



A *brownfield* is a property on which expansion, redevelopment, or reuse may be complicated by the presence, or perceived presence, of contamination. EPA's Brownfields Program provides grants to fund environmental assessment, cleanup, and job training activities. Additionally, EPA seeks to strengthen the marketplace and encourages stakeholders to leverage the resources needed to clean up and redevelop brownfields.

This *Brownfields Solutions* factsheet is intended for brownfields stakeholders interested in how the U.S. Department of the Treasury's New Markets Tax Credit (NMTC) Program can be used as a financing mechanism in brownfields cleanup and redevelopment. The NMTC Program is a development tool designed to stimulate the economies of low-income communities. The Program's tax credits, and the investment spurred by them, help to make brownfields projects in low-income communities financially viable.

What is the New Markets Tax Credit Program?

Successful brownfields cleanup and redevelopment projects turn idle land into thriving centers for business, housing, or industry. While brownfields are often located in lower-income communities, a site's location is not usually a deterrent in itself. Financing often presents the most significant obstacle; institutions are sometimes reluctant to lend money to a project with potential environmental liability issues. However, the Community Renewal Tax Relief Act of 2000 provides a financing option that can benefit

brownfields cleanup and redevelopment projects.

This legislation established the New Markets Tax Credit (NMTC) Program to promote economic development in rural and urban low-income communities. The Program is a federal tax initiative designed to increase the amount of investment capital available to business and economic development programs in low-income communities, many of which are affected by brownfields.

The NMTC is administered by the Community Development Financial Institutions (CDFI) Fund under the U.S. Department of the Treasury. The CDFI Fund was created for the sole purpose of expanding the availability of credit, invest-

ment capital, and financial services in distressed urban and rural communities. Each year, tax credits are allocated for distribution to certain qualifying entities through the CDFI Fund. These qualifying community groups are known as Community Development Entities, or CDEs.

The \$15 billion, NMTC Program provides private-sector investors (e.g., banks, insurance companies, corporations, and individuals) with federal income tax credits in return for new investments in eligible businesses, ranging from small business startups to real estate development. Brownfields cleanup and redevelopment projects often fall under these NMTC qualifications.

The New Markets Tax Credit Process

This flowchart illustrates how the NMTC Program functions in four stages.

First, an entity applies to the CDFI Fund, for certification as a CDE. Entities can apply at any time of the year. Once an organization is certified as a CDE, the designation will last for the life of the organization as long as the CDE continues to comply with the NMTC Program requirements.

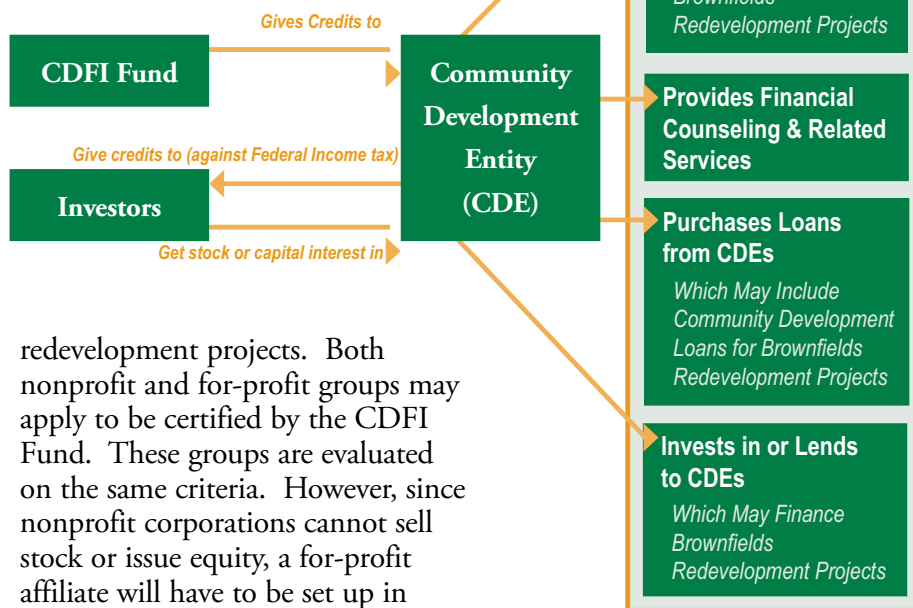
Once certified, the CDE engages in a competitive application process for the tax credit allocation. The CDFI Fund evaluates NMTC allocation applications in four areas: business strategy, capitalization strategy, management capacity, and community impact. Certain criteria also help the CDFI Fund determine if an entity is well suited to receive an allocation of credits. For example, the applying entity must indicate the percentage of qualified, low-income community investments that will be used to finance activities in certain geographic areas, including brownfields. The higher the percentage of applicable community investments indicated on the application, the better the applicant will score under the Community Impact section of the NMTC Allocation Application. The NMTC allocation applications are due in the Fall with recipients being announced the following Spring. If the application is successful, the Fund awards a tax credit allocation to the CDE.

Third, the CDE secures investors through the sale of stock or issuance of an equity interest in exchange for those tax credits.

Finally, the CDE uses the resulting investor equity to make investments in low-income communities.

What is a Qualifying CDE?

In order to qualify as a CDE, the entity must be a corporation or partnership that has a mission of serving, or providing investment capital, for low-income communities or persons. The group must also maintain accountability to residents of low-income communities through resident representation on governing or advisory boards. CDEs can include organizations such as community development corporations (CDCs), community development financial institutions, community development venture capital funds, small business development corporations, community loan funds, specialized small business investment companies, and others. These organizations are often the catalysts behind successful brownfields



redevelopment projects. Both nonprofit and for-profit groups may apply to be certified by the CDFI Fund. These groups are evaluated on the same criteria. However, since nonprofit corporations cannot sell stock or issue equity, a for-profit affiliate will have to be set up in order to receive the tax credits.

How do CDEs use their investments?

After a CDE has received an allocation of tax credits, it can begin to receive money from investors. A CDE can use this capital to make loans to or investments in qualified businesses, invest in or loan to other CDEs, purchase qualified loans from other CDEs, or provide financial counseling to businesses or community residents. While all of a CDE's loans must be targeted to the low-income area identified by the CDE, there is significant flexibility in the types of businesses and development activities that NMTC investments can support.

A low-income community generally is a census tract with a poverty rate of at least 20% or with median family income of up to 80% of the area median family income.

How Can Brownfields Stakeholders Take Advantage of the New Markets Tax Credit Program?

The NMTC provides a unique financing source for brownfields cleanup and redevelopment. Brownfields stakeholders have three primary options to take advantage of the NMTC Program.

The first option for stakeholders is to apply to existing CDEs to fund their projects. Of the 2004 second round CDE allocatees, several have identified brownfields redevelopment as specific goals for their economic development efforts. Brownfields stakeholders are encouraged to access the CDFI Web site for the location of CDEs in their region. The Web site also provides profiles of community revitalization projects the CDE is targeting and can guide stakeholders towards possible brownfields project financing (<http://www.cdfifund.gov>).

The second option is for stakeholders to apply for CDE certification themselves, apply for an allocation of tax credits, and offer the tax credits to potential investors. As a certified CDE, a brownfields stakeholder or group can best identify which cleanup and redevelopment projects will most help the local community. Although this process may be more complex than the first option, it is viable for entities committed to large scale or long-term brownfields efforts.

The third option for stakeholders is to apply and become certified as a CDE, then apply to receive equity financing from other CDEs, which have an allocation of New Markets

CDEs Investing in Brownfields Projects

Several CDEs are exploring investments in brownfields projects, such as:

- **Great Lakes Region Sustainability Funds LLC:** This CDE will make loans and take equity positions in businesses and real estate projects in low-income communities in Illinois, Indiana, and Wisconsin. These investments will focus on remediating and redeveloping area brownfields. The NMTC will allow Great Lakes to offer new products including tenant loans, financing for brownfields projects, financing for lead abatement, and technical assistance to low-income municipalities and nonprofits.
- **Shorebank Enterprise Pacific:** In order to assist low-income communities in the Pacific Northwest, this CDE will subordinate debt and equity to environmentally sensitive commercial properties, industrial properties, brownfields, and community development real estate projects.
- **MassDevelopment New Markets LLC:** Four real estate development projects that are not only on brownfields, but of critical importance to four of the most deeply distressed communities in the state, will be financed by this CDE.
- **Milwaukee Economic Development Corporation:** A goal to provide “gap” financing for businesses located in distressed areas of the city, including abandoned brownfields properties.

For more information on these or other CDEs, please visit <http://www.cdfifund.gov>.

Tax Credits. One of the purposes of a CDE, as defined earlier, can be to invest in projects of other CDEs. Investment by one CDE in another CDE is viable when the proceeds are used for a qualified low-income community investments. This can include funding to businesses owned in whole or part by a CDE or equity investment in, or loan to, a CDE.

What are the advantages of the New Markets Tax Credit Program to brownfields stakeholders?

There are several advantages associated with using the NMTC Program for brownfields project funding. For example, a CDE can structure a more favorable deal than traditional lending institutions for brownfields properties. Traditional lending institutions may be more reluctant to lend to brownfields projects compared to projects that are perceived as less risky due to fewer environmental complications.

In addition, CDEs may offer loans for pre-development on projects that are unlikely to secure traditional funding. Loans can be used for pre-development activities such as land acquisition, environmental remediation, demolition, site preparation, construction, renovation, and infrastructure improvements. Brownfields stakeholders may also apply for funding to assist with cleanup, and additional funding for redevelopment and construction activities. In certain situations CDEs can also provide technical assistance for brownfields cleanup.

Loans from CDEs for brownfields projects can be structured to provide more flexibility and lower interest rates. According to Donna Ducharme of the Great Lakes Region Sustainability Fund, “CDEs are typically willing to lend at cost to nonprofits and government entities.” This is a direct advantage for local or municipal government organizations managing a brownfields project. Ms. Ducharme also notes that CDE loans for brownfields

Three Ways Brownfields Stakeholders Can Access the NMTC Program for Project Financing

- Stakeholders may apply to an existing CDE to fund their projects
- Stakeholders may apply for CDE certification and apply for an allocation of New Markets Tax Credits
- Stakeholders may apply for CDE

projects are typically structured to allow a two-year period for cleanup. CDEs involved with brownfields cleanup and redevelopment projects have reported “packaging” various funding sources together. Low-income community development projects may be eligible for a wide range of federal and local financing credits and incentives, ranging from Tax-Increment Financing to Community Development Block Grants. Funding can also be used

in conjunction with EPA Brownfields Grants to complete pre-development activities such as cleanup (<http://www.epa.gov/brownfields>).

Great Lakes and MassDevelopment New Markets LLC cite examples of loans including those for retail centers, mixed-use commercial and residential properties, cleanup of a ground water plume on a property to be used as a recreational-vehicle park, and cleanup of a property to be developed into a professional office park.

A brownfields stakeholder that is pursuing multiple brownfields cleanup and redevelopment efforts or projects of significant scale can benefit from the New Markets Tax Credits. Whether applying to become certified as a CDE and applying for a tax credit allocation, or applying to receive project funding from an existing CDE, the NMTC Program offers unique financing opportunities for brownfields cleanup and redevelopment.

How do Investors Receive Tax Credits from a CDE?

The credit provided to the investor totals 39% of the investment in a CDE and is claimed over a seven year credit allowance period.

For example, the Fund awards a tax credit allocation of \$1 million to a CDE, which offers the tax credit to investors. Ten investors each invest \$100,000 in return for the tax credit. Each investor can claim 5%, or \$5000 annually from their federal income tax in years one to three of the tax credit.

In years four through seven, the investors can claim 6%, or \$6000 per year. The total tax credit value to the investor over seven years is \$39,000, or 39%.

YR 1: \$5000
YR 2: \$5000
YR 3: \$5000
YR 4: \$6000
YR 5: \$6000
YR 6: \$6000
YR 7: \$6000
Total: \$39,000

Source: <http://www.cdfifund.gov/docs/nmtc/2005/OutreachPresentation.ppt>

For More Information

EPA Brownfields Cleanup and Redevelopment – Funding and Financing for Brownfields:

<http://www.epa.gov/brownfields/matters.htm>

The Funding and Financing for Brownfields Web site provides links to additional resources, such as factsheets, guides, and other Web sites, that provide information on financing issues encountered in brownfields cleanup and redevelopment.

Community Development Financial Institutions (CDFI) Fund:

<http://www.cdfifund.gov>

The CDFI Fund Web site provides access to CDE and NMTC application materials and workshops, a map of qualified census tracts and counties, and other information about the NMTC Program.