



**STATEMENT FOR THE HOUSE WAYS AND MEANS SELECT REVENUE MEASURES SUBCOMMITTEE
APRIL 26, 2012 HEARING ON CERTAIN EXPIRING TAX PROVISIONS**

Submitted on May 10, 2012

Local Initiatives Support Corporation (LISC) is a national intermediary community development financial institution founded in 1979. Our mission is to build healthy, sustainable neighborhoods that are “communities of choice”: good places to work, do business and raise children. We are pursuing this mission through *Building Sustainable Communities (BSC)* – a targeted, comprehensive strategy to transform whole neighborhoods by achieving five interconnected goals: (1) expanding investment in housing and other real estate; (2) increasing family income and wealth; (3) stimulating economic development; (4) improving access to quality education; and (5) supporting healthy environments and lifestyles.

LISC often relies upon support from federal programs to engage in the type of comprehensive community development work that is needed in low-income communities, and two of the most critical tools that support our efforts are the New Markets Tax Credit (NMTC) and the Low Income Housing Tax Credit (LIHTC).

New Markets Tax Credits

Through 2011, LISC has placed \$645 million of NMTC investments in 66 different businesses and real estate projects, helping to develop or rehabilitate 7.25 million square feet of commercial and community space, and supporting the creation or retention of 17,000 jobs. The NMTC expired in 2011, and it is essential that it be made a permanent part of the tax code.

The NMTC provides an incentive in the form of a tax credit for investors to make equity investments in U.S. Treasury-certified Community Development Entities (CDEs), which in turn deploy the capital to support businesses and real estate projects in low-income communities. The credit totals 39 percent of the investment amount and is claimed over a period of seven years. The NMTC has proven to be a very successful program, on a number of fronts:

1. **NMTCs are responsive to market needs.** Unlike other programs which are narrowly targeted, NMTCs support a broad range of community revitalization efforts, including: health care centers in medically underserved areas; public charter schools and childcare facilities; grocery stores in food deserts; athletic facilities that help restore dangerous, deteriorating parks; and manufacturing

facilities that return good jobs to disinvested areas. LISC has funded these types of projects and many more office, retail and mixed-use facilities, as well as small and mid-sized businesses. Whatever the needs of the low-income community, LISC has used NMTCs to respond.

2. **The competition for credits produces better outcomes.** CDEs must apply to the Treasury Department for the authority to provide tax credits to their investors, and the competition is incredibly fierce. In 2011, 314 CDEs requested a total of \$26.6 billion in allocation authority, or over seven times the \$3.5 billion that was available for allocation. Only 70 CDEs, or less than a quarter of the applicant pool, were selected to receive awards. Due to this intense competition, only those entities that commit to achieving certain outcomes (e.g., targeting severely distressed communities; offering significantly preferential rates and terms to borrowers; deploying additional funds to low-income communities) and have a strong track record of performance receive an allocation.
3. **The structure of the credit allows for efficient program administration.** Rather than underwriting and approving specific transactions, the Treasury Department underwrites the quality of the CDE, and then allows CDEs the flexibility to identify and fund the projects that will achieve the dual goals of revitalizing communities while offering investors sufficient returns on their investments. Furthermore, the investors provide rigorous due diligence and compliance monitoring to ensure that the CDE's use of proceeds is in compliance with Federal regulations. The investor due diligence distinguishes tax credits from federal grant programs, and results in a more robust and efficient compliance monitoring system.
4. **NMTCs impact the hardest hit communities.** While all NMTC investments must be made in low-income communities, the vast majority of investments have been made in communities characterized by severe economic distress. In 2010, the most recent year for which complete data is available, 72 percent of NMTC investments were made in communities with a poverty rate of greater than 30 percent, a median family income at or below 60 percent of the area median, or an unemployment rate at least 1.5 times the national average. NMTCs connect directly to quality of life gains in places that have long known only disinvestment and decline.
5. **NMTCs create jobs for low-income community residents.** NMTCs represent a significant, successful job creation program. LISC's NMTC allocation alone has helped develop some 17,000 jobs that otherwise would not exist in these communities. With NMTCs, we create teaching positions as we support new and expanded educational facilities. We revitalize commercial corridors and fuel commercial and retail jobs. We fund redeveloped industrial brownfields to return land to productive use for offices, warehouses and new manufacturing ventures. And we support the wide range of construction jobs connected to developing all

of these projects. That has been particularly critical given the decline of the building industry during the recent recession.

6. **NMTC investments would not likely happen if not for the credit.** The GAO reported that an estimated 88 percent of NMTC investors said that they would not have made the same investment without the NMTC, and that 69 percent of investors had not previously made any investments in these communities.

The NMTC has proven to be an extremely effective economic development tool. As Congress considers making changes to the tax code, it needs to place a high priority on ensuring that this critical program is permanently authorized. With the certainty of permanent authorization, the competition for tax credits will become even stronger, as more CDEs invest the time and energy into participating in the program. This will lead to an even higher quality of business strategies and funded projects. Similarly, program permanency will also draw more investors to the program, which will result in higher pricing for the credit and, consequently, greater subsidy available for NMTC projects. This will enable more projects to be financed in distressed communities. Finally, with a permanent authorization, the Treasury Department could consider additional program improvements (such as larger, multi-year awards) that will add stability to an application process that currently cannot guarantee awards beyond a single year.

LISC has made very effective use of NMTCs. We have been in the business of building sustainable communities for over 30 years, and NMTCs are by far the best tool for bringing about the kind of comprehensive community development outcomes that are necessary to turn communities of despair into communities of opportunity. Congress should make sure that this program becomes a permanent part of the tax code.

Low Income Housing Tax Credits

Another major tool to build sustainable communities is the Low-Income Housing Tax Credit program, which has led to the construction and renovation of 2.5 million affordable apartments since 1986.

Fortunately, the Housing Credit is permanent and does not need to be extended. However, a provision that was enacted in 2008 that modifies the formula used to calculate the maximum amount of credits that states may allocate to a particular property development has effectively expired this month, and should be permanently extended.

Under legislation enacted in 2008, the minimum tax credit amount under the formula is nine percent. This provision expires for properties placed in service and rented to tenants beginning after 2013. Although this is technically a 2013 expiring provision, it is effectively expiring right now because a property receiving a Housing Credit allocation this month must be underwritten on the assumption that construction will not be completed before the end of the next year. As a practical matter, it just takes that long to plan, finance and build multifamily housing.

With the effective expiration of this provision, state housing finance agencies must reduce the amount of credits that can be allocated to specific property developments by about 18 percent. This will make it more difficult to develop affordable housing, even more so since other federal, state and local subsidies that support the development of rental housing are being cut significantly.

This issue is addressed in H.R. 3661, legislation that the Chair and Ranking Member of this Subcommittee introduced last year, that would extend the nine percent minimum credit indefinitely.

When Congress considers legislation to extend the tax provisions which expired at the end of 2011, and that will expire at the end of 2012, it should include an extension of this Housing Credit provision.