



NEW MARKETS TAX CREDITS 101

MATT DRINEN, MBA



“My passion assisting clients in navigating complicated incentive programs results in a project that operates more efficiently and with creative financing, providing a significant community benefit.”

EDUCATION

Washington University in St. Louis –
MBA w/ focus in Finance, Operations, and Management

University of Missouri, Columbia –
BS In Finance and BS in Commercial Real Estate

Matt Drinen has over 11 years experience in Finance and Banking with respect to New Markets & Historic Tax Credits, as well as Opportunity Zone Investments. His experience spans structuring, closing, and managing developments for those tax credits and investments.

Prior to joining Emerald Capital and Green Street St. Louis, Matt spent 6 years at US Bancorp Community Development Corporation (USBCDC) and 4.5 years at Clifton Larson Allen. At USBCDC, Matt was as an Officer in Asset Management and managed a portfolio consisting of over \$1 Billion in total commitment. He was responsible for ensuring USBCDC’s investment returns were realized as underwritten. Matt was involved in restructuring and modifying USBCDC’s investments. He was also responsible for creating and developing processes and procedures as to how USBCDC’s investments should be monitored for performance and compliance risks.

At CLA, Matt led the New Markets Tax Credit and co- led the Opportunity Zone Fund practice. At CLA he has assisted in closing over \$300MM in Opp. Zone/NMTC project financing and has assisted in securing over \$100MM in NMTC Allocation. Matt also serves as Vice President of Development at Green Street St. Louis.



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JEFF FRANKEL



“My goal is to streamline comprehensive capital programs for stakeholders making longterm investments in underserved businesses and communities that generate lasting and equitable impact.”

EDUCATION

University of Missouri, Columbia –
BSBA in Finance & Banking

Jeff Frankel has over 11 years’ experience in Finance and Banking with a specialty in federal New Markets Tax Credits (NMTC). His experience spans sourcing, structuring, and closing NMTC transactions and managing Community Development Entity (CDE) federal tax applications, operations, and compliance.

Prior to joining Emerald Capital, Jeff was the Assistant Vice President of NMTCs at the St. Louis Economic Development Partnership (SLEDP) where he led Heartland Regional Investment Fund, LLC, a \$150MM CDE, deploying patient capital to disadvantaged businesses and communities in the greater St. Louis bi-state region. Also, Jeff led operations and compliance for Nvsted, an equity crowdfunding platform that connected St. Louis-based startups to accredited and non-accredited investors in a centralized marketplace.

Prior to SLEDP, Jeff performed financial, compliance, and risk analysis for U.S. Bancorp Community Development Corporation (USBCDC), one of the nation’s most active tax credit investors, and underwriting and portfolio management services for Advantage Capital Partners, a \$3.8B national impact investor.



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New Markets Tax Credits

BACKGROUND & BENEFITS



NEW MARKETS TAX CREDITS

Created by Congress as part of the Community Renewal Tax Relief Act of 2000

Codified in Section 45D of the Internal Revenue Code

Administered by the CDFI (Community Development Financial Institutions) Fund

Recently extended for an additional 5 years at \$5 Billion in annual allocation

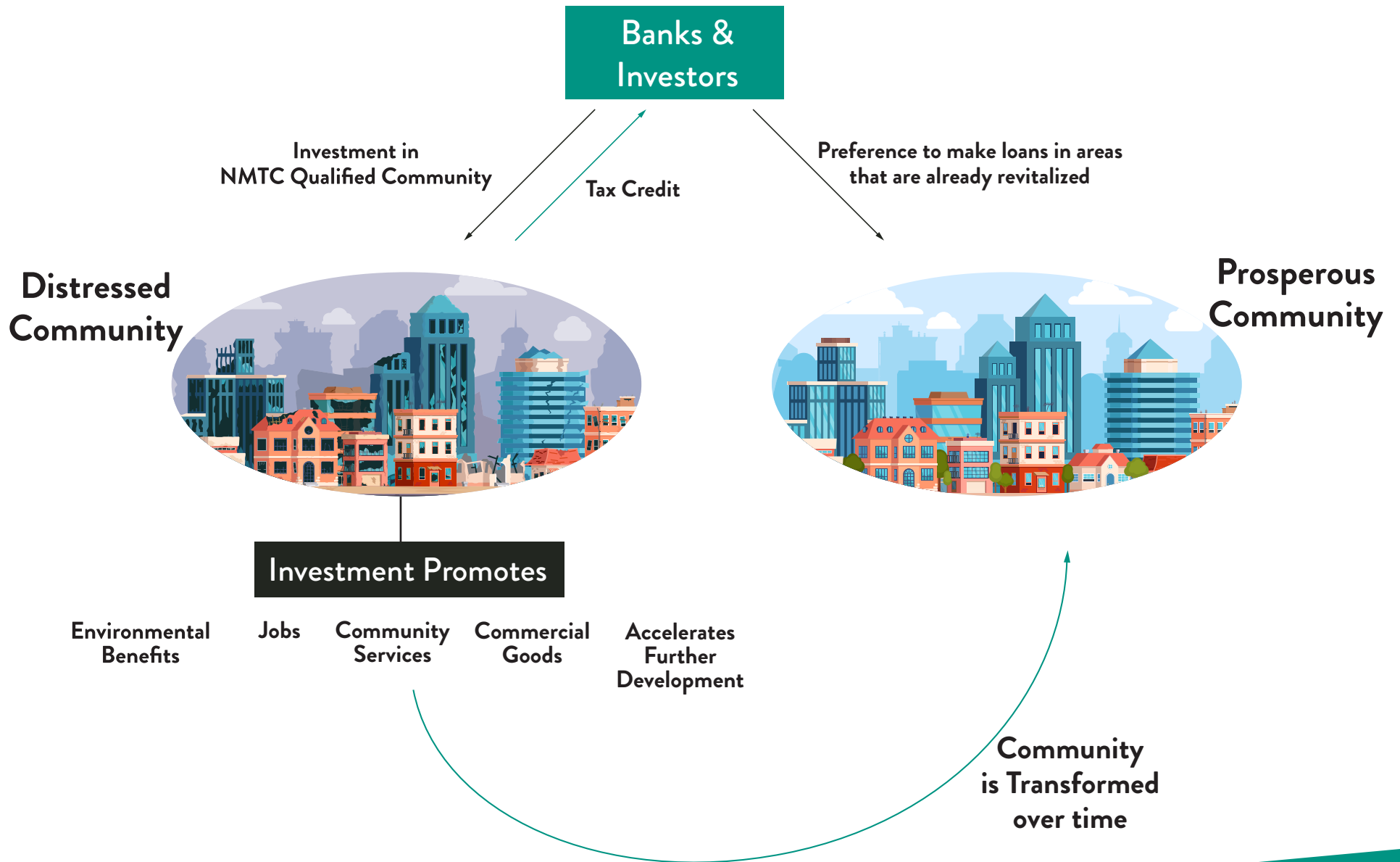
Non-Permanent Program- Most recent round released in October 2022 at \$5 Billion

PURPOSE OF THE NMTC PROGRAM

To encourage private investment in low-income communities by incentivizing investors with tax credits.



INTENT OF NMTC PROGRAM



NMTC PROCESS

1

AUTHORIZE

Federal Government (Treasury) authorizes annual credit authority for NMTCs

2

ALLOCATE

CDFI fund oversees the program and awards the allocation amounts to Community Development Entities (CDEs)

3

SELECT

CDEs will determine which projects will be funded

4

SUBSIDY

Projects awarded will receive a subsidy in the form of an interest only loan that is forgiven at the end of the 7-year compliance period

5

TAX CREDIT

Investors will receive a 39% tax credit based on the total Qualified Equity Investment made

6

SELL

CDEs are the entities that ultimately sell the credits to the Investors (not the Businesses/Projects)

BENEFITS OF NMTC PROGRAM

Allows investors receive 39% Federal Income Tax Credit based on the amount of investment (Loans & Equity) in the project.

- 7 Year Compliance Period
- Investor receives 5% of tax credits in years 1-3
- Investor receives 6% of tax credits in years 4-7



Benefits for the projects receiving NMTC Financing:

- Allows the project to receive a significant benefit at the end of the 7- year compliance period.
- Projects will also receive below market interest rates.
- Fill's a gap in the project's budget to allow the project to move forward.

PROGRAM DEFINITION & ACRONYMS

CDE *Community Development Entities:* An Entity that is certified by the CDFI Fund as an entity with a primary mission of serving or providing capital to low-income communities or person.

QEIs *Qualified Equity Investments:* An equity investment in a CDE that triggers the availability of the NMTC to the equity investor.

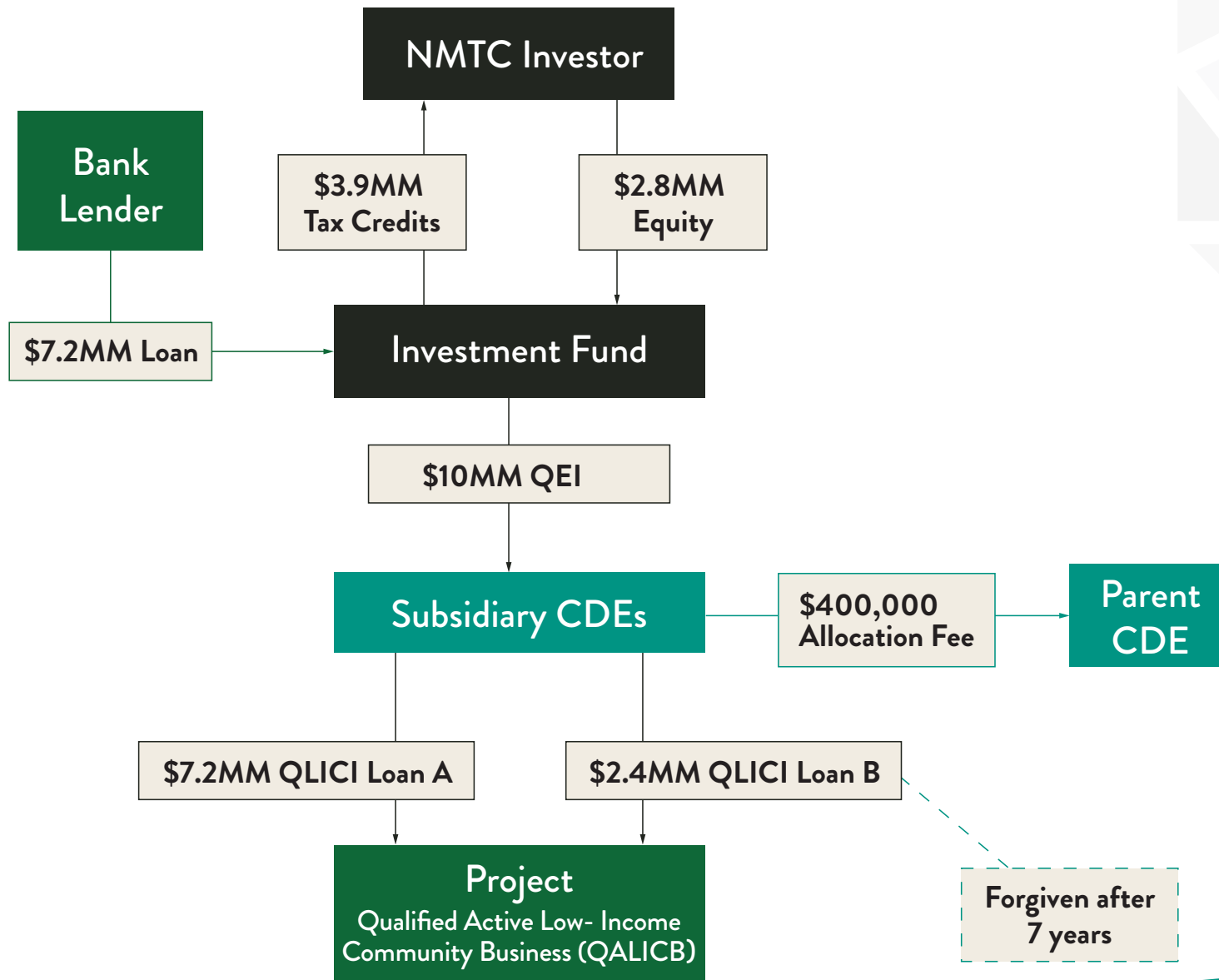
QLICs *Qualified Low-Income Community Investments:* An equity investment or loan to a QALICB from a CDE.

QALICBs *Qualified Active Low-Income Community Businesses:* A corporation, partnership, or LLC that is qualified to receive QLICs.

LICs *Low-Income Communities:* Is a census tract with a poverty rate more than 20% or median family income less than 80% of the area median income.

CDEs must use substantially all of the proceeds from **QEI**s to make **QLIC**s in **QALICB**s located in **LIC**s.

NMTC STRUCTURE EXAMPLE



CAPITAL STACK EXAMPLE

SOURCES OF FUNDS	
Equity	\$2,000,000
Debt	\$4,000,000
Incentives	\$1,600,000
<i>NMTC Subsidy</i>	<i>\$2,400,000</i>
Total Sources	\$10,000,000

USES OF FUNDS	
Acquisition (Land)	\$1,500,000
Construction	\$6,000,000
Equipment	\$1,500,000
Soft Costs	\$1,000,000
Total Uses of Funds	\$10,000,000

For a \$10MM Project, NMTC can provide approximate 20-25% of the project's cost allowing the business owner to reduce their debt exposure or equity requirement (or both).

New Markets Tax Credits

QUALIFYING FOR NMTC

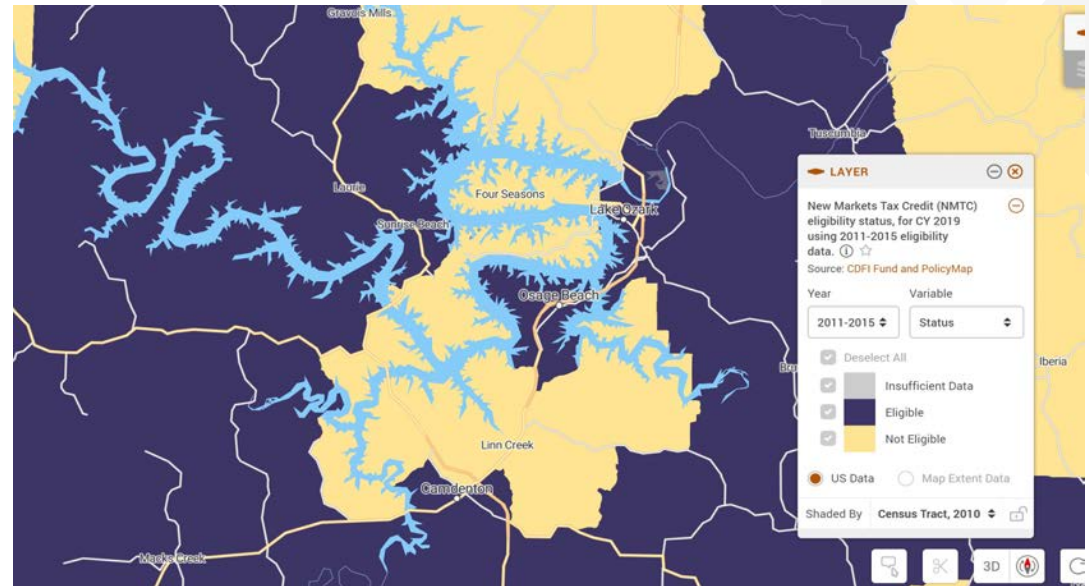


QUALIFYING FOR NMTCs

At a minimum, the project must be located in a “Qualified Census Tract” deemed by the CDFI Fund or is serving a Targeted Population.

Low-Income communities that are eligible for census tracts:

- Poverty rate is at least 20%
- The Median Family Income does not exceed 80% of the Area Median Family Income
- The Median Family Income does not exceed 85% of the Area Median Family Income provided the census tract is located in a high migration rural county
- Has a population of less than 2,000 and is contained within a Federally designated Empowerment Zone and is contiguous to at least one other LIC.



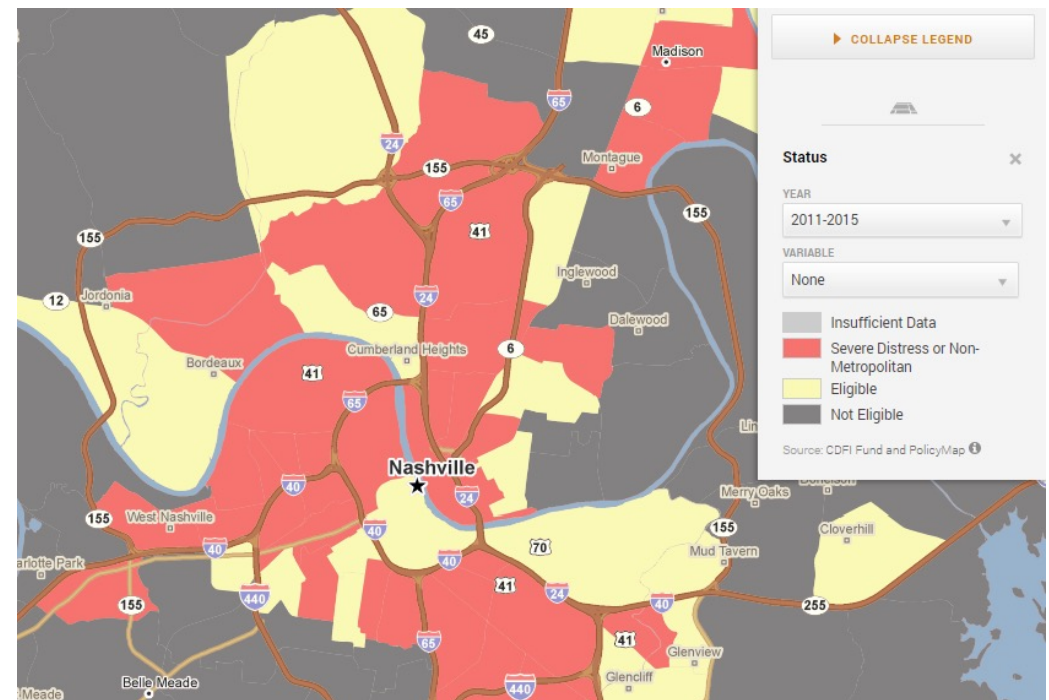
QUALIFIED NEW MARKETS TAX CREDIT CENSUS TRACT

SEVERE DISTRESS

Severe Distress Census Tracts (1st Criteria) – *Must satisfy one criteria based on:*

- Poverty rates $> 30\%$
- Household income $< 60\%$
- Employment rate > 1.5 times National Avg.
- Non-Metropolitan Census Tract

Severe Distress Census Tracts (2nd Criteria) – *Must satisfy two of the CDFI's requirements*



PROJECT SELLING POINTS

- Creates or maintains quality jobs
- Provides accessible jobs
- Increases wages
- Provides goods and services to low-income community
- Has positive environmental outcomes
- Is part of a broader development
- Is a development with Transit Oriented Development
- Provides assistance to low-income businesses
- Assists minority or women-owned businesses

TYPICAL NMTC PROJECTS

- Manufacturing
- Museum, Theaters, Arts, and Culture
- Healthcare
- Other Misc. Community Facility and nonprofit projects
- Projects Supporting Childcare, Youth, Families
- College or Vocational Training
- Mixed-Use
- Schools
- Business Incubators and Entrepreneurial Research
- Grocery Stores & Healthy Foods
- Hotels and Tourism
- Housing (For-Sale)
- Retail, Restaurants, and Service Sector
- Nonprofit Hubs and Multi-Purpose Social Service Campuses
- Other: Misc. Small Business and Office Space





INELIGIBLE ACTIVITIES FOR NMTC

- 100% Residential Property – Gross Rental Income cannot be more than 80% of residential related revenue. Mixed-Use (commercial/residential) projects ARE allowed
- Golf Courses
- Massage Parlors
- Race tracks
- Hot Tub Facilities
- Gambling Facilities
- Suntan Facilities
- Certain Farming Businesses
- Stores where the principal business is the sale of alcoholic beverages for consumption off premise
- Country Clubs

OTHER FACTORS THAT ATTRACT ALLOCATION TO PROJECTS

Underserved States

- Arizona
- California
- Colorado
- Florida
- Nevada
- North Carolina
- Puerto Rico
- Tennessee
- Texas
- Virginia
- West Virginia

Non-Metro Counties

The CDFI fund will award a certain threshold of allocation to be deployed in Non-Metropolitan Counties (20% Goal)



BEST PRACTICES: HOW BEST TO SECURE NMTC ALLOCATION

1

Term Sheets from Lender,
Grants Committed, etc.

**CAPITAL STACK
(SOURCES)
IN PLACE**



2

Local Incentives,
Support Letters, etc.

**COMMUNITY
APPROVAL**



3

Legal, Accounting, Consultants,
GC, Architect, etc.

**HAVING YOUR
TEAM IN PLACE**



4

Plans/Drawings, Funding, Contracts
in Place, Permitting, etc.

**SHOVEL
READY**



New Markets Tax Credits

CASE STUDY EXAMPLE



4565 McREE

St. Louis, Missouri

TOTAL NMTC ALLOCATION

\$18M

SPECS

Mixed-Use; Retail & Office Space

Catalytic Development: Activated a building that had been vacant and dilapidated to provide office space, retail and park space for the community. The first mover in the area that created follow on development, including multi-family.

Created **200 Full-Time Equivalent Jobs** paying well above the St. Louis Living Wage.

150 FTE Construction Jobs Created.

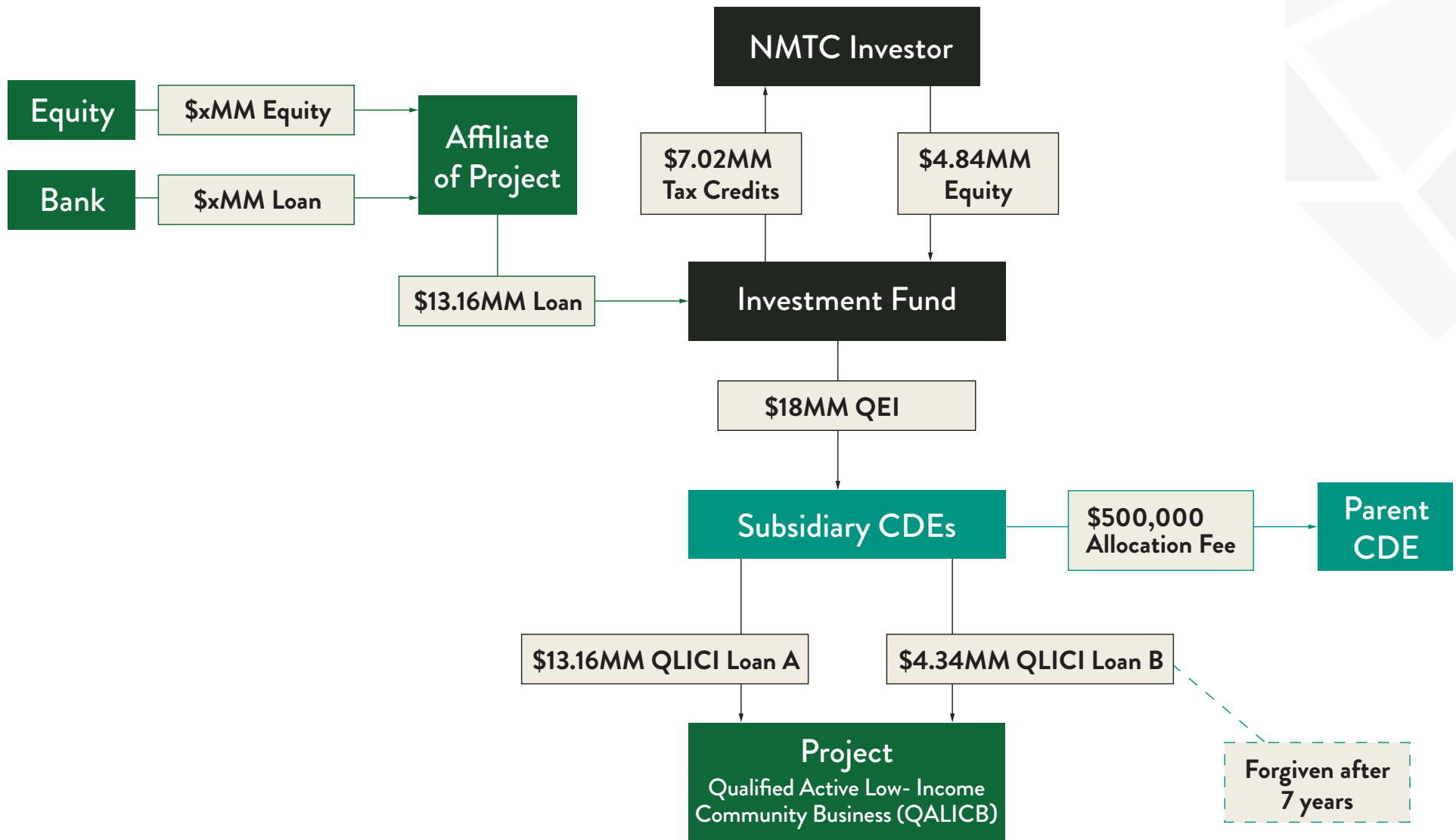
Minority Impact with a significant amount of Minority/Women Owned Businesses to be hired for construction work.

Transit Oriented Development: Bike paths created to connect multiple communities.

Sustainability: Implements the latest efficient building systems and equipment in order to maximize efficient use of energy.



NMTC STRUCTURE EXAMPLE





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CONNECTING CAPITAL