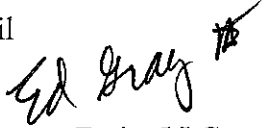


October 27, 2009

To: Members of the Pensacola City Council

From: Ed Gray, III, Executive Director   
Capital Trust Agency Community Development Entity LLC

New Markets Tax Credits as a Funding Source for the Community Maritime Park Associates and its development of the Maritime Park and Museum

It is noteworthy that New Market Tax Credits (NMTCs) have been a program of the US Treasury since 2000. The program was first developed during the Clinton administration, continued in the Bush administration, and remains supported and funded by the Obama administration. Congress has since its inception authorized the passage of legislation to issue NMTCs as a means of furthering jobs creation in qualifying census tracts throughout the country. To date over \$20 billion in tax credits have been made available. What to us in the Pensacola area is a complicated and unusual means of deriving equity capital for a project, is in fact a program many communities have sought and used for worthwhile projects that benefit both the private sector and community enhancement projects.

Why have NMTC not been proposed before?

The US Treasury CDFI Fund only allots tax credits to certified Community Development Entities (CDEs). To become a CDE and receive an allocation of tax credits is an arduous and lengthy process of filing applications and competing nationally for an allocation. In 2006, Enterprise Florida, the economic development public private partnership for the state, contacted the Capital Trust Agency (CTA) to discuss the merits of applying for NMTC. This agency was created by the Gulf Breeze and Century city governments in 1999 to serve as a conduit to issue tax exempt bonds for non profit and other qualifying applicants. The governing board in late 2006 voted to engage the staff time and expend funds for outside consultants to file applications for CDE certification and an allocation of tax credits. In the applications of 2007 and 2008 many thousands of dollars was invested by the agency to file applications. These efforts were unsuccessful. The ratio of applicants receiving NMTC following applying is only 1 in 12. Through the life of the program since 2000, only one Florida based CDE has received an allocation totaling \$15 million. This year, with added authorization in the recovery and stimulus act passed in February, the Capital Trust Agency CDE LLC, as the corporate entity created by CTA and certified by the US Treasury, received \$75 million in NMTC and signed its allocation agreement with the Treasury in June of 2009.

Why use NMTCs for the CMPA projects?

In filing applications for NMTC, the Capital Trust Agency CDE has used the Maritime Park development as an example of ways NMTCs could be put to use in Florida to improve the economic activity in a qualifying census tract. The census tract of the 40+ acres in the park site

meets the requirements of a high distressed qualifying area. Following its allocation agreement being signed in June, the executive director of CTA CDE, Ed Gray, called upon city staff and the chair of the CMPA to discuss the merits of using NMTCs as a means to fund park improvements that otherwise could not be funded “but for” having additional equity created by the sale of NMTCs. The prospect of providing several millions of dollars in added funding for the Maritime Park was obviously a proposal the staff and ultimately the CMPA board agreed was worth considering.

What is the process to fund a project?

It is important to recognize the NMTCs have a structure tried and tested over its almost 10 year life. This structure is by no means easy and simple. It includes a lender to provide the primary loan of funds for a project to act as the leverage for the tax credits. In the CMPA financing the “lender” is the City of Pensacola CRA. The city’s CRA has committed to sponsor the project with an infusion of funding that has to date been referenced as a net of \$40 million. To net this amount, the city council authorized the necessary amount of long term bonds to be issued to generate \$40 million. With these funds and adding funds from contributors to the Maritime Park Museum provided by the University of West Florida Foundation, the NMTC can be allocated to create additional equity capital to fund the CMPA projects, including the museum. The sale of the NMTCs are done in the open market. An investor having a need for tax credits to be used to offset income tax liability becomes the investor in the project. The flow of funds to meet tax law requirements, satisfying the investor that funding being advanced will fulfill its purpose, and assuring all parties that the CDE will comply with the laws and regulations of the NMTC program contribute to the need for a host of attorneys and consultants being retained to assure the project meets its expectations.

What about the state tax credits recently obtained for the project?

In the 2009 legislative session, statutes were created to institute a state new market tax credit program. It limited how much in credits could be allocated to an individual program and capped the amount the state would issue to \$20 million in each fiscal year and a maximum to any one project of \$10 million. In August the state released its administrative procedures to apply for tax credits. The first date of acceptance for applications would be the day after Labor Day, September 2<sup>nd</sup> and the first cycle for applications would end October 1<sup>st</sup>. An important part of the criteria for allocating the state credits was “first come, first served”. Within ten days over the course of two weekends, the staff of CTA CDE and consultants retained by the agency completed the application and hand delivered it in Tallahassee at the Office of Tourism, Trade and Economic Development (OTTED). September 30<sup>th</sup> a letter was forward to CTA approving the issuance of \$10 million in state tax credits, the maximum that can be awarded, for the CMPA project. Since the state tax credits are so new, we can only estimate the value of these credits when sold to an investor. Our current estimate is the allocation will monetize to an extra \$2 million to fund the CMPA projects. With this allocation came the statutory deadline of November 30<sup>th</sup> (60 days following the allocation approval) to fund an investment within a Qualified Equity Investment (QEI). A QEI is a term in the New Market Tax Credit long list of technical terms that defines the beginning flow of funds in the complicated structure of providing funding to the CMPA. The credits are voided if the QEI is not created by this date.

What is being proposed to ensure the state tax credits are not lost?

The staff of CTA CDE attended a New Market Tax Credits conference in Chicago. Prior to departing, we had arranged private meetings with potential investors in tax credits to seek commitments to fund a QEI sufficient to qualify receiving the state credits. We are pleased to report we have that commitment and will be providing the City Council and its staff the exact terms of this commitment at Monday's (November 2) meeting. We intend to make a similar presentation to the CMPA board at its next meeting. Details are expected to be received between the date of this memo and the end of this week. We apologize we are not able to detail these terms until that date. The positive news to report is we are confident a plan can be executed to retain the state tax credits.

#### IN SUMMARY

The use of NMTCs to fund improvements to the Maritime Park remains viable despite a timeline that has been delayed. We will experience a devaluing of the monetization of the credits as a result of the delay that will mean less financial benefit than originally conceived. We can secure the state credits by the November 29<sup>th</sup> deadline if the city, in its role as the leveraged lender, accepts terms proposed by the investor bank that will be detailed on Monday. It will not cause the city to do an interim financing as once was thought necessary. Legal costs associated with this plan will be itemized and made available by the November 2<sup>nd</sup> meeting. We look forward to providing more detailed information next Monday.