

New Markets Tax Credits

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U.S. Bancorp Community Development Corporation

October 23, 2015



U.S. Bancorp CDC

- U.S. Bancorp Community Development Corporation (USBCDC) is a wholly-owned community development investment subsidiary of U.S. Bank.
- USBCDC is headquartered in St. Louis with offices in Los Angeles, Denver, Minneapolis, Kansas City, and Washington DC.
- USBCDC makes **Tax Credit equity investments** in New Markets (NMTC), Historic (HTC), Renewable Energy (ITC), and Low Income Housing Tax Credit (LIHTC) projects.
- USBCDC also syndicates federal and state Tax Credit investments to third party investors, bringing new and additional sources of capital to the market.

What are Tax Credits?

- Tax Credits provide a reduction of federal and/or state income tax liabilities.
- Tax Credits are not a reduction of taxable income.
- Two types of Tax Credits:
 - **“Allocation” Tax Credit:** Tax Credits are issued annually by the local state housing agency (LIHTC) or the federal government (NMTC) through a competitive process. Developments and/or Entities (Sponsors) are awarded Tax Credits based on specific applications.
 - **“Entitlement” Tax Credit:** Tax Credits are earned by eligible buildings or renewable energy facilities (Sponsors) that comply with the program requirements (HTC or ITC).

Overview of NMTC Program

- **“Allocation”** Tax Credit created in 2000; part of the Community Renewal Tax Relief Act.
- Program serves as a catalyst to encourage investment of private capital in distressed, low-income communities.
- Program is administered through the CDFI Fund, a department of the U.S. Treasury.
- NMTCs are allocated to Community Development Entities (CDEs) which in turn, deploy the Tax Credit financing benefit to projects. Investor tax credit equity is used to monetize the CDE’s allocation.
- Program uses include both real estate and operating business investments.
- NMTCs can be paired with HTC and ITCs, but cannot be used with LIHTCs.

USBCDC NMTC Experience

- USBCDC is the most active NMTC Investor both in dollars invested and transactions closed.

- As of June 2014 USBCDC:
 - Financed over 1000 NMTC transactions in 46 states
 - Partnered with over 150 CDEs

- U.S. Bank's CDE, USBCDE, is an efficient, high-impact CDE with two primary goals:
 - to provide industry-leading, highly flexible financing products with a strong bias towards equity and equity-equivalent debt products to real estate and non-real estate QALICBs; and
 - to finance businesses that will generate immediate and long term economic and social benefits to the community.

Key NMTC Terms

- **CDE: Community Development Entity**
 - A partnership or a corporation
 - Applies for NMTC allocation (locally or nationally) from the CDFI Fund
 - Decides how much and where to deploy NMTC allocation (projects)
 - Makes NMTC loans and investments to project
 - Services NMTC loans
 - Monitors NMTC Program compliance

- **IF: Investment Fund**
 - Single purpose entity named for each transaction
 - Aggregates all NMTC financing sources and makes QEI
 - Conduit for capital into CDE, which makes loans and investments to projects
 - Conduit for cash return from project

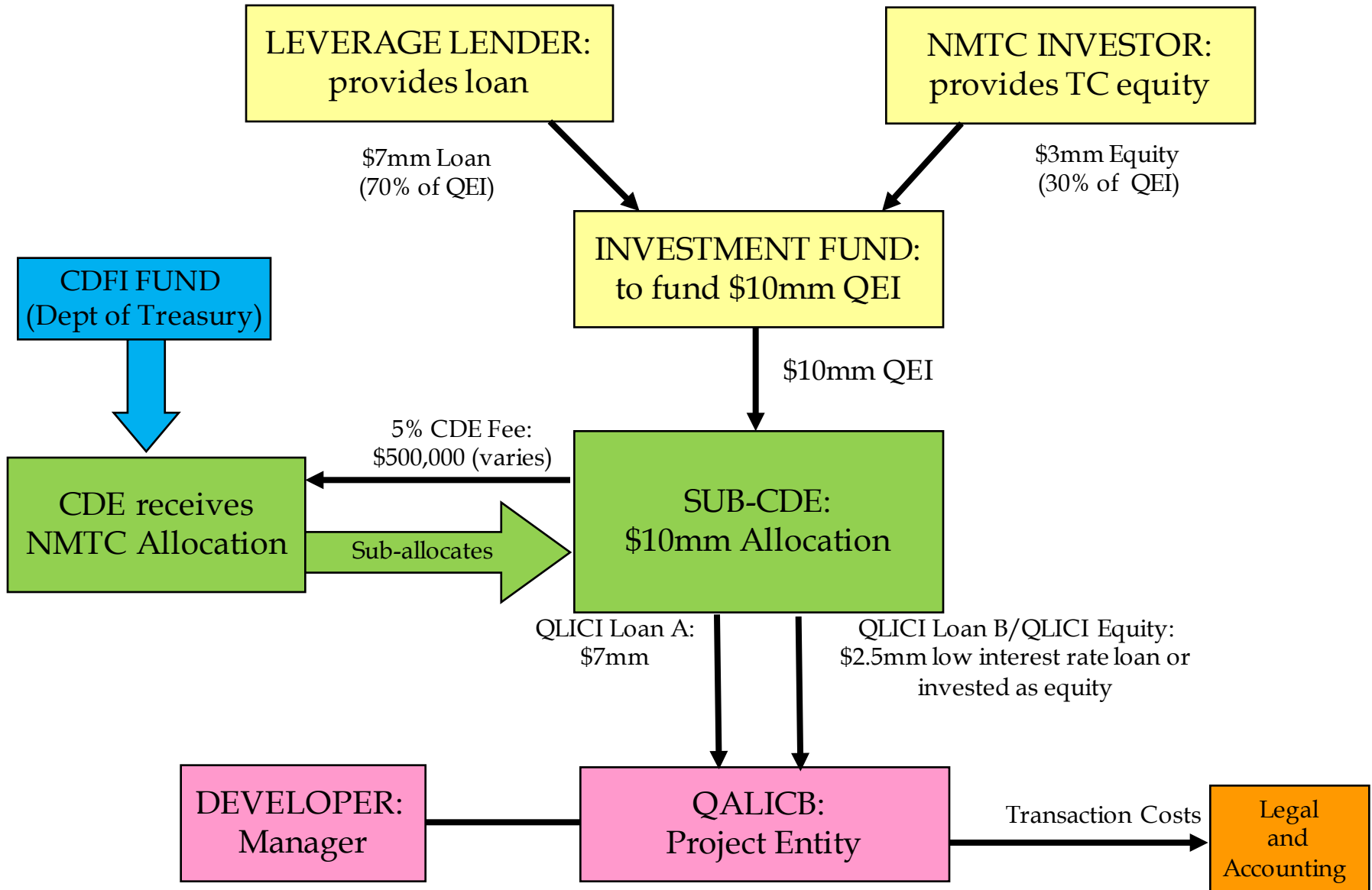
- **Leverage Lender**
 - Provides a source of funds to IF in order for it to make QEI

- **QEI: Qualified Equity Investment**
 - Money invested by IF into CDE
 - Triggers Tax Credit benefits to Investor

- **QLICI: Qualified Low-Income Community Investment**
 - CDE loans and/or investments to project

- **QALICB: Qualified Active Low Income Community Business**
 - The real estate or operating business (project)

NMTC Deal Structure Example



Selecting a Project for NMTCs

- USBCDC is mission-oriented NMTC equity investor
- CDEs are also looking for projects with strong community impacts aligned to their NMTC Allocation Agreements
- Community Impacts:
 - Create or maintain quality jobs
 - Increase in wages
 - Assistance to low income businesses
 - Assistance to minority or women-owned businesses
 - Increase of community benefit businesses (childcare, healthcare, and education)
 - Increase homeownership
 - Provide goods and services
 - Increase environmental sustainability
 - Neighborhood stabilization
 - Foster stakeholder partnerships
 - Catalytic impact on other developments
 - Importance of the NMTC subsidy to project feasibility (“But for” test)

Different Types of NMTC Projects

For Rental

- Retail
- Mixed Use: Retail/Office
- Mixed Use: Retail/Office/Residential
 - 20/80 requirements
- Mixed Use: Office/Residential
 - 20/80 requirements
- Cultural/Entertainment
- Business Incubators

Owner Occupied

- Theatres
- Museums
- Manufacturing/Industrial
- Office
- Community Centers
- Educational Facilities
- Health Related Facilities



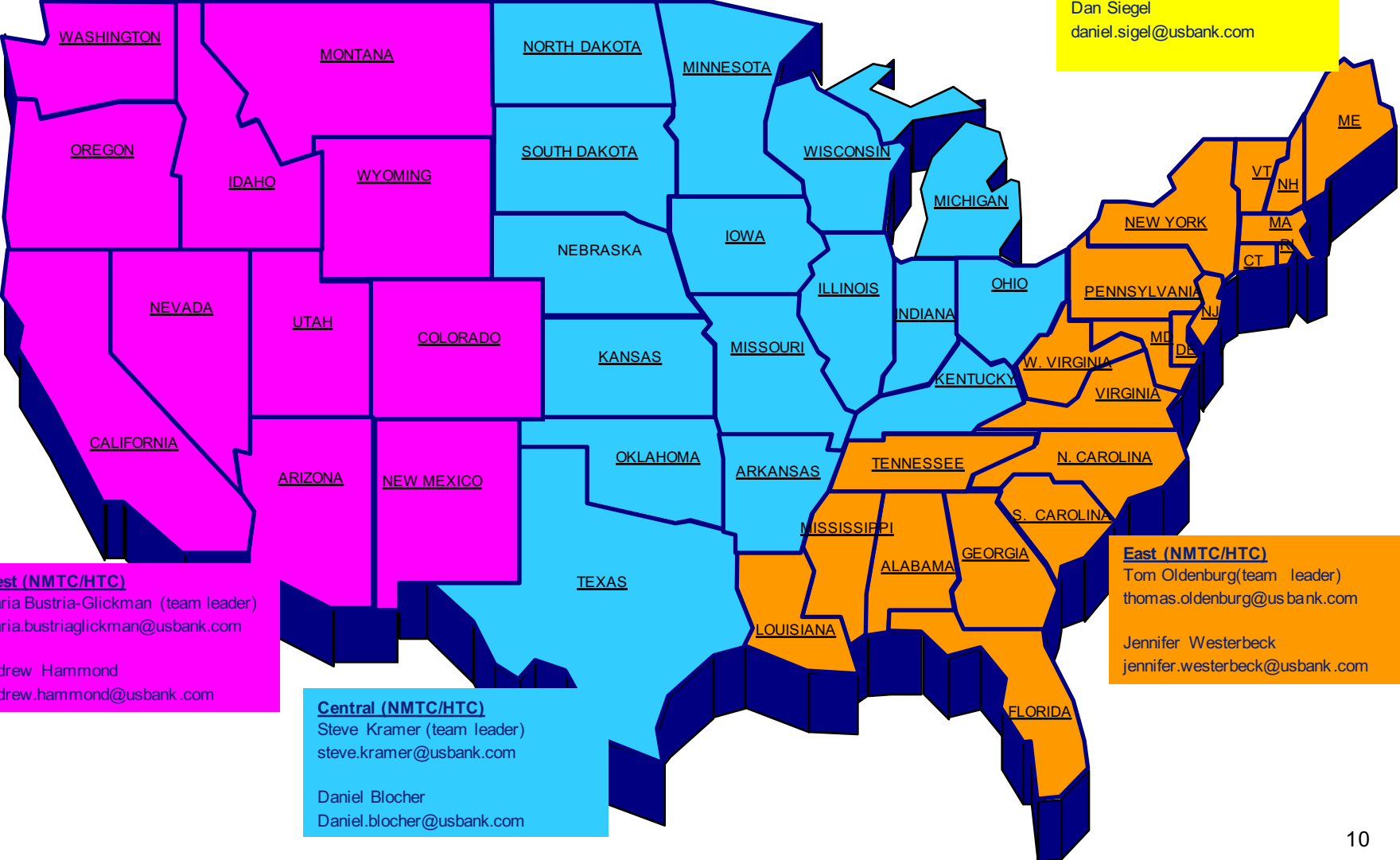
U.S. Bancorp CDC NMTC, HTC & Energy ITC Contacts

Director NMTC/HTC/
 Matt Philpott
matthew.philpott@usbank.com

State NMTCs:
 Tracey Gunn Lowell
tracey.gunn@usbank.com

Energy ITC (National)
 Darren Van't Hof
darren.vanthof@usbank.com

Dan Siegel
daniel.siegel@usbank.com



West (NMTC/HTC)
 Maria Bustria-Glickman (team leader)
maria.bustriaglickman@usbank.com

Andrew Hammond
Andrew.hammond@usbank.com

Central (NMTC/HTC)
 Steve Kramer (team leader)
steve.kramer@usbank.com

Daniel Blocher
Daniel.blocher@usbank.com

East (NMTC/HTC)
 Tom Oldenburg (team leader)
thomas.oldenburg@usbank.com

Jennifer Westerbeck
jennifer.westerbeck@usbank.com