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St Luke's Point Campus
Cleveland, Ohio

DECEMBER 2013 • ISSUE THEME: **New Markets Tax Credit**



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Photo by Michael Bland, Travois New Markets

Little Big Horn College Health and Wellness Center
Crow Tribe, Crow Agency, Montana
NMTCs Provided by Travois New Markets

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Making a Difference

New Markets Tax Credit Projects Boost Low-Income Neighborhoods

It's a story of two Philadelphia's, in Mississippi and Pennsylvania, and of the "Two Davids" – both in Detroit.

That "story" is the huge positive impact that the federal new markets tax credit (NMTC) has made – and is still making – in these and other communities nationwide. With ten funding rounds completed and the eleventh underway, the 13-year-old NMTC program is revitalizing and transforming low-income neighborhoods by funding diverse real estate projects and businesses creating and retaining jobs, providing much-needed services, and spurring follow-on development. Among these are charter schools, health care centers, manufacturing plants, hotels, power facilities, food banks, museums, theaters, housing, and mixed-use developments.

In Philadelphia, Miss., a city of nearly 7,500 with a median household income just under \$30,000, local officials in June celebrated the opening of a 52,000-square-

foot expansion of the local Neshoba County Hospital and Nursing Home that was financed with new markets tax credits. The expansion added a new emergency room, four-bed intensive care unit, 25 patient beds, radiology department, surgery suite, and pharmacy.

"The hospital is a very important venue for our community," says Philadelphia Mayor James Young. He indicated the hospital and nursing home, located in the city and a major local employer, is vital to keeping and attracting businesses and residents.



Mayor James Young

According to Young, the new markets tax credit provided a much-needed tool for financing the hospital expansion, saying small towns like Philadelphia don't have the tax base and resources of large cities and regional governments to fund such a project alone.

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Rendering by Foil Wyatt Architects and Planners



Rendering of Neshoba County Hospital Addition, Philadelphia, Mississippi
NMTC Allocation Provided by Dudley Ventures, LLC

James Howard, Jr., CEO of Dudley Ventures, a Phoenix, Ariz.-based firm that operates a community development entity (CDE) that provided NMTC allocation for the Philadelphia hospital project.

The Other Philadelphia

Meanwhile, a thousand miles away, in Philadelphia, Pa., a city of 1.5 million,

Even pulling together, the city and county would have been hard-pressed to fund the hospital project from tax revenues or by issuing bonds. “Without financing, nothing happens,” says Young.

“Community hospitals tend to be an economic driver, because you can’t attract industry or any kind of long-term economic development without having the type of health care that a facility like this is able to offer” says

scores of NMTC projects have been completed or are getting underway.

A key player is The Reinvestment Fund (TRF), a Philadelphia-based nonprofit that operates a CDE with a national footprint that has funded many NMTC projects in Philadelphia, Baltimore, and New Jersey.

“We try to direct our [NMTC] allocations to institu-

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A Sampling of New Markets Tax Credit Projects





1. **Rendering of Roswell Park Cancer Institute, Buffalo, N.Y.**
 NMTC Allocation Provided by Dudley Ventures, LLC
 Rendering by FXFowle Architects/Courtesy of Roswell Park Cancer Institute
2. **Rendering of Maryland Institute College of Art (MICA) Graduate Studio Center, Baltimore, Md.**
 NMTC Allocation Provided by The Reinvestment Fund
 Photo by The Reinvestment Fund
3. **Lac du Flambeau Community Dental Facility On Reservation of Lac du Flambeau Band of Lake Superior Chippewa, Lac du Flambeau, Wisc.**
 NMTC Allocation Provided by Travois New Markets
 Photo by Michael Bland, Travois New Markets
4. **Mercer Commons, Cincinnati, Ohio**
 Tax Credit Equity Provided by U.S. Bancorp CDC
 Rendering courtesy of U.S. Bancorp CDC
5. **Bottino's ShopRite Supermarket, Anchor in Retail Center, Vineland, N.J.**
 NMTC Allocation Provided by The Reinvestment Fund
 Photo by The Reinvestment Fund
6. **Korean Dinner at Lutheran Metropolitan Ministry's Richard Sering Center, Cleveland, Ohio**
 NMTC Allocation Provided by Cleveland Development Advisors
 Photo courtesy of Lutheran Metropolitan Ministry

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tion-driven commercial real estate projects,” says TRF Executive Vice President Nancy Wagner-Hislip. “We’re interested in projects that arise from investments of institutions in their surrounding communities.”

TRF, for instance, is funding three new projects in Philadelphia with a portion of the \$45 million NMTC allocation award it received earlier this year in the 2012 funding round. These include:

- The expansion of 11th Street Family Health Services, a federally qualified health center run by Drexel University’s College of Nursing and Health Professions. The facility provides comprehensive health care services to vulnerable people and residents of four public housing projects in the 11th Street corridor of North Philadelphia.



Photo by The Reinvestment Fund

Students at Wissahickon Charter School, Philadelphia, Pennsylvania
NMTC Allocation for Awbury Campus Provided by The Reinvestment Fund

- Construction of a new, second campus of the Wissahickon Charter School (K-8), which has an environment-focused curriculum. The new 48,170-square-foot facility, ultimately serving 478 students, will contain 18 classrooms, rooms for art, music classes and a computer lab, as well as a cafeteria, kitchen, and a 5,000 sq. ft. gymnasium. The facility is adjacent to the 55-acre Awbury Arboretum, which will function as an outdoor classroom.
- Improvements to the landmark Philadelphia Episcopal Cathedral to create space for a child day-care program and construction of new office space for the church and diocese and some retail as well.

According to Wagner-Hislip, new markets tax credits are one of multiple financing tools TRF uses to support community development-type projects bringing economic and other opportunities to low-income areas. She indicated that TRF focuses heavily on funding charter schools and federally qualified health centers as well as supermarkets and alternative delivery systems providing underserved neighborhoods with access to fresh and healthy food.

The ‘Two Davids’

In Detroit, new markets tax credits are behind the redevelopment of what Bank of America calls the “Two Davids”: the David Broderick Building and the David Whitney Building, two large historic former office buildings facing one another that had been vacant for years. The former is completed and the latter is underway.

Broderick Tower, a \$53 million project completed in late 2012, has 34 stories with 127 market-rate apartments, a restaurant, and a business incubator. The apartments were 90% pre-leased at rents 20% above pro forma rents 90 days before construction was finished, says



Leigh Ann Smith

Leigh Ann Smith, an executive at Bank of America Merrill Lynch (BAML).

BAML provided NMTC allocation for the Broderick Tower project, and is providing NMTC allocation, historic tax credit equity, and debt for the \$82 million David Whitney project, which broke ground in March. When completed in 2014, the 19-story building will contain 85 market-rate and 20 affordable apartments and a 136-room Aloft Hotel, a Westin brand.

“These two buildings are on the Woodward Avenue Gateway into downtown Detroit,” says Smith. “They’re really helping create an anchor for other development in that area.”

Meanwhile, over on the West Coast, BAML has closed a transaction where it is providing NMTC allocation and equity dollars to help finance a new 86,000-square-foot building to expand the iconic San Francisco Wholesale Produce Market, where local restaurants, hotels, and grocery stores purchase fresh food and produce from vendors. Located in the Bayview-Hunter’s Point neighborhood, the Produce Market, Smith says, also “has some great outreach programs with area schools.”

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U.S. Bank Activity

One of the biggest players in the NMTC program, U.S. Bancorp Community Development Corporation (USBCDC), is having a very busy year. USBCDC acts as an equity investor in NMTC projects and has an affiliate CDE (USBCDE, LLC) that provides new markets allocations to projects. Affiliate U.S. Bank may also provide debt to NMTC projects.

As of early November, the company had closed about 80 federal and state new markets tax credit projects so far in 2013, including 10 in which USBCDE provided NMTC allocation. While USBCDE received a \$65 million allocation award in the 2012 funding round, all of this has been committed to specific projects, according to USBCDC executive Matt Philpott. "It's all spoken for but not yet all closed," he said.

Examples of some its latest NMTC projects include:

- Mercer Commons, a multi-phase project in the historic Over-the-Rhine neighborhood in downtown Cincinnati, Ohio. The project will involve the renova-

tion of 19 historic buildings and new construction on 26 vacant parcels of land, bringing new residential units, commercial space, office space, a parking garage, and green space. U.S. Bank this year helped the developer (3CDC) start critical components of the project with two separate closings, one providing NMTC and historic tax credit equity to finance commercial development, and the second providing low-income housing and historic tax credit equity and a construction loan to develop 67 affordable and market rate housing units. More recently, USBCDE has provided NMTC allocation for the University Station project in Cincinnati.

- Washburn Center for Children, a one-of-a-kind children's mental health center being built in Minneapolis, Minn. that will support future generations of healthy, productive children in the Twin Cities metro area. The new center, to open in late 2014, will respond to the community's growing need for mental health services, provide an expanded and more effective natural environment to support

NMTC, continued on page 20



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healing, and enable the Washburn Center to better train children’s mental health clinicians in best practices. U.S. Bank provided a bridge loan, USBCDC was the NMTC investor, and USBCDE provided NMTC allocation along with Capital City Properties and United Fund Advisors.

Activity in Cleveland

Another city where the new markets tax credit has had a major positive impact is Cleveland, Ohio.

One of the most active local players is Cleveland Development Advisors (CDA), an affiliate of the Greater Cleveland Partnership, a business organization. CDA administers investment funds that provide capital for catalytic, mainly real estate projects in the city of Cleveland and Cuyahoga County, and operates a CDE providing NMTC allocation for these kinds of projects. CDA raises the investment capital from local businesses, corporation, foundations, and banks.

According to President Yvette Ittu, CDA will close its 30th NMTC project by year-end. CDA has received four allocations to date, including a \$30 million award in the 2012 funding round.



Yvette Ittu

Ittu says CDA tries to target areas in Cleveland that have difficulty attracting private capital, providing the resources enabling projects in these neighborhoods to move forward. Without the new markets credit, she says, these projects would take much

longer to happen or would not happen at all.

“We’ve done a number of projects downtown in the central business district, all the way through the University Circle area, where the hospitals and universities are located,” says Ittu. “And then we’ve concentrated on infusing capital in the Health Tech Corridor in between, as well as other neighborhoods in Cleveland.”

For example, CDA has provided NMTC allocation from its last two allocation awards to “re-purpose” three vacant old buildings in Cleveland. These projects include:



Rendering courtesy of U.S. Bancorp CDC

Rendering of Washburn Center for Children, Minneapolis, Minnesota
NMTC Allocations Provided by USBCDE, Capital City Properties, United Fund Advisors

- Residences at 688, an eight-story, former department store building redeveloped into 236 market-rate and affordable apartments and more than 65,000 square feet of office and retail space.
- Redevelopment of the former Ameritrust rotunda banking building and tower into apartments, a hotel, office space, and the downtown’s first grocery store.
- Conversion of the 21-story former East Ohio Gas Company building into 223 apartments (including 56 affordable), more than 10,000 square feet of retail space, and a 500-space parking garage.

An example of a different kind of project supported by CDA with NMTC allocation is the redevelopment of a vacant former glove factory building by the Lutheran Metropolitan Ministry (LMM) into a new multi-use facility that includes a central kitchen providing meals to the homeless and job training for culinary careers and space for social-enterprise programs, counseling, outreach, and volunteer services.

The adaptive reuse and historic restoration of the St. Luke’s Hospital Campus in the Buckeye neighborhood of Cleveland, where new markets tax credits were coupled with low-income housing and historic tax credits, transformed the landmark building into 137 affordable senior housing units and space for the nationally recognized Breakthrough Schools’ Intergenerational School, Boys and Girls Club of Cleveland, Centers for Families and Children, St. Luke’s Foundation, and Cleveland

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Neighborhood Progress (the city's leading community development organization).

According to Ittu, CDA is the sole CDE providing NMTC allocation for some of its projects and one of multiple CDEs providing allocation for other projects.

While unusual at the outset of the NMTC program, today projects receiving NMTC allocations from multiple CDEs are common, the result of smaller allocation awards to CDEs, the larger average size of projects, and a desire by many allocatees to spread their allocations around to leverage their impact.

Activity in Indian Country

The new markets tax credit has been used to finance numerous projects on or adjacent to Native American reservations – so-called Indian Country.

Travois, a Kansas City, Mo.-based firm, has participated in a number of these, either providing NMTC allocation as a CDE or serving as a consultant to tribes planning new markets tax credit projects.

"These are the best [NMTC] deals," says Phil Glynn, Travois vice president of economic development. "If you're looking for a balance of security for your investment and impact on a community, Indian Country is where those deals are."

Glynn says infrastructure, health care, and education are the categories of common NMTC projects having enormous positive impact in Indian Country. Infrastructure projects, he said, can make other development or new businesses possible on a reservation. For example, Travois provided NMTC allocation to the Navajo Tribal Utility Authority to build two new electrical substations in a part of the reservation in New Mexico lacking a reliable power supply. These enabled other planned projects that had been stalled to move forward, including an apartment building, data center, and a shelter facility.

An example of a health care facility is a multi-purpose clinic on the Lac du Flambeau reservation in Wisconsin that both provides dental care and enables staff members to advance their careers through on-site in-person and teleconference training provided by instructors from Nicolet College and Marquette University's School of Dentistry.

According to Glynn, health care facilities both

address an underserved patient population and provide higher-paying jobs.

Industry Issues, Condition

All program participants interviewed said their No. 1 concern and issue in the NMTC program today is legislative reauthorization. They asserted that the program needs to be renewed beyond calendar 2013 – permanently would be ideal – to create stability for the program and future certainty for participants. A bill pending in Congress would make the program permanent and increase annual funding.

Other than concerns about reauthorization, participants feel the new markets tax credit world is doing relatively well these days.

"I would say the program, the industry, the investor market, and the demand for allocation is as strong as it's ever been," says Baltimore CPA Gary Perlow, Managing Partner of the Mid-Atlantic Region for CohnReznick LLP.



Gary Perlow

There continues to be strong interest in NMTC investments by investors, which still are primarily financial institutions, which can receive credit for such investments under the Community Reinvestment Act. The major investors today are U.S. Bancorp CDC, Wells Fargo, JPMorgan Chase, PNC, and Bank of America Merrill Lynch.



James Howard, Jr.

Pricing for the new markets tax credit remains strong. Dudley Ventures' James Howard says current pricing generally ranges from 77 cents (per dollar of tax credit) to the mid-80s.

There is strong demand for allocation authority for new projects. All of the interviewed CDEs that received NMTC allocation awards in the 2012 funding round said their allocation authority has all been committed to specific projects though not all closed.

In October, the Community Development Financial Institutions Fund reported that it received 310 applications in its current funding round (2013-2014) requesting an aggregate \$25.8 billion in NMTC allocation authority. At least \$3.5 billion will be awarded. More will be available if Congress passes legislation extending the program past 2013. **TCA**