



TIF and New Markets Tax Credits:

Economic Development Finance Tools with Applicability for Broadband
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Two Powerful Economic Development Finance Tools

Tax Increment Financing (TIF)

- ▶ Local economic development finance tool enabled by state law
- ▶ Program implemented by local governments
- ▶ Public purpose varies by state/locality; emphasis on blight removal and job creation
- ▶ Cash subsidies to qualifying projects, typically as grants
- ▶ Place-based: can only be used in properly designated TIF zones

New Markets Tax Credits (NMTC)

- ▶ Federal tax credit-driven below-market financing program
- ▶ Implemented via private intermediary lending entities known as “CDEs”
- ▶ Public purpose: stimulate investment in low-income areas that benefits local population. Emphasis on job creation
- ▶ Financing for qualifying projects, typically as debt but with “grant-like” features
- ▶ Place-based: can only be used in qualifying Census tracts

New Markets Tax Credit Program

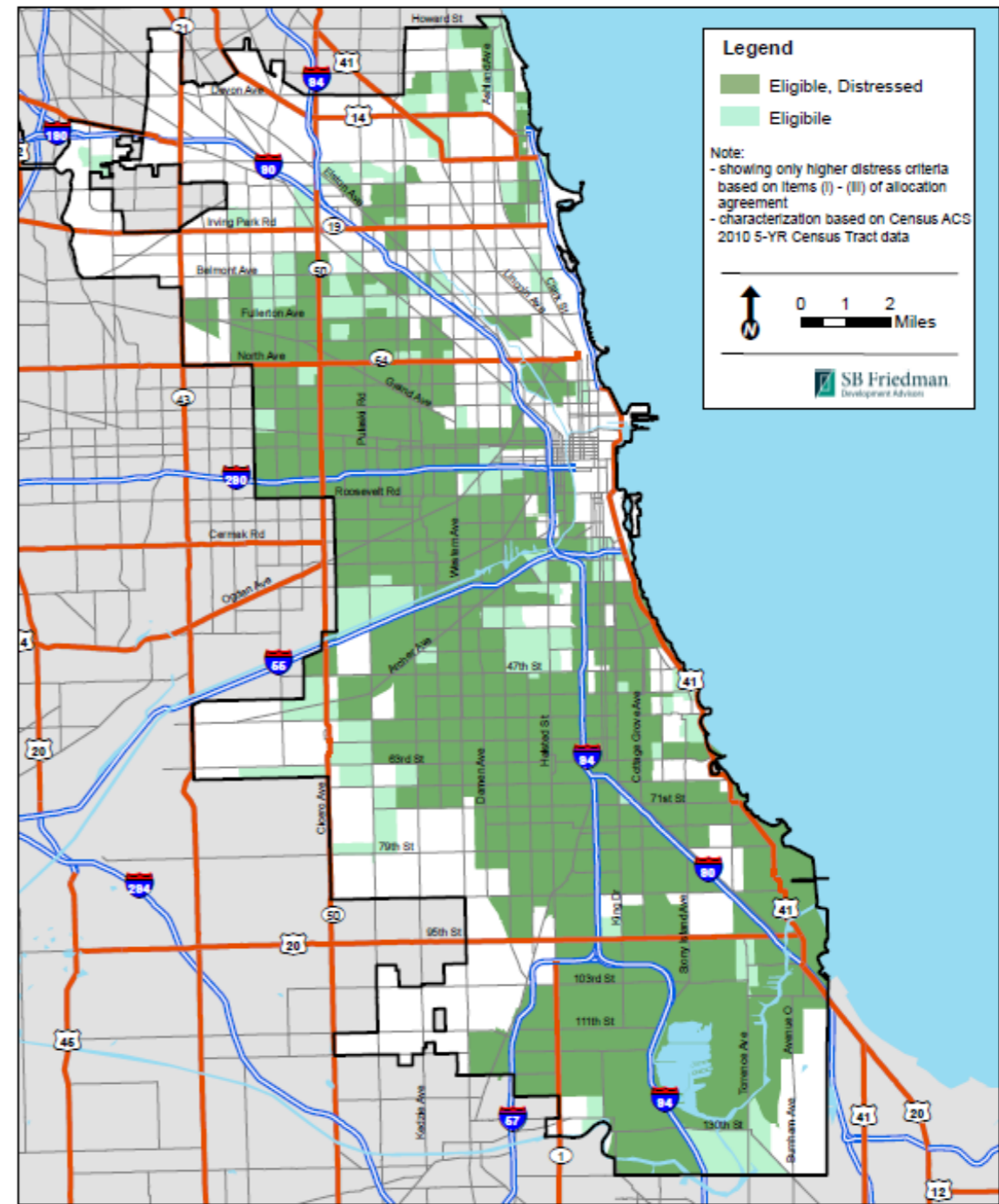
- ▶ Administered by US Treasury
- ▶ Flexible federal tax credit program that generates below-market capital for community and economic development projects
- ▶ Primarily supports industrial, community facility, and commercial development in qualifying Low Income Census tracts
- ▶ Can also support direct loans/equity investments to operating businesses

- ▶ Net effect: boost available capital for high impact projects/businesses by generally about 20%



Areas of Eligibility

- ▶ NMTC capital must be deployed in qualifying Census tracts
- ▶ Eligibility: Median Family Income of 80% or less of Metro Median; *or*
- ▶ Poverty rate of 20%+
- ▶ Eligibility sourced from 2006-2010 Census American Community Survey
- ▶ Additional distress criteria also apply



Key NMTC Player: The CDE

(Community Development Entity)

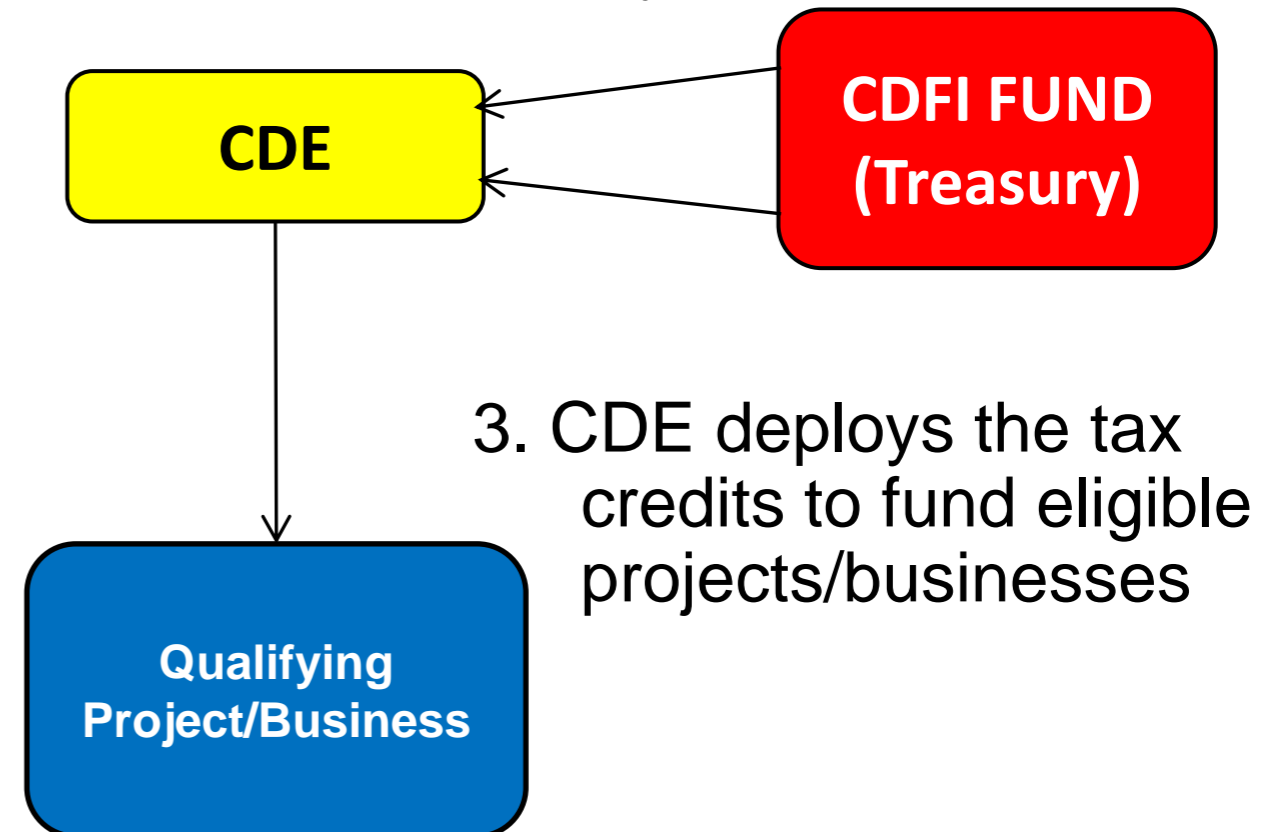
Requirements:

- ▶ Domestic corporation or partnership (can be controlled by private, non-profit, or government organizations)
- ▶ Mission driven: serving and accountable to Low-Income Communities
- ▶ Differing geographic footprints: National, regional, or local

1. Certification as a valid CDE
2. Competitive allocation of NMTCs- to about 80 CDEs/year

Examples:

- ▶ Chicago Development Fund: City-controlled 501(c)3 only focusing on City of Chicago
- ▶ CapFund New Markets, LLC: Regional CDFI-affiliated CDE focusing on 5 states in upper Midwest
- ▶ Chase New Markets Corp: For-Profit CDE controlled by JPMorgan Chase with a national footprint



3. CDE deploys the tax credits to fund eligible projects/businesses

NMTC Community Impact Priorities Potentially Applicable to Broadband

1. ***Job Creation***
2. ***Quality of Jobs***
3. ***Jobs accessible to Low-Income Persons and LIC residents***
4. ***Commercial goods and services to underserved populations***
5. ***Community goods and services to underserved populations***
6. ***Projects integral to implementation of community-based plans***
7. ***Highly catalytic projects***



Testa Produce: NMTC and Recovery Zone Facility Bond-financed project in Chicago, IL
Photo Credit: S. B. Friedman & Company

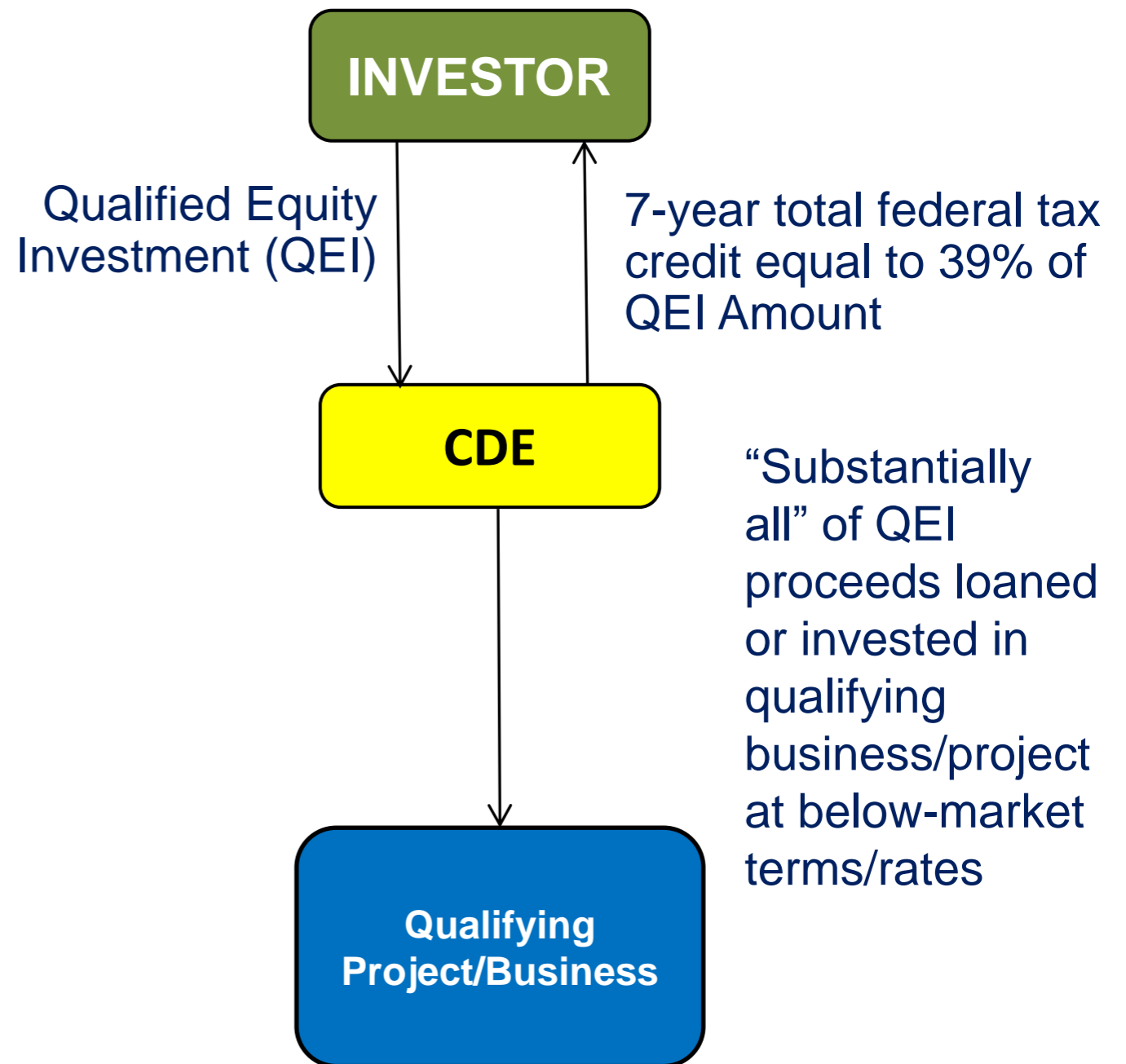
Program Allocation History

2001-02	\$2.5 billion	}	Initial Federal Authorization
2003-04	\$3.5 billion		
2005	\$2 billion		
2006	\$3.5 billion + \$600mm GO Zone		
2007	\$3.5 billion + \$400mm GO Zone	}	Supplemental 1-year Extensions
2008	\$3.5 billion + \$1.5 billion Stimulus		
2009	\$3.5 billion + \$1.5 billion Stimulus	}	2-year Extension
2010	\$3.5 billion: Allocated in February 2011		
2011	\$3.5 billion: Allocated in February 2012		
2012	\$3.5 billion: Allocated in April 2013	}	2-year Extension (approved Jan 2013)
2013	\$3.5 billion: To be allocated in 2014		
2014 and Beyond:	Efforts to extend and make permanent		

General Capital Flow

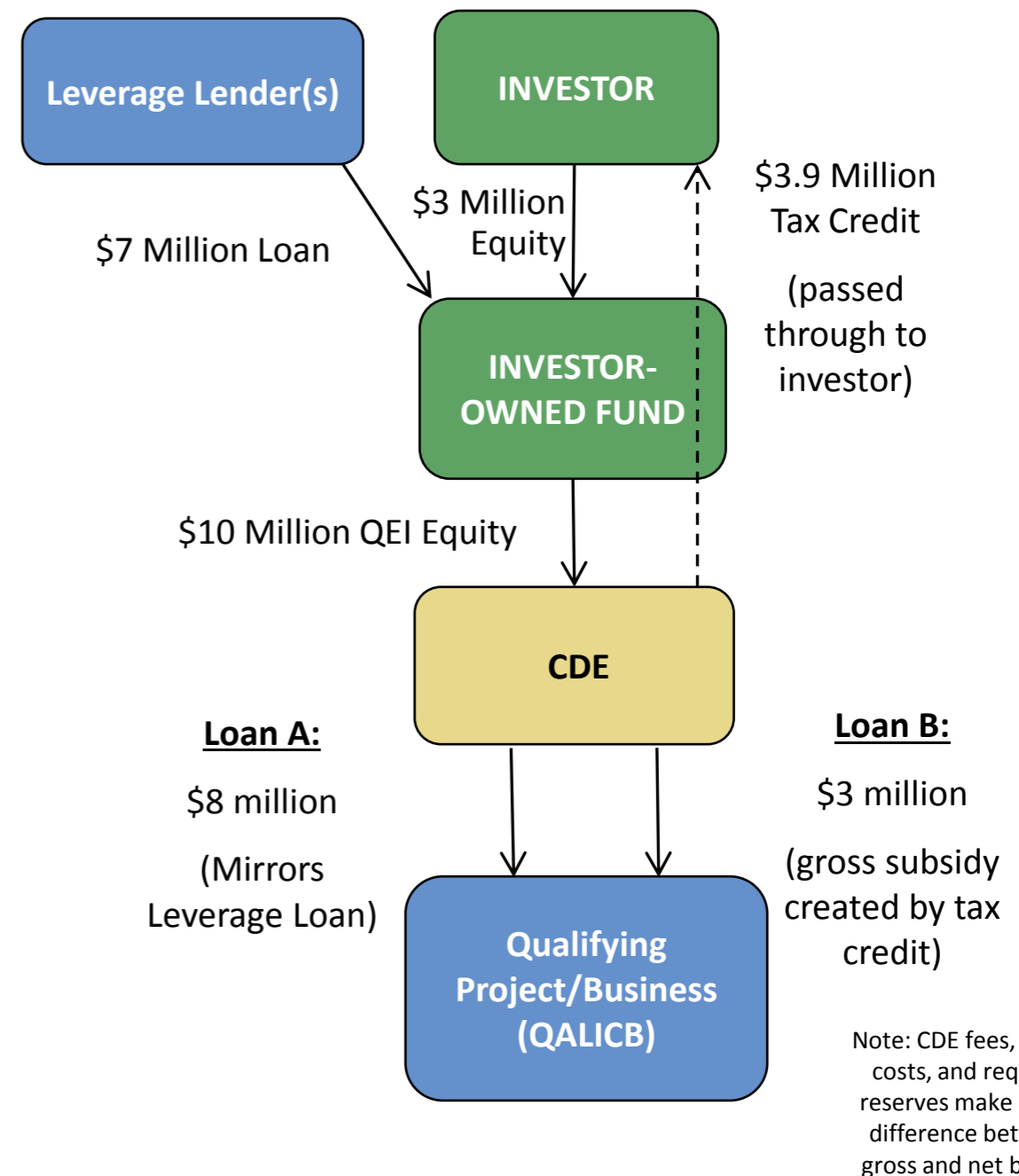
The NMTC Investment

- ▶ Unlike Historic or renewable energy tax credits, credit is triggered by investment in CDE (a financing entity) as opposed to actual project
- ▶ Investor makes a capital contribution into a CDE
- ▶ CDE allocates 7-year tax credit to Investor
- ▶ Typical investors: CRA-motivated banks
- ▶ CDE must deploy QEI capital into qualifying businesses/projects

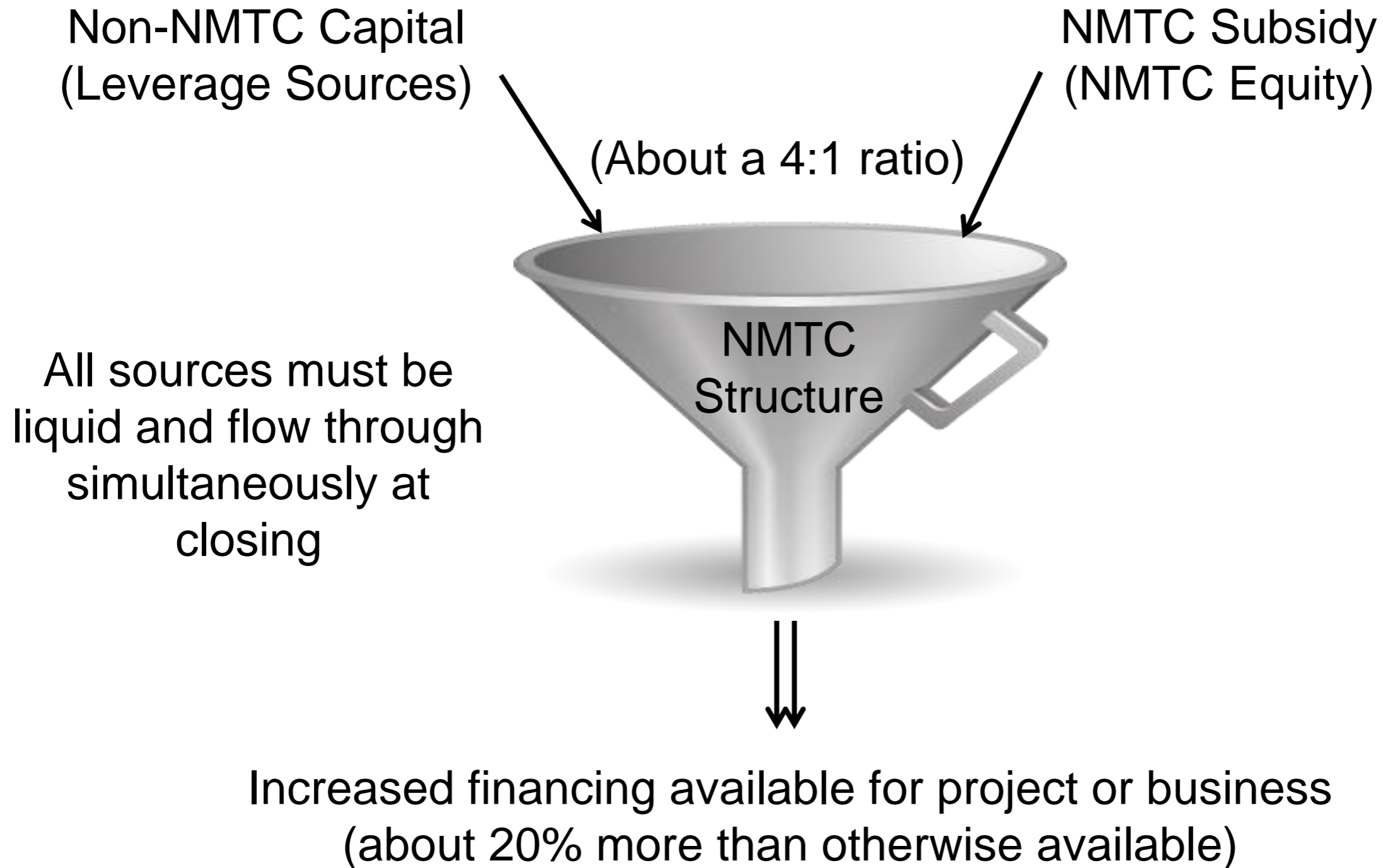


Typical Deal Structure: “Leverage Model”

- ▶ Investor borrows about 75-80% of total project funding sources from “Leverage Lender” to make the full QEI
- ▶ Leverage Loan is tied to economics of the underlying project or business
- ▶ Leverage Loan sources can include commercial debt, philanthropy, Sponsor equity, grant funds, and a range of other sources
- ▶ NMTC equity investment generates the subsidy in the transaction
- ▶ Because NMTC investor’s equity is underwritten based on tax benefits, significant flexibility to structure Loan B as a long-term subsidy to project



NMTC Leverage Structure: The “Funnel” Analogy

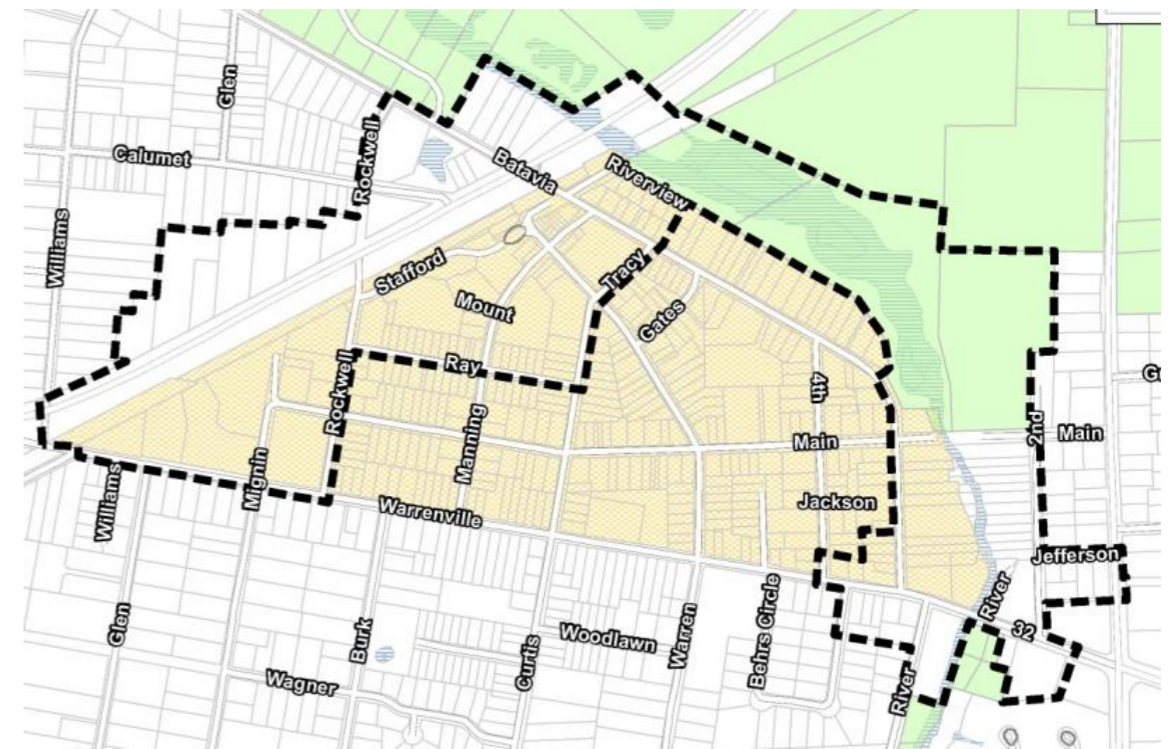


NMTC: Some Considerations

- ▶ NMTC borrower must be private entity; government ownership of NMTC-financed assets impermissible
- ▶ Structuring other financing sources to flow through “NMTC funnel” is complex; requires lead time and technical assistance
- ▶ NMTC program emphasizes direct, measurable permanent job creation- can be tricky for broadband projects
 - ▶ Emphasize/quantify catalytic impacts of project
 - ▶ Identify high impact “anchor tenants/users” from whom ongoing community impact data can be collected

What is TIF?

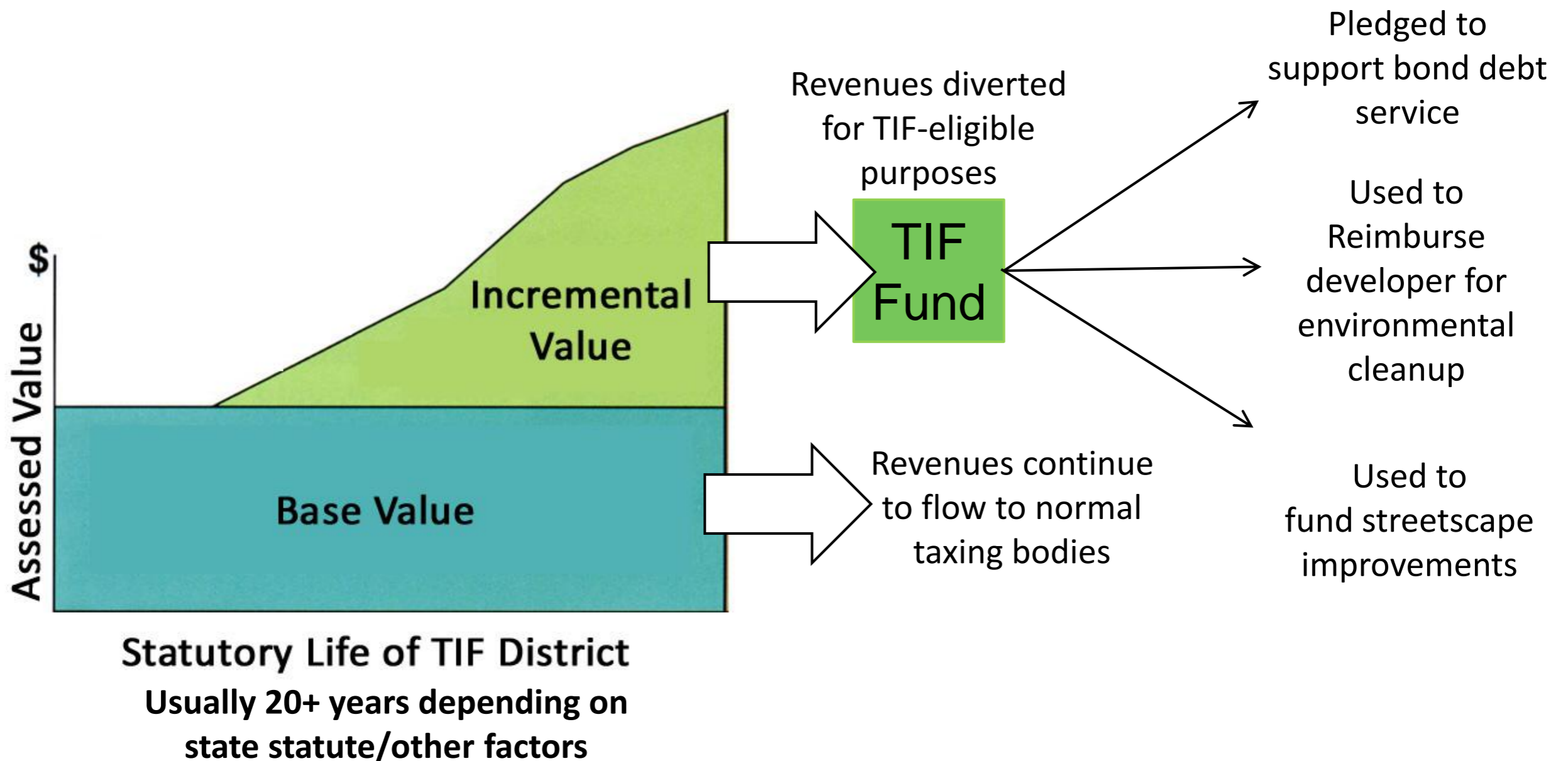
- ▶ Area-based, local government-controlled, public/private finance tool
- ▶ Authorized by state statutes in 49 states and the District of Columbia
- ▶ Captures incremental tax revenues in a defined geographic area for reinvestment in that area
- ▶ Flexible, powerful tool to foster high quality development and redevelopment



Sample TIF District Boundary

How TIF Revenues Flow

- Most commonly applied to property taxes on real estate
- Some states allow other types of incremental revenues as well



TIF's Purpose

- ▶ State statutes differ on this; frequently:
 - ▶ Eliminate blight through redevelopment
 - ▶ Foster economic development
 - ▶ Enhance the tax base
 - ▶ Other ancillary community development goals
- ▶ Findings are required to establish TIF districts (varied by state):
 - ▶ Findings of blight, risk of blight, and/or under-utilization of area
 - ▶ Limited recent development activity in area
 - ▶ “But for” TIF, revitalization would not occur



Bartlett Town Center redevelopment
Bartlett, Illinois

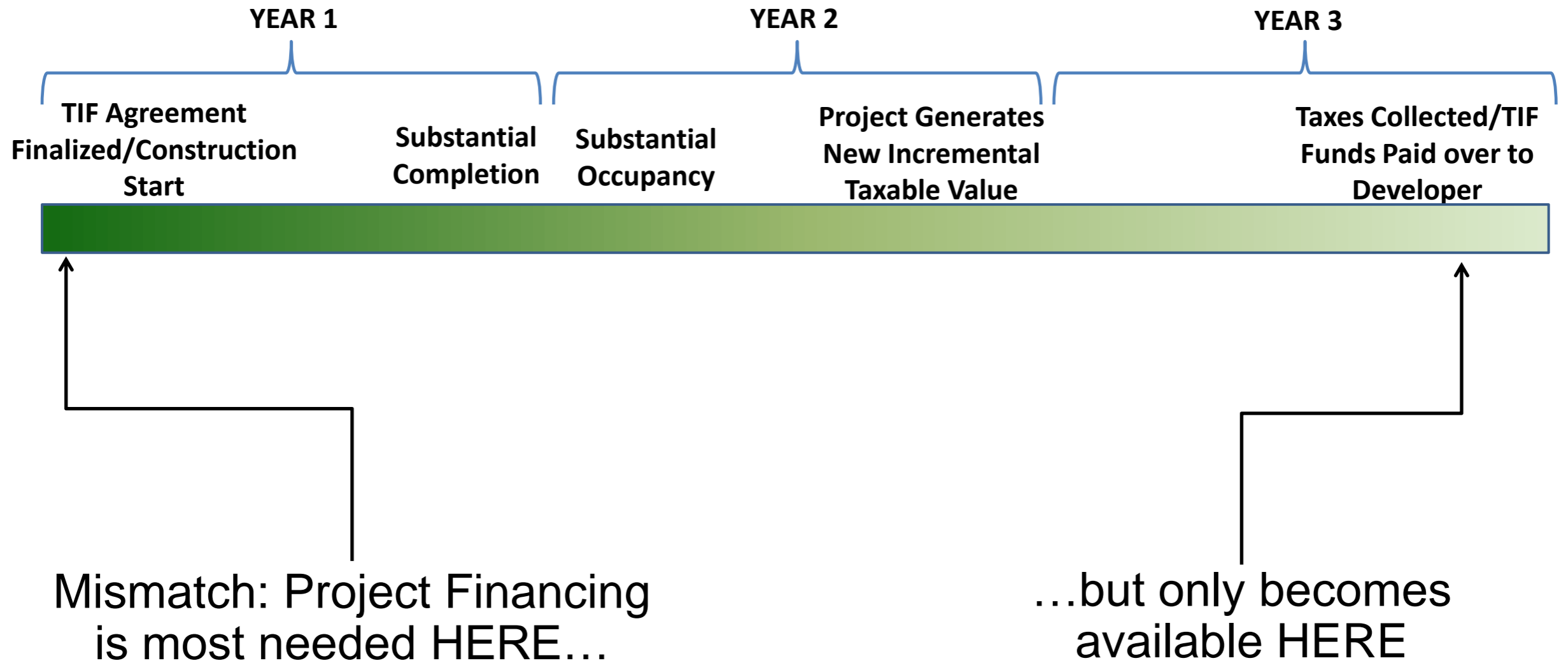
TIF's Usage

- ▶ Catalytic infrastructure for development
- ▶ Adaptive reuse/building renovation
- ▶ Assembly of sites for redevelopment
- ▶ Environmental cleanup/site prep
- ▶ Attracting job generators
- ▶ Public amenities (e.g. parking decks, parks, streetscape)
- ▶ Affordable housing/community facilities
- ▶ Other emerging/niche purposes

What can TIF Pay For?

- ▶ Typically set forth in state statutes
- ▶ Core categories most commonly allowable:
 1. Public infrastructure/facilities
 2. Site assembly, prep, cleanup (Public or Private)
 3. Public planning, admin, and financing costs for TIF
- ▶ Other categories sometimes allowable:
 - ▶ Private buildings (rehab and/or new construction)
 - ▶ Other activities (e.g. job training, private soft costs, private interest costs, etc)

TIF Timing Challenge



TIF: Some Considerations

- ▶ How will the broadband project generate TIF revenues: indirectly, or directly?
- ▶ What portions of broadband project can be covered by TIF funds under applicable state law?
- ▶ How can the future projected TIF revenue flow be best monetized up-front to fund the project?



Discussion

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- ▶ Real Estate Financial Analysis
- ▶ Feasibility Review
- ▶ Negotiation Support
- ▶ Tax Increment Financing
- ▶ New Markets Tax Credits
- ▶ Revitalizations Plans & Implementation
- ▶ Fiscal & Economic Impact
- ▶ Value Capture Finance

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