NMTC REPORT

A MONTHLY PUBLICATION ON THE NEW MARKETS TAX CREDIT INDUSTRY

November 2003, Volume II, Issue XI, Published By Novogradac & Company LLP

Can Tier 2 Cities Compete in the NMTC Program? It's Happening in Memphis!

By James F. Mingey, National Economic Opportunity Fund

The initial application data being released by the Community Development Financial Institutions (CDFI) Fund indicates that the number of applicants for the 2003 New Market Tax Credit (NMTC) round has declined relative to 2002, and that the average request size has increased relative to the size of this year's available NMTC award pool.

On average, there are fewer applicants asking for more credits. Does this data mean that awardees and future applicants will generally be large financial institutions or larger specialized national and regional NMTC intermediaries?

This question arises - can a smaller city, a Tier 2 City (generally defined as less than one million in population), compete in the NMTC rounds as they evolve? More importantly, even if such a city could win an award, what is the critical mass necessary for NMTC success and economic efficiency? Furthermore, can the ongoing NMTC process truly be used as a local/regional planning tool by renewal communities and other NMTC sponsors operating in high priority areas, such as CDFI Fund-designated Hot Zones? It is the belief of one 2003 applicant that with a few caveats, these questions will be answered with a resounding "Yes!" That applicant is the National Economic Opportunity Fund (NEOF), originally formed as a social venture capital initiative for members of the National Congress for Community Economic Development (NCCED), and now specializing in NMTCs by providing technical assistance for the development of local/regional NMTC intermediaries. NEOF's 2003 NMTC initiative is based in Memphis, Tenn. The sponsoring NCCED member is LeMoyne-Owen College CDC (LOC-CDC).

NEOF believes it can be competitive and efficient by structuring applications that combine the strengths of smaller markets while letting local sponsors leverage NEOF's past experience in asset management and tax credit transactions.

However, this is only one component for success and, accordingly, NEOF believes that in addition to meeting the NMTC application's subjective tests for community impact, a successful Tier 2 NMTC applicant must have current and active involvement from five critical local/regional institutional elements: the local business community, the CDC community, philanthropic support for current priorities, community focused partnerships with higher education partners, and ongoing involvement with local and federal community development programs. In the case of Memphis, or more specifically, Soulsville USA, an area of South Memphis, LOCCDC's strengths fit nicely into NEOF's "caveats."

So what is it that's "happening" in Soulsville USA, and why? LOCCDC was disappointed when it didn't get an award in 2002. After licking its wounds, it sought out partners who could shore up its holistic NMTC com-

(continued on page two)

Can Tier 2 Cities compete

(continued from page one)

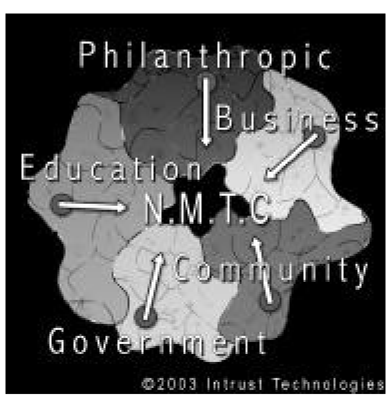
munity development plan. Central to that plan was a unique concept to generate jobs and neighborhood economic activity through a commercial franchise incubation project. After evaluating LOCCDC's 2002 plan, NEOF believed LOCCDC possibly could achieve enough critical mass though its incubation project, but also needed to include an affordable residential component to balance Soulsville's regeneration.

A practical problem was encountered in determining how to obtain superior quality in both the incubation project and accelerate a strong residential complement without creating major distraction and overburdening existing staff. The answer was to partner with another community that needed to expand on its own previous residential successes, but still lacked critical mass in the business incubation area. NEOF recruited Covenant Community Capital Corporation of Houston, the Fannie Mae sponsored NMTC Residential Initiative, to help develop a cutting edge. NEOF also decided to base its own operations in Memphis, drawing on and accelerating the fulfillment of other Soulsville community development needs by orchestrating real time sharing between Tier 1 and Tier 2 cities. LOCCDC and Covenant will benefit from this shared experience. Hopefully the final results will be the acceleration of NMTC knowledge transfers, which will enhance local priorities in Tier 1 cities, as well as generally accelerating neighborhood development in Hot Zones and strengthening the NMTC industry.

As an NMTC partner, NEOF can be a valuable asset in an NMTC application, but does not wish to be central to the local plan. Accordingly, some of NEOF's requirements for partnering are:

1) Local involvement in all aspects of the investment process, including investor and CDFI reporting systems.
2) A collective minimum of $25 million per round by all participants.
3) The sharing of NMTC expertise and information on a real-time basis with current and future NMTC applicants.

Without meeting the above requirements and ensuring a balanced involvement from existing institutions (as depicted in the accompanying graphic) in the local NMTC "plan," NEOF believes the NMTC program is probably best left to larger institution and markets. On the other hand, it's happening in Memphis, and regardless of the outcome of the 2003 round, NEOF, LOC-CDC and Covenant have used the process as an effective planning tool and



(continued on page two)

NMTC REPORT INFORMATION

Address all correspondence and editorial submissions to:
Jane Bowar Zastrow
NMTC Report
Novogradac & Company LLP
246 First Street, 5th Floor
San Francisco, CA 94105
Telephone: 415.356.8034
E-mail: cpas@novoco.com
Visit us on the web:
www.newmarketscredits. com

Can Tier 2 Cities compete

(continued from page two)

will be ready to proceed with their priorities as the resources materialize. In the meantime, NEOF will continue to help its annual application participants to continually improve and share their NMTC plans. Hopefully, the whole will be greater than the sum of the NMTC parts!

James F. Mingey, is the managing director of the National Economic Opportunity Fund, an intermediary fund investing in qualified low income community investments under the New Markets Tax Credit program. Mr. Mingey can be reached via e-mail at jmingey@neof.com.

This article first appeared in the November 2003 issue of Novogradac & Company's NMTC Report *and is reproduced here with the permission of Novogradac & Company LLP.*

HAS YOUR ADDRESS CHANGED?

We at Novogradac would like to stay in touch so if your contact information has changed, we'd like to know. Call us at 415.356.8037, or log on to www.taxcredit-housing.com and click on the Change of Address link in the lower right hand corner of the page. Thank you for helping us keep our records up to date.