

Atlanta Steers Subsidies to Downtown Projects

By Willoughby Mariano – The Atlantic Journal-Constitution

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Parts of Atlanta are transforming because of a federal program designed to pump millions of dollars into neighborhoods with high poverty and unemployment, but many of these places are a far cry from the city's toughest areas.

Instead, downtown — home of Centennial Olympic Park, major hotels and a smattering of million-dollar condos — is benefiting from the makeover, raising questions over whether commercial interests are taking priority over more dire needs.

Federal law lets financial middlemen hand out special tax credits to subsidize projects in areas suffering from some of the nation's worst economic distress. Under guidelines for these New Markets Tax Credit, large parts of Atlanta qualify, including downtown.



Jason Getz

An award of \$25 million tax credits subsidized creation of the AT&T Dolphin Tales show at the Georgia Aquarium. A member of Congress derided the award as the “Flipper tax credit” and said that a federal program targeted at boosting low-income areas instead was being exploited. The aquarium said the show helps to drive economic activity. Jason Getz jgetz@ajc.com

And that is where Invest Atlanta, the city's economic development arm, chose to issue a majority of its \$80 million in tax credits. It did so at the behest of Central Atlanta Progress, the group that represents downtown businesses and their self-taxing improvement district.

Some \$12 million in credits backed 200 Peachtree, a special events venue that now occupies the long-vacant Macy's building. The center, which is across the street from downtown's Ritz-Carlton Atlanta, features 14-foot-high teardrop chandeliers, 30-foot ceilings, and two restaurants, with more to come.



Jason Getz

An award of \$12 million in federal tax credits subsidized the transformation of the former Macy's in downtown Atlanta into a special events venue known as 200 Peachtree Center across from the Ritz-Carlton Atlanta. The Tax Credit Program is aimed at helping to attract projects to low income areas and address unemployment. Jason Getz, jgetz@ajc.com

An additional \$13 million helped finance the National Center on Civil and Human Rights.

And \$25 million went to a Georgia Aquarium expansion that brought the AT&T Dolphin Tales show downtown. The Broadway-style extravaganza, created with the help of Disney and Super Bowl halftime show veterans, features ballads from the show's cape-wearing hero the StarSpinner, fist fights, water cannons, and a gigantic video screen. Dolphins leap and spin in a 1.8 million-gallon tank. Tickets range from \$26 to \$39.

Critics have pounced on the New Markets program, saying that it is subsidizing projects that do little to address poverty or blight.

U.S. Sen. Tom Coburn of Oklahoma mocked the aquarium award as the "Flipper Tax Credit" and highlighted it as an example of a federal program that went off the rails.

"This tax credit intended to benefit the poor is instead lining the pockets of the well off," according to a report released by Coburn's office in August that criticized the aquarium and other New Markets Tax Credit projects.

But Invest Atlanta said in a prepared statement that the credits created jobs and brought business to parts of downtown that needed revamping. These projects tend to involve multimillion-dollar transactions and have established backers because they are the types of deals that attract New Markets Tax Credit investors, the agency said.

Its remaining \$30 million in credits went to the "Aerotropolis" development next to Hartsfield-Jackson Airport that is the new North America home to luxury car maker Porsche. The former Ford auto plant site needed environmental cleanup.

"Once opportunities like Aerotropolis in 2009 began to surface outside of the downtown area, it became apparent that there was a need to broaden the focus to include other areas of the city," Dale Royal, president of Atlanta Emerging Markets, the Invest Atlanta subsidiary that issues the credits, said in the written statement.

Aquarium officials defend the credits, saying the cultural institution is an important driver of economic activity. They helped the streets around downtown's Centennial Olympic Park become the showcase they are today.

"The construction was critical to the long-term operational success of Georgia Aquarium in order to continue to offer visitors new reasons to visit the aquarium," said Mark Schafer, the aquarium's chief financial officer, in a prepared statement.

The special events venue is especially helpful to low-income workers, said 200 Peachtree lead investor Robert Galanti. It's steps away from MARTA's Peachtree Center station, and easy to reach for workers who cannot afford a car.

"We believe we have played a major role in the transition of downtown Atlanta, and the ripple effects extend broadly," Galanti said.

"Blunt tool"

Congress enacted the New Markets program in 2000 to create jobs and make meaningful improvements in the lives of low-income community residents.

The program lets the U.S. Treasury Department give certain banks, non-profits, governments, and other entities the authority to issue credits to investors in neighborhoods deemed "distressed." These census tracts have poverty rates of at least 20 percent or meet other program criteria.

At the time, legislators expected the credit to support small businesses, community facilities such as daycare centers and home ownership opportunities.

Certain Georgia projects appear to fit this mold well. More than 30 received these credits up to 2010, the most recent data available from research by Novogradac & Company, an accounting and consulting firm. Among them are two that received credits from other local intermediaries: Drew Charter School in Atlanta's East Lake neighborhood, which did receive coaching on using the credit from Invest Atlanta; and a Head Start facility on the west side.

Others projects don't fit that mold. But the federal government gives investors wide latitude on what to back, experts said, so telling a boondoggle from a worthy project is difficult.

"There are some projects that look bad and probably are bad, and there are some projects that look bad and probably aren't," said Brett Theodos, a senior research associate at the Urban Institute who studied the tax credit program for years.

And the program's definition of a low-income area is so broad it can include thriving neighborhoods that have a high percentage of college students or contain a single subsidized housing project, experts said.

Census data show the tract around the Georgia Aquarium has a nearly 47 percent poverty rate, which helped qualify it for a total of \$40 million in credits behind the dolphin show and exhibit, including those from backers outside Invest Atlanta.

These demographic criteria are a "fairly blunt tool," Theodos said. Some 38 percent of the nation's census tracts qualify as distressed, according to a study by the Urban Institute.

"The question is, are those criteria too loose, in that they are just subsidizing investment that would otherwise have plenty of access to market rate capital?" he said.

It's unclear how much better off neighborhoods are once New Markets Tax Credit projects are completed, said Drexel University professor Matthew Freedman. Their impact on factors such as income and poverty rates may be modest.

Many of the jobs created by these projects are filled by workers who don't live nearby, and it's not clear whether small improvements in income or poverty rates are due to changes in the lives of long-standing residents or the arrival of wealthier transplants, according to Freedman's research.

"If the goal is to help residents, it seems somewhat misguided to subsidize businesses that we hope might hire some of these people, instead of helping individuals through job-training programs, or funding schools in these areas, that are going to have direct benefits," Freedman said.

But if the goal is to bring in more business, or increase a city's overall tax revenue, all sorts of projects might fit the bill, Theodos said.

“It is difficult to say that a hotel or a museum would or wouldn’t accomplish community development or upgrading a neighborhood,” Theodos said. “I can in my head envision a hotel that’s a total boondoggle, or one that brought jobs and plenty of tourists who as a result are staying there and spending money.”

In the coming years, Invest Atlanta said it intends to use some of its credits outside downtown boundaries. A health clinic in the Peopletown neighborhood, south of Turner Field, is in the works, as is a loan fund for medium-sized businesses.

Invest Atlanta’s credits will also back a “tech entrepreneurship center,” with a special emphasis on women in business.

It will be located in downtown’s Flat Iron building, a five-minute walk from the events center.

2013 Atlanta New Market Tax Credit Awards

Community Development Entity: Atlanta Emerging Markets, Inc. (Invest Atlanta subsidiary)

Amount: \$38 million

Purpose: “Healthcare, healthy foods, business expansion, and community facility projects in support of integrated neighborhood development initiatives and consistent with the priorities of Invest Atlanta, the City of Atlanta’s community and economic development finance agency.”

CDE: SunTrust Community Development Enterprises, LLC

Amount: \$43 million

Purpose: “To target opportunities to finance community-based organizations, non-profits, CDFIs [community development financial institutions], and for-profit businesses that exhibit a readiness to proceed and will create significant economic impact in accordance with community needs.”

CDE: Habitat for Humanity NMTC, LLC

Amount: \$23 million

Purpose: “To invest in Local Habitats for the construction of for-sale housing (new or rehabbed) in low-income communities.”

Source: <http://www.cdfifund.gov/>

How do New Markets Tax Credits bring financing to distressed neighborhoods?

These credits are intended to lower the cost — and therefore the risk — of projects in neighborhoods that certain investors avoid. Backers of the projects can claim tax credits over a seven-year period totaling 39 percent of their original investment.

The credits are issued by what the U.S. Treasury Department certifies as “Community Development Entities.” These can be banks, governments, housing authorities, non-profits or other parties whose primary mission is to serve low-income communities. These CDEs may have lists of projects that they would launch if they could find financing.

Nationwide, more than \$40 billion in New Markets credits have been allocated since the program began.