



**Statement for House Ways and Means Select Revenue Measures Subcommittee
Hearing on Certain Expiring Tax Provisions, April 26, 2012**

Name/ Organization

Robert W. Davenport, President
National Development Council
708 Third Avenue, Suite 710
New York, New York 10017
212-682-1106
rdavenport@nationaldevelopmentcouncil.org

Thank you, Mr. Chairman for providing us with the opportunity to testify on these important matters.

The National Development Council (NDC) is one of the nation's oldest non-profit community development organizations (organized in 1969) with the mission to create economic opportunity for disadvantaged Americans, to create jobs for the unemployed, and to provide quality affordable housing to underserved urban and rural areas across the country.

To carry out our mission, NDC has become one of the nation's most active participants in the NMTC program. To date, we have deployed more than \$560 million of NMTC which in turn have leveraged over \$1.2 billion in 70 NMTC projects spread over 27 states across the nation.

Purpose of Statement

We are writing to support the

- extension of the New Markets Tax Credit, which expired on December 31, 2011, and
- The passage of HR 2655, the New Markets Tax Credit Extension Act of 2011.



America Needs NMTC

The NMTC program was enacted through a bi-partisan collaboration of Republicans and Democrats in the late 1990s. Enacted under President Clinton and implemented under President Bush, the NMTC program has proven to be one of the most vital, cost effective, flexible, and resilient tools for stimulating investment in underserved communities across America. Significantly, NMTCs generate tax revenues that are reducing the federal deficit.

NMTC are vital:

NMTCs create jobs, economic opportunity, entrepreneurship, and community pride and esteem in America's poorest communities. 73% of NMTC investments occur in designated areas of extreme economic distress.

For example, in Spartanburg SC, our \$7.3 million NMTC investment created a community shopping center for the severely distressed Southside Community that includes a grocery store (the first in many years), a minority owned pharmacy, an apparel store, a credit union, and several additional women and minority owned and self-sustaining businesses. The project created 35 permanent jobs and 75 construction jobs.

NMTC create jobs:

During its short tenure, NMTCs have created or retained more than 300,000 jobs across America, private sector jobs in areas that historically have persistently high unemployment and poverty rates.

For example, our \$10.6 million NMTC investment in rural St. Johnsbury VT helped finance a manufacturing facility for Weidmann Electrical Technology, Inc., a manufacturer of electrical insulation for transformers that created and retained more than 270 quality manufacturing jobs in this low income rural area.

NMTC are competitive and cost effective:

While it normally takes a \$92,000 investment to create a new job, because NMTCs are a shallow subsidy, it costs taxpayers only \$17,000 in foregone tax revenues to create a new job using NMTCs. As a result, NMTCs stimulate \$8 of private sector investment for every dollar of federal tax revenue foregone.



Because the number of projects eligible for NMTCs exceeds the availability of NMTCs by a wide margin, only the best and most competitive projects attract the least amount of a NMTC investment necessary to enable the project to go forward.

NMTC are flexible and demonstrate effective government:

One of the hallmarks of the NMTC program is its flexibility in meeting local needs by permitting almost any type of project to be financed. Some of the projects NDC has financed include:

- A \$10 million investment into the Ed Roberts Campus, a social service facility run by people with disabilities for low income people with disabilities in Berkeley, CA.
- A \$12 million investment into Omaha Standard, a truck bed manufacturer in Council Bluffs, IA that created and retained 320 quality manufacturing jobs in this distressed community.
- A \$7 million investment into StreetSquash, an after school education and youth enrichment program for at-risk youth in Harlem, NY. 95% of its enrollees go on to college in a community where less than 50% normally graduate from high school.
- A \$10 million investment into Green City Growers Cooperative in Cleveland, OH to construct a 5 acre worker-owned hydroponic food production greenhouse on the site of a former Brownfield in a census tract with a 58% poverty rate, an unemployment rate that is nine times the national average, and median income level of 22% of AMI.
- A \$7.6 million investment into Island Hospital in rural Anacortes, WA providing the only acute care facility within 80 miles of this low income county.
- A \$10.6 million investment into the Abilene Life Sciences Accelerator in Abilene, TX to create the Center for Immunotherapeutic Research and biotech incubator space by financing state of the art equipment to attract world class research and create 200 jobs.
- A \$6.1 million investment into Artspace City Center of Salt Lake City, UT to provide affordable live/work space for low income artists.



- A \$14 million investment into Court Square Center in Memphis, TN, a community renewal project involving the preservation and conversion of two long-abandoned commercial structures into 40,000 sq. ft. of LEED certified commercial space and 74 units of housing while creating 88 permanent and 908 construction jobs and stimulating major investment in the adjoining neighborhood.

NMTC are resilient

When the sharp downturn in the US economy occurred in 2008, nearly every form of conventional financing dried up, especially in low income communities. While the capital markets were swooning, the NMTC program flourished. NMTC activity levels increased each year as the recession set in. Without the NMTC program, billions of dollars of investments in our lowest income communities would have been thwarted.

NMTC are an investment that reduces the federal deficit

The CDFI Fund has documented that it costs taxpayers \$17,000 in foregone tax revenues to create one job using the NMTC program. The Bureau of Labor Statistics documents that the average job in America pays wages of \$42,000. This average wage earner will pay \$10,040 annually in federal taxes (income and payroll taxes), a 57% return on investment. In twenty months, that newly created job will repay in full the cost of creating the job. After that, year in and year out, this job continues to pay taxes which reduce the federal budget deficit.

In Support of H.R. 2655

NDC enthusiastically supports H.R. 2655 whose essential features include:

- A five year extension of the credit
- An increase in funding authority to \$5 billion annually
- A fix to the AMT (alternative minimum tax)

NMTC is one of only two programs (public or private) in America that targets equity capital into the areas that most urgently need equity capital, low income communities (the other program is the Low Income Housing Tax Credit Program, or LIHTC). Without equity, prudent community development simply cannot occur. NMTC equity is invested by the private sector, in exchange for the tax credits. Private sector underwriting standards



are employed and the projects are structured with the highest probability of success. The track record of the NMTC program speaks for itself.

Uncertainty is the worst enemy of investment. Investing in low income communities is a complex decision. A project may be in planning for a year or more. Investors cannot commit to invest in a project in (say) 18 months from now if they do not know there will be a program at that point in time. While investors want to invest in NMTC projects, their investment dollars cannot sit idly on the sideline, hoping for the eventual extension of the credit as in 2012. Project developers and credit markets need certainty to plan and underwrite these projects. Permanency of the program is badly needed; short of that a five year extension is needed to inform the credit markets that the NMTC program is a real program through which they can build public-private partnerships to actively participate in the future development of low income communities across the country.

In addition to providing for the extension of the NMTC program, H.R. 2655 thoughtfully expands the program from \$3.5 billion to \$5 billion annually. Demand for the credit far exceeds the availability of the credit. In 2011, applicants for NMTC requested more than \$26 billion in authority for a program awarding only \$3.5 billion in credits, a 7.4:1 ratio.

During the recession, when ARRA briefly expanded the allocations of NMTC to \$5 billion annually, the program digested the increased allocations seamlessly. More than 300 diverse CDEs have successfully competed for and completed NMTC projects. Annually, only 70-100 of these CDEs receive awards. With expansion of the authority to \$5 billion annually, the number of CDEs accommodated can be increased by 50% without increasing risk to the program because the pool of experienced CDEs is large. There is ample evidence that \$5 billion in annual credit authority would be quickly put to good use. In 2011, NMTC investments totaled \$5.7 billion, the most ever and 67% higher than 2009.

Along with extension and expansion of the NMTC program, H.R. 2655 provides for an AMT fix to put NMTC on par with other tax credit programs. The AMT fix will expand the credit's investor base which will increase competition in the marketplace, increase prices for the credits, and increase the amount of the federal subsidy going into qualified projects.



In Summary

NDC has worked in low income communities for nearly half a century. We have seen federal initiatives come and go. To create economic opportunity for low income areas, we have used them all. Through experience, we have learned what works and what doesn't work. From our perspective, the NMTC program really works for America and is effective government in action.

Thank you.