

NEW MARKETS TAX CREDIT RESOLUTION

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NMTFC
FEDERAL
INCOME TAX
CREDITS

INTRODUCTION

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RECAP OF ACTIVITIES

- More than 25 professionals
- 9 different companies
- 1 accounting firm
- 3 law firms
- 1 consulting firm
- 165 different documents
- 14 documents to be signed
- 1000s of hours



NMTC Program Recap and Net Benefit

- Congress established the New Markets Tax Credit (NMTC) program in 2000 as a part of the Community Renewal Tax Relief Act
- The goal of the NMTC program is to help attract investment capital in Low-Income Communities (LICs) through the use of tax credit incentives
- The Federal Way PAEC project is located in a qualifying LIC and will receive \$9.5 million in allocation from Clearinghouse CDE, allowing the project to benefit from an **NMTC subsidy of over \$2 million**

What is in the Resolution?

- A Resolution of the City of Federal Way authorizing the funding of an NMTC financing transaction to provide funds for the completion of construction of the Federal Way Performing Arts and Event Center
 - **First section:** recitals that establish parties involved, financing structure, and form of the transaction
 - **Second section:** the City resolves to execute documents with Mayor as authorized representative and resolves to undertake and perform obligations within documents
 - **Third section:** standard language around severability, corrections, ratification, and effective date
- The rules of the NMTC program necessitate a particular transaction structure, which is outlined in the preamble in the Resolution and is detailed in the supporting financial documents attached thereto

What is in the Resolution?

- A Resolution: Resolved, that the Council does hereby approve, authorize, ratify and confirm (a) the execution and delivery by the City of the Financing Documents to which the City is a party, **substantially in the form presented to the Council with such changes as the Authorized Representative may deem necessary or appropriate**, and (b) the consummation of all the transactions described in the recitals to this Resolution and contemplated by the Financing Documents



What are the risks associated with passing this Resolution?

- The primary risk arises from non-compliance with the NMTC program which could cause recapture of the tax credit. The City is only accountable for recapture due to any violations within its control, i.e. the PAEC project QALICB must remain a QALICB according to program rules and may not prepay the loan from the CDE. These risks are mitigated due to:
 - QALICB qualification is based on geographic location, and that will not change
 - QALICB cannot conduct some specifically excluded businesses, but the PAEC facility can easily control this variable
 - QALICB controls whether it prepays the loan from the CDE



What are the risks associated with passing this Resolution?

- When City Council passes the Resolution, the City will be signing documents that do create obligations for the City to fulfill in the future.
 - These obligations have been communicated to City Council and the key staff and there is a clear understanding of what is required by the City to meet those obligations.



What are the City's ongoing obligations with the NMTC transaction?

- The NMTC compliance period is seven years from the date of closing.
 - The PAEC Project was selected by Clearinghouse CDE to receive NMTC funding based in large part on the strength of its anticipated community impacts.

What are the City's ongoing obligations with the NMTC transaction? ...continued

- Clearinghouse CDE will request information annually on the community outcomes of the PAEC project.
 - Estimates of jobs created, salaries paid, benefits provided
 - Evidence of partnerships with community arts and culture organizations
 - Evidence of educational outreach programming in the form of low-cost student matinees, workshops and classes along with after-school programs based on sequential learning
 - Progress on development of Native American Culinary Institute

What are the City's ongoing obligations with the NMTC transaction? ...continued

- Ongoing fees will be set aside in a reserve account out of the grant-like subsidy funds that are delivered at NMTC closing
- Operation of the PAEC may not change substantially in the next 7 years
- There is estimated to be no net cash outflow for the duration of the compliance period

Conclusion

- \$9.5 million of allocation award allowing the PAEC project to benefit from the NMTC subsidy
- NMTC and IRS requirement necessitated the creation of one non-profit entity
 - Board members include: Adé Ariwoola, Mike Park, Mary Gates
- The IRS reporting requirement – 7 years
 - Compliance for the City means reporting annually on community benefits, conducting an audit of the non-profit entity, and ensuring that the PAEC project does not move to another census tract or convert into a prohibited business
- There is no net cash outflow during the 7 years as all future fees are to be reserved up-front at NMTC closing

Questions?

