

**An Analysis of the New Market Tax Credit and
Its Ability to Fund the Revitalization Efforts of Baltimore City**

**Prepared for
Empower Baltimore Management Corporation**

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May 2001

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Executive Summary

The New Market Tax Credit (NMTC) is a \$15 billion program aimed at providing access to capital for businesses located and working in low-income communities. As a component of the Community Renewal Tax Relief Act of 2000 (Act), the NMTC is a part of a holistic legislative endeavor designed to greatly improve and increase the incentives and resources available for low-income community renewal and to spur private investment into the rehabilitation of underserved areas. In addition to the NMTC, the Act:

- Expands tax benefits and incentives for businesses located in Empowerment Zones and extends the term of Empowerment Zones to 2009;
- Creates Renewal Communities wherein a business can receive zero capital gains treatment for the sale of qualifying assets, 50% Commercial Revitalization Deduction for the revitalization of commercial buildings, and other tax incentives;
- Provides for a HUD Risk-Sharing Demonstration Program, whereby Community Development financial Institutions (CDFIs) can provide home mortgages to low-income persons by entering into risk-sharing contracts with the Federal Housing Authority and private mortgage insurers;
- Provides for HUD to transfer ownership of all qualified HUD property to the city or community development corporations (CDCs);
- Increases the cap for the Low-Income Housing Tax Credit;
- Increases the limits on Tax-Exempt Private Activity Bonds;
- Extends and expands the Environmental Clean-Up tax benefits; and
- Extends and expands the Digital Divide tax benefits for donating used computer technology.

Specifically, the NMTC provides a funding source that can be used by the City of Baltimore for its economic development programs. The NMTC program provides a 39% tax credit over seven years for investors that invest in the equity of Community Development Entities (CDEs). The CDEs use all the cash raised from the sale of their equity to invest and make loans to businesses operating in low-income communities. CDEs are entities that have

as their primary mission the provision of capital to residents and businesses in low-income communities. An entity seeking to become a CDE and to receive an allocation of NMTCs must complete applications to be certified as a CDE and awarded an allocation of the NMTC. Businesses wishing to receive funds from these CDEs in the form of loans and equity must operate within a low-income community or themselves be CDEs (with or without an allocation of NMTCs).

This structure will allow a CDE to fund certain types of economic development programs that are sponsored by stand-alone organizations that are able to receive loans or equity investment to fund their programs. These programs must generate revenue to provide the CDE with a return on its investment. The economic development programs that most readily fit this model are the City and Empowerment Zone's loan and equity fund programs, such as:

- The Finance Vehicle Program, featuring Micro Loan, Small Business Loan, Equity Investment and Brownfield Loan Funds;
- The 50/50 Loan Fund;
- The Loan Fund for Commercial Property Acquisition; and
- The Community Empowerment Lending Initiative.

These programs present prime opportunities to utilize the resources of the NMTC to help fund the programs. In each case, the fund managers will have to qualify as CDEs in order to receive equity investments or loans from a CDE with the allocation of the NMTC (NMTC-CDE).

The NMTC can also be used to fund private and semi-private development projects. These projects are typically sponsored by non-profits or private developers seeking to redevelop buildings or land into revenue producing vehicles. Since these projects will generate revenue and are sponsored by stand-alone businesses that can pay back loans or increase the value of equity investments, these projects can use the resources of the NMTC to further fund the programs. Examples of these types of projects are:

- The Johns Hopkins Science Research Park;
- The Eastern High School Incubator;
- The Montgomery Wards Building Revitalization;
- The Diamond Press Rehabilitation; and
- The 901 North Milton Rehabilitation.

With each of these projects, the sponsors will have to qualify to receive investments or loans from a NMTC-CDE. To qualify, the sponsors will have to show significant ties to a low-income community. When appropriate, a branch or division of a sponsoring organization can be used to show significant ties to a low-income community.

Public development projects are not suitable to directly benefit from the NMTC program. This is because these projects do not directly generate revenue and are either sponsored by the City, which cannot receive an investment from NMTC funds or a City agency, which is not the preferred type of qualified business. However, these projects can indirectly benefit from the NMTC program via the provision of capital resources to the private developers and implementing businesses that are tasked to bring these projects to fruition. Examples of public development projects that can indirectly benefit from the NMTC program are:

- The Chesapeake Business Center;
- The Fayette Street Business Center;
- The Montgomery Wards Revitalization, (the public works portion);
- The Fairfield / Ecological Industrial Park;
- The Pulaski Highway Incinerator and Abandoned Vehicle Lot;
- The Westside Downtown Redevelopment; and
- The Digital Harbor Initiatives.

In conclusion, as part of a larger federal initiative to spur low-income community revitalization efforts, the NMTC will generate a large pool of funds that the City of Baltimore can use to provide capital for their economic development, and private and semi-private

development projects. This is in addition to the general intent of the NMTC legislation to provide capital to businesses in low-income communities. Empower Baltimore Management Corporation and the City of Baltimore's next step should be to form a strategic alliance to support applications for an entity to seek CDE status and an allocation of NMTCs.

Introduction

The Community Renewal Tax Relief Act of 2000 (Act) provides a unique opportunity for the City of Baltimore to expand and further its efforts to rebuild and revitalize its communities. As a federal tax incentive, the New Market Tax Credit (NMTC) component of the Act will provide the means to support the revitalization efforts of the City, as well as provide access to capital for many businesses within Baltimore's low-income communities. The following analysis details the extent to which the City of Baltimore's revitalization efforts may benefit from the NMTC. Specifically, this document examines the ability of the NMTC to provide additional resources for qualified economic development programs in the Baltimore area. The document is structured to firstly, provide an overview of the Act; secondly, describe the NMTC and its specifications; thirdly, provide an analysis of the NMTC as it relates to existing and planned revitalization programs in Baltimore; and lastly, provide recommendations for action.

The Community Renewal Tax Relief Act of 2000

The Act was enacted in December 2000 to spark the revitalization process ongoing in low-income communities nationwide, by providing incentives for businesses and the financial community to invest in low-income communities. The NMTC provision of the Act provides a tax credit to investors who invest in certain entities, who in turn use the money raised from the investments to provide access to capital for companies doing business in low-income communities. While this provision of the Act will be the main focus of this document, it is important to note that the other provisions of the Act, when working in conjunction with the NMTC, are beneficial to a community's holistic revitalization efforts. To this end, below is an overview of the pertinent provisions of the Act – Renewal Communities, Empowerment Zone modifications, HUD property transfers, Low-Income Housing Tax Credit modifications, tax-exempt private activity bonds modifications, environmental clean-up cost modifications, Digital Divide, and the HUD Risk-Sharing program – followed by a detailed discussion of the NMTC.

Renewal Community Designation

The Renewal Community Designation provision of the Act authorizes HUD to designate 40 low-income communities as Renewal Communities wherein special tax incentives would be available to businesses and residents of the community. A business in a Renewal Community would be eligible for the following tax incentives:

- Zero capital gains recognized from the sale of qualifying business assets;
- Commercial Revitalization Deduction equal to 50% of expenditures employed to revitalize a qualifying building in the year it is put into service, or 100% of the expenditures employed to revitalize a qualifying building taken over a 10-year period;
- \$35,000 allowable in depreciation for qualifying business property;
- 15% wage credit to employers for the first \$10,000 of qualified wages; and
- Expansion of the Work Opportunity Tax Credit for hiring youth residing in Renewal Communities.

These tax benefits are available until December 31, 2009.

A city seeking to obtain a designation for its impoverished areas must coordinate with state and community groups to actively meet certain requirements by showing evidence of a plan of action to accomplish at least four of the following action items:

- A reduction of tax rates or fees within the proposed Renewal Community;
- An increase in the level of efficiency of local services within the proposed Renewal Community;
- Crime reduction strategies;
- Actions to reduce, remove, simplify, or streamline governmental requirements within the proposed Renewal Community;
- Involvement in the Renewal Community application process and program by private entities and community groups; and a commitment from these groups

to provide jobs, job training and technical and financial assistance to the members of the proposed Renewal Community; and

- The gift of surplus real property within a proposed Renewal Community to community groups and private corporations.

State and city governments must also promote economic growth within the proposed Renewal Community by repealing, reducing or not enforcing at least four of the following:

- Licensing requirements for occupations that do not ordinarily require a professional degree;
- Zoning restrictions on home-based businesses;
- Permit requirements for street vendors;
- Zoning or other restrictions that impede the formation of schools or child care centers; and
- Franchises or other restrictions on competition for businesses providing public services including taxicabs, jitneys, cable television or trash hauling.

Not unlike the Empowerment Zones Program, a city will have to apply to HUD to obtain a Renewal Community Designation. HUD will make a determination as to which applications will receive a Renewal Community Designation based upon following selection criteria:

- The area sought is a continuous area that generally has a population greater than 4,000 but less than 200,000, and is located within the jurisdiction of one or more local governments;
- An unemployment rate greater than one and a half times the national average;
- A poverty rate of 20% or higher;
- In urban areas, 70% of households below 80% of the median income for that jurisdiction; and

- Additional consideration factors, including: high crime, specific identification as an economically distressed area, high incidence of outmigration, current status as an Empowerment Zone (EZ) or Enterprise Community (EC), past success as an EZ or EC, and coordination with local community groups.

It should be noted that EZs and ECs are given a preference during the selection process for the first 20 Renewal Community Designations; however, if an EZ or EC is successful in obtaining a Renewal Community Designation, it will cease to be an EZ or EC.

Whether the City of Baltimore and Empower Baltimore Management Corporation (EBMC) should support an application for a Community Renewal Designation should be a decision considered after a full comparative analysis of the Renewal Community program and the EZ program as modified by the Act in relationship to Baltimore's economic development plan. While such a comparative analysis is not the focus of this document, the following issues regarding the two programs should be noted. The tax incentives of the EZ program as modified by the Act, have been extended to December 31, 2009. The Act improves the tax incentives for EZs, which are comparable to those associated with a Renewal Community Designation in some respects and not in others (see, Empowerment Zones below). In addition, specifically with regard to Baltimore, although the area would lose its EZ status if a successful application for a Renewal Community was made, there is a strong likelihood that this would have little bearing on the programs funded by EBMC because it has already allocated its funds.

Empowerment Zones

In December 1994, Baltimore received a round one EZ designation. As a result, in addition to the \$100,000,000 in grants, businesses in Baltimore's Empowerment Zone (Zone) received the following tax incentives – a 20% wage credit for the first \$15,000 of wages paid to Zone residents working in the Zone; an additional \$20,000 of §179 expensing for qualifying Zone business property; and, tax-exempt bond financing for qualifying Zone facilities. Although the Act did not provide for additional grant money, it did improve and extend the incentives of EZs by providing the following:

- An extension of the designation of EZ status for existing EZs until December 31, 2009;
- An authorization of nine additional EZ/EC's with the same tax incentives as are provided to the existing communities;
- A 20% tax credit based upon wages paid to employees in EZs (the credit no longer phases down);
- An increase to \$35,000 in §179 expensing for qualifying Zone business property;
- An increase of the limits on tax exempt EZ facility bonds;
- An increase in the holding period (from six months to a year) for the non-recognition of capital gains upon the rollover of EZ investments, if other qualifying investments are purchased within 60 days of the disposition of the original asset; and
- An increase from a 50% to a 60% exclusion of gain from the sale of qualifying small business stock held for more than five years.

Therefore, as a result of the Act, Baltimore's EZ status and the expanded tax incentives will continue beyond the sunset of EBMC until December 31, 2009.

HUD Risk-Sharing Demonstration Program

The Act creates a limited homeownership program for low-income persons by authorizing Community Development Financial Institutions (CDFIs) to enter into risk sharing contracts with private mortgage insurers (PMIs) and the Federal Housing Authority (FHA). This is a five-year demonstration program, limited to 20% of the number of mortgages made by the FHA during the previous year. The program provides for CDFIs, PMIs and the FHA to share the risk of providing mortgages for one- to four-family homes to low-income persons, whereby the FHA takes the first percentage of loss on any mortgage.

There is no application process for this program. All certified CDFIs are eligible to enter into the Risk-Sharing Demonstration Program. It should be noted that there is a possibility that as a result of the regulation process, CDFIs may be able to use proceeds from the NMTC to fund this program (currently this is not an allowable activity, see NMTC below).

Other Provisions of the Act

The Act provides several other provisions to address the revitalization needs of a low-income community. EBMC and the City of Baltimore may wish to explore these programs in detail with regard to their non-economic development programs, rental housing and other programs. These programs include:

- HUD Property Transfer – The Act provides for HUD to transfer ownership of any qualified HUD property to the local government for \$1 or to a community development corporation (CDC) on a cost recovery basis. HUD must transfer these properties free of all indebtedness. Qualified HUD properties are those that have been owned by HUD for at least six months and are unoccupied or substandard.
- Low-Income Housing Tax Credit – The Act increases the credit cap 20% and 40% for years 2001 and 2002 respectively. The cap will be adjusted annually for inflation starting in 2003.
- Tax-Exempt Private Activity Bonds – The Act accelerates the scheduled increase in state volume limits on tax-exempt private activity bonds.
- Environmental Clean-Up – The Act extends the expiration date for the allowance of a taxpayer to expense environmental clean-up cost, as opposed to capitalizing those cost, to January 1, 2004. The Act expands the eligible sites to any site that contains a hazardous substance that is certified by the appropriate state environmental agency, except for sites listed on the national priorities list.
- The Digital Divide – The Act extends the current enhanced deduction for donations of computer technology and equipment through December 31,

2003; and expands it to included donations to public libraries and computer manufacturers as a result of reacquisition. The deduction is applicable for computers donated after three years.

The New Market Tax Credit

The NMTC is a \$15 billion program aimed at providing access to capital for businesses located and working in low-income communities. In general, the program will provide investors with a 30% tax credit (net present value) based upon their investment in Community Development Entities (CDEs). The money raised by the CDE from the investors will then be used to make equity investments and loans to businesses operating in low-income areas. The specifics of the NMTC are detailed below.

Community Development Entities

A CDE must apply for an allocation of the NMTC. To qualify as a CDE, an organization must:

- Be a domestic corporation (for- or non-profit) or a partnership;
- Have as its primary mission (it has been suggested that 60% of its activities may be the threshold) the serving and provisioning of investment capital for low-income communities or low-income persons;
- Maintain accountability to the residents of low-income communities through their representation on the governing or advisory board; and
- Be certified by the Community Development Financial Institutions Fund (Fund) as a CDE.

For an entity (*i.e.*, a corporation, partnership or LLC) to qualify as a CDE it must submit an application to the Fund demonstrating that it has met the eligibility requirements mentioned above. Specialized Small Business Investment Companies (SSBICs) and CDFIs are deemed to have met the eligibility requirements, and as such may file an abbreviated application. The regulations for the NMTC are in the comment phase

(comments are due by June 20, 2001) and are not finalized. However, the regulations may require a potential CDE to show accountability to the residents of low-income communities through the low-income residents' representation on the potential CDE's governing or advisory board.

The Application Process

To apply for the NMTC, a for-profit CDE (non-profit entities can be CDEs, however, they cannot apply for an allocation of the NMTC) must submit a five-year Comprehensive Investment Plan (Plan) to the Fund. This Plan must include the following:

- The CDE's track record for making investments and promoting community development;
- The CDE's financial and operational capacity, including its ability to track NMTC investment proceeds;
- The capacity, skills and experience of the management team;
- An analysis of its target market;
- The CDE's plan for raising capital using the allocation of the NMTC; and
- The CDE's investment strategy, including its financial, social and community development underwriting criteria.

The Fund will award successful applicants with a NMTC allocation based upon a competitive process and the amount of NMTC available for distribution. The Fund will distribute \$1 billion in the year 2001, \$1.5 billion each year in 2002 and 2003, \$2 billion each year in 2004 and 2005, and \$3.5 billion each year in 2006 and 2007. Any unused portion may be carried over to the next year. It should be noted that the first disbursements may not occur until the first quarter of 2002, thus giving the Fund \$2.5 billion to distribute in 2002.

CDEs Raise Capital from Investors Using the NMTC

The successful CDE has five years to raise capital from the financial community by soliciting the financial community to make Qualified Equity Investment in the CDE in an amount equal to the amount of the NMTC allocation award. Qualified Equity Investments are equity investments in a CDE with an allocation of NMTCs (NMTC-CDEs) from any tax paying entity or person. Based upon the investment, the investor will receive a 5% tax credit for the first three years and a 6% tax credit for the following four years. The NMTC will equal 39% over seven years or approximately 30% net present value. The investor in the CDE must make the investment at its original issue and solely in exchange for cash. However, the NMTC is transferable, and as a result, a subsequent purchaser can obtain the Qualified Equity Investment for cash from the former holder and be entitled to the NMTC. The CDE has to designate the investment as a Qualified Equity Investment and use substantially all of the proceeds from the Qualified Equity Investments to make Qualified Low-Income Community Investments (loans and equity) to qualified businesses in low-income areas. The regulations will clarify what “substantially all” constitutes, but the test will be deemed as met if the CDE invest 85% of all of its assets in qualified businesses.

CDEs Provide Access to Capital to Qualified Businesses

As was mentioned above, a NMTC-CDE is tasked to use substantially all of the cash raised from the Qualified Equity Investments to make Qualified Low-Income Community Investments. The NMTC-CDE can only make Qualified Low-Income Community Investments in the following types of activities, with the following types of businesses and persons:

- Loans and equity investments in Qualified Active Low-Income Community Businesses;
- Loans and equity investments in other CDEs;
- Purchases of loans from other CDEs, if when made the loan would have otherwise been a Qualified Low-Income Community Investment; and

- Financial counseling and other services to businesses and residents of low-income communities.

This list comprises the universe of the businesses and persons that can utilize and benefit from the resources of the NMTC. This universe is explored in more detail below.

Qualified Active Low-Income Community Businesses

The main function of the NMTC is to provide access to capital to qualified businesses. These qualified businesses are other CDEs (whether for- or non-profit) and certain businesses termed Qualified Active Low-Income Community Businesses. Qualified Active Low-Income Community Businesses are those businesses, whether for- or non-profit, that operate in and serve low-income communities. These businesses can be corporations, partnerships, LLCs or sole proprietorships and can comprise any type of business, except:

- Businesses that typically hold and sell financial instruments (i.e., banks and other financial institutions) unless the business would also qualify as a CDE (i.e., CDFIs or SSBICs that are certified CDEs);
- Liquor stores, golf courses, country clubs, massage parlors, hot tub facilities, suntan facilities, or racetrack or other gambling facilities;
- Businesses that purchase and hold unimproved real estate; and
- Businesses that rent residential property.

In addition, businesses that write mortgages for residential homes may not qualify for an investment from a NMTC-CDE. However, this matter is in dispute and may change as a result of comments submitted regarding the regulations governing the NMTC.

Specifically, a Qualified Active Low-Income Community Businesses must satisfy the following requirements:

- The business must have at least 50% of its gross income derived from active business endeavors within low-income communities;
- A substantial portion of the business property must be used within low-income communities;
- A substantial portion of the services performed by the employees of the business must be performed within low-income communities; and
- Less than 5% of the assets of the business can be financial instruments (unless the business is a qualified CDE) or collectibles.

Other Permitted Uses of NMTC Funds

In addition to making investments in Qualified Active Low-Income Community Businesses, a NMTC-CDE can make Qualified Low-Income Community Investments in other certified CDEs, thus multiplying the capacity of the of a NMTC-CDE to provide access to capital. A NMTC-CDE is permitted to provide financial counseling and other services to businesses in and residents of low-income communities. This particular permissible activity has yet to be defined, and is subject to comments pursuant to the regulation process.

Low-Income Community

All qualified businesses receiving an investment from a NMTC-CDE must be located in a low-income area. Alternatively, portions of a business (*e.g.*, divisions, branches, stores in chains) may qualify for receiving an investment if in a low-income area. For the purposes of the NMTC, a low-income community is a community where the poverty rate within a census tract is greater than 20%, or the median income is below 80% of the greater of the statewide median income or the metropolitan area median income for metro area tracts. The Treasury Secretary may designate an area within a census tract as a low-income community if it is contiguous, meets the income or poverty tests above and has inadequate access to capital within the area.

Recapture

Lastly, an investment from a NMTC-CDE must be continuously monitored by the NMTC-CDE to ensure that the qualified business remains qualified. If the business ceases to be a qualified business (*e.g.*, it moves to an area that is not a low-income community), then the investor in the NMTC-CDE is subject to a recapture of its NMTC. The investment and the business must be in compliance for seven years following the investor's investment in the NMTC-CDE. In addition, if a NMTC-CDE ceases to be a certified CDE, the NMTC-CDE ceases to use substantially all of its cash for Qualified Low-Income Community Investments, or the NMTC-CDE redeems an equity investment from a investor that is receiving a NMTC, then the investor receiving the NMTC is again subject to the recapture of the credit.

NMTC and Baltimore

As can be ascertained from the previous discussion, the NMTC is a program to provide investments and loans to private businesses operating within low-income communities. The significant regulatory and financing considerations inherent in the NMTC program necessitate individual scrutiny of each equity and loan fund, revitalization project and program; and, private business to determine whether it meets the baseline requirements contained within the final NMTC regulations. Subsequently, investors in a NMTC-CDE will have to examine the programs for financial soundness, and tax attorneys will have to provide tax opinions as to how the NMTC-CDE's investments will affect the investor's full enjoyment the NMTC. Although the regulations will not be final until some time after June 20, 2001, the statute and the advance guidance put forth by the Fund provide some baseline criteria for determining which types of economic revitalization programs, (in addition to private businesses) can benefit from the resources of the NMTC. A summary of the base line criteria are reiterated below:

- Only corporations, partnerships, and individuals operating sole proprietorships can receive an investment or loan from a NMTC-CDE. Therefore, the

program must be sponsored by, or a product of a legal entity operating as a business. This business can be a for- or non-profit business.

- The program must be located in and serving a low-income community. This determination must be made based upon the latest census data at the time of the investment. The Baltimore Empowerment Zone (Zone) programs should meet this requirement, since the Zone has poverty levels that generally exceed 20% (a determination of the Zone's poverty levels should be made pursuant to the 2000 census).
- Sponsors of loan and equity fund programs must meet the requirements of a CDE to be eligible to receive loans or equity from a NMTC-CDE.
- The program must not be involved in prohibited business activity, most notably the acquisition and holding of unimproved property, the provision of mortgages, and the renting of residential property.

Although not a regulatory requirement, those seeking to utilize the resources of the NMTC should be cognizant that the investors in a NMTC-CDE will be scrutinizing the investment strategy of the NMTC-CDE to insure that planned investments are financially sound, and yield a return on the investment above and beyond the NMTC return.

Given the baseline criteria and the financial realities of private investors, the NMTC will work best with business development programs that are owned by stand-alone, outside agencies and businesses that will produce a return on the NMTC-CDE's investment. These programs include loan and equity fund programs, real property redevelopment programs (commercial and residential), and other revenue generating programs. Below is an analysis of economic development programs in place and contemplated by the City of Baltimore that have the potential to utilize the resources of the NMTC.

Finance Vehicles

The Finance Vehicles are EBMC programs consisting of loan, grant and equity funds developed to provide easier access to capital for Zone businesses. The Financing

Vehicles are divided into four tracks, each with specific parameters and each administered by a fund manager. The four tracks are:

- Micro Loan – A loan fund for Zone residents and businesses that own or are starting a business. This fund is administered by the Development Credit Fund (DCF) and is capped at \$50,000 per loan.
- Small Business Loan – A loan fund for residents and businesses that own or are starting a business, companies located outside the Zone willing to expand in the Zone, and existing Zone businesses. This fund is administered by the DCF and is capped at \$500,000 per loan.
- Equity Investments – A venture fund for companies with a need for investment as opposed to debt financing with the potential for participation in one of the tracks above. This fund is administered by Community Development Ventures (CDV). The amount of the investment is determined on a per case basis.
- Brownfields Loans & Grants – A loan fund for existing and potential Zone businesses engaged in the development of Brownfields Revitalization Sites. The fund is administered by Milestone Associates, Inc. and is capped at \$250,000 per loan.

As a business development program that will generate its own source of revenue through the repayment of the loans and the value of the equity held, this program is a candidate to utilize the resources of the NMTC.

In order to qualify to receive investments and loans from a NMTC-CDE to capitalize their programs, the sponsors of these programs must meet the eligibility requirements that will enable them to receive a Qualified Low-Income Community Investment from a NMTC-CDE. Thus, EMBC or the fund managers will have to qualify as either a Qualified Active Low-Income Community Business or a CDE. Because EBMC is ceasing its operations at the end of 2002, and is not physically located in a low-income community, it is recommended that the fund managers seek to qualify to receive

investments and loans from a NMTC-CDE by themselves qualifying as certified CDEs. As a CDFI and a SSBIC, CDF and CDV will automatically qualify as CDEs, and need only file an abbreviated application to be certified as CDEs. Milestone Associates, Inc. should also seek CDE status; however, it will have to complete a full application for CDE status, including showing that its primary mission is the provision of capital to businesses and residents of low-income communities, and that it has representation of low-income community residents on its board.

50/50 Loan Fund

The 50/50 Loan Fund is an EBMC program supporting business development by providing up to 50% of subordinated debt for Zone businesses capped at \$200,000 per loan. The Baltimore Development Corporation (BDC) is the fund manager. As a program that generates its own revenue through the repayment of the loans, this program is a candidate to receive an investment from a NMTC-CDE. The same analysis used regarding the Financing Vehicles as to which entity will apply for a loan or investment from a NMTC-CDE applies to the 50/50 Loan Fund program. BDC should seek to become a certified CDE, and thus qualify for a loan or investment from a NMTC-CDE. Again, the determinative issue would be whether BDC has the primary mission of serving and providing investment capital for residents and businesses located within low-income communities and representation on its board of low-income community residents.

Property Acquisition

The Property Acquisition plan is an EBMC plan to provide loans to private for-profit entities and loans and grants to non-profit entities for the purpose of acquiring property for their businesses. To date, this program has made one loan/grant of \$750,000 to Bank One to acquire property for its check remittance facility and parking garage. The BDC administered the loan. This program will generate its own revenue from the repayment of the loans, and thus could pay back a loan or increase the value of an investment from a NMTC-CDE. This program is a prototypical example of the public/private structure anticipated by the NMTC legislation, and as such, is a candidate for utilizing the resources of the NMTC. The same analysis will apply as with the other

programs regarding BDC qualifying as a CDE that can apply for a loan or investment from a NMTC-CDE.

Community Empowerment Lending Initiative (CELI)

The CELI is an EBMC business development program that has not been implemented. The program is outlined to be a for-profit, small business finance vehicle designed to increase the availability and affordability of small and minority business credit, by providing bridge notes to companies and selling them in the secondary markets. The targeted beneficiaries of the proposed program are small and minority-owned businesses, non-profits, and developers within the Zone. This program is designed to meet all the requirements for being a participant of the NMTC program and a recipient of resources from NMTC funds. The program is setup as a CDE with its principal mission to provide access to capital to businesses in low-income areas. CELI would have to ensure that residents of low-income areas are represented on its board. If implemented this program could receive a loan or equity investment from a NMTC-CDE.

Development Projects – Private and Semi-Private

Below are examples of private and semi-private development projects that could be candidates for an investment or loan from a NMTC-CDE. These projects are potential candidates because they are revenue producing projects, and as a result, can generate a return for a NMTC-CDE for the benefit of the NMTC-CDE's investors. However, the sponsors of these projects will have to satisfy the requirements to receive an investment from a NMTC-CDE, specifically the requirements to be a Qualified Active Low-Income Community Business (see, page 10 above). A determination should also be made as to whether the buildings, which are the subject of these projects, are located within a low-income community. Although, the buildings need not necessarily be located in low-income communities in order for the sponsors to meet the low-income community test outlined above, NMTC-CDEs will probably not invest in projects outside of low-income communities. The investors and the NMTC-CDE will probably conclude that each activity taken by a business outside of a low-income community will bring the business that much closer to not being a Qualified Active Low-Income Community Business, and

thus increase the investor's risk that its NMTC will be recaptured. Examples of these types of projects follow below.

- Johns Hopkins Science Research Park and Eastern High School Incubator - John Hopkins University and its real estate affiliate, the Dome Corporation have undertaken to redevelop Eastern High School into a business incubator, with 50,000 square feet of space available at below-market rates for emerging and growing technology companies. Johns Hopkins is also developing a research park on a 70-acre property on 33rd Street for university, public and private social science research. It is recommended that John Hopkins or the Dome Corporation, create a branch to manage and own the Research Park and the Incubator. This will make it easier to qualify as a Qualified Active Low-Income Community Business since the branch can satisfy the low-income community test by not having any other assets save the Park and the Incubator which are both located within the Zone.
- Montgomery Wards Building Revitalization - Proposals have been submitted by private developers to rehabilitate the Montgomery Wards building in the Carroll-Camden industrial area (a low-income area) for office space. The developers will have to qualify as Qualified Active Low-Income Community Businesses. The component of this project requiring public funds for public infrastructure redevelopment is not a candidate for direct NMTC capitalization.
- Diamond Press and 901 North Milton Rehabilitation - The Historic East Baltimore Community Action Coalition (HEBCAC) plans to redevelop the Diamond Press into facilities for medical supply firms and the 901 North Milton building for a business incubator. The buildings are in a low-income area. The HEBCAC will have to qualify as a Qualified Active Low-Income Community Business.

Development Projects – Public

Public Development Projects are those projects that are owned and sponsored by the City or its agencies. These projects are not candidates for direct capitalization from the resources of the NMTC for the following reasons:

- The City cannot be a Qualified Active Low-Income Community Business because it is not a corporation or partnership;
- The City's incorporated agencies, although technically not disqualified, are not the contemplated non-profit corporations to be Qualified Active Low-Income Community Businesses; and
- The projects will not produce any direct revenue for the sponsors of the projects.

However, the NMTC can indirectly benefit these projects by providing the private developers and implementing businesses (e.g., construction contractors) the capital needed to perform the project tasks through a loan or investment if those private developers meet the requirements to be Qualified Active Low-Income Community Businesses. The following is a list of public development projects that, while unable to directly benefit from the NMTC, can receive the benefit of a supply of capital available to the implementing businesses of these projects:

- Chesapeake Business Center – The BDC's plan to develop an industrial park.
- Fayette Street Business Center – The City is redeveloping the 800 – 1100 blocks of East Fayette Street into a near-downtown business park.
- Montgomery Wards Revitalization – The City is seeking to make public improvements such as highway/interstate access improvements.
- Fairfield/Ecological Industrial Park – The City is committed to infrastructure improvements.

- Pulaski Highway Incinerator and Abandoned Vehicle Lot – The City wants to redevelop these two City owned pieces of property to create an industrial park.
- Westside Downtown – BDC is implementing a new urban renewal plan calling for the redevelopment of a 30-block area of the Westside of Baltimore encompassing Jones Falls Valley, Seton Business Park, and Carroll Camden including a small area of Westport.
- The Digital Harbor Initiatives – The City’s large redevelopment strategy for revitalization of the infrastructure of the areas around the Harbor. As this project shifts from infrastructure building to implementation, private developers and nonprofits can utilize the NMTC, given that they are Qualified Active Low-Income Community Businesses.

Conclusion

The Act provides many types of programs to address community renewal in low-income communities. The NMTC provides an incentive for private investors to invest funds in CDEs, in order for those CDEs to provide businesses within low-income communities access to capital. As a result of private investors providing funds to the NMTC-CDEs, the NMTC-CDEs’ investment strategy must be cognizant of the economic soundness of the business ventures it chooses to invest. As such, the NMTC is primarily geared toward private, profit driven business ventures. However, certain public economic development programs will generate their own independent sources of revenue. Given that the programs are sponsored by entities that can receive loans or investments from a NMTC-CDE, these types of economic development programs can benefit from the NMTC. Public development projects that do not fit the “independently sponsored, revenue generating” mold can still indirectly benefit from the NMTC program as a result of the NMTC program supplying capital to the implementing businesses of the project. Therefore, the NMTC program can significantly assist the efforts of EMBC and the City of Baltimore with their economic development programs. The companion document to this one, will explore other types of programs that can utilize the NMTC, other provisions

of the Act and other federal programs to address other aspects of holistic revitalization. It is our recommendation that EBMC take the following next step – form a strategic alliance with a potential CDE to support its filings of applications to be certified as a CDE and to receive an allocation of NMTCs.

Appendix A

Baltimore Projects Suitable to Utilize the Resources of the NMTC and Recommended Next Steps

Name of Program	Sponsor(s)	Suitable for a NMTC Investment or Loan	Next Steps to be Eligible to Receive a NMTC Investment or Loan
Finance Vehicle – Micro Loan	EBMC / DCF	Yes	Recommend that DCF seek certification as a CDE
Finance Vehicle – Small Business Loan	EBMC / DCF	Yes	Recommend that DCF seek certification as a CDE
Finance Vehicle – Equity Investments	EBMC / CDV	Yes	Recommend that CDV seek certification as a CDE
Finance Vehicle – Brownfield Loans & Grants	EBMC / Milestone Associates, Inc.	Yes	Recommend that Milestone Associates seek certification as a CDE
50/50 Loan Fund	EBMC / BDC	Yes	Recommend that BDC seek certification as a CDE
Property Acquisition	EBMC / BDC	Yes	Recommend that BDC seek certification as a CDE
Community Empowerment Lending Initiative (CELI)	EBMC	Yes	Recommend that the for-profit entity that will implement the program seek certification as a CDE
Johns Hopkins Science Research Park and Eastern High School Incubator	Johns Hopkins University / Dome Corp	Yes	Recommended Johns Hopkins or Dome Corp. create an entity or a branch to own or control the Research Park / Incubator. The entity or branch would be the Qualified Active Low-income Community Business
Montgomery Wards Building Revitalization	Private Developers	Yes	Private Developers would have to be Qualified Active Low-income Community Businesses
Diamond Press and 901 North Milton Rehabilitation	HEBCAC	Yes	HEBCAC would have to be a Qualified Active Low-income Community Business
Chesapeake Business Center	BDC	Only Indirectly	Implementing and participating businesses would

			have to be a Qualified Active Low-Income Community Business
Fayette Street Business Center	BDC	Only Indirectly	Implementing and participating businesses would have to be a Qualified Active Low-Income Community Business
Montgomery Wards Revitalization (Public Improvements Component)	Baltimore City	Only Indirectly	Implementing and participating businesses would have to be a Qualified Active Low-Income Community Business
Fairfield/Ecological Park	Baltimore City	Only Indirectly	Implementing and participating businesses would have to be a Qualified Active Low-Income Community Business
Pulaski Highway Incinerator and Abandoned Vehicle Lot	Baltimore City	Only Indirectly	Implementing and participating businesses would have to be a Qualified Active Low-Income Community Business
Westside Downtown	BDC	Only Indirectly	Implementing and participating businesses would have to be a Qualified Active Low-Income Community Business
Digital Harbor Initiatives	Baltimore City	Only Indirectly	Implementing and participating businesses would have to be a Qualified Active Low-Income Community Business