

FIELD NOTES



A PRIMER ON THE NEW MARKETS TAX CREDIT PROGRAM

There's a lot of buzz about the New Markets Tax Credit (NMTC) Program, but very little understanding. And for good reason; it's a complicated process, but worth the time invested for any non-profit planning a capital project.

THE BASICS OF THE NMTC PROGRAM

Administered by the U.S. Department of Treasury, the NMTC Program is the first tax credit program created to stimulate commercial investment and spur revitalization efforts in low-income communities.

NMTC proceeds typically fund 25 percent (net) of a qualifying capital project, with the expectation that the remaining costs are covered by some combination of owner equity, borrowed funds or other public or private donations.

DO YOU QUALIFY FOR NMTCS?

Before your organization begins the process of exploring NMTCS, consider the following general qualifications:

- **Location:** Your project must be in a designated low-income community, defined by U.S. Census data as census tracts with a poverty rate of at least 20 percent or with median family incomes that do not exceed 80 percent of area median income. Additionally, specific "targeted populations,"

including certain rural counties and low-population tracts may also be eligible for NMTC financing.

- **Project legitimacy:** You must be able to prove your project is financially viable and well thought out. Building a new facility? You'll need to be able to show where you will build and the positive impact you will have on the community. You will also have to have your approvals, plans and other funders in place before any NMTC funding is committed.
- **Impact:** The approval process places emphasis on improving the health and education of the neighborhood. Let's say you are building a new child development center in a low-income area. Make sure you link the benefits of early childhood education for low-income children and the difference it makes in closing the achievement gap. You will also need to show how the child development center will positively impact health and creates stronger families and communities.

While most organizations believe that they've got points #2 & 3 locked up, know that only about one-third of projects that go after NMTC get approved and funded in this very competitive program. **You'll need to build a strong case to be considered and approved.**

BENEFITS OF NMTCS

First there's the obvious financial benefit of receiving a significant portion of your capital project's need. At the end of the seven years of funding (at a very low interest rate), approximately 25% of the loan is "forgiven." While the costs (fees) are high, the end result is ultimately worth it.

In addition, once approved, NMTC offer you the early funding to allow you to start the project before your multi-year campaign pledges are paid off.

WHERE TO START?

If you are in the early stages of planning for a capital campaign (ideally during feasibility), start to look for potential Community Development Entities (CDEs) in your area. They are the designated entities or partners who will award the NMTC loan. Have conversations with several to gauge their interest on your project. It is unlikely you will have your project ready to the scope they will need to fund you at this time, but these introductory meetings will help cultivate the relationship for future funding as your project takes shape and NMTC funds become available.

You can learn more about New Market Tax Credits and start the process by visiting the **U.S. Department of Treasury's CDFI Fund page.**

Questions?

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