



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

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DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

Statement of
LUIS P. SALAVERIA
Director
Department of Business, Economic Development, and Tourism
Before the
**SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, ENVIRONMENT, AND
TECHNOLOGY**
AND
SENATE COMMITTEE ON HOUSING
Tuesday, March 22, 2016
2:45pm
State Capitol, Conference Room 225

In consideration of
HB 1397, HD2
RELATING TO THE NEW MARKET TAX CREDITS.

Chairs Wakai and Harimoto, Vice Chairs Slom and Galuteria, and Members of the Committees. The Department of Business, Economic Development, and Tourism (DBEDT) appreciates the intent of HB 1397, HD2, 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



MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

JOSEPH K. KIM
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To: The Honorable Glenn Wakai, Chair
and Members of the Senate Committee on Economic Development, Environment,
and Technology

The Honorable Breene Harimoto, Chair
and Members of the Senate Committee on Housing

Date: Tuesday, March 22, 2016
Time: 2:45 A.M.
Place: Conference Room 225, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 1397, H.D. 2, Relating to New Market Tax Credit.

The Department of Taxation (Department) appreciates the intent of H.B. 1397, H.D.2, and provides the following comments for your consideration. The Department defers to the Department of Business, Economic Development, and Tourism (DBEDT) on the merits of this bill.

Among other things, H.B. 1397, H.D. 2, 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 measure has a defective effective date of February 19, 2030.

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 the Department has no expertise in making loans and/or equity investments, ranking eligible businesses for funding, assessing the viability of various businesses, and

providing financial counseling to businesses, the Department suggests that another agency is better suited to administer the provisions set forth in this measure.

Thank you for the opportunity to provide comments.

LĀNA'I COMMUNITY HEALTH CENTER

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The Community is our Patient -- men, women, children, uninsured, insured!

March 18, 2016

To: Hawai'i State Legislature

Re: Testimony in SUPPORT of HB1397 HD2—New Market Tax Credits

I am writing in strong support of HB1397 HD2, New Market Tax Credits (NMTC). This bill is critical as it:

- ⇒ 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.

As an federally qualified health center, we have benefited from the NMTC program providing funding for our new facility. NMTC funds leveraged State and County funding, along with foundation and federal grant funding. Without the NMTC program we would not have our new facility today. The amendments noted in this bill will increase NMTC opportunities in Hawaii.

Thank you for your consideration.

Aloha,

Diana M V Shaw, PhD, MPH, MBA, FACMPE
Executive Director

E Ola nō Lāna'i

LIFE, HEALTH, and WELL-BEING FOR LĀNA'I

DATE: March 22, 2016

TO: Chairs Glenn Wakai and Breene Harimoto, Vice-Chairs Sam Slom and
Brickwood Galuteria and Members of the Senate Economic Development,
Environment and Technology and Housing Committees

MEASURE: HB1397 HD2

SUBJ: Testimony in Strong Support of HB1397 HD2

Good afternoon Chairs Wakai and Harimoto and Members of the Joint Senate Economic Development, Environment and Technology and Housing Committees. My name is Bob Hall, Partner with Pacific Growth Associates, and I submit testimony in strong support of HB1397 HD2.

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 HD2 provides yet another financing “tool” utilizing public-private partnerships that can optimize a wide variety of funding sources.

HB1397 HD2 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 HD2 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 HD2 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,

A handwritten signature in black ink, appearing to read 'Bob Hall', written in a cursive style.

Bob Hall, Partner
Pacific Growth Associates