

New Early Childhood Learning Center and DHS Expansion Update: New Markets Tax Credit Program Overview

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Stimulate Growth with New Markets Tax Credits



A New Markets Tax Credit Program Overview City Schools of Decatur



Presented By:



An Important Component of Project Financing

The New Markets Tax Credit (NMTC) Program is designed to improve the flow of capital to projects in low-income communities by providing a tax incentive to private investors with the intent to attract private sector investment to spur economic growth to those low-income communities that have traditionally had inadequate access to capital due to the perceived greater risk.

CDFI Fund's Fiscal Year 2022 Agency Financial Report

Program Highlights:

- Through the New Markets Tax Credit (NMTC) program in fiscal year 2022, the CDFI Fund made **\$3.697 billion** in loans and investments, of which 77% were made in severely distressed communities.
- Through the end of fiscal year 2022 (the most recent data available) NMTC award recipients deployed more than **\$66 billion** in investments in low-income communities and businesses; with meaningful impacts including:
 - (a) the creation and retention of more than **894,000 jobs**, and
 - (b) the construction or rehabilitation of more than **259.5 million** square feet of real estate.

An Important Component of Project Financing

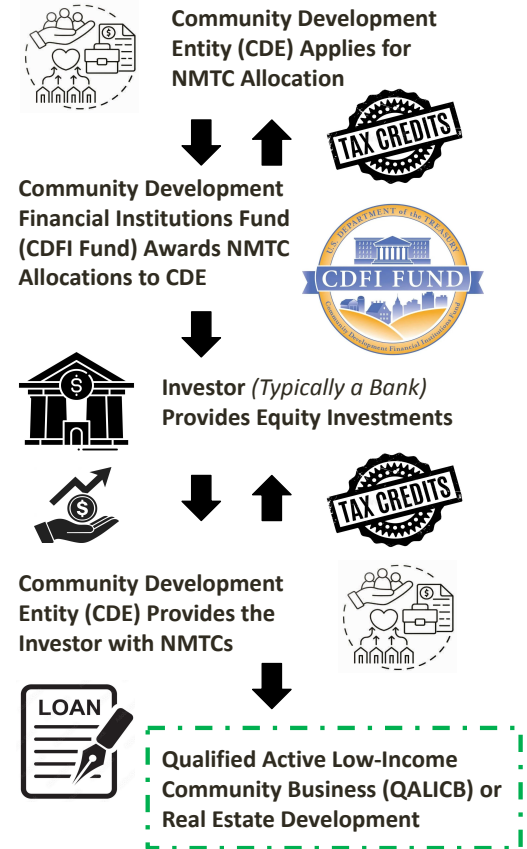
Program Highlights: *(Continued)*

- Fiscal year 2022 alone saw the following landmarks for the cumulative achievements of the NMTC program: \$76 billion in allocated tax credit investment authority. CDFI Program award recipients (CDEs) reported originating more than one million loans and investments, financing more than 17,000 units of affordable housing, and funding more than 87,000 businesses – all in distressed and underserved communities lacking access to traditional lending or banking institutions. **Right now, CDEs hold \$10 billion in newly-released tax credit authority for investment in shovel-ready projects.**
- For the 2024/2025 Application Round, the CDFI Fund identified the following states as areas that have received fewer dollars of qualified low-income community investments (QLICs) in proportion to their statewide population residing in low-income communities: **Arizona, California, Colorado, Connecticut, Florida, Kansas, North Carolina, Texas, Virginia, and West Virginia.** Puerto Rico, American Samoa, Guam, Northern Mariana Islands and U.S. Virgin Islands are also deemed underserved. **Location in one of these areas could increase the likelihood of attracting NMTCs to a project.**

NMTCs are a tool that can be used to assist in the financing of middle market projects between \$5-\$50 million. They are designed to “**fill the gap**” in the financing of a project. NMTC financing typically provides a seven year, below market interest-only loan that is approximately 25%-30% of the allocation amount.

High-Level Process Flow

- 1 A CDE submits an application to the CDFI Fund to be considered for an allocation of NMTCs.
- 2 After a competitive review of applications, the **CDFI Fund awards an allocation of NMTCs to a CDE**. The CDE works with various partners to identify operating businesses and real estate projects that are in need of investment.
- 3 The CDE will review projects that lie within qualified census tracts. Once a project has been chosen for allocation, a term sheet is issued and the closing process begins. At close of the transaction, an **Investor will make an equity investment into the CDE**.
- 4 In exchange for the investment, the **CDE provides the Investor with tax credits** equal to 39% of the investment.
- 5 The **CDE then provides a loan to the qualified active low-income community business (QALICB)**.



Key Roles & Responsibilities

NMTC Consultant

Advises and coordinates project presentation; Engages investors and CDEs

Investor

Invests in tax credits provided by the CDE; Provides equity to the project

Legal Counsel

Mitigates risk by ensuring the transaction is structured and documented in accordance with Internal Revenue Code (IRS) and NMTC regulations

Accountants

Ensures the transaction structure is documented in accordance with the NMTC Program

Community Development Entity (CDE)

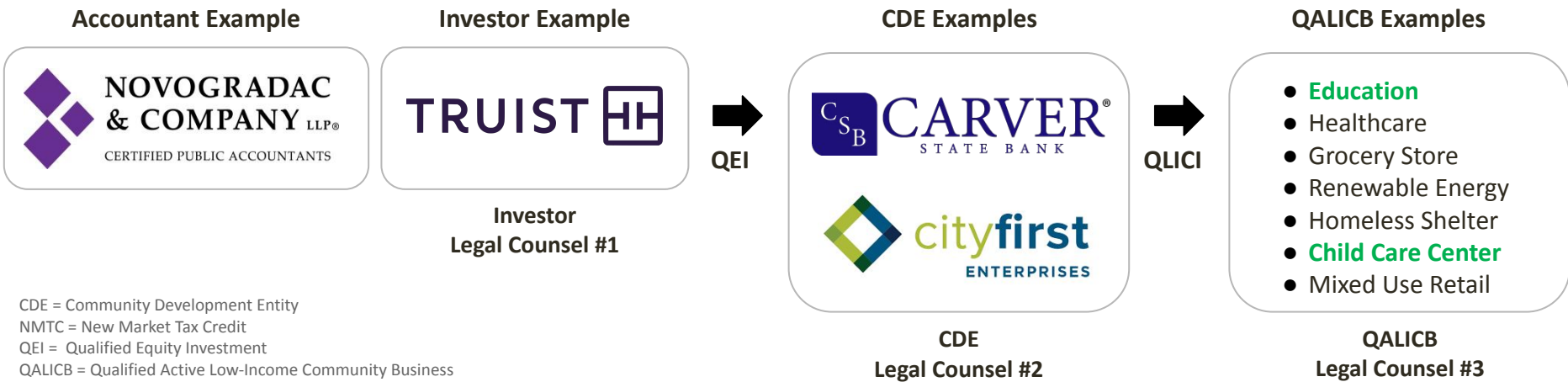
Applies for and receives NMTC allocation authority; Serves as the project lender

Assembling the Deal

NMTC Consultant Works with a QALICB in locating allocation and bringing all participants together

Accountant Works with all participants to finalize transaction structure and projections

Legal Counsel Prepares and reviews all documents required to satisfy the represented participant.
The number of firms will vary depending on the complexity and structure of the transaction



CDE = Community Development Entity
 NMTC = New Market Tax Credit
 QEI = Qualified Equity Investment
 QALICB = Qualified Active Low-Income Community Business
 QLICI = Qualified Low-Income Community Investment

Identifying the Project

NMTC Project Location – Must be in a **qualified census tract** that meets the determination of a low-income community, per data from the 2016-2020 American Community Survey.



- Low-income community (LIC) is defined as a census tract where the poverty rate exceeds 20% or the family median income is below 80% of the statewide family income. **The NMTC Program catalyzes investment where investment is needed the most.**
- In 2022 alone, more than 77% of all NMTC investments were in communities exhibiting “severe economic distress”, including unemployment rates more than 1.5 times the national average, a poverty rate of 30% or more, or a median income at or below 60% of the area median. Approximately 41% of all census tracts in the U.S. are eligible; **about 36% of the U.S. population lives in eligible census tracts.**
- **In 2024, the CDFI Fund added “deep distress” as a further marker, including areas with poverty rates of 40% or more, a median income at or below 40% of the median income or unemployment rates more than 2.5x the national average.**
- There must be a “reasonable expectation” that the qualified active low-income community business (QALICB) will continue to be located in a low-income community for the term of the loan.

Project Qualification | Eligible vs. Ineligible Activities

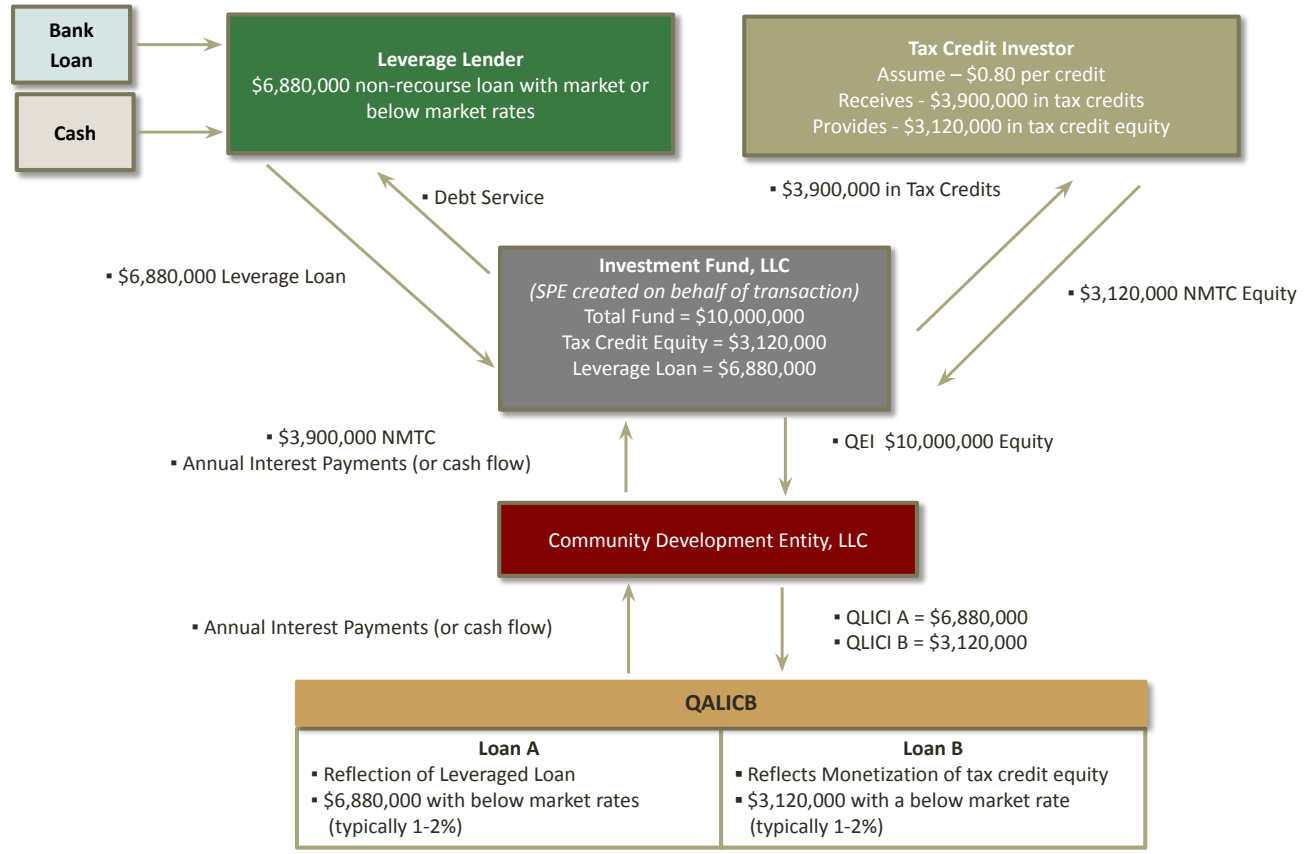
ELIGIBLE

- Office
- Retail/Office
- Mixed Use Retail
 - 80%/20% Housing Requirement
- Entertainment/Theater
- Museums
- Grocery Store
- Hotel
- **Non-profit Organizations**
- **Education**
- Industrial
- Manufacturing
- Operating Business
- Renewable Energy
- Healthcare

INELIGIBLE

- Non-Qualified Businesses
 - Golf Courses
 - Racetracks
 - Gambling Facilities
 - Spa/Suntan Facilities
 - Stores where the principal business is the sale of alcoholic beverages
 - Development of or holding of intangibles for sale or license
- Non-Qualified Farming Activities
- Non-Qualified Residential Rental Property
 - Buildings which derive 80% or more of income from residential dwelling units

Structuring the Deal | \$10M Transaction Scenario *(For Review Purposes)*



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The Math <i>(Estimated)</i>	
NMTC Allocation	\$10,000,000
NMTC Rate	39%
Tax Credits	\$3,900,000
Investor Monetization*	\$3,120,000
(Less) Closing Costs & Fees**	(\$1,100,000)
Estimated Net NMTC Cash to the Project	\$2,020,000

* Assumes an estimated \$0.80 per tax credit, for illustrative purposes.

** Assumes an estimated 11% of the total NMTC allocation amount.

Exiting the Deal | The Put/Call Transaction

- 1 At the end of the 7-year compliance period, when the investor has received all the NMTCs, the investor, along with the CDE, will likely want to **unwind the transaction and exit the structure**.
- 2 This is **typically accomplished through the use of a "put/call" structure**. The investor has the right to require the QALICB, over specified period, to purchase the investor's interest in the Fund for a specified price (the "put"). In the event the put is not exercised, the QALICB (or an affiliate) has the right to purchase the investor's interest in the Fund over a specified period for fair market value (the "call").
- 3 The put and call will be **priced substantially below the investor's original investment** in the Fund. If either the put or the call are exercised, the investor would be removed from the structure. An affiliate of the QALICB typically would be substituted in place of the investor, thereby controlling the Fund, and would take steps to redeem the managing member of the CDE. **The result is a net benefit to the project measured by the amount of the investor's original funds less fees, professional and administrative costs and the price of the put/call.**
- 4 After the investor is removed, the QALICB may then cause the Fund to liquidate the CDE, often using the QLICI "A" Note previously held by the CDE to repay the leverage lender, and subsequently liquidate the Fund, leaving the QALICB on its own and the leverage lender holding the A Note.

Summary Key Takeaways

NMTC financing can fill a gap in the capital stack.

Financing terms are flexible.

NMTCs can be used to create jobs, encourage expansion, as well as attract and retain businesses in low-income areas.

The project must be located in a qualified low-income census tract.

NMTCs are used by for-profit and non-profit organizations.

Questions?

