equity investments in impoverished, low-income communities that traditionally lack access to capital. (US GAO 2010:10-334). Since its inception,

the CDFI Fund has awarded NMTCs that have private-sector investments totaling $29.5 billion. Organizations awarded the credit have made NMTC investments in all 50 states, the District of Columbia, and Puerto Rico, with about 65 percent used towards real estate development.
(www.cdfifund.gov/what_we_do/programs, 2011).

Organizations must meet specific terms and qualifying criteria to be eligible for funding. Although the tax credit has proven to be complex, it is a valuable resource, especially during a time of when the nation is experiencing tight markets and high costs of capital. The credit has the ability to be combined with several other federal, state, and local tax credits, but not the LIHTC. The NMTC expired following the 2009 allocation round, but has since been extended every year. The program is in the start of its tenth year, but has been uncertain whether it will be renewed for 2012.

Operations

In order to assure that the funding for developments available through the NMTC is being used to improve communities of low-income families, strict guidelines must be met. To be eligible for funding an organization must be qualified as a Community Development Entity (CDE). The CDFI Fund defines a CDE as a “domestic corporation or partnership that is an intermediary vehicle for the provision of loans, investments, or financial counseling in Low-Income Communities (LICs)” (www.cdfifund.gov/what_we_do/programs, 2011). An organization must submit an application to the CDFI Fund proving that it is a legal entity and that the organization's primary goal is to support the investment and maintain accountability to those living in low-income communities.

Only a for-profit CDE can use NMTC, although both non-profit and for-profit entities can apply for funding. The reason for this is because a non-profit organization typically does not have access to equity investment and therefore would have no use for the tax credits. When a non-profit organization is awarded credits, the credits are then transferred to a for-profit subsidiary associated with the non-profit organization. This is often done simultaneously; the for-profit subsidiary does not need to be formed when the credits are awarded. However, they do need to become a qualified CDE within 30 days of the non-profit receiving notification of their allocation award (US GAO, 2010:10-334).

The investments a CDE makes with allocations from the NMTC must support the growth and improvement of low-income communities. A low-income community is defined as falling within a census tract that has a poverty rate of 20 percent or more; or a census tract outside a major metropolitan area with a median family income less than or equal to 80 percent of the statewide median family income the census tract is located in; or a census tract on a city with a median family income less than or equal to 80 percent of the statewide family median income or the city's median family income (www.cdfifund.gov/what_we_do/programs, 2011). A CDE must invest in a Qualified Active Low-Income Community Business (QALICB). A QALICB is a corporation, either for-profit or non-profit, that works within low-income communities to improve and develop these areas.

Every year, the CDFI Fund accepts applicants from all over the nation. There has been an overwhelmingly positive response to these credits. Typically there are many more applicants than what can be accomplished by the program; historically less than one third of applications are awarded allocations (Lawrence, 2009). When a CDE is awarded a NMTC allocation, the tax credits are claimed by investors in exchange for their investments in the CDE. Typical investors in CDEs are banks, corporations, individual tax payers, insurance companies, investment banks, and venture capital corporations (www.unitedfundadvirors.com/comm_dev.php, 2011). The investor receives 39 percent of its total investment in the form of tax credits. This percentage, based on the aggregate investment in the CDE, is paid to the investor over a period of seven years with the percentage increasing over time; in the first three years the investor receives five percent of the total amount paid for the original investment each year and in the final four years the investor receives six percent each year. The investor must take the entire seven-year period to claim the total 39 percent of the original investment in the CDE (www.cdfifund.gov/what_we_do/programs, 2011). Figure 3 is an example of an investment timeline for a NMTC.

Figure 3: Example of NMTC Investor Payments Timeline

Example of NMTC Investment Timeline:		
Total Qualified Investment in a CDE	$2,000,000	
	NMTC ($)	**% of Investment**
Investor's NMTC Year 1	$100,000	5%
Investor's NMTC Year 2	$100,000	5%
Investor's NMTC Year 3	$100,000	5%
Investor's NMTC Year 4	$120,000	6%
Investor's NMTC Year 5	$120,000	6%
Investor's NMTC Year 6	$120,000	6%
Investor's NMTC Year 7	$120,000	6%
Total NMTCs Received	**$780,000**	**39%**

The process through which the NMTC allocations are transformed into investments used for developments in low-income communities is complicated and involves many players. The structure starts with the CDFI Fund distributing NMTCs to CDEs that have received an allocation award for that tax year. The CDE then funnels these credits to a subsidiary CDE which sells the tax credits to an investor who, in return, makes a qualified equity investment (QEI) in a subsidiary CDE. The last step of this process is the CDC or other sponsor receives the investment and uses it to fund a development in a low-income community. It is important to mention that a CDE will typically use NMTC allocations to generate investments from multiple investors, adding more layers of complication in the transaction. Appendix III shows a basic flow chart of how the NMTC Program works.

There is one major component missing from the financing structure just described that is found in the majority of NMTC structures, which is the process of leveraging. Often, the NMTC allocation is leveraged to gain sources of funding that eventually make their way down the ladder to generate much larger investments in a development. The leveraging portion of this process is extremely important to the end result; without this additional funding, the incentives for taxpayers would typically not be large enough for them to make the investments using solely NMTCs. The funds gained through a leveraged structure are what often make a project feasible.

As the US Government Accountability Office (GAO) notes concerning the leveraging process: “The leveraged investment structure may offer a more attractive combination of risk and return to investors than a direct investment approach, it may be attractive because the loan-to-value ratio is more favorable than it would have been if the debt were not being combined with the investors’ equity. The more favorable ratio may compensate the leveraged lender for assuming a greater degree of risk” (GAO 2010:10-334). The negative results of this seemingly necessary structure are the extremely high legal and transaction fees associated with this process; every time the NMTC changes hands, fees are associated with the transaction and can significantly diminish the value of the final investment.

Brief Assessment

Projects with NMTC financing contribute to positive changes in low-income communities, such as the generation of small local businesses and community centers. The GAO conducted a study in 2007 to evaluate whether or not this credit was actually doing what it was indented to do-- generate new investment in low-income communities. The study concluded that the NMTC did seem to be holding true to its intention of boosting investment in low-income communities and, furthermore, investors seemed to be shifting more investments into low-income communities versus higher income areas (GAO 2010:10-334).

In assessing the success of the NMTC, it is important to question whether or not projects completed with the use of NMTC allocations would have been possible otherwise. Would investors have made investments in these organizations without the incentive of the NMTC and would the organizations have developed the project or program with the use of other funding mechanisms? The consensus of those interviewed for this research that have experience using the credit, praised it for its ability to fund projects that they feel would not have been possible without its substantial assistance. Adam Gelter of Cincinnati Center City Development Corporation (3CDC) stated: “Without the use of this credit, 3CDC would have a very difficult time funding the projects that we have been able to fund to date.” Bill Seddon, a Deputy Director of Business Development with a CDC in St. Louis (the St. Louis Development Corporation) echoed Gelter’s statement by saying:

> The NMTC has made a tremendous difference in the commercial real estate and business development markets in St. Louis. In the last 5 years several dozen difficult projects have been financed because of the existence of NMTC. Hundreds of jobs have been created here as well as retained.

As the case studies discussed in Chapters 4 and 5 show, it is evident that this credit adds much needed value to disenfranchised communities across the nation. The two major components of a NMTC transaction, the NMTC Investor and the CDC, also gain many advantages from the use of the credits financing opportunities. A NMTC Investor receives tax benefits, competitive investment yields, and CRA credit for bank investors. The CDC benefits from up-front funds, lower interest rate funds with longer terms, interest only payments on their loans for seven-years and a project subsidy at the end of the seven-year period which gives the organization additional up-front equity (www.kcmocde.org/uploads/NMTC_Overview_KCMO_CDE.pdf, 2011).

Professionals in the development field interviewed for this research feel that the most important challenge with the NMTC is for it to survive. Many fear the possibility of losing this credit year after year and, in turn, losing the ability to create low-income community investments that are reshaping the nation's most distressed neighborhoods. While the credit has several shortcomings, the fees and the complex financing structures being the two major issues, all nine professionals interviewed for this research feel that the most important factor to concentrate on is a policy change that will make the credit permanent.

Combining the NMTC & the LIHTC

NMTC allocations are used all over the nation with about a third of the investments, $10.6 billion, allocated to CDEs located in cities (GAO 2010:10-334). CDEs invest in a wide variety of ventures using NMTCs. These include land and property acquisition, construction and development costs, equipment purchases, working capital investments and debt refinancing (www.kcmocde.org/uploads/NMTC_Overview_KCMO_CDE.pdf, 2011). The area that has received the most NMTC investments is commercial real estate projects, with about 65% of NMTC loans and investments; the majority of these investments were for construction and rehabilitation of commercial real estate, which includes mixed-use facilities and for-sale and rental housing (GAO 2010:10-334).

According to the GAO, real estate projects may be popular for a variety of reasons, including the ability of real estate transactions to be paired with other federal and state tax incentives such as the Historic Tax Credit or environmental tax credits such as Renewable Energy Tax Credits (GAO 2010:10-334). These additional funding sources, available through other forms of tax credits and grants, are an important factor when the typical amount of equity the NMTCs provide for a project is between 20 to 30 percent of total costs (GAO 2010:10-334).

As explained in Chapter 1, however, the NMTC statute states that the NMTC cannot be used towards residential real estate where more than 80% of income comes from the rental income generated from the residential portion of the building. Therefore, the LIHTC cannot be combined with the NMTC under one ownership entity, to fill in the gaps of financing. Since the NMTC was created to benefit residents of low-income communities, it is not clear why it is prohibited from creating mixed-use developments that incorporate affordable housing options.

Several development organizations have created financing structures to work around this regulation. The NMTC statue states that the NMTC cannot be combined with the LIHTC, however, if a mixed-use project is developed, there is an opportunity to combine the two tax credits for one project under two different ownership entities: one entity would be for the rental housing portion of the development using the LIHTC and the second entity would be for the commercial portion of the development using the NMTC.

Added Complexity

Creating two such entities adds several layers of added complexity to an already difficult financing arrangement. Six out of the nine development professionals interviewed for this research cited this enhanced complexity as their primary reason for not completing projects using the LIHTC and the NMTC together. As a result, mixed-use developments created with the NMTC under one ownership entity only include market rate housing options. These housing developments are typically out of reach for the original, long-time residents of the communities in which they are built.

High Legal & Transaction Fees

The second major roadblock discouraging CDEs from using LIHTCs in their projects are the legal fees and transaction costs associated with the dual ownership entity structure. Under such a structure, most projects use the same team members for both the affordable housing and commercial entities; the developer, contractor, owner, consultants and lawyers. Therefore, consultant and legal fees associated with a dual entity project are almost doubled due to the substantially increased paperwork involved to complete the dual entity transaction. One of the project team members from the 3CDC case study that is discussed in Chapter 4 stated, “It is the fees that are probably the biggest problem resulting from getting all of the professionals to cover these deals together to complete our mixed-use affordable housing development.” Another member of the development team for the second case study conducted for this research echoed the 3CDC team member’s statement and stated:

> The transaction costs are usually a big problem with housing and commercial deals that tend to be not very large. Once you pull out all of the transaction costs and reserves you are left with almost half of your investment. A lot of the problem is really related to the legal costs because the NMTC deals are so complicated. The controlling entity has to be the CDE and they are not usually familiar with being in a position of being housing or commercial lender and therefore require a lot of legal guidance.

Different Allocation Process

The allocation process of the two tax credits is another factor in the proposed policy change that would create complications. The credits are allocated very differently and therefore would make the process of funding developments with them together difficult. The LIHTC allocations are dependent on current local housing prices, making the credits vulnerable to changes in those markets. For example the allocations per unit allotted to a development in Texas would be significantly less than what a development in California would receive due to the high cost of housing in the latter state. The LIHTC allocations are also based on a state’s population and the methodology the state’s Housing Finance Agency (HFA) uses to determine the amounts (The Danter Company, 2011). In addition, the allocation process for LIHTCs is policy driven; the credit awardees are determined through a competitive process chosen by a state's HFA.

Allocations for the NMTC are also done through a competitive process; however they are determined by the U.S. Department of Treasury through the CDFI Fund to financial intermediaries and not directly to the organization funding the final development (www.cdfifund.gov/what_we_do/programs, 2011). Therefore, the local political pressures that state HFAs encounter with the LIHTC allocations are removed in the NMTC allocation process. Also, unlike the LIHTC, the NMTC allocations are not dependent on the housing market, but on the US economy and on investors' demand for tax credits which move with changes in the economy. These differences in the allocation process of the two credits add another challenge to combining them together in a single project.

Conflicting Goals

The NMTC and the LIHTC are both intended to benefit low-income individuals by providing economic investment in low-income communities with the NMTC and affordable housing options with the LIHTC. However, the two credits have conflicting goals. As mentioned, the NMTC program's goal is to revitalize distressed low-income communities with a requirement that a development must be in an area the CDFI Fund considers a qualified census tract, with a poverty rate of 20 percent or greater, to be eligible to receive credits. The goal of the LIHTC is to provide incentives for investment in low-income rental housing (Schwartz, 2010). In the past, many LIHTC allocations were given to developments in low-income, high minority population communities. As Schwartz explained, this caused criticism that the program "perpetuates existing conditions of racial and economic segregation" (Schwartz, 2010, p 115). Consequently, HFAs are allocating the LIHTCs away from low-income communities to reduce a concentration of poverty.

Therefore, these differing goals cause a conundrum: the NMTC is geared towards low-income communities and the LIHTC is moving towards mixed-income communities, making it difficult to combine the two together for one development. Do we revitalize neighborhoods and continue to use the LIHTC in high-poverty areas and combine it with the NMTC to make a place-based initiative like the policies discussed previously or do we move the low-income populations into mixed-income communities eliminating the opportunity to combine the two credits together? This is an issue that project teams are facing; one organization interviewed for this thesis noted that they struggled to receive LIHTCs in the low-income neighborhood in which their mixed-use NMTC development was located because the local HFA wanted to reduce the concentration of poverty.

Investor Interest

One essential part of the financing structure that does work under a dual ownership entity is that the original investors have a desire to purchase the NMTC or the LIHTC, not both. There are two different types of investors for LIHTC and NMTC and these investors are typically not interested in receiving tax credits from both programs. Investors that receive credits from the LIHTC program get an alternative minimum tax (AMT) release; therefore LIHTCs are more beneficial to many large investors than NMTCs. In addition to the AMT benefit, pricing for the LIHTC has recently declined, giving an investor more money on the dollar for every tax credit. As result, many investors prefer the LIHTC over the NMTC. When speaking about the NMTC ruling that requires the dual ownership entity with Andrea Daskalakis, the Chief Investment Officer at Massachusetts Housing Investment Corporation (MHIC), an organization that specializes in affordable housing and community development finance, stated:

> It's unfortunate and maybe it would be better if they (the CDFI Fund) didn't disallow the use of the LIHTC, but as a practical matter you might still have to create two entities in order to bring in two separate investors because at the moment it is very rare to find an investor to do both. These investments are very yield and AMT driven. Investors establish a protocol for their investor criteria and there is not a lot of convergence with the two credits." Daskalakis continued: "When you are looking at these tax-driven transactions you need to look at the investor pool and what their experience has been with their investment portfolio; do they have an appetite for both?" The answer to that question is usually no.

This investor preference relates back to the transaction fee roadblock discussed earlier. Unless a project team can find an investor that is willing to fund both sides of the project, the LIHTC and the NMTC, the project will still face high transaction fees. This is because any kind of tax-driven financing tool is so complex that a project will always need at least some form of legal assistance. If investors were indifferent and had an equivalent appetite for both credits, it would be very straightforward. However, if a project is going to have more than one investor, which is almost always the case when using the two tax credits, the project is still confronted with the same high transactions and legal fees whether the ownership structure is under one entity or two. Given that the NMTC program has been running for only ten years, many attorneys are still working through the process of how to complete these transactions. It is possible that as the program gets older, this learning curve will shorten and many of the legal fees on the NMTC side of the transaction will be greatly reduced or eliminated. However, that is dependent on the program continuing into the future. As it stands now, the program technically expired two years ago, although it has been renewed since then every year.

Conclusion

Professionals in the field with experience using the NMTC and the LIHTC both separately and together provide important insights on whether or not the restrictions concerning using the LIHTC with NMTC funded developments should be lifted. My hypothesis is that combining the credits under one ownership entity would allow for greater efficiencies in financing and in the development process. However, industry professionals interviewed for this research did not anticipate any increased efficiency through the combination of the two credits under one ownership entity. The issues of high transaction fees, high complex financing structures and differing investment interests would exist whether the program permitted the use of the LIHTC under one ownership entity or two. In order to gain additional insights into whether any potential benefits would result from combining the two programs, case studies are presented in the next two chapters.

Chapter 4: Mercer Commons

Cincinnati Center City Development Corporation

As cities change, there are often neighborhoods of an urban core that are left behind. The populations in these areas are typically comprised of low-income individuals and families. Fortunately for many cities there are numerous Community Development Corporations (CDCs) located in urban areas all over the nation whose purpose is to revitalize, restore, and rebuild low-income communities. The Cincinnati Center City Development Corporation (3CDC) is a private, non-profit corporation working to strengthen several formally distressed downtown neighborhoods.

In July of 2003 the Cincinnati Economic Development Task Force, a group whose goal is to spur development in Cincinnati comprised of the City Manager, Valerie Lemmie, and members of the development, university, and banking community, suggested to City officials that a CDC be created to increase the effectiveness and efficiency of the development taking place in the city. This sparked the creation of 3CDC, spearheaded by the then Cincinnati Mayor, Charlie Luken, and members of the corporate community in the City (3CDC "Who We Are", 2011). The group agreed that in order to revitalize the city and support a strong economic future, there needed to be significant attention dedicated to improving the business and entertainment districts of downtown. The three neighborhoods 3CDC focuses on are Fountain Square District, the Central Business District and Over-the-Rhine (OTR).

All of the projects created by 3CDC support one of the corporation's four primary goals: to create great civic spaces, to create high density mixed-use development, to preserve historic structures and streetscapes and to build diverse mixed-income neighborhoods supported by local business (3CDC "Who We Are," 2011). The majority of funding 3CDC receives to complete its developments are from corporate contributions. In 2004, 3CDC accepted the responsibility of managing and operating the city's fund used to funnel New Markets Tax Credit (NMTC) allocations, called the Cincinnati New Markets Fund (CNMF). This fund is geared toward the revitalization of the three distressed downtown districts 3CDC works to redevelop.

The corporation has extensive experience with the NMTC; 3CDC has been awarded the tax credits three times totaling $103 million in NMTCs. It has created numerous projects in mixed-use development, real estate development, retail, and supported small local business in distressed neighborhoods. 3CDC has invested over $206 million in development projects; much of this was possible through the use of NMTC allocations. Appendix V lists the completed projects 3CDC has developed to date.

It is clear that the corporation is well versed in the capabilities and opportunities available through the use of NMTC. The corporation has used the credit to complete over 16 developments, totaling $53.3 million in NMTC funds, with several more in the development and construction phases. Currently, 3CDC is developing its first project that will combine the NMTC and the LIHTC to create a mixed-use, mixed-income project that will incorporate affordable housing. As Chapter 3 explains, under the current rules for the NMTC, funding affordable housing with the use of the NMTC under one ownership entity is prohibited. Therefore, to do this development 3CDC had to create two separate ownership entities.

3CDC is responsible for the production of hundreds of new housing units in distressed neighborhoods of Cincinnati. While the majority of these are market-rate, the corporation has also been able to successfully provide affordable housing options. Adam Gelter, a Vice President of Development at 3CDC explained how the corporation has been able to do this with NMTC:

> What we do that is a little different than what most CDEs are doing. The majority of our housing is actually for sale. Because 3CDC has so many buildings and so many projects, we are able to develop and sell them without the use of LIHTC so that they can be repaid within the rules of the program. 3CDC has also raised private funding to make some of our for sale units affordable. The home owner is then paying only what they can afford but we don't hinder the market by dropping the prices at below market rates."

Chad Munitz, 3CDC's Executive Vice President of Development and Operations explained:

> I have been with 3CDC for five years and I have probably completed about 20 NMTC projects. We have used the credit on almost every project we've done, and we have completed about 240 units of for-sale housing using the program. The community response to the new housing has been very positive.

Gelter explained that the complicated process of creating a dual ownership structure when using the LIHTC is why the corporation has held off on including affordable housing options with the use of the tax credit in their previous mixed-use housing developments. However, after gaining invaluable years of experience in the development field and years of working with the NMTC, 3CDC has decided to take on the challenge of creating a mixed-use development that will incorporate affordable housing through the use of the LIHTC and the NMTC. This new development located in the Over-the Rhine neighborhood of Cincinnati is called Mercer Commons. In seven years, 3CDC has managed to invest $108 million in the Over-the-Rhine neighborhood adding over 200 units of housing, both rental and for-sale condos and commercial space totaling over 120,000 square feet (www.Cincinatti.com A Gannett Company2010).

Mercer Commons

Stretching from the blocks of 14th and 15th Street and Vine to Walnut Street, the 2.2 acres of land that will comprise Mercer Commons was bought in 2005 by the Cincinnati Public Schools and intended for the development of a new elementary school. However, after further examination the district concluded that a new school was not necessary at that time and therefore was put up for sale. In 2008, the city of Cincinnati closed a deal with the Cincinnati Public Schools and purchased the property for 3CDC to redevelop the parcel as part of the city and corporation's common goal of revitalizing the Over-the-Rhine neighborhood. President and CEO of 3CDC, Stephen Leeper, explained that the plan for Mercer Commons was to create a mixed-use project that incorporates affordable as well as market rate units (Business Courier June 2008). The Mercer Commons development is part of a larger redevelop project underway in the Over-the-Rhine neighborhood that will total over $50 million in development costs and include 158 residential units and more than 15,000 square feet of commercial space. A total of $12.2 million in tax credits were sought for this project.

A member of the Over-the-Rhine Historic Conservation Board described the neighborhood to the Cincinnati-based online newspaper, the Enquirer: "Once one of the two most densely built neighborhoods in America, Over-the-Rhine's scale and mixed-use building stock are unique. The neighborhood is home to Cincinnati's only Urban Mix zoning district, which aspires to combine housing, retail, offices, entertainment and light industrial uses in a walkable urban setting. Over-the-Rhine's historic building patterns embody most of what we now consider green planning or new urbanism" (www.Cincinnati.com 2010). This neighborhood fabric makes Over-the-Rhine an ideal location for 3CDC's Mercer Commons mixed-use development, which incorporates both affordable and market rate housing.

The project is eligible for NMTC allocations because Over-the-Rhine is a highly distressed neighborhood. A reporter from a local newspaper publication described the area:

> Today, the blocks at the heart of Over-the-Rhine epitomize the inner-city neighborhood's bleak realities and daunting challenges: abandoned buildings, weedy vacant lots, corners where drug dealers and prostitutes maneuver for prime spots, gaudily painted storefronts that have long been havens for various forms of illegal trade" (Barry M. Horstman June 2008, Enquirer).

This highly distressed area with a census track comprising primarily low-income individuals is a prime location for revitalization through the use of NMTC allocations. Figures 4 shows the project's location in the Over-the-Rhine neighborhood.

Figure 4: Location of Mercer Commons in the Over-the-Rhine District

Source: 3CDC, 2010

The Mercer Commons project development team at 3CDC will be combining the two tax credits to create a mixed-use affordable housing development by breaking out the ownership into two separate entities. One member of the team, Gelter, explained the complex process of funding this development with the use of NMTCs and LIHTCs:

> We are working to get 30 units of LIHTC but what we have to do is basically break it into two separate projects in order to make sure we separate it properly. The project team is all the same, legally the names will be different.

This split ownership is what stops many developments from moving forward due to the high transaction costs and legal fees the ownership structure generates. Despite the fact that the two portions of the project (housing and commercial space) will have identical team members, legal and transaction fees for Mercer Commons will nearly double; each contract and legal document needs to be accounted and paid for twice.

Financing and Development

When completed, Mercer Commons will include a mix of housing, commercial space, and parking. The exact components are listed in Figure 5. The rendering shown in Figure 6 is what the project will look like after completion, Figure 7 shows the project site plan.

Figure 5: Mercer Commons Project Breakdown

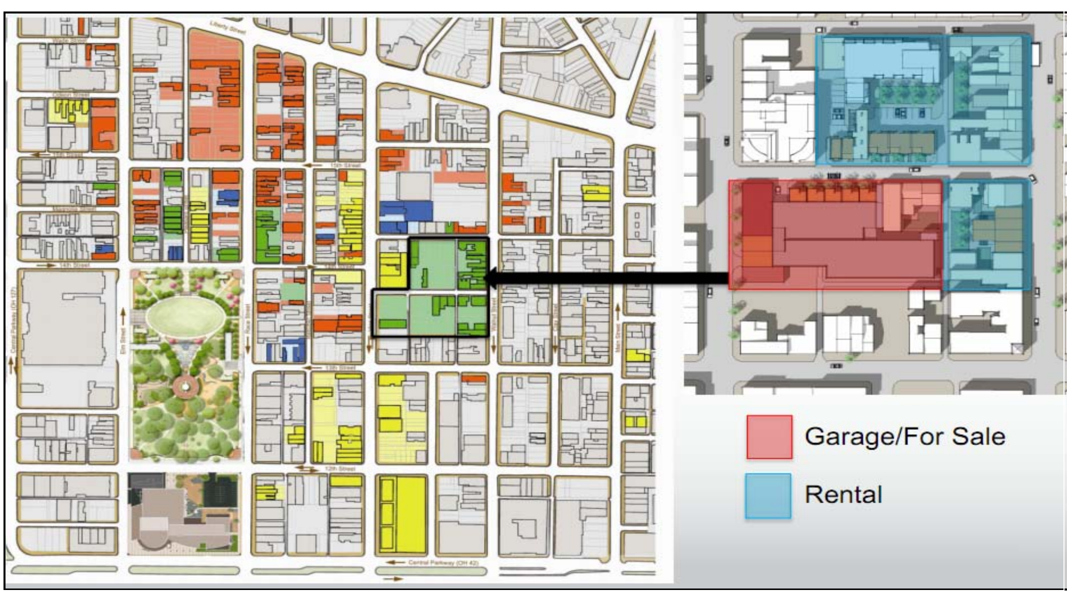
MERCER COMMONS DEVELOPMENT	
Total Development Cost (estimated)	$51,000,000
Total Market Rate Units	96
Total Affordable Housing Units	30
Total for-sale Housing Units	32
Total Housing Produced	158
Total Commercial Space	20,000 sq. ft.
Total Parking Spaces	300

Source: 3CDC

Figure 6: Mercer Commons Architecture Rendering

Source: 3CDC, 2010

Figure 7: Mercer Commons Arial



Source: 3CDC, 2010

The master developer on the project assisted 3CDC with the overarching financing structures to help get the project funded. Munitz explained how the corporation had initially struggled to obtain the LIHTC due to reluctance from the state financing agency. It felt that the Over-the-Rhine neighborhood already had an over concentration of poverty and a high vacancy rate among projects that had been funded using the LIHTC. This conflict in goals between the two tax credits experience makes the act of combining the credits that much more difficult in certain neighborhoods. As Munitz explained, "The state financing agency has not been willing to provide LIHTC to the neighborhood in general and has not done any LIHTC developments in the neighborhood for about 8 years."

However, with the positive changes 3CDC is bringing into this neighborhood, it will soon become a desirable location for young professionals and families to live, which could push out long-time low-income residents of the community. Therefore, 3CDC felt it was important to push this project to the limit and incorporate affordable housing options by whatever means possible.

In addition to NMTC and LIHTC, Mercer Commons will also receive funding from TIF financing and Federal and State Historic Tax credits. The project will be structured as two different projects done at once with the same developer under two different LLCs. One LLC will have the LIHTC and Historic Tax Credit applied to the project for a total of $11.8 million in federal tax credits with approximately 58% coming from the LIHTC. The other entity will use the

NMTC and additional Historic Credits for the commercial portion of the project as well as for market rate for-sale housing units and the parking garage. This will have a total of $10.2 million in tax credits with about 53% of that coming from the NMTC allocation.

Munitz explained that the biggest problem that will result from this structure is the fees generated from all of the professionals necessary to pull the multiple deals together. Another major issue is that, even after all these tax credits are counted, which together total over $22 million, substantial gaps in financing will still remain. The LIHTC entity of the project has a $7 million gap and the NMTC entity of the project has about a $2 million gap for a total of $9 million still needed from other sources. The fees lost through legal transactions and consultant payments would have benefited the project greatly if they could have, instead, been allocated to the project's final development costs. However, due to the complexity of the NMTC, completing developments without the assistance of this expertise from various professionals is not possible.

Conclusion

If rules regarding the use of NMTC for the development of affordable housing remain unchanged, Mercer Commons will stand as a model development of how organizations are working out methods to incorporate affordable housing in their NMTC funded projects. While this is not an easy feat, there are strategies that work to transform the mixed-use developments into mixed-income developments with affordable housing options available for the low-income families that reside in the very communities the NMTC is working to revitalize. Munitz provided some final thoughts on the project and said:

> Assuming we are awarded LIHTC, we would start constructions in about 9 months. We are very committed to creating quality affordable units and having them mixed in with market rate units to show the community and those that will be renting that all of this can really work together. So we are very committed to making this work.

When asked if projects developed by 3CDC using NMTCs would have been possible without this funding Munitz explained, “These projects would not be possible. It is because of this program, that they are completed.” Gelter agreed: “Without this credit we would have a very hard time funding any of these projects.”

When asked whether or not he’d like to see the rules under the NMTC amended to allow the use of LIHTC, Gelter said: “I think there is legitimacy in this rule change and that there would be an efficiency to allow these two credits to be combined.” However, this would not eliminate the high transaction fees and large gap in financing the project experienced. In addition, the complexity of completing these transactions would remain unchanged.

In February 2011, 3CDC was awarded another $46 million in NMTC allocations. A total of $18 million of these credits will be used towards the completion of redevelopments underway in the Over-the-Rhine district. The corporation will continue to apply for credits each year that the program is extended and hopes that there is policy change very soon making the program permanent.

Chapter 5: Blessed Sacrament

Jamaica Plain

The city of Boston is known for its vibrant and distinctive neighborhoods. The history of these neighborhoods date back to over 100 years ago when immigrants from around the world came to the port city with the hopes of creating a better life; Boston's Jamaica Plain is one of these neighborhoods. The area has a strong representation of various cultures and ethnicities. In the early 1900's there was an abundance of German and Irish families calling Jamaica Plain home and, more recently, there has been a large representation of families from the Caribbean and Latin America. Jamaica Plain is one of the most racially diverse areas in Boston and has the largest Latino business district in New England (www.jpndc.org, 2011). In 2000, over 40 percent of the neighborhood's population was comprised of African Americans and Latinos (2000 Census).

In the 1980's Jamaica Plain was considered to be an area too risky for banks to approve a mortgage (www.jpdnc.org/about_jpndc.hmtl, 2011). In the past thirty years the area has been experiencing some major changes; there are trendy new shops and restaurants emerging all over JP's main street, and the rehabilitation and construction of old and new homes into luxury condominiums have been on the rise. Ten years ago the median home value in Jamaica Plain was $276,500 and the median family income was $50,604. At the time the 2000 Census took place, 80 percent of the neighborhood's residents were renters and only 8.6 percent of these renters paid more than $1,500 a month in rent. Approximately 37 percent of the households earned less than $35,000 a year and

17 percent were below the poverty line (2000 Census). In one year, between 2000 and 2001 housing prices in Jamaica Plain rose by 34 percent with the median sale price for a one bedroom home of $400,000 (Euchner, 2003). This trend of rising housing costs continued for the next eight years, today, Jamaica Plain is the third most expensive place to live in Boston. In 2008 the median home price rose to $498,000, almost double what it was ten years prior (www.JPNDC.org , 2011). Figure 8 details median home prices and the percentage of increase or decrease over a 10 year span for several Boston neighborhoods, the city as a whole and the US in 2000 and 2010, showing that Jamaica Plain had the third highest increase behind the city as a whole and West Roxbury. The chart also shows that Jamaica Plain's home price increases were well above the US increase in home prices (2000 and 2010 Census and www.city-data.com, 2011). Recently, there has been an enormous uproar in the area about a potential Whole Foods, a high-end organic, big name grocery store, to take over the location of Hi-Lo, a small community-based affordable grocery store.

Figure 8: 2000 and 2010 Median Home Prices for US & Boston Neighborhoods

Neighborhood	2000	2010	% Change
Boston	$190,600.00	$ 369,600.00	94%
West Roxbury	$227,500.00	$ 382,560.00	68%
Jamaica Plain	$241,900.00	$ 402,170.00	66%
Charlestown	$297,300.00	$ 475,200.00	60%
Back Bay	$820,100.00	$1,270,310.00	55%
Allston	$202,400.00	$ 297,742.00	47%
US	$169,000.00	$ 221,800.00	31%

Source: 2000 & 2010 Census and www.city-data.com

Jamaica Plain Neighborhood Development Corporation

The Jamaica Plain Neighborhood Development Corporation (JPNDC) is a non-profit CDC working to maintain the affordability and livability of this neighborhood for low-income residents. The CDC's mission statement explains that its goal is to " promote equitable development and equal opportunity in Jamaica Plain and adjacent neighborhoods through affordable housing, organizing, and economic opportunity initiatives that improve the lives of low- and moderate-income people and create a better community for all" (www.JPNDC.org/about_jpndc.html, 2011). The corporation goes on to explain its vision of the neighborhood as, "a vibrant, stable and diverse community in which people from all walks of life enjoy decent housing in a caring neighborhood, good jobs and opportunities to build careers or businesses, political power, and a promising future for our children" (www.JPNDC.org, 2011). JPNDC has been working in the Jamaica Plain neighborhood for over thirty years and has become one of the most successful non-profit CDCs in the state of Massachusetts (www.JPNDC.org, 2011). The corporation is responsible for the creation of 480 new homes, many of them affordable, and over 1,000 jobs (www.JPNDC.org, 2011). Appendix VI lists the projects JPNCD has brought to the Jamaica Plain community.

Blessed Sacrament

Located in the area of Hyde Square in Jamaica Plain, the Blessed Sacrament Church has been a staple of the neighborhood since it was established in 1891. The Church's doors were closed by the Archdioceses of Boston in

August 2004, leaving the building vulnerable to the possibility of demolition or decay, and creating a danger zone for the neighborhood. However, after nearly a year of public meetings and negotiations about what should be done with this parcel and who would develop it, in December 2005 JPNDC and New Atlantic Development Corporation (NADC) closed the deal on the purchase of the Blessed Sacrament site and the 3.2 acres of land the church sits on. Approvals on construction followed about a year later.

The two organizations planned to redevelop the parcels to create a mixed-use, mixed-income development for the community, offering local retail options, community space and units of affordable housing. When complete, the campus style development will incorporate the following components (www.BostonLISC.org, 2011):

- 40 affordable homes
- 49 market rate apartments
- 27 Single Room Occupancy (SRO) apartments maintained by The Pine Street Inn
- Space for the Hyde Square Task Force - a local youth program
- Space for The Compass School - a school geared towards high risk inner city children
- 7,500 square feet of local retail space

- Community space
- 145 off street parking spaces

The focus of this case study is one of the several buildings included in the campus style development: a 4 story mid-rise mixed-use building that includes 3 floors of residential units, including 36 of the campus's 40 affordable housing affordable units; partially funded through the LIHTC, and ground floor commercial space, partially funded through the NMTC. This mixed-use development in the Blessed Sacrament project is unique in its funding in several ways. First, the project used both the NMTC and the LIHTC in a multiple ownership entity structure which, as discussed in previous chapters, is not common due to the many complexities and administrative and legal expenses associated with this type of structure. Second, for reasons that will be explained below, the Blessed Sacrament project actually combined ownership with a similar mixed-use affordable housing project just a few blocks down the street, 270 Centre Street. This was done to increase the total value of the development for potential investors.

Financing and Development

To fund this large scale project, JPNDC had to use a creative financing structure that complicated an already complex real estate transaction. The mixed-use affordable housing project in the Blessed Sacrament development and the 270 Centre Street project were both too small to find an investor. As a Senior Loan Officer with Boston Community Capital, which is the organization serving as the leveraged lender for the entire project by pooling all of the investments from various investors in the project together, explained:

> A lot of people didn't want to work with a small project because transaction costs are too high. It was very hard to find an investor for this project so eventually the Local Initiatives Support Corporation (LISC) stepped in as their allocatee for the NMTC. It is a leveraged loan, meaning that the NMTC was combined with a loan from a bank to increase the value for investors, of $2.5 million for two projects with half the loan for Blessed Sacrament and the other half for 270 Centre Street. This is kind of unique in that it's a good way to get two projects funded. The leveraged loan is really one loan.

The NMTC allocatee is Boston LISC who helped fund the two projects with a $1 million loan and $7 million of NMTCs. This was partially responsible for making the entire transaction possible; the other half was the battle to attain LIHTCs for the affordable housing portions of both mixed-use buildings. JPNDC's Associate Director of Real Estate, Andy Waxman, is a member on the project team for both the Blessed Sacrament and 270 Centre Street project. He explained the problems the projects faced to fund the affordable housing portions of the buildings:

> The project was stuck for a long time because of the economy. Basically, this was because the banks crashed the value of the LIHTC went down 40% to 60 cents on the dollar. This created a large gap in our project. We (JPNDC) watched that fall down for a year and couldn't complete the project in 2008 as planned. Investors (mostly banks) didn't need to buy tax credits to offset their profits/taxes when they were losing money and therefore did not have profits to offset.

JPNDC eventually found funding through another federal program called the Tax Credit Assistance Program (TCAP) in conjunction with a smaller amount of funding than previously planned from LIHTC. Like the LIHTC, the TCAP funds must be used under a separate ownership entity from the NMTC. Waxman continued to discuss the funding structure for the project and explained:

> We actually closed the two mixed-use buildings simultaneously so we combined the two buildings to save money on the NMTC. One ownership entity owns the two retail spaces in the two buildings, which helped save some of the money on the NMTCs.

The structure Waxman described allowed for the entire transaction to be significantly larger by adding $2.4 million to the project's funding sources making up about 57% of the $4.2 million in total funding. This structure, as previously mentioned, enhanced the incentive and value of the deal for NMTC and LIHTC investors. Waxman explained the difficulties with this type of structure:

> It was really complicated because we had to close three projects (the two ownerships of the affordable housing buildings and the one ownership for the commercial spaces on the bottom of each building) at the same time. We separated the two LIHTC deals (for the two housing ownerships in each building) and one NMTC (for commercial spaces); our lawyers said that was the most complicated project they had ever completed.

A Blessed Sacrament project team member explained:

> The only part that was difficult in the Blessed Sacrament transaction is that Boston Community Capital is the leveraged loan lender (meaning they pool all of the funding together into one investment) on the commercial side and on the residential side. The subsidy partners on the housing portion of the building were very leery of any commercial project (due to uncertainty of the financial risks involved in commercial projects). When you are negotiating the documents with a mixed-use project it is typically the housing lenders that are hesitant about the lender loaning to both of the projects.

This problem of conflicting interests from the housing and commercial investors on projects is common. The types of transactions that attract commercial lenders are very different from that of home lenders, and it is therefore rare to have the same group of investors for an entire mixed-use development transaction.

When Waxman was asked what he thinks about the process one must go through in order to combine the NMTC with LIHTC he said:

> There is no doubt the NMTC program is incredibly complicated. We’ve done one NMTC deal in addition to Blessed Sacrament where we renovated a Brewery complex using NMTC and Historic Tax Credits. They are definitely both quite complicated transactions and in some ways it feels that the program has become more complicated over time. To me the question about issues with the NMTC is more of a public policy question as to whether or not there is a more efficient way to use these credits.

Like many others, Waxman also touched upon the issue of the high legal fees and transaction costs associated with the NMTC program. He explained that, unlike the LIHTC, where the state really decides the projects, the NMTC program gives the funding initially to a bank that is standing as a CDE. These banks then charge fees every time the funding is moved; this happens several times between the investors, leveraged lenders, CDES and finally to the organizations developing a project. All of these entities involved to manage the money generate fees that absorb most of the funding available for the final project, making the program very inefficient and less effective with the loss of such a substantial amount of funding.

Waxman has been advised that due to these high transaction and legal fees, for a project with a total development cost in the range of $5 - $15 million dollars, it is not worth using the NMTC because the transaction costs will take up the majority of the funding. He explained the dilemma by stating:

> There might be $1 million worth of tax credits and the project gets less than half of that, so the issue is: Do we want the $300,000 available through the credits or do we want nothing?

He also indicated that the program benefited from its flexibility but that, similar to when a project attempts to combine the NMTC and the LIHTC, more value is created but more costs are associated to create that value through consultant, legal and transaction fees.

The Blessed Sacrament project benefited from the fact that the leveraged loan lender, the bank that granted a loan to the project to increase the value of the tax credits for the investors and CDE, for both the commercial and resident portions of the buildings was the same, Boston Community Capital. With this structure, JPNDC knew that if there was a problem on one side of the transaction, both sides would know about it. In other projects, this communication between the two sides of a mixed-use development can add even more complication to the process. Waxman explained that this is often the nature of a mixed-use development; he didn't see how that complication would be eliminated if the NMTC and the LIHTC program were permitted under one ownership entity because you are working with essentially different risks and different interested parties for commercial and for residential real estate.

Waxman noted that, despite the program's complications, it is really "the best game in town," in regard to funding commercial retail projects. He explained this by stating: "We do the project or we don't and, yes, it is complicated but we have no choice if we want to complete these projects." Thus, most CDEs are not left with an alternative option. The NMTC is one of the only programs in the country that is intended to solely benefit community economic development in low-income communities. Waxman continued by agreeing with others interviewed for this research by stating: “There is no question, these projects we have completed using the NMTC would not have been possible without the program.”

Conclusion

The Blessed Sacrament transaction is one of the largest transfers of land in recent history in Greater Boston. The fact that JPNDC was able to incorporate affordable housing options in the Blessed Sacrament campus project has been a positive aspect for many Jamaica Plain residents. As previously mentioned, the neighborhood has become increasingly expensive and has pushed out many low and moderate income renters and home buyers. For a neighborhood that has historically been extremely community-based it is very important that residents of the area are able to remain there and have a sense of ownership in a neighborhood still in need of redevelopment in many areas. Figures 8 through 10 shows some renderings of both the Blessed Sacrament Campus and the 270 Centre Street Project.

Figure 9: Rendering of Blessed Sacrament Campus

Source: JPNDC Blessed Sacrament Project Team Member

Figure 10: Rendering of BS Mixed-use Residential Building (to the left)

Source: JPNDC Blessed Sacrament Project Team Member

Figure 11: Rendering of 270 Centre Street

Source: JPNDC Blessed Sacrament Project Team Member

When speaking about the affordability options the Blessed Sacrament Project offers, seven year Jamaica Plain resident Ben Jacobs, a Boston Public Schools teaching assistant, told the Jamaica Plain Gazette, "He has been saving to buy a home for years. Before he applied for a condo at Blessed Sacrament, the only JP option he had seen in his price range was an 800-square-foot basement unit for $172,000" (Jamaica Plain Gazette, December 2009). Another long-time resident told the paper, "she probably would not have been able to afford a home in JP if not for the JPNDC Blessed Sacrament project" (Jamaica Plain Gazette, December 2009).Harvard University News correspondent Julia Martin, another long-time resident of the neighborhood who has been working to improve her community for over fifty years said: "We need more affordable housing; we need more like this in Jamaica Plain. The first day Blessed Sacrament opened its doors, there were 500 people looking for an apartment — the first day alone, and it was pouring rain, and they stood there in that rain. That's how important affordable housing is" (Harvard University News, 2010).

The Blessed Sacrament project is one of success in a community in need of economic investment for the low-income residents trying to remain in this neighborhood. The allocations of NMTCs and LIHTCs are the major reason why this development was possible. However, the project would have experienced similar difficulties if a single ownership entity were permitted versus the three ownership entity structure the project implemented. The NMTC on its own is a complicated program, requiring expertise that few have and those who do possess it charge a high fee for the use of their knowledge. Whether these two credits were combined under one ownership entity or the two that has been described, the project would have been completed in a similar fashion, generating a similar amount of transaction fees due to the high complexity of the NMTC and the conflicting interests of the tax credit investors.

The JPNDC project has recently completed the second phase of development called the Dona Betsaida Housing Cooperative and opened its doors in October 2010. This portion of the project includes 36 units of affordable rental housing, eight of which are reserved for households at or below 30 percent of AMI and 7,600 square feet of retail space that may include one new restaurant. The next project for the Blessed Sacrament campus is the construction of phase three, which will involve the renovation of 13,700 square feet of space that was previously used as a convent. The final development will produce 28 Single-Room-Occupancy units that are reserved for the previously homeless. Blessed Sacrament is the only portion of the campus style development project that used the NMTC and the LIHTC together.

Chapter 6: Findings & Conclusions

Real estate development has been hit hard by the economy in recent years. Many developments, whether a business in a low-income community or luxury housing in an affluent community, have become increasingly difficult to complete. Finding financing options that will work for a project is a major challenge for developers. There is no doubt that the NMTC has provided crucial funding for much needed projects in these difficult economic times.

While it has been noted that combining the LIHTC with the NMTC is not an easy feat, none of the five project team members interviewed who were involved in a transaction that combined the credits felt that the difficulty merited a change in the NMTC statute. A comment from one professional in the field, Andrea Daskalakis, the Chief Investment Officer of Development at the Massachusetts Housing Investment Corporation who has extensive experience in working with projects that have combined the two credits, summarized the overall consensus from others that have been involved in similar transactions on the proposal:

> I believe that combining the two credits in one transaction is fraught with difficulty; however I think the current structure – with separate ownership entities for each component is more workable and provides for more flexibility.

Based on interviews with key informants it appears that joining these two tax credits together for a single project would be too difficult. There is no question that the legal fees are higher when joining the two credits versus using only one credit, however, they are not nearly as high as other real estate development projects completed through the use of NMTCs such as community health centers. One investment professional stated that fees for these projects are typically three times the costs of other projects using NMTCs. This perceived difficulty appears to be what is stopping organizations from taking on the task of creating affordable housing in mixed-use developments using the LIHTC. In addition, a staff member at one organization cited that the reason they have not completed a development with LIHTCs was because LIHTCs were not granted to projects in the distressed census tract in which they were working, signifying, as discussed in Chapter 3, that the credits have conflicting goals. However, it is important to note that the organizations that are incorporating both credits are creating mixed-use, mixed-income developments, thereby alleviating concerns about the project contributing to concentrated poverty.

This research has revealed that a policy change to allow for the combination of the LIHTC and the NMTC into a single ownership structure is not the most necessary change that needs to take place for the NMTC. While it may make some of the process of creating mixed-use affordable housing developments easier, the current system also carries some added benefits, such as separating out the two different types of investors. There are, however, some changes that professionals in the development field see as necessary. The five biggest issues organizations that use the NMTC program face are:

1. The NMTC is a complicated program

2. High transaction frees greatly reduce a development's budget.

3. Funding gaps still remain after the credits are applied to a development's total cost.

4. There are different investment audiences for the LIHTC and the NMTC.

5. There is fear that this program could be eliminated.

The NMTC is Complicated

As noted several times by the professionals interviewed, the financing structures necessary to complete a NMTC-funded development are extremely complex. A NMTC development team requires many financial consultants, lawyers, banks and asset managers in the field of real estate development, costing a project precious funding and taking away from the development budget. The credit has only been used in the community economic development field since 2001. Thus, there are few organizations and professionals with extensive experience with the credit; many groups that have used the credit have only been allocated funds for one year, not allowing for a learning curve to be captured making the next NMTC development slightly easier to structure financially. A member of the Blessed Sacrament development team spoke about this high learning curve and that he fears that once this knowledge is captured and the expertise for the credit is in place, the program will be discontinued. Simplifying the program would reduce the time and money it takes organizations to understand the components of the program.

High Transaction Fees

The organizations that are using the NMTC are in areas that have been hit hard by the economic downturn. These developments are often running on thin margins and many times struggling to break even when all of the financing is complete. The added burden of legal fees and CDE fees that accompany a project can have a major effect on a project's feasibility. With complex financing structures it may be impossible to eliminate fees associated with outside sources such as consultants and lawyers. If this program were made more efficient, eliminating many of the layers in the complex structures currently necessary, the fees would be greatly reduced making smaller projects much more feasible. The CDFI Fund should eliminate the need for so many pass-through entities required in the NMTC structures today. The funding lost through this process is significant and could make a substantial difference in a project's feasibility.

Funding Gaps Still Remain

Similar to the LIHTC, the NMTC cannot fully financially support a development. Despite the fact that a NMTC allocation for a project is in the millions, as previously discussed, much of this funding is spent on transaction fees and professional consultants, leaving only a fraction of the initial allocation to cover development costs. Andy Waxman of JPNDC noted that, while the NMTC funding may be significantly less than what is necessary to complete these projects, it's the only program available right now that is solely dedicated to community economic developments in low-income communities.

Different Investor Audiences

As a member of the Blessed Sacrament development team explained, typically the types of investors interested in tax credits for community development projects and affordable housing projects differ. Finding an investor or group of investors that has an interest in both the NMTC and the LIHTC for one project is not common, due to the different returns an investor will receive from each credit. An affordable housing development is typically not as large as a community development venture and therefore attracts more modest investors that are not looking for quite as much return in the form of tax credits. On the other hand, community development ventures using the NMTC tend to be larger, due to economies of scale gained with the transaction fees associated with the credit. Another member of the Blessed Sacrament team also noted that the mechanics involved in funding a project with each credit requires a set of expertise that are usually assigned to different teams; a housing team and a community economic development team, and that this knowledge base does not cross over frequently.

Fear of Elimination

All nine interviewees noted that the biggest challenge they are now facing concerning the NMTC is that the program may not be available beyond 2011. In addition, all noted that every NMTC project that they were involved in would not have been possible without the use of the tax credits. The credits are responsible for the creation of thousands of projects nationwide that are aiding in the advancement and economic development of deteriorated communities. Without the benefit of these credits, these distressed neighborhoods would most likely continue to deteriorate and decline especially given the nation's current economic environment. Therefore, making this program permanent is the most important change the CDFI Fund and the federal government can implement.

This study was conducted to determine whether or not it would be more efficient to join the NMTC and the LIHTC under one ownership entity to benefit low-income communities. My hypothesis was that joining the two together would allow the organizations using them to gain efficiency and pass on these benefits to the communities in which they are working. However, after conducting interviews with nine members of the affordable housing development community and studying two projects using the two credits that are currently in the preliminary stages of development, I have concluded that my hypothesis was not accurate. The process of using the NMTC with the LIHTC to create a mixed-use development has its difficulties. The most challenging issue experienced is using the NMTC itself. It makes sense to combine housing and community economic development initiatives. However, a policy change that would allow for combining the two credits together under one ownership entity is not necessary, in view of the current configuration of the two programs. The federal government should nevertheless develop improved methods to allow these programs to work more effectively and efficiently together by simplifying the NMTC program requirements.

Ways it Could Work

Despite the struggles of combining the NMTC and the LIHTC, there are still ways in which the proposed policy change could work. To reduce the issue of high transaction fees, the role of syndicators could be removed. The majority of the investors interested in buying NMTC are large corporations that would possibly have the capacity to take on the role of the syndicators in house. This method would take time to develop, as the institutions interested in purchasing tax credits would have to develop a branch of their organization to provide the expertise that syndicators bring with them. However, once the organizations were able to eliminate the syndicators, they would gain economic efficiency by greatly reducing transaction frees. Developers involved in a project would experience this economic efficiency as well.

A second option that, although time consuming, would greatly increase the efficiency of completing projects using the LIHTC and the NMTC together would be to make the NMTC a Block Grant. As Schwartz suggests for the LIHTC: "if the government supplied funds directly to developers of low-income housing, it would avoid much of the uncertainty and complexity that currently surrounds the tax credit program" (Schwartz, 2010, p. 121). This same theory holds true for the NMTC program, especially since it can be even more complex and uncertain than the LIHTC program. Allowing the funds to go straight from the federal government to the developments in distressed communities would reduce transaction fees and increase the amount of a project's allocation it actually receives.

Lastly, echoing the concerns of all those interviewed for this thesis, making the NMTC program permanent has the possibility of easing the process of joining the NMTC and the LITHC programs together. If a project team is given the opportunity to use the NMTC for more than one project it will allow the organization to gain valuable knowledge and experience in using the credit. This experience can then translate into gaining efficiency that can then be passed along to the next NMTC project they encounter, possibly reducing the time and money required to complete it.

While the hypothesis of this thesis was found to be inaccurate, there are methods that could make the process of combining the LIHTC and the NMTC valuable to its beneficiaries. Eliminating the role of syndicators and converting the NMTC into a Block Grant would greatly ease the practice of creating mixed-use, mixed-income developments using the two tax credits. The need to make the NMTC permanent is necessary if we want projects such as Blessed Sacrament and Mercer Commons to be mirrored in cities and towns across the U.S.

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Appendix I

2008 New Market Tax Credit Allocatees (102)

Allocatee Name	Allocatee Name	Allocatee Name
Advantage Capital Community Development Fund, LLC	Dakotas America, LLC	New Enterprises Fund, Inc.
AHC Community Development, LLC	Empire State New Market Corporation	New Markets Community Capital, LLC
AI Wainwright LLC	Empowerment Reinvestment Fund, LLC	New Markets Redevelopment LLC
Albina Equity Fund, I LLC	Enterprise Corporation of the Delta	NHBFA CDE LLC
American Community Renewable Energy Fund, LLC	ESIC New Markets Partners LP	Nonprofit Finance Fund
Banc of America CDE, LLC	Forest City Community Development Entity, LLC	Northeast Ohio Development Fund, LLC
Bethany Square LLC	Fort Wayne New Markets Revitalization Fund, LLC	Northern California Community Loan Fund
BOKF Community Development Fund	Harbor Bankshares Corporation	Ohio Community Development Finance Fund, The
Boston Community Capital Inc.	Heartland Renaissance Fund, LLC	Opportunity Fund
CALIFORNIA URBAN INVESTMENT FUND, LLC	HEDC New Markets, Inc	PACESETTER CDE INC
CAPITAL CITY PROPERTIES	Imagine Downtown, Inc.	People Incorporated Financial Services
Capital One Community Renewal Fund, LLC	Iowa Community Development LC	Phoenix Community Development and Investment Corporation
Capital Trust Agency Community Development Entity, LLC	Johnson Community Development Company	Reinvestment Fund, Inc., The
Capmark Community Development Fund LLC	Kansas City, Missouri Community Development CDE	Rockland Trust Community Development Corporation
Carolina First Community Development Corporation	Kentucky Highlands Investment Corporation	Rural Development Partners LLC
Carver Community Development Corporation	Key Community Development New Markets LLC	SBK New Markets Fund, Inc.
CCG Community Partners, LLC	Kitsap County NMTC Facilitators I, LLC	Self-Help Ventures Fund
Charter Facilities Funding, LLC	Liberty Bank and Trust Company	Solomon Hess SBA Loan Fund, LLC.

2008 New Market Tax Credit Allocatees Continued:

Chase New Markets Corporation	Local Initiatives Support Corporation	Southside Development Enterprises LLC
Cincinnati New Markets Fund, LLC	Louisville Development Bancorp, Inc.	St. Louis Development Corporation
Citibank NMTC Corporation	Low Income Investment Fund	Stonehenge Community Development, LLC
City First New Markets Fund II, LLC	MassDevelopment New Markets LLC	SunTrust Community Development Enterprises, LLC
Clearinghouse CDFI, The	MBS Urban Initiatives CDE, LLC	Synovus/CB&T Community Reinvestment, LLC
CNB Economic Development Company, LLC	MetaMarkets OK, LLC.	Texas Mezzanine Fund, Inc.
Coastal Enterprises, Inc.	MHIC NE New Markets CDE I LLC	UA LLC
Colorado Growth and Revitalization Fund llc	Midwest Minnesota Community Development Corporation	Urban Action Community Development LLC
Commercial & Industrial Community Development Enterprise, LLC	Milwaukee Economic Development Corporation	Urban Development Fund, LLC
Commonwealth Cornerstone Group	Montana Community Development Corporation	usbcde, llc
Community Development Funding, LLC	National Community Fund I, LLC	Vermont Rural Ventures, Inc.
Community Funding Group	National Community Investment Fund	Wayne County - Detroit CDE
Community Loan Fund of New Jersey, Inc.	National New Markets Fund, LLC	Wells Fargo Community Development Enterprises, Inc.
Community Reinvestment Fund New Markets I LP	National New Markets Tax Credit Fund, Inc	Wisconsin Business Growth Fund, Inc.
Community Ventures Corporation, Inc.	National Trust Community Investment Corporation	Wisconsin Community Development Legacy Fund, Inc.
Consortium America, LLC	NCB Capital Impact	WNC National Community Development Advisors, LLC

(Source: CDFI Fund, 2008)

Appendix II

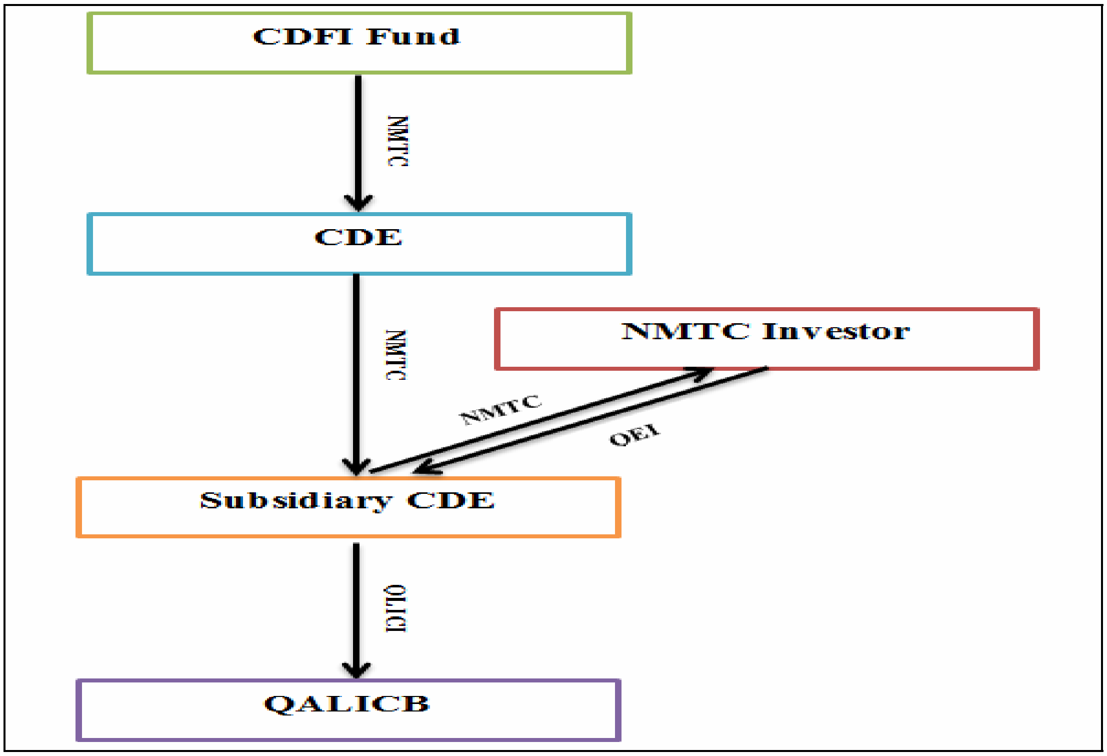
List of 2008 NMTC Allocatees with Retail/Mixed-Use Projects

Allocatee Name	Location	Amount of NMTC
AHC Community Development, LLC	Cleveland , OH	$55,000,000
Albina Equity Fund, I LLC	Portland , OR	$10,000,000
Bethany Square LLC	Santa Monica , CA	$10,000,000
CALIFORNIA URBAN INVESTMENT FUND, LLC	OAKLAND , CA	$20,000,000
Capmark Community Development Fund LLC	Denver , CO	$85,000,000
CCG Community Partners, LLC	Princeton , NJ	$20,000,000
Cincinnati New Markets Fund, LLC	Cincinnati , OH	$35,000,000
Citibank NMTC Corporation	New York , NY	$31,250,000
Colorado Growth and Revitalization Fund llc	Denver , CO	$35,000,000
Commonwealth Cornerstone Group	Harrisburg , PA	$60,000,000
Consortium America, LLC	Washington , DC	$85,000,000
Empire State New Market Corporation	New York , NY	$30,000,000
ESIC New Markets Partners LP	Columbia , MD	$95,000,000
Harbor Bankshares Corporation	Baltimore , MD	$50,000,000
Imagine Downtown, Inc.	Atlanta , GA	$20,000,000
Johnson Community Development Company	Racine , WI	$40,000,000
Kansas City, Missouri Community Development CDE	Kansas City , MO	$40,000,000
Key Community Development New Markets LLC	Cleveland , OH	$30,000,000
Kitsap County NMTC Facilitators I, LLC	Silverdale , WA	$20,000,000
Local Initiatives Support Corporation	New York, NY/National	$80,000,000
Louisville Development Bancorp, Inc.	Louisville , KY	$40,000,000
MassDevelopment New Markets LLC	Boston , MA	$30,000,000
MBS Urban Initiatives CDE, LLC	St Louis , MO	$50,000,000
National Community Investment Fund	Chicago , IL	$30,000,000
National New Markets Fund, LLC	Agoura , CA	$50,000,000

(Source: www.CDFIFund.gov, 2008)

Appendix III

Structure of the NMTC Program



Source: Chart Adapted from Kitsap Count NMTC Facilitators I, LLC Presentation, 2010

Appendix IV

3CDC Completed NMTC Projects

Project Name	Project Use	Total NMTC Funds
14th& Vine	Mixed-Use Residential & Commercial Space	$3,000,000
The Belmain	16 Residential Units	$1,680,000
Bremen Lofts	LEED Mixed-Use Residential & Commercial Space	$1,900,000
Centennial Row	8 Residential Units	$1,150,000
City Home	Mixed-Use Residential & Commercial Space	$6,000,000
Duncanson Lofts	Mixed-Use Residential & Commercial Space	$5,000,000
Duveneck Flats	Mixed-Use Residential & Commercial Space	$3,800,000
Falling Wall	Mixed-Use Residential & Commercial Space	$1,580,000
Fountain Square	Public space	$13,000,000
Gateway Arts	Mixed-Use Student Housing & Commercial Space	$1,700,000
Good Fellows Halls	Mixed-Use Residential & Commercial Space	$1,800,000
Lackman Bar	Commercial Space	$425,000
Mottainai	Mixed-Use Residential & Commercial Space	$2,370,000
Parvis Lofts	Mixed-Use Residential & Commercial Space	$2,000,000
Trideca Lofts	Mixed-Use Residential & Commercial Space	$2,900,000
Trinity Lofts	Mixed-Use Residential & Commercial Space	$5,000,000

(Source: 3CDC, 2011)

Appendix V

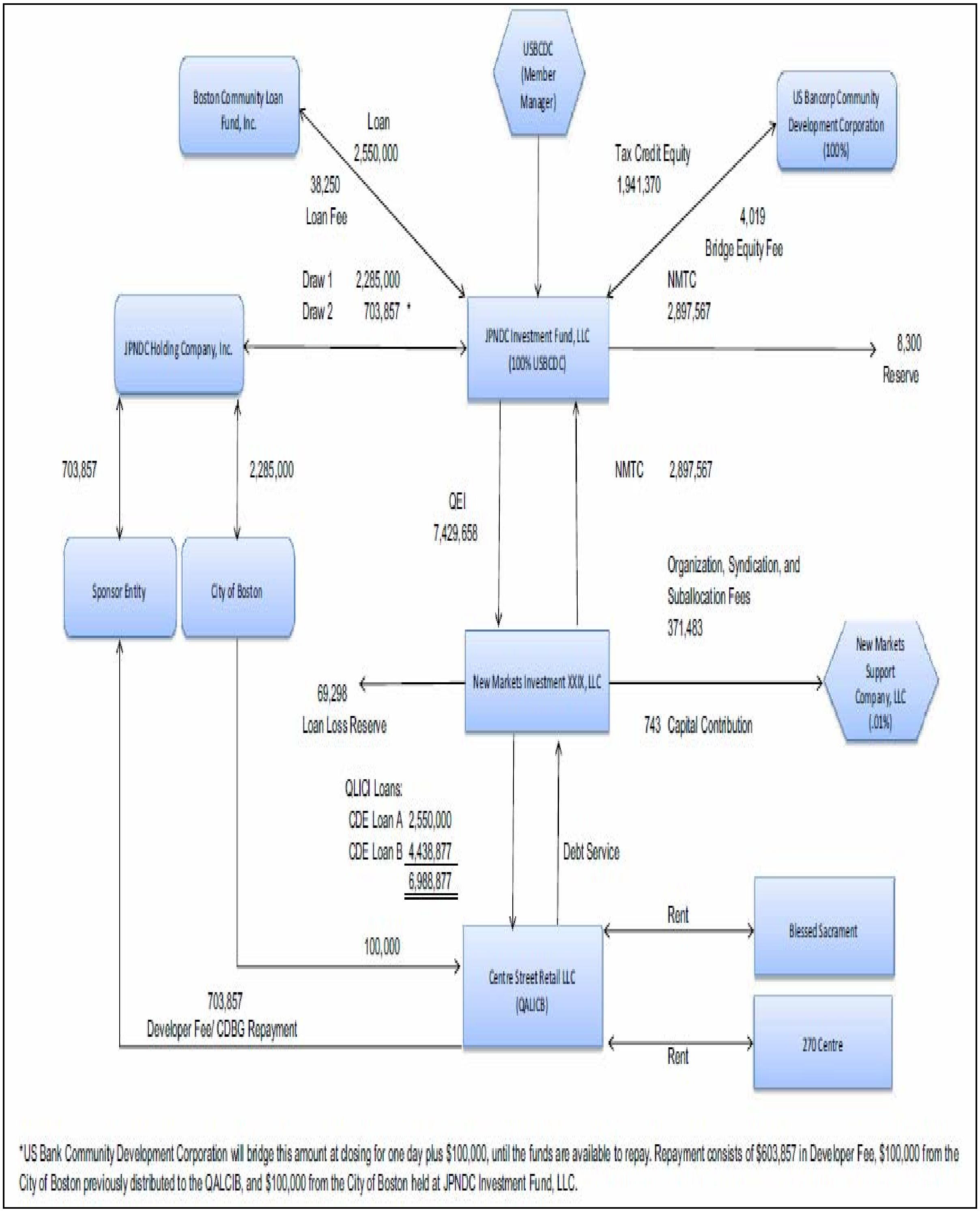
JPNDC List of Completed Projects

Project Name	Type	Impact	Year
Brewery Small Business Center	Commercial	Employs 250 people	1983
Angela Westover House	Assisted Living	11 Affordable Housing Units	1983
Summer Hill House	Housing	76 Total Residential Units, 56 Affordable Units	1986 & 2008
JP Scattered Site Cooperative	Housing	19 Permanently Affordable Units	1988
Forest Glen Cooperative	Housing	13 Permanently Affordable Units	1990
Hyde Square Cooperative	Housing	43 Affordable Housing Units	1993
Housing for First-time Homebuyers	Housing	17 Affordable Housing Units	1994-2000
JP Center	Commercial	Shopping Center	1996
Nate Smith House	Senior Housing	45 Affordable Housing Units	1998
Pondview Apartments	Housing	60 Affordable Housing Units	2000
Back of the Hill Community Housing Initiative	Housing	46 New Housing Units	2001 & 2004
Rockvale Circle Cooperative	Housing	Renovation of 5 Triple-Decker Homes	2002
Catherine Gallagher Cooperative	Housing	34 Affordable Housing Units	2003
Lamartine Street Homes	Housing	10 New Affordable Homeownership Units	2004
Julia Martin House	Senior Housing	55 Affordable Housing Units	2006
270 Centre	Mixed-Use	30 Affordable Housing Units & 5,000 sq. ft. of Retail	In Progress
Hyde/Jackson Homes	Housing	13 New Affordable Homeownership Units	2006

Source: www.jpndc.org, 2011

Appendix VI

NMTC Structure BS & 270 Centre Street Commercial Space



Source: JPNCD