

# NEW MARKETS TAX CREDIT COALITION

October 12, 2006

The Honorable Henry M. Paulson, Jr.  
Secretary of the Treasury  
United States Department of the Treasury  
1500 Pennsylvania Avenue, NW, Room 3330  
Washington, DC 20220

Dear Secretary Paulson:

I am writing on behalf of The New Markets Tax Credit Coalition, a national membership organization of community development organizations and investors working with the New Markets Tax Credit in low income urban and rural communities across the country. Given the success of the Credit to date in stimulating private investments, creating jobs and financing business development, the Coalition urges the Administration to call for a five year extension of the New Markets Tax Credit in the Revenue Estimates accompanying the Fiscal Year 2008 budget.

We support extension of the New Markets Tax Credit for the following reasons:

First, it is meeting its principal goal: mobilizing capital to economically distressed urban and rural communities. Data released from the U.S. Department of the Treasury reveals that interest in the Credit from the investor market continues to increase at a rapid pace. As of September 2006, \$4.72 billion in new private capital has been raised from 560 distinct investors. This amount is over one-half of the \$8 billion in allocation authority issued in first three allocation rounds of the Credit.

Second, the New Markets Tax Credit is creating jobs, opportunity and hope in low income communities across America.

- In California, the Credit is being used to finance a number of innovative projects. It has helped community clinics and health centers in California's low income communities gain access to nearly \$50 million of loan capital to build facilities or expand existing clinics. This initiative, Healthy California, is projected to bring health care to an additional 150,000 indigent Californians that lacked basic health care services.
- In a small remote village in Alaska, a business that removes toxic elements from oilfield mud using environmentally safe methods received financing from the New Markets Tax Credit. Conventional banks had previously rejected the company's request for financing equipment due to the start-up nature of the venture.

- In Iowa, NMTC financing enabled a locally based manufacturer of truck bodies to consolidate its operations into a larger facility and improve its efficiency, keeping 290 manufacturing jobs in the community.
- In addition to these projects, the NMTC is being effectively deployed to help rebuild low-income communities along the Gulf Coast that were devastated by Hurricane Katrina. The Coalition was pleased to support an additional \$1 billion in New Markets Tax Credits for the Gulf Coast. Just six months after the President signed the GO Zone legislation into law, the first \$600 million in targeted Credits were awarded to community development organizations working in the region.

Third, there is tremendous need and demand for the Credit. Low income communities are starved for private sector financing. Recent reports indicate that most venture capital in the country flows to technology firms located on the east and west coasts. There are very limited investments being made in the staples of urban and rural economies: natural resources, manufacturing, retail and commercial sectors. Therefore, there is great demand for the Credit as a tool to attract investments in capital starved communities.

The total demand for Credits, over the first four allocation rounds, has exceeded the Credits available by ten fold. This keen competition has had the salutatory effect of driving the Credit to poorer communities than required by law, with almost all Credit financed activity in communities with multiple indicators of economic distress.

There are a number of steps involved in implementing the New Markets program. Investors, Community Development Entities and businesses need time to prepare the necessary marketing and business investment plans to implement a financing program. However, these interests will only plan and invest for the future if there is one. The CDFI Fund will close the final application round on February 28, 2007. Unless there is action by Congress and the Administration to extend the New Markets Tax Credit, planning for future allocations and investments in poor communities will come to an end.

Legislation extending the NMTC for five years, through 2012, has been introduced by bipartisan coalitions in Congress: in the House of Representatives by Representative Ron Lewis (H.R. 3957) and in the Senate by Senator Olympia Snowe (S.1800). The five-year reauthorization would provide \$3.5 billion in new tax credit authority per year. According to the Joint Tax Committee, the revenue loss associated with failure to authorize the five-year extension would total \$850 million. There is strong evidence that this is a good investment for the government as the ten year cost of the original NMTC authorization totals approximately \$4.3 billion. This amount will leverage \$15 billion in private investments in low income communities.

The Coalition believes that the NMTC has the potential to transform federal financing for community development in much the same way that the Low Income Housing Tax Credit changed the way the federal government financed affordable housing. Under New Markets, a shallow subsidy has mobilized billions of dollars into low income communities providing financing for a range of projects and business. The impact of the Credit to date

has been impressive, and we continue to see efficiencies developing in the market as the Credit industry grows and matures.

The Coalition is grateful for the Administration's support of the New Markets Tax Credit. We hope to work with you on the reauthorization of this important program. I will call your office to follow-up and would greatly appreciate the opportunity to discuss with you the inclusion of the five-year NMTC extension in the Administration's FY 2008 budget.

Thank you for your attention to this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert A. Rapoza". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Robert A. Rapoza