Woodstock Institute

October 1, 2009

Mr. Matt Josephs
NMTC Program Manager
CDFI Fund
601 13th Street, NW, Suite 200 South
Washington, DC 20005

Dear Mr. Josephs:

Thank you for the opportunity to provide suggestions for improving the New Markets Tax Credit allocation application. As an organization that works to promote reinvestment in low-income communities, Woodstock has long supported the CDFI Fund's mission and programs. Our involvement with the NMTC program thus far has been as an evaluator for individual allocatees. We have worked closely with multiple organizations to help them define, measure, and assess the social and economic impacts of specific projects they have financed with NMTC-related proceeds. Our comments therefore focus on the parts of the application that relate to these impacts, along with the broader question of whether NMTC proceeds are critical to bringing about the impacts.

1. Distinction Between Real Estate and Non-Real Estate QALICBs

We have found the Fund's distinction between real estate and non-real estate QALICBs to be more confusing that illuminating. Much of the QLICI financing being provided is going toward the development or renovation of real estate, regardless of whether the borrower/investee would qualify as a real estate-focused entity. Most of the community facility financing, for instance, goes toward the development or renovation of physical property. We have found that there is a greater distinction between the types of loans being made than the type of borrower receiving the loan. In other words, a CDE is likely to underwrite a construction loan in a generally similar way regardless of the borrower. It would underwrite a working capital or equipment purchase loan much differently from a construction loan, again irrespective of the end borrower.

We recommend dropping the real estate / non-real estate QALICB distinction in Question 14 and tables A1, A2, B1, and B2. We would prefer to see a question asking the applicant to differentiate among projected financing going to a) new real estate development, b) existing building / facility enhancement; c) working capital / inventory purchase; and d) other purposes. A separate question asking about the corporate status of the likely borrowers (either for-profit or nonprofit, with nonprofit-controlled special purpose entities falling within the nonprofit category) would also be useful, since some lenders employ separate underwriting standards for nonprofits. Such classifications would extend to both the track record and the projected activity tables. We contend that it would be more relevant and useful for a reviewer to know more about the types and purposes of loans that have been made in the past – not the overall purpose of the borrower receiving those loans – when assessing an applicant's capacity to carry out its proposed activities. The current application does not address the applicant's experience with different types of financing.

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2. Market Analysis

The 2009 application asks for "a brief summary of the Applicant's target market" and "a brief summary of the typical projects and/or borrowers the Applicant will target" in Question 15. Yet it does not ask about the particular needs or problems that the applicant is ultimately trying to address with the NMTC proceeds. Why are the NMTC products so important to the identified market, projects, and/or borrowers? What about the market that the CDE is serving and lends itself to the particular strategy being proposed? Such queries would help address the "but for" question that underlies most program evaluation. It might be useful to add these questions as bullet points in Question 15, or even potentially to ask a separate question regarding why NMTC proceeds are needed in the market the applicant has identified. Alternatively, the application could ask for a rationale behind the design and offering of each product or characteristic discussed in Question 16(b).

3. Impact Definition and Measurement

Tables C1 and C2 (upon which Questions 28 and 29 are based) currently require all applicants to report on a set of pre-determined quantitative outcomes. Many applicants may well not have tracked these particular measures in the past because they are not relevant to the outcomes the applicants have been trying to achieve. For example, most nonprofit service providers are more likely to have tracked program-specific client outcomes (general equivalency degrees earned, job placements, student graduation rates, and the like) than the number of jobs the organization has "maintained" or the number of construction workers who worked on expanding their facility.

There are multiple conceptual and definitional problems associated with the selected indicators in the C tables. For instance, what does "clients served" really mean? Who are the "clients" in question – individuals or organizations? What constitutes "service," and over what time period? How much multiple counting of clients is occurring? The amount of square footage associated with projects has at best an indirect effect on program outcomes and by itself can bring about unwarranted comparisons. Is it "better" to have created a huge warehouse than a small office building? Is a large manufacturing facility inherently better than a medical clinic? Similarly, the number of construction workers is dependent primarily on the size and scale of the project. The overall number of jobs associated with a given project also depends considerably on the time period over which the measurement takes place. Companies may well wait until they have a financial cushion before hiring new employees. They also may not need to expand their staff if they have been able to achieve technological or other efficiencies through equipment purchase or internal restructuring.

With the emphasis solely on the pre-determined quantitative indicators in the C tables, the CDFI Fund appears to be favoring certain types of projects and activities over others. A reviewer could reasonably conclude that the Fund prefers larger projects over smaller ones, and projects with the greatest number of related employees (retail establishments, for example) over more human and social service entities such as health clinics, child care centers, and schools. There is no mention of the quality of any the jobs to be created. The Fund also seems to be implying that a CDE would be viewed more favorably if it financed a small piece of a very large project (and claimed all of the project's outcomes) than if it financed larger portions of multiple smaller projects. We would argue that the NMTC legislation was deliberately vague in its impact prescriptions – it calls simply for increasing private investment in disadvantaged communities – and that improved educational or health outcomes may be of equal or greater value to a given community than the creation of X jobs. Furthermore, the numbers can be quite misleading without some context. Creating 100,000 square feet of retail space in Cleveland is notably easier than creating the same amount in New York City, given the relative density and land costs in the two areas.

From a practical perspective, it is often virtually impossible to obtain the data necessary to document the specific benefits accruing to low-income persons or residents of low-income communities (Question 30). Many of the NMTC-financed projects result in the development of retail centers or mixed-use facilities. The economic impacts of the projects ultimately depend on the activities of the businesses in the development. To capture these impacts, the CDE must collect data from those companies, which generally have no relation to the CDE and thus no particular motivation for providing the information. To obtain the most accurate income and residence information on the companies' employees, the CDE would need data on the employees' incomes prior to hiring, their current incomes (including monies earned outside of the company), potentially their family incomes, and their exact residence (so as to determine whether they live in an eligible tract). Few (if any) retailers track the income status of their customers, and many do not track their residences. Expecting a CDE to obtain accurate information on employee and customer incomes and residences is therefore unrealistic; we do not even attempt to collect such information ourselves because of the logistical hurdles and the questions of data reliability, and we are a research organization.

The Fund's implicit assumption underlying the focus on local residents appears to be that people live where they work (and vice-versa). Yet there has been a growing disconnect between residence and work for multiple decades. According to the 2000 census, only about 41 percent of American workers lived and worked in the same municipality, let alone in the same neighborhood. In certain parts of the country, people simply cannot afford housing near the major employment centers. Recognizing the reality of regional economies, an increasing number of community development practitioners and policy makers are focusing more on ensuring that residents of disadvantaged neighborhoods have good access to existing jobs in the region rather than trying to create employment centers in the low-income communities. The latter approach often proves unrealistic in light of infrastructure requirements and local land use and zoning patterns, and it also does not guarantee that local residents will be suited for – or will ultimately obtain – the resulting jobs; after all, people from other parts of the region will be competing for the same positions.

Furthermore, there are some allocatees whose approach centers specifically on the broader revitalization of a city or region, not simply on a particular geography. While Woodstock's orientation has generally been toward neighborhoods and communities, we can appreciate the argument that investments in certain downtown regions may have greater long-term benefits for the region (and for its lower-income people) than those in a particular neighborhood. An infusion of economic activity in highly distressed cities such as Cleveland and Scranton would certainly help to staunch the decline in these areas, which would likely contribute to improved conditions in the areas' troubled neighborhoods.

Our recommendation is to consolidate Questions 28, 29, 30, and 32 and ask applicants to report on prior and projected activities in seven different categories:

1) Facilitating the development of jobs paying at or above the median wage in the area, and/or preventing the loss of existing jobs from an area, with particular emphasis on jobs for lower-income people;
2) Promoting the development of minority- and/or female-owned businesses;
3) Improving social and economic conditions for area residents (such as by increasing the availability and quality of goods and services, enhancing community assets, improving educational and health outcomes, etc.);
4) Providing long-term financial benefits to nonprofit organizations (through rent reductions, lower payments, etc.);
5) Remediating environmental contamination and/or creating environmentally sustainable outcomes;
6) Facilitating affordable homeownership and wealth creation for low-income individuals in both the short and long term; and
7) Spurring subsequent investment in the area.

In each category, the applicant would be required to discuss 1) the impacts that it has had to date, quantifying them to the extent possible, 2) its projected outcomes / impacts going forward, with a justification for those assumptions and an estimated time frame in which the impacts will be apparent, and 3) its prior and projected methodology – both quantitative and qualitative – for collecting the information it has reported and will report going forward. The applicant would also be required to assess its past and projected performance in the context of the market in which it is operating. By presenting a range of somewhat open-ended categories, the approach would allow individual applicants to focus on the particular impacts and measures that it deems most appropriate and relevant. Reviewers would be better able to assess the applicant's performance relative to its mission and environment.

We also recommend that applicants be required subsequently to report on their performance with regard to the projected impacts. At the moment, Question 30 asks only that the applicant provide some justification for the projections and a proposed methodology for tracking performance; there is no mechanism for ensuring that applicants actually carry out what they have proposed. One solution might be to require some sort of impact report on each of the projects financed, to be submitted to the Fund on an annual basis. The report would include both the findings and the methodology for discerning them.

Thank you again for the opportunity to comment. Please feel free to contact us if you have any questions or would like to discuss any of the matters raised in this letter further.

Sincerely,

Dory Rand

Dory Rand
President