



**TESTIMONY BEFORE THE JOINT PUBLIC HEARING**

**of the**

***Subcommittee on Select Revenue Measures of the Committee on Ways and Means and the  
Subcommittee on Domestic Monetary Policy and Technology of the Financial Services Committee***

***by***

**James R. Klein, CEO, OHIO COMMUNITY DEVELOPMENT FINANCE FUND (Finance Fund)**

**Concerning:**

**“NEW MARKETS TAX CREDIT: Minority Entities Are Less Successful in Obtaining Awards Than  
Non-Minority Entities” (GAO-09-536)**

**JUNE 18, 2009**



I. INTRODUCTION:

Chairman's Neal and Watts, Ranking Members Tiberi and Paul, and Subcommittee members, I am James Klein, Chief Executive Officer of the Ohio Community Development Finance Fund (Finance Fund), and I want to thank the Committees and specifically Congressman Tiberi for the opportunity to testify on the recently released GAO report concerning minority entities level of success accessing NMTC awards. I will be providing you with a general overview of Finance Fund followed by comments on specific elements of the report.

Finance Fund is a statewide nonprofit financial intermediary working to enable progress and inspire change within Ohio's low-income communities. By building bridges to economic development and community revitalization, we aim to create opportunities that make a better quality of life possible.

Working exclusively within low-income rural and urban communities, we connect local community development organizations and small businesses with needed funding in the form of nontraditional financial products. These resources support a wide range of projects including affordable housing, child care and early learning facilities, small business entrepreneurship, community facilities, and commercial revitalization.

Finance Fund's clients include community-based nonprofit organizations and for-profit businesses serving low-income communities statewide. As an intermediary, we form creative public-private partnerships with financial institutions, investors, charitable foundations, community organizations and federal, state and local governments in order to provide the funding clients need.



Utilizing a diverse and ever-expanding range of financial products, clients gain access to resources needed to turn struggling communities into economically healthy neighborhoods. Products include: grants for predevelopment activities, grants to supplement owner equity, flexible loans, and credit enhancements.

Finance Fund has, over its twenty-two year history, experienced steady growth from a starting asset base of \$50,000 to an aggregate of \$110 million. Impact on Ohio's low-income population has been tremendous with investments that have provided 15,312 homes, created 8,991 jobs, and over 8 million square feet of revitalized community space providing shopping, transportation, as well as medical and social services for residents. In over 3,000 new classrooms, Finance Fund has impacted 69,326 of Ohio's low-income children with access to early learning services, hot meals, and other health and social services while parents are at work or school. We have touched the lives of 116,000 low-income people. 2,455 projects have been approved for a total amount of \$95 million that has leveraged nearly \$755 million from other sources. Our strategy has always been "creating value from value created" or "supplement don't circumvent." That is, we use existing systems and structures to facilitate change.

The New Markets Tax Credit is a nearly perfect fit into our existing mission and product mix. It provided the resources and the flexibility to enhance the efforts we've been providing for the past two decades. We have received four awards from the program soliciting investment from existing investment partnerships and applying proceeds to local clients, old and new. To facilitate the use of NMTC in highly distressed neighborhoods and communities, a non-leveraged investment model has been used. This has allowed for construction of "blind pool" investments where projects are not identified at the time of the investment commitment. This has allowed for the offering of products that are fairly generic and familiar to the market.





Three of the four awards are deployed (\$55 million) in 30 projects ranging from coffee shops to shopping centers, from child care space to health care facilities in urban, rural, minority and non-minority communities around the state. (See attachment) The largest NMTC investment has been \$5 million the smallest \$86,000.

II. GAO Report Comments:

The GAO report finds that..."minority status is associated with a lower probability of receiving an allocation. It is not clear from our analysis why this relationship exists or whether any actions taken or not taken by the Department of the Treasury contributed to minority CDEs' lower probability of success."

From my prospective this outcome is somewhat predictable. NMTC has already dealt with a similar issue when examining the urban and rural markets. These issues are not uncommon to smaller communities and neighborhoods exhibiting characteristics of economic distress. Local minority and non-minority organizations are usually smaller with limited assets and capacity to deal with the complexity of public programs. They operate in a market that is of a limited scale. As a result, they generate projects that are smaller and businesses with little or no assets enabling access to private commercial capital. Because projects are smaller, impacts are small when compared to larger single purpose transactions.

Higher economically distressed communities do not suffer from a lack of capital. They suffer from a lack of mechanisms to capture capital passing through the local economy. The need in these low-income communities is for locally-owned or controlled mechanisms (businesses) that capture and facilitate the local circulation of capital thereby stimulating the local economic environment. The lack of an unstable local economy is characterized by a lack or limited investor presence, lack of resident access to basic housing and services, and a rise in blight indicators; i.e. crime, delinquency, depressed asset values, chronic unemployment, etc. These characteristics are cyclical and tend to act as a barrier to investor yield demands and risk aversion which leads to an increase in the aforementioned blight indicators.

The need in these communities is for flexible streams of capital, initially subsidized, that provide incentive for investor participation in sustainable projects, many times small, that generate local income.





The New Market Tax Credit program is one of the best fits to address this issue and has become a valuable tool in the revitalization of low-income communities. It is successful and increasingly attractive to investors, which has led to another potential reason for the GAO finding.

NMTC's have moved toward two prominent investment models; i.e. leveraged and non-leveraged. The primary investment model is a structured finance or leveraged model. To receive tax credits a qualified equity investment (QEI) must be made into a certified Community Development Entity (CDE). Because the credits are considered to be yield shallow and there is a perception that available equity for this type of investment is limited, investors have moved almost exclusively to this model. The leveraged model enables the QEI investment to be "prepared" for investment by using a system of soliciting debt and equity investment into an aggregating entity, which on behalf of the investors, makes the QEI. The debt investor receives yield from pricing of the loan, and the equity investor receives yield from all the tax credits. This allows equity to leverage debt and has resulted in billions of dollars of investment. The structure has other characteristics that are pertinent to the GAO report. First, it increases the complexity of legal structuring at the investor level and at the transaction level. Second, it increases the cost of structuring the project with additional legal, accounting, and timing costs. Yield expectations of the model are approximately 12% to 14% after taxes. The benefit of the model is that it enables larger investments in larger projects, enables some pricing advantage as a result of an A-B loan structure with the potential for putting equity into a transaction at the end of the term, and potentially increases the impact as the result of transaction scale. Because of the cost and complexity, the minimum size of a NMTC project is considered to be around \$3 million. It is Finance Fund's opinion that the yield drive of the leveraged model systemically excludes smaller low-income community projects from accessing NMTC capital. As a result, it is less likely that minority CDEs will be able to present projects that are competitive in the application process.

A second NMTC investment type is a non-leveraged model. This approach is far less popular and is practiced by a limited number of CDEs. This is direct equity investment (QEI) by investors into the CDE. There is no debt investor, so no need for the aggregating entity. The CDE uses the proceeds of the investment to make loan/equity investments directly to transactions with qualifying businesses. The model is somewhat more flexible in that it enables development of blind pool investment; i.e. not having identified





projects prior to investment. It is less complex, therefore less costly, and enables the offering of a recognizable product to the market; i.e. generic loan. Yield expectations are approximately 6% to 7% after taxes. It is the opinion of Finance Fund that the non-leveraged model is best suited to meet demand for small locally-owned qualifying businesses.

The report identifies no perceived system bias in the process of application, award, and administration of the program. From Finance Fund's experience, the program is well managed and provides ample training and guidance within the perspective of the administrative agent. This is not a capacity building program, and it should therefore not be the responsibility of the administrator to build the skill set of CDEs. However, it should and does provide ample and understandable guidance insuring equal access in the application process. There is an extensive and accessible knowledge base; i.e. Q&A, webinars, staff access and a well-defined programmatic system, including a well-defined and publicized application process and compliance system. Compliance requirements are well-defined and accessible. There is a well-informed staff of experts that are accessible and helpful.

The report states that the reason for the lack of access is not clear within the current level of analysis which leads to the logical question, "Is increased participation of minority CDEs a programmatic goal of NMTC?" Because it is not clear if increased access by minority CDE was part of the Congressional intent, it cannot be assumed that it was. The report focuses on successful or unsuccessful minority CDE awards. The more relevant question is "What is the status and nature of the investment in minority low-income communities, with minority-owned businesses, and/or affecting low-income residents?" The report has no analysis of the impact on minority neighborhoods by minority or non-minority CDE investment. In addition, because applicant organizations self select their minority status under the definitions provided, some CDEs may have significant focus on highly distressed minority neighborhoods or minority owned QALICBs and chose not to self select the minority CDE box.

It is Finance Fund's opinion that lack of Congressional intent, fair and unbiased program administration, and normative characteristics of low-income and/or minority communities result in award success that is systemic and has the same consequences regardless of CDE categorization.





III. Conclusion

- A. NMTC is a valuable tool in community revitalization of highly economically distressed communities.
- B. It plays well with others; i.e. works well with a variety of public and private financing products.
- C. It is well managed and reasonably accessible.
- D. It is an open process as a result of the strategic positioning of the administrator.
- E. Program shows significant impact with upward trends.
- F. To more accurately assess the effect of the NMTC on minority communities, research should focus on investments in highly economically distressed low-income communities with specific emphasis on minority populations. Research should factor in the impact of the applicant self selecting minority status and non-minority CDEs that heavily invest in minority communities.
- G. Yield driven investment, as it relates to transaction scale in highly distressed low-income communities, will not be affected by more award success by minority CDEs. It will be affected by programmatic recalibration making non-leveraged investment more attractive.





### New Markets Tax Credit Projects Central Ohio

**Organization:** King Lincoln Gateway LLC  
**Project Name:** King Lincoln Gateway  
**Project City:** Columbus  
**Funds Awarded:** \$2,500,000 New Markets Loan  
**Outcomes:** Full-Time Jobs: 100, Temporary Jobs: 132;  
Commercial Square Footage: 54,000

**Organization:** W Ltd.  
**Project Name:** Morse Heaton Complex  
**Project City:** Columbus  
**Funds Awarded:** \$923,900 New Markets Loan  
**Outcomes:** Full-Time Jobs: 40, Temporary Jobs: 53;  
Commercial Square Footage: 32,000

**Organization:** Whitney Young Collaborative  
**Project Name:** Whitney Young Collaborative  
**Project City:** Columbus  
**Funds Awarded:** \$3,000,000 New Markets Loan  
**Outcomes:** Housing Units: 28, Full-Time Jobs: 45,  
Temporary Jobs: 60

**Organization:** Gay Street Condominiums, LLC  
**Project Name:** Gay Street Condominiums  
**Project City:** Columbus  
**Funds Awarded:** \$5,000,000 New Markets Loan  
**Outcomes:** Housing Units: 256, Full-Time Jobs: 12, Temporary Jobs: 80;  
Commercial Square Footage: 192,000

**Organization:** Apex Realty Enterprises, LLC  
**Project Name:** Urban Oasis (Ibiza)  
**Project City:** Columbus  
**Funds Awarded:** \$4,800,000 New Markets Loan  
**Outcomes:** Housing Units: 147, Full-Time Jobs: 125, Temporary Jobs: 165





### New Markets Tax Credit Projects Central Ohio

**Organization:** 1179 E. Main Street Redevelopment, LLC  
**Project Name:** Heritage Square Redevelopment  
**Project City:** Columbus  
**Funds Awarded:** \$1,079,770 New Markets Loan  
**Outcomes:** Full-Time Jobs: 46, Temporary Jobs: 61;  
Commercial Square Footage: 18,873



**Organization:** Community Property Development Corporation  
**Project Name:** St. Paul Wellness Center  
**Project City:** Columbus  
**Funds Awarded:** \$2,272,070 New Markets Loan; \$100,000  
Economic Development; \$500,000 Linked Deposit  
**Outcomes:** Full-Time Jobs: 25, Temporary Jobs: 33;  
Commercial Square Footage: 16,075



**Organization:** Pomegranate Development Ltd.  
**Project Name:** Pomegranate Health Systems  
**Project City:** Columbus  
**Funds Awarded:** \$1,625,000 New Markets Loan  
**Outcomes:** Full-Time Jobs: 150, Temporary Jobs: 198;  
Commercial Square Footage: 45,000

**Organization:** Silk Road International, Inc.  
**Project Name:** Zen Cha Tea Salon  
**Project City:** Columbus  
**Funds Awarded:** \$86,265 New Markets Loan  
**Outcomes:** Full-Time Jobs: 10, Temporary Jobs: 13;  
Commercial Square Footage: 1,615



**Organization:** Spotlight Properties, Ltd.  
**Project Name:** Spotlight Properties, Ltd.  
**Project City:** Columbus  
**Funds Awarded:** \$1,004,250 New Markets Loan  
**Outcomes:** Full-Time Jobs: 70, Part-Time Jobs: 20; Commercial  
Square Footage: 39,096



### New Markets Tax Credit Projects Central Ohio

**Organization:** Christ Cathedral Church  
**Project Name:** Christ Cathedral Church  
**Project City:** Columbus  
**Funds Awarded:** \$438,780 New Markets Loan  
**Outcomes:** Full-Time Jobs: 7, Temporary Jobs: 9; Commercial Square Footage: 23,474



**Organization:** Smith and High LLC  
**Project Name:** Smith and High LLC  
**Project City:** Columbus  
**Funds Awarded:** \$1,687,950 New Markets Loan  
**Outcomes:** Full-Time Jobs: 25, Temporary Jobs: 33; Commercial Square Footage: 29,894

**Organization:** St. Joseph Montessori School  
**Project Name:** St. Joseph Montessori School  
**Project City:** Columbus  
**Funds Awarded:** \$2,000,000 New Markets Loan  
**Outcomes:** Children Served: 300; Full-Time Jobs: 32, Part-Time Jobs: 18; Commercial Square Footage: 9,500



**Organization:** Faith Ministries, Inc.  
**Project Name:** Faith Ministries Community Center  
**Project City:** Columbus  
**Funds Awarded:** \$1,725,000 New Markets Loan  
**Outcomes:** Full-Time Jobs: 10, Temporary Jobs: 13; Commercial Square Footage: 6,911; Children Served: 50

**Organization:** Greater Linden Development Corporation  
**Project Name:** Point of Pride  
**Project City:** Columbus  
**Funds Awarded:** \$75,000 Economic Development Grant; \$1,985,028 New Markets Loan  
**Outcomes:** Full-Time Jobs: 40; Commercial Square Footage: 21,014





# Heritage Square Marketplace

**Save-a-Lot Grocery Store**  
1179 East Main Street  
Columbus, Ohio 43205-1932

*12th Congressional District*

Distressed urban communities face many challenges, including access to affordable healthcare, childcare and housing. One often overlooked but equally important necessity is access to fresh, yet affordable groceries. Residents of the Near East Side of Columbus have been without a local grocery store since 2006.

Without access to an affordable grocery store, residents had no choice but to purchase groceries from convenience stores, which could cost nearly twice as much. As an alternative, many families arranged for taxis to grocery stores several miles away, ultimately increasing the overall price tag of their grocery shopping.

The Columbus Compact Corporation works to bring new retail goods and services to the Near East Side of Columbus. It hopes to bring more than 60,000 square feet of shopping and services, 200 jobs and \$2 million in annual payroll to the neighborhood.

After several years of planning, Columbus Compact was ready to move forward with the first phase of its development plans—Heritage Square Marketplace, a shopping center in the heart of the east side of Columbus. Once all phases of the project are complete, the Heritage Square Marketplace will have cost an estimated \$4.1 million and will have redeveloped 1.6 acres of land.

The first stage of this project included a Save-A-Lot grocery store and a Simply Fashions retail store. This involved the remediation of an abandoned gasoline station and Salvation Army store. Finance Fund was one of many partners who provided funding for this project. Through the New Market Loans program, they provided a substantial low-interest loan used for acquisition and construction.

In May 2008, the Near East Side enthusiastically welcomed the Save-A-Lot and Simply Fashions stores. Residents finally had a grocery store to call their own. Jonathon Beard, president of Columbus Compact Corporation, described the opening day as a "realization of a lot of people's wishes." Columbus Compact hopes to break ground on the second development phase by fall 2008.

**Finance Fund provided:**  
• A \$1 million New Markets Loan

The commercial development of Save-A-Lot and Simply Fashions resulted in **18,900 square feet of redeveloped space, provided 46 full- and part-time jobs**, and access to affordable groceries for a neighborhood of approximately 25,000 people.

It further enhances the commercial revitalization taking place along the E. Main strip coordinated by the Compact (which is the local administrator of the Columbus Empowerment Zone).

