October 11, 2024

House Ways & Means Committee
1139 Longworth House Office Bldg.
Washington, DC 20515

Re: Tax Teams Comment on Community Development

Dear Representative Kelly:

On behalf of the Opportunity Finance Network (OFN), I am pleased to provide comments for consideration of the Community Development Tax Team as it evaluates how the tax code can enhance community development and affordable housing efforts upon expiration of the 2017 Tax Cuts and Jobs Act (TCJA). OFN is a network of over 450 mission-driven community lenders, primarily Treasury-certified community development financial institutions (CDFIs), providing responsible financing to rural, low-income, Native, and other communities that mainstream finance does not traditionally reach. OFN is also a certified CDFI providing intermediary lending to our members to support their work.

CDFIs leverage multiple tax tools to help address community needs, stimulate local economic growth, and create economic opportunities for all. Tax credits are vital to the work of CDFIs by helping attract private capital to projects that might otherwise be considered too risky or unprofitable. These credits increase the amount of capital available for projects, enabling CDFIs to fulfill their mission of providing access to financing in economically distressed communities.

New Markets Tax Credit

The New Markets Tax Credit (NMTC) is a crucial tool that CDFIs leverage to enhance their capacity to finance projects and create economic opportunity in communities that otherwise have challenges receiving much-needed investment. NMTC allocations totaling $72 billion have delivered more than $135 billion in financing to over 8,500 projects through 2023.[1] Over 80% of NMTC financing was allocated to severely distressed communities in 2023 and nearly 30% went to non-metropolitan communities.[2] Community Development Entities like CDFIs have used NMTC investment proceeds to finance over 3,700 essential community projects, such as federally qualified health centers, schools, daycare centers, apprenticeship programs, treatment facilities, and other service providers. Without the NMTC, CDFIs would lose a critical source of revenue that they use to fulfill their mission of economically empowering overlooked communities.

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[1] NMTC Coalition analysis of CDFI Fund data (2003-2019), its annual survey of CDEs (2020-2022), and OCC data (2018-2022).
[2] "2024 NMTC Progress Report." NMTC Coalition, June 2024. https://nmtccoalition.org//wp-content/uploads/2024-NMTC-Progress-Report.pdf

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As this program is set to expire at the end of 2025, we urge Congress to fold the New Markets Tax Credit Extension Act of 2023 (H.R. 2539) into forthcoming tax legislation, which will indefinitely extend the NMTC, index future allocation levels to inflation, and relieve NMTC investors from the Alternative Minimum Tax. These reforms will make the NMTC more effective by creating certainty for project implementation and attracting new investors. Additionally, we emphasize our support for the Rural Jobs Act (H.R. 5026) which would drive more NMTC dollars into rural persistent poverty and high out-migration communities.

OFN also encourages the program should concentrate on maximizing impact for communities. We believe consideration should be given to Community Development Entities (CDEs) that will continuously reinvest in their communities. Pursuant to 12 CFR § 1805.100, we believe the NMTC scoring system should be realigned with the CDFI Fund's statutory purpose to "promote economic revitalization and community development through investment in and assistance to Community Development Financial Institution (CDFIs)." Specifically, we recommend that CDEs that are CDFIs receive 10 additional bonus points under the Community Outcomes section. The additional points are justified by the CDFI business model which continuously reinvests in communities.

When NMTC was first implemented, non-CDFIs were permitted to participate in the program due to the concern that CDFIs did not have the capacity to fully deploy the annual allocation. Since then, CDFIs have proven to be highly effective in deploying credits. The CDFI field has grown in size, scale, and impact since 2000 when the program was created. They are stronger and create impact at greater scale; thus, they should receive additional weight in the selection process.

New Markets has provided $292,593,173 in aggregate financing to districts that representatives on the Community Development Tax Team serve. In NY-24, OFN member Enterprise Community Partners leveraged $19,500,000 in New Markets financing to replace the current YMCA building in Batavia with new construction and the addition of a healthy living campus. The project has allowed the YMCA to double the amount of people they serve from 3,000 to 6,000 annually in addition to serving around 3,000 children per year in pre-K, afterschool, camp, and sports programming. The healthy living campus also houses a fitness center and a full-service primary care medical facility that serves 8,400 patients. In total, the project created 72 predevelopment/construction jobs, 87 permanent jobs, and retained 239 jobs in the community.

Affordable Housing

OFN also supports modest tax incentives that will bolster the development of affordable housing such as the Affordable Housing Credit Improvement Act (AHCIA) (H.R. 3238) and the Neighborhood Homes Investment Act (“Neighborhood Homes”) (H.R. 3940).

The AHCIA (H.R. 3238) strengthens and expands the low-income housing tax credit (LIHTC), a highly successful tool that, since its inception in 1986 through 2022, has financed 3.85 million units of affordable housing across the nation.[3] The bill would support the financing of nearly 2 million new affordable homes by increasing the amount of credits allocated to each state, increasing the number of affordable housing projects that can be built using private activity bonds, and making improvements to the program to better serve veterans, victims of domestic violence, formerly homeless students, Native American communities, and rural Americans. The bill includes three key revisions to LIHTC:

1. **Expanding the 9% Housing Credit to boost affordable housing supply.** Expand the 9% Housing Credit by restoring the 12.5% cap increase (expired at the end of 2021) and further increasing allocations by 50% over two years.
2. **Lowering the bond financing threshold to enable 4% Housing Credits to produce and preserve more affordable housing supply.** Allowing states to produce and preserve more bond-financed developments by allowing the full amount of 4% Credits to properties that finance at least 25% of eligible land and building costs with tax-exempt multifamily bond authority. This modification will allow states to use their bond authority more efficiently.
3. **Boosting affordable housing supply in rural communities.** Providing a basis boost in rural areas by modifying the definition of "difficult to develop areas" (DDAs) to automatically include properties located in rural areas, making these properties eligible for increased Housing Credit equity if needed to make them financially feasible.

We greatly appreciate Representative LaHood for leading and the rest of the Community Development Tax Team for cosponsoring the bill. LIHTC has already provided housing for nearly 9 million low-income households while supporting approximately 6.33 million jobs annually.[4] Additionally, it has generated over $716 billion in wages and business income and contributed more than $257 billion in federal, state, and local tax revenue.[5] The provisions of the AHCIA would make LIHTC more effective at preserving existing and creating new affordable housing.

Neighborhood Homes (H.R. 3940) was introduced by Representative Kelly to create a new federal tax incentive that would produce new equity investment dollars for the development and renovation of 1-4 family housing in distressed urban, suburban, and rural neighborhoods. Many communities across the country face a shortage of affordable, livable homes, coupled with expensive construction and renovation costs, prevent Americans from being able to buy home at market rates. This tax credit would help cover the gap in construction and rehabilitation costs for occupancy and, in rural areas, address the "value gap"—a situation where the cost to rehabilitate or build a home exceeds its appraised value.

[3] The ACTION Campaign, November 2023. https://rentalhousingaction.org/
[4] ibid
[5] ibid

By accounting for up to 35% of eligible development costs, the Neighborhood Homes tax credit would reduce the risk for developers to build and rehabilitate homes and thus stimulate the supply of affordable housing. The creation of the tax incentive would produce 500,000 starter homes in disinvested urban and rural communities over the next decade and is expected to have a significant economic impact in doing so.[6] It is expected to spur $125 billion in total development activity, support 861,000 jobs in construction and related industries, create $56 billion in wages and salaries, and generate $26 billion in federal and $12 billion in state and local tax revenues and fees.[7]

Inclusion of both the bipartisan Affordable Housing Credit Improvement Act and Neighborhood Homes Investment Act in the 2025 tax package will help address the national housing crisis by increasing the supply of affordable housing, enhancing accessibility to homeownership, and overall reducing the burden of rising living costs for Americans.

Driving Investment Into CDFIs

The Community Development Investment Tax Credit is a bipartisan proposal aimed to drive private-sector investment into CDFIs to incentivize economic development initiatives in low-income and rural communities. The tax credit will help unlock more equity and long-term capital for CDFIs, allowing them to offer more affordable, responsible financing options for small businesses, affordable housing developers, and community facility projects in under-resourced areas.

The tax credit would apply for qualified investments into CDFIs including equity investments, loans with a minimum term of 10 years, and equity equivalent investments for CDFI loan funds. It would provide a 3% credit for the first 10 years of a qualified investment in a CDFI, 4% for the following years, up to a maximum of 10 years. A 1% increase in the credit would be provided for equity or equity equivalent investments. There would be a capped credit allocation established at the CDFI Fund and eligible CDFIs would be required to apply through the Fund to receive an allocation. Credit would be allocated based on a CDFI’s past performance and ability to attract private capital. The bill also ensures that small and rural CDFIs will receive credit allocations.

By rewarding private investment into CDFIs, the credit will enhance CDFIs' capacity to provide flexible loans and serve as a better alternative to predatory loans. CDFIs

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[6] “House members introduce ‘Neighborhood Homes Investment Act’ to expand affordable homeownership opportunities and revitalize communities.” Neighborhood Homes Coalition, June 2023. https://static1.squarespace.com/static/589b48fbe3df28f7ed63b31b/t/6488d66984659c21800cb6d6/1686689385943/NHIA+Press+Release+%286-9-23%29+from+Tanya+for+PRN.pdf

[7] ibid

have a proven track record of leveraging public and private funds to uplift vulnerable communities, and this legislation will expand the resources needed to scale their impact nationwide.

Thank you for the opportunity to provide comment on our tax priorities that are intended to foster local economic development in underinvested communities. We urge the committee to consider the legislation described in this letter for inclusion in the 2025 tax package. Please feel free to reach out to me with any questions, OFN and our over 450 members stand ready to assist the Committee in pursuing economic opportunity for all.

Sincerely,

Mary Scott Balys

Mary Scott Balys
Senior Vice President, Public Policy
Opportunity Finance Network

CC: Representative Claudia Tenney
Representative Darin LaHood
Representative Blake Moore
Representative Mike Carey