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Tax credits earn 'New Markets' name

Bank-loan incentive pays off for schools

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Castel Treymane looks a visitor in the eye and reaches out his hand. With a firm handshake and a gracious "Welcome to North Star," he begins a new day at his charter school in downtown Newark.

Twelve-year-old Castel is an eighth-grader, and when he graduates from middle school, he could move up to North Star Academy's high school, located in the adjacent building on Washington Place.

Earlier this year, a complex deal raised \$4.85 million to refinance the high school, a renovated commercial building whose offices were transformed into classrooms. The package of public, private and non-profit money took nearly two years to hammer out, and it included one of the most exotic arrows in the community-redevelopment quiver: a Clinton administration innovation known as New Markets Tax Credits.

The bottom line is that New Jersey could see lots of buildings go up in blighted urban downtowns as these tax credits are plowed into construction projects.

Here's how it works: A financial institution or community-based lender is awarded tax credits by the federal government. The tax credit is simply the authority to allow a profit-making business to pay less taxes. The financial institution "awards" the tax credits to a for-profit lender — such as a commercial bank — in exchange for loans or investment capital that can be used to fund the inner-city construction. The lender winds up paying less taxes — which at the end of the day is the lender's financial incentive to make the loan.

MILLIONS IN REDEVELOPMENT

New Jersey should see hundreds of million of dollars in inner-city redevelopment over the next few years, fueled by tax credits the federal government has been issuing to commercial and investment banks, nonprofit community lend-



SCOTT LITUCHY/THE STAR-LEDGER

Students, from left, Aliyah Nashid, 15, Princess McCray, 15, Dashay Carter, 16, and Hector Reyes, 16, work on a Declaration of Independence skit for a North Star Academy class last semester.

ers and government entities. Nationwide, \$15 billion in tax credits could spur several times that amount of redevelopment; to be eligible, projects must benefit low- and moderate-income urban and rural communities.

The North Star deal is among the first to get done in New Jersey, the fruit of a financial partnership led by New Jersey Community Capital, a community-based lender with offices in Newark and Trenton that makes loans and investments statewide.

New Jersey Community Capital was awarded \$15 million of New Markets Tax Credits from Washington, and so far has used a portion of its allocation to finance the real estate transaction with North Star.

The lender also arranged financing for the Greater Brunswick Charter School in New Brunswick using its own, non-tax-credit funding, as well as another organization's tax credits. The New Brunswick deal partnered New Jersey Community Capital with the Minneapolis-based Community Reinvestment Fund, which has created a nationwide, secondary market for tax-credit financing.

David Scheck, executive director of New Jersey Community Cap-

ital, makes it clear he intends to deal out his deck of tax credits in ways that will generate the maximum possible return for New Jersey's struggling inner cities.

These tax credits can bring a substantial infusion of private-sector capital, Scheck explained.

"It allows us to say to an investor, 'You can get a tax credit for making an investment in an organization like ours,'" Scheck said. "We've been talking to investors, but we are a bit stubborn in what we want to do. Fifteen million dollars doesn't go very far. We have a lot of people willing to take them off our hands, but we want to make sure we pass as much value as we can along to the community."

WIN-WIN SITUATION

New Jersey Community Capital awards its tax credits to taxpaying financial institutions, which put up capital in exchange for those tax breaks. PNC Financial invested \$2.5 million in the North Star high school in exchange for the New Markets Tax Credits.

The net result was to substantially lower the cost of the building — from \$1,400 per student to about \$300 per student — thus leaving North Star with more money to spend on classroom instruction rather than real estate

"Charter schools do not receive public funding for their facilities," explained James Verrilli, co-founder of North Star. "New Markets was a way for us to get funding to acquire our school building, without taking money out of our operational budget. This is real value — money goes directly to our students that otherwise would have gone into the building."

"Most of the return on our capital will come by way of the tax credits," explained David Gibson, vice president and community-development lending manager for PNC. While not disclosing the return, Gibson indicated it is a fair deal commensurate with the risk — a business decision, not philanthropy.

Banks are required by federal regulations to invest in the communities where they take customer deposits, "but this is also a piece of viable business; if those regulations went away tomorrow, we would continue to operate," Gibson explained.

Gibson thinks New Markets Tax Credits will have a significant impact on redevelopment of distressed areas. Community-development deals can require patching together financing from a dozen sources; New Markets attracts large financial institutions that can handle a significant piece of the action. With fewer parties involved, the deals can be easier to do.

"New Markets allows you, if you do them in the right way, to cut through a lot of the fundraising and do it in one fell swoop and do it in a way that attracts capital where the investor gets a real return," Gibson said.

The 2-year-old Greater Brunswick Charter School owes its existence to New Markets Tax Credits financing, said Rick Pressler, executive director of the K-to-8 school. He said the school needed \$2.6 million to purchase its building, but couldn't line up a traditional mortgage.

"Now, we are educating 210 children and we have 35 people working here, but we would have been out of businesses without this financing," Pressler said.