

New Markets Tax Credit Program in Connecticut

By: Alex Reger, Associate Analyst
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Issue

Describe the New Markets Tax Credit (NMTC) program and its use in Connecticut.

Summary

The NMTC is a federal income tax credit intended to stimulate investment in low-income communities (LICs). Originally authorized by Congress in 2000 as a seven-year, \$15 billion tax credit program, it has since been expanded through 2019 for up to \$61 billion.

In order to access the credits, investment groups known as Community Development Entities (CDEs) must apply to the Treasury Department's Community Development Financial Institutions (CDFI) fund for a credit allocation. CDEs use the credit allocation to attract investors, which may claim NMTCs for a portion of their equity investment in a CDE. CDEs then take the capital they have raised to make qualifying investments in low-income communities or serving low-income populations (QLICs). The credit equals 39% of the qualified investment and investors claim it over seven years: 5% in each of the first three years, followed by 6% in each of the remaining four years. (Congressional Research Service, [New Markets Tax Credit: An Introduction](#), updated June 27, 2019.)

According to CDFI data, there were 31 NMTC investments in Connecticut from 2005 through 2017 (the most recent year for which data is available) in 11 municipalities. The total investment for these projects was approximately \$400 million, most of which were real estate developments.

NMTCs

Community Development Entities

CDEs are the intermediaries between investors and the CDFI. Generally, a CDE is a company or partnership that provides loans, investment funding, or financial counseling in low-income communities. CDE's must (1) be domestic companies, (2) primarily serve low-income communities, and (3) maintain accountability to the residents of these communities. CDE's may meet this accountability requirement by filling at least 20% of their advisory or governing boards with community representatives.

The CDFI certifies CDEs and annually allocates NMTCs to certified CDEs through a competitive allocation process. Once they received a NMTC allocation, CDEs attract investors using the credits. Investors receive the right to claim NMTCs on a portion of their investment by acquiring stock or a capital interest in a CDE with an allocation.

Qualifying Investments

Only qualified investments in LICs are eligible for NMTCs. LICs are census tracts that have a (1) poverty rate of at least 20% or (2) median family income of 80% or less of the area's median income (26 U.S.C. § 45D(e)). Under certain conditions, low population areas in high migration rural counties can also be designated as LICs.

Most LIC investments, known as qualified low-income community investments (QLICs), are eligible for NMTCs. QLICs can be (1) loans or investments in active LIC businesses, (2) financial counseling and other services to businesses and residents in LICs, and (3) loans to or investments in other CDEs. QLICs are prohibited from investing in rental property and certain types of businesses, including casinos and golf courses.

Compliance

Generally, the Internal Revenue Service monitors CDEs and requires that they maintain most of their funds in eligible investments. Specifically, NMTCs can be recaptured from investors if the CDE (1) fails to maintain certification (i.e., stops being a CDE), (2) fails to use "substantially all" of its proceeds for eligible projects (i.e., 85% of funds in eligible investments in the first six years and at least 75% in the seventh), or (3) redeems the investment principal. Additionally, CDEs have 12 months from receiving an allocation to invest in QLICs, and an additional four years to issue tax credits to investors. Otherwise, the CDE loses the authority to allocate unused NMTCs. Finally, CDEs that receive principal payments from QLICs must reinvest those funds within a year.

NMTC Qualified Investments in Connecticut

CDEs have made almost \$400 million in qualified low-income community investments in Connecticut since 2005. Most of the NMTC investments (26 out of 31) were for real estate development purposes; the remaining five were for business financing. Table 1 below shows each project and the qualified investment amount (the qualified investment amount may not represent the total project's cost).

Table 1: NMTC Qualified Investment Projects in Connecticut, 2005-2017

<i>Origination Year</i>	<i>CDE Name</i>	<i>Project QLICI Amount</i>	<i>City</i>	<i>Investment Purpose</i>
2004	National Trust Community Investment Corporation	\$14,329,876	Hartford	Real Estate – Rehabilitation – Commercial
2005	Multi-CDE Project	\$28,218,445	Bridgeport	Real Estate – Rehabilitation – Commercial
2006	Banc of America CDE, LLC	\$7,700,000	Bridgeport	Real Estate – Rehabilitation – Commercial
2006	HEDC New Markets, Inc.	\$3,040,000	Bridgeport	Real Estate – Construction/Permanent/Acquisition w/o Rehab – Commercial
2006	GS New Markets Fund, LLC	\$16,300,000	Bridgeport	Real Estate – Construction/Permanent/Acquisition w/o Rehab – Commercial
2007	Capital Impact Partners	\$4,736,462	Bridgeport	Business Financing
2007	Sovereign Community Development Company	\$8,000,000	New London	Real Estate – Construction/Permanent/Acquisition w/o Rehab – Commercial
2008	Chase New Markets Corporation	\$9,800,000	New Haven	Real Estate – Rehabilitation – Commercial
2008	HEDC New Markets, Inc	\$7,927,996	Stamford	Real Estate – Rehabilitation – Commercial
2009	National New Markets Tax Credit Fund, Inc.	\$912,455	Norwalk	Business Financing
2009	Multi-CDE Project	\$42,122,671	Stamford	Real Estate – Construction/Permanent/Acquisition w/o Rehab – Commercial
2009	Greenline Community Development Fund, LLC	\$28,991,070	Stamford	Real Estate – Construction/Permanent/Acquisition w/o Rehab – Commercial
2010	MHIC NE New Markets CDE II LLC	\$7,178,000	Bridgeport	Real Estate – Rehabilitation – Commercial
2010	Multi-CDE Project	\$41,690,000	New Haven	Real Estate – Construction/Permanent/Acquisition w/o Rehab – Commercial
2010	Multi-CDE Project	\$16,144,000	Norwalk	Real Estate – Construction/Permanent/Acquisition w/o Rehab – Commercial
2010	MHIC NE New Markets CDE II LLC	\$12,022,465	Willimantic	Real Estate – Construction/Permanent/Acquisition w/o Rehab – Commercial

Table 1 (continued)

<i>Origination Year</i>	<i>CDE Name</i>	<i>Project QLICI Amount</i>	<i>City</i>	<i>Investment Purpose</i>
2011	HFHI-SA NMTC I, LLC	\$2,551,620	Hartford	Real Estate – Construction – Housing – Single Family
2011	Capital Impact Partners	\$7,680,000	Hartford	Business Financing
2011	Merrill Lynch Community Development Company	\$6,494,217	Middletown	Real Estate – Construction/Permanent/Acquisition w/o Rehab – Commercial
2011	Nonprofit Finance Fund	\$8,134,038	New Haven	Business Financing
2011	Multi-CDE Project	\$20,090,000	Stamford	Real Estate – Construction/Permanent/Acquisition w/o Rehab – Commercial
2012	Coastal Enterprises, Inc.	\$5,640,000	Stamford	Business Financing
2012	Multi-CDE Project	\$13,001,896	Stamford	Real Estate – Construction/Permanent/Acquisition w/o Rehab – Commercial
2013	Citibank NMTC Corporation	\$1,674,570	Bridgeport	Real Estate – Rehabilitation – Housing – Single Family
2013	MHIC NE New Markets CDE II LLC	\$9,700,000	Bristol	Real Estate – Construction/Permanent/Acquisition w/o Rehab – Commercial
2013	MHIC NE New Markets CDE II LLC	\$10,476,000	Torrington	Real Estate–Rehabilitation–Commercial
2014	Multi-CDE Project	\$12,705,000	New Haven	Real Estate – Construction/Permanent/Acquisition w/o Rehab – Commercial
2015	Multi-CDE Project	\$14,173,500	Danbury	Real Estate – Construction/Permanent/Acquisition w/o Rehab – Commercial
2017	Multi-CDE Project	\$15,680,000	New Haven	Real Estate – Construction/Permanent/Acquisition w/o Rehab – Commercial
2017	The Rose Urban Green Fund, LLC	\$1,470,000	New Haven	Real Estate – Construction/Permanent/Acquisition w/o Rehab – Commercial
2017	Multi-CDE Project	\$19,950,000	Hartford	Real Estate – Construction/Permanent/Acquisition w/o Rehab – Commercial

Source: [FY 2019 NMTC Public Data Release: 2003-2017 Data File](#)

Table 2 below shows the total NMTC investment according to the city in which the project’s census tract is located. As it shows, Stamford received the greatest amount of NMTC investments at nearly \$118 million. New Haven, Bridgeport, and Hartford received nearly \$89 million, \$69 million, and \$45 million, respectively.

Table 2: QLICI Investment in Connecticut by Project City

<i>City</i>	<i>Total QLICI Amount</i>
Bridgeport	\$68,847,477
Bristol	\$9,700,000
Danbury	\$14,173,500
Hartford	\$44,511,496
Middletown	\$6,494,217
New Haven	\$89,479,038
New London	\$8,000,000
Norwalk	\$17,056,455
Stamford	\$117,773,633
Torrington	\$10,476,000
Willimantic	\$12,022,465
Grand Total	\$398,534,281

Source: [FY 2019 NMTC Public Data Release: 2003-2017 Data File](#)

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