



May

2009

TaxCredit *Advisor*

*News, Ideas and Information for
Tax Credit Developers and Investors*

New Markets Tax Credit

New Markets Credit Seeds Communities for Educational Prosperity

LIKE THE GARDENER SOWING a plot to yield future bounty, the federal new markets tax credit is seeding low-income communities by helping to fund educational facilities – including charter schools and public schools that prepare low-income neighborhood youths for a more promising future.

At a recent conference of the National Housing & Rehabilitation Association, speakers described three educational facilities financed by the new markets tax credit (NMTC).

Multi-Use Building in Detroit

In downtown Detroit, MI, six community development entities (CDEs) have each provided an allocation of NMTC authority for the \$145 million redevelopment of the historic Argonaut Building, constructed around 1928 and once the main automotive design center and research laboratory for General Motors Corporation.

The project, expected to be completed this fall, involves the rehabilitation and adaptive re-use of the 760,000-square-foot, 11-story building into a second campus and dormitories for a local design college, as well as an arts and design-focused charter middle and high school for up to 900 students. An arts and design business incubator and other nonprofits will also be located within the facility. The college will comprise about half the facility and the charter school, other nonprofits, and retail the rest.

GM donated the building for the project, which is seeking certification under the LEED green building rating system.

“It was a very challenging transaction,” said Deborah La Franchi, President and CEO of Los Angeles-based Strategic Development Solutions. In addition to six CDEs, the transaction, which closed in March, features a qualified active low-income community business (QALICB) comprised of four entities, and multiple sources of financing. Under the NMTC program, a QALICB is the business or project financed by the NMTC subsidy.

The lead partner in the project is the College for Creative Studies, a world-renowned creative arts institution established in 1926 that trains students in various types of design – automotive, graphic arts, product, etc. La Franchi said the college’s classrooms and administrative offices will occupy about half the space in the new development. Two charter schools – a middle school and a high school – will occupy much of the rest. The remainder will be leased to nonprofit and for-profit entities.

La Franchi said the development is being financed with the help of nearly

Education,

continued on page 26

IRS Clarifies Qualified Income Under Targeted Population Standard

AN IRS PRIVATE letter ruling (200910024) clarifies the types of income a nonprofit health care provider can count toward qualifying the patients it serves as a low-income “targeted population” under the federal new markets tax credit (NMTC) program.

The ruling was released 3/6/09. Private letter rulings may only be relied upon legally by the party that requested them, but reveal the Service’s interpretation of specific federal tax law requirements.

The ruling request addressed a situation where a health care services provider, a nonprofit corporation, was about to build a new clinic to expand its operations. The nonprofit’s patients primarily make less than 200% of the federal poverty income limit. Its income sources have included direct payments from patients, insurance reimbursement, grants, and other types. One annual federal grant helps cover non-reimbursed costs for health care services provided to uninsured patients.

The taxpayer originally sought to qualify for a construction loan for the new clinic building from a community development entity. But the site wasn’t located in a census tract that qualifies as a geographic low-income community under the NMTC pro-

Targeted,

continued on page 26

Education,

continued from page 25

\$70 million in new markets tax credits, about \$34 million in historic rehabilitation tax credits, and brownfield subsidies. She said about \$54 million in QALICB equity is in the project. About 20% of the project cost is being financed by debt.

Massachusetts School

The NMTC and a little-known federal program were key to financing a larger new home for a public charter school in Adams, MA, a rural community in the western part of the state.

The new facility houses the Berkshire Arts & Technology Charter Public School, a tuition-free college preparatory public school for middle and high school studies in Northern Berkshire County.

The transaction involved financing the acquisition and rehabilitation of an existing commercial building to provide new classroom and administrative space for the charter school, which opened in 2004 but had been operating out of leased space.

Boston Community Capital, a nonprofit mission-based lender in Boston, MA, made a \$4.5 million, 36-year leveraged loan for the NMTC transaction, according to BCC loan officer Michelle Volpe. A leveraged loan is one made to the entity that owns the QALICB; it is pooled with other funding (e.g., new markets equity) raised for the project. The purpose of leveraging is to maximize the amount of new markets tax credits received by the investor. In this transaction, US Bancorp Community Development Corporation is the NMTC investor.

Volpe said the leveraged loan is

guaranteed by the U.S. Department of Agriculture (USDA) under its Community Facilities loan guarantee program.

Under the program, USDA's Rural Development division will guarantee against the loss of up to 90% of the principal and interest on loans or bonds used to finance the development or improvement of "essential community facilities" in areas defined as rural by USDA. The lender or another party bears the risk on the remaining 10%. The guaranty fee is 1% of the amount of the loan's guaranteed portion, which can be paid by the lender or passed on to the borrower. A broad range of community facilities are eligible, including schools, day care centers, health facilities, public safety buildings, etc. (*For program details, go to http://www.rurdev.usda.gov/rhs/cf/CFG/CFG_Overview.html.)*

"In this case," said Volpe, "the USDA guaranty and the subsidy from the new markets [tax credit] was critical for providing facility financing for this very young charter school. Without the USDA guaranty, this was not a school that could have attracted financing."

Volpe reported that 55% of the charter school's students are low-income, and 40% receive special education services. She said the community is in an area that is "physically and economically isolated...Families there have been very limited options to the public schools."

California Development

The historic Fox Oakland Theater – deteriorated and vacant for years – has been rehabilitated into a newly opened facility that includes the restored theater/entertainment venue, some retail space,

and space for the Oakland School for the Arts, a public charter school.

Bank of America executive Claudia Robinson indicated that her company provided an initial NMTC allocation for the project, and is furnishing a subsequent second allocation to help fund further improvements at the charter school.

Bank of America provided construction financing for the project, plus equity generated by federal new markets and historic tax credits. Robinson said three CDEs provided NMTC allocations totaling \$44 million. In addition to the bank, the CDEs were the National Charter Development Corporation and National Trust for Historic Preservation.

Bank of America was approached by a civic group called the Friends of the Oakland Fox that was trying to get the proposed redevelopment of the landmark theater off the ground. "It is a spectacular building that had fallen into deep disrepair," Robinson noted, calling it one of the city's "anchor" buildings.

The charter school serves 322 students with capacity for 400. Before the new project, the school had been operating out of trailers parked behind the theater. In addition to the charter school, the new facility includes the 2,100-seat theater, a restaurant, and retail shop. ■

Targeted,

continued from page 25

gram. The taxpayer, though, believed that because it provides health care services to low-income persons, the health care business in the new clinic building should qualify as a qualified active low-income community business (QAL-

Targeted,

continued on page 27