The Business Valued Advisor Fund, LLC

Valued Advisor Fund

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Greg Bischak
Program Manager
Community Development Financial Institutions Fund
U.S. Department of the Treasury
1801 L St NW
Washington, DC 20220

Via Email

Dear Mr. Bischak:

Thank you for this opportunity to comment on the Community Investment Impact System (CIIS) under OMB Number 1559-0027. While we have participated in the NMTC Coalition's process, we are not in agreement with a number of the comments and feel compelled to write in to provide a view point that differs signficantly from that proposed by the Coalition. In addition we have a number of additional items addressed relative to CIIS outside of the Coalition's response.

In part, our perspective is based on the high impact projects we have worked with in the past that would and have failed to be funded based on the changes instituted in August 2016 and concerns that this leads the industry away from funding operating businesses and back to funding real estate transactions. While real estate can be an effective means of supporting low-income communities, it has been proven that small business supports a significant level, some two-thirds of the job growth in the domestic U.S., and that manufacturing supports the predominant base of innovation in the U.S. with more patents going to this attribute of the economy than any other (also a documented historic trend). It is also well documented that our nations businesses are not investing in capital expenes required to keep their companies at top productivity. Reports issued from within the manufacturing industry, those from major economists and from the White House suggest that this trend has resulted in the projected decrease in productivity and growth in this sector, creating what can almost be seen as a flat-line for the industry (Under 1% through 2018 and under 2% through 2020 based on aggregate projections of growth). Most of these analyses tie capital expenditure to productivity capacity; productivity capacity directly to living standard for communities; and circling back to wages, benefits and job turnover rates which enable persons of lower skill access to these jobs which tend to have 2-9 times the incoming wage than other sectors. For these reasons, it seems of utmost importance that we as an industry consider the impact of any benchmarks or measures which might tend to decrease the amount of funds which would flow toward community assets of this kind.

In the August 2016 framework for determining jobs related to business funding the CDFI Fund provided guidance for both working capital and equipment finance which created circumstances that appear to have unforeseen consequences on the funding of these assets.

The NMTC Coalition's response does not address the impact of the calculation on working capital in underwriting businesses. We have seen, however, how this affects transactions. In the 2016 guidance working capital reflects only on existing jobs and the provision for it to be pro-rated across the number of months of capital supported is similarly disturbing. Working capital supports both existing and created jobs, and revolves across the months in a year - it is not a stagnant number in a company in that it moves into raw product and is turned into cash then is re-invested along the business cycle, which may be repeated multiple times in a calendar year or may stretch over a different cycle depending on the business. This logic either drives entities to over-fund to ensure they can account for all of the existing jobs - or to underfund by avoiding necessary working capital in the funding equation. We have seen small business projects seeking working capital declined based on the fact that the predominant number of jobs supported would be created jobs and/or the request would be less than a full year of capital need (as the company revolves the capital typically on 3-4 month cycles) – hence while the full year is technically funded it does not extrapolate in this fashion based on the required pro-rata calculation. Given the requirement to relate the funds to existing jobs and to tie it to a 12 month pro-rata basis the end result in impact leaves the project under the metrics required to meet the social mission requirements for this source of subsidy and the projects fail to qualify for the much needed capital support. Hence a recommendation to consider all jobs related to the working capital funding. With regard to the pro-rata requirement, perhaps a consideration should be given to the purpose of the debt or the percentage of the debt related to working capital. If the funds are principally used for working capital then the pro-rata requirement appears out of place. Another answer would be to seek knowledge on whether or not the company revolves the working capital during the year or is indeed a calendar year user of these funds, which would solve for the pro-rata issue.

The NMTC Coalition also reponds to the aspect of the August 2016 classifications for fixed assets regarding jobs by delineating that jobs should be counted when jobs are retained based on a business shut down, no jobs would be lost due to automation and the NMTC capital was needed to purchase the asset. While we certainly agree with the last comment, as all NMTC subsidy should be expended where a clear "But For" test can be established, we would argue that in many cases the ability of companies to obtain access to funds to replace antiquated equipment is necessary to keep the business viable and maintain existing jobs, enabling the ability of the company to compete in the global economy and have the potential to expand. The current requirement looks to start-up or expansion only to qualify fixed-asset and equipment purchases to count jobs, meaning that created jobs alone are counted. This is done as a pro-ration of total project costs related to the fixed-asset/equipment spend. We have seen, and have provided to the CDFI Fund examples of companies which have not been funded on the basis of this calculation. In part it is driven by this division of the job base. It is also driven by the separation of costs as well. In reality if the company spends a portion of costs to create the shell in which the equipment will be housed, these costs are every bit as necessary to the equipment spend for the support of the employees as the equipment itself. Without both layers of expense it is not possible for the company (whether they seek to maintain competitiveness, expand or to start-up) to operate. For this reason it does not appear plausible to require this calculation to determine a percentage to apply to reduce the number of employees supported by the funding.

We understand that the CDFI Fund has concerns about the attribution that can be reasonably associated to the NMTCs funding and recommend that consideration be given overall to the percentage the NMTC subsidy makes up of the capital in a transaction base. Fundamentally it is reasonable to associate all jobs with the capital provided from the NMTCs whether existing or created if the amount of the capital fills a gap of 10% or more - indicating that the preservation, start-up or expansion would not have proceeded as this spread in the capital gap is not de-minimus. Entities which fund at less than this percentile contribution to the capital stack should pro-rate downward to account for their actual contribution to account for attribution. Even when considering transactions which utilize public funding this approach makes sense, as it still requires the NMTCs to account for a portion of the transaction which is large enough to compose a capital gap too wide for the project to proceed without this access to funding.

Relative to the requirement to account for construction jobs as full time equivalents using 1,820 hours per position, we believe this is a standard in the industry and that it should remain across the board without equivocation.

The NMTC Coaltion addresses a question regarding why Permanent jobs are updated annually. We believe this practice should continue. It is our experience that permanent FTEs change overtime and this reporting enables the CDE to better asset manage its portfolio and provides the CDFI Fund with a better understanding of taxpayer value for the investments made over time. We believe this should be kept as a requirement.

We would add that there are some areas of data that are not currently collected that would also be of value. Whether or not the Fund would require annual update may take some consideration. In particular with reference to Fresh Food projects, we would like to see fields added for, at minimum the number of persons served, and perferably also the number of low-access and low-income/low access persons served. The Fund may also want to consider including information on the radius or miles used to determine this and the number of Food Deserts served.

In the NMTC Coalition's response a request is made to include a 150 character description per project to the already large and growing database. We do not see how this will provide for an easily searchable field, or how it will provide for data that the Fund will utilize on a regular basis. Each CDE has the ability to provide the Fund with write-ups on each transaction closed at this time should it chose to do so. We believe that this change will only serve to make CIIS cumbersome now and more so in the future.

The NMTC Coalition also makes an argument for providing detail on Allocatee track record in funding, noting types of projects, location and product types. They argue that this would be valuable to potential QALICBs. However given the current absorption rate of the NMTCs it does not appear that there is any demonstrable hurdle for QALICBs in placing transactions. There is clearly demand that outstrips available supply. This is not a negative in what we do. It enables Awardees to chose projects with the greatest potential in areas of greatest need which can proceed at a pace which enables progress in these disadvantated communities meeting the vision of the community, the CDE mission and the mission of the NMTC program overall. Providing this detail leans toward priviledged information as it in fact disclosed quite clearly each individual CDE's business strategy. We therefore do not recommend following this request. QALICBs have access to the outline of the Awardees and contact data and as noted this has proven to be an efficient process for enabling the credits to flow to date. The purpose for this request is therefore unclear and its end result deleterious to competitors in the program.

The NMTC Coalition also notes an issue with definitions across program areas. We have not noted inconsistency in definition. A glossary of terms may be of benefit, however, users of the program may benefit from a webinar that explains how the Application and CIIS interact and what data points are used in each, at what point and if possible, why.

Finally a few additional comments in general.

If possible it would be great if changes to the annual CIIS could be moved to within the first 3 months of the new year so that testing can be done earlier on. This would enable this to be completed before the majority of submissions begin in the summer months. If possible, we would also suggest having outside CDEs or consultants beta-test the changes to the system with their data prior to release.

Instructions on carrying through QLICIs that are passed through to another CDE appear to need updating. This dropped off the instruction booklet and it is no longer clear if all loans down to the QALICB should be reported. In prior versions loans were reported to the CDE, as well as subsequent loans to the QALICB.

A small point and one that is likely easily fixed: currently it is not possibble to type in 100% of the QLICI in the data points for BG and BH (QLICI amounts charged off or recovered) on notes and investments. Hence you are not able to reflect if you were successful in obtaining 100% of the QLICI back or if 100% is being charged off. We have currently just been recording this as 99%.

As an alternate to the options noted above for permanent job reporting, staff have suggested that a consistent valuation could be created by utilizing 1,820 hours per job required to run the organization reconciled to payroll to remove gray areas. Jobs data could also then be viewed historically for performance based on annual submissions. While this approach may not deal with attribution, combined with the required reflection on the NMTC percentile contribution to the project it could provide a simple approach to jobs as a whole that does not require any CDE to attempt more difficult analysis such as that related to revolving working capital etcetera.

We would be happy to forward the examples of transactions to you again should that prove helpful and to participate in any working groups you might consider putting together now or in the future regarding updates to CIIS or other matters.

Thank you for taking the time to consider our comments.

Sincerely,

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