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Capital for Communities –
Opportunities for People®

May 10, 2012

The Honorable Pat Tiberi
Chairman, Subcommittee on Select Revenue Measures
House Ways and Means Committee
US House of Representatives
Washington, DC 20515

RE: Hearing on Certain Expiring Tax Provisions, April 26, 2012

Dear Mr. Chairman:

On behalf of Community Reinvestment Fund, USA ("CRF"), I appreciate this opportunity to share our views on the New Markets Tax Credit ("NMTC") Program. We wish to express our strong support for the extension of the New Markets Tax Credit, which expired on December 31, 2011. Legislation to extend this Tax Credit Program was introduced as HR 2655, the New Markets Tax Credit Extension Act of 2011.

CRF is a national, non-profit CDFI, and the nation's leader in channeling resources from the capital markets to support community development financing activities. Our mission is to transform the community development finance system by accessing capital markets on behalf of local lending organizations to promote long-term, sustainable economic growth in low-income communities. Since 1988, CRF and its affiliates have delivered over \$1.3 billion in capital, primarily to small businesses located in more than 750 communities across the country. CRF's New Markets Tax Credit ("NMTC") lending is a critical piece of how we deliver significant benefits to residents and workers in low-income communities.

In all, more than 302,000 people have been employed or directly served because of CRF's NMTC loans, including:

- 17,450 jobs at the time of loan origination. Over 4,300 construction jobs;
- 8,000 student slots at educational facilities, including charter schools;
- 1,900 slots per year at job training centers;
- 500 child care slots;
- 17,200 people served annually at community health centers;
- 253,000 people served at other community facilities serving low-income communities/disadvantaged people.



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Over the past twelve years, CRF has established a powerful and proven track record of originating and managing tax credit investments to underserved businesses located in low-income communities across the country. Together with its affiliate, National New Markets Tax Credit Fund, Inc., ("NNMTCF"), CRF has become one of the largest Allocatees in the country, receiving tax credit allocations in seven of the nine funding rounds totaling \$749.5 million and investing \$52.5 million on behalf of other Allocatees. Working in collaboration with our local lending partners, CRF has used tax credit resources to make flexible loans to operating businesses located in highly distressed low-income communities.

NMTCs: Background

The New Market Tax Credit is the product of a bi-partisan effort between President Clinton and Speaker Hastert to revitalize urban and rural communities by using tax incentives to attract private sector capital, rather than providing federal grants. In our view, this Program has clearly established itself as the most powerful and effective tool for inducing investment in distressed and underserved areas. The Community Renewal Tax Relief Act established New Markets Tax Credit and provided \$15 billion in credit authority between 2001 and 2007. The NMTC provides a 39% - seven year credit against federal taxes for investment in economically distressed communities. Congress has demonstrated support for this Program by extending the NMTC three times in 2008, 2009 and 2010 adding \$17 billion in credit authority.

The tax credit works by encouraging taxpayers to make investments in Community Development Entities ("CDEs") that have an established track record of making community development investments and have put into place effective community accountability mechanisms. CDEs may be created by a community development corporation, a CDFI or loan fund, or a private financial institution. The CDEs use this capital to make loans or investments in businesses located in economically distressed communities. CRF has chosen to use NMTCs to finance a broad spectrum of operating businesses in an effort to bring the benefits of the tax credit to companies that have the ability to create jobs and economic growth in low-income communities.

CRF has worked hard to ensure that manufacturing firms, like EnerG2, are able to access NMTC financing to support job growth in communities experiencing high levels of unemployment. For instance, EnerG2 received a \$32 million NMTC loan to renovate a 74,000 sq. ft. manufacturing facility in Albany, Oregon. This state-of-the art facility has positioned EnerG2 at the forefront of an energy storage revolution. The Company will initially produce more than 10 metric tons per month of the pure carbon material that can increase storage capacity for electric car batteries and other devices. With this investment, EnerG2 has created 35 high paying full-time jobs and 94 construction jobs in a rural area of Oregon that is struggling with double-digit unemployment.

NMTCs: A Record of Success

Over the course of the past decade, the NMTC has demonstrated that it is an extremely effective incentive for channeling private sector capital to distressed communities. Since its inception and through 2011, more than \$26 billion in NMTC



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investments have been made in low-income communities. In addition, this investment has attracted new participants. A survey of NMTC investors conducted by the Government Accountability Office (“GAO”) in 2007 reported that 88% of investors indicated they would *not* have made their investment without the benefit of the Tax Credit and almost two-thirds said they increased their investments in low-income communities because of the Credit. According to the CDFI Fund, in 2010 alone, investments in NMTC projects totaled \$9.5 billion, of which 50% came from other sources. In addition to the leveraging other sources of capital, this Program created almost 70,000 jobs including 38,000 construction jobs.

NMTCs have also been used to deliver vital services and build assets in distressed communities. For example, with assistance from CRF, Resurrection University was able to obtain \$14 million in NMTC financing to renovate approximately 38,900 sq. ft. of vacant space in the St. Elizabeth Hospital building in Chicago’s Humboldt Park neighborhood. This predominantly Hispanic neighborhood is considered a “Medically Underserved Area”¹. With the relocation of Resurrection University’s nursing program to this renovated space, not only will 250 students receive professional nursing training, but the residents of Humboldt Park will benefit from much needed medical care delivered by students through the University’s Practicum program. Increasing access to quality health care, training a skilled pool of healthcare professionals in the community, and creating 40 new full-time jobs are just a few ways that Resurrection University is improving the lives of Humboldt Park residents.

NMTCs: Return on Investment

As Congress considers extending NMTC, it is important to consider the cost of the credit, in terms of revenue forgone. By any measure, NMTC provides a substantial return. The total cost to the Federal government of a \$1 investment in NMTC as measured by foregone tax revenues, is approximately 26 cents.²

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extended NMTC for 2010 and 2011 with \$3.5 billion in annual credit authority. According to the Joint Tax Committee the 10 year revenue estimate associated with this credit authority totaled \$1.81 billion, or 25.8%.

What does this mean in terms of cost to the government? Using 2010 as an example, NMTC investments totaled \$4.7 billion and total projects cost for NMTC financed businesses came to \$9.5 billion. The cost to the government of that \$4.7 billion in NMTC investments was \$1.21 billion. The return to the government included 68,000 jobs at a cost of \$17,800 per job. It is also important to note that the \$1.21 billion of investment generated a total of \$9.5 billion in economic activity in communities where the tax credit was used. Every dollar spent – or revenue forgone by the federal government on NMTCs – resulted in \$8 in private investment in communities.

¹ Medically Underserved Areas are one of approximately fourteen of the New Market Tax Credit (NMTC) Program Severely Distressed Secondary Criteria included in the federal guidelines for this Program. Medically Underserved Areas are designated by the Health Resources and Services Administration as having too few primary care providers, high infant mortality, high poverty, and/or high elderly population.

² The cost basis of the investment is reduced by the amount of the credits claimed. Therefore, the investor pays taxes (generally at a corporate tax rate of 35%) on the 39 cents of credits claimed, which reduces the cost of the credit to the Federal government from 39 cents to approximately 25 cents [$.39 * (1-.35) = .2535$].



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NMTCs: Community Impact

All NMTC transactions are targeted low-income communities – often the same communities most profoundly affected by current economic crisis. Under the Program guidelines, all NMTC investments must benefit businesses located in communities where the poverty rate is 20% or higher or where the median family income does not exceed 80% of area median. CDEs are motivated to make investments in communities that face even greater challenges and obstacles to economic growth as community impact is a critical factor in determining which applicants receive tax credit allocations in this highly competitive Program. Thus, CDEs frequently invest in places where the poverty rates is 30% or greater, where median family income does not exceed 60% of area median, and where the unemployment rate exceeds 150% of the national average. Here are just a few statistics:

- In 2010, 72% of NMTC investments were made in places even more distressed than required by law;
- Of the total \$9.5 billion invested in NMTC eligible census tracts, more than half was invested in communities with unemployment rates more than 1.5 times the national average;
- More than \$4.7 billion was invested in businesses in communities where incomes were less than 60% of area median, helping to spur the creation of good paying jobs;
- More than \$3.9 billion was invested in businesses located in communities where poverty rates exceed 30%;
- Over \$1 billion went to non-metro communities; and
- Twenty-three percent of NMTC financing, more than \$1 billion, was invested in businesses located in places exhibiting all three high distress criteria. Were it not for the NMTC, these hardest hit communities scattered throughout 45 States and the District of Columbia would remain blighted and underserved. Now almost \$2 billion in outside capital is helping to move communities forward by creating lasting assets and jobs that pay well.

One example of a NMTC Project that has demonstrated strong community impact is the Houston Food Bank. With CRF's help, this nonprofit was able to secure \$50 million in NMTCs to finance the construction of a new 308,000 sq. ft. facility with expanded refrigeration space (four times the size of the old facility) that allows the organization to serve nearly 1 million families a year and to provide healthy fresh foods. Texas has one of the highest rates of child food insecurity in the country. Every day 53,000 people in Houston are hungry and 43% of hungry families must choose between food and medicine. The Houston Food Bank is leading the fight against hunger in southeast Texas by feeding 137,000 people every week, 47% of which are children, and providing more than 53 million nutritious meals annually. With improvements in the efficiency of its operations, the HFB is able to ensure that 95 cents of every dollar donated goes directly to feeding the hungry. In collaboration with nearly 500 hunger relief agencies, HFB works to assure that Texans do not have to choose between feeding their families, buying medicine, or paying their bills.



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HR 2655 – The New Markets Extension Act of 2011

The New Markets Extension Act proposes three key changes designed to strengthen the Tax Credit Program.

1) *A long-term extension of five years*

At the end of 2010 Congress extended the NMTC Program for FY 2010 and FY 2011. This was the first multi-year extension since the original authorization. In 2011, a total of \$5.7 billion was raised in NMTC investments, the most ever, and 67% higher than 2009. We believe this substantial increase in investments was a direct response to the increased certainty created by the two year extension. It is clear from the GAO report that the availability of NMTCs drives an investor's decision to make community investments. We are convinced that with more certainty, investor interest in NMTCs will grow. However, without an extension in the near term, investor interest will diminish, capital will go elsewhere, and the gains in the efficiency of the tax credit will be lost.

2) *An increase in Credit Authority -- \$5 billion annually*

As mentioned above, there is enormous demand for New Markets Tax Credits. Since the Program was launched in 2003, demand for NMTCs has exceeded \$225 billion while a total of \$33 billion in Credits has been available. In short, demand has exceeded supply of tax credits by a factor of nearly 7. Just as important as the demand for the credit is the impact that this Program has had on economically distressed communities. Billions of dollars have flowed to communities traditionally ignored by mainstream investors and most negatively affected by the recession.

With the economy showing signs of improving and a multi-year extension of the Program providing more certainty, private sector investments in NMTCs took off in 2011 totaling \$5.7 billion. Based on what we know, ***if Congress increases NMTC to \$5 billion in annual Credit Authority we would see more than \$10 billion in additional investment in distressed communities and the creation or retention of at least 70,000 jobs at a ten year cost to the government of \$1.29 billion.***

3) *An exemption from the Alternative Minimum Tax for NMTC investments*

A long term or permanent authorization should also include a provision that exempts the New Market Tax Credit from the Alternative Minimum Tax (AMT). Such a provision would put New Markets on par with other similar tax credits including the Low Income Housing and Historic Tax Credits. Without this exemption, New Markets remain at a disadvantage in the investor marketplace. Absent both AMT and a long-term extension, it will be difficult to broaden the investor base for the credit beyond the large CRA motivated banks. Attracting more investors will increase competition for credits, resulting in better pricing and more subsidies being passed on to qualified businesses.



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Conclusion

In closing, we would like to commend you Mr. Chairman, for holding this Hearing on such a timely and important topic. We greatly appreciate the opportunity to share our views with you and your colleagues. Please do not hesitate to contact me with any questions regarding comments included in this letter.

Sincerely,

Frank Altman
CEO & President