

New Markets Tax Credits



A tailored approach.



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New Markets Tax Credits

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New Markets Tax Credits Program Overview and Benefits

- > Congress passed the Community Renewal Tax Relief Act of 2000
 - Created the New Markets Tax Credit (NMTC) program
 - Encourages commercial investment in low-income communities
 - Generally authorized in 1-2 year periods as part of the tax extenders

- > The Community Development Financial Institutions (CDFI) Fund, a branch of the US Department of Treasury, administers the program

- > Annual allocations of tax credits are made to Community Development Entities (CDEs) through a competitive application process.

- > CDEs have delegated authority from the CDFI Fund to sell the NMTC federal tax credits to third party investors, where the proceeds are used to fund investments (typically structured as low interest rate, forgivable loans) in qualifying businesses, non-profits or commercial real estate developments
- > CDEs use a competitive process to search for and identify qualifying businesses and real estate developments
- > The proceeds can fund about 20% of a project cost and is paired with owner equity, borrowed funds, or other grant/public funds, which in total must equal or exceed the amount of NMTC allocated to a project

Unlike other tax credit programs, the NMTC does not “belong to” the qualified borrower. It was won by the CDE, to be monetized, with the proceeds invested in (or loaned to) a business that qualifies for the subsidy.

Economic benefit to recipient

- > Additional capital to fund capital projects, expansions, or debt refinancing
 - Tax credits are monetized to bring additional capital at closing
- > Low cost of capital
- > Flexible loan terms including longer amortization and higher LTV ratios
- > Debt forgiveness
 - At the end of the seven year compliance period, a portion of the debt may be acquired for cents on the dollar

Program benefits



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Community benefit

- > Create additional economic development for the local community
- > Attract and retain skilled workforce
- > Bring new goods or services to underserved communities
- > Capital investment to underserved low-income communities

Project Qualifications

Minimum project qualifications



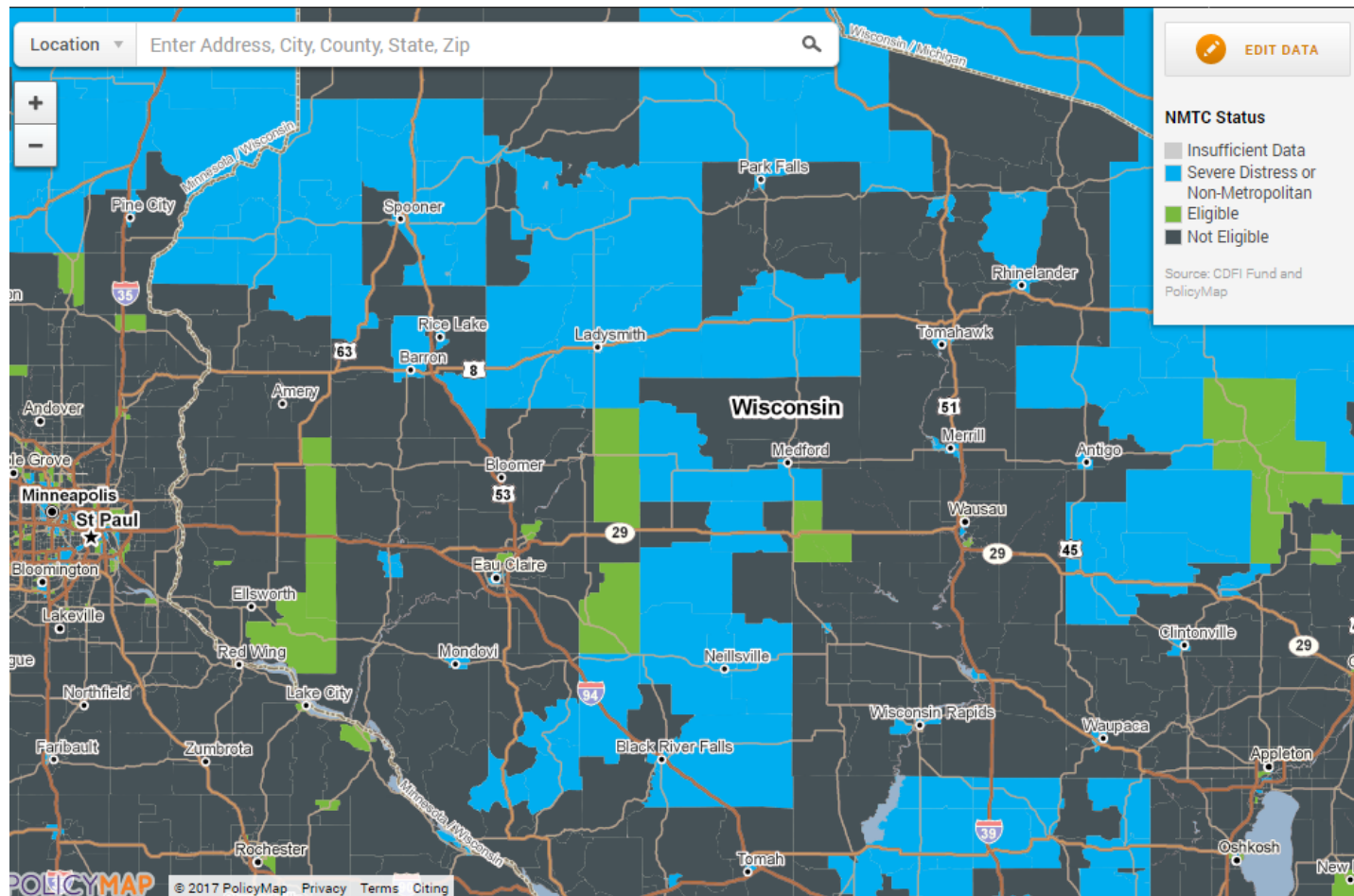
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- > Must be a Qualified Active Low-Income Community Business (QALICB)
- > Geographic requirements
 - Business located in a low-income community
 - » Poverty rate for census tract is at least 20%; OR
 - » Median family income does not exceed 80% of the surrounding area
 - Other factors, such as:
 - » Brownfield
 - » HUD
 - » TIF
 - » Medical
 - You can verify whether a project qualifies by visiting <http://www.bakertilly.com/landing/nmtc-lihtc-mapping-tool>

Baker Tilly Mapping



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Strong QALICB candidate and project profile



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- > Located in a “highly distressed” census tract, defined as one of the following:
 - Poverty > 30%
 - Median income < 60% of statewide
 - Unemployment > 1.5 times national average
 - Non-metropolitan county (20% of all allocation set aside for non-metro)
- > Community impact
 - Tangible community benefit (i.e. job creation, unmet good or services, etc.)
 - Part of an existing plan for economic revitalization
 - “But for” test—NMTC fills a real funding gap that would otherwise not happen
- > Readiness
 - Other sources of funding committed
 - Approvals all in place

Qualified Active Low-Income Community Businesses/Borrower



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> Ineligible activities

- Residential rental property (80% or more of income from residential dwelling units)
- Land acquisition or acquisition or refinance of rental real estate, unless there is “substantial rehab”
- Certain businesses:
 - » Race tracks
 - » Golf course
 - » Gambling facilities
 - » Liquor stores
 - » Certain farming businesses
 - » Massage business

- > To date, the CDFI Fund has made over 1000 allocation awards totaling over \$45B in tax credit authority.
- > Availability: Historically, the CDFI has issued \$3.5B in NMTC Allocation on an annual basis.
- > NMTC program was extended to 2019 with the next allocation expected to be awarded in 1st Quarter 2018.
- > Demand far exceeds supply and virtually no allocation is available until the new awards are announced

BMO Harris NMTC Strategy

- M&I Bank created a CDE in 2005, M&I New Markets Fund, LLC
- Prior to Merger M&I New Markets Fund, LLC received two allocations of NMTCs (\$75MM in 2006 and \$40MM in 2009).
- Post-merger the CDE has received \$128MM of NMTC allocation (\$28MM in 2013, \$45MM in 2014, and \$55MM in 2016)
- Steering Committee established with Pam Daniels-Halisi, Devon Osborn, Marco Quintana, and Mike Schulte.
- Governing Board and Advisory Board formed approves use of allocation
- All of the 2016 award is committed to qualifying projects
- The CDE name was recently changed from M&I New Markets Fund, LLC to BMO Harris New Markets Fund, LLC

BMO Harris Experience-Leverage Lender



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- BMO Harris is one of the most experienced leverage lenders in the country.
- Marco Quintana has helped create underwriting material for leverage loans
- Have provided leverage loans using own CDE allocation as well as 3rd party CDE allocation
- Have provided leverage loans with 3rd party banks (U.S. Bank, Chase Bank, PNC) providing the tax credit investment.
- Currently not looking to be the NMTC Investor which makes the large investors much more interested in working with BMO Harris.

- The BMO CDE footprint is aligned with its lending area and includes AZ, FL, IL, IN, KS, MN, MO, and WI.
- CDE focuses on funding impactful projects, primarily in urban communities.
- Utilized by BMO to finance impactful projects and generate fee income. BMO may provide a loan in connection with the NMTC allocation.
- Seeking projects for potential 2018 allocation (to be awarded in 1st Quarter of 2018) and pipeline projects for application due in 2018.

> Minnesota Children's Museum

- Located in St. Paul, MN - received 430,000 visitors last year.
- BMO provided a \$3.5MM source loan and \$8MM in NMTC allocation to the Project.
- Financing was used to make exhibit design upgrades and expansions throughout the existing Museum.
- Museum anticipates that more visitors will be served through the *Play for All* program, a program designed to offer free family memberships, discounts to school and community groups, and free family nights.
- But for NMTC financing, the Borrower would not have been in a position to make capital expenditures as an investment to foster future growth.

> PCC Community Wellness Center

- A network of 12 health centers dedicated to serving medically underserved communities throughout the Chicagoland area.
- BMO provided \$6MM in NMTC allocation to the Borrower and provided a \$1.5MM LOC directly to the Borrower.
- Funds were utilized to hire additional personnel, open a new, school-based clinic site, and make an electronic software upgrade throughout the network of health centers.
- Borrower anticipates serving 3,270 patients once the facility becomes fully operational (775 students & 2,495 community patients).
- But for NMTC financing, the Borrower would not have been in a position to make the capital investments needed to facilitate growth.

BMO Harris Experience-Track Record



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> Eau Claire Confluence Arts Center

- Located in Eau Claire, WI
- Currently in the closing process
- BMO providing \$9MM of allocation
- Funds will be utilized for a 133,000 SF Performing Arts Center located in downtown Eau Claire
- The Arts Center is a public/private partnership designed to meet a variety of community and regional needs
- Without NMTC allocation, there would have been inadequate capital available to complete construction.

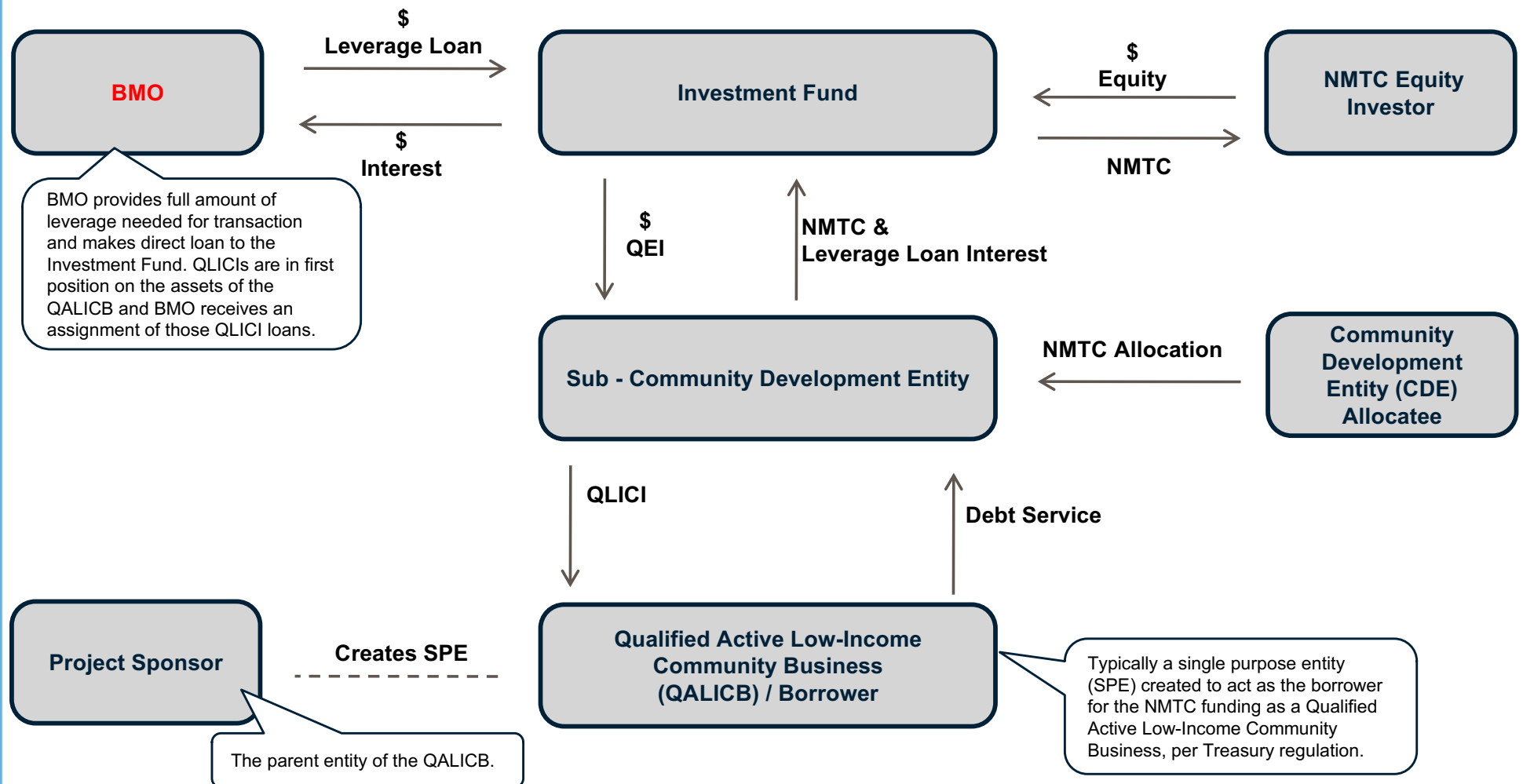
Structure Examples

NMTC transaction diagram

Leverage Lender Example



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Leverage Loan Underwriting

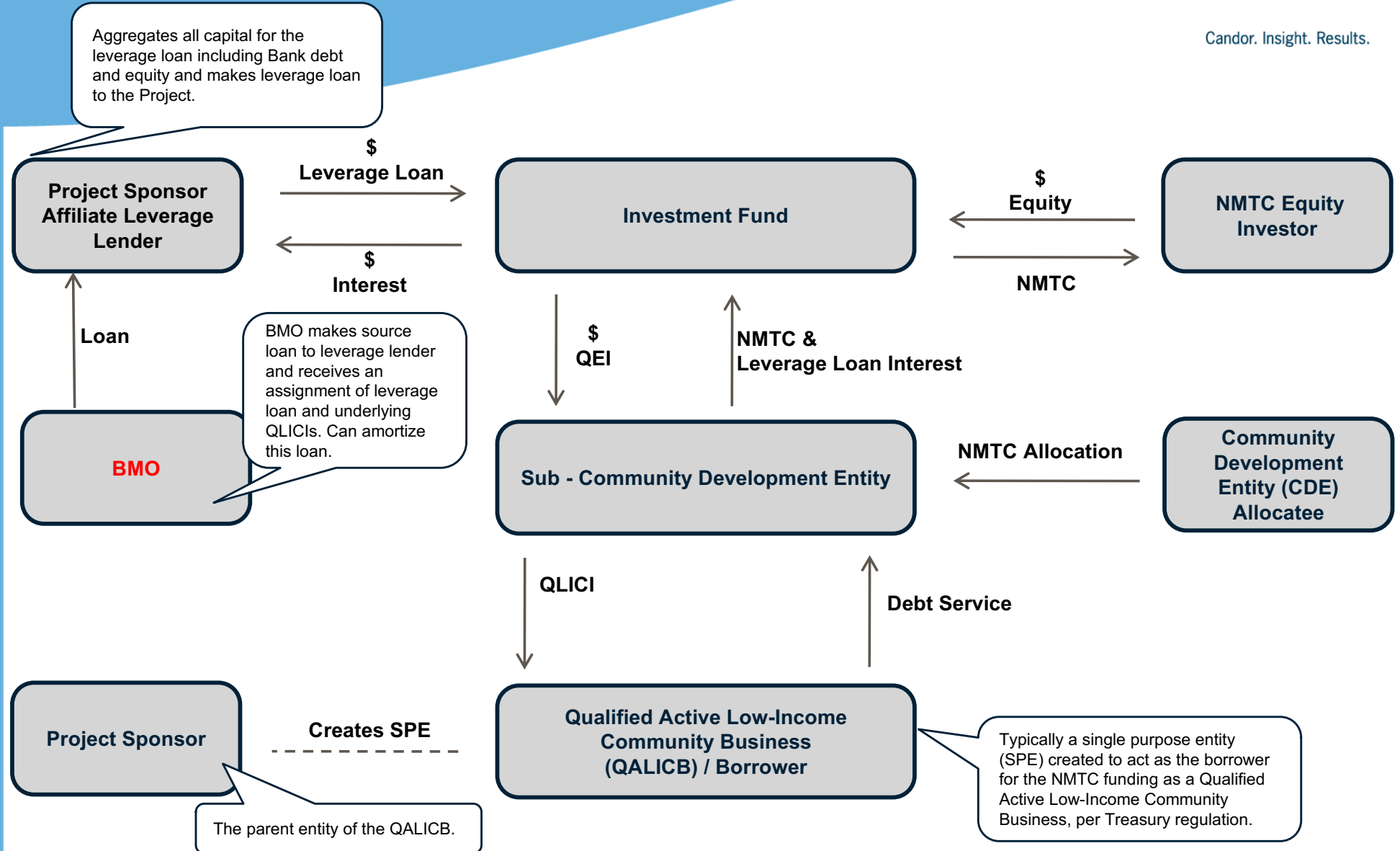
- Leverage Loan 7 years, interest only, (no amortization)
- Collateral includes assignment of QLICI loans but no direct collateral in assets of the QALICB
- 7 year standstill on foreclosing on the Investment Fund
- Can force the Sub-CDE to foreclose on the QALICB through agreement with Investment Fund
- If Sub-CDE forecloses, must redeploy the funds for the remainder of the 7 year period within one year of foreclosure- generally lender will have 6-9 months of consent rights in regard to redeployment

NMTC transaction diagram



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Source Loan Example



Source Loan Underwriting

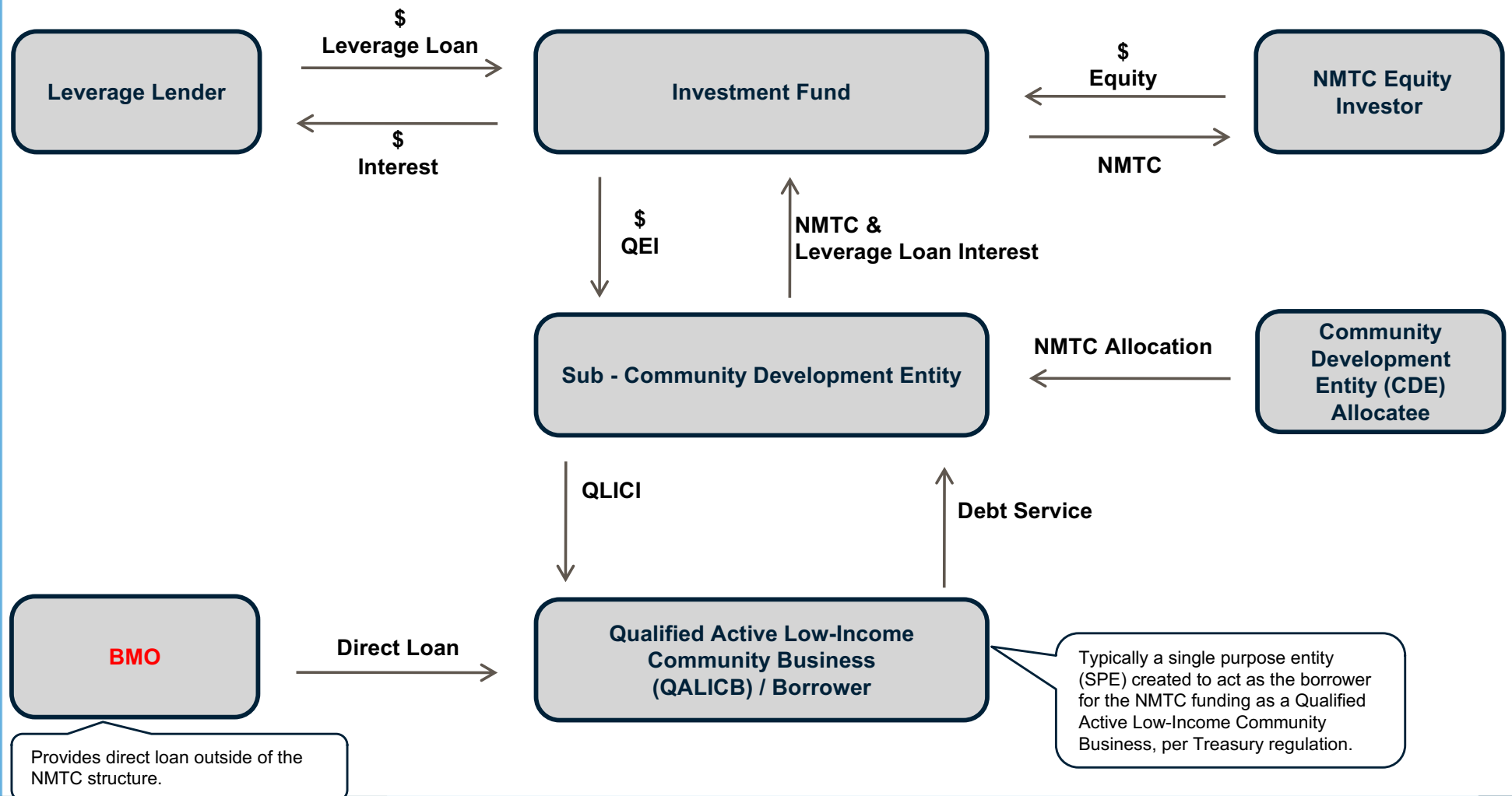
- Loan can be structured to have “normal amortization” and term, generally like to have loan be minimum of 7 years
- Collateral includes direct lien on assets of the Leverage Lender and an assignment of the QLICI loans. Cannot receive direct collateral in QALICB.
- Leverage Lender will still have 7 year standstill on foreclosing on the Investment Fund and same redeployment requirements noted for leverage loan underwriting.

NMTC transaction diagram

Direct Loan Example



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Direct Loan Underwriting

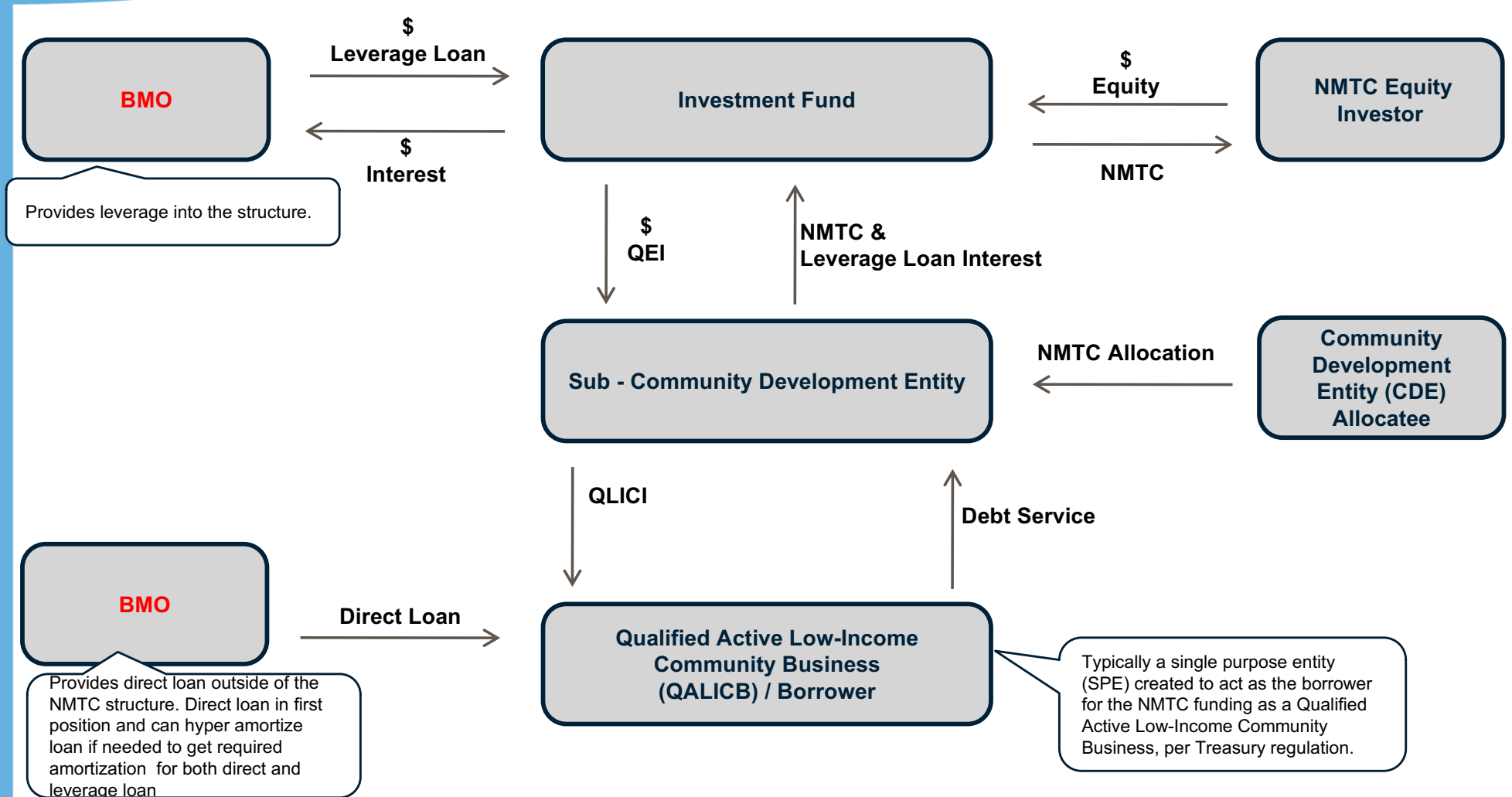
- Loans are outside of the NMTC structure and can have normal amortization and terms
- Direct loans are generally in first position on the assets of the QALICB do not receive collateral in the leverage lender.
- Often minimal involvement in the NMTC transaction really need to review inter-creditor agreement.
- Should be aware of NMTCs for purposes of how debt on balance sheet of QALICB will be inflated.

NMTC transaction diagram

Direct and leverage loan



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Direct and Leverage Loan Underwriting

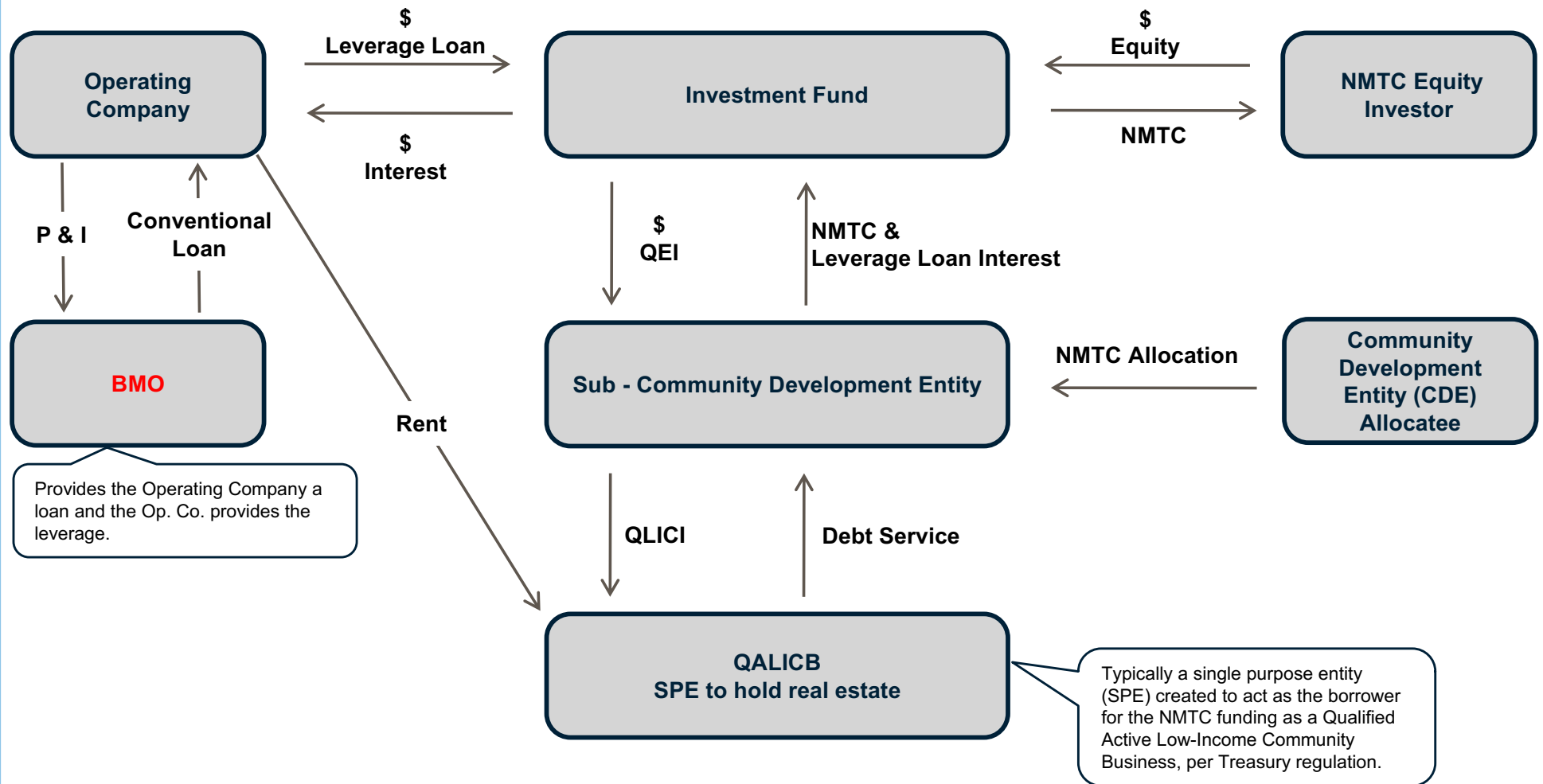
- Loans can have cross-default provisions but are unable to be cross-collateralized
- Direct loan can be hyper-amortized to achieve required amortization on aggregate amount of loans
- Direct loan can be for small amount just to allow lender to dictate foreclosure process. Will generally then want this loan to be 7 years

NMTC transaction diagram

Operating Business Example



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Operating Business Loan Underwriting

- Similar to Source Loan structure but our leverage lender is the operating business
- Works for owner occupied real-estate developments and/or equipment purchases
- QALICB is an affiliated entity that owns the real-estate/equipment and leases to the leverage lender (operating business)
- Lender receives direct collateral in operating business including cash flow, and assets on its books as well as an assignment of QLICI loans.

Baker Tilly Experience

About Baker Tilly



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- > Established in 1931
- > One of the top 15 largest accounting and advisory firms in the United States according to *Accounting Today's* 2015 list of "Top 100 Firms."
- > More than 2,500 total staff members, including 298 partners and 1,027 CPAs across 29 cities
- > Clients served: Start-ups to Fortune 100
- > FY15 total firm revenue: \$478 million

New Markets Tax Credit experience

- > Involved with NTMCs since the program's inception in 2000
- > Success by the numbers
 - We have closed over 250 transactions in excess of \$7 billion. NMTC allocated to our clients ranged from \$5 million to \$90 million per project.
 - Consulted with more than 75 CDEs in the successful deployment of more than \$3.5 billion of NMTC into projects nationwide, and currently provide post-closing compliance and administrative management services to 14 CDEs that have more than \$1.75 billion of NMTC allocation.
 - Assisted 32 CDEs in developing successful NMTC applications, resulting in more than \$3 billion in allocation awards. Our success rate in assisting CDEs with their NMTC applications is twice that of the national rate of winners to applicants.
 - Baker Tilly's sponsored CDEs have won and deployed five rounds of NMTC allocation totaling \$187 million.
- > Baker Tilly works with all major NMTC investors

Conclusion

Opportunity to create or retain business through use of NMTCs

- Identify projects with a need (capital spending in next 1-3 years)
- Verify the project is in a qualified, high distress census tract using mapping tool
- Refer questions and prospective projects to Devon Osborn

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