AlliedServices
INTEGRATED HEALTH SYSTEM

$15.7M New Markets Tax Credit Request
$4.7M NMTC Equity Request
Severely Distressed | Leveraged Debt Committed
Can Fund Immediately

To fund skilled nursing and hospice facilities in downtown Wilkes-Barre, PA

Interested parties should contact:

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Executive Summary

GOAL: The Allied Services Integrated Health System seeks to renovate two existing buildings to establish 42 dual licensed Medicare/Medicaid skilled nursing beds for low income individuals, and 8 inpatient hospice beds in Wilkes-Barre, PA. $15.7M in NMTC allocation and $4.7M in NMTC equity are requested to close a financing gap for these critical projects.

PROJECTS: The proposed investment consists of two projects: 1) renovation of the Center City (Northampton St.) Skilled Nursing Center's existing building to provide 42 dually certified Medicare/Medicaid skilled nursing beds, and 2) renovation of a former convent on the grounds of a nearby 130 bed Allied Services skilled nursing facility into an 8 bed inpatient hospice center, which will be the only stand-alone center in the county.

NEED: Skilled nursing facilities are adapting to meet the needs of a fast-growing population of the aged and chronically ill. Longevity is increasing and, with it, prevalence of heart disease, pulmonary disease, diabetes, Parkinson's, dementia, and other age-associated illnesses. These issues come into sharp focus in the light of COVID-19. The proposed projects have taken into account CDC and Pennsylvania Department of Health guidance that has emphasized the importance of distancing residents and preventing crowding to mitigate virus spread within the facility and, by extension, to the host community. The health and safety of residents, their caregivers and families demand exceeding the standard of care currently required for nursing homes.

BENEFITS: The proposed investment will expand access to long-term, skilled nursing for 900 individuals annually in one of only two 5-star CMS rated skilled nursing facilities in Luzerne County. The investment will also create an enriched healthcare environment for approximately 100 new employees, in part hired through a training initiative that recruits, trains and rewards entry level skilled healthcare employees in economically disadvantaged downtown Wilkes-Barre. The proposed projects will generate new, family-sustaining employment within walking distance and easy access on public transportation in Downtown Wilkes-Barre.

READINESS: construction of the skilled nursing facility is ready to proceed immediately. Allied Services is the Leveraged Lender, US Bank is the Equity Investor, and Health Department approval is in hand. The hospice portion of the project has been completed, expenses for which within the past two years will be recouped as part of this transaction.

BUT FOR: A financing gap exists due to extraordinary costs associated with preparing the properties to meet Department of Health requirements, adjustments to patient levels and spacing in care facilities due to COVID-19, insufficient Medical Assistance reimbursement rates for low-income individuals (70% of patients), and substantial deferred maintenance corrected upon acquisition in 2019.

SPONSOR: Since 1958, nonprofit Allied Services Integrated Health System has provided providing quality healthcare services to people in need, including pediatric therapies for children who are under-insured for medically necessary therapies, and advanced care for medically fragile individuals not covered by Medicare and Medicaid. Every day Allied Services' 3,200 employees and volunteers strive to touch the lives of nearly 5,000 people.

SITES: 80 E. Northampton Street, Wilkes Barre, PA 18701. Poverty rate of 31.5%. Site is also an Opportunity Zone, HUB Zone, Food Desert, and a Medically Underserved Area. Hospice site is located at 200 S. Meade St. Wilkes-Barre, PA 18702; it is Severely Distressed as it is in a HUB Zone, has Poverty Rate > 25%, Median income < 70%, and it is in a MUA.

SOURCES & USES OF FUNDS:

Allied Services Skilled Nursing & Hospice Centers Sources & Uses of Funds					
Sources	**%**	**Amount**	**Uses**	**%**	**Amount**
NMTC Leveraged Debt - from project sponsor	69.7%	$10,914,860	Project Budget	88.1%	$13,797,677
Local Share Account (awarded 2021)	0.3%	50,000	CDE & Placement fees (est)	10.0%	1,566,409
New Markets Tax Credits	30.0%	4,699,226	Legal & Accounting	1.9%	300,000
Total sources	100.0%	15,664,085	Total Uses	100.0%	15,664,085

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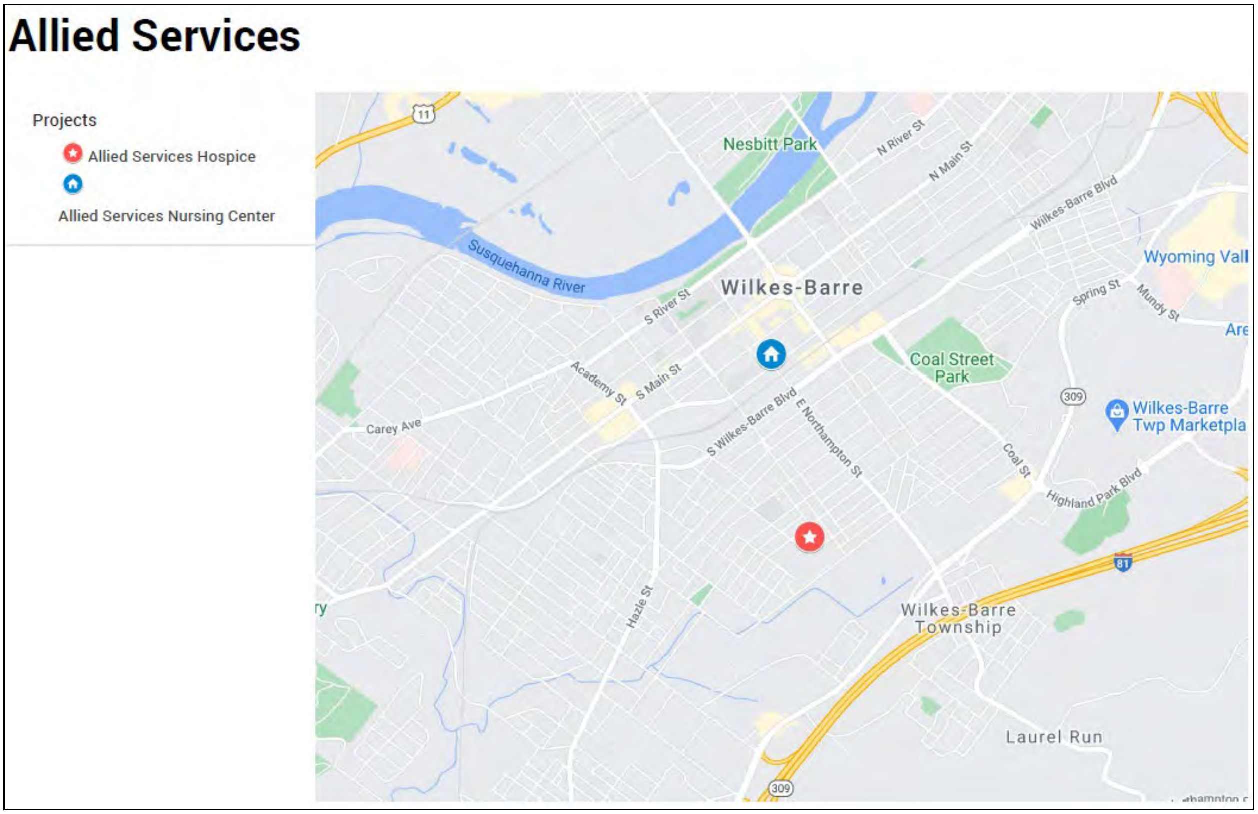
Project Description

Allied Services Integrated Health System plans to add 42 dual licensed Medicare/Medicaid skilled nursing beds by renovating the 3rd and 4th floors of an existing building at 80 E. Northampton in downtown Wilkes-Barre, which is one of only two 5-star CMS rated facilities in Luzerne County. The NMTC investment will create private rooms for individuals who need 24/7 skilled nursing; accommodations that would not otherwise be accessible to area residents, particularly low-income individuals who rely on Medical Assistance. Eight inpatient hospice beds will also be added by renovation of a nearby building at 200 S. Meade St.; below is a map that illustrates proximity.



There are 116K residents living within 5 miles of these facilities, which are expected to attract 46K visitors annually.

Below is a picture of the Northampton St. facility as it currently exists, and a rendering of the completed facility:


Northampton – 42 beds of skilled nursing:

200 S. Meade St. – 8 inpatient hospice beds:

Renderings of the Northampton building's entrance and 3rd floor showing private skilled nursing beds; please note that full schematics are available upon request:


AlliedServices
INTEGRATED HEALTH SYSTEM
ALLIED SERVICES
CENTER CITY SKILLED NURSING FACILITY
WILKES-BARRE, PENNSYLVANIA
bda architects
architecture + design
11.16.2021


PROPOSED THIRD FLOOR PLAN - PROGRAM
PRIVATE PATIENT ROOM
TOIL.
BALCONY
LOUNGE/ RECREATION
PANTRY
CENTRAL BATHING
SOILED UTILITY
CLEAN UTIL.
ELEV.
CORRIDOR
NURSE STATION
OFFICE
MEDS
STOR.
PATIENT ROOM (SPECIAL CARE)
PRIVATE OFFICE
OXYGEN
STAIR

Renderings of interior areas:



The proposed project has strong community support, in part evidenced by the letter of support from George C. Brown, Wilkes-Barre's Mayor, in the appendix.

Visitor Estimate

There are two sites associated with this request: a hospice center at 200 S. Meade St., which has a 29% poverty rate and 63% of area median family income, and a skilled nursing facility at 80 E. Northampton Street, which has a 32% poverty rate.

The project is expected to generate 67K visits annually, broken down as follows:

Allied Services					**Visits/yr**	
80 E Northampton						
# of sf - building						
SNF (assisted living) beds			50	beds	12,100	100% occupancy, ave 6 month stay + 20 visitors/month
48 Primary Care beds			48	beds	11,616	100% occupancy, ave 6 month stay + 20 visitors/month
31 Independent Living beds			31	beds	7,502	100% occupancy, ave 6 month stay + 20 visitors/month
Total visits/yr			129		31,218	
200 S Meade						
# of sf - building						
Hospice beds			8	beds	35,568	100% occupancy, ave 2 week stay + 85 visitors/week
Total visits/yr			137		66,786	

Consistency with Formal Revitalization Plans

The projects are aligned with multiple formal economic development strategies, including:

1) The "Revitalization Action Plan for Downtown Wilkes-Barre" commissioned by the Diamond City Partnership (see overview, below) set forth "BIG GOAL 1: Downtown Wilkes-Barre will be a safe, clean, and attractive place to live, work, shop, and visit." This project helps to meet that goal by removing blight from previously vacant buildings by renovating both the exterior and interiors.

2) The Revitalization Plan also sets forth "BIG GOAL 3: Downtown Wilkes-Barre will be the region's 'walk-to-everything' urban neighborhood of choice." This project helps to meet that goal by establishing critically needed health services in the downtown area that do not currently exist, in a location that is easily walkable for the densely populated surrounding area and readily accessible by public transportation.

3) The regional "2019 - 2024 Comprehensive Economic Development Strategy Five-Year Plan for Northeastern Pennsylvania" sets forth five "Big Goals," three of which are furthered by these projects:

    a. Goal 1 - Business Retention and Expansion: these projects both retain and expand the business while expanding access to high quality health care by 42 beds of skilled nursing and 8 inpatient hospice beds anticipated to serve 900 individuals annually, and renovates ½ of a building to occupy previously vacant floors.

    b. Goal 3 - Ready Workforce. Strategy 3.1.1: Provide comprehensive career guidance to current and future members of the workforce every year between 2020 and 2024. Objective 3.2: Attract current college students to stay in the region and natives to return to the region for employment.

    c. Goal 5 - Community Placemaking, Development & Sustainability. Objective 5.1: Attract young professionals to the area and retain students who graduate from area institutions of higher learning. Objective 5.2: Develop, identify & leverage resources to revitalize distressed communities and downtown hubs to retain and attract young talent.

Job Creation

These projects are estimated to create 68 new FTE jobs, broken down as follows:

Allied Services Skilled Nursing and Hospice Job Creation						
Facility	**Min Rate**	**Max Rate**	**Ave**	**# FTE**	**% Quality**	**% Accessible**
Skilled Nursing - 80 E Northampton St.						
CNA, SNC	$17.00	$23.59	$18.13	20.0	90%	75%
COOK I	12.75	21.39	14.55	3.0	90%	100%
CUSTODIAN	12.00	18.49	12.00	5.0	90%	100%
DIETARY AIDE	12.00	18.49	12.18	7.0	90%	100%
DRIVER	12.25	19.44	12.25	1.0	90%	100%
HI CLERK	12.75	21.39	21.18	1.0	90%	100%
INFECTION CONTROL NURSE	24.20	41.14	29.75	1.0	90%	100%
LAUNDRY AIDE	12.00	18.40	12.00	2.0	90%	100%
LPN	20.00	29.05	21.75	10.0	90%	75%
REC THERAPY AIDE	12.25	19.44	12.25	3.0	90%	75%
RN	26.50	41.14	32.38	5.0	90%	75%
RNAC	28.50	45.60	37.26	2.0	90%	75%
SOC SVCS COORDINATOR	20.00	29.05	20.81	1.0	90%	75%
Subtotal				61.0	90%	88%
Hospice - 200 Meade St.						
CHAPLAIN, HOSPICE	17.50	29.05	24.34	0.5	90%	75%
LPN	20.00	29.05	23.85	3.0	90%	75%
RN	27.00	41.14	35.63	3.0	90%	75%
SOCIAL WORKER	19.00	31.73	29.63	0.5	90%	75%
Subtotal				7.0	90%	75%
Total				68.0	90%	82%

It should be noted that this job estimate does not include any contracted services employees (e.g. janitorial, temporary staffing, dietary) that may be required as full occupancy is achieved. Also not included: Hospice Outpatient staff (LPNs, RNs) will likely be added in the year following project completion, as Allied's presence in Wilkes-Barre will increase market share for community-based Hospice services in Luzerne County. Currently there are 13.4 FTEs on staff at the Northampton facility; the project financing will help Allied Services to retain these jobs.

Allied Services 2021 benefit package averages, across all positions, 28% of salary. As noted elsewhere, Allied is also paying special sign-on bonuses for many direct care positions----RNs, LPNs, CNAs. Not included in the 28% is the value of continuing education subsidies/grants that are available to help clinical and direct care staff maintain their existing credentials and/or advance to higher-paid positions.

Training and Recruitment Programs

Allied Services has a wide variety of training programs that cover the spectrum of skills needed to provide high-quality care. A good example is a pro-active strategy to train and recruit Certified Nurse Aides, or CNAs, which are specialists who help individuals with activities of daily living and other healthcare needs. A severe shortage of CNAs has created intense competition among healthcare employers (hospitals, clinics, long term care facilities), including many large, well-established employers in the immediate vicinity. Employment as a CNA is an ideal entry-level position for individuals who aspire to careers in nursing (L.P.N, R.N., B.S.N., M.S.N.) and other healthcare careers. Allied conducts outreach into surrounding neighborhoods to educate residents about job and training opportunities. Allied offers a 4 week "Earn While

You Learn" CNA Training Program that allows students to receive paid training with a guaranteed full-time position upon completion. Additional benefits include:

RN and LPN – Registered and Licensed Practical Nurses: Allied Services offers Nurses a sign-on bonus of up to $20,000 (based on location) as well as a tuition reimbursement of up to $3,000 per year. Both also benefit from the student loan repayment program (up to $20,000 for RNs and up to $10,000 for LPNs). Great benefits also include medical benefits, dental and vision benefits, life insurance, paid time off, employer matched retirement/401k, continuing education, discounts at local businesses, a health savings account and medical spending account.

CNA – Certified Nursing Aid: CNAs receive the following when hired by Allied Services:

- Sign-on bonus up to $3000 paid quarterly over 2 years.
- $15 per hour plus credit for experience plus a $2 shift differential for 2nd shift & $1 shift differential for 3rd shift.
- Increased per-diem rates and call-in rates from $17-$19 per hour.
- Other benefits include medical benefits, dental and vision benefits, life insurance, paid time off, employer matched retirement/401k, continuing education opportunities and scholarships, tuition assistance, discounts at local businesses, a health savings account and medical spending account.

Allied Services & The Community

Since 1958, Allied Services Integrated Health System has been regarded as an organization dedicated to providing quality programs and services for people in need. With support from generous donors and sponsors, Allied has maintained its founders' commitment to providing essential health and human services to those in need. Examples include pediatric therapies for children who were uninsured or under-insured for medically-necessary therapies, advanced care for medically fragile individuals not covered by Medicare and Medicaid, and support for Allied Services dePaul School's programs for children with dyslexia. In keeping with their mission, Allied Services participates in national and state-level advocacy to expand opportunities and services for persons with disabilities and chronic illness. They are proud of their contributions as a leading employer, corporate citizen and sponsor. Allied Services strives to provide better community health by providing:

- Free health screenings and health education programs.
- Mentoring and internships for new health professionals and students.
- In-kind assistance (meeting space and other in-kind) for health support groups, health charities and advocacy organizations.
- In-kind and charitable sponsorships for health and human services organizations.

Following are examples of ongoing outreach:

1) **Community Partnerships:** Allied's role in community activities is exhibited well beyond its programs of care. They are well regarded for corporate citizenship activities. Allied also supports a wide variety of government, civic and charitable activities.

2) **Advocacy:** Allied takes seriously their role as an advocate for people with disabilities and the elderly. Their doors are always open to host community and support groups and free educational events aimed at keeping their neighbors healthy and injury-free.

3) **Opportunities for Students:** As a nationwide leader in rehabilitation and elderly care services, Allied Services is committed to continuing healthcare education through the annual presentation of scholarships in various disciplines and through an active student internship program conducted in cooperation with nearly 100 colleges, universities and high schools.

4) **First source hiring:** Local residents will receive first notice of job opportunities, and preferential consideration in hiring decisions.

5) **Entry level and on the job training:** Allied Services provides entry level training programs to help unskilled workers develop valuable skills that will allow them to make a significant contribution as employees. In addition, on-the-job training programs will be provided to help elevate skills and pay levels.

6) **Woman and Minority Set-Asides:** Minority and woman-owned business set asides will be made during construction and operations, with amount and terms to be determined.

Financial Analysis

Sources & Uses of Funds

Anticipated sources and uses of funds break down is as follows:

Allied Services Skilled Nursing & Hospice Centers Sources & Uses of Funds		
Sources	**%**	**Amount**
NMTC Leveraged Debt - from project sponsor	69.7%	$10,914,860
Local Share Account (awarded 2021)	0.3%	50,000
New Markets Tax Credits	30.0%	4,699,226
Total sources	100.0%	15,664,085
Uses		
Project Budget	88.1%	13,797,677
CDE & Placement fees (est)	10.0%	1,566,409
Legal & Accounting	1.9%	300,000
Total Uses	100.0%	15,664,085

A description of each line item:

1) Sources

a. **New Debt/Sponsor Equity:** Allied Services will be the leveraged lender.

b. **New Markets Tax Credits:** The Northampton St. site is NMTC eligible and in a “Severely Distressed” Census Tract due to a 32% poverty rate. The Meade St. site is NMTC eligible and in a “Severely Distressed” Census Tract as it is in a HUB Zone, has Poverty Rate > 25% / Median income < 70%, and is in a MUA. See the NMTC section below for details.

2) Uses

a. **Project Budget:** The project budget consists of new construction and recouping expenditures on the project, all of which are within two years of the anticipated closing, as detailed in the table below:

Allied Services Skilled Nursing and Hospice Project Budget			
New Construction			
3rd & 4th Floor renovations, finishes & upgrades	Center City Skilled Nursing Div 45		$2,252,151
3rd & 4th Floor interior construction, MEP	Center City Skilled Nursing Div 45		1,988,441
3rd & 4th Floor exterior allowance & contingency	Center City Skilled Nursing Div 45		1,242,000
Construction design subtotal	Center City Skilled Nursing Div 45		300,000
Emergency power upgrade	Center City Skilled Nursing Div 45		80,000
1st Floor lobby, dining, and amenities renovations	Center City Skilled Nursing Div 45		1,230,000
2nd Floor renovations and upgrades	Center City Skilled Nursing Div 45		1,710,000
1st Floor lobby, dining and amenities renovations	Meade st skilled Nursing Div 40		1,230,000
Total			10,032,592
Recoup of Expenditures Within Two Years	**Location**	**Date**	**Amount**
Exit signage repairs	Meade St Skilled Nursing Div 40	February-20	9,268
Interior/Exterior door replacements	Meade St Skilled Nursing Div 40	February-20	19,776
Meade St Pharmacy renovations	Meade St Skilled Nursing Div 40	February-20	5,145
New Laundry room doors	Meade St Skilled Nursing Div 40	February-20	5,590
Building wide wiring project upgrade to code	Meade St Skilled Nursing Div 40	March-20	51,565
Fire system access control upgrade	Meade St Skilled Nursing Div 40	January-20	7,757
Install ductless A/C unit	Meade St Skilled Nursing Div 40	February-20	6,320
Cooling Tower Renovation Project	Meade St Skilled Nursing Div 40	June-20	63,144
Main Entrance Door Renovation/Upgrade	Meade St Skilled Nursing Div 40	July-20	8,587
Fire alarm system upgrade	Meade St Skilled Nursing Div 40	October-20	44,725
Fire alarm system upgrade	Meade St Skilled Nursing Div 40	November-20	10,793
Backflow prevention upgrade	Meade St Skilled Nursing Div 40	February-21	15,050
Fire alarm system upgrade	Meade St Skilled Nursing Div 40	March-21	5,866
Egress Door Hardware Upgrade	Meade St Skilled Nursing Div 40	March-21	5,000
Hospice unit (8 bed)	Meade St Skilled Nursing Div 40	March-21	2,402,689
Emergency Power System upgrade /renovations	Meade St Skilled Nursing Div 40	April-21	59,610
Fire alarm system upgrade	Meade St Skilled Nursing Div 40	April-21	6,374
Roof repair	Meade St Skilled Nursing Div 40	May-21	12,600
Exit signage repairs	Meade St Residence Div 41	Mar-20	11,632
Exit signage repairs	Meade St Residence Div 41	Mar-20	10,514
Panic alarm install	Meade St Residence Div 41	20-May	7,073
Fire Alarm System Upgrade	Meade St Residence Div 41	21-Mar	32,357
Bathroom renovation project	Meade St Residence Div 41	21-May	78,922
Backup generator rebuild	Center City Skilled Nursing Div 45	October-19	13,453
Interior/Exterior door renovations	Center City Skilled Nursing Div 45	February-20	6,257
Building wide wiring project upgrade to code	Center City Skilled Nursing Div 45	March-20	71,291
Pipe Insulation Repairs	Center City Skilled Nursing Div 45	May-20	9,380
Exterior Door Replacement	Center City Skilled Nursing Div 45	May-20	5,045
Replace rear section of Boiler Unit	Center City Skilled Nursing Div 45	June-20	17,703
Ductless Heat Pump Installation	Center City Skilled Nursing Div 45	February-20	5,990
Kitchen Grease trap replacement	Center City Skilled Nursing Div 45	August-20	12,729
Fireproofing upgrade project	Center City Skilled Nursing Div 45	July-20	8,629
Fire Alarm System upgrade	Center City Skilled Nursing Div 45	October-20	50,318
New Energy Recovery unit	Center City Skilled Nursing Div 45	November-20	85,400
Fire Alarm System upgrade	Center City Skilled Nursing Div 45	November-20	11,636
Fire Alarm System upgrade	Center City Skilled Nursing Div 45	January-21	10,360
New roof project	Center City Skilled Nursing Div 45	February-21	470,912
New surface mounted wanderguard modules	Center City Skilled Nursing Div 45	April-21	5,977
Service Elevator repairs	Center City Skilled Nursing Div 45	April-21	15,573
Low roof and balcony repairs	Center City Skilled Nursing Div 45	May-21	12,850
Fan Coil Valves	Center City Skilled Nursing Div 45	June-20	8,800
2 Water Heater Replacements	Center City Residence Div 46	March-21	11,480
Suite #304 renovations	Center City Residence Div 46	April-21	45,546
Total			3,759,688
Grand total			13,792,280

b. **CDE & Placement fees (est):** estimated based on industry standards of fees paid to CDEs that provide NMTC sub-allocation to the project. Fees are estimated to be 5% at closing and a compliance monitoring / asset management fee of 50 basis points annually over the 7-year NMTC compliance period, or 3.5% total. In addition, a 1.5% Placement Fee will be due to NEPA Alliance, a nonprofit consultant assisting with securing debt, NMTCs and other sources of funding. NEPA Alliance is a Local Development District under the Appalachian Regional Commission with a primary service area of seven counties in Northeastern Pennsylvania.

c. **Legal & Accounting:** anticipated fees associated with closing the NMTC transaction.

The net benefit to the project provided by NMTCs is estimated as follows:

Net Benefit of NMTCs		
NMTC equity - gross		$ 4,697,427
Less:		
CDE & Placement fees (est)		(1,565,809)
Legal & Accounting		(300,000)
Net benefit:		**2,831,618**
Net benefit as % of project budget		21%

New Markets Tax Credits

For readers who are unfamiliar with the NMTC program, please refer to the "NMTC Program Overview" and "OCC Memo re: NMTCs" documents in the appendix.

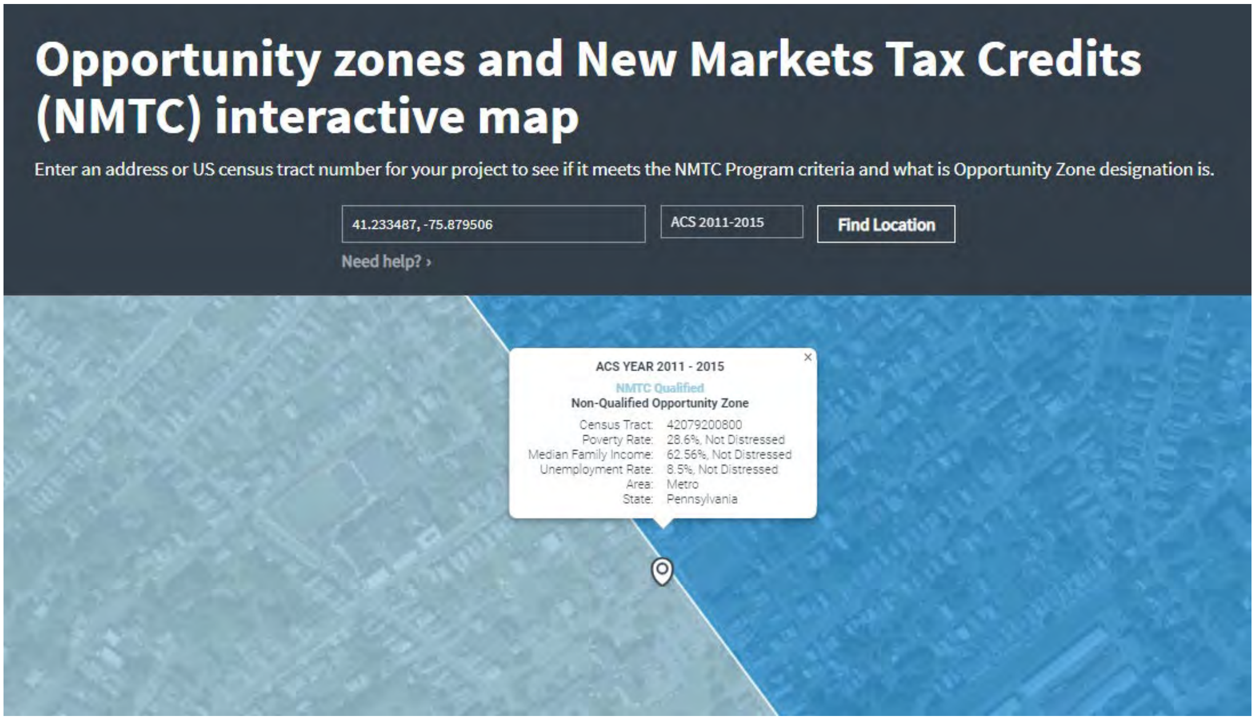
New Markets Tax Credit Eligibility

Below are NMTC eligibility details:

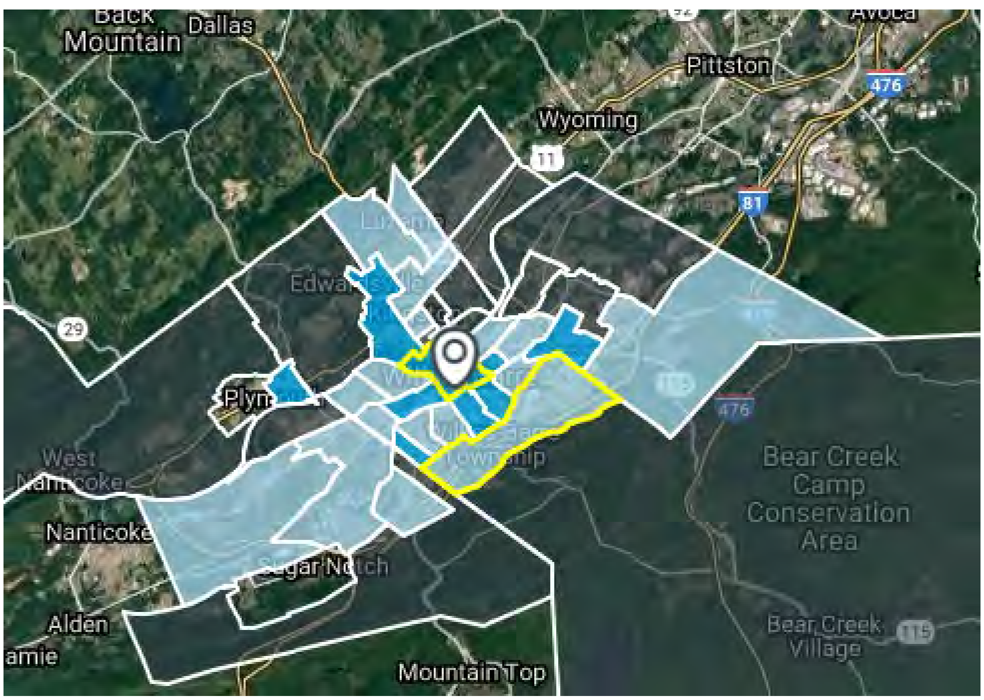
Project Address	2015 Census Tract #	Qualifies as NMTC Eligible?	Severely Distressed?	Poverty Rate	% of Bench marked Median Family Income	Unemploy-ment rate	Metro \ Non-Metro
80 E. Northampton Street, Wilkes Barre, PA	42079200100	yes	yes	31.5	N/A	8.1	Metro

Project Address	2015 Census Tract #	Qualifies as NMTC Eligible?	Severely Distressed?	Poverty Rate	% of Bench marked Median Family Income	Unemploy-ment rate	Metro \ Non-Metro
Corner of S. Meade and E. South Streets, Wilkes-Barre	42079200800	yes	Yes *	28.6	62.56	8.5	Metro

* Severely Distressed: HUB Zone, Poverty Rate > 25%, and Median income < 70%, MUA



The image below shows the concentration of poverty in downtown Wilkes-Barre. The NMTC-eligible Census Tracts indicated below have population of 67,769, an average poverty rate of 25.4%, MFI of 62.5% of the surrounding area, and 9.4% unemployment:



NMTC Structure Diagram

The structure diagram presented below is based on the following sources and uses of funds breakdown:

Allied Services Skilled Nursing & Hospice Centers Sources & Uses of Funds		
Sources	**%**	**Amount**
NMTC Leveraged Debt - from project sponsor	69.7%	$10,910,662
Local Share Account (awarded 2021)	0.3%	50,000
New Markets Tax Credits	30.0%	4,697,427
Total sources	100.0%	15,658,089
Uses		
Project Budget	88.1%	13,792,280
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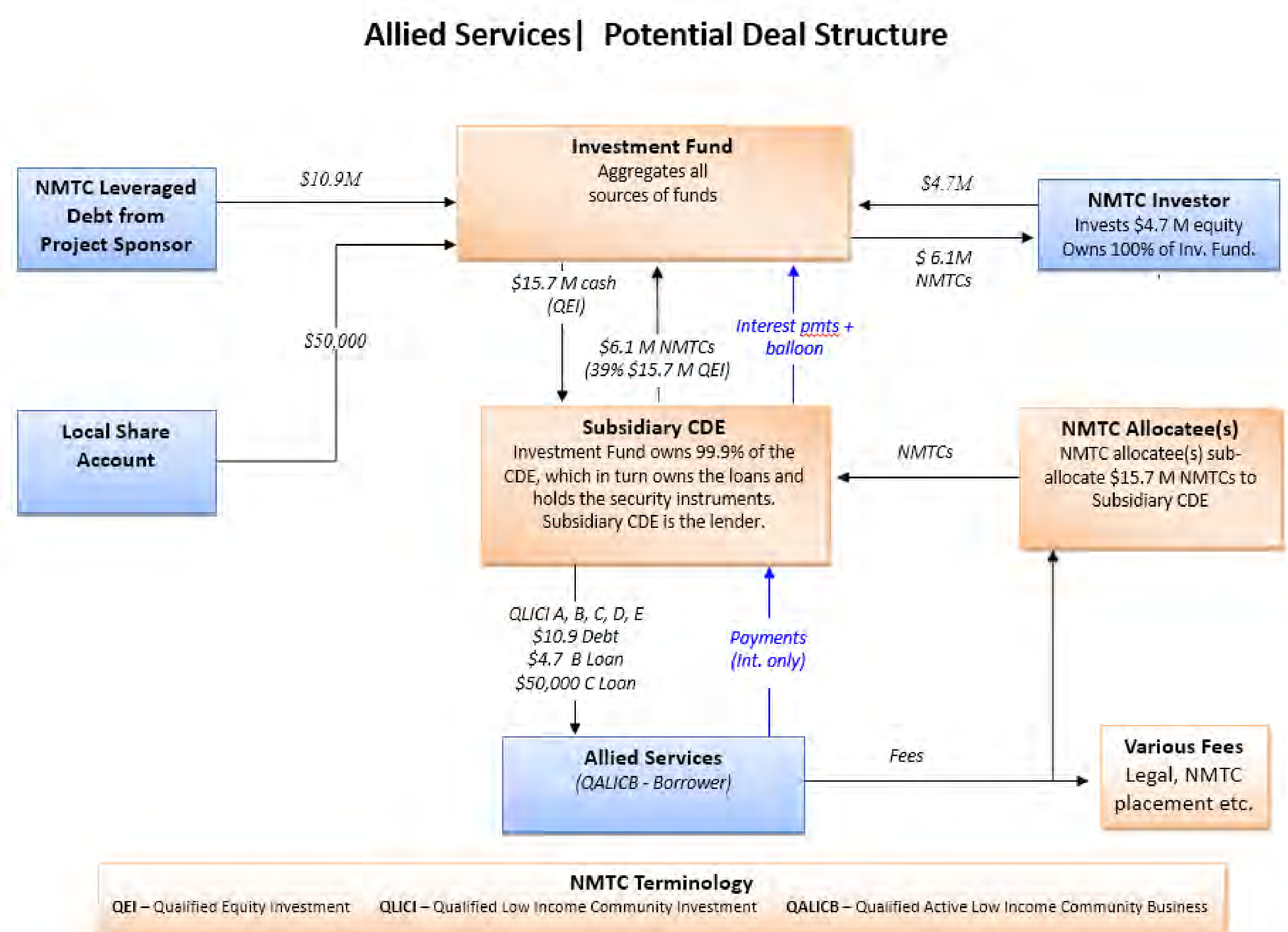


NMTC But-For

There are numerous factors that have created a financing gap for the project, including:

1) **Higher than average construction costs due to regulations:** Pennsylvania nursing/personal care homes are closely regulated by the Commonwealth's Department of Human Services (OLTL), Department of Health, and by the federal Center for Medicare Services. Stringent health and safety standards mean higher construction/renovation costs across-the-board---e.g., higher standards for design, structural and finish materials, equipment (electrical, plumbing, HVAC, mechanical), fire and safety systems and the like. In addition, numerous inspections and pre-occupancy certifications are required, adding days to renovation/construction and occupancy schedules.

2) **Adjustments due to the pandemic:**

    a. COVID-19 has caused significant financial losses for Allied Services. Patient volumes were (and continue to be) reduced in virtually all care settings, including nursing homes, transitional care, rehabilitation hospitals and clinics. COVID-19 also increased care delivery costs and general operating costs in all care settings. These additional expenses include personal protective equipment, deep-cleaning and disinfection of facilities, distancing modifications, outdoor screening and visitor accommodations. Also, COVID has added considerably to staffing costs—e.g., hazard pay premiums, overtime and new bonus structures for front line caregivers, and call-in staff (agency personnel) to "close gaps" (cover for absentees) as needed. These unanticipated and ever-increasing expenses leave little or no margin for reinvestment in facilities and equipment.

    b. COVID-19 has not resulted in explicit directives or regulations regarding room size. Nonetheless, nursing and personal care facilities have relied on lower occupancy as a means to reduce potential COVID exposure of residents and staff members. In this way, COVID has likely accelerated the trend toward larger, better appointed rooms. Today's nursing home residents are older, more fragile and more acutely ill than the previous generations for whom these facilities were designed (circa 1960's - 70's). More space is needed for the staff delivering medical and personal care, and for medical/assistive devices (e.g., motorized or manual wheelchairs, respiratory aids) specially equipped beds and chairs, and personal possessions. With larger rooms, facilities will have fewer residents per floor and a higher "occupancy cost" burden for each.

3) **Insufficient reimbursement rates for low-income individuals:** most seniors in the service area are financially unprepared for the high cost of long term care. When personal finances are exhausted, the typical nursing home resident applies and qualifies for Medical Assistance (MA). For a single person, Pennsylvania's current Medicaid income limit is $2,381 per month and the asset limit is $2,000. Nursing homes that participate in the Medical Assistance program must agree to serve eligible residents for as long as needed, and must accept the State's published MA reimbursement (daily rate) as payment-in-full. As they age, most residents will need more medical, skilled nursing, and personal care services, while reimbursement rates are fixed based on costs averaged annually across all residents and all facilities. Unfortunately, MA reimbursement rates are not adjusted to reflect the added staffing costs associated with "medically acute/fragile" residents. This places nursing homes---especially nursing homes with high acuity resident populations---at a disadvantage in a very competitive healthcare labor market. Regionally, acute care hospitals and private clinics can offer higher wages than nursing homes. There's also considerable recruitment competition from hospitals and healthcare centers in larger metro areas, where the MA wage index (reimbursement) is higher. The MA reimbursement shortfall grows year-by-year. In fact, Pennsylvania's 2019 budget neutrality" adjustments resulted in MA reimbursements of about 80% of the actual costs of care. Nursing homes look to "short stay" Medicare and private pay residents to help offset MA losses;

however, increasing a facility's short stay patient volumes requires additional investment in facilities, amenities and special services. The financial burden for participating nursing homes can restrict consumers' access to care (e.g., admissions delayed or denied because of staffing shortages), and jeopardize care quality and efficiency. Financial pressures also prohibit modernization/renovations projects that might help skilled nursing facilities to compete for private pay and Medicare consumers (short stay).

4) **Substantial deferred maintenance:** when Allied Services acquired the Northampton and Meade Street properties in 2019 a long list of deferred maintenance items, including health and safety code violations, required immediate correction. At the Northampton Street site expenses totaled $173,447 for building-wide rewiring and exit signage replacements, fire alarm upgrades, and a new boiler and backup generator. At the Meade Street site costs totaled $248,683 for a new fire alarm system and cooling tower and for replacement of doors, exit signage and wiring throughout the facility.

Area Overview

The city of Wilkes-Barre, Pennsylvania is a progressive city with industrial roots. Located along the Susquehanna River, Wilkes-Barre is the seat of Luzerne County and is a keystone of Northeastern PA.

Conveniently situated in the tristate area, Wilkes-Barre offers easy access to highways (Interstates 81, 80, and 476) and airports. Wilkes-Barre is approximately 2 hours away from New York City and Philadelphia. Wilkes-Barre is also a short drive from the beautiful Pocono Mountains. Surrounding communities also boast a number of natural park lands.

Wilkes-Barre was settled in 1769 and reached the height of its prosperity in the 19th century when coal reserves were discovered nearby. This discovery led to the city being nicknamed "The Diamond City". With the arrival of hundreds of thousands of immigrants, the city's economy flourished due to new resources and an expanding workforce. The Wyoming Valley held the largest anthracite coal field in the United States at the time. During Wilkes-Barre's reign as an industrial and economic force, a number of franchises planted their roots in the city, such as Bell Telephone, HBO, and Stegmaier.

Revitalization

The City's current revitalization is driven by emerging businesses, thriving institutes for higher education, and non-profit organizations committed to serving the community. Through partnerships with both public and private organizations, the City of Wilkes-Barre has been a key player in many economic development projects that have shaped the future for Wilkes-Barre and it neighboring communities.

Downtown Development

The City hosts 11,000 downtown employees, the 4th largest downtown workforce in the Commonwealth of Pennsylvania, with a mix of major employers and small businesses. Wilkes-Barre has become revitalized into an 18-hour destination with a "Walk-To-Everything" lifestyle.

The downtown offers a wide variety of dining and shopping options for residents and visitors. Both locally-owned and nationally recognized restaurants are within walking distance from Public Square, RC Movies 14, and the F.M. Kirby Center for the Performing Arts. Large and small retail shops, including Boscov's and Barnes & Noble are easily accessible to downtown patrons.

The vision of downtown living has become a reality as the strategic conversion of inactive bank buildings to luxury apartment units has added a lively, spectacular presence to our city. Attractive and marketable living units are becoming a permanent fixture downtown. Investors recognize the potential for success in the City of Wilkes-Barre and private development is increasing throughout the city.

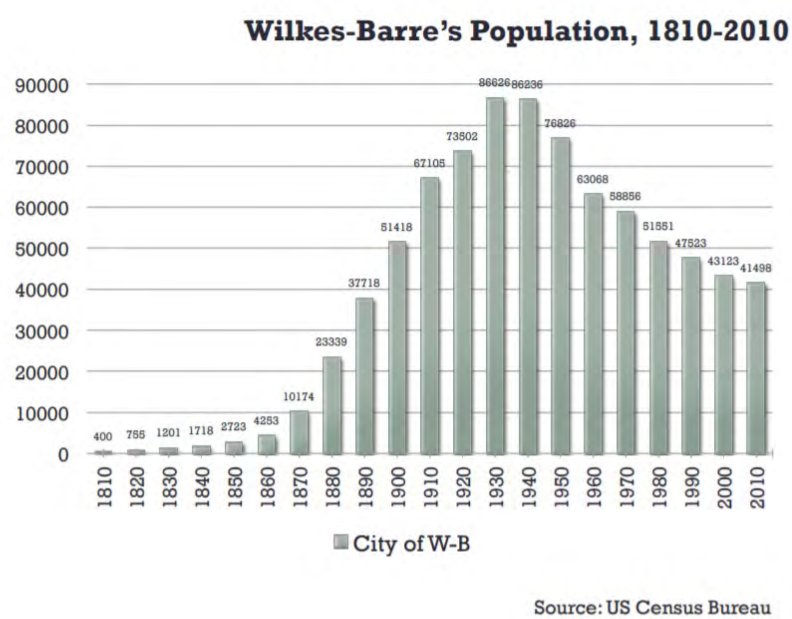
Economy

Wilkes-Barre encompasses 7.3 square miles including 15,326 households. As of the 2010 census, the city was 79.2% White, 10.9% Black or African American, 0.3% Native American, 1.4% Asian, and 2.9% were two or more races.

As of March 2019, income per capita in Wilkes-Barre was $18,375, compared to the national average of $31,177. Household income was $32,484, compared to the national average of $57,652. Family median income was $42,782, compared to the national average of $70,850. The city's unemployment rate in March 2019 was 6.4%. Recent job growth was 0.8%. 49% of jobs were in sales, office, administrative support, production, transportation, and material moving sectors. In 2016, 30.1% of residents lived below the poverty line, more than double the Pennsylvania average of 12.9%. Large employers in the city include GUARD Insurance Group and Lord & Taylor. [1]

Downtown Revitalization Efforts

Wilkes-Barre's downtown revitalization efforts have prioritized the Project site as a key development opportunity for decades. The City of Wilkes-Barre has experienced eight consecutive decades of population loss. However, the population loss has finally begun to slow and level off during the past decade. With a land area of only seven square miles, the city is landlocked with little room to grow and an aging and stagnant residential base. Downtown revitalization presents a critically important opportunity for the city to add population and economic vitality.



Today downtown Wilkes-Barre is home to a live-work district with more than 11,000 daytime employees, making it Northeastern Pennsylvania's largest concentrated employment center. Downtown is equidistant from the campuses of King's College and Wilkes University, with more than 7,500 students of combined enrollment, and only one block from the headquarters of Berkshire Hathaway Guard Insurance and Lackawanna Insurance, workplace heath provider AllOne Health and search-engine marketer Pepperjam, and major corporate operations for Chubb Agribusiness and Highmark Blue Cross, among others.

The following map depicts the location of the project site:

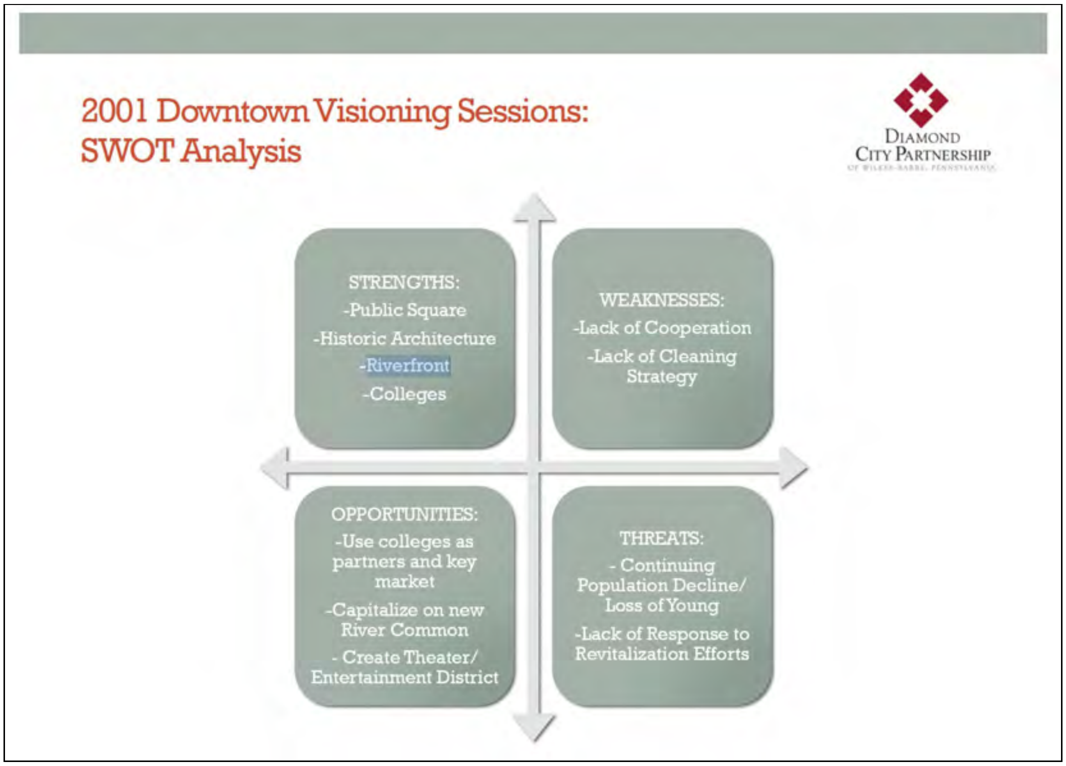
[1] https://www.wilkes-barre.city/about-wilkes-barre-pa; https://en.wikipedia.org/wiki/Wilkes-Barre,_Pennsylvania

The Diamond City Partnership's 2015 Action Plan

The Diamond City Partnership (DCP) is Wilkes-Barre's nonprofit alliance for downtown revitalization, serving as the caretaker of the community's vision for Downtown Wilkes-Barre. DCP was founded in 2001, when almost 1,000 citizens met in a series of public visioning sessions to craft strategies for a better Downtown. Today those strategies are being implemented by DCP, which administers the Downtown Wilkes-Barre Business Improvement District. DCP is governed by a 40-member Board of Directors which includes representatives from downtown property owners, businesses, residents, educational and religious institutions, and local government. DCP's committees and workshops are open to everyone who is interested in volunteering their time to improve Downtown Wilkes-Barre.

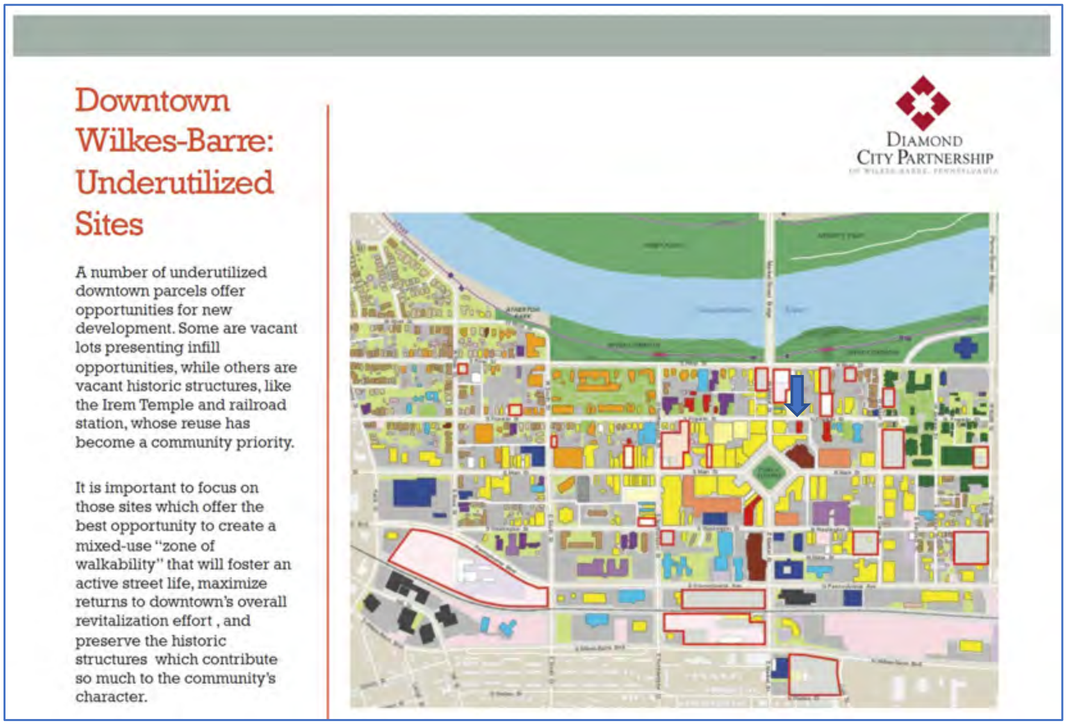
In November of 2015, after years of public workshops and outreach to the business community, DCP released a comprehensive report entitled "A Revitalization Action Plan for Downtown Wilkes-Barre" in collaboration with the City of Wilkes-Barre and the Greater Wilkes-Barre Chamber of Business & Industry. The full report can be found in the Appendix, following are highlights as they pertain to the project site.

As a result of numerous "Visioning Sessions" the following SWOT analysis was developed, which lists the riverfront area as one of the city's strengths:



The 2015 report identified "Six Big Goals for the Next Five Years," which are:

The report also stated that "A number of underutilized downtown parcels offer opportunities for new development. Some are vacant lots presenting infill opportunities, while others are vacant historic structures, like the Irem Temple and railroad station, whose reuse has become a community priority. It is important to focus on those sites which offer the best opportunity to create a mixed-use "zone of walkability" that will foster an active street life, maximize returns to downtown's overall revitalization effort, and preserve the historic structures which contribute so much to the community's character." A map of the underutilized parcels includes the project site:



Downtown is the city's traditional engine of economic growth, as depicted on the following excerpts from the report:

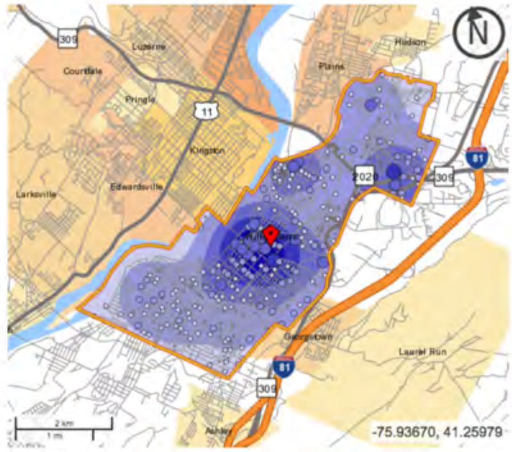
Downtown as economic engine

According to U.S. Census data, Downtown Wilkes-Barre currently contains 46% of all the jobs in the City of Wilkes-Barre, and 1 of every 10 jobs in Luzerne County.

It is also a regional employment hub: Downtown is the largest single employment destination for City residents, and for residents of Luzerne County as a whole. At the same time, 32% of people who work in Downtown reside outside Luzerne County.

All told, downtown jobs provide more than $433 million in annual wages to residents of Northeastern Pennsylvania.

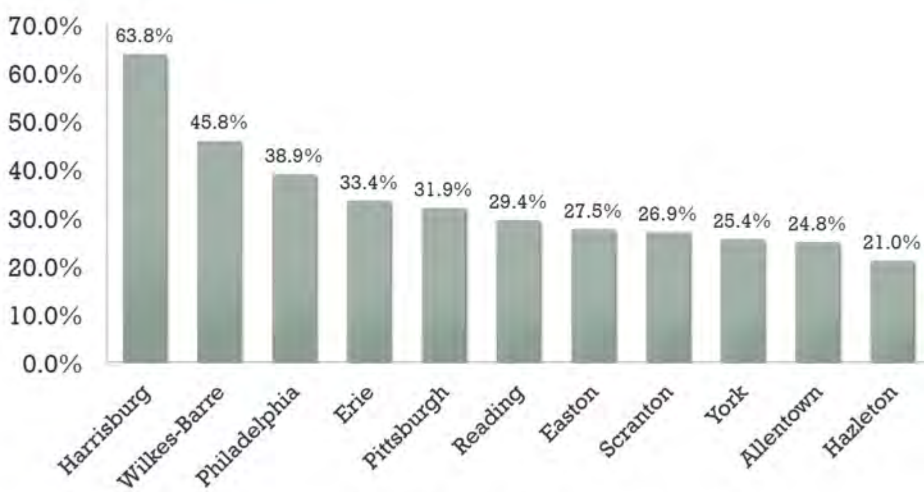
Diamond City Partnership



Source: US Census Bureau LED

Percentage of PA cities' total employment located within those cities' downtowns, 2011

Diamond City Partnership



Source: US Census Bureau LED

Highlights from Downtown Wilkes-Barre BID 2018 Annual Report

Here are some of the accomplishments of the Business Improvement District from its 2018 Annual Report:

- Number of downtown storefront businesses opening: 9 in 2018 (vs. 10 in 2017)
- Number of downtown storefront businesses closing: 5 in 2018 (vs. 6 in 2017)
- Net increase in occupied downtown storefronts: 4 in 2018 (vs. 4 in 2017)
- Downtown Wilkes-Barre was featured in Times Shamrock's 2018 Outlook special edition, titled "Change in Store: The New Face of Shopping & Retail," and DCP's Executive Director was part of the Economic Forum roundtable featured in that publication. In all, DCP staff was quoted in 23 different newspaper articles and TV segments dealing with Downtown Wilkes-Barre during 2018.
- DCP's social media presence was anchored by its weekly E-blast, "This Week in Downtown Wilkes-Barre," which is in its fifth year and boasts 1,227 direct subscribers, with substantial recirculation via traditional and social media channels. DCP Social Media Followers:
    - Instagram: 1101
    - Twitter: 508
    - DWBBA Facebook: 1,850
    - DCP Facebook: 412

Past City Investments in the Downtown / Riverfront Area

Downtown Wilkes-Barre has seen the completion of multiple public and private development initiatives in the downtown riverfront area during the past ten years, which has attracted additional investment. From 2012 to the present day, there has been $75 million in private investment in Downtown Wilkes-Barre; and the number of young college graduates living in Downtown has tripled during that same period. Highlights of past city investments include:

- The $30 million reconstruction of the River Common, Downtown's 35-acre riverfront park;
- City Centre, a $31 million mixed-use project, anchored by the 14--screen R/C Theatres multiplex cinema, and incorporating 30,000 SF of street retail and the 21 market-rate loft condominiums;
- The reconstruction of streetscape and streetlights throughout the downtown commercial core;
- The Innovation Center at Wilkes-Barre, downtown Wilkes-Barre's technology incubator, which houses the 18,000 SF Barnes & Noble Wilkes/King's Bookstore on its ground floor;
- The Conahan Intermodal Transportation Center, a 760-car public parking garage housing the operational hub for the regional transit authority and intercity buses on its ground floor;
- The $10 million rehabilitation of Downtown's historic YMCA building, consolidating Y activities into a state-of-the-art 78,000 facility on the building's lower three floors, and transforming the building's three upper floors into 40 West, a 21-unit student housing complex;
- The Wilkes Enterprise Center, a project of Wilkes University's entrepreneurship programs, which now houses a dozen student and faculty-owned startups;
- Multiple major capital investments by both King's College and Wilkes University.

Project Sponsor Overview

Allied Services is the leading provider of post-acute healthcare and human services for northeastern Pennsylvanians with disabilities and chronic illness. As a not-for-profit corporation, they work to advance the health, independence and life quality of our consumers and of the people of our region. Throughout its 62-year history, Allied has been guided by a commitment to delivering compassionate care of the highest quality. Every day Allied's 3,200 employees and volunteers strive to touch the lives of nearly 5,000 people throughout northeastern and central Pennsylvania.

Allied's approach is a hands-on, people-oriented style which places the physical and emotional needs of those in their care at the center of all they do: in rehabilitation hospitals, skilled nursing facilities, behavioral health/developmental disability program, home care, hospice and palliative care, specialty and vocational programs.

They encourage employee participation and interaction throughout their entire health system. Team-oriented solutions and employee empowerment provide a cooperative and enriching workplace. Hospital administration, with guidance from their board of directors, seeks to uphold the high standard of care and community service that Allied Services is known for throughout the region.

The not-for-profit health system started out in 1959; Allied Services Vocational Services Division, the first division created, existed to give individuals with disabilities access to training and employment opportunities. Allied Services as we know it today grew out of that original mission to serve the needs of adults with disabilities who wanted to be part of the workforce.

Most recently, Allied Services has established a Community Based Palliative Care program aimed at relieving pain and other symptoms that burden people living with chronic illness. In early 2018, Allied Services added to its continuum of care with Allied Services Hospice Center, a brand new, 8-bed facility in Scranton as well as a community-based hospice program that supports individuals in their own homes.

As the healthcare and human services fields continue to change, Allied Services remains a quality-driven, not-for-profit organization that delivers compassionate care to those in need and strives to improve the quality of life for people throughout northeastern and central Pennsylvania.

Summary of Services

- Physical rehabilitation for children and adults with disabilities including speech, physical and occupational therapy in inpatient and outpatient facilities
- Home Health: nursing, therapy services and medical social services provided in the home
- In-Home Services: non-medical support services including respite care, homemaker services
- Community Services: includes vocational, day and residential programs for adults with developmental disabilities, residential and community-based behavioral services, dePaul School for children with dyslexia

- Skilled Nursing: 371- bed skilled nursing and rehab center
- Personal Care: Allied Terrace Personal Care offers living for seniors who seek to maintain their independence but may require light medical and personal care.
- Palliative Care: community-based palliative care program to assist individuals and their families to manage their systems and care
- Hospice Care: in-home and inpatient hospice care
- Transitional Care: Allied Services transitional care units offer superior rehab, high-quality, round-the-clock nursing for individuals who need short term care

Rehabilitation Services Overview

Physical medicine and rehabilitation services are designed to help individuals overcome or manage disabilities so that they can regain their independence and enjoy a higher quality of life. Allied Services Integrated Health System offers a wide variety of rehabilitation services to treat numerous conditions.

Some of the conditions Allied treats through rehabilitation include:
- Sports injuries
- Stroke
- Spinal cord injuries
- Traumatic brain injuries
- Scoliosis
- Amputation
- Speech and swallowing disorders
- Gait disorders
- Parkinson's disease
- Cancer
- Vision disorders
- Hand and wrist disorders
- Lymphedema
- Concussions
- Pulmonary disease
- Behavioral disorders

Inpatient Rehabilitation

Inpatient rehab is required when individuals require intensive (24-hour) therapy services and medical management. Inpatient rehabilitation is delivered in a specialized hospital that focuses on physical, occupational, and/or speech therapy. Care in this setting is coordinated by a doctor who specializes in rehabilitation medicine and nurses with specialized rehabilitation training. The inpatient rehab length of stay is about 10-14 days. After inpatient rehab, most individuals return home often with outpatient rehab or home health services.

Outpatient Rehabilitation

Outpatient rehab is used for people who are living safely at home but require rehab therapy to help them live free of physical limitation or pain. Outpatient rehab is delivered at specialized centers, so people receiving this level of care are able to travel. In most instances people require physical therapy; however, others may require occupational therapy, speech therapy, or some combination of these different types of therapy. Usually, individuals receive about 12-15 one-hour therapy sessions over the course of a four-week period. After Outpatient Rehab most people are discharged with no further services.

Patient Outcomes

At Allied Services, patient outcome metrics such as the average number of visits, pain reduction, reduced function limitation, and the likelihood of recommending Allied Services to others, are among the best in the United States:

- **98%** of their outpatient population reported that their overall rating of care received was either good or very good.
- **99%** of their outpatient population reported that they would recommend our services to others.
- **98%** of their outpatient population reported that they either had no pain or a decrease in their pain during their treatment.

Allied's outpatient rehabilitation facilities regularly outperform other outpatient rehabilitation providers nationwide. According to statistics compiled by the Press Ganey, Allied Services' overall patient satisfaction score ranks in the **top 10%** of participating outpatient rehabilitation centers in the United States

Allied's Community Involvement

Community *Partnership*

Allied's role in community activities is exhibited well beyond its programs of care. They are well regarded for corporate citizenship activities and support the community by providing care and counseling regardless of a person's ability to pay. Allied also supports a wide variety of government, civic and charitable activities. They take seriously their role as an advocate for people with disabilities and the elderly. Allied's doors are always open to host community and support groups and free educational events aimed at keeping their neighbors healthy and injury-free.

Opportunities for *Students*

As a nationwide leader in rehabilitation and elderly care services, Allied Services is committed to continuing healthcare education through the annual presentation of scholarships in various disciplines and through an active student internship program conducted in cooperation with nearly 100 colleges, universities and high schools.

Community *Impact*

In keeping with their mission, Allied Services participates in national and State-level advocacy to expand opportunities and services for persons with disabilities and chronic illness. Allied strives to provide better community health by providing:

- Free health screenings and health education programs
- Mentoring and internships for new health professionals and students
- In-kind assistance (meeting space and other in-kind) for health support groups, health charities and advocacy organizations
- In-kind and charitable sponsorships for health and human services organizations

- Leadership in local and regional collaborative efforts to boost consumer

Management Team

For 60 years, Allied Services' commitment to the community has been to provide quality care and services to those in need. And for those five decades Allied has remained steadfast in their promise to deliver this care with compassion and empathy.

Mike Avvisato, Senior Vice-President & Chief Financial Officer
Mr. Avvisato is responsible for financial strategy and financial operations for Allied Services Integrated Health System. In this capacity, he reports directly to the corporation's President/CEO. As a corporate officer, he advises the CEO and Board of Directors on a broad range of business and financial concerns, and regularly represents the organization in negotiations with external consultants, business partners, contractors, service providers, and governmental agencies. His administrative oversight responsibilities include risk retention, real estate management, general accounting, financial planning and analysis, payroll services, treasury services, patient financial services, materials management and purchasing, and information technology. Mr. Avvisato has held progressively responsible positions with Allied Services since 1985. He holds a B.S. Accounting and Business Administration from King's College.

James Cooney, Vice-President, Skilled Nursing
Mr. Cooney is responsible for all operations including the clinical, financial and regulatory aspects of Allied Services' skilled nursing facilities in Scranton and Wilkes-Barre. He is the lead administrator at Allied Services Skilled Nursing Center in Scranton, a 369-bed nursing facility, the largest long term care facility in the region. Jim joined Allied Services in 2014 where he directed the opening of the new 55-bed Transitional Rehab Unit located in the Allied Services Rehab Hospital, Scranton. He is a graduate of the University of Scranton, and is a Pennsylvania Licensed Nursing Home Administrator with over 22 years of professional experience in healthcare. During his tenure, Allied Services' Scranton Transitional Unit, Scranton Skilled Nursing Center and Center City (Wilkes-Barre) Skilled Nursing Center have all attained "5-Star" ratings from the Center for Medicare & Medicaid Services (CMS). His credentials include N.H.A. (nursing home administrator) licensure and Health Services Executives™ (HSE) Qualified Administrator status from the National Association of Long Term Care Administrators.

James Brogna, Vice-President for Strategic Partnership Development
Mr. Brogna works with senior management to strengthen medical and business partnerships that support the non-profit health system's mission. Prior to his current appointment, Mr. Brogna served as Vice President for Corporate Advancement and Communication for five years. During his more 21+year career at Allied Services, he has been responsible for marketing, fundraising, physician relations and administrative oversight of the dePaul School for Children with Dyslexia. He is active in many community service initiatives, serving on the Board of Leadership Wilkes-Barre, Greater Wilkes-Barre Chamber of Commerce, Catholic Social Services, and UNICO National Scranton Chapter, and raising funds and awareness for various other community programs. He serves as Guest lecturer for Graduate and undergraduates at Bloomsburg University, Misericordia University, Marywood University, Wilkes University and University of Scranton in topics ranging from non-profit and healthcare leadership, business and marketing. He received his undergraduate degree in communications from Bloomsburg University, and a Masters degree in Organizational Management from Misericordia University.

Appendix

Leveraged Debt LOI
US Bank NMTC Equity Term Sheet
DHS – Center City Approval Letter
Revitalization Action Plan for Downtown Wilkes-Barre
Letter of Support – WB Mayor
NMTC Program Overview
OCC Memo Re: NMTCs

AlliedServices
INTEGRATED HEALTH SYSTEM

FOUNDATION
100 Abington Executive Park · Clarks Summit, PA 18411
Phone 570·348·1407 · Fax 570·341·4331 · TDD 570·348·1240 · alliedservices.org

Date: September 14, 2021

To: Whom it may concern

From: James Brogna, Allied Services

Re: NMTC Leveraged Debt Commitment

This is to certify that Allied Services will provide up to $11.5M in leveraged debt for the proposed New Market Tax Credit transaction involving the properties at 80 E. Northampton Street and 200 S. Meade St. in Wilkes-Barre, PA. Attached is evidence of fund availability.

Signed,

James Brogna

Vice President, Strategic Partnership Development

Morgan Stanley

CLIENT STATEMENT | For the Period August 1-31, 2021

STATEMENT PACKAGE FOR:
ALLIED SERVICES FOUNDATION

TOTAL VALUE OF YOUR ACCOUNTS (as of 8/31/21) **$87,217,242.68**
Includes Accrued Interest
Excludes Bank Loan Balances (See detail on Overview page)

Morgan Stanley Smith Barney LLC. Member SIPC.

Your Financial Advisors
Ellen Bush
Scott Davis
Harry Herb
Karen Natishan
Thomas Schatzman

Your Branch
1350 BROADCASTING RD STE 100
WYOMISSING, PA 19610
Telephone: 610-478-4500; Alt. Phone: 800-346-6001; Fax: 610-374-7775

000007 MSADK131 000483

#BWNJGWM

000007 MSADK131 000000
ALLIED SERVICES FOUNDATION
ATTN: MICHAEL AVVISATO
100 ABINGTON EXECUTIVE PARK
CLARKS SUMMIT PA 18411-2260

Client Service Center (24 Hours a Day; 7 Days a Week): 800-869-3326

Access Your Accounts Online: www.morganstanley.com/online

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716 - 105659 - 354 - 1 - 0

Standard Disclosures

The following Disclosures are applicable to the enclosed statement(s). Expanded Disclosures are attached to your most recent June and December statement (or your first Statement if you have not received a statement for those months). The Expanded Disclosures are also available by selecting Account Documents when you log on to www.morganstanley.com/online or, call 800-869-3326.

Questions?

Questions regarding your account may be directed to us by using the contact information on the statement cover page, or the Client Service Center at (800) 869-3326.

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Be sure to review your statement promptly, and immediately address any concerns regarding entries that you do not understand or believe were made in error by contacting the Branch Manager of the office where you maintain your account. Oral communications regarding any inaccuracy or discrepancy in this statement should be re-confirmed in writing to further protect your rights, including rights under the Securities Investor Protection Act (SIPA). Your statement will be deemed correct unless we receive a written inquiry of a suspected error. See your account documentation for special rules regarding your rights and responsibilities with respect to erroneous electronic fund transfers, including a description of the transfers covered. For concerns or complaints, contact our Client Relations Department at (866) 227-2256.

Senior Investor Helpline

In order to provide Morgan Stanley's senior investor clients a convenient way to communicate with us, we offer a Senior Investor Helpline. Senior investors or those acting on their behalf may call (800) 280-4534, Monday-Friday 9am-7pm Eastern Time.

Availability of Free Credit Balances and Financial Statements

Under the customer protection rules of the SEC [17 CFR §240.15c3-3], we may use funds comprising free credit balances carried for customer accounts here, provided that these funds are payable to customers on demand (i.e., are free of a lien or right of set-off in our favor or on behalf of some third party to whom you have given control). A financial statement of this organization is available for your personal inspection at its offices, or a copy will be mailed to you upon your written request.

Listed Options

Information with respect to commissions and other charges related to the execution of options transactions has been included in confirmations of such transactions previously furnished to you and such information will be made available to you promptly at your request. Promptly advise us of any material change in your investment objectives or financial situation.

Important Information if you are a Margin Customer(not available for certain retirement accounts)

If you have margin privileges, you may borrow money from us in exchange for pledging assets in your accounts as collateral for any outstanding margin loan. The amount you may borrow is based on the value of the eligible securities in your margin accounts. If a security has eligible shares, the number of shares pledged as collateral will be indicated below the position.

Margin Interest Charges

We calculate interest charges on margin loans as follows: (1) multiply the applicable margin interest rate by the daily close of business net settled debit balance, and (2) divide by 360 (days). Margin interest accrues daily throughout the month and is added to your debit balance at month-end. The month-end interest charge is the sum of the daily accrued interest calculations for the month. We add the accrued interest to your debit balance and start a new calculation each time the applicable interest rate changes and at the close of every statement month. For interest rate information, log into your Morgan Stanley account at www.morganstanley.com/online. Select your account with a Margin agreement and click Interest Rates for more information.

Information regarding Special Memorandum Account

If you have a Margin Account, this is a combined statement of your Margin Account and Special Memorandum Account maintained for you under Section 220.5 of Regulation T issued by the Board of Governors of the Federal Reserve System. The permanent record of the Special Memorandum Account as required by Regulation T is available for your inspection at your request.

Important Information About Auction Rate Securities

For certain Auction Rate Securities there is no or limited liquidity. Therefore, the price(s) for these Auction Rate Securities are indicated by N/A (not available). There can be no assurance that a successful auction will occur or that a secondary market exists or will develop for a particular security.

Structured Investments Risks and Considerations

Structured Investments (Structured Products) are complex products and may be subject to special risks. Investors should consider the concentration risk of owning the related security and their total exposure to any underlying asset. Structured Investments, which may appear in various statement product categories and are identified on the Position Description Details line as "Asset Class: Struct Inv," may not perform in a manner consistent with the statement product category where they appear and therefore may not satisfy portfolio asset allocation needs for that category. For information on the risks and conflicts of interest related to Structured Investments generally, log in to Morgan Stanley Online and go to www.morganstanley.com/structuredproductsrisksandconflicts.

Security Measures

This statement features several embedded security elements to safeguard its authenticity. One is a unique blue security rectangle, printed in heat-sensitive ink on the back of every page. When exposed to warmth, the color will disappear, and then reappear.

SIPC Protection

We are a member of Securities Investor Protection Corporation (SIPC), which protects securities of its customers up to $500,000 (including $250,000 for claims for cash). An explanatory brochure is available upon request or at www.sipc.org. Losses due to market fluctuation are not protected by SIPC and assets not held with us may not be covered by SIPC protection. To obtain information about SIPC, including an explanatory SIPC brochure, contact SIPC at 1-202-371-8300 or visit www.sipc.org.

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Upon written request, we will furnish the date and time of a transaction and the name of the other party to a transaction. We and/or our affiliates may accept benefits that constitute payment for order flow. Details regarding these benefits and the source and amount of any other remuneration received or to be received by us in connection with any transaction will be furnished upon written request.

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Some equity securities may have research ratings from Morgan Stanley & Co. LLC or Morningstar, Inc. Research ratings are the research providers' opinions and not representations or guarantees of performance. For more information about each research provider's rating system, see the Research Ratings on your most recent June or December statement (or your first statement if you have not received a statement for those months), go to www.morganstanley.com/online or refer to the research provider's research report. Research reports contain more complete information concerning the analyst's views and you should read the entire research report and not infer its contents from the rating alone. If your account contains an advisory component or is an advisory account, a GIMA status will apply.

Credit Ratings from Moody's Investors Service and Standard & Poor's

The credit rating from Moody's Investors Service and Standard & Poor's may be shown for certain securities. All credit ratings represent the opinions of the provider and are not representations or guarantees of performance. Please contact us if you need further information or assistance in interpreting these credit ratings.

Revised 05/2021

Consolidated Summary

OVERVIEW OF YOUR ACCOUNTS (includes accrued interest)

Although only whole dollar amounts are displayed below, both dollars and cents are used to calculate all totals. Manually summing the individual line items may not equal the actual total displayed. Refer to Account Statements for details. Excludes Bank Loan Balances (including Liquidity Access Lines, Tailored Lending Loans and Mortgage Balances).

	Account Number	Beginning Value (8/1/21)	Funds Credited/(Debited)	Security/Currency Transfers Rcvd/(Dlvd)	Change in Value	Ending Value (8/31/21)	Income/Dist This Period/YTD	YTD Realized Gain/(Loss) (Total ST/LT)	Unrealized Gain/(Loss) (Total ST/LT)	Page
TOTAL FOR ALL ACCOUNTS		$86,138,378	$(18,352)	—	$1,097,217	$87,217,242	$255,978 $1,900,501	$161,278 $1,966,011	$1,603,268 $20,423,411	
Business Accounts										
ALLIED SERVICES FOUNDATION ATTN: MICHAEL AVVISATO	716-105659-354	1,178	—	—	—	1,178	— —	— —	— —	7
(TL)-MSPBNA FBO ALLIED SERVICES FOUNDATION C/O MICHAEL AVVISATO SAGE ADVISORY SERVICES LTD CO.	716-057532-354 *Invest Advisory*	17,520,822	(1,488)	—	(4,197)	17,515,137	88,803 679,140	(128) 38,985	(2,744) 382,907	11
ALLIED SERVICES FOUNDATION C/O MICHAEL AVVISATO Bahl & Gaynor - Income Growth	716-057817-354 *Invest Advisory*	5,171,236	(2,766)	—	102,588	5,271,058	9,392 76,750	27,842> 39,287>	60,912 1,401,403>	39
(TL)-MSPBNA FBO ALLIED SERVICES FOUNDATION TST	716-106392-354 *Invest Advisory*	56,395,957	(14,097)	—	998,694	57,380,553	72,022 525,585	145,860> 1,839,426>	1,550,834> 18,585,209>	59
ALLIED SERVICES FOUNDATION TST ATTN: MICHAEL AVVISATO SAGE ADVISORY SERVICES LTD CO.	716-115027-354 *Invest Advisory*	7,049,183	—	—	131	7,049,314	85,760 619,024	(12,296) 48,312	(5,733) 53,890	209
Total Business Accounts		$86,138,378	$(18,352)	—	$1,097,217	$87,217,242	$255,978 $1,900,501	$161,278 $1,966,011	$1,603,268 $20,423,411	

This summary may include assets held in either brokerage and/or advisory accounts. Visit https://www.morganstanley.com/wealth-relationshipwithms/pdfs/understandingyourrelationship.pdf to understand the differences between brokerage and advisory accounts. Refer to individual Account Gain/(Loss) Summary and Expanded Disclosures for additional information. Accounts with no balances, holdings or activity year-to-date are not displayed on this page. >: Wash sale rules apply to some portion of this total.

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Consolidated Summary

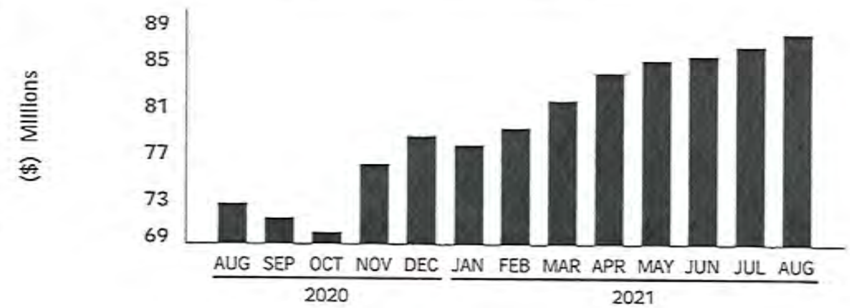
CHANGE IN VALUE OF YOUR ACCOUNTS (includes accrued interest)

	This Period (8/1/21-8/31/21)	This Year (1/1/21-8/31/21)
TOTAL BEGINNING VALUE	$86,138,378.39	$78,383,770.88
Credits	—	—
Debits	(18,352.98)	(320,694.85)
Security Transfers	—	—
Net Credits/Debits/Transfers	$(18,352.98)	$(320,694.85)
Change in Value	1,097,217.27	9,154,166.65
TOTAL ENDING VALUE	$87,217,242.68	$87,217,242.68

Net Credits / Debits include investment advisory fees as applicable. See Activity section for details.

MARKET VALUE OVER TIME

The below chart displays the most recent thirteen months of Market Value.

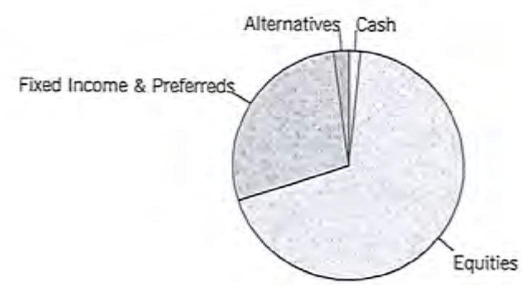


This chart does not reflect corrections to Market Value made subsequent to the dates depicted. It may exclude transactions in Annuities or positions where we are not the custodian, which could delay the reporting of Market Value.

ASSET ALLOCATION (includes accrued interest)

	Market Value	Percentage
Cash	$1,402,497.60	1.61
Equities	59,579,283.27	68.31
Fixed Income & Preferreds	24,309,756.52	27.87
Alternatives	1,925,705.29	2.21
TOTAL VALUE	$87,217,242.68	100.00%

FDIC rules apply and Bank Deposits are eligible for FDIC insurance but are not covered by SIPC. Cash and securities (including MMFs) are eligible for SIPC coverage. See Expanded Disclosures.
Values may include assets externally held, which are provided to you as a courtesy, and may not be covered by SIPC. For additional information, refer to the corresponding section of this statement.



This asset allocation represents holdings on a trade date basis, and projected settled Cash/BDP and MMF balances. These classifications do not constitute a recommendation and may differ from the classification of instruments for regulatory or tax purposes.

Consolidated Summary

BALANCE SHEET (^ includes accrued interest)

	Last Period (as of 7/31/21)	This Period (as of 8/31/21)
Cash, BDP, MMFs	$1,391,319.74	$1,407,025.45
Stocks	54,312,247.02	55,315,954.92
Municipal Bonds^	493,137.88	484,770.92
Corporate Fixed Income^	19,561,727.35	20,007,531.10
Government Securities^	4,185,823.38	3,817,454.50
Mutual Funds	6,204,180.95	6,189,033.64
Net Unsettled Purchases/Sales	4,047.64	(4,527.85)
Total Assets	**$86,152,483.96**	**$87,217,242.68**
Cash, BDP, MMFs (Debit)	(14,105.57)	—
Total Liabilities (outstanding balance)	**$(14,105.57)**	**—**
TOTAL VALUE	**$86,138,378.39**	**$87,217,242.68**

Total liabilities excludes Bank Loan Balances (including Liquidity Access Lines, Tailored Lending Loans and Mortgage Balances).

CASH FLOW

	This Period (8/1/21-8/31/21)	This Year (1/1/21-8/31/21)
OPENING CASH, BDP, MMFs	**$1,377,214.17**	**$3,796,855.05**
Purchases	(2,608,700.03)	(22,995,630.90)
Sales and Redemptions	2,392,309.93	18,930,494.12
Prior Net Unsettled Purch/Sales	4,047.64	N/A
2020 Net Unsettled Purch/Sales	N/A	90,973.12
Net Unsettled Purch/Sales	4,527.85	4,527.85
Income and Distributions	255,978.87	1,900,501.06
Total Investment Related Activity	**$48,164.26**	**$(2,069,134.75)**
Other Debits	(18,352.98)	(320,694.85)
Total Cash Related Activity	**$(18,352.98)**	**$(320,694.85)**
Total Card/Check Activity	**—**	**—**
CLOSING CASH, BDP, MMFs	**$1,407,025.45**	**$1,407,025.45**

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Community Development Corporation
1307 Washington Ave,
Suite 300
St. Louis, MO 63103
314.335.2600
jennifer.westerbeck@usbank.com

usbank.com/cdc

December 23, 2021

Jim Brogna
Vice President
Allied Services Foundation, Inc.
100 Abington Executive Park
Clarks Summit, PA 18411

Re: Allied Services Hospice and Skilled Nursing Center
New Markets Tax Credit Investment

Dear Mr. Brogna:

Based on financial and other information provided on the proposed renovation and expansion in two buildings for a Hospice and Skilled Nursing Center located at 200 S. Meade St, Wilkes-Barre, PA 18702 and 80 E. Northampton St, Wilkes-Barre, PA 18701, respectively, (together the "Project" or the "QALICB" ("Qualified Active Low-Income Community Business")), US Bancorp Community Development Corporation ("USBCDC") is delighted to consider making a New Markets Tax Credit ("NMTC") equity investment in the Project to facilitate its completion. The terms of such investments are outlined below. It is expected that subsidiaries of to be determined Community Development Entities ("TBD CDEs") will act as a Community Development Entities ("Sub-CDEs") and investees of USBCDC.

Except for the obligations set forth in the section titled Transaction Costs and Confidentiality, the following term sheet does not constitute or create, and shall not be deemed to constitute or create, any legally binding or enforceable obligation on the part of any party and is for discussion purposes only and should not be construed as a commitment to provide loans to, or equity in, the Project. This proposal has not been approved internally, and we have not performed the necessary due diligence to allow us to seek approval. Should these terms be acceptable to you, formal bank approval through USBCDC's internal credit process will be pursued. During the underwriting and documentation process, the terms and conditions of this proposal may change in material respects.

NEW MARKETS TAX CREDIT FINANCING:
USBCDC proposes to fund NMTC equity capital in the form of a Qualified Equity Investment(s) ("QEI(s)") to a qualified Sub-CDE(s). Such investment is based on the following assumptions:

Tax Credits: USBCDC will receive 100% of all NMTCs generated by the QEI(s). In the event that more or fewer credits are awarded, the NMTC Equity would be adjusted based on the price per credit as detailed below:

CDE(s)	QEI Amount	Credit Amount*	Price per Credit	Gross Equity**
TBD CDE	$15,700,000	$6,123,000	$.76	$4,653,480

** The credit amount is calculated based on a formula of QEI * 39%*
*** Calculation is prior to fees and expense reimbursements.*

EQUITY PAY-IN:
The NMTC equity would be paid in pro-rata with the funding of the leverage sources which are expected to be funded 100% at closing. The pricing above assumes all USBCDC equity and Leverage Loan proceeds are fully funded through the NMTC structure into a QALICB owned account in the first or second quarter of 2022.

DEAL STRUCTURE:
This proposal anticipates utilizing a "leveraged structure" for purposes of generating the NMTCs. USBCDC will be the 100% owner of the investment fund ("Investment Fund" or "Fund"). The Fund will purchase a 99.99% interest in the Sub-CDE(s) and will be allocated the NMTCs in addition to a return on its investment. The Sub-CDE(s) will make loans to the QALICB, which will be considered qualified low income community investments ("QLICIs").

LEVERAGE LOAN:
The Leverage Lender and the QALICB must be separate and distinct entities for tax purposes. The Leverage Lender will agree to: (a) forbear from exercising any remedies against the Investment Fund (including but not limited to foreclosure of the pledged collateral) during the NMTC compliance period; and (b) allow the redeployment of all funds returned to the Sub-CDE(s) as new QLICIs to an alternative QALICB to avoid recapture and associated penalties in the event of a foreclosure on the original QLICI(s) by the Sub-CDE(s). Should any funds be returned to the Sub-CDE(s), USBCDC and the CDE(s) shall have the right to redeploy those funds without consent from the Leverage Lender in order to avoid and prevent a recapture of NMTCs.

CDE FEES:
The CDE(s) will determine and inform the QALICB of its fee structure, including required QALICB reimbursements for annual CDE audit and tax preparation cost. Upfront fees are paid out of Investment Fund capital, out of the QEI or by the QALICB at closing. Annual fees are generally paid out of cash flow to the CDE(s) and built into the interest rate on the NMTC loans.

INVESTMENT FUND MANAGEMENT AND FEE:
Twain Financial Partners will be the non-member manager of the Investment Fund, performing such duties for the Investment Fund at an annual fee of $5,400 for eight years, to be paid by the QALICB from seven years of QLICI interest payments. One year's worth of the Investment Fund Management Fee will be reserved from capital sources at closing and held in an account at the Investment Fund.

AUDIT & TAX PREPARATION COSTS:
Upon request, if required by USBCDC, the Investment Fund and/or the CDE(s), the QALICB, at its own cost, shall also deliver: (a) an audit from a nationally or regionally recognized accounting firm to USBCDC and/or the CDE(s) each year within 75 days in draft form and 90 days in final form after the end of each calendar year; (b) unaudited financial statements within 30 days after the end of each quarter; (c) a tax return including form K-1 within 60 days after the end of the calendar year; (d) semi-annual certifications regarding QALICB status; (e) unaudited financial statements from each QALICB Guarantor as part of the initial underwriting and upon request thereafter; and (f) such other reports as USBCDC may request from time to time.

REIMBURSEMENT OF EXPENSES AND SHORT TERM BRIDGE EQUITY:
Any reimbursement of expenses by the QALICB to an affiliate must conform to the CDFI Fund Compliance and Monitoring FAQs released in September 2020. This guidance requires that expenses reimbursed with QLICI proceeds meet certain requirements. QLICIs may be used to reimburse project costs paid to third parties that either: 1) were incurred within 36 months prior to QLICI closing or 2) are less than 5% of total QLICI proceeds. This may be applied to CY2015-2016, CY2017-20 Allocation Agreements, for NMTC transactions closed between June 1, 2020 and May 31, 2022. Supporting documentation for these costs must be provided to USBCDC for review in the form of a summary Excel spreadsheet listing all costs by vendor and date paid, with backup electronic scans of all invoices and cancelled checks evidencing payment provided in an organized format.

USBCDC may provide short term bridge equity to facilitate the Leverage Loan or a portion of the Leverage Loan. The fee charged for the short term bridge equity is 50 basis points on the amount of bridge equity provided.

TRANSFERS & DISCLOSURES:
USBCDC reserves the right to transfer its interest in the Investment Fund, the Put Call Option Agreement and in any tax indemnities and guarantees to an affiliate fund without consent of the QALICB, CDE(s), or Leverage

Lender(s). USBCDC shall be permitted to disclose all information received pertaining to the Project, including Guarantor financial information, to all parties necessary to facilitate the syndication. USBCDC also reserves the right to make certain disclosures to potential affiliate fund investors including project information, photographs/media.

OTHER FINANCING:

All construction (if any), and all permanent debt for the Project shall be on commercially reasonable terms. USBCDC shall be provided notice of the terms of permanent debt and such terms shall be materially consistent with the final financial projections as accepted by USBCDC and its tax counsel at closing of the investment. These terms are subject to the commitment and availability of the funding sources and NMTC allocation necessary to account for all costs associated with the Project.

UNDERWRITING AND OPERATIONS/CONSTRUCTION BUDGET ADJUSTMENTS

Final budget (sources and uses) and proforma operating numbers are subject to USBCDC's review and approval. These terms are subject to final underwriting and investment committee approval. Should such terms be acceptable to you, formal bank approval through USBCDC's internal credit process will be pursued.

DISBURSING AND BANK ACCOUNTS

Unless all QLICI funds are fully spent by QALICB at NMTC Closing, funds shall be monitored and disbursed by a USBCDC-approved disbursement agent, which may be selected by the Leverage Lender. A disbursement advisor and inspecting architect may be engaged by USBCDC to monitor construction and disbursing at cost to the QALICB. USBCDC shall require the Investment Fund initial contribution and operating bank accounts and the Sub-CDE(s) initial contribution accounts to be maintained at U.S. Bank, NA. Depending on the structure, other entity accounts may be maintained at other bank or financial institutions.

USBCDC NMTC EXIT:

For a period of six months after the conclusion of the NMTC Compliance Period, USBCDC shall have the right to exercise an option to Put its interest in the Investment Fund to an affiliate of the Project at a "Put Price" equal to $1,000. If USBCDC does not exercise its Put Option within the specified period, the QALICB affiliate will have the right to Call USBCDC's interest in the Investment Fund at a price equal to fair market value. For purposes of the tax opinion furnished to USBCDC by its counsel in connection with the Project, industry standard is to have the financial projections reflect the net present value of the Investment Fund to be at least 10% of USBCDC's capital contribution to such Fund (which minimum may vary based on transaction structure). Depending on the facts and circumstances of a particular project, USBCDC's counsel may be willing to provide a "should level" opinion to USBCDC based on a lower percentage. In such an instance, USBCDC will agree to the projections reflecting such lower percentage.

GUARANTEES:

Allied Services Foundation, Inc. ("Guarantor") and/or other entities satisfactory to USBCDC shall guaranty to USBCDC the following:

- **Recapture due to (a) failure to qualify for or loss of QALICB status, (b) failure to qualify for or loss of QLICI status, (c) QLICI prepayment (whether voluntary or as a result of foreclosure or similar proceeding, and including any recapture resulting from a subsequent redemption by the Sub-CDE of any portion of the QEI, or resulting from the Sub-CDE's failure to maintain substantially all of the QEI invested in QLICIs following such prepayment), (d) the failure of any tenant on the property to constitute a tenant qualified business, (e) the use of QLICI proceeds constituted an inappropriate or abusive use of such proceeds or that such use is inconsistent with the purposes of Section 45D of the Code and the related Treas. Reg., as provided in Treas. Reg. Section 1.45D-1(g), respectively, (f) any gross negligence, fraud, willful misconduct, malfeasance, material violation of law by the QALICB or any affiliate, or (g) other actions within the control of the QALICB or Guarantor** – In the event of disallowance, or a recapture pursuant to section 45D(g) of the Code, of the NMTCs, the Guarantor shall reimburse USBCDC on a tax effected basis for 1) any disallowed or recaptured NMTCs plus any related interest, penalties or additional taxes due, and 2) the net benefit of any other economic or tax benefit that would have been received by USBCDC if such disallowance or event of recapture had not occurred. If QLICI proceeds are used directly or indirectly to make leverage loans, QALICB counsel will need to provide specific opinions regarding the structure.

- **If QLICI proceeds are utilized to directly or indirectly make a leverage loan (i.e., short term bridge equity)** and are used in a manner other than to reimburse for actual costs incurred by the Sponsor to date, then the QALICB indemnity is expanded to cover any disallowance or recapture other than those that are the result of the invalidity of the allocations or Sub-allocations or the CDE(s) failing to qualify or maintain its status as a CDE(s). Additionally, USBCDC will require that QALICB counsel provide specific opinions related to this structure.
- **Environmental** - Guarantor shall indemnify and hold harmless USBCDC and the Sub-CDE, and all USBCDC and Sub-CDE entities participating in this transaction, for Environmental conditions, claims, etc. relating to the Project.

CLOSING CONDITIONS:
USBCDC shall perform such due diligence and legal review of the transactions contemplated herein, including but not limited to the following:

1. All real estate documentation (plans, specs, contracts, title, etc.);
2. All organizational documents for all entities involved in these transactions;
3. Three years of audited (or reviewed) financial statements on all entities involved in the transaction;
4. Final financial projections, "source and use" statements, etc. from a USBCDC approved accounting firm;
5. All terms and conditions of all agreements, documents and similar items affecting the financing of the Project;
6. All matters deemed necessary by USBCDC, as applicable; and
7. Executed agreements acceptable to USBCDC providing for loan servicing for the Sub-CDE(s), NMTC compliance and monitoring for Sub-CDE(s).
8. By signing this term sheet, parties also acknowledge that, if we successfully negotiate the proposed transaction and reach a closing, then all documents may be signed electronically, using a method that is acceptable to USBCDC (including .pdf signatures and third-party electronic signature providers, such as DocuSign).

USBCDC shall receive the following representations and warranties from the parties to the transactions contemplated herein which shall be consistent with those customary in similar financing arrangements including, but not limited to:

1. Organizational/powers/authorization to enter the applicable transaction;
2. Valid interest in assets;
3. Governmental approval/no conflicts;
4. No "material adverse change" clause;
5. No pending/threatened litigation;
6. Compliance with laws, regulations and agreements;
7. ERISA compliance; and
8. Full disclosure.

USBCDC is a wholly-owned subsidiary of U.S. Bank National Association, a national banking association regulated by the Office of the Comptroller of the Currency. As such, USBCDC is subject to several federal laws that are designed to combat financial crimes, including money laundering, significant fraud, cyber threats, terrorist financing, and transactions with certain persons, companies, or foreign governments designated by U.S. authorities. Therefore, the due diligence and legal review conducted by USBCDC, as well as the representations and warranties that it requests, may be subject to USBCDC's ability to demonstrate its compliance with these laws, and to identify any litigation, criminal action or other administrative proceedings against any party to the transaction.

TIMING OF CLOSING:
<u>This Term Sheet must be executed and a deposit received by December 31, 2021, or it shall be null and void.</u> Prior to engaging in weekly conference calls, USBCDC will require a set of initial projections from an approved

accounting firm and the completion of the underwriting checklist (available upon request). The transaction is expected to close in the first or second quarter of 2022. If the project fails to close by June 30, 2022 (the "Termination Deadline"), USBCDC may choose to no longer proceed toward a closing. All transaction costs incurred by such date shall be immediately due and payable by the Guarantor and/or Project sponsor. USBCDC may apply any deposit amounts to such costs and send an invoice for additional costs to be paid by the Project sponsor. USBCDC, in its sole election, may extend the deadline for closing or payment of transaction costs. Any such extension is not valid unless provided in writing (mail, fax or email).

TRANSACTION COSTS:
The undersigned agrees to pay all customary third-party transaction expenses associated with USBCDC's proposed investment in the Investment Fund even if the investment in, or loan(s) to, the Project does not close. Expenses shall include, but are not necessarily limited to, USBCDC's legal fees and third party accounting fees. Additionally, upon execution of this letter, **$25,000** shall be deposited by the undersigned into the controlled account at USBCDC set forth below. If USBCDC's transaction expenses near $25,000, then USBCDC may request an additional deposit from the Project, which **must then be paid within 3 business days** or USBCDC may ask its attorney to suspend work until received. USBCDC shall have the right to apply the deposited funds to its third party transaction expenses, at any time after the Termination Deadline. Such amount is non-refundable and will be credited to the project at closing of the investment. The following are wiring instructions for the deposit:

Bank:	U.S. Bank
Account Name:	U.S. Bancorp Community Development Corporation 1307 Washington Avenue, Suite 300 St. Louis, MO 63103
ABA:	091000022
Account #:	173103169541
Reference:	**Allied Services, #28123**

Please contact me at jennifer.westerbeck@usbank.com or 412.212.8883 when the deposit has been sent.

CONFIDENTIALITY:
The terms and conditions of this Term Sheet shall be confidential and shall not be disclosed to any third party without the consent of USBCDC and the sponsor ("Parties"), except that the Parties may disclose the terms and conditions described in this Term Sheet, including its existence, to their respective officers, directors, employees, attorneys and other advisers, provided that such persons agree to the confidentiality restrictions contained herein.

NON-DISCRIMINATION:
In accordance with federal law and U.S. Department of the Treasury policy, this institution is prohibited from discriminating on the basis of race, color, national origin, sex, age, or disability. To file a complaint of discrimination, write to Department of Treasury, Office of Civil Rights and Diversity, 1500 Pennsylvania Avenue, NW, Washington, D.C. 20220 or call (202) 622-1160.

Thank you for giving USBCDC an opportunity to present these terms for the tax credit financing for the Project. I look forward to discussing the above terms with you at your convenience.

SIGNATURES ON FOLLOWING PAGE.

Sincerely,

Jennifer Westerbeck
Vice President

Accepted this 9 day of Feb, ~~2021~~ 2022
By Allied Services Foundation, Inc.

By: ______________________
Name:
Its:

pennsylvania
DEPARTMENT OF HUMAN SERVICES
OFFICE OF LONG TERM LIVING

February 7, 2022

James Cooney
Allied Services Skilled Nursing
303 Smallacombe Drive
Scranton, PA 18508

RE: Allied Services Center City
Bed Transfer Request
Log # TR21004

Dear Mr. Cooney,

On September 9, 2021, the Department of Human Services (Department) received your application for a bed transfer request on behalf of Allied Services Skilled Nursing. The application requested the transfer of 42 Medical Assistance (MA) beds from Allied Services Skilled Nursing Center (SNC), a 369-bed MA nursing facility in Lackawanna County to Allied Services Center City Skilled Nursing (Center City), a 50-bed MA nursing facility in Luzerne County.

The Department has reviewed your request in accordance with **55 Pa. Code § 1187.175. Criteria for the approval of bed transfer requests.** As a result of that review, the Department will agree to permit the transfer, based on the following conditions:

- Center City's completion of the 42 private rooms and SNC's conversion of semi-private to private rooms,

- The Department's receipt of notification from the Department of Health that it has licensed 42 MA beds for occupancy at Center City and has closed and decertified 42 MA beds at SNC,

- The Department's determination that Center City complies with all applicable certification requirements, and

- Center City agrees to the enclosed Addendum.

This Addendum will become part of Center City's existing provider agreement. To acknowledge the facility's acceptance of the terms of the Addendum, a person who has authority to legally bind the corporation as owner and legal entity of the facility must sign the enclosed Addendum. The Addendum must be properly signed, and the enclosed original Addendum returned within 30 days from the date of this letter to:

Department of Human Services
Office of Long-Term Living
Forum Place 6th Floor
PO Box 8025
Harrisburg, PA 17105-8025
Attn: Participation Review Unit

If you disagree with the Department's decision, you **MUST** file an appeal of this decision in accordance with **Title 55, Chapters 41** and **§ 1101** of the Pennsylvania Code. A request for hearing must be in writing and filed with the Department of Human Services' Bureau of Hearings and Appeals (BHA). Your request for hearing should be mailed to:

Department's Bureau of Hearings and Appeals
2330 Vartan Way, Second Floor
Harrisburg, PA 17110-9721

To be filed timely, your request for hearing must be filed with BHA within thirty (30) days of the date of this letter. A copy of your appeal should be sent to the Department at the following mailing addresses:

Department of Human Services
Office of Long-Term Living
Forum Place, 6th Floor
PO Box 8025
Harrisburg, PA 17105-8025
Attn: Participation Review Unit

Department of Human Services
Governor's Office of General Counsel
Health and Welfare Building, 3rd Floor West
625 Forster Street
Harrisburg, PA 17120

Appeals of MA providers are governed by regulations set forth at **55 Pa. Code Chapter 41.** Please review the regulations carefully. Among other things, they specify what information you must include in your written request for hearing, and how BHA will determine whether your request for a hearing was filed on time. You may review these regulations online at:
http://www.pacode.com/secure/data/055/chapter41/chap41toc.html

Please note, this approval only applies to the above-referenced request. It does not apply to any other requests that may have been submitted to the Department for review. Additionally, this approval is based on the plans presented in your application, any changes or modifications must be submitted to the Department for review and be approved before they are implemented. You should carefully review the enclosed Addendum to be certain that you fully understand its terms and the legally binding obligations and commitments you will make by signing it. If you have questions regarding the Addendum, you may wish to consult with your attorney.

All correspondence related to this request should include the log number listed at the beginning of this letter and should be submitted to the following address:

Department of Human Services
OLTL/Forum Place 6th Floor
PO Box 8025
Harrisburg, PA 17105-8025
Attn: Participation Review Unit

If you have questions regarding this letter, please email: RA-PartReview@pa.gov or contact Jonathan Dubelle at 717-775-8022.

Sincerely,

Marion Boggs

Marion Boggs,
Division Director

Enclosure: Addendum to Provider Agreement

Cc: Ms. Buchenauer
Mr. Hale
Ms. Barge
Ms. Boles
Ms. Walton
Ms. Snyder
Ms. Macierowski
Mr. Sharar
Mr. Penney
Ms. Williamson
Ms. Price
Mr. Kelly
Ms. Fitez
Mr. Natirboff
PRU file

A REVITALIZATION ACTION PLAN FOR DOWNTOWN WILKES-BARRE

Diamond City Partnership / City of Wilkes-Barre / Greater Wilkes-Barre Chamber of Business & Industry

November 6, 2015

CHAPTER 1:
WHERE WE'VE BEEN

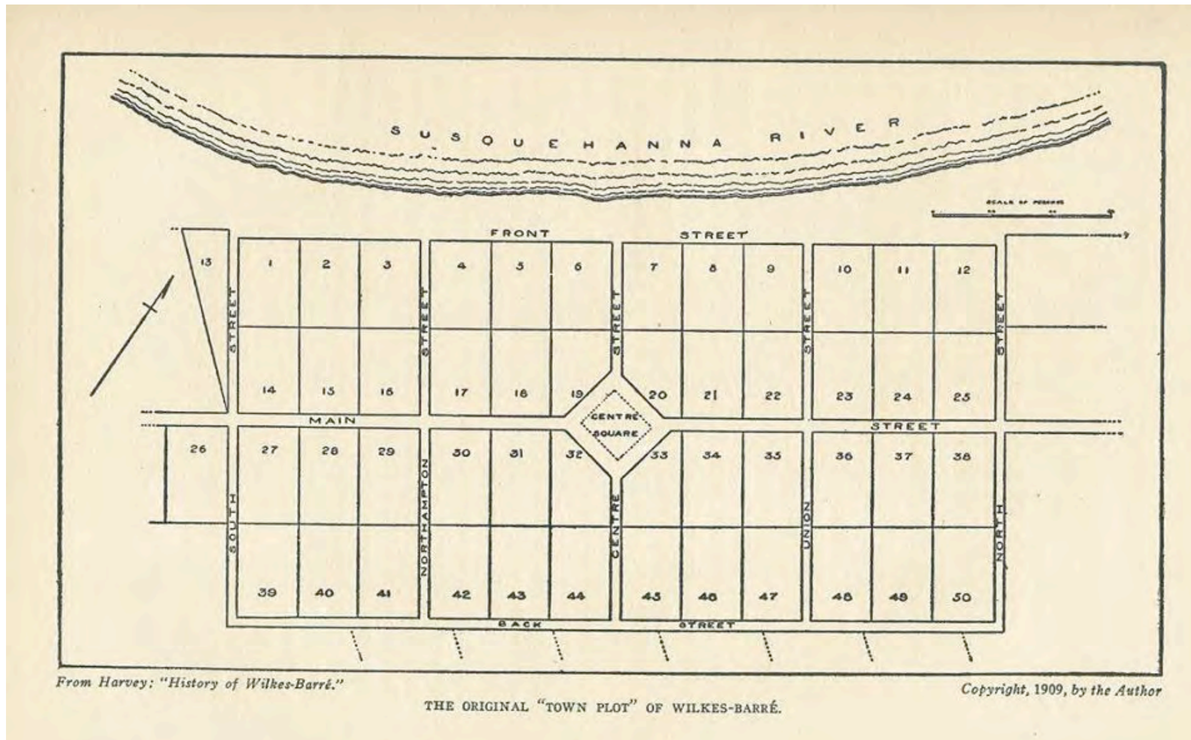
DIAMOND CITY PARTNERSHIP
OF WILKES-BARRE, PENNSYLVANIA

Downtown's Origins

Downtown Wilkes-Barre possesses a remarkably coherent built form with its origins in the original 1770 town plan of its New England founders:

- Eight equal square blocks were each divided into six three-acre house lots.
- At the center of the grid, a two-acre "Centre Square" (now Public Square) was placed on the diagonal; it contained civic functions like the market, meetinghouse, and courthouse.
- The riverbank, dedicated to public use, was dubbed the "River Common."

As the town grew, new streets subdivided the original blocks. However, the 1770 plan's organizing grid, large blocks, and public spaces have guided Downtown's development for more than 200 years.



1770 Wilkes-Barre Town Plan

Downtown's Growth

During the 19th century, the anthracite mining industry transformed Wilkes-Barre into a major city:

- The canal (and later the railroads) was pulled inland to the rear of the business district, and industry followed.
- The commercial core moved away from the river and toward Public Square and Main Street.
- The River Common became the setting for Wilkes-Barre's most gracious homes.
- By 1930, the City Beautiful movement had inspired a grand new courthouse at one end of an enhanced River Common, the redesign of Public Square as a formal park, and the building of a monumental bridge across the Susquehanna at Market Street.

Downtown Wilkes-Barre, 1931

Downtown's Growth

In Wilkes-Barre, as in other American cities and towns, Downtown was the place to shop, conduct business, and be entertained during the streetcar age.

South Main Street was the mass-market retailing destination for everyone in the Wyoming Valley, and Public Square was the unquestioned center of the city.

Diamond City Partnership of Wilkes-Barre, Pennsylvania

Diamond City Partnership
of Wilkes-Barre, Pennsylvania

East Market Street: 1919

Downtown: the setting for the structures in which the community took the most pride.

DIAMOND CITY PARTNERSHIP
OF WILKES-BARRE, PENNSYLVANIA

Diamond City Partnership
of Wilkes-Barre, Pennsylvania

The Downtown of Popular Memory

Many local residents fondly recall the downtown Wilkes-Barre of the 1950's and 1960's, when a trip Downtown was a very special occasion.

However, by this time, Wilkes-Barre's city center – although still the bustling business hub of the Wyoming Valley - was an increasingly tired and congested place, struggling to adapt to the need to modernize and accommodate the automobile.

The car, changing lifestyles, and suburban competition were already beginning to take their toll on Main Street – and the trends were not promising.

June 20, 1972: "Water Everywhere"

On June 20, 1972, Hurricane Agnes caused the swollen Susquehanna River to overflow its banks and overtop the levees protecting the City of Wilkes-Barre.

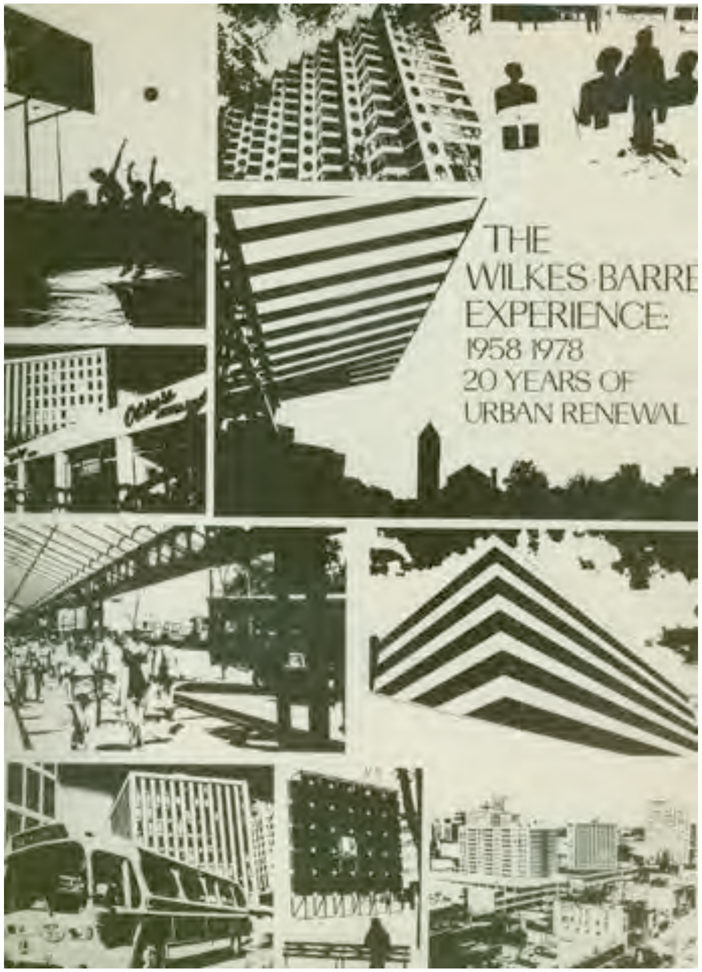
Together with much of the Wyoming Valley, all of Downtown Wilkes-Barre was flooded – and most of the downtown wholesale district burned to the ground. The city center was left in a state of ruin.

The 1972 Agnes Flood was the largest natural disaster in the history of the United States up to that time.

Downtown and Urban Renewal

After the flood waters receded, the cleanup began. Wilkes-Barre took the opportunity to double down on its urban renewal program, undertaking massive site clearance and redevelopment projects which, in the span of ten years, transformed its downtown.

The city's Victorian retail core was largely erased: 143 buildings were razed. In their place rose new office towers, retail complexes, apartments, and parking garages. A steel and glass sidewalk canopy joined the three downtown department stores, and parks and streets were completely rebuilt.



1980: A Downtown Reborn

Diamond City Partnership
of Wilkes-Barre, Pennsylvania

DIAMOND
CITY PARTNERSHIP
OF WILKES-BARRE, PENNSYLVANIA

Downtown's post-flood revival didn't last long.

Urban renewal turned out to be a bandaid. . .not a cure.

Redevelopment tried to make downtown more like the suburbs – but downtown couldn't play the suburbs' game. The emphasis on physical change ignored fundamental weaknesses in downtown's market position.

Soon, suburban competition had destroyed downtown's traditional retailers – and mergers and moves were badly eroding downtown's corporate sector and civic leadership. Basic issues of cleanliness, safety, and business retention were being ignored. By 2000, downtown was again in crisis.

Downtown Wilkes-Barre's public environment, circa 2000.

DIAMOND CITY PARTNERSHIP
OF WILKES-BARRE, PENNSYLVANIA

A community acts to save its downtown.

Diamond City Partnership
of Wilkes-Barre, Pennsylvania

In early 2001, the Greater Wilkes-Barre Chamber, the Downtown Business Association, and others organized a facilitated visioning session on the future of downtown. More than 1,000 people participated in the four meetings.

The result was a new consensus vision for downtown, built around six specific "strategies for change" and grounded in the Main Street "Four-Point Approach."

A new non-profit organization – the Diamond City Partnership – was created to implement the six strategies – starting with the formation of a Business Improvement District.

2001 Downtown Visioning Sessions: SWOT Analysis

STRENGTHS:

-Public Square

-Historic Architecture

-Riverfront

-Colleges

WEAKNESSES:

-Lack of Cooperation

-Lack of Cleaning Strategy

OPPORTUNITIES:

-Use colleges as partners and key market

-Capitalize on new River Common

- Create Theater/ Entertainment District

THREATS:

- Continuing Population Decline/ Loss of Young

-Lack of Response to Revitalization Efforts

DIAMOND
CITY PARTNERSHIP
OF WILKES-BARRE, PENNSYLVANIA

DCP: caretaker of our vision for downtown

The Diamond City Partnership was created to serve as Wilkes-Barre's downtown management entity. Its $300,000 annual budget is largely funded via a business improvement district in place since 2007. DCP's work plan includes:

- **Place Management**: sidewalk cleaning, graffiti removal, supplemental security, façade grants, and beautification
- **Place Marketing**: special events, online and print marketing
- **Place Development**: business recruitment and retention, planning, data collection, and surveys

The Main Street "Four Point Approach"

DIAMOND CITY PARTNERSHIP
OF WILKES-BARRE, PENNSYLVANIA

Organization

How do we manage and sustain downtown revitalization efforts over the long term?

Design

How do we improve and enhance downtown's physical environment by building on what's *already here*?

Promotion

How do we create a consistent plan for marketing downtown that encompasses:

- Downtown 's external image

-Special events

-Retail promotion schedule to encourage shoppers?

Economic Vitality

How do we retain existing businesses and and recruit new businesses that align with the vision and trade area demographics of our downtown?

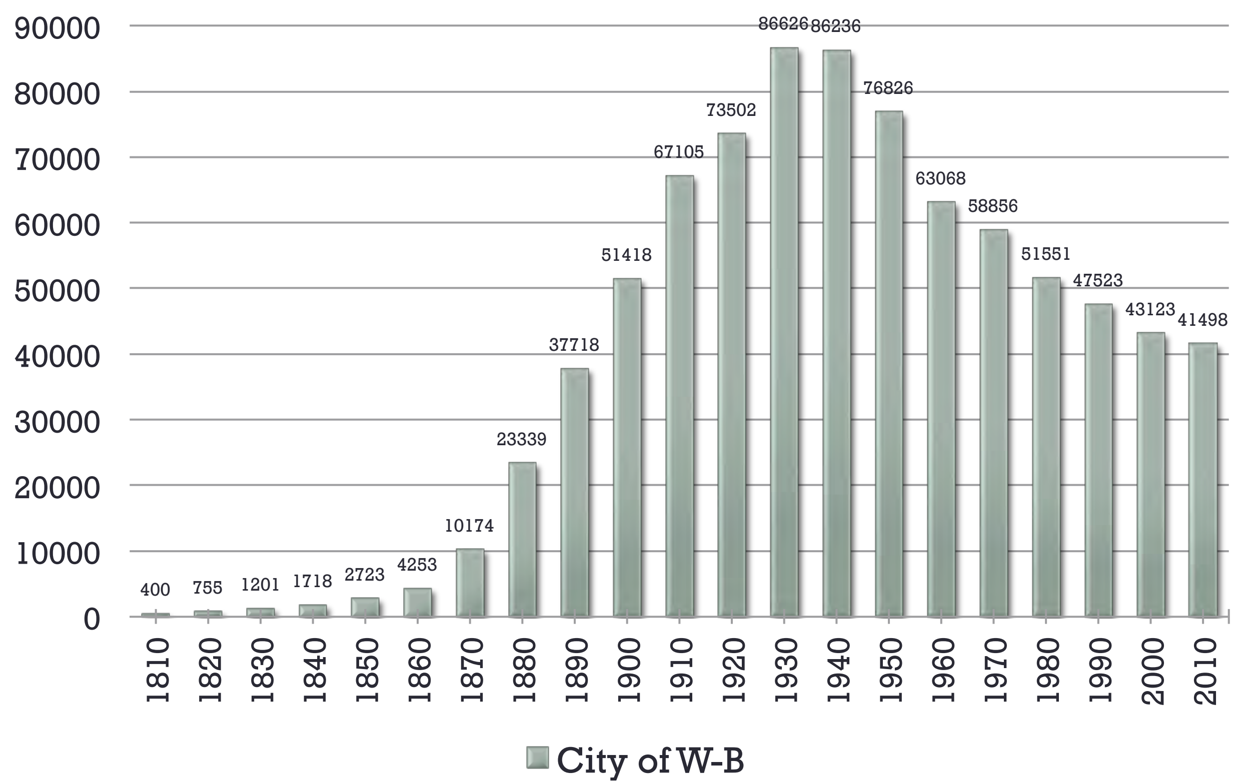
CHAPTER 2:
WHERE WE ARE NOW

Downtown Wilkes-Barre in Context

The City of Wilkes-Barre has experienced eight consecutive decades of population loss. However, as the chart shows, that population loss has finally begun to slow and level off during the past decade.

With a land area of only seven square miles, the city is landlocked with little room to grow and an aging and stagnant residential base. Downtown revitalization presents a critically important opportunity for the city to add population and economic vitality.

Wilkes-Barre's Population, 1810-2010



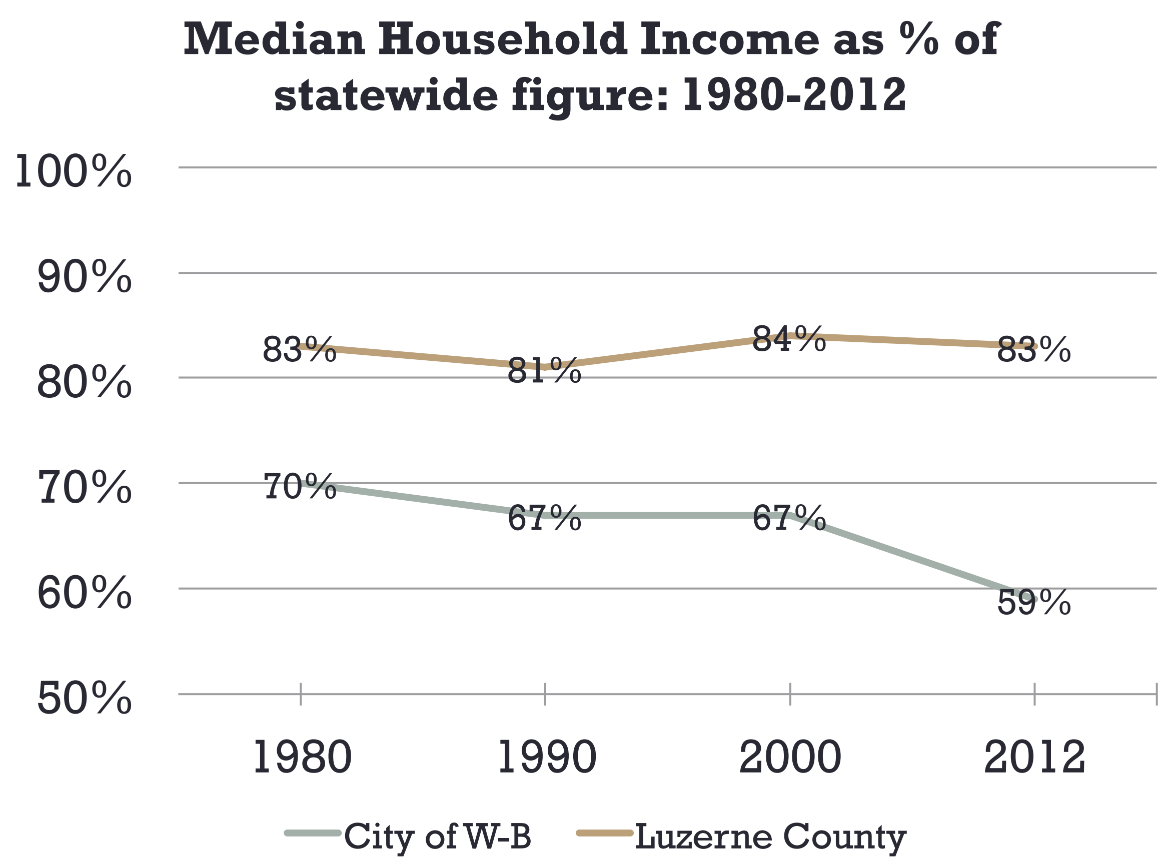
Source: US Census Bureau

Downtown Wilkes-Barre in Context

The City of Wilkes-Barre is one of America's "legacy cities": urban centers whose industrial-age strength has been replaced by a long-term struggle for economic relevance. This is clear from the chart mapping changes in Wilkes-Barre's median household income as a percentage of Pennsylvania's MHI over the past three decades: unfortunately, the city as a whole has become steadily more impoverished over time.

The city's strongest economic asset is downtown, which contains King's College, Wilkes University, half of all the jobs in the City, and recent higher-income residential growth. While downtown revitalization is only one part of the solution to the larger challenges facing the city, it provides Wilkes-Barre with its best opportunity to "build from strength."

DIAMOND CITY PARTNERSHIP
OF WILKES-BARRE, PENNSYLVANIA



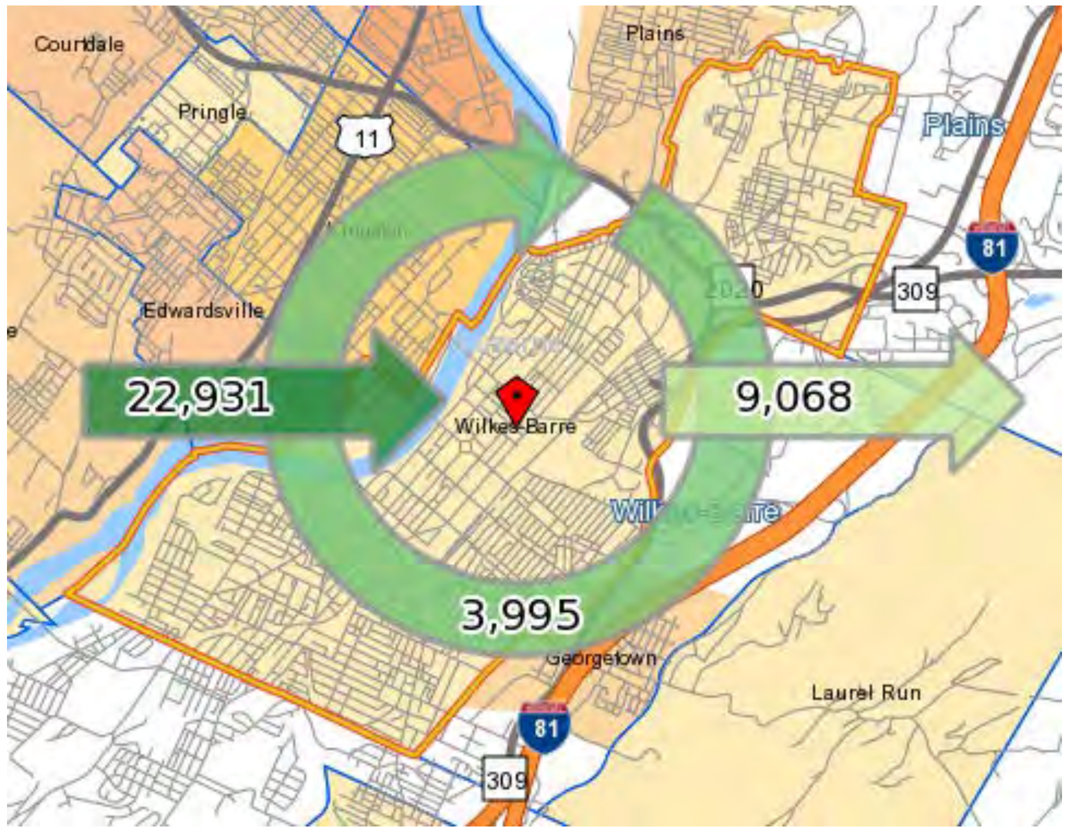
Source: US Census Bureau

Downtown Wilkes-Barre in Context

Today, 69% of wage-earning Wilkes-Barre residents reverse-commute to suburban worksites every work day, even as 22,931 suburban residents travel into the city for work – most of them heading to Downtown.

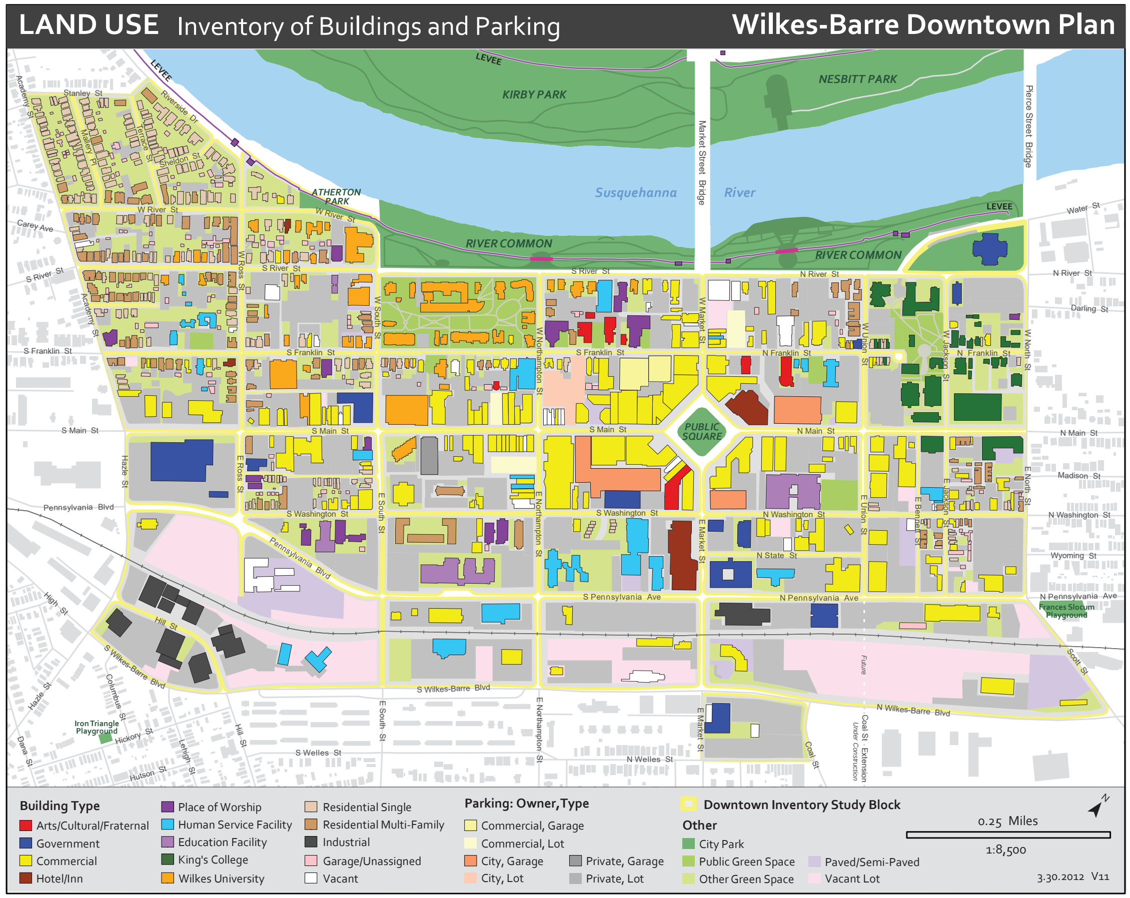
The industrial employers that used to anchor city neighborhoods may have shifted to suburban business parks, but the growth in downtown's evolving live-work environment can help to increase the numbers of those who both live and work in Wilkes-Barre City.

Downtown's diverse economic base provides opportunities for all skill and wage levels and, unlike jobs in suburban industrial parks, downtown jobs can be reached on foot or via public transit – a critically important factor for residents without access to automobiles.



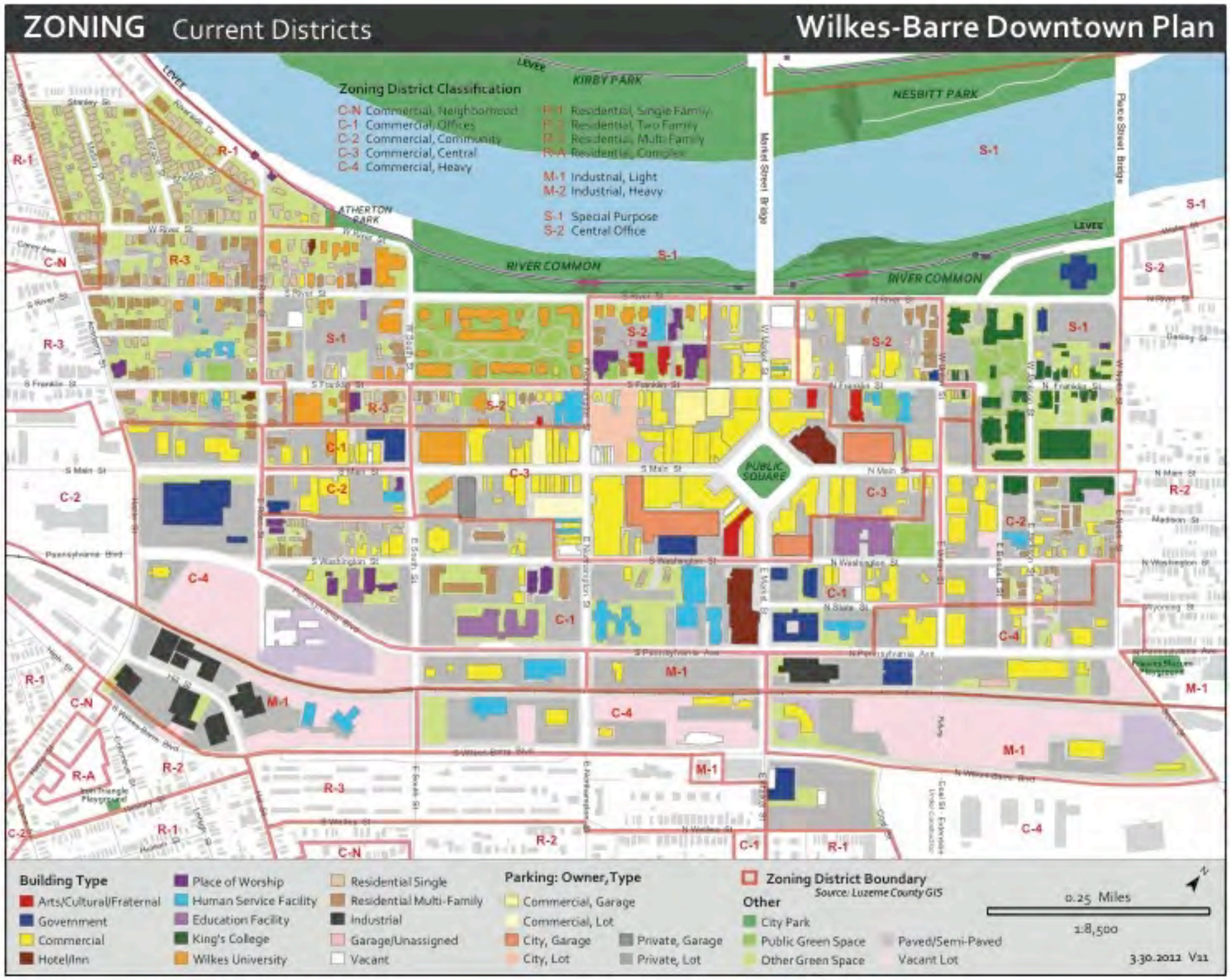
Downtown Wilkes-Barre: Land Use

Downtown Wilkes-Barre's current land use patterns are organized around the traditional commercial core, which is centered on Public Square and the axes of Main and Market Streets. The campuses of Wilkes University (shown in orange) and King's College (shown in green) anchor either end of the core commercial district. The Luzerne County Courthouse sits at the north end of the River Common, while Franklin Street is the site of many civic institutions. The former railroad/industrial district at downtown's eastern edge is now largely suburban and auto-centric. The F.M. Kirby Center for the Performing Arts is on Public Square, and the new Movies 14 is on East Northampton Street.



Downtown Wilkes-Barre: Zoning Districts

Diamond City Partnership
of Wilkes-Barre, Pennsylvania



Over time, downtown's urban fabric has been badly eroded by demolition and the demand for parking.

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Building Density: 1934

Building Density: 2014

DIAMOND CITY PARTNERSHIP
OF WILKES-BARRE, PENNSYLVANIA

Downtown Wilkes-Barre: Underutilized Sites

A number of underutilized downtown parcels offer opportunities for new development. Some are vacant lots presenting infill opportunities, while others are vacant historic structures, like the Irem Temple and railroad station, whose reuse has become a community priority.

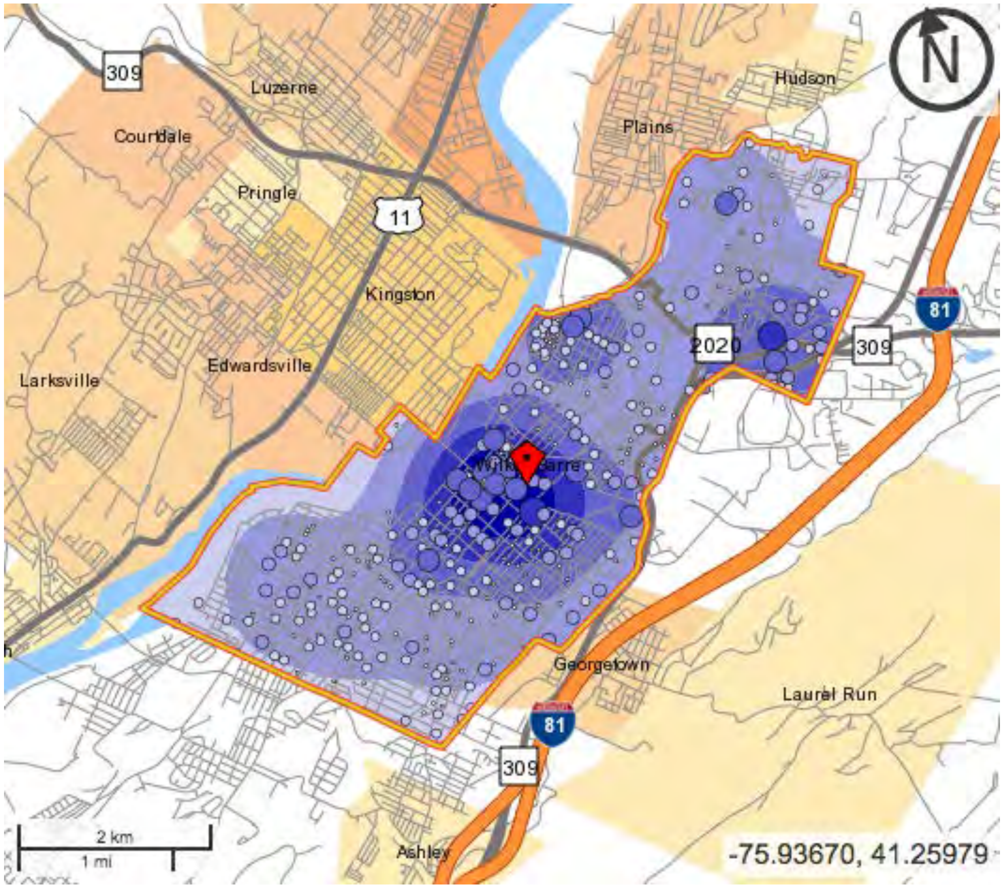
It is important to focus on those sites which offer the best opportunity to create a mixed-use "zone of walkability" that will foster an active street life, maximize returns to downtown's overall revitalization effort , and preserve the historic structures which contribute so much to the community's character.

Downtown as economic engine

According to U.S. Census data, Downtown Wilkes-Barre currently contains 46% of all the jobs in the City of Wilkes-Barre, and 1 of every 10 jobs in Luzerne County.

It is also a regional employment hub: Downtown is the largest single employment destination for City residents, and for residents of Luzerne County as a whole. At the same time, 32% of people who work in Downtown reside outside Luzerne County.

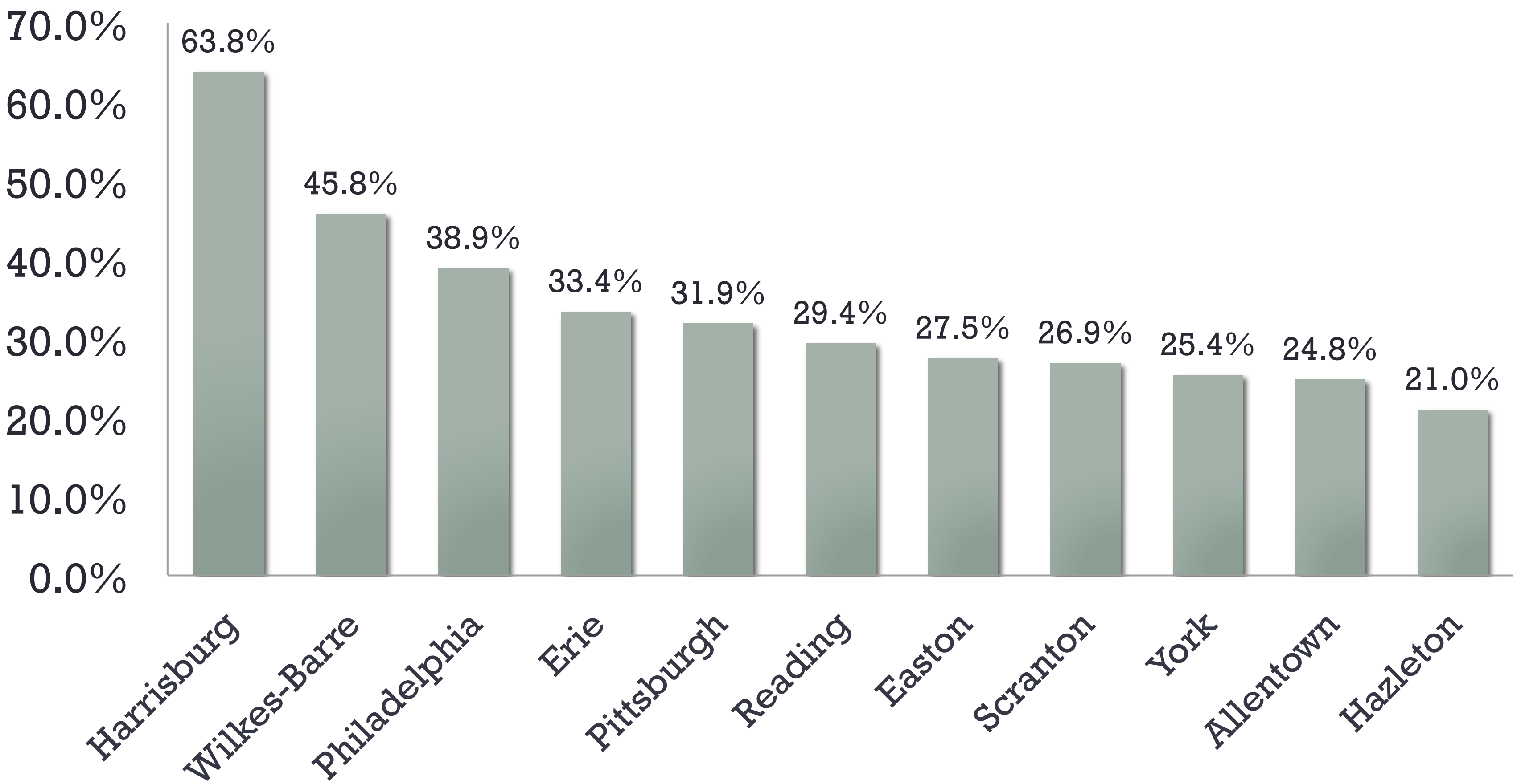
All told, downtown jobs provide more than $433 million in annual wages to residents of Northeastern Pennsylvania.



Source: US Census Bureau LED

Percentage of PA cities' total employment located within those cities' downtowns, 2011

DIAMOND CITY PARTNERSHIP
OF WILKES-BARRE, PENNSYLVANIA



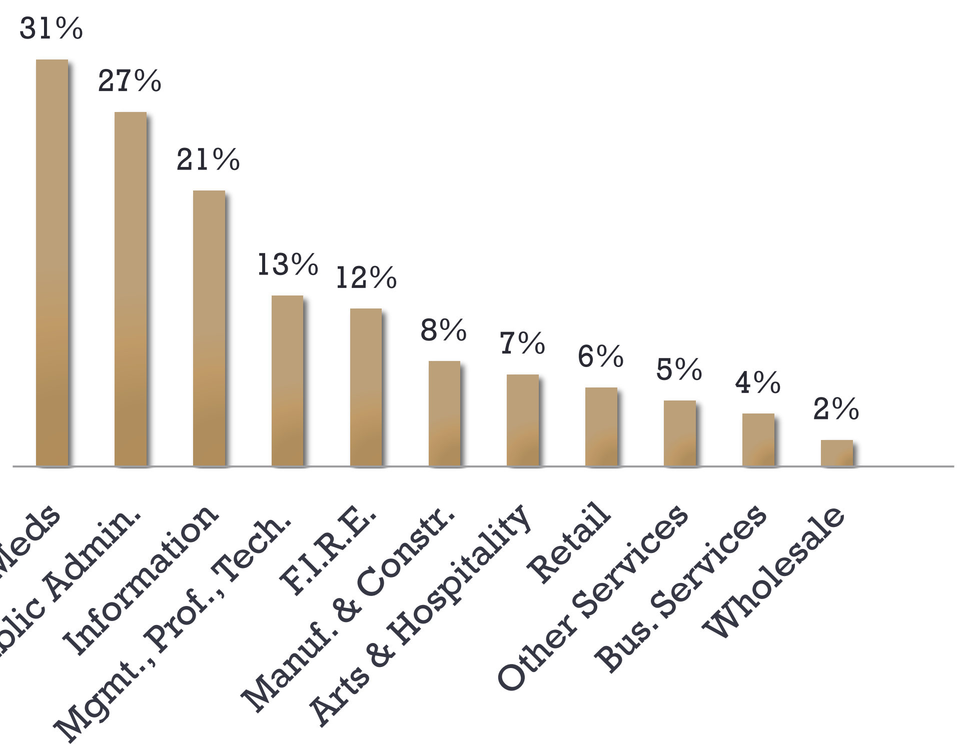
Source: US Census Bureau LED

Downtown as Economic Engine

Employment in downtown Wilkes-Barre is dominated by jobs in "Eds & Meds" (the two colleges); office-serving businesses (including the "FIRE" sector " of finance, insurance, and real estate enterprises; information services; management, and professional and technical services); and government.

Downtown's relatively small employment share in retail and wholesaling is clear evidence of downtown's dramatic shift away from its traditional function as the Wyoming Valley's shopping center to a new function as a place linking businesses to clients; competitors, vendors; the colleges that provide resources, interns, and future restaurants; and amenities such as restaurants, shops, and recreational amenities.

Downtown Jobs by Sector

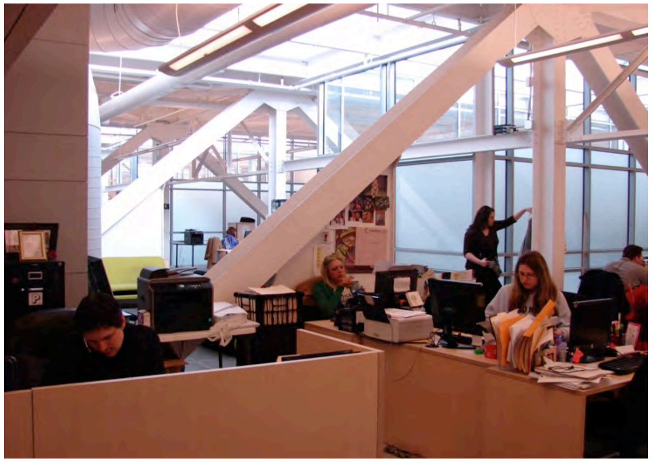


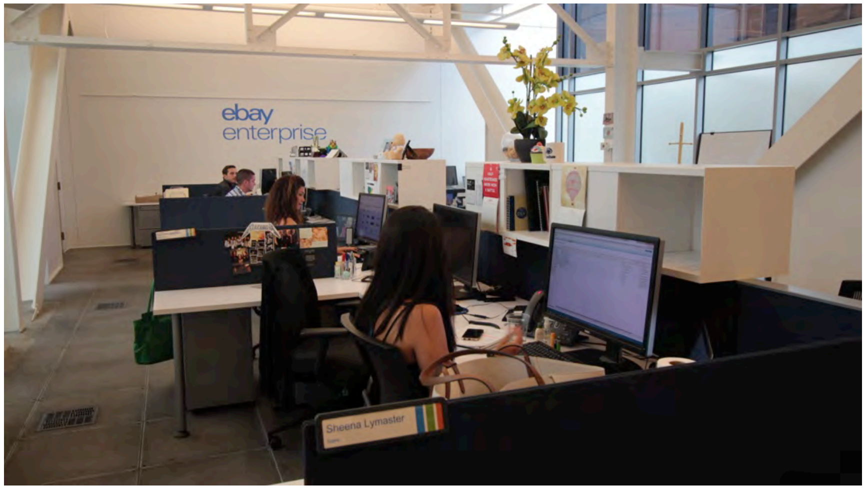
Source: US Census Bureau LED

Downtown as Economic Engine

During the past decade, startup businesses in the Chamber's downtown technology incubator (the Innovation Center), the Wilkes Enterprise Center, and other buildings have emerged as a bright spot for the downtown economy. In fact, 32% of all Information sector jobs in the Scranton/W-B MSA are now located in Downtown Wilkes-Barre.

Downtown institutions and businesses dominate Luzerne County's recent patent activity and NSF grant awards. Downtown is also designated as a Keystone Innovation Zone (KIZ), a state program to benefit startup businesses, and, during the past 5 years, more than $2.8 million in KIZ tax credits have been received by 13 downtown startup tech businesses.





Downtown Wilkes-Barre – 7% of the City's land area – produces 25% of the City's total tax revenue.

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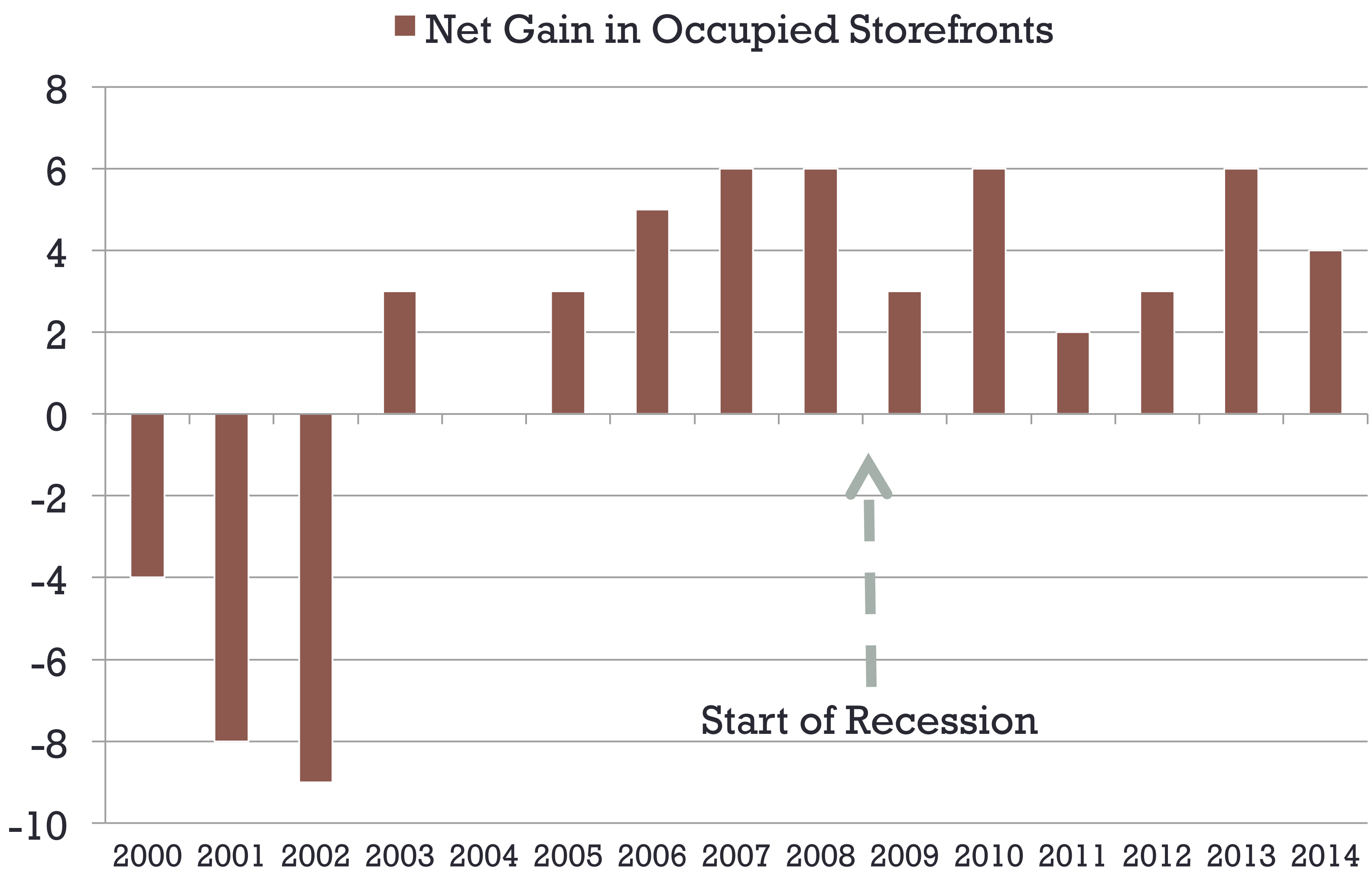
Downtown Progress: 2001-2015

In 2006, the Wilkes-Barre Chamber spearheaded the development of a mixed-use infill project, anchored by a 14-screen multiplex cinema, and incorporating 21 loft condominiums and street retail, on the site of a downtown parking lot. Today, the cinema attracts 500,000 patrons each year.

Also in 2006, downtown's two colleges – King's College and Wilkes University – combined their college bookstores into a new Barnes & Noble located on the ground floor of downtown's former Woolworth's store – whose upper floors house the Innovation Center, the Wilkes-Barre Chamber's technology incubator.

Storefront Occupancy Trends: Downtown Wilkes-Barre, 2000-2014

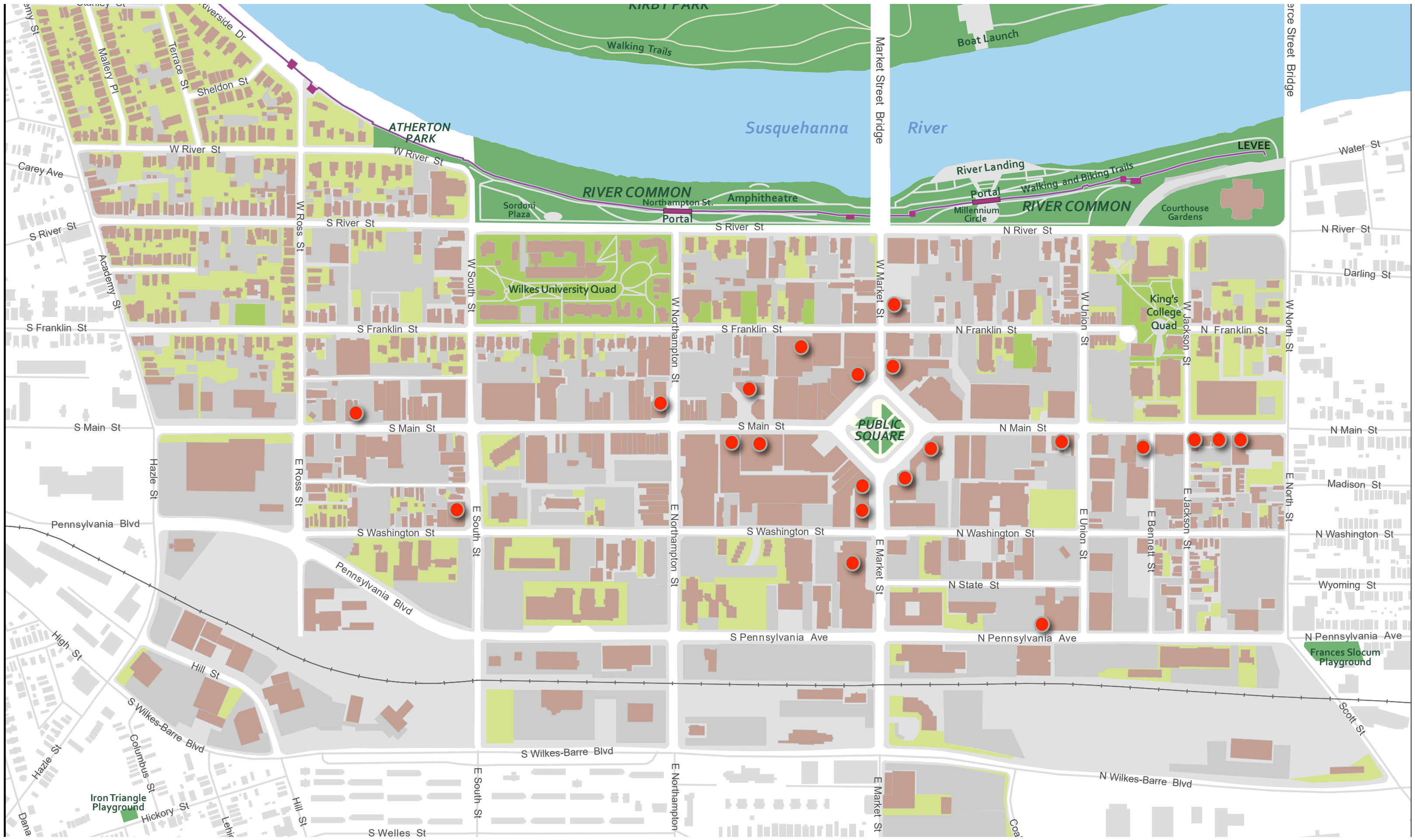
Diamond City Partnership
of Wilkes-Barre, Pennsylvania



During the past nine years, Downtown Wilkes-Barre has become the Wyoming Valley's "restaurant row"

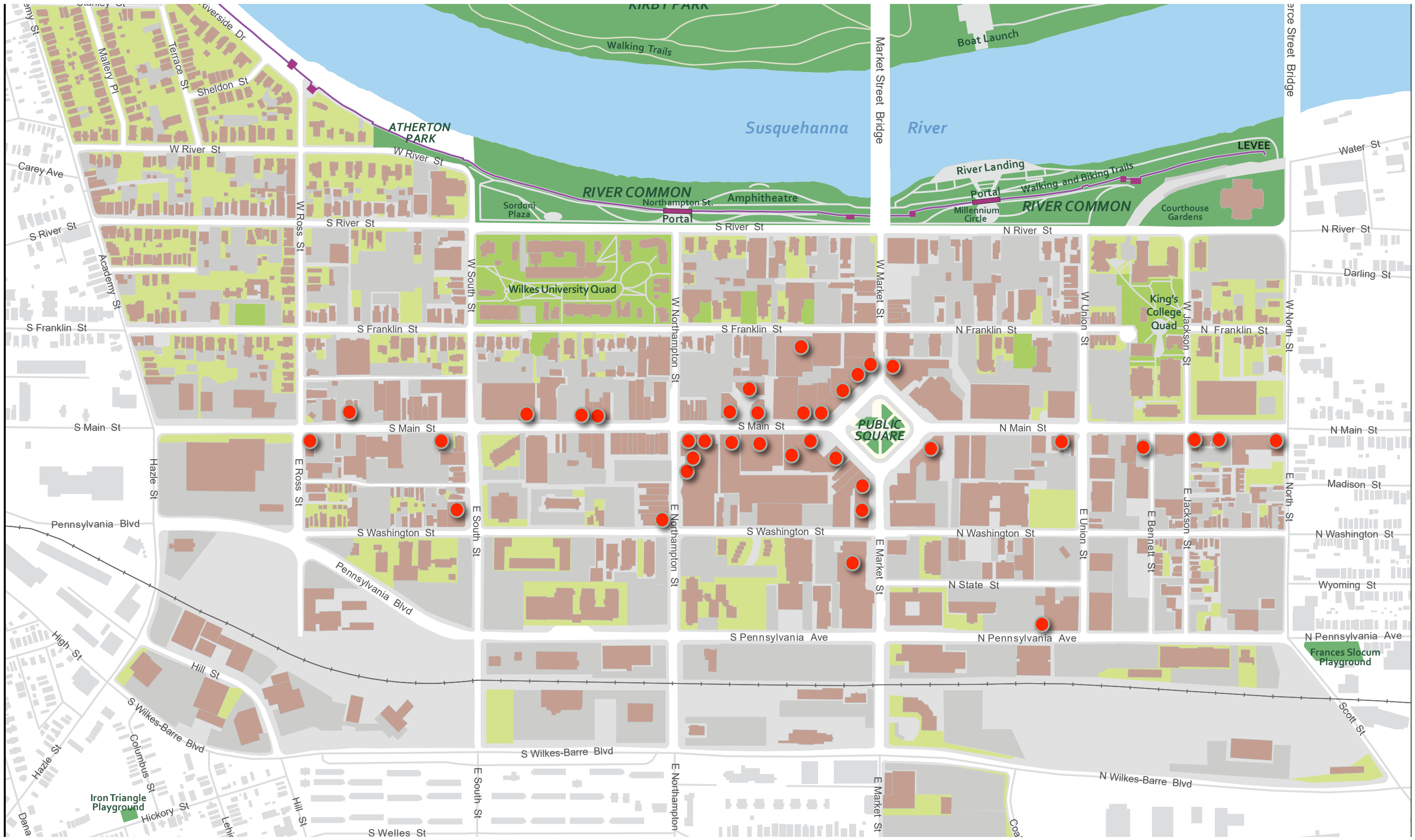
DIAMOND CITY PARTNERSHIP
OF WILKES-BARRE, PENNSYLVANIA

Downtown dining options: 2005



Downtown dining options: 2014

DIAMOND CITY PARTNERSHIP OF WILKES-BARRE, PENNSYLVANIA



Downtown's Institutional Anchors

The campuses of King's College and Wilkes University serve as Downtown's major institutional anchors.

During the current school year, a total of more than 4,500 undergraduates and 2,600 graduate students attend the two colleges. Both King's and Wilkes have recently made major capital investments anchoring their respective ends of Main Street in downtown: King's on the Square – the transformation of a former hotel into a new home for King's health sciences programs; and the Wilkes Gateway, which links Main Street and the Sidhu Business School to the heart of the Wilkes campus.

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OF WILKES-BARRE, PENNSYLVANIA

Downtown progress: 2001-2015

During the past decade, downtown Wilkes-Barre has quietly begun to emerge as a contender for the region's "walk-to-everything" neighborhood of choice. This trend, while fragile, is still very real.

The quality, uniqueness, and live-work setting of downtown housing is attracting residents who would otherwise not choose to live in the city of Wilkes-Barre. It's worth noting that, while the average city home sales price is approximately $56,000, the average downtown home sales price is above $200,000.

From 2010 until 2015, more than 100 market-rate apartments and condominiums have been produced in six different downtown residential projects. All are now occupied, and more residential units are now under construction.

It's this residential growth that will ultimately provide the customer base for a new generation of downtown retailers.

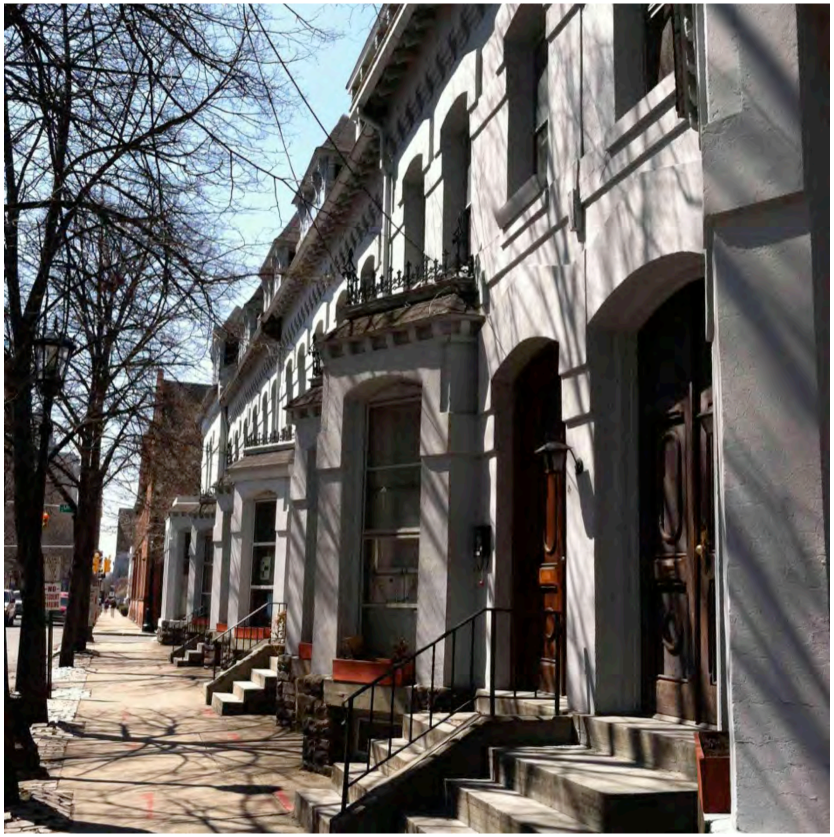
Diamond City Partnership
of Wilkes-Barre, Pennsylvania

Downtown Wilkes-Barre's raw material – its historic building stock – is the equal of any other walkable urban neighborhood in the country:

DIAMOND CITY PARTNERSHIP OF WILKES-BARRE, PENNSYLVANIA

Park Slope (Brooklyn)

Downtown Wilkes-Barre



Downtown progress: 2001-2015

In an era of rising gasoline prices and longer commutes, Downtown is differentiated by its walkability. Perhaps that's why everyone from millennials (whose housing preferences are strongly biased toward walkable neighborhoods) to empty-nesters are finding their way to downtown living.

Real estate website WalkScore.com ranks addresses and neighborhoods with labels that range from "Walker's Paradise" (places with WalkScores of 90 to 100) where errands do not require a car, to "Car-Dependent" (WalkScores of 0-49), where almost all everything requires a car.

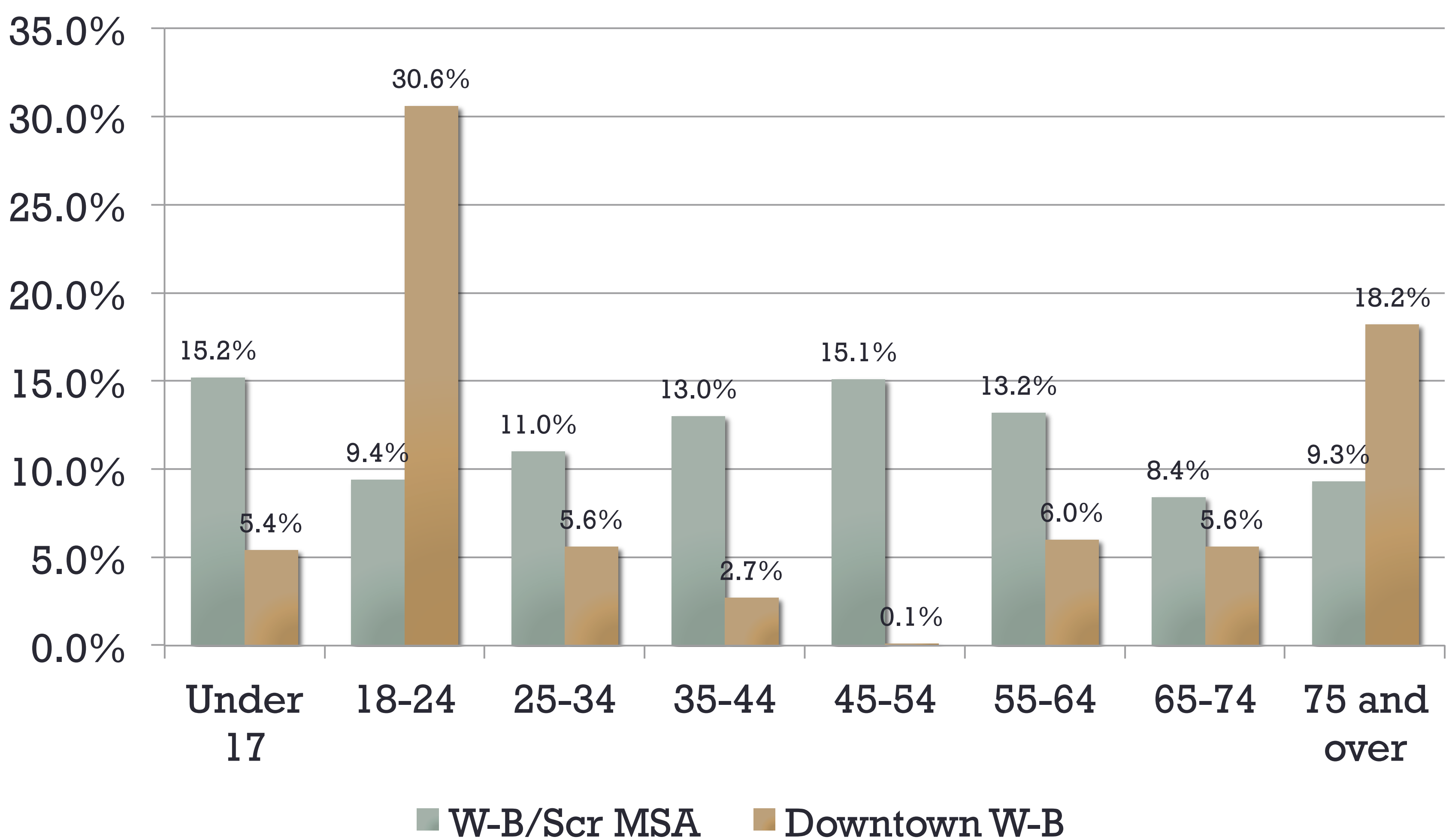
According to WalkScore, Downtown Wilkes-Barre is a "Walkers Paradise," with a Walk Score of **92**. In comparison, the city as a whole has a Walk Score of 61.

Diamond City Partnership of Wilkes-Barre, Pennsylvania

Apartment, 65 Public Square

Downtown residential profile: the median age is 22

DIAMOND CITY PARTNERSHIP
OF WILKES-BARRE, PENNSYLVANIA



Source: US Census Bureau

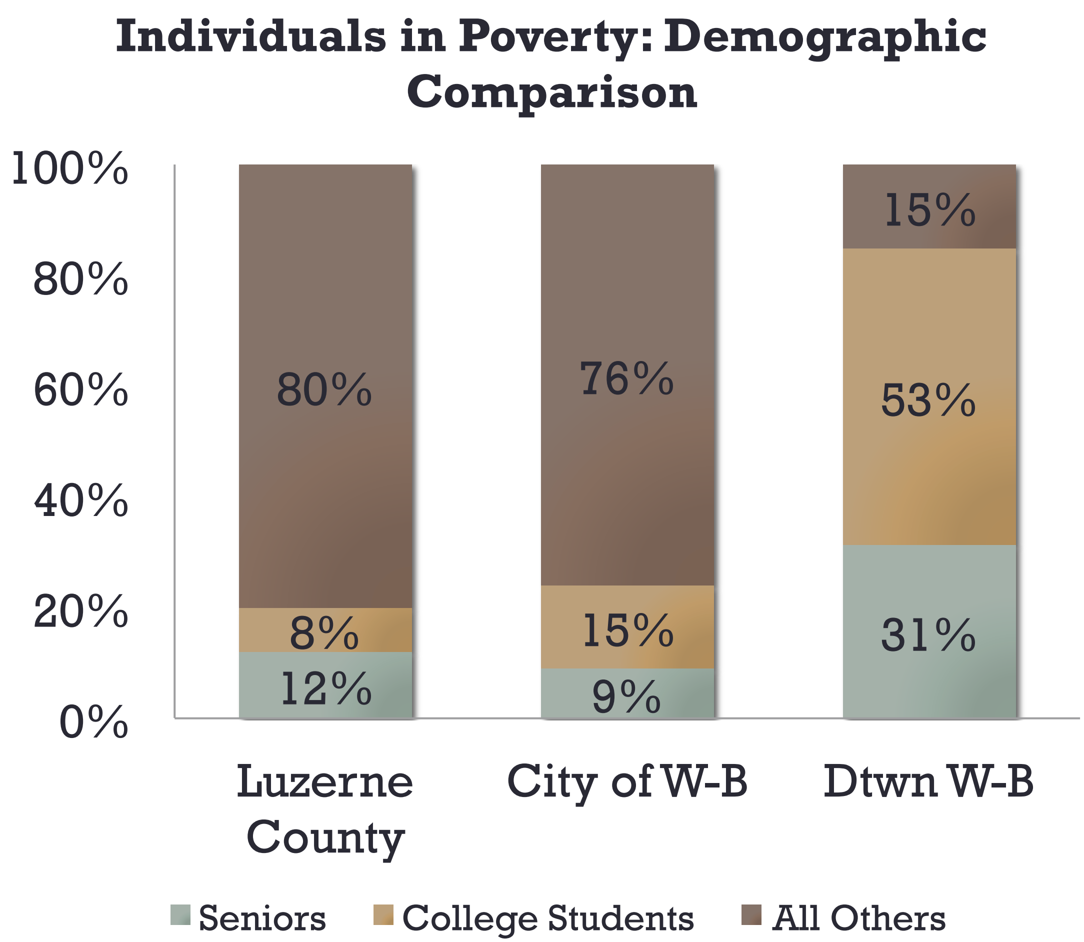
Downtown Residential Profile: Income and Poverty

According to the US Census, Downtown's median household income is only $15,653. Why is that?

- **58%** of Downtown residents are enrolled in college or graduate school.
- **23.8%** of Downtown residents are age 65 or older.
- Downtown is home to **20%** of the City's elderly in poverty.

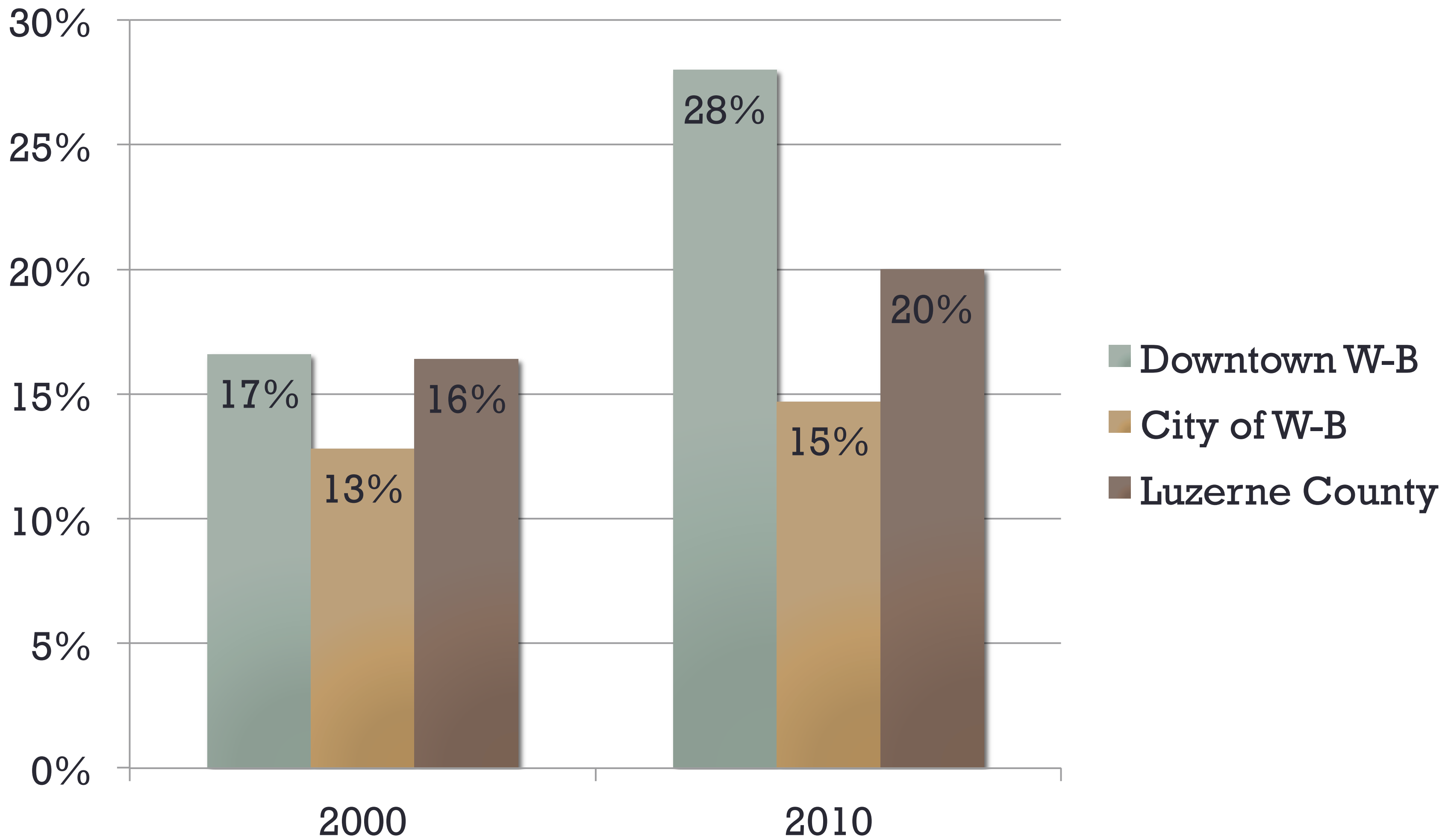
At the same time, Downtown attracts more and more households with the ability to pay market rates for quality downtown housing product – precisely because of its walkability and wide diversity of use.

The growth in new market-rate downtown housing has positioned Downtown Wilkes-Barre as one of the Wyoming Valley's most socioeconomically diverse neighborhoods. Households at every point along the income spectrum now call Downtown home.



Source: US Census Bureau

Comparing educational levels over time: % of residents aged 25 and over with at least a Bachelors Degree, 2000 - 2010



Source: US Census Bureau

What are the attributes of other successful mid-sized downtowns, and what can we learn from them?

Successful mid-sized downtowns. . .
have multiple traffic generators that supplement the presence of a larger institution(s), all within walking distance.
are beloved by their citizens.
are walkable, with pedestrian scale and a quality built environment.
have a commitment to mixed use development.
have colleges and/or universities as anchors.
have broad public and private investment in the future of downtown.
have downtown retail, but it's increasingly overshadowed by dining.
have arts, culture, and entertainment as driving market segments.
have downtown housing that's either prevalent or underway, with the market for housing in downtown strong and growing.
have strong adjacent residential neighborhoods within walking distance of downtown.

Source: Gary Ferguson: *Characteristics of Successful Downtowns* (Cornell Univ. Civic Fellows, 2005)

CHAPTER 3:
WHAT THE COMMUNITY THINKS

DIAMOND CITY PARTNERSHIP
OF WILKES-BARRE, PENNSYLVANIA

Downtown Perception & Use Survey

In mid-2014, an extensive online survey was conducted over four months to obtain the public's feedback regarding their perception of Downtown Wilkes-Barre's strengths and weaknesses, as well as their visitation to (and usage of) downtown.

With the assistance of local media, more than 1,000 people took the survey, with 825 people completing the survey in its entirety.

40% of survey respondents work in Downtown, 20% attend college in Downtown, and 11% live in Downtown. The remaining 29% either visit Downtown for other reasons – or they rarely or never come Downtown. The overall results described here have a 3.5% margin of error (at a 95% confidence interval).

The Diamond City Partnership is Wilkes-Barre' s non-profit downtown management organization, funded by downtown's property owners. Your perception of Downtown Wilkes-Barre is very important to us, and survey data enables us to assess your opinions. Whether you are Downtown every day, drop by occasionally, or never visit, your opinions matter.

Responses to this survey will remain anonymous; however, respondents will also have the opportunity to register separately for a prize drawing (a $50 gift card) at the survey's conclusion.

For the purposes of this survey, "Downtown Wilkes-Barre" is defined as the area shown in color on the map below, bounded by North Street, Academy Street, Wilkes-Barre Boulevard, and the Susquehanna River. The boundaries of the "Downtown Wilkes-Barre Business Improvement District," which is basically Downtown's commercial core, are outlined on the map.

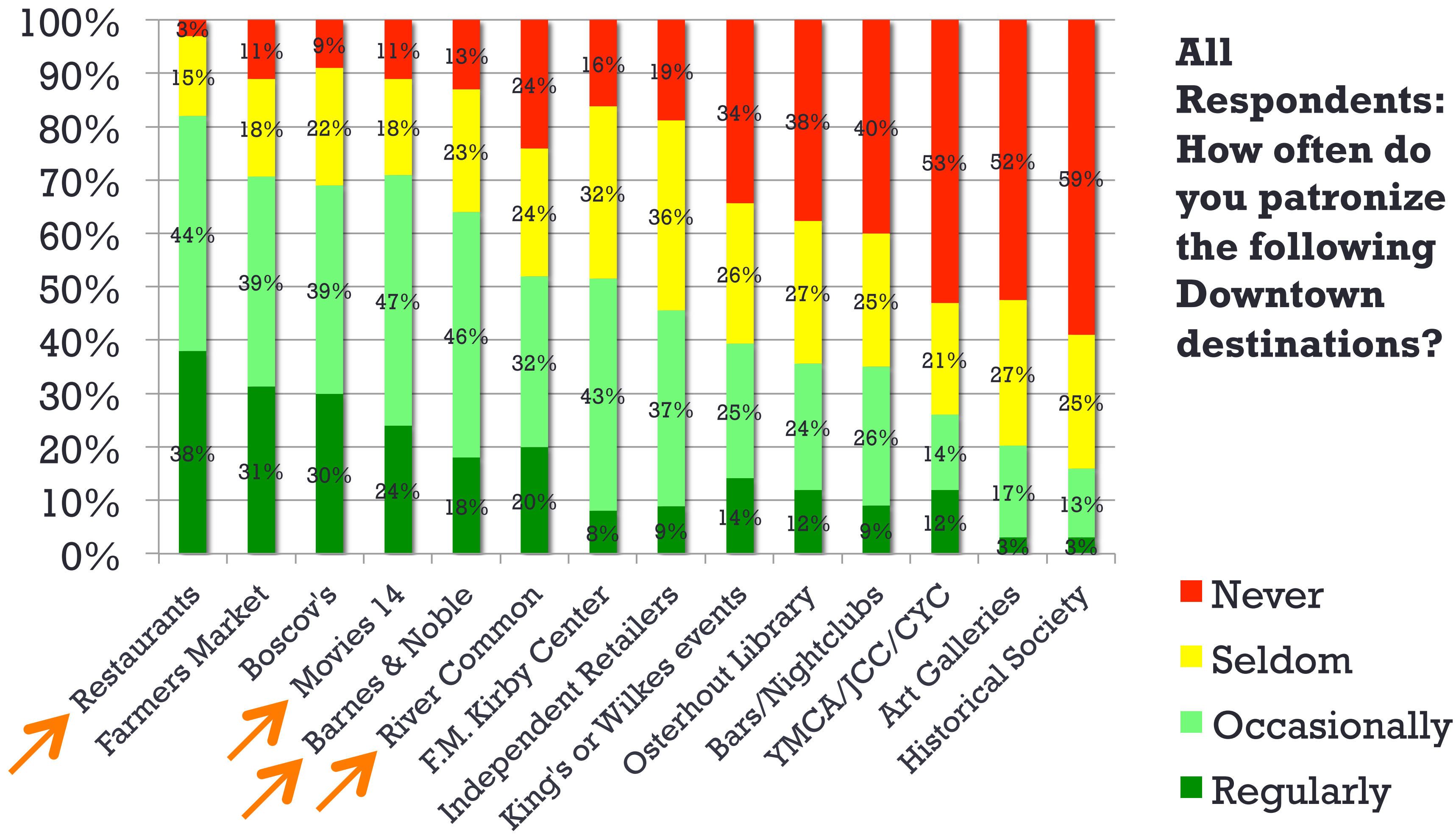
Downtown Wilkes-Barre BID boundaries

***1. Have you visited Downtown Wilkes-Barre for work, business, entertainment, shopping, or for any other reason in the past 12 months?**

- Yes
- No

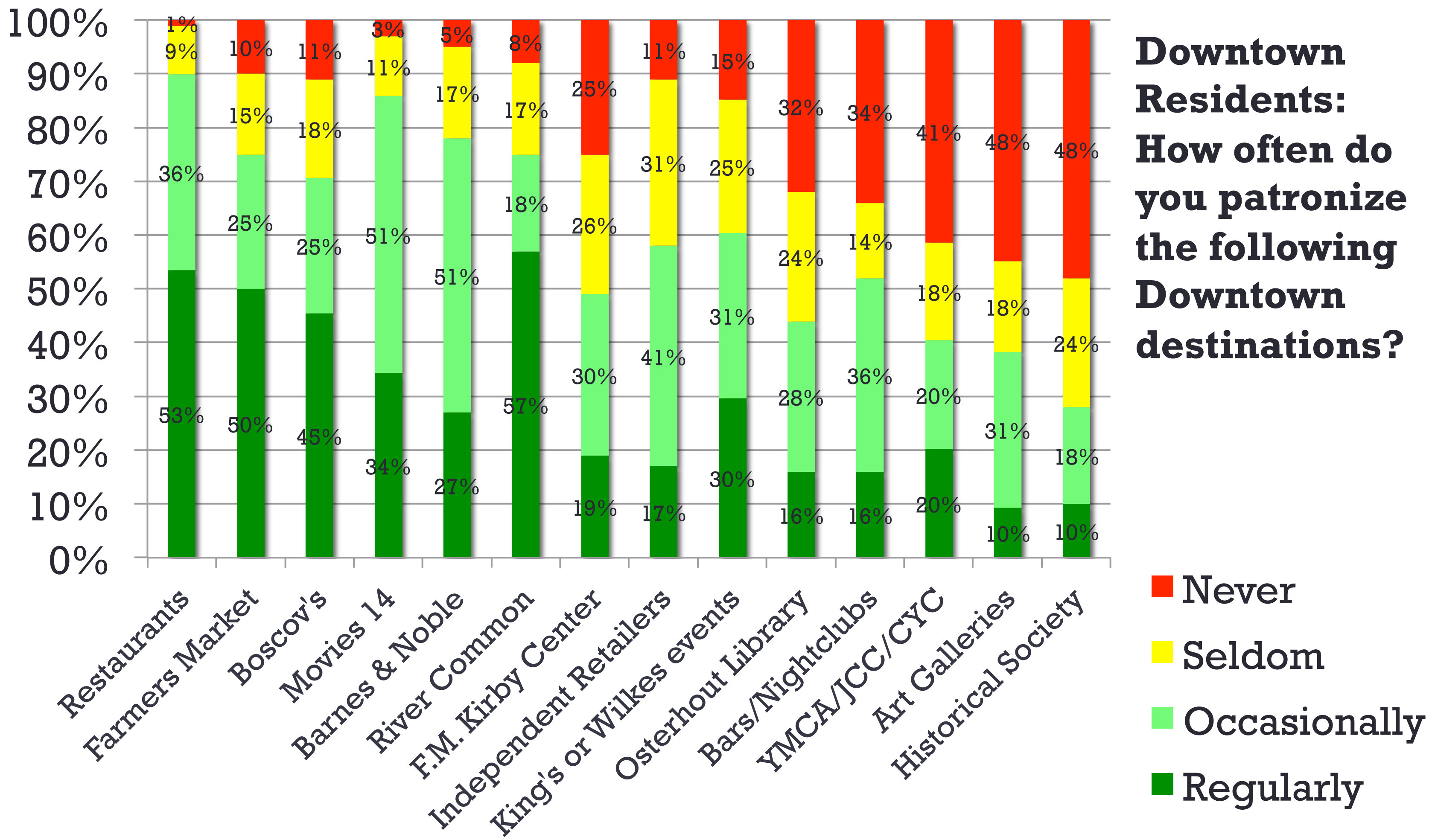
Survey Takeaway 1:
Many of today's most frequently-visited Downtown destinations simply didn't exist ten years ago.

Diamond City Partnership of Wilkes-Barre, Pennsylvania



All Respondents: How often do you patronize the following Downtown destinations?

Survey Takeaway 2:
Growth of Downtown residential is key:

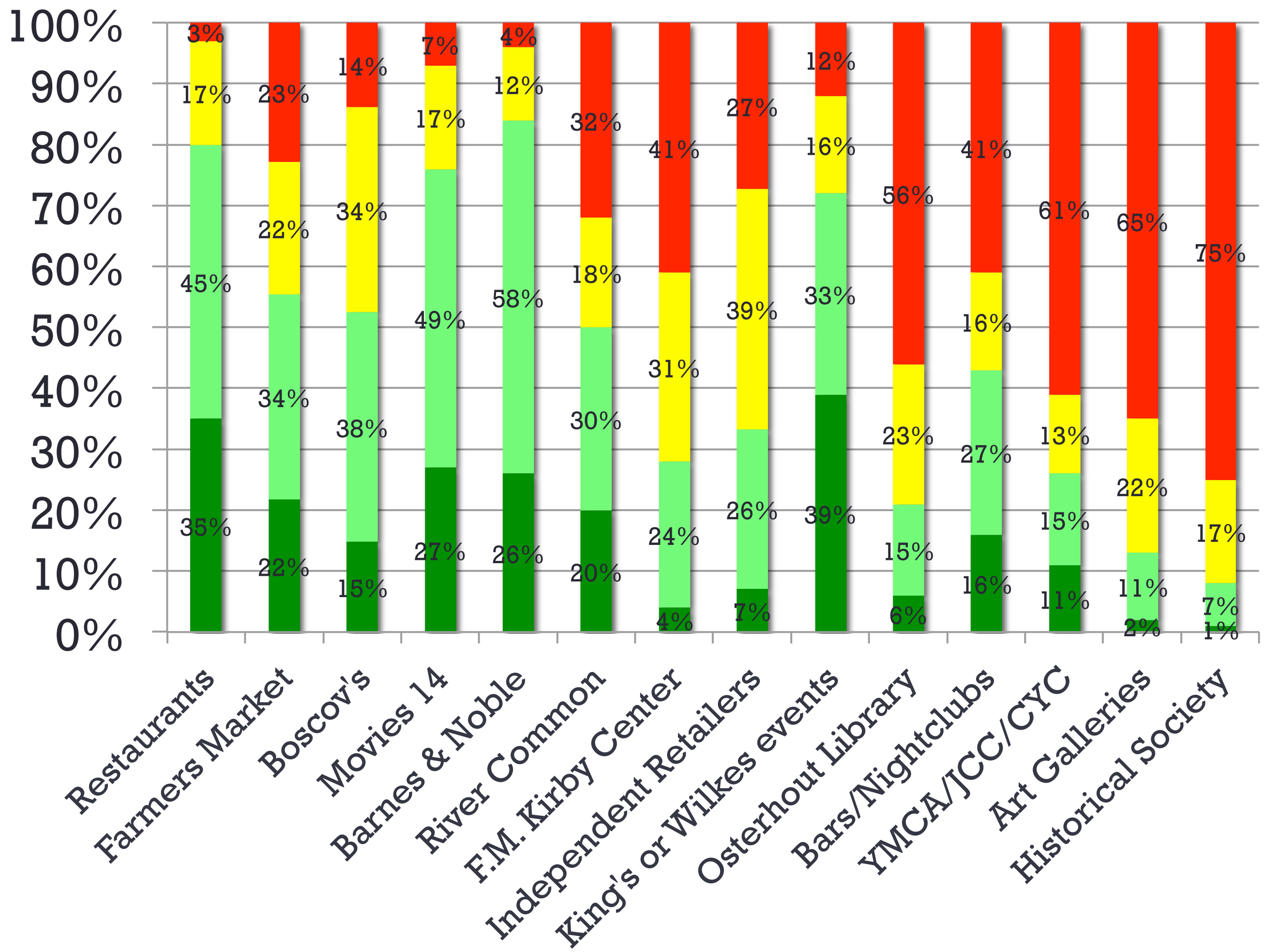


Downtown Residents: How often do you patronize the following Downtown destinations?

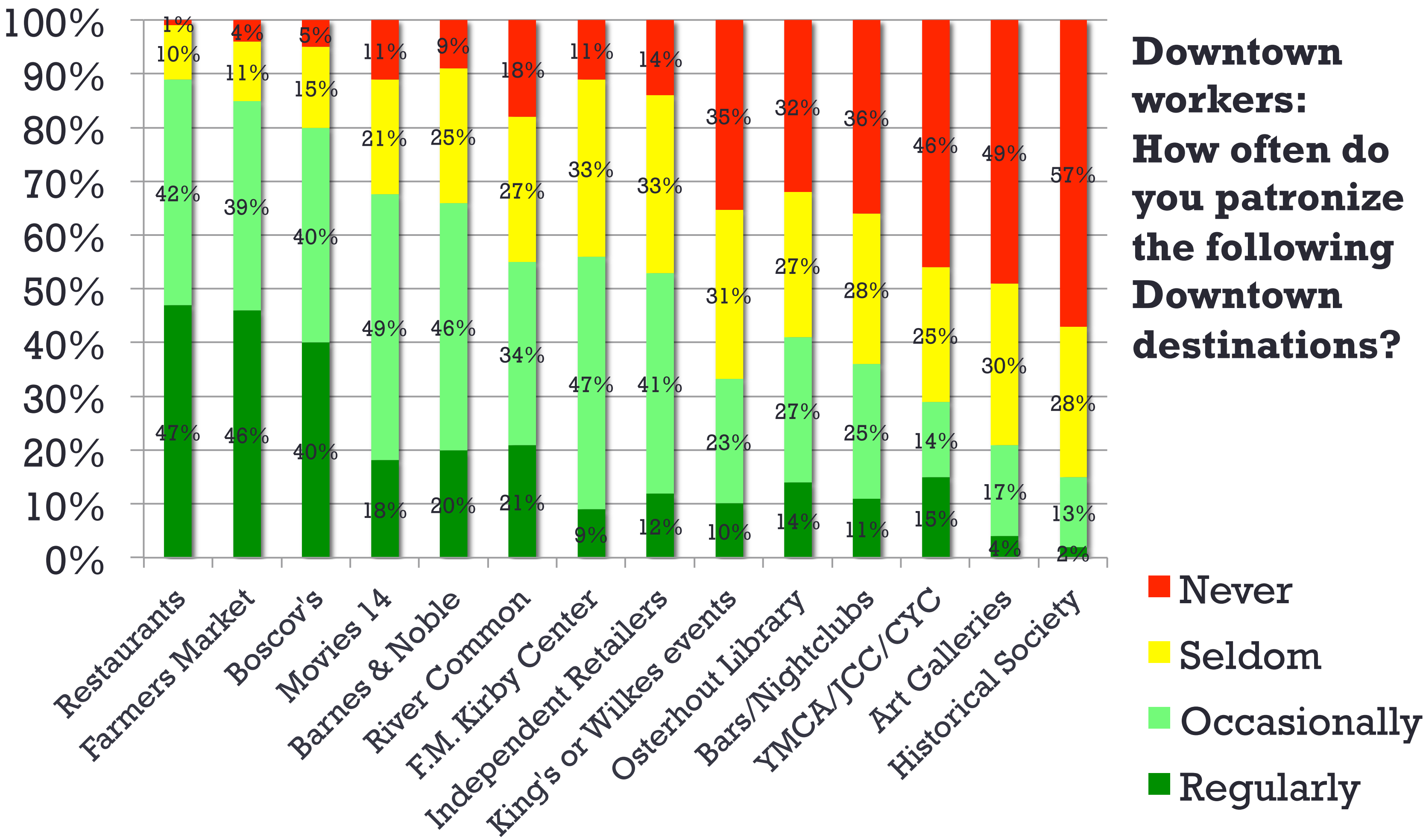
Survey Takeaway:
Good college patronage of downtown dining and entertainment – but not shopping (except for B&N)

Diamond City Partnership
of Wilkes-Barre, Pennsylvania

College Students: How often do you patronize the following Downtown destinations?



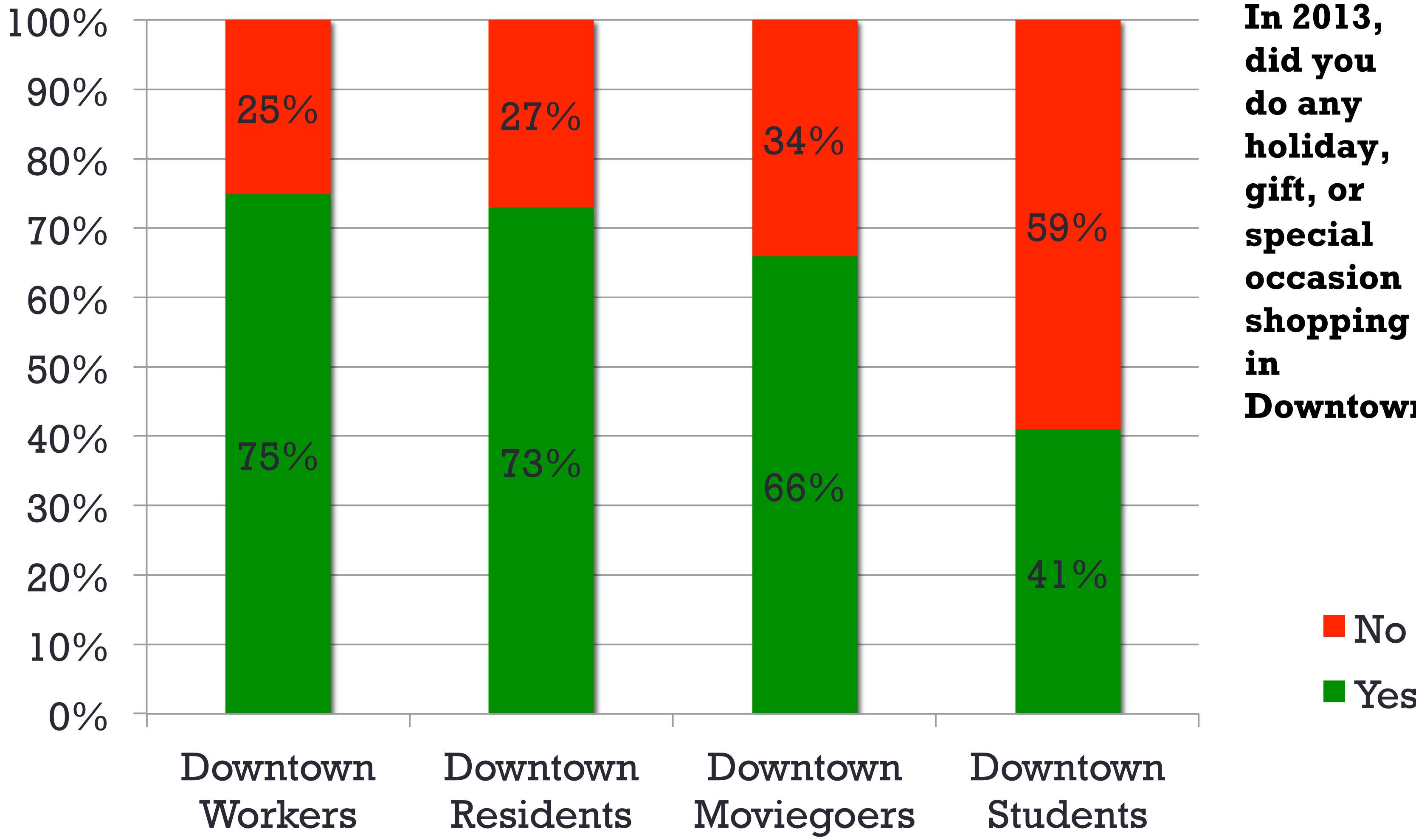
Survey Takeaway:
Downtown workers really like restaurants, Farmers Market, and Boscov's



Downtown workers: How often do you patronize the following Downtown destinations?

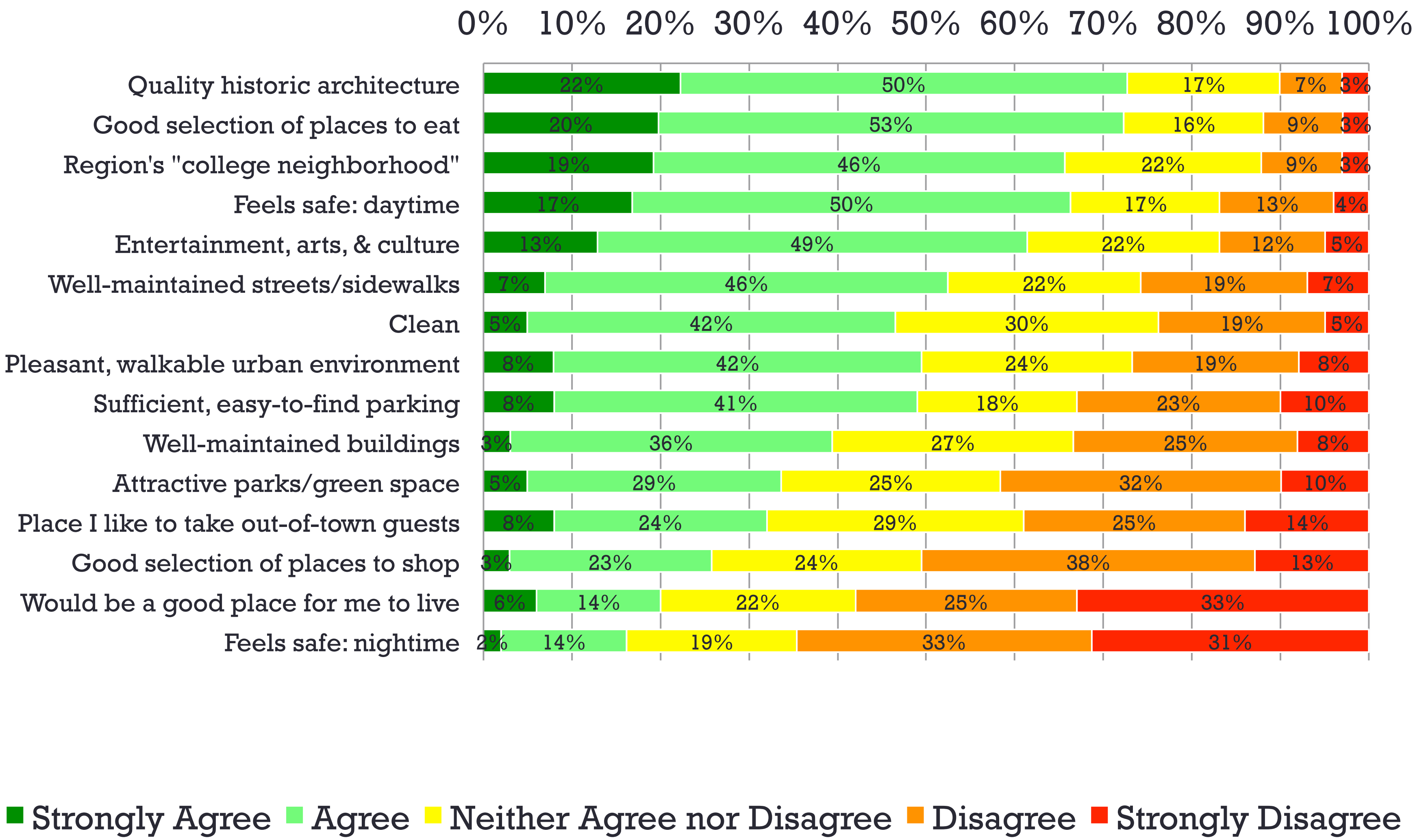
Survey Takeaway 3:
Residential growth can create retail demand

DIAMOND CITY PARTNERSHIP
OF WILKES-BARRE, PENNSYLVANIA



In 2013, did you do any holiday, gift, or special occasion shopping in Downtown?

Survey Takeaway 4:
Downtown has substantial strengths on which we can build – but also substantial weaknesses



Survey Takeaway 5:
There are strong differences of opinion between Downtown's "Believers" and "Skeptics"

Top 5 Differences of Opinion about Downtown:

5. Downtown feels safe at night

4. Downtown is a good place for arts, culture, and entertainment

3. Downtown feels safe during daytime

2. Downtown is a place I like to take out-of-town guests

1. Downtown offers a pleasant, walkable urban environment

However, Downtown's strengths as a dining destination, "the region's college neighborhood," and a treasury of historic architecture are clearly acknowledged across the board.

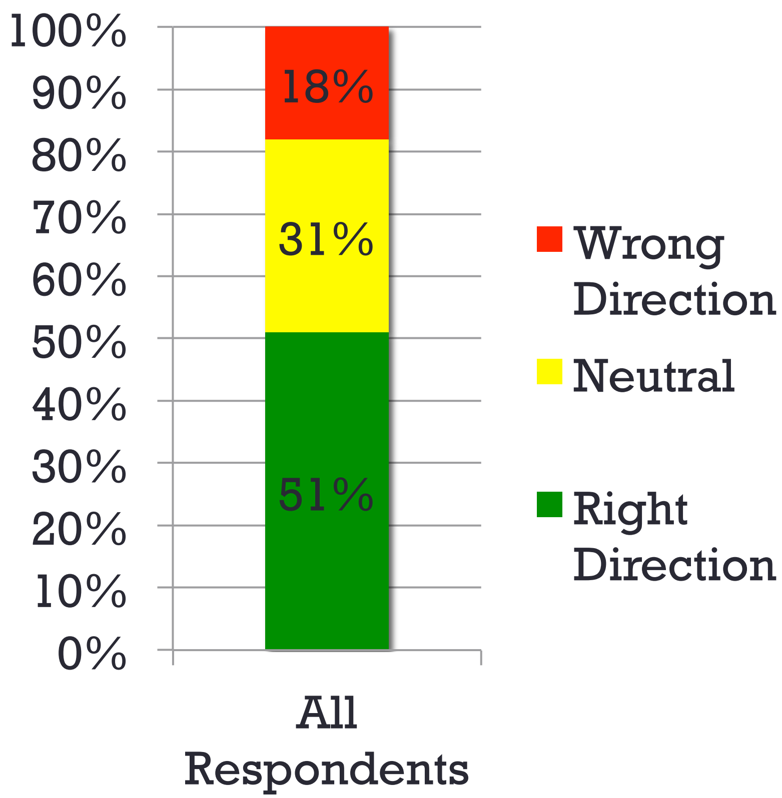
Survey Takeaway 6:
Here's what survey respondents like best about Downtown Wilkes-Barre:

Diamond City Partnership
of Wilkes-Barre, Pennsylvania

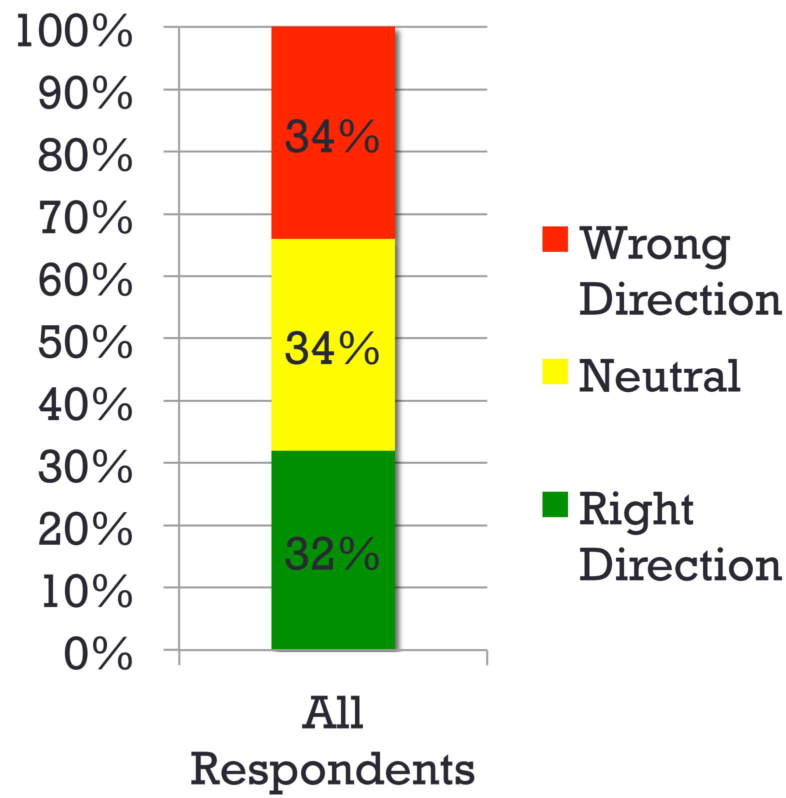
Survey Takeaway 7:
Here's what survey respondents like least about Downtown :

Survey Takeaway 8: There's more optimism about the future of Downtown Wilkes-Barre than about the future of Greater Wilkes-Barre.

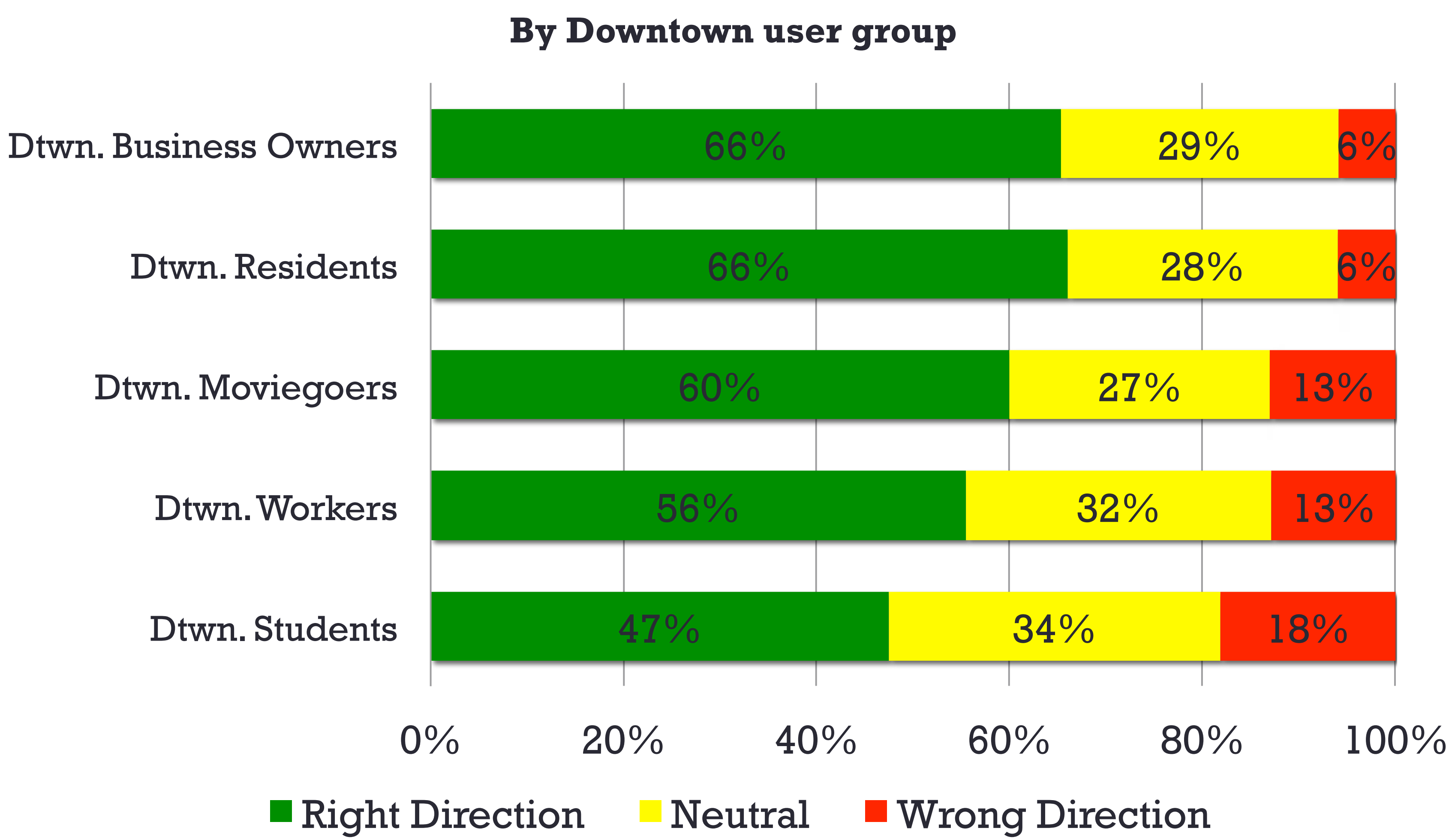
Downtown Wilkes-Barre



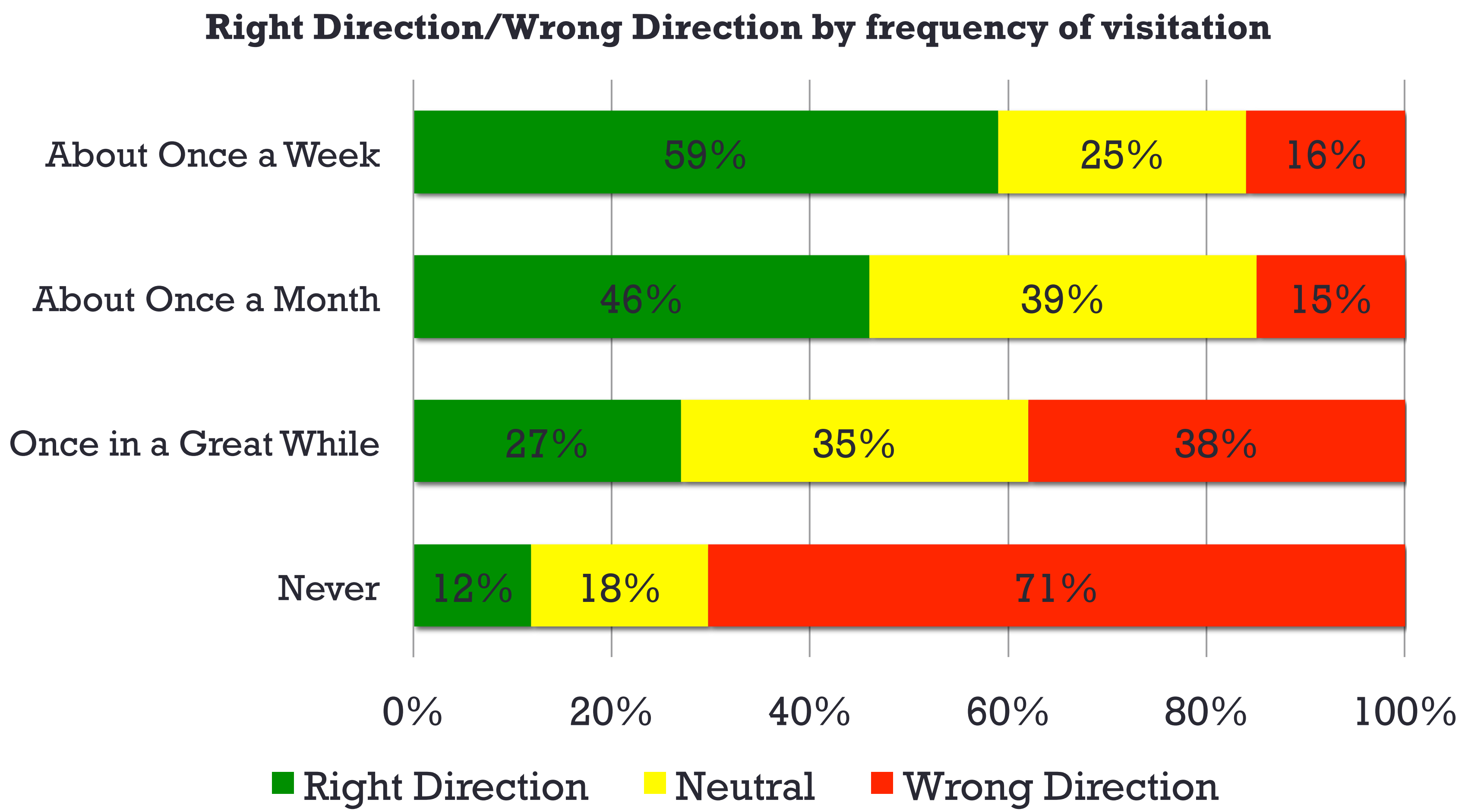
Greater Wilkes-Barre



Generally speaking, would you say things in Downtown Wilkes-Barre are headed in the right direction or in the wrong direction?



Survey Takeaway 9:
Regular Downtown visitors like what they see:

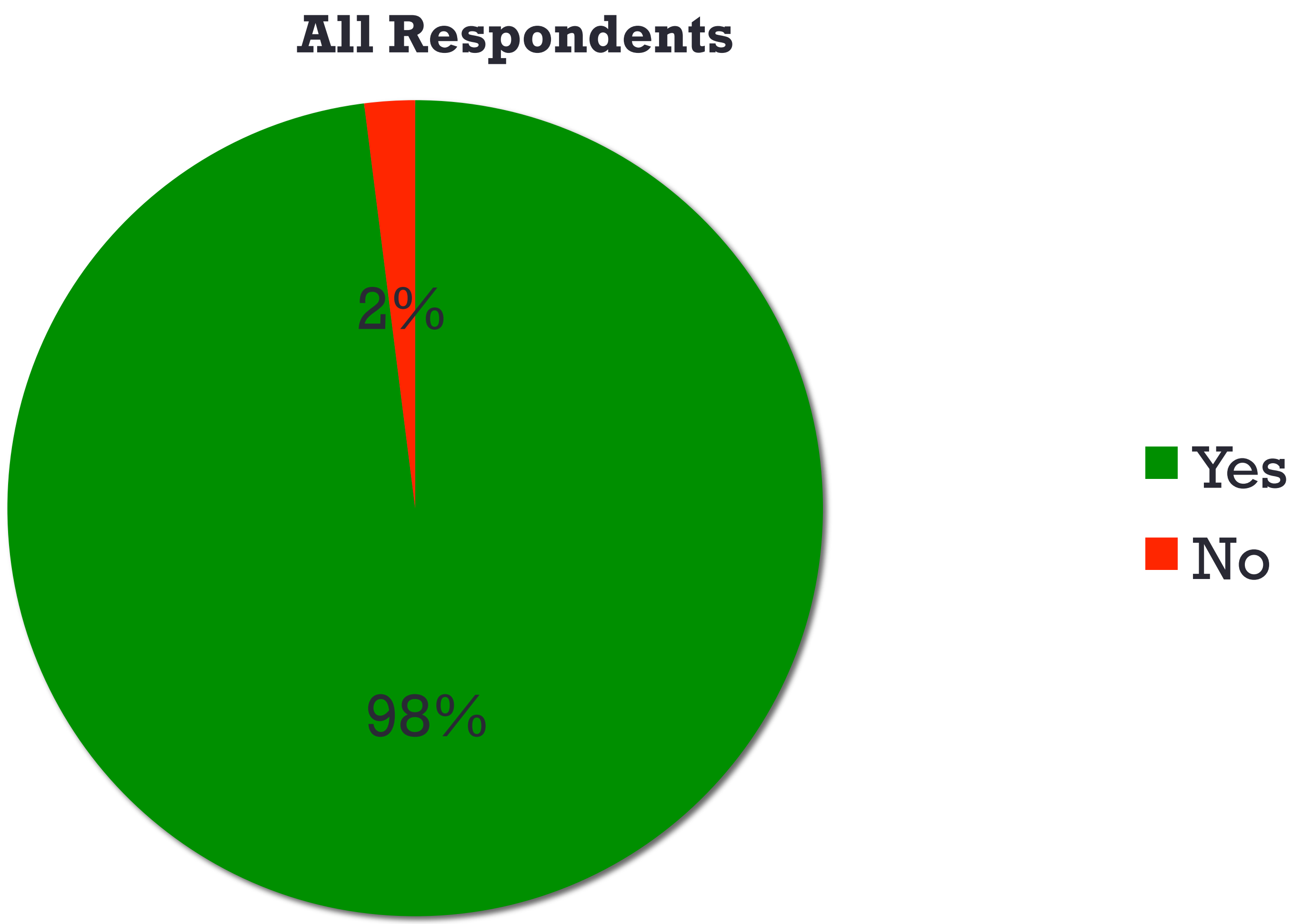


Survey Takeaway 10:
Here's what survey respondents would like to see in Downtown's future:

DIAMOND CITY PARTNERSHIP
OF WILKES-BARRE, PENNSYLVANIA

"Do you believe that having a vibrant and healthy Downtown Wilkes-Barre is important to the entire Greater Wilkes-Barre area?"

Diamond City Partnership
of Wilkes-Barre, Pennsylvania



Diamond City Partnership
OF WILKES-BARRE, PENNSYLVANIA

SWOT Workshops

Our next step was to share the survey results with the public.

We then held follow-up workshops where we reviewed the results, conducted a downtown SWOT (“strengths, weaknesses, opportunities, threats”) analysis, and asked participants to prioritize potential action items.

The workshops included input sessions with groups like:

- Downtown Residents Association
- Downtown Wilkes-Barre Business Association
- Diamond City Partnership board
- King’s College and Wilkes University representatives
- Local service clubs

Our Downtown Action Plan is a direct result of this public outreach and feedback.

2015 SWOT Analysis: Downtown Wilkes-Barre

DIAMOND CITY PARTNERSHIP OF WILKES-BARRE, PENNSYLVANIA

STRENGTHS:

- **Restaurants**
- **Walkability**
- **Farmers Market**
- **River Common**
- **Historic architecture**
- **Colleges**
- **Movies 14**
- **Convenience of mixed-use environment**
- **F. M. Kirby Center**
- **"Live/Work" residential neighborhood**
- **Proven success of new downtown residential projects**
- **Major regional employment center**

WEAKNESSES:

- **Feels "Unsafe"**
- **Impact of loitering and uncivil behaviors**
- **Impact of concentration of social services**
- **Condition of Public Square**
- **Impact of addicted population**
- **Lack of "Quality Retail"**
- **Perceived lack of parking**
- **No "critical mass" of revitalization energy (too many "missing teeth" and vacancies)**
- **Lack of "visitor infrastructure"**
- **Not enough pedestrian traffic or active street life**
- **Lack of attention to placemaking and to fostering high-quality "walkable urbanity" at street level**
- **Weak public-sector planning capacity**

OPPORTUNITIES:

- **Growth of downtown's colleges and universities**
- **Socioeconomic trends favor walkable mixed-use neighborhoods**
- **Competitive price point re: NYC and Philadelphia**
- **Growth of downtown startup community**
- **State incentive programs targeted to downtowns:**
  - **Keystone Innovation Zone:** offers startup businesses the opportunity to claim up to $100,000 in PA tax credits.
  - **CRIZ:** allows state and local tax revenue derived from a site to be used to pay debt service for the new development.
- **Development of regional trail system with Downtown as its hub**
- **Recent investments in resident-focused retail (like downtown grocery opening in 2016)**

THREATS:

- **The "Wilkes-Barre is Dangerous" issue**
- **Greater Wilkes-Barre's overall market weakness**
- **Growing concentration of poverty within city**
- **Corporate consolidation**
- **Continued demolition of historic buildings**
- **Context of saturated retail environment**
- **Regional alternatives to Downtown Wilkes-Barre**
- **Erosion of Downtown's role as a "Regional Center"**
- **Lack of funding for social services**
- **Impact of E-Commerce on traditional downtown uses**

CHAPTER 4:
OUR DOWNTOWN ACTION PLAN

Six Big Goals for the Next Five Years:

DIAMOND CITY PARTNERSHIP
OF WILKES-BARRE, PENNSYLVANIA

BIG GOAL 1: Downtown Wilkes-Barre will be a safe, clean, and attractive place to live, work, shop, and visit.

BIG GOAL 2: Downtown Wilkes-Barre will be the region's college neighborhood.

BIG GOAL 3: Downtown Wilkes-Barre will be the region's "walk-to-everything" urban neighborhood of choice.

BIG GOAL 4: Downtown Wilkes-Barre will be the region's "Innovation District:" its hub for business, startup activity, and entrepreneurship.

BIG GOAL 5: Downtown's historic architecture, walkability, riverfront, and colleges will be the cornerstones of its enhanced visitor experience.

BIG GOAL 6: Downtown Wilkes-Barre will be a regional center of arts, culture, dining, and entertainment.

We will achieve our six Big Goals by implementing the action objectives associated with each goal:

Diamond City Partnership
of Wilkes-Barre, Pennsylvania

GOAL A: Downtown Wilkes-Barre will be a safe, clean, and attractive place to live, work, shop, and visit.

1. Rehabilitate Public Square.
2. Enhance Downtown Security Presence.
3. Extend New Streetlights throughout Downtown's Walkable Core.
4. Enhance and Consolidate Homeless Services outside of Downtown Core.
5. Install Downtown Wayfinding Signage for drivers and pedestrians.

GOAL B: Downtown Wilkes-Barre will be the region's college neighborhood.

1. Focus Resources (development; incentives; etc.) to build a Walkable Downtown Core with a Critical Mass of Activity.
2. Focus on Targeted Retail Recruitment that reinforces our strategic goals.
3. Increase Marketing to College Community.
4. Obtain better utilization of existing "Employer-Assisted Housing" programs targeting Downtown Wilkes-Barre.

GOAL C: Downtown Wilkes-Barre will be the region's "walk-to-everything" neighborhood of choice.

1. Focus Resources (development; incentives; etc.) to build a Walkable Downtown Core with a Critical Mass of Activity.
2. Improve parking management to make parking simpler and more intuitive.
3. Conduct a comprehensive Downtown Traffic Study to improve walkability.
4. Market Downtown W-B Residential Options to Targeted Audiences in higher-cost metropolitan areas.
5. Add street trees throughout Downtown's Walkable Core.
6. Prioritize infill housing development on strategic "gap" sites.

GOAL D: Downtown Wilkes-Barre will be the region's "Innovation District": a setting for business growth and entrepreneurship.

1. Position Downtown W-B as the region's "Innovation District."
2. Initiate planning for a targeted "Downtown Investment Fund."
3. Work with The Commonwealth Medical College (TCMC) to locate a meaningful TCMC facility in the center of Downtown W-B.

GOAL E: Downtown Wilkes-Barre's historic architecture, riverfront, colleges, and walkability will be the cornerstones of its enhanced visitor experience.

1. Foster more public usage of the River Common and riverfront (concerts; boathouse; other ideas?).
2. Develop an achievable reuse strategy for the Irem Temple.
3. Prioritize Historic Preservation: Create a local historic district ordinance or design guidelines.
4. Construct a Skate/Bike Park on the UGI Water Street lot.
5. Rehabilitate the railroad station - possible to serve as a Visitors Center.

GOAL F: Downtown Wilkes-Barre will be a regional center of arts, culture, dining, and entertainment.

1. Ensure the development of a new downtown museum facility that can serve as a "Visitor Anchor" (i.e., Sordoni Art Gallery; Historical Society museum; etc.).
2. Expand regional marketing of Downtown W-B events (i.e., WVIA; airport; etc.).

BIG GOAL 1: Downtown Wilkes-Barre will be a safe, clean, and attractive place to live, work, shop, and visit.

DIAMOND CITY PARTNERSHIP
OF WILKES-BARRE, PENNSYLVANIA

Objective:
A. Rehabilitate Public Square.
B. Enhance Downtown security presence.
C. Extend new streetlights throughout Downtown's walkable core.
D. Enhance and consolidate services for "street population".
E. Install Downtown wayfinding signage for drivers and pedestrians.

BIG GOAL 2: Downtown Wilkes-Barre will be the region's college neighborhood.

Objective:
A. Focus collegiate resources (capital projects; initiatives; etc.) to build a walkable Downtown core with a critical mass of activity.
B. Focus on targeted retail recruitment that reinforces our strategic goals.
C. Increase marketing to college community.
D. Obtain better utilization of existing "Employer-Assisted Housing" programs targeting Downtown Wilkes-Barre.

BIG GOAL 3: Downtown Wilkes-Barre will be the region's "walk-to-everything" urban neighborhood of choice.

Objective:
A. FINISH A BLOCK: Focus public resources (priority development sites; development incentives; etc.) to build a walkable Downtown core with a critical mass of activity.
B. Improve parking management to make parking simpler and more intuitive and encourage "park once and walk" behavior.
C. Conduct a comprehensive Downtown Traffic Study to improve walkability.
D. Market Downtown W-B residential options to targeted audiences in higher-cost metropolitan areas.
E. Add street trees throughout Downtown's walkable core.
F. Prioritize infill housing development on strategic "gap" sites.

BIG GOAL 4: Downtown Wilkes-Barre will be the region's "Innovation District:" its hub for business, startup activity, and entrepreneurship.

DIAMOND CITY PARTNERSHIP OF WILKES-BARRE, PENNSYLVANIA

Objective:
A. Position Downtown W-B as the region's "Innovation District" through marketing, focused retention and recruitment, and incentive programs such as KIZ.
B. Initiate planning for a targeted "Downtown Seed Investment Fund."
C. Work with The Commonwealth Medical College (TCMC) to locate a meaningful TCMC facility in the center of Downtown W-B.

BIG GOAL 5: Downtown's historic architecture, walkability, riverfront, and colleges will be the cornerstones of its enhanced visitor experience.

Objective:
A. Foster more public usage of the River Common and riverfront (concerts; boathouse; other ideas?).
B. Develop an achievable reuse strategy for the Irem Temple.
C. Prioritize Historic Preservation: Pass a local historic district ordinance or design guidelines, and continue to incentivize façade restoration projects.
D. Construct a Skate/Bike Park on the UGI Water Street lot.
E. Rehabilitate the railroad station - possibly to serve as a new Visitors Center.

BIG GOAL 6: Downtown Wilkes-Barre will be a regional center of arts, culture, dining, and entertainment.

Diamond City Partnership of Wilkes-Barre, Pennsylvania

Objective:
A. Ensure the development of a new downtown museum facility that can serve as a "Visitor Anchor" (i.e., Sordoni Art Gallery; Historical Society museum; etc.).
B. Expand regional marketing of Downtown W-B events (i.e., WVIA; airport; etc.)
C. Foster the growth of a well-defined Downtown "arts district" with a critical mass of arts activities.

#DOWNTOWNWILKESBARRE #ABC50

WILKES-BARRE CITY
PENNSYLVANIA

George C. Brown
Mayor

40 East Market Street
Wilkes-Barre, PA 18711
Phone: 570.208.4158
Fax: 570.208.4101

Allied Services Integrated Health System
President & CEO, Bill Conaboy, Esq.
100 Abington Executive Park
Clarks Summit, PA 18411

October 2, 2020

Dear Mr. Conaboy,

Allied Services Integrated Health System has provided the highest quality nonprofit rehabilitation, skilled nursing, home care and human services for residents and families in northeastern Pennsylvania for more than 60 years.

The nonprofit organization has recently reinvested more than $30 Million in downtown Wilkes-Barre for seniors and adults with long term care needs, personal care for elderly, with the acquisition and capital reinvestment in Center City Senior Community and Meade Street Senior Community (formerly St. Luke's Villa and Little Flower Manor of the Diocese of Scranton).

The proposed $6 Million expansion and capital reinvestment of the 80 Northampton Street property will add 42 private and semi-private, dual-licensed skilled nursing beds to its 5-star CMS rated Center City Skilled Nursing.

The private skilled bed move will create greater access to care, especially for elderly population who are only covered by Medical Assistance.

Furthermore, the private and semi-private skilled nursing setting will enable prevention of COVID-19 and any future virus spread, in a safe and supportive healthcare environment while preparing for the aging and long-term care needs of Wilkes-Barre as well as Luzerne County residents.

Fully supportive,

George C. Brown

Mayor George C. Brown

CBO FINANCIAL

The purpose of the New Markets Tax Credits (NMTC) program is clear: To stimulate new investment in low-income communities that would not otherwise occur.

The New Markets Tax Credit (NMTC) Program is a federal subsidy program designed to incentivize investment into low income communities, providing approximately 20% of a project cost in flexible funding that typically converts to equity. NMTC investors make investments in companies known as Community Development Entities (CDEs) that in turn invest in—or make loans to—businesses in low-income communities. The intent of the program is to spur positive economic revitalization in these areas.

NMTCs create benefits to tax credit investors, businesses that need capital, and state and local government and economic development authorities.

NMTC benefits to borrowers:

- Potential new or additional source of capital for qualified borrowers
- Because of the substantial benefits realized by the tax credit investors, the NMTC program can:
  - Provide capital where previously unavailable;
  - Result in availability of capital at substantially lower cost, and;
  - Result in conversion of up to 20% of project debt to borrower equity

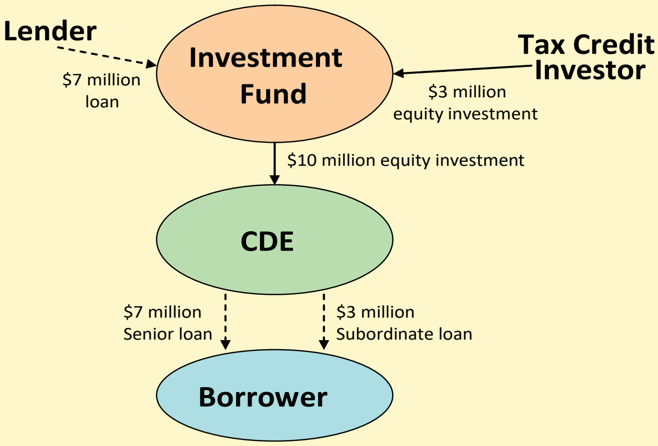
NMTC benefits to investors:

- NMTC essentially guarantees return of investment plus a return on the investment regardless of borrower performance
- Investors can further increase investment return and project subsidies with additional tax credits (e.g., historic and renewable tax credits)

NMTC benefits to States, Municipalities and/or EDAs:

- Opportunity to combine public funding with tax credits to induce development
- Potential additional sources of revenue to agency as a CDE

TRANSACTION STRUCTURE



TYPICAL NMTC TRANSACTION

- Investor forms a new investment company and invests $3,000,000 in the investment company
- Investment Company borrows $7,000,000 at 7%
- Investment Company makes a $10 million equity investment in a CDE
- CDE makes two loans to Borrower as follows:

Senior Loan	$7M	Interest only for 7 years at 7%
Subordinate Loan	$3M	Interest only for 7 years at a very low interest rate (e.g., 1%)

- Exit Strategy:
  - Generally, at the end of the 7 year credit period, the Senior Loan is repaid and the Subordinate Loan is effectively forgiven.
  - In other words, the Borrower obtains a loan for $10 million but ultimately is only required to repay $7 million

Tax Credit Received over 7 years is equal to 39% of investment.

Year 1	5%
Year 2	5%
Year 3	5%
Year 4	6%
Year 5	6%
Year 6	6%
Year 7	6%

NEW MARKETS TAX CREDITS

BENEFIT TO INVESTOR	
$3,900,000	Total tax credit
($3,000,000)	Investment
$900,000	Total return over 7 year period (approx. 10% IRR)

BENEFIT TO BORROWER	
$3,000,000	Debt eliminated
$1,260,000	Interest savings on sub debt (assume 6% lower)
($1,200,000)	Tax on cancellation of subordinated debt*
($1,150,000)	Additional NMTC Transaction Costs
$1,910,000	Total Subsidy

* Calculated at 40% tax rate. The tax from debt cancellation can be deferred and does not apply to tax-exempt entities.

ELIGIBLE NMTC ACTIVITIES

- Investments:
  - Loans or investments to businesses located in low-income census tracts
  - Development of commercial, industrial and retail real estate projects (including community facilities) in low-income census tracts
  - Development of for-sale housing in low-income census tracts
- Financial Counseling & Other Services:
  - Advice provided by the CDE relating to the organization or operation of a trade or business.
  - Possible activities may include business plan development, assistance with business financials, operating assistance to non-profit organizations

HOW TO ACCESS NMTCs?

- Attract a CDE that has an allocation:
  - Appropriate for smaller, single projects
- Form a CDE and apply directly:
  - Appropriate for large projects or a pipeline of projects

WHAT IS A CDE?

CDE is an acronym for "Community Development Entity". A CDE is a company that has:

- Have a primary mission of serving low-income communities (LICs)
- Maintains accountability to the residents of targeted LICs
- Is certified as such by the federal government
- Received an allocation of new markets tax credits from the federal government

WHAT REQUIREMENTS MUST BE MET BY THE BORROWER TO QUALIFY?

The Borrower Must be a Qualified Active Low-Income Community Business (QALICB)

- A QALICB is a business that meets the following requirements:
  - It is a corporation (for profit or non-profit), or a partnership;
  - It actively conducts any business except residential rental, development, sale or licensing of intangibles, golf course, golf club, massage parlor, hot tub facility, suntan facility, race track, off-sale liquor;
  - Less than 5% of its assets consist of "collectibles" (e.g., antiques, jewelry, wine, etc.);
  - Less than 5% of its assets consist of "financial property" (e.g., stocks, bonds, cash other than reasonable working capital);
  - 40% of its tangible assets are located in a Low Income Community;
  - 40% of employee services are rendered in a Low Income Community.

WHAT IS A LOW INCOME COMMUNITY?

- Census tracts with at least 20% poverty, or
- Census tracts where the median family income is at or below 80% of the area median family income
- Or an organization can be eligible if they are not located in a NMTC eligible Census Tract but serve low income communities or if the majority of their employees live in eligible areas.

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Community Developments

JUNE 2013 COMMUNITY AFFAIRS DEPARTMENT

Insights

New Markets Tax Credits: Unlocking Investment Potential

Abstract

This *Insights* report describes the New Markets Tax Credit (NMTC) Program and the major considerations banks may need to address when using the tax credits to support community and economic development activities. The report examines the primary opportunities and risks associated with the use of NMTCs and discusses the methods used by national banks and federal savings associations (collectively, banks) to structure transactions and use the credits effectively. The report addresses banks' participation in the NMTC Program as investors, as recipients of the tax credits (allocatees), and as leverage lenders.

The information in this report was obtained from a variety of sources, including banks, nonsupervised financial intermediaries, investment fund advisers, and others that actively use NMTCs to finance a diverse range of activities. This information represents our understanding of federal income tax laws and regulations but does not constitute tax advice. Banks should consult their tax advisers about the tax treatments described in this report and the consequences that may apply to their own transactions.

Project summaries of several NMTC transactions are included in a case study in appendix A. Appendix B presents a glossary of terms about the NMTC Program. The resource directory in appendix C contains sources of additional information on the program.

I. What Is the New Markets Tax Credit Program?

The NMTC Program was created in December 2000 by the Community Renewal Tax Relief Act of 2000.[1] The program is jointly administered by the Community Development Financial Institutions Fund (CDFI Fund) and the Internal Revenue Service (IRS).[2] The NMTC Program uses federal tax incentives to attract private capital into operating businesses and real estate in urban and rural low-income communities (LIC). Through May 2013, the CDFI Fund had awarded approximately $36.5 billion in NMTC

[1] U.S. Department of Housing and Urban Development, Public Law 106–554, appendix G, www.hud.gov/offices/cpd/economicdevelopment/lawsandregs/laws/actof2000.pdf.

[2] The IRS has published regulations at 26 CFR 1.45D-1 and interpretative guidance to assist taxpayers claiming the tax credit(s) under Internal Revenue Code (IRC) section 45D.

authority to specially designated financial institutions called community development entities (CDE).[3] The CDEs use those credits to raise private capital, which is then invested in qualifying projects.

From 2003 through 2009, $6 billion in NMTC credits generated nearly $50 billion in financing to businesses and commercial real estate projects in low-income communities.[4] The tax credit helped fund a variety of qualified businesses, including commercial and industrial facilities, retail and mixed-use projects, community facilities, "green" energy-producing facilities, and equipment and working capital for operating businesses. According to a 2008 study, more than 75 percent of NMTC-financed projects were in communities with significant levels of distress.[5]

By investing in a CDE with an NMTC allocation, an investor is able to claim a federal tax credit equal to 39 percent of the investment, which is referred to as a qualified equity investment (QEI).[6] The tax credit is claimed over a seven-year period, with 5 percent of the investment amount claimed in each of the first three years and 6 percent in each of the following four years, as shown below. The NMTC Program provides a relatively "shallow" subsidy into the projects: NMTCs amount to approximately 20 percent to 30 percent[7] of the total project costs.[8] In the standard NMTC structure, the investor receiving the tax credit typically recovers all or a portion of the original investment after the end of the seven-year compliance period.

Table 1: Schedule of Tax Credit Benefits for a $10 Million QEI

Year 1	$500,000	5%
2	$500,000	5
3	$500,000	5
4	$600,000	6
5	$600,000	6
6	$600,000	6
7	$600,000	6
Total	$3,900,000	39%

Source: OCC

The investor may also receive additional economic benefits, such as interest payments, from the investment.

Banks can participate in the NMTC Program in several ways. Banks can be allocatees, receiving NMTC allocation authority from the CDFI Fund through bank-owned CDEs. Through the 2011 funding round, bank-controlled CDEs have received approximately

[3] CDFI Fund, "New Markets Tax Credit Program," www.cdfifund.gov/what_we_do/programs_id.asp?programID=5.

[4] New Markets Tax Credit Coalition, *The New Markets Tax Credit 10th Anniversary Report,* December 2010 (www.nmtccoalition.org).

[5] CDFI Fund, *Promoting Investment in Distressed Communities The New Markets Tax Credit Program,* October 2008. Areas with significant levels of distress are defined in appendix B.

[6] An equity investment in a CDE. See appendix B for more information.

[7] U.S. Government Accountability Office, *New Markets Tax Credit The Credit Helps Fund a Variety of Projects in Low-Income Communities, But Could be Simplified*, GAO-10-334, January 2010.

[8] Individual projects can vary significantly. In addition, fees and the method of financing affect how, and how much of, the subsidy reaches the borrower. According to our interviews of industry professionals, fees and expenses can reduce the amount of the subsidy to 15 percent to 20 percent.

23 percent of the NMTC allocations from the CDFI Fund. Banks can also be investors, either in their own CDEs or in third-party CDEs. In 2011, 86 percent of the money invested in CDEs came from regulated depository institutions.[9] Banks can be lenders, providing loans into the leverage structure investments described later in this report. In practice, banks play significant roles in the NMTC Program and can participate in multiple ways on a single project.

II. Why Is the NMTC Program of Interest to Banks?

NMTCs are of interest to banks for the following reasons.

NMTCs are a critical tool in helping meet the credit needs of low-income communities. According to program guidelines, an NMTC investment must be made in a low-income community[10] or serve a targeted population.[11] In practice, most of the investments go to areas of higher distress than required by the regulations.[12] The tax credits bring new private investment into poor communities. According to the U.S. Government Accountability Office (GAO), 88 percent of the NMTC investors surveyed said they would not have invested in a low-income community without the tax credit.[13] NMTCs have helped banks support needed community facilities, such as charter schools[14] and grocery stores.[15]

Community impact and accountability are essential to the NMTC Program. CDE applicants to the program must demonstrate the ability to

- identify investments in low-income communities or that serve target populations.
- achieve selected community development outcomes.
- track projected outcomes.
- meaningfully engage community stakeholders around planned NMTC investments.
- finance activities that encourage other non-NMTC investments in their low-income communities.

NMTCs are important in helping meet customer needs. NMTCs provide resources that can help create a satisfactory loan structure for a customer who might otherwise be turned down or offered a loan at a much higher rate. The tax credit provides a subsidy that is used to substantially reduce the interest rate on loans to businesses[16] or to enhance the business owner’s equity in a transaction by leaving a portion of the investment in the project after the NMTC compliance period, as described later in this report. In addition, NMTC loans to qualifying businesses often have flexible terms, including lower origination fees, extended interest-only payment periods, higher loan-to-value (LTV) ratios, lower debt coverage ratios (DCR), and longer amortization periods.

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[9] New Markets Tax Credit Coalition, *New Markets Tax Credit Progress Report 2012*, June 2012.

[10] See definition of a low-income community in appendix B.

[11] See definition of a target population in appendix B.

[12] See definition of areas with significant distress in appendix B.

[13] GAO, *New Markets Tax Credit Appears to Increase Investment in Low-Income Communities, But Opportunities Exist to Better Monitor Compliance,* GAO-07-296, January 2007.

[14] OCC, *Charter School Financing Opportunities,* Spring 2011.

[15] OCC, *Community Developments Investments,* “Bank Financing of Healthy-Foods Initiatives,” August 2012.

[16] According to *The New Markets Tax Credit 10th Anniversary Report,* nearly 90 percent of CDEs reported providing debt at below-market interest rates.

Source: OCC

NMTCs can be used in connection with many other credit enhancements that support development in low-income communities. These enhancements include historic rehabilitation tax credits, renewable-energy investment tax credits,[17] state NMTCs, and several U.S. Department of Agriculture (USDA) loan programs.[18]

NMTCs can help banks meet their financial goals. Investors in NMTCs can receive competitive returns on their equity investments. Leverage lenders may earn rates at or near market rates and are able to participate in transactions that would not be feasible without NMTCs.

NMTCs can help banks meet their Community Reinvestment Act (CRA) requirements.[19] A bank can receive consideration for its investments in CDEs, or for the pro rata portion of a loan originated by a CDE, based on the bank's percentage of equity ownership in the CDE. A bank can also receive a partial credit for the investment and a partial credit for the loan. The investment in the CDE must benefit a bank's assessment area or a broader state or regional area that includes its assessment area.[20] In the case of leverage structure transactions,[21] the equity investor and the leverage lender each may receive CRA consideration based on the pro rata share of their investment.

III. How Does the NMTC Program Work?

CDEs are specially designated financial institutions that receive allocations of NMTCs from the CDFI Fund, use those credits to raise QEIs from investors, and then invest the QEI proceeds into qualified low-income community investments (QLICI).[22] Figure 1 shows how the program works.

[17] OCC, *Investing in Solar Energy Using the Public Welfare Authority,* July 2011.

[18] In February 2012, the USDA published an administrative notice on using the NMTC Program with the Business and Industry Guaranteed Loan Program, the Rural Energy for America Program, and the Biorefinery Assistance Program. See www.rurdev.usda.gov/SupportDocuments/an4625.pdf.

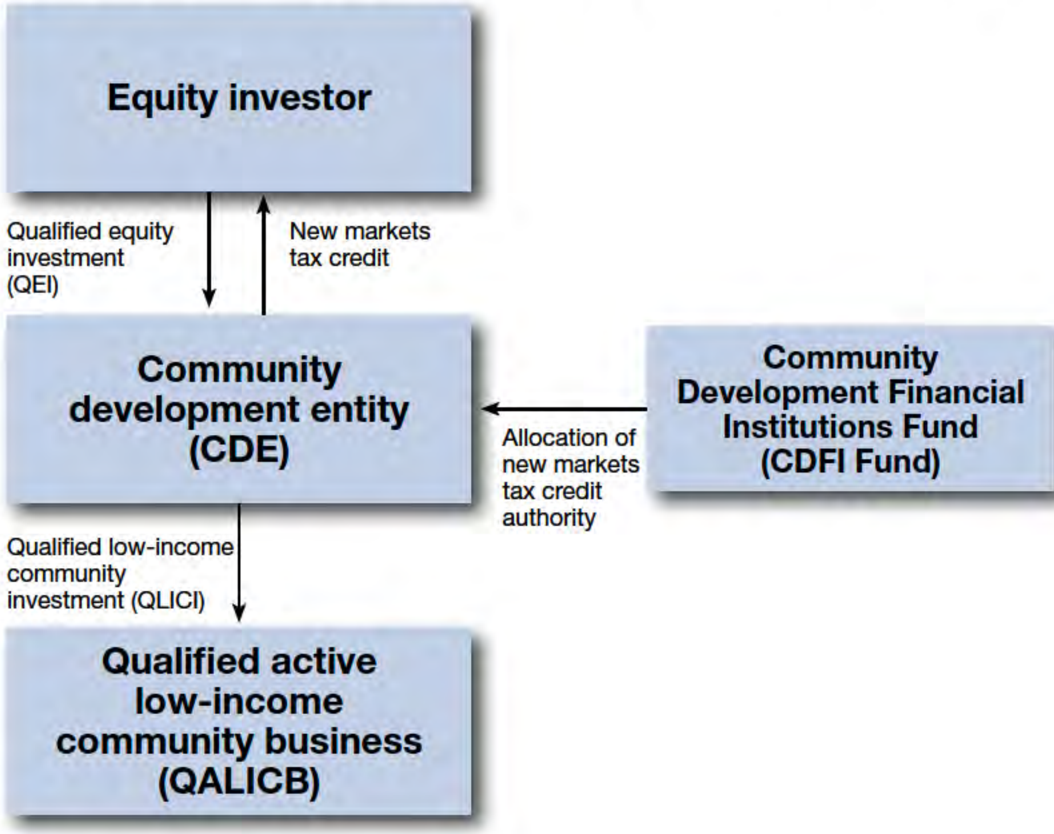
[19] *Federal Register,* Vol. 75, No 47, pp. 11646, 11648, and 11652, "Interagency Questions and Answers Regarding Community Reinvestment."

[20] On March 18, 2013, the OCC, Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (FDIC) released a notice and request for comment regarding proposed updates to Interagency Questions and Answers Regarding Community Reinvestment, *Federal Register,* Vol. 78, No. 52, pp. 16765–16775. The proposed updates address several issues, including the treatment of community development activities outside an institution's assessment area and investment in nationwide funds that invest in community development.

[21] The leverage structure is described in the next section.

[22] This term has the same meaning as set forth in IRC section 45D(d) and 26 CFR 1.45D-1(d). See appendix B for QLICI definition.

Figure 1: New Markets Tax Credit Program: Key Terms and Relationships



Source: OCC

A CDE is formally defined[23] as a domestic corporation or partnership that

- has a primary mission of serving or providing investment capital for low-income communities or individuals,
- maintains accountability to residents of low-income communities through the residents' representation on a governing board or advisory board of the CDE, and
- has been certified as a CDE by the CDFI Fund.

Specialized Small Business Investment Companies (SBIC)[24] certified by the Small Business Administration CDFIs[25] certified by the CDFI Fund automatically qualify for CDE certification.[26] Affiliates of CDFIs and SBICs do not automatically qualify as CDEs and must complete the certification process.

Nonprofit and for-profit entities may apply for CDE certification. All CDEs are eligible to receive loans and investments from, or sell loans to, other CDEs that have been issued tax credit allocations by the CDFI Fund. Only for-profit CDEs, however, may raise capital by offering tax credits to investors. A nonprofit CDE applying for an NMTC allocation must present a strategy to form and transfer its entire allocation to a for-profit subsidiary or subsidiaries.

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[23] See IRC 45D(c)(1).

[24] As defined in IRC 1044 (c)(3).

[25] As defined in section 103 of the Community Development Banking and Financial Institutions Act of 1994.

[26] See IRS LMSB-04-0510-016, *New Markets Tax Credit*, May 2010.

Awards of NMTC allocation authority from the CDFI Fund have been very competitive. Since the program's inception, the CDFI Fund has made 749 allocation awards totaling $36.5 billion.[27] Demand for the credits has far exceeded the supply. In 2011, 314 CDEs requested $26.7 billion from a pool of $3.6 billion in allocation authority.[28] Successful CDE applicants must show, among other criteria, that they can

- identify investment opportunities in distressed areas.
- offer flexible or non-traditional financial products that meet community needs.
- raise capital from investors.
- deploy that capital within three years of the allocation.
- manage those investments and comply with NMTC regulations.

With an allocation of NMTCs from the CDFI Fund, a CDE allocatee can then raise equity from investors. The investments, or QEIs, are usually in the form of stock purchases if the CDE is a corporation or an equity investment in a limited partnership interest if the CDE is a partnership. A CDE must place the credits with investors within five years of receiving the allocation. As of February 2013, there was approximately $1.9 billion in uncommitted NMTCs.[29] QEIs totaled $3.8 billion in 2009, $4.2 billion in 2010, and $5.7 billion in 2011.[30]

"Substantially all,"[31] or at least 85 percent, of the investment in a CDE must be used within one year for QLICIs.[32] Eligible investments include

- loans or investments into qualified active low-income community businesses (QALICB).
- loans or investments into other CDEs that, in turn, make QLICIs.
- loans purchased from other CDEs, if the loan is a QLICI.
- financial counseling or other services to businesses in or residents of low-income communities.

A QALICB can be

- an operating business in a low-income community.
- a business that develops or rehabilitates commercial, industrial, retail, and mixed-use real estate projects in a low-income community.

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[27] CDFI Fund, "New Markets Tax Credit Program," www.cdfifund.gov/what_we_do/programs_id.asp?programID=5.

[28] Tax Credit Advisor, *The Winner's Circle Treasury Announces 2011 New Markets Tax Credit Allocation Awards,* April 2012.

[29] CDFI Fund, *New Markets Tax Credit Qualified Equity Investments Report,* February 4, 2013.

[30] New Markets Tax Credit Coalition, *The New Markets Tax Credit Progress Report 2012*, June 2012. The report uses data from the CDFI Fund for this statistic.

[31] See definition in appendix B.

[32] Given the competitive nature of the application process, CDEs may voluntarily commit to investing a minimum of 95 percent or more of the QEIs in QLICIs.

- a business that develops or rehabilitates community facilities such as charter schools or health centers in a low-income community.[33]
- a business that develops or rehabilitates for-sale housing in a low-income community.

Examples include for-profit retail businesses, mixed-use shopping centers, manufacturers, service providers, community facilities, and nonprofit businesses. Qualifying businesses must meet several eligibility requirements. Rental housing and certain types of businesses (including golf courses, racetracks, gambling facilities, and massage parlors) are specifically excluded.[34]

In 2006, Congress required the NMTC Program to ensure that nonmetropolitan counties receive proportional allocation of QEIs.[35] To implement this, the CDFI Fund established a process so that a proportionate number of applicants that are "rural CDEs" receive tax credits, and that at least 20 percent of the proposed aggregate investments made with each round of NMTC allocations are made in eligible nonmetropolitan counties.[36]

Most NMTC investments are structured in one of two ways: the standard structure or the leverage structure.

Standard Transactions

In a standard transaction, the NMTC is typically used to reduce the interest rate on the loan to the borrower (QALICB) below what the market would otherwise dictate. The transaction is structured as follows: An investor makes a QEI into a CDE (often through a sub-CDE created as a single-transaction entity), and the CDE then makes a QLICI (almost always a loan) to an eligible project (QALICB). The investor receives two cash streams over the seven-year compliance period: the interest payments on the loan to the QALICB, passed through the CDE, and the tax credits the investor claims on federal tax returns. The tax credit allows the CDE to offer the QALICB a considerable reduction in interest rates, while allowing the investor to receive market rate returns on the investment. Figure 2 shows how the standard transaction works.

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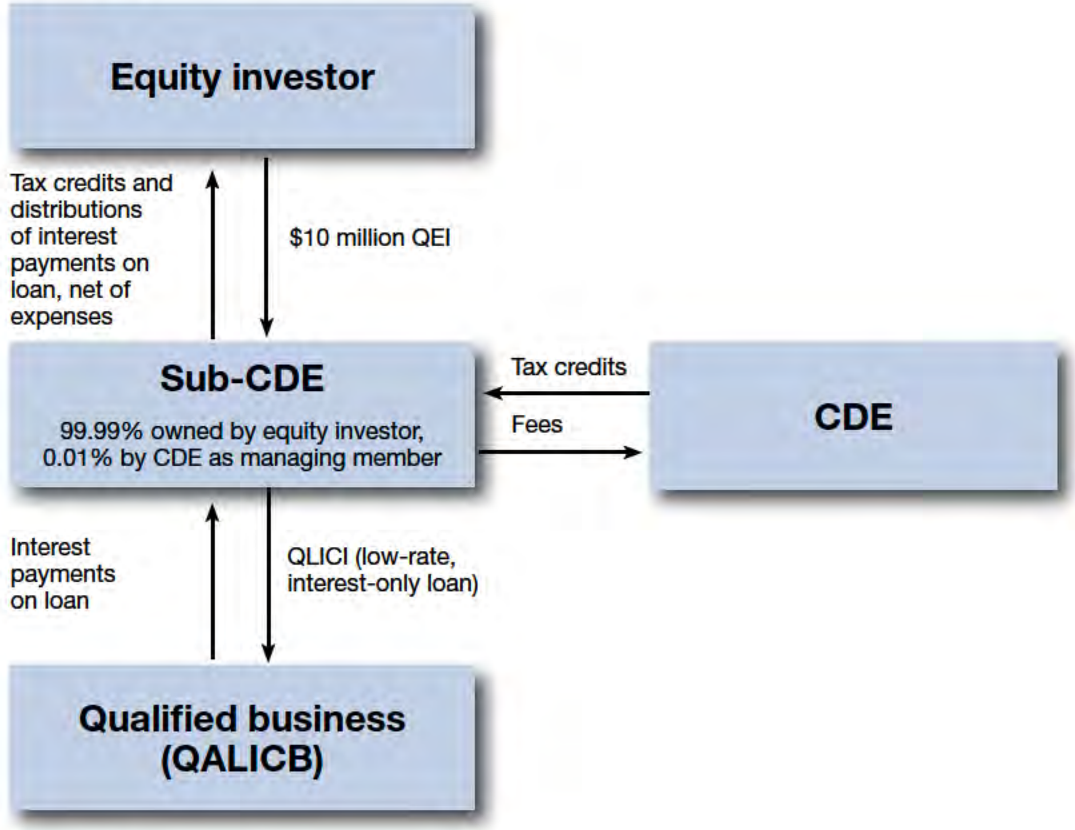
[33] To date, the majority of NMTC investments have related to real estate projects. To encourage working capital and equipment loans to non-real estate businesses, new regulations were adopted that allow a CDE that makes a QLICI in a non-real estate business to invest certain returns of capital from these investments in unrelated CDFIs that are CDEs. See *New Markets Tax Credit Non-Real Estate Investments*, *Federal Register* Vol. 77, No. 189, pp. 59544–59547, September 28, 2012.

[34] Treasury Regulations section 1.45D-1(d)(5).

[35] Tax Relief and Health Care Act of 2006, Public Law 109-432, div. A, title I, part 102(b), 120 stat. 2922 (2006).

[36] GAO, *Community Development Financial Institutions and New Markets Tax Credit Programs in Metropolitan and Nonmetropolitan Areas*, GAO-12-547R, April 2012.

Figure 2: NMTC Standard Transaction



Source: OCC

For example, consider the benefit stream going back to an investor from a $10 million QLICI made by a CDE (figure 2 and scenario B of table 2). Using the standard transaction structure, the investor receives a tax credit of 39 percent on the $10 million, or $3.9 million. This works out to an annual rate of return to the investor of approximately 5.6 percent as a result of the credits alone.

If the investor wants to receive a rate of return equivalent to the market rate (in this example, 8 percent), the CDE could drop the interest rate to the borrower (QALICB) to as low as 2.4 percent.[37] And while the investor receives a market return, the borrower, with a 2.4 percent loan, saves $3.9 million in interest expense over the course of the seven-year compliance period.[38] With this structure, the investor expects either to recover all of its initial investment at the end of the compliance period or to convert its investment in the CDE into a conventional loan to the QALICB.

[37] Rounded from 2.4286 percent.

[38] No fees are reflected in this example.

Table 2: Comparative Distribution of NMTC Benefits

	Scenario A: Market rate loan (no NMTCs)	Scenario B: NMTC standard transaction	Scenario C: NMTC leverage structure transaction
CDE loan to QALICB	$10 million loan	$10 million loan	$10 million loan in A-note and B-note
Interest rate	8%	2.4%	8% (A-note) 1% (B-note)
Interest revenue	$5,600,000	$1,700,020	$4,502,400
Tax credits	$0	$3,900,000	$3,900,000
Total financial benefit	$5,600,000	$5,600,020	$8,402,400
Net benefit after put/call $2,800,000	Not applicable	Not applicable	$5,602,400
Borrower cost: interest payments	$5,600,000	$1,700,000	$4,502,400
Borrower savings			
Interest expense	$0	$3,899,980	$1,097,600
Equity	$0	$0	$2,800,000
Effective subsidy	$0	$3,899,980	$3,897,600

Source: OCC

Banks have used this structure to offer low-interest loans to qualifying customers. In some cases, banks have developed standardized paperwork and processes to minimize NMTC transaction costs. This allows the banks to use the NMTC with smaller transactions than allowed by the leverage structure described below. With a steady stream of customers demanding smaller transactions, CDEs can more easily redeploy any funds repaid during the seven-year compliance period to other borrowers and avoid any violations of the "substantially all" requirement.[39] The CDE can receive principal repayments during the compliance period and the money can be re-lent to additional borrowers relatively quickly and efficiently. This ability to make loans for shorter terms and lower amounts makes the standard transaction model particularly attractive for lending to operating businesses.

Leverage Structure Transactions

Under the leverage structure, the NMTCs are used to leverage additional investment into a project. The leverage structure can offer more attractive returns to investors than the standard structure, attracting more capital to the program. The leverage structure also benefits the QALICB differently than the standard transaction structure. Typically, a portion of the investor's equity is sold to the QALICB for a nominal price at the end of the seven-year compliance period rather than being returned to the investor. This boost in the owner's equity allows for greater access to conventional financing at standard LTV ratios.

[39] See definition in appendix B for more information on the "substantially all" requirement.

NMTC investments using the leverage structure differ from those using the standard structure.[40] (See figure 3.) In the leverage structure, the equity investor borrows from a leverage lender, blends those borrowed funds with its own cash, and then uses the blended funds to make a QEI into a CDE (again, typically through a sub-CDE created as a single-transaction entity). Typically, the equity investor receives tax credits on the full amount of the QEI, and the leverage lender receives interest on the amount borrowed by the equity investor.[41]

To execute a leverage structure transaction, the equity investor forms a wholly owned limited liability entity called an Investment Fund. The equity investor capitalizes the Investment Fund with an amount of cash equivalent to the present value of the stream of tax credits that will be generated by the investment. Industry practitioners reported that the investor's contribution is typically 25 percent to 28 percent of the total amount of the QEI that will go into the CDE.[42] The leverage lender makes a nonrecourse loan to the Investment Fund.

The borrowed funds and the equity investor's cash are pooled in the Investment Fund and used to make a QEI into a CDE. The CDE then makes a QLICI into a QALICB. The CDE may make two loans into the QALICB: an A-note in the amount of the leverage lender's debt contribution to the Investment Fund, and a B-note at below-market rates equal to the amount of the equity investor's contribution less any fees retained by the CDE.

The CDE passes the tax credits and interest earned on the investment (less any fees) back to the Investment Fund, where they are distributed to the equity investor and leverage lender. The equity investor receives the full amount of tax credits generated by the pooled investment. This substantially increases the return the equity investor receives on its equity contribution. The leverage lender receives interest-only payments on the leverage loan throughout the seven-year compliance period. The interest rate earned by the leverage lender can be at or near market rates.

The equity investor normally receives a sufficient return on its investment from tax credits alone. NMTC leverage structure agreements typically allow the QALICB or an affiliate of the QALICB to purchase the investor's interest in the Investment Fund through a "put/call" technique[43] that generates a subsidy or grant equivalent in the amount of the B-note less the negotiated purchase price. The QALICB or affiliate then repays or

[40] IRS Revenue Ruling 2003-20. See www.cdfifund.gov/docs/2003_nmtc_irs_borrowed_funds_Qual_equity_invstmnt.pdf.

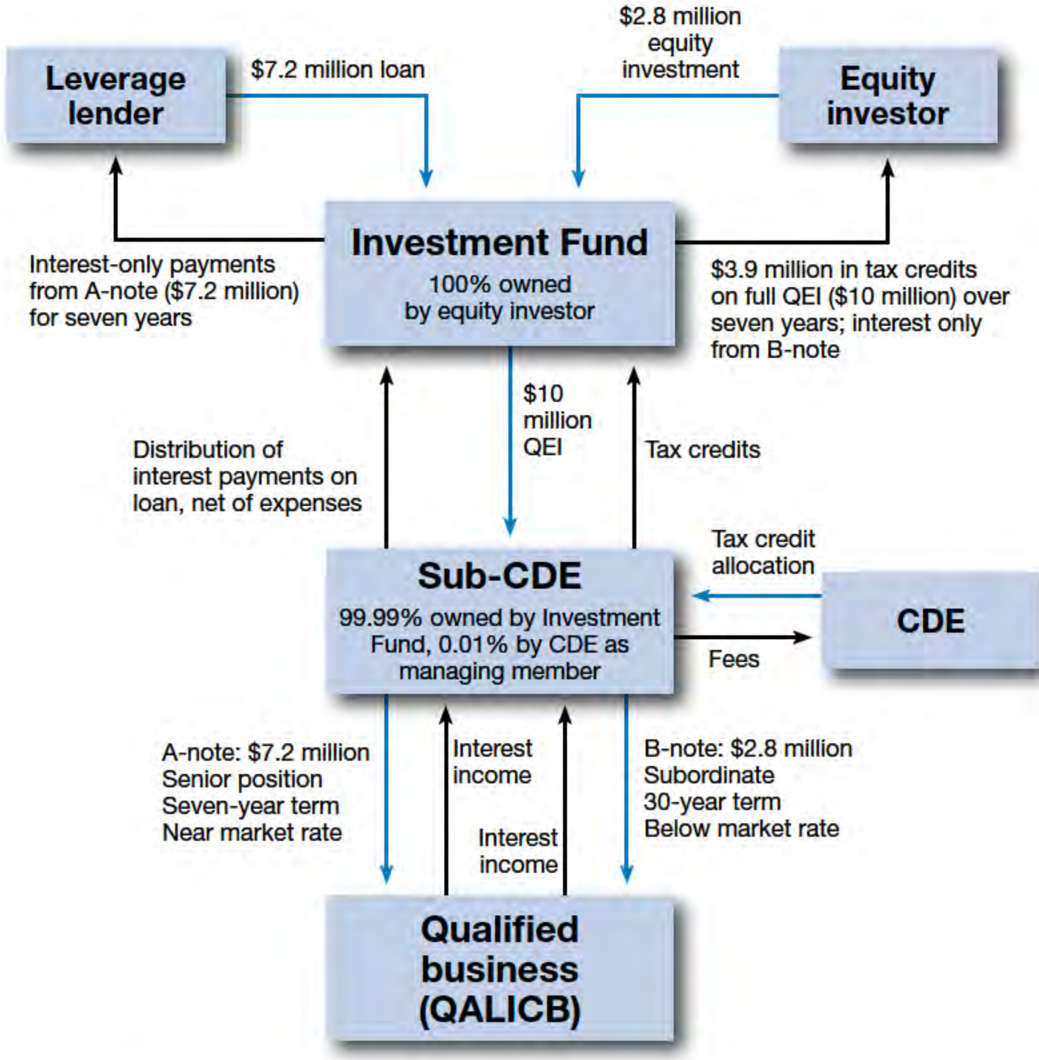
[41] Banks may be both investor and leverage lender on a leverage structure transaction.

[42] The leverage structure allows equity investors flexibility in pricing their purchase of tax credits. The amount of tax credits that can be claimed is fixed, given the amount of the QEI. In the leverage structure, the equity investor typically receives the entire amount of credits available from the QEI (including the equity and the borrowed funds). Because the relative contribution by the equity investor into the QEI can vary in a leverage transaction, so too can the return that the equity investor receives from the credits. For example, an equity investor receives $3.9 million in tax credits with a $10 million QEI, regardless of whether the investor contributed $2 million or $2.8 million of equity. Pricing is subject to market forces.

[43] A put option is a contract that gives the holder of the contract the right to sell all or a portion of its interest in a security to a specified entity at a predetermined price. Conversely, a call option gives the holder the right to purchase all or a portion of an interest in a security from a specified entity at a predetermined price. In the case of the NMTC leveraged structure, CDEs generally structure transactions so that the tax credit investor may "put" its tax credit equity to the QALICB or the QALICB may "call" the tax credit equity from the investor for a predetermined price at the end of the seven-year period. See GAO, *The New Markets Tax Credit The Credit Helps to Fund a Variety of Projects In Low-Income Neighborhoods, But Could be Simplified,* GAO-10-334, January 2010.

renegotiates the A-note with the leverage lender. A key assumption behind this structure is that after seven years of operation the QALICB will be a stronger credit, particularly with the improved LTV ratio as a result of the NMTC equity being absorbed into the project.

Figure 3: NMTC Leverage Structure Transaction



Source: OCC

Returning to table 1, in scenario C we can see how the returns to investors and benefits to the QALICB differ in the leverage structure. The $10 million QEI is made up of $2.8 million in investor equity and a $7.2 million leverage loan. Because the investor receives tax credits on the entire QEI (39 percent of $10 million, or $3,900,000), the return to the investor is increased to 9 percent, a substantial increase when compared with the 6 percent return earned under the standard transaction model.

In this example, the investor also receives 1 percent interest from the B-note,[44] and the leverage lender receives an 8 percent interest-only rate on its loan of $7.2 million. Together, the equity investor and the leverage lender receive $8.4 million in interest

[44] In some cases, the interest earned on the B-note pays for asset management and servicing fees.

expense and tax benefits, considerably more than the $5.6 million received through either the market transaction or standard transaction scenarios. Because it is expected, however, that the QALICB will purchase the equity investor's interest in the Investment Fund for a nominal fee, in the leverage structure scenario the return is discounted by $2.8 million, the amount of the equity investor's interest in the Investment Fund.

The borrower in the leverage structure still benefits from a lower interest rate on its loan from the CDE (a 6.43 percent blended rate[45] on the entire $10 million loan), although the discount is not as steep as in the standard transaction model. In the leverage structure, the QALICB realizes a benefit from the equity left in the project at the end of the compliance period, as well as savings in interest. As can be seen in the "borrower savings" section of table 1, the amount of subsidy in the leverage structure remains the same as in the standard or subsidized interest rate model, but the subsidy is deployed differently.

Lenders are attracted to the NMTC leverage structure because it helps them make loans at or near market rates with a more favorable LTV ratio. The leverage structure is attractive to equity investors because the returns they achieve when using the leverage structure are much higher than they would achieve using the standard transaction model. The return for investors increases from approximately 5 percent to 6 percent in the standard model to 9 percent to 10 percent in the leverage structure, depending in part on how much the equity investor pays for the credits. In addition, the risks for the equity investor are more limited in the leverage structure than they are in the standard model because the equity investor in a leverage transaction does not need to recover its initial investment in order to achieve a financial return.

Several examples of leverage structure transactions are illustrated in appendix A. Banks can use the leverage structure to strengthen loans to customers. Project sponsors can use the attractive rates of return offered with the leverage structure to attract equity investors that might not normally participate in a community development project. Traditionally, banks have been the principal source of leverage loans to NMTC transactions. Increasingly, new sources of hard and soft debt, such as debt from public and philanthropic sources, have been used in leverage transactions. Moreover, multiple banks and other entities can participate on both the debt and equity sides to bring transactions to scale.

The leverage structure is not appropriate for all circumstances. This structure raises the complexity and therefore the costs of the transaction. Some industry experts have suggested a minimum size for a leverage transaction of about $5 million to $10 million to justify the higher transaction costs. The leverage structure is generally less appropriate when the interest rate on the loan needs to be well below market, for example, when the DCR is more important than the LTV ratio. With smaller transactions, or deals in which fees and transaction costs need to be minimized, alternative NMTC structures should be considered.

Multiple-CDE Transactions

Larger NMTC projects can involve multiple CDEs. Each of the contributing CDEs provides a portion of the equity in a transaction, limiting each CDE's exposure and allowing it to participate in larger transactions than it could individually. Multiple-CDE transactions can be more expensive, because each CDE must expend transaction fees

[45] The A-note of $7.2 million has an interest rate of 8 percent, and the B-note of $2.8 million has an interest rate of 1 percent, generating $643,200 in interest payments annually.

for due diligence, document preparation, closing costs, ongoing asset management and audit fees, and closing costs at the end of the compliance period. CDEs participating in these types of transactions have begun to explore cost-sharing arrangements to reduce duplicative efforts and make the transactions more efficient.

Twinning

Commercial real estate projects that combine federal NMTCs with state NMTCs,[46] historic rehabilitation tax credits[47] (HTC), or renewable-energy investment tax credits[48] (ITC)—often referred to as "twinned" transactions—have been popular with some bank investors, because the blend of NMTC and HTC or ITC equity increases the return for investors in these projects and enables transactions that previously were considered unattractive to be financed.[49]

IV. What Are the Key Risks and Regulatory Issues Associated With the NMTC Program?

The risks a bank may face in an NMTC transaction depend in part on its role in the transaction. Bank investors in NMTCs are concerned with acquiring and using the credits over the seven-year compliance period. Both investors and allocatees want to avoid recapture of the credits by ensuring compliance with program requirements. Leverage lenders want their loans repaid and face challenges that often differ from those presented by conventional financing. And, regardless of role, banks have accounting and regulatory issues to consider.

Key Risks

Recapture Risk

Under the NMTC Program, tax credits can be recaptured if

- the CDE ceases to be a CDFI Fund-certified CDE,
- "substantially all"[50] of the QEI proceeds are no longer continuously invested in QLICIs, or
- the CDE redeems[51] the equity investment.

Generally, if the transaction is structured properly and compliance is up to date, the risk of recapture is low.

The penalties for recapture are severe, however, when compared with other types of community development tax credits. When the recapture provisions are triggered at any point during the seven-year compliance period, 100 percent of the credits are recaptured,

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[46] More than a dozen states have developed programs that work similarly to the federal NMTC program but offer a reduction of state tax liability. Most are designed to work in tandem with the federal program.

[47] Historic rehabilitation tax credits provide a reduction in federal taxes in exchange for investments in the rehabilitation of historic buildings.

[48] The renewable-energy investment tax credit program reduces federal income taxes by offering a 30 percent tax credit to owners or long-term lessees for qualified property that meets established performance and quality standards.

[49] The OCC report "U.S. Bank Invests in Solar Installations In Affordable Housing Communities" (July 2011) includes an illustration of a transaction that twinned NMTC and ITC. The report can be found in *Investing in Solar Energy Using the Public Welfare Investment Authority* at www.occ.gov/static/community-affairs/community-developments-investments/solar11/cdesolar11_index.htm.

[50] See appendix B for more information.

[51] Treasury Regulations section 1.45D-1(e)(2)(iii). See IRS LMSB-04-0510-016, *New Markets Tax Credits* (May 2010) for more information, including how redemption is defined for different types of CDEs.

along with interest and penalties, for the entire period. Because the tax credit investor's financial return comes primarily from the tax credits, recapture has significant negative consequences.

A CDE's designation as a CDE lasts for the life of the organization, provided the CDE continues to comply with NMTC Program requirements. To maintain its status as a CDE, the CDE must demonstrate that at least 60 percent of its products and services are directed toward serving low-income communities or individuals and that at least 20 percent of its governing or advisory board members are representatives of a low-income community within the CDE's service area. A CDE may be required, on an annual basis, to certify to the CDFI Fund that it continues to meet its primary mission and accountability requirements. A CDE with NMTC allocations (from the CDFI Fund or another CDE) may be required to provide additional reports.[52] NMTC investors are generally advised to check annually that a CDE is fulfilling its accountability requirements.

CDEs are required to have "substantially all" of the QEI proceeds invested in QLICIs. CDEs must invest the proceeds of a QEI within one year, and fees cannot exceed 15 percent of the QEI. Violations of the "substantially all" test may occur after the initial QLICI investments have been made if a CDE is making QLICIs of less than seven-year maturities, if a QALICB is in a foreclosure situation, or if the CDE steps in as owner of a QALICB. CDEs have 12 months to reinvest any QLICIs that are repaid or recovered. CDEs that are at risk of not meeting the "substantially all" test should develop a pipeline of additional QLICI opportunities.[53] CDEs with QALICBs facing foreclosure should thoroughly understand the responsibilities and options of a CDE in this situation.

A QEI cannot be redeemed during the seven-year compliance period. Generally, QLICIs are not amortized because the payments cannot be passed upstream to the investor and "substantially all" of the QEI must be invested in QLICIs throughout the compliance period. When there is a recovery of nonaccruing funds, however, and in certain circumstances in which credits are twinned, additional scrutiny may be necessary to avoid redemption.

Industry practitioners advise that the strength of the CDE is a key factor in the decision to invest in an NMTC project. The investor is entering into a seven-year relationship with the CDE, and it is important that the CDE have the capacity and expertise to manage the investment throughout the compliance period. The investor often wants to see that the CDE has a track record of successfully developing and managing NMTC investments. The CDE also needs to have the systems in place to assure that it meets the requirements of a CDE and that "substantially all" of the proceeds of the QEI are invested in QLICIs.

Default Risk

Allocatees, investors, and lenders all have strong incentives to see NMTC projects thrive. Standard-structure investors and leverage lenders both expect to receive interest income over the seven-year compliance program, as well as the repayment or refinancing of their initial investment. Because leverage structure investors derive most or all of their

[52] CDFI Fund, *New Markets Tax Credit Program CDE Certification Question and Answer*, July 2005.

[53] To encourage working capital and equipment loans to non-real estate businesses, new regulations were adopted that allow a CDE that makes a QLICI in a non-real estate business to invest certain returns of capital from these investments in unrelated CDFIs that are CDEs. See *New Markets Tax Credit Non-Real Estate Investments, Federal Register,* Vol. 77, No. 89, pages 59544–59547 (September 28, 2012).

financial return on the NMTC investment from the tax credits, and the tax credits will continue even if the project goes into bankruptcy, they may be seen as having less risk. However, recovery of all or a portion of the original QLICI puts the investment at risk with the "substantially all" test, which may lead to recapture if not properly reinvested within 12 months of recovery.

Nonpayment risk can be mitigated with sound underwriting of both the CDE and the QALICB. Investors and lenders should look for a CDE with a strong track record in NMTC or similar types of investments. The CDE should have proven capabilities in identifying and underwriting NMTC-like investments, asset and risk management, NMTC compliance, and raising equity and market rate lending capital. The CDE should be financially sustainable throughout the seven-year compliance period and subsequent unwinding of the transactions. The CDE should also have a pipeline of qualifying projects and suitable underwriting and advisory procedures to reasonably ensure that the projects are consistent with community needs and priorities.

Leverage loans are underwritten and risk-rated according to traditional underwriting standards. Bank leverage loans are often underwritten by specialized lending departments (i.e., retail, institutional, or commercial real estate) rather than the community development departments where NMTC programs are commonly located.

Leverage lenders have challenges that differ from those raised by conventional financing. Because the collateral on the loan is held by the CDE, the leverage lender has only an indirect security on the loan. To avoid triggering the recapture provision if "substantially all" of the QEI does not stay invested during the entire seven-year compliance period, leverage lenders are typically bound by standstill agreements that permit the lender to collect only interest during the seven-year compliance period. Additionally, forbearance agreements restrict the ability of the leverage lender to foreclose during the compliance period. If the CDE does foreclose on a QALICB, the proceeds are usually reinvested in another project.

Most bank leverage lenders interviewed reported few material concerns with these requirements, although some also referred to the use of "work-around" procedures to mitigate the effects of these requirements. For example, the lack of amortization during the seven-year compliance period could be a concern. Some banks described using sinking funds, with the borrower depositing any excess cash after expenses into a reserve, as a way to mitigate the lack of amortization. After the compliance period ends, the proceeds of the sinking fund are then used to retire the principal in a lump sum.

In the case of foreclosure and redeployment, funds must be redeployed within 12 months of the cash being returned to the CDE. Because the process of foreclosure starts well before the return of funds, this gives the partners adequate time to find another transaction. The leverage lender may negotiate a time period (usually six months) to find and suggest a new project that meets their needs and credit standards. The leverage lender may also require specific underwriting standards (i.e., LTV or DCR) for a period. Eventually, however, all of the restrictions imposed by the lender expire, and the CDE can make a decision unilaterally to invest in another project before the deadline triggering recapture.

Reputational Risk

Banks also need to consider reputational risk. The NMTC Program was created to meet the public goals of revitalizing low-income communities and assisting low-income individuals. Banks participating in NMTC transactions need to consider how these public goals are being met, how the community supports the project being financed, and how the benefits to low-income communities and individuals are documented. CDEs may ask a QALICB to sign a Community Benefits Agreement that outlines the goals of the project and details responsibilities for tracking community impact, including jobs and the provision of community services. Failure to adequately identify and document community support and community impact may violate allocation agreements[54] with the CDFI Fund, and could result in negative publicity on the use of public funds.

Liquidity Risk

Because no mature secondary market exists for these investments, NMTCs are highly illiquid. Bank investors should enter the NMTC Program with the understanding that the investment will most likely be held for the full seven-year compliance period; consequently, they should project taxable income for the duration of the investment term when determining their tax credit appetite. Bank investors should also consider that the NMTCs can be carried back one year and carried forward for 20 years.

Regulatory Issues

Accounting Issues

A bank can invest in NMTCs through direct investments into a bank-owned or third-party CDE (LP or LLC), or through a bank-owned Investment Fund (leverage structure transactions) or through a syndicated NMTC equity fund (LP or LLC). The accounting treatment for these investments is dictated by accounting rules governing partnerships and limited liability entities. Banks making investments in NMTC projects through direct investments or through leverage structure transactions should refer to the call report instructions (glossary sections Equity Method of Accounting and Subsidiaries) and generally accepted accounting principles for guidance on accounting for these investments.[55]

Investment Authority

National banks: Under the OCC's public welfare investment (PWI) authority, national banks may invest in NMTC and other community and economic development entities (CEDE) and projects that are designed primarily to promote the public welfare, as specified in 12 USC 24(Eleventh) and federal regulation 12 CFR 24. Regulation 12 CFR 24 states that a national bank or national bank subsidiary may invest directly or indirectly if the investment primarily benefits low- and moderate-income individuals, low- and moderate-income areas, or other areas targeted by a governmental entity for redevelopment, or the investment would receive consideration as a "qualified investment" under 12 CFR 25.23 of the CRA. Because NMTC investments generally meet these criteria, they are eligible under this authority.

Regulation 12 CFR 24 requires that a bank's aggregate PWIs and outstanding commitments, including the proposed investment, cannot exceed 15 percent of its capital and surplus. A bank needs written OCC permission, however, if its aggregate investments

[54] See appendix B for the definition of an allocation agreement.

[55] See Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 323-30, Investments–Equity Method and Joint Ventures–Partnerships, Joint Ventures, and Limited Liability Entities (formerly, EITF Issue No. 03-16, "Accounting for Investments in Limited Liability Corporations").

exceed 5 percent of capital and surplus. Furthermore, under 12 CFR 24, a bank's NMTCs and other PWIs may not expose it to unlimited liability.[56]

Regulation 12 CFR 24 requires banks to notify the OCC either through an after-the-fact notification or through a prior approval request process. Generally, a bank completes the CD-1-National Bank Community Development form to provide information about its PWI. The bank then sends the form to the Community Affairs Department of the OCC.[57]

If the CEDE[58] in which a national bank invests limits its activities to making loans to small businesses under the NMTC Program, the bank may invest in the CEDE either as an operating subsidiary or as a noncontrolling equity investment if the requirements in 12 CFR 5.34 or 5.36, respectively, are satisfied. Such investments are not subject to the limitations of 12 CFR 24.[59]

Federal savings associations: In addition to their general lending and investment authorities, federal savings associations (FSA) may use the following authorities to make PWIs, including investments in projects involving NMTCs:

- De minimis investments, under 12 CFR 160.36[60]
- Community development-related equity investments in real estate under
  - the Home Owners Loan Act (HOLA) 5(c)(3)(A)
  - 12 CFR 160.30
  - May 10, 1995 letter[61]

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[56] 12 CFR 24.4(b).

[57] Each national bank making a PWI under 12 CFR 24 shall maintain in its files information adequate to demonstrate that its investments meet the public welfare beneficiary standards and investment limit requirements.

[58] A CEDE is an entity that makes investments or conducts activities that primarily benefit low- and moderate-income individuals, low- and moderate-income areas, or other areas targeted by a governmental entity for redevelopment, or would receive consideration as "qualified investments" under 12 CFR 25.23. The following is a nonexclusive list of examples of the types of entities that may be CEDEs: (1) national bank community development corporation subsidiaries; (2) private or nonbank community development corporations; (3) CDFI Fund-certified Community Development Financial Institutions or Community Development Entities; (4) limited liability companies or limited partnerships; (5) community development loan funds or lending consortia; (6) community development real estate investment trusts; (7) business development companies; (8) community development closed-end mutual funds; (9) nondiversified closed-end investment companies; and (10) community development venture or equity capital funds.

[59] See "Legal Authority for Bank Investments in Subsidiary Community Development Entities and New Markets Tax Credits" at www.occ.gov/topics/community-affairs/resource-directories/public-welfare-investments/common-part-24-questions.html.

[60] Under the de minimis authority, the FSA may invest, in the aggregate, less than or equal to the greater of 1 percent of capital or $250,000 in community development investments of the type permitted for a national bank under 12 CFR 24, including investments in NMTCs.

[61] Under HOLA 5(c)(3)(A), the FSA may make investments in real property and obligations secured by liens on real property located in areas "receiving concentrated development assistance by a local government under Title I of the Housing and Community Development Act of 1974." To be permissible for investment, the real estate (including NMTC projects) must be located within a geographic area or neighborhood that receives assistance or is covered by, for example, the U.S. Department of Housing and Urban Development's Community Development Block Grant program. Under 12 CFR 160.30, which covers the general lending and investment powers of FSAs, an FSA's aggregate community development loans and equity investments may not exceed 5 percent of its total assets, provided that its equity investments do not exceed 2 percent of total assets. The qualitative standards for such loans and investments are explained in an opinion of the Office of Thrift Supervision (OTS) Chief Counsel, dated May 10, 1995. If the FSA meets all the standards, then it would not need to provide notice to the OCC.

- Investments in Service Corporations and Lower-Tier Entities for community development investments, under 12 CFR 159[62]

Generally, an FSA is not required to seek approval for or provide notice to the OCC for public welfare investments using the de minimis authority (12 CFR 160.36) or the equity investments in real estate (HOLA 5(c)(3)(A)) that comply with the May 10, 1995 letter.[63] If the FSA meets the standards in the May 10, 1995 letter but is not eligible for expedited treatment pursuant to 12 CFR 116.5, then the FSA would be required to provide notice to the OCC Community Affairs Department at least 14 calendar days before making the investment. If the FSA does not meet the standards in the May 10, 1995 letter, then the FSA must seek a no-action letter from the OCC. Investments in service corporations and lower-tier entities for community development activities, under 12 CFR 159, are subject to prior notice to or approval by the OCC. The FSA should follow the filing requirements outlined under 12 CFR 159.11.

V. Who Is in the New Markets Tax Credit Program Today?

As of July 2012, 5,780 entities have been certified by the CDFI Fund as CDEs.[64] Through FY 2012, the most recent year of allocations, 749 award allocations have been made for a total of $36.5 billion. In the 2012 awards, more than half (58 percent) of the awardees (or sponsors) identified themselves as nonprofit organizations, followed by certified CDFIs (31 percent). Approximately 14 percent of awardees identified themselves as non-CDFI banks or bank holding companies. Nine percent identified themselves as real estate companies, and 15 percent as governmentally controlled entities.[65] Of the allocatees, 48 percent offer services nationally, 16 percent offer services across multiple states, 18 percent are limited to a single state, and 18 percent serve a local area. Based on the initial estimates of the allocatees, most (54 percent) of the investments are projected to be made in major urban areas,[66] with 24 percent projected in minor urban areas[67] and 22 percent in rural[68] areas.[69]

According to the NMTC Coalition, regulated financial institutions have been the principal source of investment capital for the program since its inception. In 2012, CDEs reported that 86 percent of QEI investment dollars secured in 2011 came from regulated depository institutions.[70]

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[62] Under the authority of 12 CFR 159, the FSA may make investments in service corporations and lower-tier entities that engage in community development activities. A service corporation may engage in certain preapproved activities, including those that serve primarily community, inner-city, or community development purposes, including investments in NMTC projects. The FSA may invest up to 3 percent of its assets in service corporations, but any amount exceeding 2 percent must serve "primarily community, inner-city, or community development purposes."

[63] The FSA should maintain appropriate documentation to ensure that its community development investments conform to the statutory and regulatory requirements governing those investment authorities.

[64] According to the CDFI Fund, 5,780 organizations were certified as CDEs as of July 31, 2012.

[65] Applicants could identify themselves in more than one category.

[66] Counties in metropolitan areas with a population greater than or equal to 1 million.

[67] Counties in metropolitan areas with a population of less than 1 million.

[68] Nonmetropolitan counties.

[69] CDFI Fund, *2012 New Markets Tax Credit Program Allocations*, 2013.

[70] NMTC Coalition, *The New Markets Tax Credit Progress Report 2012*, June 2012.

In 2012, 82 percent of NMTC CDEs that responded reported using the leverage structure to raise capital. Leverage debt came from a variety of sources, including from an NMTC equity investor, a financial institution other than the equity investor, a charitable donor, the project sponsor, or another business entity. For most of these CDEs (89 percent), 100 percent of their investment capital used the leverage structure.[71]

VI. How Does the Cost and Pricing Structure Work?

An organization considering becoming an NMTC allocatee needs to consider how it will fulfill the requirements of a CDE, including

- outreach.
- fundraising.
- identifying and underwriting investment opportunities.
- loan processing.
- asset management.
- project outcome tracking and reporting.
- compliance with NMTC rules and regulations.

In addition, NMTC transactions such as QEIs or QLICIs require specialized legal and accounting skills. A single NMTC allocation is a seven-year commitment, and the competitive nature of the application process makes annual allocations uncertain. Allocatees need to consider sustainability strategies that will enable them to meet the asset management requirements over the compliance period, and the closing requirements as the transactions unwind after year seven.

Large-bank CDEs have developed specialized NMTC programs that are augmented by the bank's traditional commercial and institutional underwriters and credit committees. Typically, the large banks combine staff with investment and CDE responsibility. Smaller community banks, generally with assets greater than $1 billion, have also developed CDEs using a limited number of dedicated staff and drawing upon existing bank resources as needed. In at least one case, a consortium of community banks has used a CDE that is housed in a trade association.[72] Most CDEs draw on specialized consultants to help them set up compliance and project-tracking systems and to audit those systems on an ongoing basis.

The revenue to support CDEs comes from fees. A CDE can retain up to 15 percent of the QEIs it receives, although in practice the amount retained is usually less than 5 percent.[73] CDEs may also charge origination fees, management fees, and closing fees at the end of the compliance period. Fees are one consideration in NMTC applications, but competitive pressures tend to keep these fees well below market rates and allowable program maximums.

The revenue stream for investors comes from the tax credits and interest payments on their investments, and investors are generally experiencing market returns. In the standard transaction model, the return to the investor is based on how much of the tax credit subsidy is passed on to the borrower in the form of interest rate savings. In the leverage model, the return is based upon the relative contributions of the investor and the

[71] Ibid.

[72] See Community Bankers Association of Indiana. The National Community Investment Fund also has an NMTC fund for CDFI banks.

[73] NMTC Coalition, *New Markets Tax Credit 10th Anniversary Report.* The report found that 96 percent of reporting CDEs had committed to investing at least 95 percent of their QEIs.

leverage lender. The price paid for the credits depends upon the time value of money and the market for credits. Based on the interviews that we conducted in 2011, investors were paying 65 to 73 cents on the dollar for credits, with most realizing returns in the range of 7.5 percent to 8.5 percent.

Leverage lenders receive interest-only payments on their loan over the course of the seven-year compliance period. Some leverage lenders, such as charitable or governmental entities, make leverage loans at significantly reduced interest rates. Bank leverage lenders typically realize returns at or near market rates.

VII. What Barriers Have Constrained the Growth of the NMTC Program?

Several factors have limited the growth of the NMTC Program:

Continuing congressional allocations: The NMTC Program requires continued allocations of credits from Congress. The Community Renewal Tax Relief Act of 2000 first authorized the NMTC Program through 2007. Subsequent legislation extended the program in one- or two-year increments, with the most recent authorization expiring in 2013.[74] The uncertainty of the program's future can be a disincentive for potential investors.

Limited credits: The amount of credits available to potential applicants is limited, making the award process very competitive. Over the first 10 years of the program, demand has outstripped the supply of tax credits by a margin of more than seven to one. The number of applicants for the 2011 round of allocation authority increased 26 percent over the number of applicants in 2010.

Costs and complexity: While continued innovation and development of the program has brought in new CDEs and leverage lenders, program complexity and high transaction costs can be significant barriers to new investors. NMTC regulations are complex, and penalties for noncompliance can be severe. Triggering recapture, even in the later years of the investment, can affect all of the credits previously claimed. The high, mostly fixed transaction costs have encouraged larger transactions, and limited the ability of smaller transactions to be economically feasible.

The CDFI Fund has been effective in promoting greater diversity among allocatees and investment types. The types of CDEs are quite diverse, and their numbers have increased every year. In addition, the IRS adopted rule changes that are designed to make it easier to invest in operating businesses.[75] These new rules are expected to help diversify the types of investments made through the program beyond real estate-related investments.

[74] The Gulf Opportunity (GO) Zone Act of 2005 allocated an additional $1 billion of NMTCs for qualified areas affected by Hurricane Katrina for three years; the Tax Relief and Health Care Act of 2006 provided a one-year allocation in 2006; and the Tax Extenders and Alternative Minimum Tax Relief Act of 2008 provided $3.5 billion in tax credits in 2008. The American Recovery and Reinvestment Act of 2009 allocated $3 billion in tax credits to be split equally between 2008 and 2009. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 provided an allocation limit of $3.5 billion in NMTCs both in 2010 and in 2011, and the act extended for two years, through 2016, the carryover period for unused NMTCs. The American Taxpayer Relief Act of 2012 allocated $3.5 billion each to 2012 and 2013.

[75] *New Markets Tax Credit Non-Real Estate Investments,* Federal Register, Vol. 77, No. 189, pp. 59544–59547, September 28, 2012.

The introduction of the leverage structure has brought in new lenders, including public and philanthropic lenders who offer debt at below-market rates. These new leverage lenders have, in turn, encouraged investors into new geographic areas and different types of projects. Practitioners have remarked that there has been a significant surge in the number of new leverage lenders over the past few years.

The number and type of investors still tends to be very concentrated, however, with a large percentage of QEIs coming from banks, and a significant portion of that investment coming from a limited number of large financial institutions. These investors have traditionally had a strong appetite for NMTCs and a high degree of familiarity with the program's complex structures, making these investors an easy first choice for many CDEs.

The NMTC Program does not have many of the incentives for new investors that are in place for other types of credits, however. There also is little transparency around the performance of NMTC investments, so potential investors seldom have up-to-date information on market conditions, pricing, credit recapture, delinquencies, and yields on investments. There is no formal secondary market for NMTCs. And NMTCs do not have the flexibility of other credits in providing Alternative Minimum Tax relief or the option of using the effective-yield method of accounting.

VIII. Conclusion

The NMTC Program has been very successful in bringing new investment into low-income communities and channeling that investment into projects that provide quality jobs and services for residents of low-income communities, and that stimulate additional economic growth. Banks have been important partners in that process by establishing CDEs and receiving NMTC allocations, by investing in NMTC initiatives through their own CDEs and in other third-party CDEs, and by lending funds through leveraged transactions.

Participating in the NMTC Program helps banks meet customer needs by providing an additional tool for making commercial transactions in low-income communities that they might not otherwise be able to make. The subsidy provided through the NMTC Program can be flexibly applied to meet the needs of the borrower. The NMTC Program can help banks serve their communities, and NMTC investments may be eligible for positive CRA consideration. Finally, participation in the NMTC program can provide attractive financial returns to banks, including but not limited to the tax credits.

Appendix A: Case Studies

Case Study One: Standard Model
Charter School Facility

QLICI: $3 million

Project overview: A nonprofit acquires a vacant parochial school building in a low-income neighborhood, and is seeking financing to refurbish and update the classrooms and recreational facilities that will be leased to a charter school.

Tax credit project financing: A national bank-owned CDE uses its NMTC allocation to provide $3 million in financing to the QALICB, the nonprofit sponsoring the development of a charter school facility. The financing consists of a $3 million senior loan, developer cash equity of $50,000, and a municipal grant of $150,000 to purchase the existing building. The CDE, using the NMTC-enhanced standard financing structure, is the only private lender involved. The loan has a rate of 2.5 percent. Origination fees are half of what the bank normally charges its market rate customers. The loan is interest-only for seven years, a period that is substantially greater than the bank's normal practice. The LTV ratio is substantially higher than the bank's normal 70 percent ceiling. The loan will be refinanced after seven years without incurring any additional fees.

Case Study Two: Standard Model
Business Loan Pool

QLICI: Ranges from $25,000 to $300,000

Project overview: A community bank with assets of $3 billion has a strong history of outreach that has provided a robust pipeline of loans to businesses throughout its service area. In some of the low-income areas, however, it has been difficult to make loans where property values and sales are weaker than normal. The areas are showing signs of some growth, largely from an active immigrant community, and before a recent recession the areas were seeing signs of an economic resurgence. The bank uses NMTCs to set up a loan pool that could provide low-interest loans with flexible terms to businesses located in these communities.

Tax credit project financing: A $20 million loan fund is created using NMTCs. The community bank provides two $10 million QEIs to capitalize the loan fund. The rates and terms of the loans available through the fund are standardized. Rates and fees are approximately half of market rates, and the term can range from one to five years. The loans fully amortize. The bank is able to remain in compliance with the "substantially all" test by relending the funds to additional borrowers as the principal is repaid on the initial loans made by the CDE. Loan officers originating commercial loans are required to check all business loans being rejected under conventional financing criteria for eligibility under this program.

Case Study Three: Leverage Structure
Single-Bank Upgrade to an Existing Industrial Use

QLICI: $17 million

Project overview: A commercial lending department in a bank with a NMTC allocation has a loan request from an established customer looking to upgrade an existing facility where electric motors used in industrial applications are manufactured. The facility is located in a low-income neighborhood and has been a major employer in the area. The project is expected to create 100 well-paying jobs and retain 200 additional jobs by modernizing an aging industrial facility. The local industrial development authority has committed to provide $3 million in soft[76] debt. The completed facility has an appraised value of $25 million. The financials on the project are good, but the LTV is below bank credit standards.

Project financing: The commercial lending department contacts the community development department, and they determine that the project is eligible for NMTCs. An Investment Fund is created, with the community development department providing the equity portion of the investment ($4,773,600) and the commercial lending department providing the leverage loan ($12,226,400). Using the pooled funds, the Investment Fund makes a $17 million QEI into a bank-owned CDE. The CDE then makes two loans into the industrial business, a senior A-note at near market rates (6 percent) and a B-note at 1 percent interest, both with interest-only payments for seven years. (For the borrower, the blended interest rate is 4.6 percent.) The combined rate for the loans is approximately 300 basis points below market. The B-note has a put/call option that allows the business to purchase the note at a nominal rate at the end of the seven-year compliance period. Over the compliance period, the A- and B-notes earn $6,250,560 in interest, and the equity investment provides $6,630,000 in tax credits, providing a return to the bank of approximately 10.5 percent before taxes.

[76] Soft debt is debt, usually from a public or philanthropic source, that is subordinate to other debt in the project and repayment is required only when there is sufficient cash flow.

Case Study Four: Leverage Structure
Pooled Third-Party Leverage Lender
Primary Health Care Facility

QLICI: $13 million

Project overview: A nonprofit agency is sponsoring the development of a new community health facility in an underserved low-income community. The new health facility will provide primary care to a community with very low rates of private health insurance coverage. Primary care in communities with low rates of private insurance has proven to lower public costs for emergency room care. The nonprofit agency has raised debt and grant contributions from a variety of sources, but a $3.5 million gap in the financing remains. The nonprofit agency pools all of this debt and grant funding, and offers this pooled funding as a leverage loan to a NMTC equity investor.

Project financing: The institutional lending department of the bank investor reviews the transaction and determines that the project will work with a NMTC investment. An Investment Fund is formed by the bank, a $3,650,400 bank equity investment is pooled with $9,360,000 from the nonprofit agency, and a $13 million QEI is made into the CDE. The CDE then lends the money into the project using an A-note and a B-note. The A-note earns near market rate interest, and the B-note, equivalent to the bank equity investment, earns 1 percent interest, with interest-only payments for the first seven years. A put/call option is put in place that allows the B-note to be purchased by the borrower at a nominal rate at the end of the compliance period. The bank equity investment earns $5,325,528 in interest and tax credits over seven years, providing a 6.5 percent return to the bank.

Case Study Five: Leverage Structure
Multi-Bank Participation
Biomass Facility

QLICI: $80 million

Project overview: A company proposes a biomass facility that will create 150 new jobs in an area with high unemployment as a result of the collapse of the timber industry. The proposal is shown to a group of local bank representatives who then contact a CDE experienced in this type of development.

Project financing: Because the deal is bigger than any single bank can handle alone, the participation of multiple banks is necessary. The banks put together an $80 million QEI using the leverage structure. Two banks agree to provide $22,464,000 of equity into the transaction, and three banks provide $57,536,000 in debt financing as the leverage lender.

Appendix B

Glossary of Terms

Allocatee: An applicant that receives an NMTC allocation.

Allocation agreement: Executed by the CDFI Fund and the allocatee, and the subsidiary allocatee, as applicable. The agreement contains terms and conditions governing the uses of the NMTC allocation, including, but not limited to, delineating service area(s) and targeted population(s) that the allocatee will serve and the favorable underwriting terms and conditions that will be used in providing financial assistance. The agreement also specifies events of default and recapture and the remedies available to the CDFI Fund, including reporting to the IRS, which would make the determination as to whether an event of recapture has occurred.

Areas of significant distress: Areas where the unemployment rate exceeds 1.5 times the national average, poverty rates exceed 30 percent , and median incomes are at or below 60 percent of area medians.

Community development entity (CDE): Any domestic corporation or partnership, for federal tax purposes, certified as a CDE by the CDFI Fund pursuant to IRC section 45D(c). Requirements for a CDE include that

- the primary mission of the entity is serving, or providing investment capital for, low-income communities or persons.
- the entity maintains accountability to residents of low-income communities through their representation on any governing board of the entity or on any advisory board to the entity.
- the entity is certified by the CDFI Fund as a CDE.

Gulf Opportunity (GO) Zone: That portion of the Hurricane Katrina disaster area determined to warrant assistance from the federal government to mitigate damage resulting from the hurricane. The Hurricane Katrina disaster area is an area that has been declared a major disaster area before September 14, 2005, under section 401 of the Gulf Opportunity Zone Act of 2005 (Public L. 109-135), by reason of Hurricane Katrina. The GO Zone is in effect until December 31, 2014.

Low-income community (LIC):

Any population census tract where the poverty rate for such tract is at least 20 percent; or (1) in the case of a tract not located in a metropolitan area, the median family income for such tract does not exceed 80 percent of statewide median family income; or (2) in the case of a tract located within a metropolitan area, the median income for such a tract does not exceed 80 percent of the greater of statewide median family income or the metropolitan area median family income.

- Targeted areas that include the following:
  - High Out-Migration Rural County Census Tract: a population census tract within a county which, during the 20-year period ending with the year in which the most recent census was conducted, has a net out-migration of inhabitants from the county of at least 10 percent of the population of the county at the beginning of such period, if the median family income for the census tract does not exceed 85 percent of statewide median family income;

— Low-Population/Empowerment Zone (EZ) Census Tract: a population census tract with a population of less than 2,000 if the tract is within an empowerment zone, and is contiguous to one or more low-income communities (not including other low-income communities in this category); and
— Targeted population: certain individuals, or an identifiable group of individuals, including an Indian tribe, who (1) are low-income persons; or (2) otherwise lack adequate access to loans or equity investments.

NMTC allocation: An allocation of tax credit authority pursuant to the NMTC Program. A CDE that receives an NMTC allocation is an allocatee. If applicable, an allocatee may transfer all or part of its NMTC allocation to a subsidiary allocatee(s).

Qualified active low-income community business (QALICB): Any corporation (including a nonprofit corporation), partnership, or other business that meets the requirements set forth in IRC 45D(d)(2) and 26 CFR 1.45D-1(d)(4). Requirements for a QALICB include, but are not limited to, the following:

- At least 50 percent of the total gross income of such entity is derived from the active conduct of a qualified business within any low-income community.
- A substantial portion of the use of the tangible property of such entity (whether owned or leased) is within any low-income community.
- A substantial portion of the services performed for such entity by its employees are performed in any low-income community.

Qualified equity investment (QEI): An equity investment in a CDE that meets the requirements of IRC section 45D(b) and 26 CFR 1.45D-1(c). "Substantially all" of the investment must be made into a QLICI.

Qualified low-income community investment (QLICI): This term has the same meaning as set forth in IRC section 45D(d) and 26 CFR 1.45D-1(d). QLICIs include

- loans to, or capital or equity investments in, any QALICB.
- the purchase from a CDE of any loan made by such entity that is a QLICI.
- financial counseling and other services to businesses located in, and residents of, low-income communities.
- any equity investment in, or loan to, a CDE.

Standard transaction: The basic financing structure, in which the NMTC investor provides a QEI to a CDE, which, in turn, makes QLICIs to QALICBs.

Leverage structure transaction: A more complex financing structure, resulting from IRS Revenue Ruling 2003-20, that permits the QEI from an NMTC partnership entity, or Investment Fund, to include cash from a nonrecourse or recourse (pursuant to Revenue Ruling 2010-17) loan (debt) in addition to equity capital, thereby "leveraging" the NMTC investment.

Service area: The geographic area that encompasses the low-income communities in which the allocatee is authorized to make QLICIs using the proceeds of QEIs.

Standstill agreement: An agreement between a lender and a borrower in which the lender stops demanding the repayment of a loan. In the case of an NMTC leverage structure transaction, the borrower is the Investment Fund. Generally, the Investment Fund negotiates a standstill agreement to stop a leverage lender from foreclosing on a QALICB during the NMTC compliance period and threatening recapture of the tax credits.

"Substantially all" requirement: "Substantially all" of the equity investment in a CDE must be in QLICIs. Treasury Regulations section 1.45D-1(c)(5)(i) defines "substantially all" to mean at least 85 percent. The "substantially all" requirement must be satisfied for each annual period in the seven-year credit period. For the first annual period, the requirement is considered met if the calculation is performed on a single testing date and the result is at least 85 percent. For all subsequent annual periods, the "substantially all" requirement is considered met if the calculation is performed every six months and the average of the two computations for the annual period is at least 85 percent. In the seventh year of the seven-year credit period, 85 percent is reduced to 75 percent. See IRS LMSB-04-0510-016, *New Markets Tax Credit*, May 2010.

Targeted population:

As defined in 12 USC 4702(20) and related CDFI Fund and IRS guidance documents, "targeted population" refers to individuals, or an identifiable group of individuals, including an Indian tribe, who (1) are low-income persons; or (2) otherwise lack adequate access to loans or equity investments.

There are two categories of eligible targeted populations under the NMTC Program:

Low-income targeted population (LITP): The LITP is composed of low-income persons. An individual is considered to be "low-income" if the individual's family income, adjusted for family size, is not more than (1) for metropolitan areas, 80 percent of the area median family income; and (2) for nonmetropolitan areas, the greater of 80 percent of the area median family income, or 80 percent of the statewide nonmetropolitan area median family income.

GO Zone targeted population (GZTP): The GZTP is composed of individuals who were displaced from their principal residences and/or lost their principal source of employment as a result of Hurricane Katrina. In order to meet this definition, an individual's principal residence or principal source of employment, as applicable, must have been located in a population census tract within the GO Zone that contains one or more areas designated by the Federal Emergency Management Agency as flooded, having sustained extensive damage, or having sustained catastrophic damage as a result of Hurricane Katrina.

Appendix C

Resource Directory

Community Development Financial Institutions Fund
www.cdfifund.gov

CDFI Coalition
www.cdfi.org/cdfiinst.asp

New Markets Tax Credit Coalition
www.newmarketstaxcreditcoalition.org

Novogradac New Markets Tax Credit Resource Center
www.novoco.com/NMTC/index.shtml

OCC Fact Sheet on New Markets Tax Credits
www.occ.gov/cdd/Fact_Sheet_NMTC.pdf

OCC Public Welfare Investments (12 CFR 24) Resource Directory
www.occ.gov/topics/community-affairs/resource-directories/public-welfare-investments/index-public-welfare-investments.html

David Black was the primary author of the most recent update to this report. Stephanie Caputo was the primary author of the original report published in 2007. *Community Developments Insights* reports differ from OCC advisory letters, bulletins, and regulations in that they do not reflect agency policy and should not be considered as definitive regulatory or supervisory guidance. Some of the information used in the preparation of this paper was obtained from publicly available sources that are considered reliable. The use of this information, however, does not constitute an endorsement of its accuracy by the Office of the Comptroller of the Currency.