



## DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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GOVERNOR

LUIS P. SALAVERIA  
DIRECTOR

MARY ALICE EVANS  
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Statement of  
**LUIS P. SALAVERIA**  
**Director**

Department of Business, Economic Development, and Tourism  
Before the

### HOUSE COMMITTEE ON FINANCE

Tuesday, March 1, 2016

1:00 pm

State Capitol, Conference Room 308

In consideration of

### **HB 1397, HD1** **RELATING TO THE NEW MARKET TAX CREDITS.**

Chair Luke, Vice-Chair Nishimoto, and Members of the Committee on Finance.

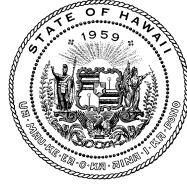
The Department of Business, Economic Development, and Tourism (DBEDT) appreciates the intent of HB 1397, HD1, which is to promote economic development and leverage available federal funding sources, but we are concerned about the cost implications this proposal could have on the department's and overall State's resources. We defer to the Department of Budget and Finance for the overall impact to the State's budget.

This bill does not provide the necessary funding for loan guarantees within the Community-Based Economic Development (CBED) Revolving Fund or for staff with the necessary expertise to administer complex financial instruments such as the Federal government's New Market Tax Credits.

Thank you for the opportunity to testify.

**DAVID Y. IGE**  
GOVERNOR

**SHAN TSUTSUI**  
LT. GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF TAXATION**  
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**MARIA E. ZIELINSKI**  
DIRECTOR OF TAXATION

**JOSEPH K. KIM**  
DEPUTY DIRECTOR

To: The Honorable Sylvia Luke, Chair  
and Members of the House Committee on Finance

Date: Tuesday, March 1, 2016  
Time: 1:00 P.M.  
Place: Conference Room 308, State Capitol

From: Maria E. Zielinski, Director  
Department of Taxation

Re: H.B. 1397 H.D. 1, Relating to New Market Tax Credits.

The Department of Taxation (Department) appreciates the intent of the measure, defers to the Department of Business, Economic Development, and Tourism (DBEDT) on the merits of this bill, and provides the following comments regarding this measure for your consideration.

Among other things, H.B. 1397 H.D. 1 adds a definition of "Community Development Entity" (CDE) to Section 210D-2, Hawaii Revised Statutes, in order to allow financing to be provided to businesses in Hawaii through a structure that facilitates the use of the federal New Market Tax Credit (NMTC). The House Committee on Economic Development and Business defected the effective date to February 19, 2022.

The NMTC Program was enacted by Congress as part of the Community Renewal Tax Relief Act of 2000, and is found in section 45D of the Internal Revenue Code (IRC), and permits individual and corporate taxpayers to receive a credit against federal income taxes for making Qualified Equity Investments (QEIs) in qualified CDEs. These investments are expected to result in the creation of jobs and material improvement in the lives of residents of low-income communities. Examples of expected projects include financing small businesses, improving community facilities such as daycare centers, and increasing home ownership opportunities.

A "low-income community" is defined as any population census tract where the poverty rate for such tract is at least 20%, or in the case of a tract not located within a metropolitan area, median family income for such tract does not exceed 80% of statewide median family income, or in the case of a tract located within a metropolitan area, the median family income for such tract does not exceed 80% of the greater of statewide median family income or the metropolitan area median family income. As part of the American Jobs Creation Act of 2004, IRC §45D(e)(2) was amended to provide that targeted populations may be treated as low-income communities.

The NMTC program is intended to attract capital to low income communities by providing private investors with a federal tax credit for investments made in businesses or economic development projects located in distressed communities in the nation. A NMTC investor receives a tax credit equal to 39 percent of the total QEI made in a CDE, with the credit taken over a seven-year period: 5 percent annually for the first three years and 6 percent in years four through seven. If an investor redeems a NMTC investment before the seven-year term has run its course, all credits taken to date are recaptured with interest.

It should be first noted that the NMTC has been extended through 2019 under the Protecting Americans from Tax Hikes Act of 2015. The NMTC is a highly technical credit. Generally speaking, the CDE must first enter into an allocation agreement with the Community Development Financial Institutions Fund (CDFI Fund), an agency within the United States Treasury and the Internal Revenue Service. This agreement specifies the terms of the NMTC allocation provided to the State under IRC §45D(f)(2).

The CDE must provide notice to any investor who makes a QEI in the CDE at its original issue that the equity investment is in fact a QEI entitling the investor to claim the NMTC, and must be provided by the CDE to the taxpayer no later than 60 days after the date the investor makes the equity investment in the CDE. The notice must contain the amount paid to the CDE for the QEI at its original issue and the CDE's taxpayer identification number. (Treas. Reg. §1.45D-1(g)(2)(A).)

Under IRC §45D(c)(1), a CDE is any domestic corporation or partnership:

1. Whose primary mission is serving or providing investment capital for low-income communities or low-income persons;
2. That maintains accountability to residents of low-income communities through their representation on any governing board or advisory board of the CDE; and
3. Has been certified as a CDE by the CDFI Fund.

Therefore, before any credits can be allocated to the State, it is imperative that any CDE created by this measure be certified by the CDFI fund. The CDFI Fund is responsible for establishing the credit application process, eligibility guidelines, and a scoring model for ranking applicants requesting allocations of NMTC. The CDFI Fund in turn grants credit authority to the CDE- i.e. the ability to issue a specific amount of NMTC in exchange for equity investments. The CDE must then invest substantially all of the cash in low-income communities within 12 months of receiving the funds.

Because making loans and/or equity investments, ranking eligible businesses for funding, assessing the viability of various businesses, and providing financial counseling to businesses is not a function of the Department and one in which it has no expertise, the Department has no objection to this measure, provided that it is administered by DBEDT.

Thank you for the opportunity to provide comments.

**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Monday, February 29, 2016 11:15 AM  
**To:** FINTestimony  
**Cc:** phhlca@aol.com  
**Subject:** \*Submitted testimony for HB1397 on Mar 1, 2016 13:00PM\*

**HB1397**

Submitted on: 2/29/2016

Testimony for FIN on Mar 1, 2016 13:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Bill Brown	Pana'ewa Hawaiian Home Lands Community Association	Support	No

**Comments:**

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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DATE: March 1, 2016  
1:00 pm  
Conference Room 308  
Agenda #3

TO: Chair Sylvia Luke, Vice-Chair Scott Y. Nishimoto and Members  
of the House Committee on Finance

MEASURE: HB1397 HD1

SUBJ: Testimony in Strong Support of HB1397 HD1

Good afternoon Chair Luke, Vice Nishimoto, and House Committee on Finance. My name is Bob Hall, Partner with Pacific Growth Associates, and I submit testimony in strong support of HB1397 HD1.

Community Based Organizations (CBOs) in Hawaii have played an important role in bringing about social and economic improvement to our communities. CBOs support our well being by means of providing economic, educational, environmental, health care, and housing services within their respective communities. They are catalytic in nurturing local, sustainable initiatives. Most seek grant and private funding year round for operational support and key community projects. Many also seek Legislative support each year through State Grant-in-Aid.

The Hawaii Community Based-Economic Development (CBED) Technical and Financial Assistance Program, facilitated by DBEDT, was established to provide financial assistance to community-based businesses and enterprises through low-interest loans and grants to qualifying applicants. HB1397 HD1 provides yet another financing “tool” utilizing public-private partnerships that can optimize a wide variety of funding sources.

HB1397 HD1 will serve as a “tool” that enables CBOs to utilize CBED financing as leverage to bring forth further equity through the federal New Markets Tax Credit (NMTC). Essentially, those who receive \$1.00 in CBED financing could leverage each dollar through a NMTC transaction and create an additional \$.39 in equity. HB 1397 HD1 also adds guarantees and credit enhancements to the program’s current loan and grants provisions of §201D-8. This change compliments the intent and purpose of the CBED Technical and Financial Assistance Program and establishes leveraging opportunities through programs such as the federal NMTC program as another financing opportunity.

The federal 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.

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.

Pacific Growth Associates (PGA) is a strong advocate for successful CBOs. Over the past 4 years, PGA has facilitated over \$50 million in private equity through the NMTC Program, which in turn has built 3 Federally Qualified Health Centers (1 FQHC is located on Hawaiian Home Lands), 1 business and retail incubator with a commercial kitchen, and 1 Community Center on Hawaiian Home Lands.

PGA strongly supports HB1397 HD1 and its intended results, as it will further assist CBOs meet their mission and in turn improve the well-being of our communities.

Respectfully Submitted,



Bob Hall, Partner  
Pacific Growth Associates

**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Monday, February 29, 2016 11:02 AM  
**To:** FINTestimony  
**Cc:** dkanealii02@gmail.com  
**Subject:** Submitted testimony for HB1397 on Mar 1, 2016 13:00PM

**HB1397**

Submitted on: 2/29/2016

Testimony for FIN on Mar 1, 2016 13:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Diane Kanealii	Individual	Support	No

Comments: Please support and pass this bill which would help communities to utilize NMTCs for projects for the underserved areas of Hawai'i to serve all people living in these areas. The key components of this bill are: Amends 210D-2 by inserting "community development entity" as defined in section 45D(c)1 of Internal Revenue Code. This would enable financing thru a structure that facilitates use of NMTCs. Amends 201D-8 by allowing guarantees and credit enhancements along with loans and grants. This will help for leveraging. Amends 210D-10 by increasing maximum loan, guarantee and credit enhancement amounts from \$250,000 to \$5,000,000. Mahalo Nui

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Monday, February 29, 2016 11:07 AM  
**To:** FINTestimony  
**Cc:** moikehajr@gmail.com  
**Subject:** Submitted testimony for HB1397 on Mar 1, 2016 13:00PM

**HB1397**

Submitted on: 2/29/2016

Testimony for FIN on Mar 1, 2016 13:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Roger Kanealii	Individual	Support	No

Comments: Support this bill for community development projects. Mahalo

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From: mailinglist@capitol.hawaii.gov  
Sent: Monday, February 29, 2016 10:33 PM  
To: FINTestimony  
Cc: dshaw@lanaicommunityhealthcenter.org  
Subject: Submitted testimony for HB1397 on Mar 1, 2016 13:00PM

**LATE**

**HB1397**

Submitted on: 2/29/2016

Testimony for FIN on Mar 1, 2016 13:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Diana Shaw	Lanai Community Health Center	Support	No

Comments: I strongly support this bill and urge you to pass it. LCHC's new facility was made possible by NMTC, which leveraged State, Federal, County and Private Foundation Funding. The key components of this bill are: • Amends 210D-2 by inserting "community development entity" as defined in section 45D(c)1 of Internal Revenue Code. This would enable financing thru a structure that facilitates use of NMTCs. • Amends 201D-8 by allowing guarantees and credit enhancements along with loans and grants. This will help for leveraging. • Amends 210D-10 by increasing maximum loan, guarantee and credit enhancement amounts from \$250,000 to \$5,000,000. Mahalo and Salamat for the opportunity to submit testimony in support of this bill. Diana M V Shaw, PhD, MPH, MBA, FACMPE Executive Director, Lanai Community Health Center

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Sent: Tuesday, March 01, 2016 11:21 AM  
To: FINTestimony  
Cc: rustonu@gmail.com  
Subject: \*Submitted testimony for HB1397 on Mar 1, 2016 13:00PM\*

**HB1397**

Submitted on: 3/1/2016

Testimony for FIN on Mar 1, 2016 13:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Ruston Utu	Individual	Support	No

**Comments:**

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