

# NEW MARKETS TAX CREDIT COALITION

March 17, 2014

Mr. Robert Ibanez  
NMTC Program Manager  
Community Development Financial Institutions Fund  
U.S. Department of Treasury  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220

Dear Mr. Ibanez:

I am writing on behalf of the New Markets Tax Credit Coalition (“the Coalition”) in response to the CDFI Fund’s January 14, 2014 request for comments on the New Markets Tax Credit (NMTC) application.

Formed in 1998, the Coalition is a national membership organization that advocates on behalf of the NMTC Program. The Coalition’s mission is to ensure that its members, including Community Development Entities (CDEs), investors, and other community development professionals, can effectively use the NMTC to encourage investment and advance economic revitalization efforts in low-income urban and rural communities across the country.

We appreciate the opportunity to comment on the NMTC application and specifically the questions and supporting documents provided as part of the 2013/2014 NMTC Allocation Application.

## **Part I: Business Strategy**

### **Question #20: Value Added and Innovative Investments:**

**Question #20 (b)** asks applicants to describe how the requested allocation “will enable the applicant to make investments in low-income communities involving greater financial risk than would otherwise occur.” This question works to the disadvantage of organizations, including CDFIs and CDCs that have historically worked in low-income communities and, as a matter of course, assume high levels of risk in their loan and/or investment portfolios. While the Fund should encourage all applicants to expand their investment activities into lower-income communities and/or encourage investments in higher-risk transactions, this question, as currently worded, puts applicants with a historic track record of lending and investing in very low-income communities at a disadvantage.

**Question #20(c)** asks applicants to demonstrate how the requested allocation will enable the applicant to “engage in innovative uses of a NMTC Allocation (e.g., invest in unrelated CDEs that do not have NMTC Allocations; target states identified by the CDFI Fund as having received fewer dollars of QLICs; provide QLICs in amounts of \$2 million or less; revolve QLICs to serve more QALICBs; provide QLICs for working capital, inventory or equipment purchase, etc.).” While the question includes a list of suggested “innovative uses,” applicants are also invited to propose their own innovative approaches, but are not provided guidance on how the Fund will evaluate or assess a CDE’s approach to innovation. We suggest the Fund provide guidance

indicating that innovative uses of the NMTC will be assessed in terms of how they represent new and/or more difficult uses of the NMTC and whether the innovative approach will result in high levels of measurable community impact.

## **Part II: Community Outcomes**

### **Question #24 – Targeting Areas of High Distress:**

The Coalition recommends that the 15 high distress categories identified in **Question #14** be expanded to include: communities with significant concentrations of foreclosures; federally designated Base Realignment and Closure (BRAC) sites; and communities experiencing manufacturing job losses.

### **Question #25 – Community Development Outcomes**

In **Question #25**, we recommend adding a bullet point asking applicants to describe and discuss their planned investments in businesses, including manufacturing businesses and other operating businesses that provide economic development and employment opportunities in a community. With the increased focus on strengthening the manufacturing sector and investing in operating businesses, we encourage the Fund to ask applicants questions about their NMTC business strategy as it relates to financing businesses.

The definition of “Minority Businesses” included in Category 6 should be broadened to include women- and veteran-owned businesses, as defined by the Small Business Administration.

And, we recommend that **Question #25(b)** indicate that applicants who document their prior impacts be scored more favorably.

## **Part IV: Capitalization Strategy**

### **Question #39 – Distribution of Benefits**

It is unclear whether the Fund is asking an applicant to answer **Question #39** looking ONLY at the value of the tax credit equity or whether it is asking for an analysis of the benefit of the qualified equity investments (QEI), which in most cases combines leverage debt with the equity. This needs to be clarified throughout the application and we suggest that in the future applications be asked to respond to **Question #39** and other questions regarding the distribution of benefits based on an analysis of the QEI, not just the tax credit equity.

This issue points back to the basic premise of the NMTC statute, which authorizes investors to make Qualified Equity Investments in CDEs in return for a credit against federal income taxes. Investors are permitted to form Investment Partnerships, which raise debt and combine it with their own equity, and the combined amount is invested in the CDE as a single Qualified Equity Investment.

### **Part V: Information Regarding Previous Awards**

**Part V** of the application includes valuable questions that allow an applicant to describe their NMTC investments and the various impacts and outcomes generated. **Question #44** asks applicants to describe the three largest QLICI transactions in each of the applicant's three most recent allocations. Rather than asking for information on the three "largest" QLICIs, we suggest the Fund ask for information on the three most recent investments, regardless of size. Alternatively, the Fund could ask the applicants to discuss the three transactions from each of the last three allocations that they believe best demonstrate the CDE's business strategy and commitment to achieving a high community impact. It is unclear why the Fund would be interested in looking strictly at the applicant's largest investments.

### **General Comments about the Application and the Application Process**

#### **Encouraging Additional Transparency in Scoring and Reviewer Instructions:**

The Coalition encourages the Fund to make public the instructions and guidance provided to the outside readers chosen to review applications. The directions provided in the NOAA, the Application TIPs, and the Q&A documents guide CDEs through the application process, but as applicants work to address the Fund's priorities, respond to questions clearly, and articulate their NMTC business strategy, it would be useful to understand how readers are instructed. We believe providing a more transparent process will benefit both the readers and the applicants and, ultimately, will strengthen this competitive process.

#### **Promote Efficiency and Data Accuracy by Pre-Populating Application Fields for Return Applicants:**

Since the basic information an applicant is asked to provide regarding corporate structure, existence of a controlling entity, and other organizational issues does not change from year to year, and since a significant number of the applicants each year have applied previously, we suggest the Fund consider providing return applicants with an application that has pre-populated responses to questions in the Applicant Information Section using data from the applicants' most recent application. Rather than reentering data, an applicant would be able to change or update information as needed. Similarly, information provided in **Part V** relating to an applicant's previous CDFI awards could be prepopulated and updated as needed.

The Coalition appreciates the opportunity to comment on the NMTC application and the application process. Please let me know if you have questions or would like to discuss any of the recommendations described in our letter.

Sincerely,



Robert A. Rapoza