

U.S. TREASURY AWARDS \$5 BILLION TO SUBSIDIZE PROJECTS UNDER THE NEW MARKETS TAX CREDIT PROGRAM

On October 30, 2009, Treasury Secretary Timothy Geithner announced that the federal government has made \$5 billion in financing available to subsidize business and real estate projects under the New Markets Tax Credit Program.

The New Markets Tax Credit (NMTC) program was enacted in 2000 as part of the Community Renewal Tax Relief Act of that year. Intended to address the lack of investment capital available for business and economic development in low income communities, the NMTC program was the federal government's largest economic development initiative in 20 years.

Administered by the Community Development Financial Institutions (CDFI) Fund in the Department of the Treasury, the NMTC program provides a federal subsidy to benefit many different types of projects in eligible census tracts. Once a year, through a highly competitive process, the credits are awarded to community development financial institutions that are certified by the CDFI Fund as Community Development Entities (CDEs). Once they receive an allocation of NMTCs, the CDEs in effect sell the credits to investors and use the capital generated from the sale to subsidize below market project financing.

Generally speaking, NMTCs can be used to subsidize almost any type of project except for rental housing. However, under certain circumstances, even residential rental units can qualify for the subsidy if they contribute under 80% of the operating income for a mixed-use development project. Examples of other types of eligible projects are renewable energy facilities, charter schools, health care centers, manufacturing companies, technology incubators, office buildings and retail centers.

Under the NMTC program, it is possible for a project to obtain a loan at a below market rate of interest, or to obtain the equivalent of an equity subsidy of approximately 20% of total project costs. However, there is no guarantee as to either the type or level of subsidy available to a particular project. Both will depend upon the specific circumstances, and upon the outcome of negotiations between the project sponsor, the CDE and the tax credit investor.

To date, over \$14 billion in NMTC financing has been completed.

For additional information about the New Markets Tax Credit program, or for assistance in determining whether a project may be eligible for the subsidy, please contact Raymond Reichert 716.843.3886, reichert@jaeckle.com or Dennis Harkawik at 716.843.3848, dharkawik@jaeckle.com.