July 31, 2017

Office of Information and Regulatory Affairs,
Office of Management and Budget
Attention: Desk Officer for Treasury
New Executive Office Building
Room 10235
Washington, DC 20503

Treasury PRA Clearance Officer
1750 Pennsylvania Ave. NW., Suite 8142
Washington, DC 20220

To Whom It May Concern:

I am writing on behalf of the New Markets Tax Credit Coalition ("the Coalition") in response to the Department of Treasury's June 29, 2017 request for comments on the CY 2018 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.

The letter is organized by application section. Thank you for the opportunity to comment. We look forward to working with you to maintain the NMTC as one of the most efficient and effective federal economic development initiatives.

PART I. BUSINESS STRATEGY

Question 17: Projected NMTC investments/Table A5 (Proposed Transactions)

A. **The 2018 application now offers ample space for CDEs to explain their mission, investment strategy, and the "why and how" around their deal selection and approach.**
Question 17 has served as the one narrative in the key chapters of the application (1&2) that give the CDE an opportunity to elaborate on these factors. The Coalition thanks the CDFI Fund for returning the narrative length of this question to 10,000 characters so that CDEs can describe the context, need, linked investment strategies, or other key factors around the pipeline deals.

Question 18 – Innovative Uses of an NMTC Allocation

A. **<u>Retain “Investing in Federal Indian Reservations, Off-Reservation Trust Lands, Hawaiian Home Lands, and Alaska Native Village Statistical Areas” as an innovative use.</u>**

We applaud the CDFI Fund’s inclusion of this “innovative use” in the 2015 application and the draft 2018 application, and we encourage the Fund to maintain the language in future applications. However, we suggest modifying the language to include the financing of businesses owned by Native Americans.

PART II. COMMUNITY OUTCOMES

Question 25: Community Outcomes

Narrow the scope of Question 25(a) or lengthen the character limit– Community Goods or Services to Low-Income Communities
Expand the narrative for “Community Goods or Services to Low-Income Communities” from 5,000 characters to 10,000 characters or split this section into multiple impact narratives to account for the diversity and complexity of the types of impacts this category contains. This recommendation would address disparities between the space applicants have to discuss various types of impacts and allow additional room in Community Goods or Services to accommodate the diverse array of impacts, their nuanced nature, and recent directives about measuring the effectiveness of providers.

The Community Goods or Services category encompasses many types of community outcomes that each have their own unique characteristics. For example, a single applicant may have in its pipeline a community health center, a child care facility, a school, and a job training facility. Such an applicant would need to discuss the varied impacts from each of these projects along with its track record of similar projects in only 5,000 characters.

In the 2015 application round, the CDFI Fund added the requirement that applicants responding to the Community Goods or Services category must address how they will evaluate the effectiveness of the community service providers—a unique and additional overlaid requirement that does not apply to the other types of community impacts in Question 25. A 5000-character narrative is simply not long enough to allow an applicant CDE that invests deeply and meaningfully in Community Goods and Services to provide a full description of their impacts in this category. The Coalition recommends either scrapping the requirement to evaluate community service providers or substantially increasing the character length.

Question 25 and Metrics

The TIP in Question 25 explains an applicant will score well to the extent that “its projected community outcomes are supported by clear and sound methods and metrics for each outcome selected.”

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Metrics are helpful only in so much as they inform the strategy of a CDE's business plan and the impact of the investments in its portfolio. Metrics are less useful in measuring community goods and services.

Consider the following examples. If an applicant commits to funding community facilities, they may finance:

- Educational facility (ranging from charter schools to daycare to online education for rural institution needs);
- Healthcare facility (ranging from emergency rooms to FQHCs to behavioral health care clinics); or
- Blended facilities with multiple components (such as an abuse refuge with shelter, education, healthcare and legal aid).

Developing metrics and tying them to third-party benchmarks to inform decision making is unrealistic for these categories of projects. The jobs to services ratio for these individual facilities will be different. Finding a commonality among community facilities on which to base a metric is not that easy and perhaps not even useful.

PART III. MANAGEMENT CAPACITY

Question 33(e), Fees, Community Benefits Agreements, and Table D2

Table D2 requires CDEs to "Include as fees any linked payments and donations, if such payments and donations were not part of the original scope of the project. (e.g. a donation to a non-profit or a category of non-profit selected by the Applicant as a condition of making NMTC financing available to the project)."

Many CDEs negotiate "Community Benefits Agreements" ("CBAs") with QALICBs to enhance the QALICB's success potential and expand the benefit of NMTC-funded projects to the local community. As currently formulated, Table D2 would require CDEs funds from many of these agreements in the same category as fees.

Background:

NMTC Coalition's survey data shows that more than fifty-percent of NMTC projects involved some sort of former or informal CBA in 2015 and 2016. The Urban Institute also examined CBAs in their evaluation of the program, and determined that they provide significant benefits for low-income communities targeted by CDEs.

In low-income communities – and rural communities in particular – shallow economies are highly intertwined and interdependent. This means a QALICB often needs community development support in addition to direct financing to achieve its maximum potential and impact. These needs could be in the form of workforce development initiatives to support a qualified employee base, a revolving loan fund to support vital supply chain companies, or infrastructure improvement, among others. In addition to the flexible financing and favorable rates and terms of NMTC transactions, CBAs provide important benefits to projects.

These CBAs typically add to the impact of the project by engagement of entities unaffiliated with the QALICB to provide enhanced workforce training, community amenities such as improved fire suppression equipment, scholarships for post-secondary education, and others. More detailed examples are given below.

This arrangement is always based on negotiation and agreement with the QALICB prior to financial closing. Each CBA is developed based on community input from local stakeholders like elected officials, site visit observations, and other community leaders that give inputs and insight into how to maximize the impact of the project for the low-income communities being served.

The CBAs allow the project to occur and create jobs but also, through the support of local unaffiliated entities, they assure enhanced supply chain support, improved workforce training, and other advantages that radiate into the community beyond the direct project investment and job creation.

Many CDEs use annual asset management and back-end fees, which fall into the category of "fees for services" and are entirely appropriate for Table D2. That is easily understood and not arguable as anything other than a fee for services provided.

However, the CBA funds most often do not run to CDEs or their parents, but rather, to another wholly unaffiliated entity. There are some cases, due to geographic footprint and industry expertise, where a parent entity is the most logical provider of services. Regardless, CBA funds have a pre-determined use that has been negotiated with the QALICB and codified in a CBA prior to transaction closing.

Here are some examples:

1) A museum or theater that used the majority of a QLICI for structural improvements, but also used a small portion of funds under a CBA to significantly expand its outreach to middle schools for targeted training in arts as elements of society.

2) A QLICI primarily funding manufacturing equipment with a small portion going to workforce training to train individuals from the local low-income population for the new jobs being created.

3) A major investment in a dairy processing plant with a CBA to use a small portion of the QLICI to support young farmers entering dairy grazier programs, supporting a more stable supply chain for the future.

4) A large energy project where a QALICB agrees to use some funds to create a revolving loan fund to be used in that community in support of supply-chain businesses and other local small businesses.

In these examples and others with CBAs, the funds are not directed to the CDE or its parent for unidentified uses. They are prescribed very directly and do not accrue to any unencumbered cash accounts on the balance sheet and for the most part never even flow to a CDE. So, while one may argue that these benefits for the community are a type of fee to the QALICB, they are qualitatively different from standard fees for services and are easily differentiated by the fact that they are negotiated ahead of time, contractually tied via a CBA, and traced and monitored during the course of the tax credit compliance period.

CBAs to not enhance a CDEs' bottom line. They enhance NMTC projects to fit within a more holistic community revitalization approach and support secondary programmatic goals like quality jobs with benefits and competitive wages; environmental sustainability; and catalytic small business development. CBA funds from the QALICB are different from fees, and they add value. Diminishing or eliminating the widely-used CBA tool would severely limit the overall impact of the program to low-income communities.

The Solution:

The Coalition has no problem with reporting CBAs. In fact, collecting this data would enrich the CDFI Fund's understanding of NMTC impacts. We propose categorizing CBA separate from fees. Many CDEs already discuss about their past practices in NMTC applications.

We strongly suggest that the CDFI Fund not combine these uses of QLICI funds into an overall blended fee load. There is a clear qualitative difference among uses of funds that flow out of the QALICB to the CDE as fees earned for services and those that do not and are tracked and substantiated via a CBA during the course of the tax credit compliance period.

Should the Fund wish to collect quantifiable information on "linked payments and donations," we suggest the following: instead of being included in the D2 fee table, a specific bullet point on the topic be added to Q38 (a) "Distribution of Benefits." This would allow CDEs to report specific dollar amounts/percentages and also the strategy and reasoning behind the inclusion of linked payments and donations. Without this further context, radically different types of strategies would be conflated.

Additional Questions on Table D2:

We request clarification several items on this table. Specifically:

- We assume that the CDFI Fund's intent would be to have disclosure of circumstances where, in connection with an NMTC transaction, the CDE requires donations to affiliated or unaffiliated 3rd parties, whether the donations are made by the QALICB, QALICB affiliate, CDE, or CDE affiliate. If so, we suggest the instructions more clearly include this scenario.
- In the instructions for Table D2, it states, "The Applicant must not include routine transaction costs such as legal and accounting expenses that are not part of the Applicant's fee structure." It is unclear what the CDFI Fund considers "routine transaction costs." We request clarification. This sentence seems to confuse fees with expenses.

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PART V: INFORMATION REGARDING PREVIOUS AWARDS

Deployed Allocation

The CDFI Fund should consider adding a question to this section where the applicant can discuss projects it anticipates closing with existing allocation after the issuance of the NOAA but before the next award announcement.

As an example, assume a CDE closes $10 million of its $35 million 2015-6 allocation before the July threshold date, but has committed another $20 million that it does not expect to deploy until September of 2017. When the Fund checks in July, the system will show that the CDE has $25 million in un-deployed allocation from the previous round, but there is no way, short of a prefunded QEI, that the Fund will know that that $30 million of the $35 million is fully committed or deployed.

The justification for this change would be that the Fund has repeatedly stated that they do not want the cycle of applications and awards to affect a deal's ability to get commitments. The ability of an applicant to explain its commitments might prevent some CDEs from rushing into less than optimal deals at the expense of highly impactful deals.

General Comments

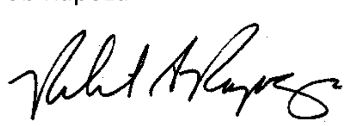
Encouraging Additional Transparency in Scoring and Reviewer Instructions:
As we have in the past, the Coalition encourages the Fund to make public the instructions and guidance provided to the outside readers chosen to review applications. The directions provided by the NOAA, the Application TIPs, and 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.

The Coalition also urges the CDFI Fund to provide reviewer comments to unsuccessful applicants.

Thank you for the opportunity to comment.

Gratefully,

Bob Rapoza



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