

NEW MARKETS

TAX CREDIT

Statement Submitted for the Record of April 26, 2012
House Ways and Means Select Revenue Measures Subcommittee
Hearing on Certain Expiring Tax Provisions

COALITION

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on behalf of

The New Markets Tax Credit Coalition

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Chairman Tiberi and Ranking Member Neal, I thank you for this opportunity to submit testimony on behalf of the New Markets Tax Credit Coalition. The New Markets Tax Credit Coalition (“The Coalition”) is a national membership organization representing Community Development Entities (CDEs), investors, businesses, and community leaders who have joined forces to advocate in support of the New Markets Tax Credit. The Coalition was first organized in 1998 with the goal of crafting a federal tax credit that could do for community and economic development what the Low Income Housing Tax Credit had done to house low income families – in effect, driving capital to underserved regions or projects that met certain societal goals, in this case, economic development.

The Coalition’s testimony is designed to deliver a very clear message: the New Markets Tax Credit (NMTC), which expired on December 31, 2011, has proven to be a vital and cost effective community development tool and it must be extended.

While it is imperative that Congress extend the NMTC through 2012 with no less than \$3.5 billion in allocation authority, we strongly encourage Congress to consider providing a longer term extension of the NMTC to maximize certainty and efficiency in the market. We would also suggest increasing the annual NMTC allocation authority to at least \$5 billion in response to consistently strong demand for NMTC financing. The New Markets Tax Credit Extension Act of 2011 (H.R. 2655) addresses both of these issues and should be considered as part of the tax extender discussion.

History of the NMTC

The NMTC was authorized in the Community Renewal Tax Relief Act of 2000 (PL 106-554) and was the result of a collaboration between a Democratic President – Bill Clinton – and Republican Speaker of the House – Dennis Hastert. However, the real inspiration for the legislation came from former Housing and Urban Development Secretary and Republican Congressman Jack Kemp, who argued for greater incentives to promote private sector investment in community revitalization efforts.

Rather than employing the federal grant-in-aid model, President Clinton and Speaker Hastert worked off the Kemp playbook and put together a legislative package that included \$25 billion in new federal authority almost exclusively aimed at using tax incentives to encourage private investment in economically distressed communities. Among these targeted tax incentives: the New Markets Tax Credit.

The NMTC provides a modest federal incentive – a credit against tax liability – to encourage private investment in businesses and economic development initiatives located in low income urban and rural

communities. NMTC investments are targeted to economically distressed communities that lack access to the patient investment capital that is needed to support and grow businesses, create and maintain jobs, and generate economic development.

In order to deliver capital to these targeted “new markets”, the statute created a new category of investment intermediary, Community Development Entities (CDEs). CDEs are the investment vehicle for the NMTC. In exchange for the NMTC, a taxpayer makes a qualified equity investment (QEI) in a CDE. The investor claims a 39 percent tax credit on the investment over seven years, including five percent annually for the first three years and six percent in years four through seven.

The NMTC: What Have We Have Learned

The NMTC has a track record of success and there is substantial evidence that the Credit has encouraged private sector investment in economically distressed urban and rural communities and generated financing for a wide range of businesses and community revitalization efforts that have helped jump start local economies and created jobs.

Here are a few of measurable impacts of the NMTC:

- Since the first NMTC allocations were awarded in 2003 through 2011, more than \$26 billion in investments have been made in low income communities as a direct result of the NMTC;
- According to a 2007 Government Accountability Office (GAO) Report, 88% of the NMTC investors surveyed indicated they would not have made the investment without the incentive of the NMTC. Almost 66% of the investors reported an increase in their investment activity in low income communities because of the NMTC;
- In 2010 alone, according to data from the Treasury Department’s CDFI Fund, investments in NMTC businesses totaled \$9.5 billion, of which 50% was generated from sources other than the NMTC direct investments. These investments created almost 70,000 jobs including 38,000 construction jobs – all benefitting low income communities; and
- The NMTC has become a vital source of capital for businesses at a time when credit is difficult to secure and the demand for the NMTC continues to grow. Since the first NMTC allocations were awarded in 2003, overall demand for NMTC allocations has exceeded the amount available by over \$190 billion.

The NMTC: A Cost Effective Investment

The cost effectiveness of the NMTC is something that we urge you to consider as you look at the tax extenders. By any measure, the NMTC provides a substantial return on the federal investment.

The total cost of one dollar in NMTC investment to the Federal government, as measured by foregone tax revenues, is approximately 26 cents.

What does this mean?

- Using 2010 as an example, NMTC investments totaled \$4.7 billion. The cost to the government of that \$4.7 billion in NMTC investments is \$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 in return for \$1.21 billion, there was a total of \$9.5 billion in projects financed in communities. Every dollar of revenue forgone by the federal government on NMTC resulted in \$8 in private investment in communities.

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 that credit authority totaled \$1.81 billion, or 25.8%.

The NMTC at Work in Communities

The NMTC is a targeted tax credit. Congress authorized the NMTC with the clear intent of spurring investment into low income communities. The NMTC statute and IRS regulations require that NMTC investments benefit businesses located in low income communities defined as: census tracts with poverty rates of at least 20% or where median incomes do not exceed 80% of the area median.

And yet, CDEs continue to invest in communities with economic distress criteria that exceed what is required by law. In fact, 72% of the NMTC investments made in 2010 were made in communities with poverty rates of 30% or greater, where incomes did not exceed 60% of area median, and where unemployment rates were 150% of 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 job creation and good paying employment opportunities. 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. Twenty-three percent of NMTC financing, or more than \$1 billion, was invested in businesses located in communities that exhibit all three of the above high distress criteria.

Examples of NMTC financed projects and businesses include: a supermarket in Columbus, Ohio as well as a small market in Northampton, Massachusetts; a health center in rural Louisiana as well as a community health center in downtown Harlem; a manufacturer of solar energy technology products in New Mexico and sustainable working forest projects in both Maine and West Virginia; a newspaper publisher in Reading, Pennsylvania and a pharmacy on the Flathead Indian reservation in Montana.

H.R. 2655, the New Markets Tax Credit Extension Act

The New Markets Tax Credit Extension Act of 2011 (H.R. 2655) was introduced by Congressman Gerlach and is currently co-sponsored by 63 Representatives including 13 members of the Ways and Means Committee. The legislation would extend the NMTC for 5 years, from 2012 through 2016, and provide \$5 billion in annual NMTC allocation authority. In addition, H.R. 2655 would provide Alternative Minimum Tax (AMT) exemption for NMTC investments.

Long term extensions of tax policy provide businesses with much needed certainty. For the NMTC specifically, we have found that longer extensions boost the credit's efficiency and effectiveness.

We witnessed this boost after Congress extended the NMTC for two years (2010 and 2011). This was the first multi-year extension since the original seven-year NMTC authorization and it provided investors with a greater level of certainty, resulting in a surge of investment. In 2011, the second year of that extension, CDEs generated \$5.7 billion in NMTC investments, the most QEI activity the NMTC market has ever seen. In just two years, between 2009 and 2011, NMTC investment increased by a remarkable 67%. We believe this surge in investment activity was not an accident. Rather, it was in response to the market certainty created by a two year extension.

The 2007 GAO report cited earlier in this testimony indicated that the NMTC was a factor, if not the principal factor, considered by investors when evaluating certain investment opportunities in low income communities. If there were more certainty regarding the availability of the NMTC from year to year, investor interest would increase. Without a near term extension, investor interest will surely diminish, capital will go elsewhere, and the efficiencies achieved in the NMTC market will be lost.

The Coalition also strongly encourages Congress to consider increasing the annual NMTC credit authority to \$5 billion, the level proposed in the New Markets Tax Credit Extension Act. Demand for NMTC allocations consistently outweighs available NMTC allocations. Since the first NMTC allocations were awarded in 2003, CDEs applicants have requested more than \$225 billion in allocations while a total of \$33 billion in Credit authority has been available.

While billions of dollars have flowed to communities traditionally left out of the economic mainstream, the sky-high demand for NMTC authority calls for a larger annual allocation.

Based on what we know, if Congress increases the NMTC to \$5 billion in annual Credit authority, we will see more than \$10 billion per year 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.

And finally, the New Markets Tax Credit Extension Act would provide AMT relief to NMTC investors, thereby bringing the Credit in parity with other AMT-exempt credits like the Low Income Housing Tax Credit and the Historic Tax Credit. Without this modification, the NMTC will continue to be at a disadvantage in the investor marketplace. In addition, providing AMT relief for the NMTC would encourage new investors – including community banks currently restrained by AMT – to enter the market. We would see a broadening of the NMTC investor base, increased competition and efficiency, better pricing, and more subsidies going to qualified businesses.

In closing, the Coalition was pleased to hear so many Members of Congress, including several of your distinguished colleagues on the Ways and Means Committee, voice support for the NMTC during their testimony before the Select Revenue Subcommittee on April 26th. I trust you will continue to hear from NMTC supporters from both sides of the aisle who have seen the impact of NMTC investments in their home districts in the form of growing businesses, new jobs, and community revitalization projects.

Attachments: Two case studies and the New Markets Tax Credit Board of Directors.

OHIO BASIC MINERALS, JACKSON, OH CDE: Finance Fund

Southern Ohio's rural Jackson County is known for picturesque views of the Appalachian foothills and warm, hospitable people. The region is home to several manufacturing companies that utilize Jackson's abundant natural resources, wealth of skilled workers and low transportation costs. However, in today's rocky economy, small businesses need TLC to continue to grow and flourish. Ohio Basic Minerals (OBM) saw a chance to nourish and revitalize Schrader & Son Sand and Gravel, a small Jackson family-owned recreational sand and gravel plant, and to chip into a gold mine of potential in an adjacent silica sand quarry. This would enable the company to increase its product offerings, expand to several new industries, reach more customers and bring more jobs and income to Jackson. However, In order to begin producing large quantities of silica products, the plant required expansion.

To make this expansion a reality, the OBM management team began looking for finance partners. Through a referral from Huntington Bank, Kevin Struzeski, CFO of OBM, met with Finance Fund. An initial interim loan of \$1.7 million through Finance Fund's Capital Corporation was provided. Several months later this loan was refinanced, and increased to \$2.45 million through Finance Fund's New Markets Tax Credit Program. The \$750,000 increase in funding allowed for the purchase of additional machinery and equipment.

The expansion of the Jackson plant became a reality when construction began in January 2009. A large-scale industrial sand dryer was erected, enabling OBM to produce dry silica sand and gravel. Bagging equipment and a screen tower building were also added and two warehouse buildings were refurbished. The project is still in progress, with more upgrades being added, but OBM has been functional since September 2009 – a mere nine months since construction began.

The \$6.7 million project employed close to 35 contracted workers. OBM has retained seven invaluable Schrader & Son employees and plans to add at least 30 jobs over the next three years. Expanding the plant's capabilities to extract and dry silica sand and gravel products has made it possible for OBM to reach an array of new markets and increase profits significantly. Jackson's old Schrader & Son facility is now newer, larger, faster and more robust. As a result, job growth and income are steadily returning to the industrial town.

Finance Fund Provided:

- **An initial loan of \$1.7 million**, subsequently refinanced and increased by **\$750,000** for a **total amount of \$2.45 million**.
- Entire project cost about \$6.7 million. Finance Fund provided funds for more than **35% of the project**.

Project Results:

- Close to **35 jobs were created** for the complex renovation.
- **7 in-house jobs were maintained**.
- **30+ jobs will be created** in the next three years.

RIVER VALLEY MARKET, Northampton, MA

CDE: Coastal Enterprises

River Valley Market (RVM) in Northampton, Massachusetts is a new community member-owned and operated food market, which will also serve the surrounding Pioneer Valley towns. RVM's mission is to provide a just marketplace nurturing a local, living economy through cooperation. The cooperative (co-op) will specialize in fresh local organic foods and exceptional customer service. As a democratically owned organization, the co-op will empower member-owners to meet their mutual needs while building a more secure system of sustainable agricultural development in the Connecticut River Valley.

New Markets Tax Credits (NMTCs), along with a \$400,000 grant from the Massachusetts Technology Collaborative for its green business plan, allowed the 10-year old co-op to build their first retail facility, a 17,000 square foot silver LEEDS certified green-designed building. The project is awash in eco-friendly features, including the addition of solar panels, high-efficiency electric lights that automatically dim to adjust for natural lighting, and a system that utilizes the waste heat from refrigeration to heat hot water.

The Market opened its doors on April 30, 2008, and by June 30th had hired 81 new staff. Within its first year of operation, more than 1,100 new household joined as member-owners, bring their total to over 3,750.

In RVM's first five months in operation, their regional food purchases totaled over \$1 million including over \$300,000 from area farmers and over \$700,000 from other small local and regional businesses comprising nearly 50% of their overall food and grocery purchases. Over the same time period, RVM either recycled or composted over 35 tons or 78.41% of their total waste.

This project was a true community effort, bringing together Morgan Stanley and TransCapital as equity investors, and Bank of Western Massachusetts, Cooperative Fund of New England, Western Massachusetts Enterprise Fund, Local Enterprise Assistance Fund, NCB Capital Impact and Northampton Community Cooperative Market as lenders. CEI Capital Management (CCML) provided \$7.4 in NMTCs for this deal, which closed February 9, 2007.

Key Benefits:

- Promotes local agriculture and fair trade with local growers.
- Supports a network of Independent local coops.
- Has created 81 new jobs with good pay and benefits.
- Commitment to hire locally from a large Latino population and offer free ESOL training
- Facility is Silver LEED certified.
- 5% of power from solar panels.

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