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MARKETS and STRONGER COMMUNITIES

**the case for a
community development
tax credit**

Community Development Tax Credit Coalition

Community Development Tax Credit Coalition

The Community Development Tax Credit Coalition (CDTCC) is a nationwide association of local, regional, and national organizations promoting and practicing economic development in economically disadvantaged urban and rural communities.

Steering Committee: Robert Agus, National Cooperative Bank; Frank Altman, Community Reinvestment Fund; David Beck, Center for Community Self-Help; Bill Bynum, Enterprise Corporation of the Delta; Helen Dunlap, Shorebank Advisory Services; Bill French, Rural Community Assistance Corp.; Alan Greenlee, Enterprise Foundation; Gloria Guerrero, Rural Development & Finance Corp.; Mary Nelson, Bethel New Life; Ron Phillips, Coastal Enterprises, Inc.; Mark Pinsky, National Community Capital Association; Roy Priest, National Congress for Community Economic Development; Buzz Roberts, Local Initiatives Support Corp.; Welthy Soni, Association for Enterprise Opportunity; Kerwin Tesdell, Community Development Venture Capital Alliance.

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New markets, stronger communities — why a community development tax credit makes sense

5. Slight
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■ **The nation's economy is booming — but not everywhere.** Many urban and rural areas continue to be held back by stubborn problems such as high unemployment and underemployment, insufficient affordable housing, shortages of services such as day-care and shopping centers and — perhaps most importantly — by a chronic shortage of the private investment capital needed to stimulate and support community development.

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■ **Hard-pressed communities need new tools.** Investment capital tends to flow toward where money is already accumulating — in fast-growing metropolitan areas, counties, and regions. Less fortunate places, particularly inner-city neighborhoods and low-income rural areas, have comparatively few investment resources to call upon, and the resources they have are typically stretched thin. Although community development organizations such as community development corporations (CDCs), community development financial institutions (CDFIs), community development venture capital funds, micro lenders, and national and regional intermediaries have demonstrated their resourcefulness and skill in leveraging funds, unmet needs continue to outstrip available resources.

■ **Targeted tax credits can create new markets.** Tax credits offer an incentive for the private investment community to put more of its funds where the returns, measured in human capital as well as dollars, are likely to be greatest. Properly targeted, tax credits can stimulate whole industries and jump-start job growth. Two prime examples are the Low Income Housing Tax Credit (LIHTC) and the Community Development Corporations Tax Credit (CDCTC) pilot program. The LIHTC has become the nation's main funding stimulus for affordable rental housing, generating 80,000-100,000 units annually and more than \$1.8 billion annually in related wages. The CDCTC, although authorized only as a pilot program, has been used by some of the nation's most innovative CDCs to raise funds with which to encourage start-up businesses, help entrepreneurs get past the pitfalls of growth, and create the kinds of solid local jobs that, among other things, are a key to making the nation's welfare-to-work efforts effective. These success stories demonstrate that modest incentives at the federal level can yield high returns at the community level.

■ **Tax credits + market discipline = sustainable community development.** Because they act as incentives, not subsidies, tax credits do not artificially channel funds to places where the most crucial resources for community development — local commitment, skills, and accountability — may be lacking. Where those resources are in place but are held back because local market opportunities are viewed as marginal by investors, tax credits can make the difference. And in helping to build strong networks of community investment organizations, tax credits contribute to sustainable economic development.

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■ **A community development tax credit is a win-win proposition.** With the national economy strong, Congress and the President have an opportunity to use the tax code to level the playing field, promoting sustainable progress in areas that need a helping hand. Millions of Americans — and their communities — stand to benefit from this strategy.

The Case for a Community Development Tax Credit

An important key to the success of small and large businesses is having access to capital and credit. Credit alone is not the answer. Businesses must have equity capital before they are considered viable candidates for debt financing. Equity acts as a buffer against the vagaries of the marketplace . . . Continued efforts to develop the markets for private equity investments will be rewarded by an innovative and productive business community. This is especially true in lower-income communities, where the weight of expansive debt obligations on small firms can severely impede growth prospects . . . Barriers still impede the free flow of capital and people to their most productive employment. In the small business sector, potential impediments include: lack of market information, difficulties in assessing risk, high transaction costs for small loans, and, in rural areas, special challenges associated with geographic distances from lenders and potential markets. One particular barrier — apparent disparities in access to credit for minority-owned businesses — raises disturbing questions. To the extent that market participants discriminate, consciously or unconsciously, credit does not flow to its most profitable uses and the distribution of output is distorted. In the end, costs are higher, less real output is produced, and the distribution of output is distorted . . . We need to make further progress in establishing business relationships between the financial services sector and the rapidly growing number of minority- and women-owned businesses.

— Federal Reserve Board Chairman Alan Greenspan, March 1999¹

■ The nation's economy is booming — but not everywhere.

Nine years into an unprecedented period of economic expansion, the U.S. economy seems to be in great shape. The unemployment rate nationwide, at 4.4 percent, is approaching its lowest level in three decades. Inflation appears to be staying under control. High-tech startups and upstart Internet enterprises are creating millionaires virtually overnight. But it isn't strictly true (despite what President Kennedy used to say) that a rising tide lifts all boats.

Much of the tidal surge has been taking place in a relatively small number of economic and geographical sectors. Private venture capital investment, for instance, rose 24 percent in 1998, to \$14.3 billion. But technology-based companies accounted for 76 percent of the total. And most of those dollars flowed to a few urban/suburban areas. About 50 percent of the venture capital invested during the fourth quarter of 1998 went to just two regions —

continued on page 6

Maine is a

UNUSUAL PLACE

place, but

it's also a largely rural state where conventional investment capital can be hard to come by.

That's where **Coastal Enterprises, Inc.** (CEI) comes in.

Based in the seacoast town of Wiscasset, CEI is a private non-profit community development corporation (CDC) with a 21-year record of service as a community investment catalyst, creating opportunities to link Mainers' strong entrepreneurial traditions with venture capital and technical assistance.

As its name suggests, CEI initially focused on the needs of Maine's coastal communities, where the three-centuries-old fishing industry could no longer be relied on to provide employment and sustain local economies. Today CEI operates statewide — and, through *CEI Development Services*, has even "gone global," providing assistance to a number of Eastern European communities seeking to develop sustainable, self-reliant economies.

More than money

CEI has participated in over \$200 million of economic development financing, benefitting 1,000 businesses, social services and housing projects; has created or sustained 10,000 jobs; and has counseled over 8,000 small businesses. With a staff of 60 (and 20 AmeriCorps participants), CEI is able to provide in-depth technical and capital assistance in the development of such areas as housing and child care, the natural resources industry, business financing, employment and self-employment for people with low incomes and women in business. CEI buttresses its investment initiatives with results-oriented research

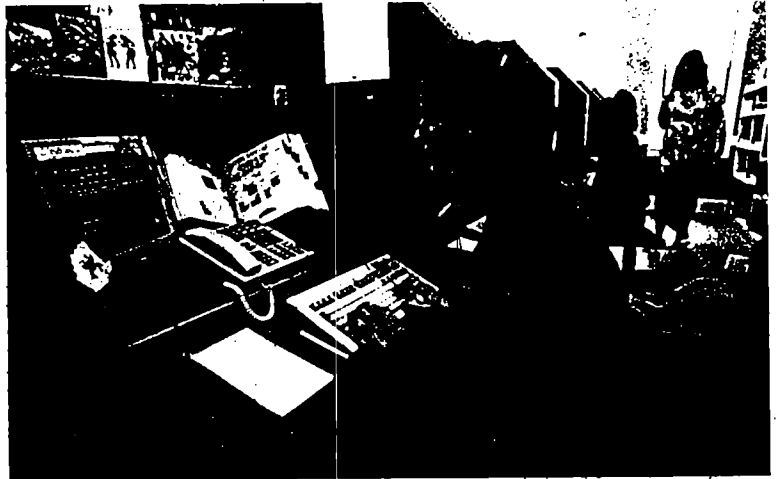
and policy development work on topics such as the social return on investment, welfare-to-work, microenterprises, sustainable natural resources and telecommunications.

Capital connections

CEI has also established *Coastal Ventures Limited Partnership (CVLP)*, Maine's first socially responsible venture capital fund, which seeks to connect investors' equity capital with businesses offering socially beneficial products and services. Cuddledown of Maine, a catalog store nationally known for its premium-quality bed-and-bath merchandise, used CVLP financing to triple its manufacturing capacity while maintaining its commitment to creating quality jobs with above-average wages and benefits.

Putting tax credits to work

In its role as a "critical link" to a better life for Maine people, CEI utilizes a wide range of investment tools. One of 20 CDCs selected to participate in the 1993 CDC tax credit pilot



Coastal Enterprises, Inc., works with firms such as New England 800, a custom inbound call center, to create good jobs with benefits.

program, CEI raised \$2 million in grants and loans from KeyBank Corp., using the funds to underwrite a revolving loan fund which has helped finance more than 20 businesses that provide some 600 jobs.

CEI's first-hand experience with tax credits illustrates how they can be used to channel investment capital in ways that yield high returns — in innovative, sustainable community development.

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New market
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California's Silicon Valley and New England's high-tech corridors. Another 16 percent went to the greater New York, Los Angeles/Orange County, and Washington, DC, metropolitan areas. Only 5.7 percent of all venture capital investments went to the South Central, Southwest, and Northwest regions combined.² Notably, all three regions have significant lower-income, typically rural populations.

We're paying a price for allowing the tide to lift some boats so much more than others. The already-affluent may be becoming more so, but millions of Americans are losing ground, relatively speaking, and the gap has widened during the 1990s. The top 20 percent of U.S. households took in half of the national income in 1997; the other 80 percent divided the other half. Income disparities are stark: in New York the richest 20 percent, with average incomes of \$132,390 in 1997, were more than 19 times as wealthy as the bottom 20 percent, who had average incomes of \$6,787. For the lowest three-fifths of the population, income levels after adjusting for inflation remain below where they were in 1989.³

And the employment situation, which seems so upbeat nationally, is distinctly downbeat for many Americans. For example, while Hispanic males have the greatest labor participation rate (79.6 percent, compared to 75.8 percent for white males and 68.7 percent for black males), Hispanic families have the highest poverty rate (27 percent, compared to 26.4 percent for African American families and 8.5 percent for white families).⁴ This problem — people working hard but unable to escape poverty — is aggravated by lack of access to financial services and capital, manifesting itself in lack of housing and community facility developments in low-income Latino and African American communities.⁵

For many rural areas, the current economic boom is a distant echo. The ten poorest counties in the U.S. are rural, with poverty rates in some cases exceeding 60 percent.⁶ In Appalachia, where the Appalachian Regional Commission considers a county "distressed" if unemployment and poverty rates are 25 percent higher than the national average, there were 97 such counties in 1998, compared to 90 in 1992.⁷ And the South today has been described as "a tale of two economies, one rising and one falling." Jobs, mostly high-tech, are being created at record rates along the Interstate 85 corridor between Richmond, VA, and Greensboro, NC, but when you leave I-85 and fan out along the secondary roads, you discover that in the same area at the same time more than 200,000 lower-skill apparel and textile-manufacturing jobs have been lost.⁸

■ Hard-pressed communities need new tools.

These are problems that an economic boom alone isn't likely to resolve. Investment capital tends to flow toward where it is already accumulating — in fast-growing metropolitan areas, counties, and regions. Less fortunate places, notably inner-city neighborhoods and low-income rural areas, have comparatively few investment resources to call upon, and the resources they have are more likely to be stretched thin.

This is not to suggest, however, that the entrepreneurial spirit is lacking in such places. There is abundant evidence that it's alive and well.⁹ And the importance of small businesses in building healthier communities would be hard to exaggerate. The nation's 23 million small businesses produced an estimated 64 percent of the 2.5 million new jobs created in 1996

community development tax credit ?

■ What will be the impact of the tax credit?

It's estimated that the tax credit will channel \$6 billion in new equity investment capital to low- and moderate-income rural and urban communities over the next 5 years. With venture capital investment nationwide estimated at about \$14 billion in 1998, the tax credit represents a significant increase in investment in underserved areas.

■ How will the funds generated by the tax credit be invested? *A network of private community development organizations will build on existing efforts to provide credit, equity, and technical assistance to businesses which create jobs, products and services that benefit the community. Operating within broad overall guidelines, community development organizations will make their own determinations regarding how best to use funds to promote new business start-ups and support existing, job-creating businesses of all sizes, from micro-enterprises to major firms. For example, they could choose to support inner-city shopping centers, manufacturing firms with 5 or 500 employees, retail stores, services providers, telecommunications and other technology firms, small business incubator arrangements, co-op marketing initiatives, and essential community facilities such as child-care centers, health centers and senior centers.*

■ What kinds of organizations will be involved in investing these funds? *Entities eligible to use allocated tax credits to generate investment capital include community development corporations (CDCs), community development financial institutions (CDFIs), venture capital funds, micro enterprise development organizations, regional and national intermediaries, secondary market institutions, and other community development organizations.*

■ How can we be confident that this kind of targeted tax credit will work? *Targeted tax credits have already been used effectively to promote and*

sustain community development. The Low Income Housing Tax Credit (LIHTC), initially enacted in 1986, has spurred the construction and rehabilitation of nearly 1 million apartments dedicated to low-income tenants at restricted rents. Although the tax credit represents less than 3% of all federal tax expenditures for housing (paling in comparison to homeowners' mortgage deductions), it has become the nation's single most important stimulus for affordable rental housing, generating 80,000 - 100,000 units annually and more than \$1.8 billion each year in related wages. Although much smaller in scope, the Community Development Corporation Tax Credit (CDCTC) pilot program, enacted in 1993, has been used effectively by a number of CDCs to support business development, job retraining in a local industry downsizing situation, financing of a key local enterprise as it took steps to adapt and grow by shifting product lines, creation of revolving loan funds capable of stepping in and providing crucial short-term financing assistance for growing businesses, and leveraging of additional investments in the community.

■ How does community development compare with other kinds of investment? *Hard-pressed inner-city neighborhoods and poverty-plagued rural areas don't change overnight. Investing in community development means, by definition, getting in for the long haul, not the quick hit. So it may lack the allure of, say, betting on a high-tech, high-profile start-up that generates a lot of buzz. But the nation's more than 2,000 community development organizations have long since demonstrated that patience, skill, and sheer stubbornness can be powerful change agents. Rooted in the communities they serve, accountable to the people who live there, they've learned how to combine human and financial capital. Community development is an investment in the nation's future. Who stands to benefit from a community development tax credit? We all do.*

continued from page 6

(and virtually all of the net new jobs added to the economy); accounted for 67 percent of all first-time jobs and basic skills training; and hired a larger proportion of younger workers, older workers, women and workers preferring to work part-time.¹⁰

The work ethic, too, is alive and well. Employers are finding, for example, that most people making the transition from welfare to work are strongly committed to succeeding. To illustrate, UPS found that only 12 percent of the former welfare recipients hired at its Philadelphia air hub quit in the first six weeks, compared to a normal rate of 40 percent, and Sprint reports that only 15 percent of former-welfare new-hires at its Kansas City call center left in the first 12 weeks, compared with a normal quit rate of 70 percent.¹¹

The policy problem facing the nation, as the Small Business Administration has noted, is not that there's a shortage of enterprises poised to grow or people willing to work. The problem is that "the rapidly growing firms that are generating most of the employment are not getting an adequate supply of equity capital to maintain a healthy debt-equity ratio."¹² In other words, they're starved for oxygen. The obvious solution is to increase the flow.

Small, community-building businesses are starved for the oxygen of equity capital. The obvious solution is to increase the flow.

That could be an all but impossible task, however, if direct connections had to be made between each and every small business and each and every potential private equity investor. Relatively few institutional or individual investors have strong links to inner-city neighborhoods or rural regions. Bank mergers may have exacerbated this problem by, in many cases, removing decision-making from local managers.¹³ Without some means of efficiently channeling private investments to communities in need, the oxygen flow would be unlikely to improve.

And Alan Greenspan's admonition to "make further progress in establishing business relationships between the financial services sector and the rapidly growing number of minority- and women-owned businesses" would remain unaddressed.¹⁴

Fortunately, however, a nationwide network of community development organizations is already in place. Better still, many of these organizations (five of which are highlighted in this report) have long and varied experience in leveraging financial resources for the betterment of the communities where they work.¹⁵

These organizations take various forms: Community development corporations (CDCs), which originated in the 1960s, are locally-based, locally-controlled, non-profit entities (sometimes with for-profit affiliates) dedicated to improving the well-being of the lower-income areas they serve. There are now more than 2,000 CDCs in the U.S. Many have focused on producing affordable housing; they have built more than 500,000 units and account for more than a third of all affordable housing nationwide.¹⁶ CDCs have also become heavily involved in supporting job-creating local businesses, and "have developed a solid capacity to undertake community development in partnership with the private sector, even while remaining community-based and controlled."¹⁷

June
We are
well on the
way to
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'Capital is scarce in the Delta

and the fruits of an extended bull market have yielded little benefit for the nation's poorest region," says Bill Bynum, President of Enterprise Corporation of the Delta (ECD), based in Jackson, MS.

Bynum is talking hard facts, but he isn't just wringing his hands. He's searching full-time for more sources of investment capital to deploy across a region whose human as well as economic potential, he believes, has been greatly undervalued.

Attacking obstacles

A private, tax-exempt business development and finance organization, ECD works to strengthen the economy and improve the quality of life for a tri-state region covering 58 urban and rural counties along the Mississippi River in western Mississippi, eastern Arkansas and north-eastern Louisiana. ECD fulfills its mission by providing financial and technical assistance to companies and entrepreneurs in the region, and forging strategic partnerships with private, public and non-profit sector organizations committed to developing the region's human and economic assets.

ECD clearly faces a major challenge. The Delta's 1990 Census numbers tell part of the story. The high-school dropout rate was 44.3%, almost twice the national level of 24.8%. The rate of households below the poverty level was 27.9%, more than twice the national rate of 13%. Median household income was \$16,583, about half the national rate of \$30,056. These disadvantages, coupled with out-migration, scarcity of resources and racial disparities, represent huge obstacles to regional economic development.

Aggressive financing

But ECD, which went into business in 1994, has made inroads. In its first five years, the organization has provided financing and technical assistance to 633 firms, resulting in 5,252 jobs. And, to attract more venture capital from individual as well as institutional investors, ECD has established ECD Investments (ECDI), a limited liability company.

With an impressively diversified portfolio ranging from furniture manufacturers to retirement communities, ECD has a five-year strategy calling for aggressive financing and technical assistance that will generate 37,500 jobs, increasing job creation in the region by 33%. It's a region, Bynum believes, whose people are ready to become full partners in the nation's economic progress — and to return high dividends on regional investments.

What they need is more capital — whether

to facilitate promising business start-ups or help an enterprise grow to meet increasing demand for its products and services. ECD stands ready to back up investments with the technical assistance that can assure their success, but funds have to flow to make the formula work.

That's why ECD is among many like-minded organizations

strongly committed to the concept of a community development tax credit. Where a potential investor is poised to make the right move, a tax credit can make the difference between action and hesitation — and in the Delta, as in the stock market, that difference can be crucial.

"The key thing to keep in mind," Bynum says, "is, yes, the Delta may have had more than its share of problems, historically speaking

but the possibilities are enormous.'

PROGRESS MARKERS

What ECD's investment programs have accomplished, 1994-1998

Total businesses assisted	633
Minority-owned	262
Female-owned	345
Financing commitments:	
ECD	\$19.1 million
Leveraged (non-ECD)	\$34.8 million
Jobs impacted	5,252
Annual sales impact	\$201 million
Loan losses	under 3%

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Community development financial institutions (CDFIs) combine principles of social and economic justice with solid business performance, borrowing money from investors and lending it to finance housing construction and renovation, business start-ups and expansions, and essential community services. In addition to CDCs, CDFIs include community development loan funds, community development credit unions, microenterprise funds, and community development venture capital funds. National, regional, and local intermediaries channel investments and technical support to community development organizations.

These organizations rely on a wide variety of public and private funding sources, working closely with federal, regional, state, and municipal agencies, banks, businesses, philanthropies, and other entities. As public/private partnerships, they have skillfully used public funds at modest levels to leverage substantial private investment, building broad-based alliances, nurturing long-term relationships among stakeholders, and bringing the best thinking from both public and private sectors to bear on community revitalization. They are, in many instances, a community's most vital resource, its most effective agents of change.

■ **A community development tax credit can work wonders.**

Tax credits offer an incentive for the private investment community to put more of its funds where the returns, measured not only in dollars but also in development of human capital, are likely to be greatest. Properly targeted, tax credits can stimulate whole industries and support sustainable job growth.

The Low Income Housing Tax Credit (LIHTC), initially enacted as part of the Tax Reform Act of 1986 and made permanent in 1993, has been notably effective in engaging the private sector in community-building. The tax credit has increased the nation's supply of affordable housing by nearly 1 million units. It has become the main funding stimulus for affordable rental housing, generating, each year, 80,000 to 100,000 units plus an estimated 70,000 jobs, more than \$1.8 billion in wages, and upwards of \$700 million in tax revenues.¹⁸

In 1993, Congress authorized a Community Development Corporations Tax Credit (CDCTC) demonstration program, administered by the Department of Housing and Urban Development (HUD), which selected 20 CDCs across the nation as participants, with each CDC eligible to receive up to \$2 million in private-sector investments encouraged by favorable tax treatment. The pilot program became effective in mid-1994. Since then, participants have raised about \$20 million via the tax credit. Funds have been used to support business start-ups, provide small-scale infusions of capital to help entrepreneurs get past the pitfalls of growth, and underwrite essential community improvement projects that lay the foundation for sustainable growth.

The CDCTC pilot program has also been a highly useful learning experience for the participants. Those that have not yet raised significant amounts using the tax credit have identified a number of barriers that needed to be addressed, ranging from increasing their own marketing activities to forming the kinds of limited partnerships that can attract investors and obtaining clear, timely direction from the Internal Revenue Service in order to be able to precisely quantify the tax advantages of investing in community development.

Looking for examples to follow? Look to Newark.

Yes, Newark. Anyone who's still skeptical of the power of community development should consider a trip to New Jersey, to see what **New Community Corporation (NCC)** has accomplished in gritty inner-city neighborhoods that were all but destroyed by the riots of 1967.

Talk about great oaks from little acorns. The acorn, in this case, was a church basement, a refuge from the riots where parishioners huddled with their parish priest, William Linder, and had their faith tested.

Build a new community out of the ashes of the old? In an era when those who could were abandoning the cities? It seemed impossible. But thanks to "faith, hope, and leverage" — as Father (now Msgr.) Linder shrewdly puts it — NCC has prevailed. And then some.

Community commitment

Now the nation's largest community development corporation, NCC is tough to capture in numbers alone. But consider: 3,100 apartments and town houses in 18 complexes. Day care centers caring for more than 700 children. More than 1,500 employees providing services to 35,000 people daily — helping them get high-school diplomas, learn job skills, get to and from work or the Pathmark supermarket that NCC persuaded to locate in a neighborhood that hadn't had a market for 25 years. Or to the New Community Neighborhood Center, proud symbol of an entire community's commitment to itself.

Today policymakers and the media look to NCC and Newark as a case study of what can be accomplished with the right mix of capital and human resources. As the Wash-

ington Post reported in a March 5, 1999, profile, Pathmark found that inner-city residents will use their buying power to reward businesses that meet their needs. The long-held belief that inner cities are a bad investment risk is slowly giving way to the discovery that in the right hands they represent real opportunity.

Partnering with Prudential

NCC doesn't have to speculate about whether a community development tax credit would help attract more capital. The organization took part in the 1993 CDC tax credit pilot program, partnering with Prudential Insurance, which purchased \$2 million in tax credits. That kind of funding has helped advance NCC projects such as converting an abandoned Borden Milk plant into a home for *New Community Technologies*, which builds pre-fab panels for local housing projects, employing inner-city people who are making the transition from welfare to work. Prudential, based in Newark and committed to social investment, stands ready to partner with NCC again.

Does a community development tax credit make sense? Look to Newark.

More Retailers Are Sold on Cities



Msgr. William Linder, outside Newark Pathmark store's central-city entrance, says "getting something done that is good" required great effort.

They Say There's Money There After All

By MICHAEL A. FLETCHER
Washington Post Staff Writer

NEWARK
In many ways the small shopping center in this city's impoverished central ward is quite remarkable. It has an array of fast-food stalls and a small parcel delivery store anchored by a bustling supermarket. It is the type of development ubiquitous in suburban business centers, but

"Why did Willie Sutton rob banks? It's simple. Because that's where the money is. Why do we open stores in the city? Because that is where



Mary Lou Britz leases the Pathmark store in Newark, where most of the city's

- Highlights from Strategic Mindshare's study on urban retailers:*
- More urban stores than rural or suburban ones fell within the top 10 percent of a chain's best performers.
 - When ranked by sales per square foot, urban stores had an even better showing within the top 10 percent of best performers.
 - In terms of profitability, retailers with only urban locations fared better than those with mixed locations.

NCC's Bill Linder was profiled in a recent Washington Post account of inner-city Newark's progress. The headlines tell the story — part of it, anyway. There's more than money at work.

With these obstacles addressed, the stage has been set to make broadly effective use of a community development tax credit. Indeed, a recent analysis of the pilot program by The Brookings Institution concluded that **“a federal tax credit targeted toward [community development] activities can be an important tool for drawing private investment into low-income communities. The timing is right. The ground-level network of strong organizations that can make effective use of a tax credit exists. The private sector has demonstrated a willingness to participate. And the neighborhoods themselves are ready, with many now able to sustain development over the long term.”**¹⁹

It is important to note what tax credits are *not*. They are not subsidies. Because they act only as investment incentives, tax credits do not artificially channel public or private funds to places where the most crucial prerequisites for community development — local commitment, skills, accountability, and track records — may be lacking or in short supply. Tax credits alone cannot spur investment where the necessary infrastructure is missing. But what they *can* do is help level the economic playing field. Where local resources are strong, tax credits can make a critical difference, attracting investors who might otherwise shy away from investing in the future of lower-income communities.

A community development tax credit, in short, represents a sound investment for the nation, whether from an economic or social perspective. In Alan Greenspan's terminology, it means more real output and better distribution of output. In the language of social change, it means improving the prospects for sustainable community development. And for the people at the front lines — the millions of lower-income Americans trying to start or grow businesses, provide needed services, or earn a living wage in a job with decent benefits — it means hope.

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hard-pressed for investment capital, and

the challenge is probably nowhere greater than in the areas where the Rural Development & Finance Corporation (RDFC) is at work: the colonias areas along the U.S.-Mexico border, native American lands, and largely African-American rural communities in the Southeast. Along with Appalachia, these areas account for virtually all of the nation's 500 persistently poor counties, described by Agriculture Department economists as "those sections of the country where the trajectory of poverty and economic depression has historically headed downward."

No one living in these areas likes being trapped in that kind of trajectory. No one likes living in *colonias* settlements lacking basic amenities such as adequate roads, sanitary water and sewer systems, and decent housing. No one likes living with the uncertainty and the often brutal conditions of low-wage seasonal jobs and the 50%-and-up real unemployment rates typical of persistently poor counties. No one wants to live without being able to glimpse signs of change, without hope of being able to make things better.

'Everything great starts small'

Making things better is RDFC's mission. Based in San Antonio, the private, non-profit RDFC started out in 1977 as the National Rural Development & Finance Corp.; in 1994, "national" was dropped as the organization redirected itself, in effect deciding to focus on the toughest cases. Currently, with a staff of 10 and an annual operating budget that hasn't yet broken the million-dollar mark, RDFC is obviously among the nation's smaller financial intermediaries. But to CEO Gloria Guerrero, small is OK: "It's how everything great starts."

RDFC points, for example, to the 500 units of affordable housing — homes now owned by

lower-income families — that it has financed in *colonias* settlements. Policymakers and practitioners often think of housing and economic development as different activities. Guerrero points out that housing is economic development — generating jobs, adding value to the community, and showing skeptics that when you stick with it, you can get something done.

Adding financial muscle

With an \$8 million loan fund, RDFC has been able to supply some financial muscle to micro-enterprises that offer the potential to create real change and new opportunities.

For example, RDFC provided a \$290,000 loan a few years ago to help a south Texas entrepreneur, Dr. Charles Taylor, move ahead with plans to process kenaf, a natural fiber that, among other things, can substitute for cellulose in the production of newsprint and paper. Kenaf is fast-growing, needs little water, and doesn't require massive applications of fertilizers and pesticides, so it's environment-friendly. Today Kenaf Paper is planning a \$130-million newsprint mill, and Kenaf Industries is developing other applications. The two enterprises have generated 40 jobs thus far; if all goes well they'll create another 500 or so in the near future. RDFC's modest start-up investment is beginning to yield high dividends in value-added manufacturing and non-seasonal jobs that pay a living wage.

Shaping a future that works

A participant in the CDC tax credit pilot program enacted in 1993, RDFC discovered that the program had limited applicability to RDFC's service areas, largely because the tax credit and the investments that could be financed through it weren't sufficient to attract investors. But Guerrero remains convinced that tax credits can be used effectively to promote community development as long as the credits are large enough and long-lasting enough to meet investors' needs.

Guerrero envisions using such a credit to build a multi-state venture capital fund to underwrite business development offering viable alternatives to regions long in need of an economic boost. "Despite the enormous obstacles we face," she says, "we can shape a future that works — and tax credits have a major role to play in it."

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