Massachusetts Development Finance Agency

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United States House of Representatives

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Good Morning Chairman Neal, Ranking Member Brady, and distinguished members of the House Ways and Means Committee. My name is Laura Canter, Executive Vice President and Director of Finance Programs for MassDevelopment.

By way of introduction, MassDevelopment is a quasi-public economic development and finance agency for the Commonwealth of Massachusetts. MassDevelopment utilizes a wide variety of programs, products, and technical assistance, such as loans, tax-exempt Private Activity bonds, grants, and real estate planning and development to stimulate economic growth. In our daily work, we collaborate with businesses, nonprofits, banks, and communities to unlock opportunities and spur development. To that end, our Agency financed or managed 316 projects in our last fiscal year ending June 30, 2019. These projects are estimated to create or support 9,743 jobs and build or preserve 1,992 homes.

I am very grateful to appear before you today to speak about Federal programs for the bricks and mortar that house community infrastructure; not roads and bridges, but the services that all communities need: affordable housing, health care, education, arts and culture. In Massachusetts, as in the rest of the nation, the construction of many of these facilities is reliant on what I will call the "Big Three" of community development finance: New Markets Tax Credits, Historic Tax Credits, and Low Income Housing Tax Credits. What the Big Three have in common is that they pump equity into projects that, to put it very simply, cost more to build than they can support in private financing. Often times, that's because construction costs are high, and rents, especially in low-income communities, are low. At MassDevelopment, we have the privilege of financing hugely impactful community development projects. These projects, however, are reliant on not just state and local support but on the Big Three, and would not come to fruition without them.

Now that you are more familiar with MassDevelopment, I would like to first take the opportunity to thank the members of the United States House of Representatives for including a one-year, $5 billion extension of the New Markets Tax Credit in the recently signed Fiscal Year 2020 appropriations bill (H.R. 1865). Without the extension, the program would have ended December 31, 2019. Clearly, the bipartisan support demonstrates confidence in the program's ability to support and advance underserved communities. The $1.5 billion increase in allocation will go a long way toward stimulating investment and growth, creating jobs, and improving lives in low-income and rural communities across the United States. We would like to particularly thank Chairman Neal and others who have championed this program over the years.

As a certified Community Development Entity, MassDevelopment has been awarded $341 million in New Markets Tax Credit allocation authority, which we have used to finance a wide range of projects, 28 in total, ranging from health care and education to historic preservation and manufacturing facilities. All of these projects were chosen for their ability to benefit to low-income people, and those benefits could not have been achieved without the equity provided by New Market Tax Credits.

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As Community Development financiers, we know that most New Markets projects are many years in the making, and their development would benefit from certainty that the program has a future and that its fate does not hang in the balance each year. For that reason we applaud the work of those members of Congress, including Sens. Roy Blunt (R-MO) and Ben Cardin (D-MD) and Reps. Terri Sewell (D-AL) and Tom Reed (R-NY), who introduced legislation last February to permanently extend the New Market Tax Credit Program.

Next in the Big Three is the Low Income Housing Tax Credit. Similar to the Historic Tax Credit Program, this program offers tax credits to investors who essentially "buy" the credits by investing in projects and requiring no other return of or on their investment. Low-income housing cannot possibly happen without the equity generated by the Low Income Housing Tax Credit. In Massachusetts alone, over 70,000 affordable homes have been created or preserved with Low Income Tax Credits since the program became operational in 1987.

There are two types of Low Income Housing Tax Credits: the 4% credits that accompany tax-exempt private activity bonds and the 9% credits that are made available annually by each state on a competitive basis. As both come with per-capita limitations, we were heartened by the 2018 12.5% increase to the 9% credits for four years, and we urge Congress to make this increase permanent. The 4% credits remain tied to each state's $105 per-capita "volume cap" for private activity bonds, which is indexed to inflation. In Massachusetts, competition for our 9% credits is oversubscribed every year and projects may have to apply for several consecutive years before they can be made a reality. At MassDevelopment, we use almost all of our private activity bond volume cap every year for affordable housing. If I could be so bold as to state a wish, it would be for legislation that would allow states to trade or otherwise have their unused volume cap reallocated to states that face shortages of volume cap, so that more affordable housing could be created.

With regard to the Historic Tax Credit, it is key to reusing vacant buildings for schools, offices, and housing. We were concerned when the 2017 tax reform changed it from a first-year credit of 20% on qualified rehabilitation expenditures to a 20% credit that is instead taken 4% per year over the course of five years. This can only translate to lower pricing by investors, which means larger financing gaps in projects that may or may not be able to find other sources of subsidy.

I do not want to leave you with the impression that New Markets Tax Credits, Low Income Housing Tax Credits, and Historic Tax Credits – or the Big Three – alone are enough to fill the financing gaps in community development projects that are otherwise unviable. In Massachusetts, the Commonwealth offers state low-income housing tax credits, state historic tax credits, and other state grants for community infrastructure. In fact, because construction costs exceed property values in distressed communities, we even have a state tax credit for modestly priced workforce housing. Just recently, MassDevelopment financed the renovation of a vacant and dilapidated downtown brick building into 24 modestly priced apartments in Haverhill, Massachusetts, one of our lowest-income former industrial cities. This project cost slightly over $9 million to deliver, but appraised out at $3,870,000, needing not just a high loan-to-value construction loan from us but nearly half of the project costs to be financed with tax credits, of which less than 20% was from the Federal Historic Tax Credit and the rest from the state of Massachusetts. This is typical of projects in our most distressed communities.

We remain optimistic about the incredible results that communities with sound leadership and vision can accomplish with the support of the Big Three. If I could take you on a whirlwind tour of Brockton, Massachusetts, just one of the many former industrial cities that we focus on, you would see project after project brought to life with state and federal tax credits. In 2012, MassDevelopment financed the conversion of three vacant downtown mill buildings into 25 units of market-rate and affordable apartments, including the first new market-rate units the city had seen in decades. The project cost over $8 million to complete, and needed over $7 million in tax credits and grants to pencil out. A third of that was raised from Federal Low Income Housing and Historic Tax Credits, and the rest was from the state. With the successful transformation of that property, other nearby buildings began to attract interest. MassDevelopment has since financed five projects within a two-block radius, including the redevelopment of an entire block that sat vacant for over a decade when the Brockton Enterprise newspaper downsized. New Markets Tax Credits, Low Income Housing Tax Credits and Historic Tax Credits were all needed and continue to be critical as Brockton makes its comeback. We are seeing this story repeated in our former industrial cities across the state as communities recover from decades of disinvestment and become safe and affordable places to work and live. We are honored to be a part of these comeback stories and we thank Congress for its wisdom in delivering and protecting these foundational programs for community infrastructure.