

American Recovery and Reinvestment Act Program Plan New Markets Tax Credit (NMTC) Program

OBJECTIVES

The American Recovery and Reinvestment Act of 2009 (Recovery Act) provided an additional \$3 billion of tax credit allocation authority through the New Markets Tax Credit (NMTC) Program.

The NMTC Program is administered by the Department of the Treasury's Community Development Financial Institutions (CDFI) Fund. The NMTC Program facilitates investment in low-income communities by permitting taxpayers to receive a credit against Federal income taxes for making equity investments in designated Treasury-certified Community Development Entities (CDEs). The CDEs must, in turn, use substantially all of these NMTC proceeds to make loans and investments in businesses and real estate developments in low-income communities.

A CDE is any duly organized entity treated as a domestic corporation or partnership for federal income tax purposes that: (a) has a primary mission of serving, or providing investment capital for, Low Income Communities (LICs) or Low-Income Persons; (b) maintains accountability to residents of LICs through their representation on any governing board of the entity or any advisory board to the entity; and (c) has been certified as a CDE by the CDFI Fund.

The NMTC Program has three key objectives:

1. To increase the flow of equity capital into entities financing businesses and real estate projects in low-income communities;
2. To provide capital to low-income community businesses and real estate projects at better rates and terms than would otherwise be available in the marketplace; and
3. To provide jobs, and other goods and services, to residents of low-income communities.

The CDFI Fund allocates NMTC investment authority to CDEs through an annual competitive application process. Through Fiscal Year 2009, the CDFI Fund has administered seven different application rounds and allocated \$26 billion in NMTC investment authority to CDEs. In addition to the Recovery Act allocation authority described below, the CDFI Fund allocated \$3.5 billion in NMTC investment authority in the 2009 application round.

The Recovery Act provided an additional \$3 billion of NMTC investment authority. Of this amount, \$1.5 billion was made available to CDEs that had applied and scored highly through the 2008 NMTC allocation round but did not receive an allocation; and \$1.5 billion was added to the \$3.5 billion of NMTC investment authority that was already authorized to be allocated to CDEs through the 2009 application round. With the additional \$3 billion in Recovery Act allocation authority, the CDFI Fund was able to increase the volume of NMTC investments in low-income communities by 30 percent over what would otherwise have been available through Congressional authorizations, and was able to make NMTC awards to

approximately 56 additional CDEs – helping to support economic development projects in more locations across the country.

ACTIVITIES

The CDFI Fund announced the CDEs that were selected to receive the \$1.5 billion in 2008 Recovery Act NMTC authority on May 21, 2009, and the CDEs that were selected to receive the \$1.5 billion in 2009 Recovery Act NMTC authority on October 30, 2009. All allocation agreements for the Recovery Act awards announced on May 21, 2009 were signed by awardees within 60 days. Additionally, 85 percent of allocation agreements were signed within 60 days of the October 30, 2009 award notification.

CDEs use NMTC proceeds to finance a diversity of projects that spur economic development in distressed urban and rural communities throughout the United States, including operating businesses; retail, commercial, industrial, manufacturing and mixed-use real estate projects; homeownership housing; and community facilities, such as charter schools, health care centers and child care facilities. These projects create construction and permanent jobs, and provide valuable goods and services to communities that lack such amenities.

CHARACTERISTICS

The CDFI Fund does not make financial awards to CDEs through the NMTC Program. It is a non-refundable tax credit (i.e., a taxpayer may only claim the credit to the extent the taxpayer has offsetting tax liabilities), so there are no outlays of Federal dollars through the NMTC Program.

The CDFI Fund selects the CDEs that will receive an award and determines the amount of NMTC investment authority that each CDE may offer to its investors. The CDFI Fund has made 495 allocation awards to CDEs through seven allocation rounds, allocating a total of \$26 billion in investment authority to CDEs. Awards have ranged in size from \$500,000 to \$178 million, and the average award amount over the past two allocation rounds has been approximately \$50 million per CDE. As of May 2009, investors have made qualified equity investments into CDEs totaling \$13.4 billion.

The CDFI Fund's aggregate NMTC investment authority is legislatively capped in any given year (for example, it was capped at \$3.5 billion in 2009). CDEs must apply to the CDFI Fund for the authority to issue tax credits to their investors. CDEs generally request, in the aggregate, seven to eight times more allocation authority than is available through the NMTC Program in any given year. Each application is reviewed and scored by three independent application reviewers with expertise in community development finance. Applications must achieve minimum aggregate scoring thresholds in order to be considered for an award. Awards are made to applicants in descending order of application score until the year's allocation authority is fully expended. In any given round, only about one in four applicants is selected to receive an NMTC allocation award. Many organizations that meet the minimum scoring requirements necessary to receive allocation awards do not receive such awards, due to the limited amount of NMTC allocation authority available in each round.

While the recipients of the NMTC allocation authority are the CDEs, the primary beneficiaries of NMTCs are the investors that make investments in the CDEs and claim tax

credits against their Federal income taxes. The end-beneficiaries of the NMTC Program awards include individuals, small businesses, non-profits, profit organizations, Native American organizations, builders/contractors/developers, and homeowners that receive loans and investments from the CDEs at better rates and terms than would otherwise be available in the marketplace; as well as low-income community residents that receive jobs and/or goods and services from businesses operating in their communities.

DELIVERY SCHEDULE

Activities by Quarter	
Fiscal Year 2009	
Feb - March 2009 2nd Quarter	Conclude planning for implementing Recovery Act. Publish Amended Notice of Allocation Authority (NOAA) in the Federal Register. Evaluate applications from organizations that applied under the 2008 NMTC allocation round.
April - June 2009 3rd Quarter	Make \$1.5 billion in NMTC allocation Recovery Act awards for 2008 round NMTC applicants. Enter into Allocation Agreements with 2008 round NMTC Recovery Act allocatees. Receive applications from organizations applying for NMTC allocation authority under the 2009 application round (\$5 billion in total allocation authority available, including the additional \$1.5 billion of 2009 NMTC Recovery Act authority).
July - September 2009 4th Quarter	Begin evaluations of applications for the 2009 NMC allocation authority. Provide post-award support to 2008 NMTC Recovery Act allocatees.
Fiscal Year 2010	
October - December 2009 1st Quarter	First quarterly report due from 2008 NMTC Recovery Act allocatees. Provide ongoing post-award support to allocatees. Make \$1.5 billion in NMTC allocation Recovery Act awards for 2009 round NMTC applicants. Enter into Award Agreements with 2009 round NMTC Recovery Act allocatees.
January - March 2010 2nd Quarter	Second quarterly report due from 2008 NMTC Recovery Act allocatees. First quarterly report due from 2009 NMTC Recovery Act allocatees. Provide ongoing post-award support to allocatees.
April - June 2010 3rd Quarter	Quarterly reports due from all NMTC Recovery Act allocatees. Provide ongoing post-award support to allocatees.
July - September 2010 4th Quarter	Quarterly reports due from all NMTC Recovery Act allocatees. Provide ongoing post-award support to allocatees.
Fiscal Year 2011	
October - December 2010 1st Quarter	Quarterly reports due from all NMTC Recovery Act allocatees. Provide ongoing post-award support to allocatees.
January - March 2011 2nd Quarter	Quarterly reports due from all NMTC Recovery Act allocatees. Provide ongoing post-award support to allocatees.
April - June 2011 3rd Quarter	Quarterly reports due from all NMTC Recovery Act allocatees. Provide ongoing post-award support to allocatees.
July - September 2011 4th Quarter	Quarterly reports due from all NMTC Recovery Act allocatees. Provide ongoing post-award support to allocatees.

Fiscal Year 2012	
October - December 2011 1st Quarter	Quarterly reports due from all NMTC Recovery Act allocatees. Provide ongoing post-award support to allocatees.
January - March 2012 2nd Quarter	Quarterly reports due from all NMTC Recovery Act allocatees. Provide ongoing post-award support to allocatees.
April - June 2012 3rd Quarter	Quarterly reports due from all NMTC Recovery Act allocatees. Provide ongoing post-award support to allocatees.
July - September 2012 4th Quarter	Quarterly reports due from all NMTC Recovery Act allocatees. Provide ongoing post-award support to allocatees.
Fiscal Year 2013	
October - December 2012 1st Quarter	Quarterly reports due from all NMTC Recovery Act allocatees. Provide ongoing post-award support to allocatees.
January - March 2013 2nd Quarter	Final quarterly reports due from 2008 NMTC Recovery Act allocatees.
April - June 2013 3rd Quarter	Final quarterly reports due from 2009 NMTC Recovery Act allocatees.

NATIONAL ENVIRONMENTAL POLICY ACT COMPLIANCE

Awards and activities under the NMTC Program are not funded by federal financial assistance; thus, there are no outlays of Federal dollars under the program. Therefore, NEPA and other related statutes are not applied to NMTC Program awards.

MEASURES

The primary goal of the Recovery Act is to ensure that critical financial resources are provided as quickly as possible to stimulate the economy and create jobs. To this end, the CDFI Fund has selected the following three measures to track its success:

Measure 1 -- Number of days between the date of award notification and the date by which at least 85 percent of allocation agreements have been signed by awardees.

The CDFI Fund sought to enter into allocation agreements with CDEs ***within 60 days*** of providing them with a Notice of Award. This represents ***an improvement of 70 days (or approximately 50 percent)*** over the equivalent period of performance under the 2008 NMTC Program round, which was 130 days. The CDFI Fund met and exceeded this goal for the Recovery Act awards announced on May 21, 2009. All allocation agreements were signed by awardees within 60 days. Additionally, the CDFI Fund met this goal for the Recovery Act awards announced on October 30, 2009. Eighty-five percent of allocation agreements were signed within 60 days of the award notification. Data supporting this measure are available through the CDFI Fund's internal award tracking systems.

Measure 2 -- Percentage of total dollars that were invested by CDEs in “severely” distressed communities (i.e., census tracts with a poverty rate of a least 30 percent; a median family income at or below 60 percent of area median family income; and/or an unemployment rate at least 1.5 times the national average).

The CDFI Fund anticipates that at least 75 percent of NMTC proceeds invested by CDEs will be invested in these severely distressed communities – communities that far exceed the minimum qualifications of distress required under the NMTC statute (i.e., census tracts with a poverty rate of 20 percent or greater and/or a median family income at or below 80 percent of area median family income).

As stated earlier, competition for tax credit authority is extremely high and the application process is rigorous. Due to this competition, the CDFI Fund selects those CDEs willing to exceed the minimum requirements of the IRS regulations (e.g., by focusing on severely distressed communities; providing the most preferential rates and terms to their borrowers; by committing to invest more than the minimally required 85 percent of proceeds into low-income communities) and holds them to meeting these benchmarks as a condition of their allocation agreements.

The CDFI Fund collects data from its awardees on a number of elements, including: project address; type of project financed; description of project; total project costs; total amount of NMTC financing; rates and terms of financing; total number of temporary (construction) jobs created; total number of permanent jobs created or retained; total square feet of real estate developed or rehabilitated; total number of housing units developed or rehabilitated; and total number of slots at community facilities (e.g., child care centers; charter schools; health care facilities).

These data are currently collected on an annual basis through the CDFI Fund’s Community Investment Impact System (CIIS). Based on an analysis of performance by prior-year allocatees, the CDFI Fund anticipates that 75 percent of NMTC proceeds invested by Recovery Act awardees will be invested in communities that: (i) have poverty rates of 30 percent or greater; (ii) have median family incomes at or below 60 percent of the area median family income; and/or (iii) have unemployment rates at least 1.5 times the national average.

Measure 3 – Number of jobs (construction jobs and full-time equivalent jobs) created or retained by businesses or real estate projects financed by NMTC investors.

The CDFI Fund anticipates that Recovery Act NMTC Program awardees will be able to create or retain approximately **85,000 jobs** through the provision of loans and investments to businesses and real estate developers.

Through CIIS, the CDFI Fund collects data on jobs created and retained, including construction jobs, at each of the businesses and real estate projects financed by the CDE. Based on a jobs-per-investment analysis of the current CIIS data collected from awardees, the CDFI Fund has determined that the \$3 billion of Recovery Act NMTC allocation authority will create or retain 85,000 construction and full-time equivalent jobs.

With respect to Recovery Act reporting requirements, the CDFI Fund will require its awardees to report jobs information on a quarterly basis to the CDFI Fund. It will roll this information into an annual jobs measure that will be reported on the CDFI Fund’s Recovery Act website.

MONITORING/EVALUATION

The CDFI Fund worked with award recipients to finalize their award agreements and implement activities as quickly as possible. The CDFI Fund will continue to provide ongoing support for awardees to ensure compliance with the terms of the Recovery Act.

The CDFI Fund will utilize its existing compliance monitoring systems, with some modifications, to collect, analyze and report data from CDEs regarding the use of their NMTC allocation awards.

The primary reporting tool is the CIIS, a web-based system through which CDEs provide annual Institution Level Reports (ILR) and Transaction Level Reports (TLR). The ILR report will capture essential information such as income and expense data for the institution. The TLR provides specific information regarding financing, such as loans and investments originated by amount, transaction type, and purpose, and impact data for performance reporting such as the “net change in jobs from businesses at origination”. These reports permit tracking of compliance for target markets in disadvantaged areas served; community development impacts (including job creation); and development services (e.g., housing and homeownership and credit counseling).

The CDFI Fund has adjusted its reporting systems to enable quarterly reporting from the Recovery Act awardees, and increase its compliance monitoring capabilities to accommodate the larger number of awardees and the increased frequency of reporting. The Quarterly New Market Report (QNMR) enables the CDFI Fund to identify how the Recovery Act allocatees are putting their NMTC investments to use in low-income communities throughout the country and helps the CDFI Fund to meet its own Recovery Act agency reporting requirements per OMB guidance. The QNMR also provides qualitative and quantitative information on the Allocatee's compliance with its performance goals as outlined in its allocation agreement with the CDFI Fund.

TRANSPARENCY

The CDFI Fund aggregates the data presented by CDEs and releases this information in an annual report, which is available on the CDFI Fund's website:

<http://www.cdfifund.gov/docs/2008/nmtc/CDFIPromotingInvest.pdf>

This report provides information in three key areas:

1. Application Data -- an analysis of information that is collected at the time of NMTC application submission, including data provided by CDEs in their allocation applications, as well as an analysis of the scoring provided by the application reviewers.
2. Investor Data -- an analysis of information pertaining to the characteristics of the investments that are being made into CDEs, and the types of investor entities making those investments.
3. Investment Data -- an analysis of data pertaining to the loans and investments made by CDEs, as reported through CIIS.

In addition to this aggregated data, the CDFI Fund also releases, on an annual basis, a list of all projects and businesses financed by CDEs. This list, which is made available on the CDFI Fund's website in an Excel format, includes: the name of the CDE; the type of project (real estate vs. business); a brief description of the project; the location of the project (city and state; metro vs. non-metro); the amount of NMTC financing; and the amount of other financing. Here is a link to the report:

<http://www.cdfifund.gov/docs/nmtc/NMTC%20Projects%202007%20QALICB.xls>

ACCOUNTABILITY

The CDFI Fund's Director is the CDFI Fund's Accountable Official (AO) with respect to Recovery Act requirements and program implementation. The CDFI Fund's AO established a working group consisting of representatives from the CDFI Fund's CDFI Program office, the office of the Chief Operating Officer, Certification Compliance Monitoring and Evaluation office, Financial Strategies and Research office, and Legal Counsel to ensure that all Recovery Act requirements and activities are coordinated across the various units. Additionally, the CDFI Fund hired dedicated Recovery Act staff. To further the coordination between the CDFI Fund's offices and designated Recovery Act staff, a senior level staff person serves as Recovery Act Program Manager. This person is directly responsible for implementing all aspects of the Recovery Act program requirements.

The Recovery Act Program Manager has weekly conference phone calls with Treasury's AO to monitor the program. During these conference calls and on a monthly basis, the Recovery Act Program Manager and the Treasury AO monitor and review several items including obligations and outlays, acquisitions, performance measures, and accountability metrics. Additionally, the Recovery Act Program Manager is a member of the Treasury Recovery Act Risk Management Council. Corrective and/or preventive actions that are established as a result of the weekly and monthly reviews are tracked for implementation.

BARRIERS TO EFFECTIVE IMPLEMENTATION

There are no significant risks that have impeded the implementation of Recovery Act activities, primarily because the CDFI Fund has adhered to existing policies, procedures and protocols with respect to making Recovery Act NMTC Program awards and monitoring awardee compliance.

The CDFI Fund's organizational structure was designed, in part, to manage risks in the agency. Critical functions in the award selection, reporting and monitoring processes were distributed and coordinated across offices within the CDFI Fund.

Use of integrated Information Technology (IT) systems across each office enabled the CDFI Fund to further minimize risks associated with improper award determinations and improper activities by awardees. In addition, through the compliance review process and site visits these risks have been mitigated.

FEDERAL INFRASTRUCTURE INVESTMENTS

NMTC Program awards will not be used to invest in Federal infrastructure projects.