New Markets Tax Credits in Spokane

Steve MacDonald
Community & Economic Development Director
Introduction

• Congress authorized NMTCs in 2000 to increase the flow of private sector capital to businesses, nonprofits, & community facilities.

• Since 2000, the program has delivered $110B to more than 6,500 projects, creating over 1M jobs.

• During this time, Spokane has closed only five NMTC projects ($62M in NMTC allocation), while Seattle-Tacoma closed 18 projects ($307M allocation).

• Washington has not closed a NMTC project in the last two years, and Spokane’s most recent transactions were in 2011.
New Markets Tax Credit (NMTC) Statistics in 2022 Alone!

- 297 Projects in 40 states – 0 for Washington
- $3.2B in NMTC Allocation, Leveraging a Total of $6.7B for Projects in LICs
- 53K Total Jobs Created, Including 29K Permanent FTEs
- 92 Healthcare Projects, Including 53 FQHCs
- 138 Education Programs – Vocational, Early Childhood, K-12, and College
What are New Markets Tax Credits?

- NMTCs – Flexible, Gap Financing Designed to Revitalize Low-Income Communities
- Instead of providing a direct federal grant, NMTCs attract private sector investment by providing an incentive for banks to invest in organizations called Community Development Entities (CDEs).
- The banks (investors) receive a 39% tax credit for investments into the CDEs, who use these proceeds to finance new and expanding businesses and community health, medical, educational, and other projects.
Why Spokane?

- Nearly half (34) of Spokane’s 74 census tracts qualify for NMTCs.
- Spokane has vibrant sectors in Manufacturing, Healthcare, Education, and others that can utilize NMTCs for construction of new projects and expansion of existing facilities.
- AMI in Spokane ($62K) is 56% less than Seattle’s AMI of $111K
- NMTCs help create quality jobs and provide needed goods and services in low-income communities, helping to lift people from poverty.
- $5B of NMTCs are awarded by the US Treasury each year, with a possibility of $10B next year – let’s get our fair share for this region!
How Do They Work?

Private Investor

Investor makes 7 Year Qualified Equity Investment

Investor receives 39% tax credit over 7 years

CDFI Fund Department of Treasury

CDFI Fund Awards NMTC Allocation Authority

Community Development Entity (CDE)

CDE applies for NMTC Allocation Authority

CDFI Fund Awards NMTC allocation to CDE

CDE makes loans and equity investments (QLICIs)

Qualified Low Income Community Business

Business must be in a low-income community (where the poverty rate is 20% or higher or the median income is 80% or lower than the area median income)

(Chart Courtesy of New Markets Tax Credit Coalition)
Qualified NMTC Areas in Spokane County

City Boundary

NMTC_Eligibility_2023
- Not Eligible
- Severe Distress
- Eligible
Qualified NMTC Areas of Spokane
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Denver, CO 80202
Leveraged Lending Model

Leverage Lender

$6.8 million loan
Collateral: pledge of 99.99% CDE membership
7 year forbearance

Leverage Fund LLC

$10 million Equity
(generates NMTC)
99.99% CDE member

CDE

$7.3 million A Loan
$2.5 million B Loan

Allocatee

NMTC Investor (100%)

NMTC $3.9 million

Allocatee

$3.2 million Equity

$200,000 Sponsor Fee

$10 million Equity
(generates NMTC)

Collateral: pledge of 99.99% CDE membership
7 year forbearance

Leverage Lender

Managing Member (0.01%)

QALICB

$2.5 million B Loan

$10 million Equity
(generates NMTC)

Allocatee

$2.5 million B Loan

QALICB

$10 million Equity
(generates NMTC)
Key Players

Four components are required to complete a NMTC transaction:

- Allocation provided by the CDE(s)
- An Investor to acquire the tax credits
- Leverage lender(s) to leverage the tax credits
- A business or real estate project that qualifies for the program

Service Providers

- Lawyers
- Consultants
- Accountants
Motivations of Parties/Economic Benefits

• **CDE/Allocatee**
  - Compliance with their Allocation Agreement
  - Invest in deals that have the highest community benefits that positions them for new allocation awards in subsequent rounds
  - Represent the interests of the low-income community

• **CDE Economic Benefits**
  - CDE Fee paid at closing
  - CDE Fees paid paid over the 7-year compliance period
  - Some CDEs require exit fee

• **Investor**
  - Obtaining full amount of tax credits
  - CRA Credit
  - Clear exit strategy

• **Investor Economics**
  - Require a yield on the investment in the tax credits
Motivations of Parties/Economic Benefits

• **Borrower/QALICB**
  - Successful project
  - Utilize NMTCs to provide subsidized financing allowing the project/business to succeed
  - Clear exit strategy

• **Borrower/QALICB Economics**
  - Subsidy of approximately 20%-25% of allocation amount
  - Below market interest rate, interest only payments for 7 years and other favorable loan terms

• **Leveraged Lender (if unrelated Lender)**
  - Issuance of new loan and potential for CRA credit
  - Maintaining its relationship with the Borrower/QALICB

• **Leveraged Lender Economics**
  - Interest rate associated with the loan
  - Other economic motivations for loan (for example, CRA credit)
Key Transaction Stages

Program Qualification/ Term Sheet
Underwriting/ Diligence Review
Key Documents
- Leverage Lender
- Investor
- CDE
- QALICB
Post-Closing
Documentation / Diligence

• CDE Term Sheet and Documents

• Investor Documents

• QALICB Documents
Post-Closing

- QALICB Reporting
- QLICI Payment Dates
- 7 Year Exit
U.S. Bancorp Impact Finance
New Markets Tax Credits

Drew Hammond
Vice President | Business Development Officer
U.S. Bancorp Impact Finance provides financial solutions that combine purpose and profitability to help create **lasting impact for people and the planet.**

Our tax credit investments and syndications, lending and other financial solutions help clients **financial, social and environmental goals.**

<table>
<thead>
<tr>
<th>Who we serve</th>
<th>Where we invest</th>
<th>How we support our customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate developers</td>
<td>Affordable housing (LIHTC)</td>
<td>Affordable housing, CDFI, and environmental and renewable energy lending</td>
</tr>
<tr>
<td>Business owners</td>
<td>Economic development (NMTC)</td>
<td>Federal and state tax credit equity investments</td>
</tr>
<tr>
<td>Community Development Financial Institutions (CDFI)</td>
<td>Historic renovations (HTC)</td>
<td>Tax credit syndications</td>
</tr>
<tr>
<td>Lenders</td>
<td>Renewable sources of energy (RETC)</td>
<td>A full suite of financial products and services</td>
</tr>
<tr>
<td>Investors</td>
<td>We acquire a variety of state tax credits in over 100 state tax credit programs across the country</td>
<td></td>
</tr>
<tr>
<td>Government or nonprofit agencies</td>
<td></td>
<td></td>
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</tbody>
</table>
## Tax credit and lending opportunities

<table>
<thead>
<tr>
<th>Support affordable housing</th>
<th>Develop underserved communities</th>
<th>Preserve historic structures</th>
<th>Power our communities</th>
<th>Generate new sources of capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>State and federal Low Income Housing Tax Credits and affordable housing lending</td>
<td>State and federal New Markets Tax Credits</td>
<td>State and federal Historic Tax Credits</td>
<td>Renewable energy tax equity and lending</td>
<td>State and federal tax credit syndications</td>
</tr>
</tbody>
</table>
A suite of financial services

We specialize in products and services our customers can rely on to help achieve their financial, social and environmental goals.

| CDFI lending | Deposit, treasury management and payment solutions | Commercial card and prepaid options | Capital markets |
**Our impact**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affordable housing units</td>
<td>112,158</td>
<td></td>
</tr>
<tr>
<td>Gigawatts financed</td>
<td>23.80</td>
<td></td>
</tr>
<tr>
<td>FTE jobs</td>
<td>452,838</td>
<td></td>
</tr>
<tr>
<td>Affordable housing units in tax credit equity</td>
<td>$46.3B</td>
<td></td>
</tr>
<tr>
<td>Individuals receiving healthcare services</td>
<td>2,967,998</td>
<td></td>
</tr>
<tr>
<td>Total investments</td>
<td>4,081</td>
<td></td>
</tr>
</tbody>
</table>

**Our investments**

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Income Housing Tax Credit equity</td>
<td>$17.5B</td>
<td></td>
</tr>
<tr>
<td>Current affordable housing loan commitment</td>
<td>$4.4B</td>
<td></td>
</tr>
<tr>
<td>Tax equity raised</td>
<td>$17.9B</td>
<td></td>
</tr>
<tr>
<td>Current loan commitment to CDFIs and intermediaries</td>
<td>$386M</td>
<td></td>
</tr>
<tr>
<td>Renewable energy tax equity</td>
<td>$17.1B</td>
<td></td>
</tr>
<tr>
<td>New Markets and Historic Tax Credit equity</td>
<td>$10.3B</td>
<td></td>
</tr>
<tr>
<td>Environmental and renewable energy current loan commitment</td>
<td>$696.3M</td>
<td></td>
</tr>
</tbody>
</table>

**Why U.S. Bancorp Impact Finance?**

Achieve your financial, social and environmental goals with our trusted industry expertise, reliable execution, and strength and stability of U.S. Bank.

Data as of December 31, 2023. See end disclosures.
U.S. Bancorp Impact Finance
New Markets Tax Credits
New Markets Tax Credits

Supporting economic development in underserved communities

Center for Creative Arts
St. Louis, MO

Romark Global
Manati, Puerto Rico

Blackburn Center
Portland, OR

$7.9 billion invested

1,916 investments

260 community development entities

$30 billion leveraged

Data as of December 31, 2023. See end disclosures.
Preparing to make an investment

- Confirm eligibility
- Balance of sources
- Construction readiness
- CDE interest
- Consultant/prior NMTC experience

Market trends to consider

- Project types
- Timing / QLICI Threshold
- Underserved States and Rural projects
- Community Benefits / Distress Criteria
U.S. Bancorp Impact Finance
Our investments
Columbia Basin Health Association
Othello, Washington
Closed 2016

$31.75 million in allocation for a $38+ million project
▪ $10.5 million in NMTC equity

Sponsor
▪ Incorporated in 1972, Columbia Basin Health Association, CBHA is a Federally Qualified Health Center with more than 40 years of experience.

Community Benefits
▪ Medically Underserved Area and Low Income and Migrant Primary Care Health, Dental, and Mental Health Professional Shortage Area.
▪ Patient population that is over 27% under-insured or uninsured; 41% of patients are under 100% of the Federal Poverty Level and 86% of patients are under 200% of the Federal Poverty Level.
▪ 44% of patients are migrant/seasonal farmworkers
▪ 40,000 patients and over 200,000 encounters annually.

Jobs
▪ 150 construction
▪ 398 created/retained FTEs

Yakima Valley Farm Workers Clinic
Kennewick, Washington
Closed 2020

$16 million in allocation for a $22 million project
▪ $4.8 million in NMTC equity

Sponsor
▪ Incorporated in 1978, Yakima Valley Farm Workers Clinic is a not-for-profit, public benefit, community based primary health care clinical network.
▪ Originally established as a provider of healthcare for migrant and seasonal farm workers, it has grown from one site with four medical providers to an entity providing medical, dental, pharmacy, behavioral health, chemical dependency, case management, and social services in over 25 locations throughout eastern Washington and northern Oregon.

Community Benefits
▪ The expansion includes the new construction of a 40,000 square foot community facility which is designated as a Federally Qualified Health Center in Kennewick, WA.
▪ This expansion will increase its health care services and provide accessibility to a wider range of healthcare services for residents in severely distressed communities in Eastern Washington and Northern Oregon.

Jobs
▪ 60 new full-time positions
▪ Provides culinary and warehouse training to low-income individuals.

Food Lifeline
Seattle, Washington
Closed 2015

$7.75 million in allocation for a $9 million project
▪ $3 million NMTC equity

Sponsor
▪ Improvements for Food Lifeline’s new 117,500 square foot Hunger Solution Center. The mission of Food Lifeline is to end hunger in western Washington by ensuring that every child and adult has access to three healthy meals per day.
▪ Founded in 1979, it distributes 38 million pounds of food to 745,000 people annually through a network of 300 food banks, meal programs and shelters across 17 counties.

Community Benefits
▪ Food Lifeline currently rescues more than 40 million pounds of food annually, keeping millions of dollars’ worth of food out of landfills.
▪ The new facility will increase distributed food poundage by 10% each year, reaching 50 million pounds of food annually within five years.

Jobs
▪ 60 new full-time positions
▪ Provides culinary and warehouse training to low-income individuals.
Landmark investments

Pike Place, the historic public marketplace in Seattle.

Pacific Tower, an art deco landmark in Seattle.

Bullitt Foundation Living Building

Tribal investments

EcoTrust | Colville Nation | Closed 2019
This project financed the construction of a 48 bed, 34,000 sq. ft. substance abuse treatment center in Keller, on the reservation of the Confederated Tribes of the Colville Reservation.

The project provides in-patient addiction treatment to tribal members and features culturally sensitive therapies such as sweat lodges. It is purposefully located in a more remote portion of the reservation to allow patients the opportunity to recover without nearby temptations.

- QEI $16.5MM, $5.3MM in NMTC equity
- CDE: EcoTrust CDE, LLC; Craft3

Quinault Indian Nation Early Head Start | Chickasaw Nation | Closed 2019
This project financed an approximately 30,000 sq. ft. building to house the Quinault Indian Nation’s Early Head Start, a day care, and senior programs along with other tribal services.

The Quinault Indian Nation is undertaking the challenge of moving its citizens in Taholah, Washington, to higher ground as the village is vulnerable to flooding and located in a tsunami zone.

The children’s programs and the senior programs were identified as serving the most vulnerable of the tribe’s populations and the building also serves as an emergency shelter in case of earthquake and/or tsunami.

- $11.55MM QEI; $3.7MM in NMTC equity
- CDE Partner: Chickasaw Nation Community Development Endeavor, LLC
Impact Investing In Manufacturing

Beth Fore
Vice President,
New Markets Tax Credits

SDS Capital Group
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Los Angeles, CA 90024

(636) 219-3308 | bf@sdsgroup.com
National New Markets Fund (NNMF)

- SDS Capital Group since 2001
- $1.3 billion AUM
- Impact embedded in our DNA.
- NNMF CDE since 2005
- 12 of 14 NMTC Awards
- 100% manufacturing focused
- Severe Distress Communities

$752 million
NMTC Allocation Awarded

$3.1 billion
Total Project Costs

48
Projects Financed

17,090
Jobs Created
Ohio Label Manufacturing Expansion

- $23M total Project Costs: Received $23M in NMTCs from 2 CDEs = $6.5M in subsidy.
- Equipment upgrades and added a new manufacturing line
- Environmentally friendly label operations.
- Jobs: 238 Full Time Employees
- 100% of jobs pay above living wage and offer health benefits
- 70% of jobs are available to Low-Income residents.
- Recruit and employ individuals who are:
  - Previously Incarcerated (23 current)
  - Refugees (26 current)
  - Homeless veterans (2 current)
- Partners with local technical school to provide manufacturing skills training.
- Company invests significantly in its employees, offering ongoing training and skills enhancement opportunities.
Tennessee Food Production and Storage Facility

- $56M total Project Costs: Received $43M in NMTCs from 5 CDEs = $13M subsidy.
- Retrofit equipment and expand their custom food production.
- Jobs: 211 Full Time Employees
- 68% Minority
- 100% of jobs pay above living wage and offer health benefits
- 85% of jobs are available to Low-Income residents.
- Works with local workforce development agencies and non-profits to provide job opportunities
  - Bridge Refugee Services
  - Safe Harbor: homeless and ex-offenders
- Company invests significantly in its employees, proven record providing employees with training and wage progression.
Oklahoma Scrap Steel Recycling and Manufacturing Facility

• $370M total Project Costs: Received $51M in NMTCs from 4 CDEs = $17M of subsidy.
• Construction and equipment of a new steel rebar manufacturing facility.
• Environmentally Friendly: 100% recycled steel for production input
• Jobs: 300 Full Time Employees
• 100% of jobs pay above living wage and offer health benefits
• 60% of jobs are available to Low-Income residents.
• Local community support received from:
  City
  Local Tribe
  State
• Partnered with Choctaw Nation Career Development to prepare tribal members for job opportunities.
How SDS helps projects secure NMTC funding:

• Assess your project: Can it ATTRACT NMTC CDEs to invest?
• Create industry specific marketing materials
• Develop the initial structure model
• Market and pitch to NMTC CDEs and Investors
• Recommend the terms to you
• Negotiate the terms of the NMTC allocation
• Navigate every step of the closing and lead closing calls

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Forum Questions & Discussion