

Steve L. Weems

From: Steve L. Weems
Sent: Monday, February 27, 2006 1:42 PM
To: Matt Josephs
Cc: Ron Phillips
Subject: CEI Comments on the NMTC Allocation Application
Attachments: NMTC Round IV Comments Letter 02.27.06 (Final).doc

Hi Matt --

I hope you are well. Here are CEI's comments on the allocation application, per the Fund's request for comments published in the Federal Register, submitted well before the deadline of course!

Seriously, we appreciated the opportunity to submit comments, and hope they are both understandable and helpful. That is our intent.

At a policy level, we continue to want to apply the program to the needs of rural areas -- which typically means operating companies and small/medium enterprise lending and investing. The most important of our comments and recommendations are oriented in this direction. Please note especially our comments on (1) the criteria for "particularly economically distressed areas," specifically pertaining to SBA HUB zones, (2) the "substantially all" rule, and (3) the subject of what percentage of the aggregate QEI amount an applicant commits to use in QLICs.

We are sending a signed copy of these comments today via Federal Express. Please let us know how we can help further.

Thanks again for this opportunity.

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CEI's Mission: To help create economically and environmentally healthy communities in which all people, especially those with low incomes, can reach their full potential.

2/27/2006



Coastal
Enterprises
Inc.

February 27, 2006

Via Email & Regular Mail

Mr. Matt Josephs
New Markets Tax Credit Program Manager
Community Development Financial Institutions Fund
U.S. Department of the Treasury
601 13th Street, NW
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Washington, DC 20005

RE: Request for Comments Concerning the NMTC Allocation Application

Dear Matt:

Coastal Enterprises, Inc. is submitting these comments and suggestions regarding the New Markets Tax Credit (NMTC) Round IV Allocation Application and the application process in response to the recent request for such written comments. We hope these comments will help make the application and pre-application process more efficient and less burdensome for all parties, including the applicants, reviewers, and CDFI Fund.

In our experience the application process requires a very large effort requiring substantially more staff time and third-party cost than may be necessary. The following are some general comments and suggestions about the application and process that could help to mitigate this reality, while contributing to the value of the application as a tool for identifying the best applicants.

Our general policy-level comments are included in the body of this letter. Additional comments on specific questions in the application are attached.

GENERAL COMMENTS:

Add an Executive Summary Section:

An executive summary of the applicant's overall NMTC business strategy, community impacts, capital raising plan, and management capacity would allow a reviewer to get an upfront comprehensive picture of the application.

We believe it would be helpful to applicants to have an opportunity to present their overall plan and useful to reviewers to have a context for the details provided in the remaining questions.

Capturing Previous Allocatees' Experience:

There are a good number of applicants with previous allocations. We believe each section should ask for specific data related to any such applicants' previous NMTC experience. Reviewers could then take into account an applicant's previous NMTC track record related to projects and communities, beneficial impacts, investor capital raised, and management capacity. This would allow an applicant to show how an additional award of NMTC allocation will enhance its program capacity, in-place organizational infrastructure, and existing NMTC community development partner network.

Recognizing Environmental Impacts:

Consider a place in the application to discuss the beneficial impacts derived from the NMTC by allocatees that underwrite projects in a way that assesses environmental sustainability benefits, as well as the more traditional economic and community (social equity) benefits.

Consider adding points to an applicant's score for demonstrating significant achievement in deriving such environmental beneficial impacts and committing to derive such environmental benefits through the use of any new NMTC allocation award, such as meeting LEED standards in building design, construction and use. Such questions could be included in both the Strategy and Impacts sections of the application.

Targeting Areas of Higher Distress:

Getting the benefits of the NMTC program to areas of higher distress is a goal CEI endorses wholeheartedly. In rural communities such distress is often masked by higher per capita incomes causing "pockets of poverty" to be passed over as qualifying census tracts.

The practical effect of ratcheting up the pressure to serve *areas* of higher distress limits further the geographic locations where deals can be done. While this appears to be consistent with the goal of creating greater benefits for low income people and communities, targeting geographic areas does not actually directly relate to whether the NMTC program is providing real benefits to the actual low-income people. The current census-tract eligibility guidelines assume the underlying NMTC program premise that if the projects are in the right place low-income people will benefit, but this is not necessarily literally so. On the other hand, if the targeted populations rules are effective we can be certain low-income people and communities will benefit. This is why we are looking forward to the "targeted populations" rules.

Targeting both people and places with a clear measure of how the allocatee will show direct benefits to low-income people will resolve the difficulty inherent in the current program and future rule setting. The CDFI certification process requiring a CDFI to deploy 60% of its assets to benefit targeted and other populations offers a proven methodology.

Our basic suggestion here is to make sure the program elements targeting *areas* of higher distress are compatible with the targeted *populations* rules. This may mean that the targeted *populations* provisions should be allowed to override the targeted *areas* provisions, as the targeted populations rules presumably will be designed to ensure the benefits get to actual low-income people. In this sense, the targeted areas provisions really are an indirect measure of how the NMTC benefits reach the intended targeted populations.

Pertaining to the existing list of criteria targeting areas of higher distress, we have two current suggestions: (1) go back to the original use of the SBA HUB Zone designation and (2) add additional criteria specifically designed to address the problems of rural areas.

The SBA HUB Zone designation is one of the most important items on the list for rural areas, but the change inserted in the Round IV application to restrict this only to transactions where the QLICIs support businesses that actually obtain HUB Zone certification by the SBA is counterproductive to helping rural low-income people. This change does not seem to be consistent with the intent of the NMTC program which generally does not restrict benefits to either small or large businesses or capital sources.

The goal is to get capital and business activity into low-income areas, whether it is small business or large business, as long as it is good business in the right place with the right kinds of impacts.

The HUB Zone designation is best used as an indicator of distress, as it was originally, but the criterion should not be applied such that only businesses that could qualify for the HUB Zone certification and actually go and obtain it would count. In our opinion there is no NMTC program justification to say we could not finance an otherwise excellent prospective QALICB in a highly distressed area, just because it does not obtain the actual HUB Zone certification.

For example, the Katahdin mill project QALICB (a large mill project owned by a Canadian holding company) could not and would not satisfy this criterion. While the Katahdin mill project is often cited as an exemplary use of NMTC with a broad, deep reach of high-impact low-income community benefits, this proposed change in the SBA Hub Zone definition could have prevented us from doing this NMTC deal and will keep us from doing similar types of project financings in the future.

We also advocate adding additional criteria to the list as indicators of higher distress in rural areas and would be pleased to participate in an effort to develop some additional measures of this type. For example, many rural areas historically have been dependent on one or just a limited number of large (often manufacturing) employers. If such rural communities lose one of these critical employers, or if

operations are curtailed, the entire community can instantaneously become highly distressed.

Another example that could be taken into account with additional criteria would be that of a military base that is designated for closure. This would set in motion a sequence of events that, while not showing up in the area's economic and employment statistics for several years, would immediately create higher distress. The inexorable nature of such a distressing future event should most effectively be addressed as expediently as possible in recognition of this impending economic challenge in a transitioning higher distressed area. (If requested, we could come up with other measures that have particular applicability to rural measures of higher distress.)

Percentage of QEIs to be Invested in QLICIs:

Although this relates to a specific question on the application (#55), we are bringing it up here due to the importance of our comment about this element. There's been considerable discussion on the 85% substantially all rule and how it can be made more flexible for small business and venture capital lending and investment. Current restrictions favor real estate deals and the limited number of other transactions where the QLICI can be underwritten as long-term equity or an interest-only loan for seven years. We have no problem with the idea of requiring applicants to commit to a percentage of *original* QEI capital that would be invested in QLICIs, but we believe the idea of holding an applicant to this percentage on a *re-investment* basis is unnecessarily chilling.

The current application of this issue is highly discriminatory against loans to operating companies, equipment and long-term working capital loans, and small and medium enterprise lending where it is *essential* to amortize the QLICI loan. We favor changing the 85% rule provisions to allow for expanded reserves and allowances for debt repayment in the case of QLICIs in small and medium enterprises (not defined here) as a way of stimulating the use of the NMTC program for the needs of such small and medium ventures. Specifically, we believe the 85% rule should be lowered to 65% in this area (small and medium enterprise loans or investments only).

In all cases we recommend disconnecting the subject of *original* QEI investment from *re-investment* and have the percentage to which an applicant commits in this regard apply only to the initial placement of its capital. This is of particular importance as it relates to rural areas, any operating company, and small and medium enterprises—which increasingly are the backbone of rural economics.

Sample Application Transparency:

It would be very helpful if the model application that is available for review by potential applicants would have all of the required information shown. There are many questions that have information requested that is not obvious until a potential applicant can use a live application that allows for "click-throughs" to test to see if

any additional parts of the question are then revealed. Obviously, such hidden parts of the questions are not obvious or available in the non-active .pdf version of the sample application.

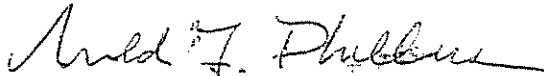
Additional specific comments related to individual questions on the application are attached.

After having now completed and submitted four NMTC allocation applications we are offering these comments in the spirit of wanting to help make the application and process less burdensome and more productive for both the applicants and reviewers.


Please let us know if you would like any additional information or clarification of any of the items we included. We would particularly appreciate being asked to help refine the criteria that can be used to indicate levels of higher distress as used in Question #29.

Sincerely,

COASTAL ENTERPRISES, INC.



Ronald L. Phillips
President



Steven L. Weems
Senior Vice President
New Markets Tax Credit Program

Enclosure: *Specific Application Related Comments*

SPECIFIC APPLICATION RELATED COMMENTS – CEI

The following is a list of comments and suggestions that we have referenced to the actual questions and sections of the NMTC Round IV allocation application. *Please note that these items are listed sequentially by question number for ease of reference, but that we have noted those items that we consider to be a higher priority:*

Round IV Application	
Question #	Comments and Suggestions
Q. 17 & 18	These questions seem to be somewhat redundant with one another. We suggest combining the questions into just one question. We recommend that Question 17 be worded so that the information requested in Question 18 can be easily outlined and incorporated in just one part of the application.
Q. 18	Requiring distinct narrative sections for each of the flexible or non-traditional product offerings seems unnecessary as it is redundant to information tacitly required in Question 17 (as well as other questions in other sections of the application). Including a brief paragraph or two for each of the eleven items in the narrative section of this one question added almost three pages to the overall written application. We believe it would be easier for the application reviewers to be able to get this same information in context with the applicant's overall NMTC strategy as must already be outlined in Question 17.
Q. 22 (c)	We feel it is essential to capture the true original intent and mission of the NMTC program to include "Disadvantaged <u>People</u> " in the target entities being served.
Q. 26	It is very difficult for applicants, like CEI, to work with the Pipeline of Activities section since we have a general pipeline of representative projects (as compared to a specific pipeline of projects that we would be committed to fund using any allocation awarded via the Allocation Agreement). It would be very helpful if applicants had the ability to input the representative projects into either a chart format or use an Excel spreadsheet. This application format enhancement will make this critical portion much easier and faster and will make it more readable for the reviewers.
Q. 29	We believe the limitation for QALICBs to actually become SBA HUB Zone-certified should be dropped and additional criteria addressing the needs of rural areas should be added. Please see our discussion of these points in the above General Comments section.
Q. 33	The Targeted Impacts section of the application is geared to focusing on quantitative impact data which, while necessary, only gives a part of the larger beneficial impact story. We suggest that this question/section might be worded to allow for more qualitative indicators that often tell more about the real-world impacts than what the numbers might represent. For instance, having the opportunity to specifically respond to this question using qualitative targeted impacts information would allow us to tell about significant environmental sustainability achievements. Otherwise, these achievements are

	often difficult to quantify in reliable numbers (such as energy savings or reduced operating expenses, particularly for newer projects without much historical comparison data). <i>Qualitatively</i> , however, we could demonstrate how a newly constructed building was able to achieve a verifiable environmental sustainability certified rating under the US Green Building Council's LEEDS system.
Q. 44	It would be very helpful for previous NMTC awardees if there was some way to link the data in the CDFI's existing database to the application so that such data as the individual project Award Control Numbers and amounts could be more easily input with less chance of making input errors.
Q. 54	We suggest adding a bullet that asks for information on the <u>qualitative</u> economic benefits shared amongst the various entities noted. Often the quantitative data does not tell the more significant part of a project's NMTC story. It may be that quantitative data on urban projects is often easier to gather and use to represent the story of the shared NMTC economic benefits. Projects, however, often have a deeper, more qualitative story that is not obvious from just a report of the available numbers.
Q. 56	<p>The second bulleted item requests information about the applicant's intended fees and how its fee structure compares to other entities in the marketplace. It is very difficult to do a meaningful comparison as information regarding other applicants' fees and fee structure is not widely available.</p> <p>We suggest that a more meaningful question for the CDFI Fund and application reviewers might be worded along the lines of: <i>"How are Applicant's fees and fee structure facilitating the maximization the of the positive impacts for Low-Income people being derived from the NMTC program?"</i></p>
Q. 59	We suggest that this question regarding the absolute minimum allocation amount be eliminated. If the CDFI Fund is interested in funding an allocattee, the best practice would appear to be to contact the potential applicant to negotiate a different amount.