

LATE TESTIMONY

TO: Honorable Angus McKelvey, Chair
Committee on Economic Revitalization and Business
Hawaii State Capitol

Honorable Isaac Choy, Vice Chair
Committee on Economic Revitalization and Business
Hawaii State Capitol

FR: Joseph W. Lapilio
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Date: Thursday, February 9, 2012

Time: 8:30am

Place: Conference Room 312, State Capitol, 415 South Beretania Street

RE: HB2387 – RELATING TO NEW MARKETS TAX CREDITS.

Dear Chair McKelvey, Vice Chair Choy, and Members of the Committee,

I thank you for allowing me to submit this testimony in support of HB2387 and its passage, which expands methods of delivering funding to a community development entity by allowing guarantees and credit enhancements.

New Markets Tax Credit: Market

A critical market issue is the continued shortage of leveraged loan financing for NMTC projects. After the tax credit itself, leveraged loans have been the lifeblood of financing packages for many NMTC projects and businesses (Tax Credit Advisor 2009). The current financial market and economic difficulties have prompted a pullback by a number of major sources of leveraged loans such as major banks and specialized lenders (Tax Credit Advisor 2009), and thereby leaving community development projects (Qualified Active Low-Income Businesses or QALICBs) to seek an array of alternative financing (e.g. government loans and guarantees). With the passage of HB2387, the State has the option of providing alternative financing to community development projects that engage in NMTC transactions and thus creating measurable opportunities to stimulate the local economy by actively encouraging the infusion of subsidized capital into the market place that spurs growth in distressed communities that create jobs and enhance access to capital for small businesses and community development.

Loans funneled through an upper-tier investment fund in a leverage loan structure also produce more tax credits for the investor (Tax Credit Investor or TCI) to purchase (Tax Credit Advisor 2009), which means a healthier investment by the CDE into a community development project (QALICB). In short, the leverage loan is enhanced by a maximum of 39%, which means for every dollar leveraged the community development project (QALICB) can receive an additional subsidy up to a maximum amount of 39 cents (typically the subsidy will range between 17 and 22 cents).

New Markets Tax Credit: Description

The federal New Markets Tax Credit (NMTC) program is currently the largest federal economic development incentive program. The program was enacted as part of the Community Renewal Tax Relief Act of 2000 to encourage investment in low-income communities. Economic incentives are important in helping low-income census tracts recover from the recession, since these areas usually have the most difficulty generating new capital. The original authorizing legislation provided \$15 billion in NMTC authority between 2000 and 2007. With extensions of the program, to date, the Community Development Financial Institutions (CDFI) Fund has awarded more than \$26 billion in New Markets Tax Credit allocation authority, raising more than \$14 billion in new capital from tax credit investors for low-income community investments. The investor capital has supported approximately \$100 billion in total project financing.

NMTCs are a tax credit, not a tax deduction. A tax credit can be given to the IRS instead of making a cash payment for taxes owed by the investor. The investor is typically a bank or insurance company.

NMTC is very flexible and can be used for a wide range of purposes. Most types of businesses, including not-for-profit businesses are eligible for NMTC subsidy. The program has supported a wide variety of community and economic development initiatives including restaurants, childcare facilities, community centers, charter schools, supermarkets, shopping centers, manufacturing and industrial facilities, health care centers, and mixed-use buildings with affordable housing. For the many communities that could benefit from the NMTC, the first step is to understand how it works.

In brief, the Community Development Financial Institutions (CDFI) Fund, part of the U.S. Treasury Department, certifies qualified community development entities (CDEs) and conducts competitions for the allocation of NMTCs to CDEs. An "allocation" allows the CDE to select a project and coordinate funding, including by receiving the tax credit investor's capital and directing the tax benefits to the investor.

The size of the NMTC is 39% of the capital assembled by the CDE, taken over seven years. The capital is typically approximately the project budget amount. At closing, investors pay a percentage of the total benefits they receive over time. This means the tax credits result in a subsidy for projects typically in the range of 17 – 22% of the total capital raised by the CDE. The capital must be used for qualifying projects, usually required to be located in low-income census tracts or projects that serve or employ low-income persons.

Business owners, financial institutions, and community economic development leaders are now realizing the various ways the New Markets Tax Credit program can help finance projects and stimulate economic growth.

Thank you for this opportunity to testify.

LATE TESTIMONY

From: mailinglist@capitol.hawaii.gov
Sent: Thursday, February 09, 2012 7:39 AM
To: ERBtestimony
Cc: info@schha.com
Subject: LATE LATE TESTIMONY - Testimony for HB2387 on 2/9/2012 8:30:00 AM

Testimony for ERB 2/9/2012 8:30:00 AM HB2387

Conference room: 312
Testifier position: Support
Testifier will be present: No
Submitted by: Annie Au Hoon, President
Organization: Kewalo Hawaiian Homestead Community Assn, SCHHA
E-mail: info@schha.com
Submitted on: 2/9/2012

Comments:

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Testimony for ERB 2/9/2012 8:30:00 AM HB2387

Conference room: 312
Testifier position: Support
Testifier will be present: No
Submitted by: Mike Kahikina, Legislation Chair
Organization: SCHHA
E-mail: info@schha.com
Submitted on: 2/9/2012

Comments:

LATE TESTIMONY

From: mailinglist@capitol.hawaii.gov
Sent: Thursday, February 09, 2012 7:41 AM
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Cc: info@schha.com
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Testimony for ERB 2/9/2012 8:30:00 AM HB2387

Conference room: 312
Testifier position: Support
Testifier will be present: No
Submitted by: Kamaki Kanahele, Chairman
Organization: SCHHA
E-mail: info@schha.com
Submitted on: 2/9/2012

Comments:

LATE TESTIMONY

From: mailinglist@capitol.hawaii.gov
Sent: Thursday, February 09, 2012 7:43 AM
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Testimony for ERB 2/9/2012 8:30:00 AM HB2387

Conference room: 312
Testifier position: Support
Testifier will be present: No
Submitted by: Herbert Hew Len, President
Organization: Waianae Kai Homestead Community Assn, SCHHA
E-mail: info@schha.com
Submitted on: 2/9/2012

Comments:

LATE TESTIMONY

From: mailinglist@capitol.hawaii.gov
Sent: Thursday, February 09, 2012 7:43 AM
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Testimony for ERB 2/9/2012 8:30:00 AM HB2387

Conference room: 312
Testifier position: Support
Testifier will be present: No
Submitted by: Kimo Kelii, VP
Organization: Nanakuli Hawaiian Homestead Community Assn, SCHHA
E-mail: info@schha.com
Submitted on: 2/9/2012

Comments:

LATE TESTIMONY

From: mailinglist@capitol.hawaii.gov
Sent: Thursday, February 09, 2012 7:44 AM
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Testimony for ERB 2/9/2012 8:30:00 AM HB2387

Conference room: 312
Testifier position: Support
Testifier will be present: No
Submitted by: Beatrice Hew Len, Secretary
Organization: Mokupuni O Oahu, SCHHA
E-mail: info@schha.com
Submitted on: 2/9/2012

Comments: