

A CLOSER LOOK

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A Closer Look takes topics from previous and current issues of *Bridges* and examines them from a local perspective.



...AT THE KENTUCKIANA REGION

“Ingenuous” Program

Louisville Reaps Benefits of New Markets Tax Credits

The first federal New Markets Tax Credit (NMTC) allocation was awarded in March 2003. Louisville Development Bancorp, the parent company of Louisville Community Development Bank, and Frost Brown Todd LLC both applied, unsuccessfully. Even so, both entities recognized an opportunity to combine their efforts and later submitted a joint application.

The partnership proved successful and received a \$62.5 million allocation in 2004 and an additional \$8 million in tax credits in 2005.

As a result of the more than \$70 million in NMTCs and private equity investments, a number of projects moved forward in Louisville, Ky.

The projects include: Muhammad Ali Museum and Education Center, Central Station Office Building, CW Johnson Xpress headquarters and First Virginia Avenue Missionary Baptist Church. (See “Project Descriptions” on Back Page.)

Although the objective of NMTCs is to stimulate equity investments into low-income neighborhoods, the economic impact of these projects is evident throughout the Louisville community. The tax credits awarded to Louisville Community Development Bank and



First Virginia Avenue Missionary Baptist Church's new worship center and education facility in Louisville were built with New Markets Tax Credits.

Frost Brown Todd LLC spurred additional private-equity investments of more than \$94 million in Louisville, and more than 650 new jobs have been created with an annual payroll of \$17.7 million.

Criticisms, Complexities

The NMTCs program is not without its challenges and critics. NMTCs are intended to make marginal projects feasible. However, some argue that investments are being made in projects that would have been done anyway, thus limiting the community development impact in low-income neighborhoods.

A second drawback is the complexity of the program. Community Development

Entities that receive allocations must have an infrastructure to make investments and to monitor compliance, which can be a timely and costly process.

Lastly, NMTCs are an investment tool meant to promote growth in both rural and urban markets; however, rural communities have a concern about the percentage of tax allocations serving rural markets.

Further monitoring and analysis of the program will tell if its strengths outweigh its weaknesses.

Progress in Louisville

Louisville Metro Government has a commitment to economic and business development for businesses of all

continued on Back Page

The ABCs of NMTCs

The New Markets Tax Credit (NMTC) program was created in December of 2000 as part of the bipartisan Community Renewal Tax Relief Act. The tax credits are intended to spur private-equity capital investments in urban and rural communities where traditional types of capital investments have been scarce.

The program's goal is to stimulate \$15 billion in equity investments into low-income neighborhoods through job creation, neighborhood revitalization and business services. NMTCs give individuals or corporations credits against their federal income taxes for making qualified investments in Community Development Entities which, in turn, make business loans and capital investments in underserved areas. The program allows a taxpayer, over a seven-year period, to receive a tax credit equal to 39 percent of the amount invested.

continued from Front Page

sizes, from microenterprises to the gazelles. So it is no surprise that Louisville Metro is willing to participate in an innovative loan fund geared toward very small businesses. Louisville Metro Government and Republic Bank have teamed up to create a \$4 million NMTC Loan Fund, with each partner contributing \$2 million into the fund. The city does not need the tax credits, so Republic Bank receives tax credits for the entire \$4 million. The loans

range from \$500,000 to \$1 million.

Typically, investors pay anywhere from \$30,000 to \$150,000 in upfront fees for legal and accounting services to set up an NMTC project. For a small project of \$1 million or less, these fees are too costly to make the project feasible. The NMTC Loan Fund has standardized the process and the paperwork, creating a template that investors use to apply for NMTCs. This reduces the upfront fees to about \$8,000 per project. To date, the loan fund has invested in

five projects that have created more than 30 new jobs in light manufacturing.

Gary Gambrell, former vice president of Louisville Community Development Bank and currently serving as NMTC consultant, sums up the program as "one of the most

ingenious federal programs developed in the promotion of business development."

Louisville Development Bancorp has applied for \$150 million in NMTCs for 2007. The awards will be announced this fall.



This issue of *A Closer Look* was written by Lisa Locke, community affairs specialist at the Louisville Branch of the Federal Reserve Bank of St. Louis. To contact her, call 502-568-9292.

Project Descriptions

New Markets Tax Credits were used in conjunction with other funding mechanisms to complete the following projects in Louisville:

The **Central Station Office Building** is a 75,000-square-foot brown-field property renovated with more than \$6.3 million in NMTC investments. The site has been restored into a mix of medical services and commercial space, offering much-needed medical services to South Louisville residents. The annual payroll from the 63 new jobs totals about \$1.8 million.

NMTCs were used to build **First Virginia Avenue Missionary Baptist Church's** new worship center and education facility. Unlike some of the other projects, which focused on creating 40 or 50 new jobs, First Virginia Avenue's focus has been on community outreach in areas surrounding the church. The church offers tutoring, movie nights, computer training, a food pantry, basketball leagues and other programming. People can attend seminars on such topics as veterans' benefits, marriage enrichment or home ownership. "New Market Tax Credits have allowed the church to expand and create more activities that have enriched the community," said the Rev. Charles Duncan.

The **Muhammad Ali Museum and Education Center** is an international education and cultural center. The museum offers innovative and interactive exhibits and educational programming for all ages. The center was allocated \$18 million in NMTCs with an annual return on investment of about \$7.8 million back into the local economy. The center created 65 new jobs resulting in an additional \$2.2 million annually into the local wage base.

CW Johnson Xpress provides transportation and logistics services throughout the United States, Canada and Mexico. With the allocation of NMTCs, the company decided to build its 10,000-square-foot headquarters in Louisville as opposed to Chattanooga, Tenn. The project created 30 new full-time jobs, which added \$870,000 annually to the local wage base. However, the firm's growth did not stop there. Shortly thereafter, the company expanded again, constructing another 10,700-square-foot building next to the first building. The second project created 45 new jobs and added \$1.2 million to the local wage base on an annual basis. The company's presence in Louisville's California neighborhood continues to benefit the community. CW Johnson Xpress has joined other partners in the Driving for Inner City Development initiative. The six-week program provides participants training in driving a big rig and also instructs them in job skills, entrepreneurship, financial literacy and home ownership. Participants are inner-city residents with checkered pasts and most are looking to capitalize on an innovative second-chance opportunity.

FIRST VIRGINIA AVENUE
MISSIONARY BAPTIST CHURCH
SUNDAY SCHOOL 9:30 WORSHIP 11:00
WED MOON & 6:30 PM PRAYER & BIBLE STUDY
REV C H DUNCAN PASTOR