



**HOMES  
JOBS  
COMMUNITY**



**Center For Creative Land Recycling  
Igniting Revitalization through Land Reuse Conference  
November 8, 2018, OneGroup Center, Syracuse, NY  
Tax Credits and Other Financial Incentives**

# National Development Council

## Who We Are

- **National non-profit**
  - Since 1969
- **Works in over 100 communities**
- **“Increase the Flow of Capital in Underserved Areas”**
- **Creates EDF systems**
  - Business credit
  - Investment real estate
  - Affordable housing
- **Deal structuring, negotiation and loan packaging**
- **Finance and development affiliates**
  - Training
  - Tax Credit Syndication - RTC, LIHTC, NMTC,
  - Small Business Lending
  - Public Private Partnerships for Public Facilities

# NDC

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## How We Work

*The National Development Council's (NDC's) mission is to increase the flow of capital to distressed urban and rural communities for investment, jobs and community development.*

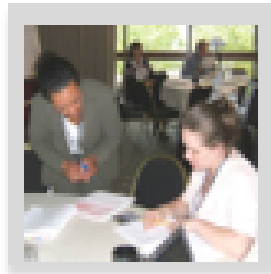
### CAPACITY

#### Technical Assistance



**Technical Assistance** – NDC field directors help define, design and execute development and business finance initiatives

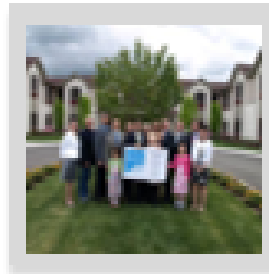
#### Training & Certification



**Training** — NDC instructors teach skills and knowledge needed to successfully facilitate housing and economic development projects

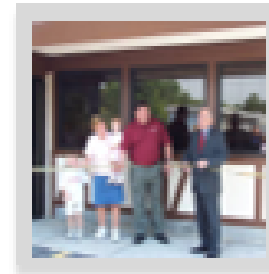
### FINANCING & DEVELOPMENT

#### Corporate Equity Fund



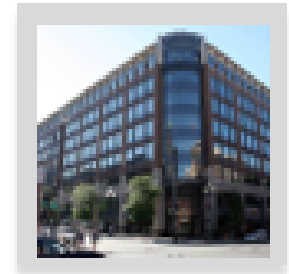
**Corporate Equity Fund** - NDC serves as a development partner as well as providing syndicated investments in low income and historic tax credits

#### Grow America Fund



**Grow America Fund** – NDC creates jobs through SBA lending that focuses on LMI as well as WMBE businesses

#### HEDC



**Housing & Economic Development Corporation (HEDC)** – NDC finances and builds community and public facilities on behalf of our client communities through public-private partnerships and new markets tax credits

# Financial Incentives and Tax Credits

## ••• Overview

- **Using Financial Incentives**
  - Promote Incentives and Be Willing to Use
  - Guidelines
    - “But For” Test
    - Net Financial Benefit to City/Town
    - Minimize Financial Risk to City/Town
    - No “Unduly Enrichment” of developers
- **Federal Tax Credits - Dollar for dollar reductions to federal tax credits**
  - Federal Rehabilitation Tax Credits (RTC)
  - New Markets Tax Credits (NMTC)

# Using Incentives Effectively

- **Reduce Development Costs**
  - Discounted sale of land and building
  - Offset infrastructure costs
    - Parking, utilities, remediation
  - Reduce Taxes and Fees
    - NYS IDAs provide exemption on sales tax and mortgage recording tax
  - Accelerate Review and Approval Process
    - Time is money
    - Land use approval process can be better coordinated and streamlined
- **Reduce Cost of Capital**
  - Long-term, lower rate
    - Stretches borrowing capacity
  - Senior and subordinated debt instruments from government agencies

# Using Incentives Effectively

- **Make capital more readily available**
  - Additional credit leverages private investment by lowering equity requirements
  - Instead of 75/25, 50/40/10
  - Know all lending and capital sources
    - CDFIs,
    - Empire State Development
    - NYSERDA
    - Industrial Development Agencies (IDAs)
- **Reduce Operating Costs**
  - Payments in Lieu of Taxes (PILOT) through IDAs
  - Reduce Real Estate Taxes so as to expand borrowing capacity

# Federal Rehabilitation Tax Credits (RTC)

## ••• Historic Tax Credits

- 20 percent credit on rehabilitation costs
- Credit spread over 5 years
- Must qualify
  - Certified historic structure or contributing building in National Register historic district
  - Commercial, industrial or rental housing
  - Substantial rehabilitation
- Get credits on all rehabilitation done within 24 months prior to certificate of occupancy or within 60 months under Approved Plan
- Follow Secretary of Interior standards

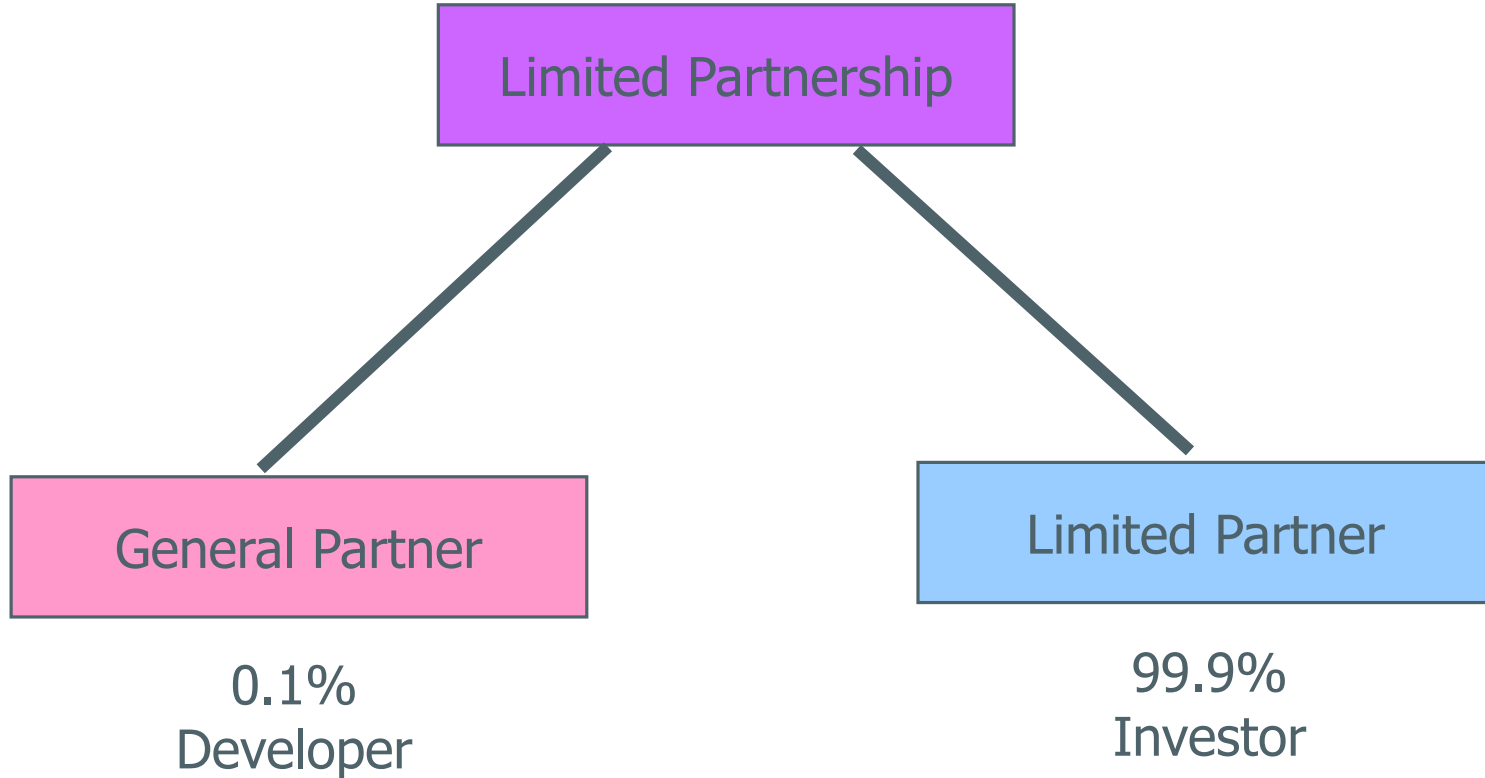
# Federal Rehabilitation Tax Credits (RTC)

## Monetizing the Credit

Rehabilitation	\$5,000,000
	<b>20% Historic Credit</b>
Basis	\$5,000,000
Credit %	20.00%
Credit	\$1,000,000
Price/\$	<u>87.00%</u>
RTC Equity	\$870,000



# General Organizational Structure For Tax Credit Development



# State Rehabilitation Tax Credit Program



- Supplements tax credit equity raised from federal tax credit
- In NYS, state rehabilitation credit
  - 20% of eligible basis
  - Capped at \$5 million
  - Property needs to be in Qualified Census tract

Rehabilitation	\$5,000,000		
	<b>20% Federal</b>	<b>20% State</b>	<b>Total</b>
Basis	\$5,000,000	\$5,000,000	
Credit %	20.00%	20.00%	
Credit	\$1,000,000	\$1,000,000	
Price/\$	0.87	0.87	
RTC Equity	\$870,000	\$870,000	\$1,740,000
			35%

# New Markets Tax Credits (NMTC)

## Federal Commercial Tax Credit

- NMTC program is operated through the Community Development Financial Institution (CDFI) Fund, a division of the U.S. Treasury
- Designed to spur investment and promote economic development in rural and urban low-income communities
- Provides investors a credit against federal income tax liability for a qualified equity investment (QEI)
- Annual awards made to Community Development Entities (CDE)
  - The CDE is a pass-through entity for the credits
  - Primary mission of the CDE must be to benefit LICs
- **NMTC = 39% of the QEI taken over 7 years**
  - 5% for each of the first 3 years
  - 6% for each of the next 4 years
- **Private investment of .30 for every \$1.00**

# Monetizing Historic Tax Credit and NMTC

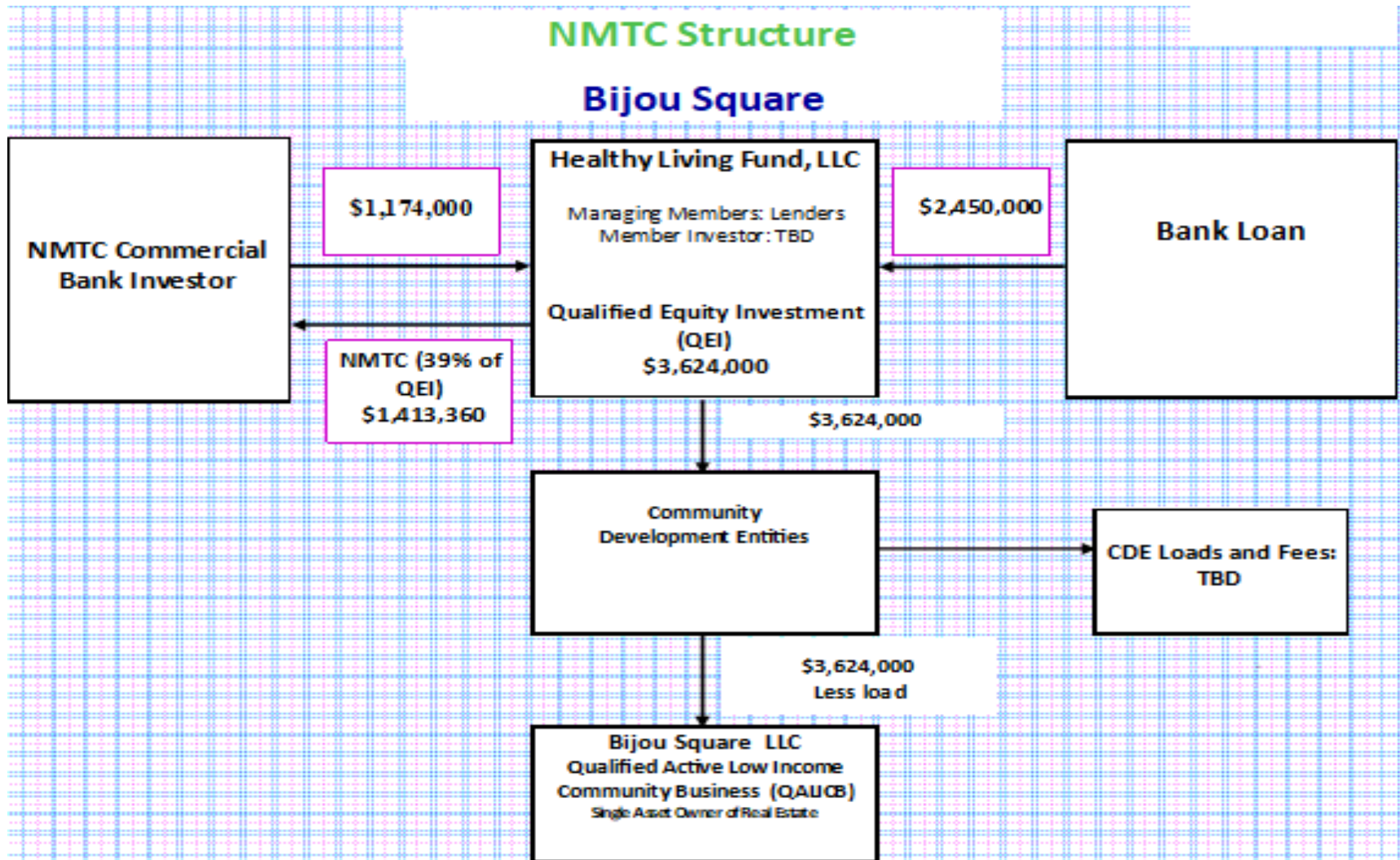
## Historic Tax Credit

Historic Tax Credit Basis	\$2,800,000
	20%
	\$560,000
Price/\$	85%
Equity Raised	\$476,000

## New Market Tax Credit

Investor Loan	\$2,450,000	
NMTC Equity Investment	\$1,174,000	
Total Investment (QEI)	\$3,624,000	
NMTC Investment	\$1,174,000	
NMTC	\$1,413,360	39.00% of QEI
NMTC Price/\$	83%	

# NMTC Structure



# Real Estate Tax Exemptions through PILOTs

- In NYS, through Industrial Development Agencies (IDAs)
- Uniform Tax Exemption Policy
- Payment in Lieu of Taxes (PILOT)
- If Pay Taxes at Full Assessment, development often is not feasible
- “But for” the use of PILOT, development not financially feasible
- Size PILOT in order to create financial feasibility
- Cost-Benefit Analysis
  - Tax Increment Benefit to Development
- UTEP provide guidance for “targeted development”

# Uniform Tax Exemption Policy (UTEP)

Schedule A									
New Rochelle PILOT Policy									
Uniform Tax Exemption Policy									
RESIDENTIAL - % ABATEMENT					COMMERCIAL - % ABATEMENT				
Year of	20 Years	15 Years	10 Years	485(b)	20 Years	15 Years	10 Years	485(b)	
TCO	Maximum benefit intended for early years of overlay	Maximum benefit intended for early years of overlay	Scaled down benefit intended for mid years of overlay	On-going benefit	Maximum benefit intended for early years of overlay	Maximum benefit intended for early years of overlay	Scaled down benefit intended for mid years of overlay	On-going benefit	
1	90%	100%	100%	50%	100%	100%	100%	50%	
2	70%	100%	100%	45%	95%	93%	90%	45%	
3	50%	55%	55%	40%	90%	87%	80%	40%	
4	50%	51%	48%	35%	85%	80%	70%	35%	
5	50%	47%	41%	30%	80%	73%	60%	30%	
6	50%	42%	34%	25%	75%	67%	50%	25%	
7	50%	38%	28%	20%	70%	60%	40%	20%	
8	50%	34%	21%	15%	65%	53%	30%	15%	
9	50%	30%	14%	10%	60%	47%	20%	10%	
10	50%	25%	7%	5%	55%	40%	10%	5%	
11	50%	21%	0%	0%	50%	33%	0%	0%	
12	45%	17%	0%	0%	45%	27%	0%	0%	
13	40%	13%	0%	0%	40%	20%	0%	0%	
14	35%	8%	0%	0%	35%	13%	0%	0%	
15	30%	4%	0%	0%	30%	7%	0%	0%	
16	25%	0%	0%	0%	25%	0%	0%	0%	
17	20%	0%	0%	0%	20%	0%	0%	0%	
18	15%	0%	0%	0%	15%	0%	0%	0%	
19	10%	0%	0%	0%	10%	0%	0%	0%	
20	5%	0%	0%	0%	5%	0%	0%	0%	

# For More Information

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