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## **New Markets Tax Credit Program Benefits Low-Income Communities**

*By Finance New Mexico*

Business people who want to develop property in economically depressed New Mexico communities — or who want to purchase expensive commercial equipment for use in those communities — often lack the funding they need for such ambitious and capital-intensive ventures.

That's why the New Mexico Finance Authority created a community development entity, or CDE, in 2006 to raise capital and fill funding gaps for large projects expected to benefit low-income areas.



To be eligible for CDE funding, a project must be in a neighborhood or tract considered low-income in the most recent census. Projects that have successfully utilized the funding program are those that already secured at least 75 percent of the total capital needed before applying to the program.

### **How it Works**

Under the Community Renewal Act of 2000, the U.S. Treasury is empowered to allocate tax credits to local CDEs, which function like match-makers to connect funding with projects. The CDE is authorized to sell its allocated tax credits to private investors, who provide capital for lending to a qualified project.

The money is paired with the project's other financing, such as owner equity and bank loans. Project developers can then close a gap of up to 25 percent of the project's cost with a CDE loan that offers favorable terms: a low interest rate (about 2 percent) and interest-only payments for seven years.

Investors — typically large financial institutions — are eager to participate because the tax credits they purchase are worth 39 percent of the overall project costs and can be used to reduce federal tax liabilities over seven years. Tax credits can also be syndicated for resale to other companies. Either way, the investor's yield is about 8 to 9 percent.

## **Benefits All Around**

Since New Mexico began participating in this public-private partnership, the program has enabled numerous economically beneficial projects in New Mexico's neediest communities.

"It's another avenue to get folks to invest in low-income communities," said John Brooks, director of commercial lending for the New Mexico Finance Authority, which manages the program, maintains relationships with investors and reports to the Treasury Department on how credits have been distributed.

The CDE has extended tax credits worth more than \$150 million — with an average allocation of \$10 million, Brooks said. Large capital projects like the Hotel Parq Central in Albuquerque, Presbyterian Medical Services facilities in Farmington and Socorro and a water system overhaul at Laguna Pueblo have been financed in this way.

## **How to Participate**

Business people and project developers can determine if their project is in one of the eligible census tracts by entering the proposed project address into the mapping tool at <http://www.cohnreznick.com/nmtc-mapping-tool>.

Ineligible projects include research and development businesses that hold intangible assets, country clubs, golf courses, massage parlors, tanning facilities, liquor stores and gambling operations.

While most projects are in the \$5 to \$10 million range, the CDE may be able to pool smaller projects into one allocation.

Business owners who have most of their funding secured and believe they qualify should contact the New Mexico Finance Authority, which can match the project with investors and do the actual allocation of credits and loan structuring.

The New Mexico Finance Authority makes tax credits available each quarter and is soliciting projects for rural New Mexico until Feb. 12. Contact John Brooks at 505-992-9638 or [NMTC@NMFA.net](mailto:NMTC@NMFA.net) for detailed information.

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