Coastal
Enterprises
Inc.

JUL 1 0 2007

July 6, 2007

Matt Josephs
New Markets Tax Credit Program Manager
Community Development Financial Institutions Fund
U. S. Department of the Treasury
601 13th Street NW
Suite 200 South
Washington, DC 20005

Re: Proportional Allocation of Qualified Equity Investments to Non-Metropolitan Areas

Dear Matt:

As a New Markets Tax Credit (NMTC) allocatee with a strong track record of serving rural areas, Coastal Enterprises, Inc (CEI) appreciates the CDFI Fund's request for comments on best approaches to ensuring that non-metropolitan counties (as defined in OMB-04-03 as amended) receive a proportional allocation of QEIs. We support strongly the intent of this new requirement as one that will help CEI and other allocatees with a focus on rural distress to close NMTC financings in more rural communities.

The CDFI Fund seeks to make the NMTC fully available as a development tool for rural America. We believe this endeavor comes at the right time for rural Americans, and appreciate the opportunity to offer our comments. Just recently, CEI was part of a joint Kellogg-Ford Foundation-sponsored first National Rural Assembly held in Chantilly, Virginia. Nearly 400 guests from rural America, practitioners, foundations, academicians, and policy representatives devoted two intense days to reflecting on what challenges people and communities in rural regions are facing. There was concluding discussion on forming a national coalition or network to raise issues and present a unified voice to Congress. Perhaps the findings and ongoing initiatives taken by this network will be useful to the CDFI Fund. Attached as a separate document is the preliminary report of the Assembly. We would be glad to provide further information as the network progresses.

As you know, rural America conjures up different images for different people: There are many regions characterized by declining industries; traditional reliance on natural resources; or those regions that continue to be chronically poor such as large areas of Appalachia, the rural South, and Indian reservations. Another view of rural America might be a bucolic, peaceful setting, a place to go for vacation and "get away" from the urban din and pace of one's customary life; another of traditional farms, forestry or fisheries dependent communities with little else there; and yet another of amenity rich and changing economies with a robust and growing tourism sector. Indeed, rural America may now be seen as place coveted by some of the 75 million "baby-boomers" seeking "untouched" and natural surroundings for their retirement years.

When select demographic screens are applied to rural regions, whether by census tracts or, in many cases, county profiles, certain trends do emerge. For example, 244 of the poorest 250 counties in America are rural. Further, while new and retiring residents may bring wealth to a region, they also drive up housing prices. Affordable housing has become a major problem in many areas. Rural America areas also show relatively more aging populations than their urban counterparts, with those aged 40-59 increasing by eight percent between 2000 and 2005, while populations of young people under 20 years shrunk by five percent. Contrary to perhaps a widely held perception that residents of rural America are dependent on farming for their livelihoods, only 6.5 percent of the labor force is actually engaged in farming. Rural Americans face other challenges. Only 21 percent of rural residents have access to high speed internet, compared to 40 percent of metro residents.

While out-migration or even an influx of new immigrants are part of the evolving profile of rural America, resiliency, ingenuity, a strong work ethic, neighborly atmosphere, and for many a deep concern for the environment and sustainable economic development, also characterize much of the people and assets of rural communities. Entrepreneurship, new wealth-creating strategies such as "cluster" industries, the resurgence of organic agriculture, new technology firms and a variety of other economic development strategies are also evident. In each, economic development tools are critical to unleash the potential of these communities to create more opportunities for their residents, and the NMTC is one such tool to deploy on behalf of CDFIs and CDEs that demonstrate an awareness of and ability to deliver impact.

Within the above framework of defining rural America and allocating the NMTC proportionately, we believe this can be best accomplished with an application process that invites any applicant to specify a percentage of its total allocation (QEI) request that will be committed to non-metropolitan counties and to effective rural development strategies therein *(or partial counties in the case of NECTAs as defined in OMB-04-03 – see more detailed discussion on NECTAs below and in Exhibit A)*. This commitment would become a contractual obligation in the allocation agreement of any successful applicant specifying such a percentage. It should be declared using a "fill-in-the-blank" application question that awards bonus points based on the relative strength of the applicant's commitment to serve rural areas.

Using this methodology, applicants would receive up to 20 bonus points in the application process for three categories of commitment to non-metropolitan activity:

(1) Principal place of business in a non-metropolitan area - or - a working partnership with a qualified rural economic development organization that has a demonstrably strong track record of serving rural (non-metropolitan) areas *(worth 5 points)*;

(2) Strong track record of serving rural (non-metropolitan) areas - or - a working partnership arrangement as described in (1) above *(worth 5 points)*;

(3) Commitment to place a meaningful percentage of its allocation in non-metropolitan areas *(worth up to 10 points)*. As an example of how item (3) could work: an allocatee would receive 1 point for a 10% commitment and so on up to a total of 10 points under this category for a 100% commitment to non-metropolitan areas.

Compliance of any allocatee making a commitment to non-metropolitan areas (and the CDFI Fund in the aggregate) would be based on the percentage of QEIs going to non-metropolitan areas as promised in the application. This would be calculated by using the same proportion as the proportion of the total QLICIs placed under each allocation agreement going to QALICBs in non-metropolitan areas.

We further believe the aggregate requirement of the CDFI Fund nationally should be the percentage of the U.S. population living in non-metropolitan areas (21%), as determined by the USDA Economic Research Service, using data drawn from the 2000 Census reports. The CDFI Fund should use a process whereby aggregate awards among all allocatees will meet or exceed this minimum threshold. However, we strongly disagree with any system that would work in the manner of GoZone allocations where allocatees that did not qualify for a general allocation were given a "non-metropolitan/rural only" allocation. This "GoZone" model is not a good model for geographic areas as ubiquitous as rural.

Equally important, although the CDFI fund did not specifically request comments on the subject of "higher distress", we believe the intent of the "proportional allocation" requirement will be substantially thwarted unless further consideration is also given to measures of higher distress in rural (non-metropolitan) areas. This is due to the difficulty in applying most of the higher distress criteria in non-metropolitan areas that do not exhibit the distressed population concentrations of urban areas, yet still have very real populations of low-income people who are often spread out over large areas. One simple remedy would be to make the location of a project in a non-metropolitan area by itself a qualifier for higher distress. This would be similar to how poverty rates of 30% or greater, unemployment rates of 1.5x the national average or greater, and median family incomes of 60% or less are currently used. Other possible directions for higher distress criteria are shown in Exhibit B.

<u>More Detailed Discussion</u>

1. <u>Allocations of QEIs</u>. We support option (1.d) in the Federal Register Notice, the option that would determine whether a QEI (or a portion of a QEI, in the case of a QEI resulting in multiple QLICIs) is in a non-metropolitan area by tracing the location of QLICIs. However we have a concern with the language in the Notice as it addresses the issue of "areas". The statutory language (Pub. L. 109-432) amended IRC section 45D(1) specifically on a <u>county</u> basis – this probably reflects the fact that the county system of government is dominant in many places in the U.S. However, in the northeastern U.S., New England City and Town Areas (NECTA's), as defined in OMB-04-03, are used to define metropolitan and non-metropolitan areas. Where a county contains a core city that defines a Metropolitan NECTA, the entire county is then classified as Metropolitan when in fact the Metropolitan NECTA is typically limited to certain towns within that county and surrounding counties, but not the whole county. Therefore, the county designation is inappropriate in areas where NECTA definitions are used.

   This overly broad county-wide designation would have the counterintuitive effect of defining many quite obviously rural towns and wilderness areas as being Metropolitan areas. For example, the rural town of Millinocket, Maine where one of the first NMTC financings helped reopen the two idled paper mills is considered part of the overly broad Bangor MSA by virtue of being in Penobscot County and is, therefore, considered a Metropolitan area. This is clearly counter to the intent of making NMTCs effective in rural America.

   We strongly encourage the CDFI Fund to consider language which clarifies that, where NECTA's are used to define Metropolitan areas, the QALICB (and therefore the QLICI) will be defined as being in a metropolitan area if the qualifying census tract is contained within any of the cities or towns within a Metropolitan NECTA, but that cities an towns in the same county that are not within the Metropolitan NECTA would be defined Non-Metropolitan (see Exhibit A – Penobscot County / Bangor, ME Example). This will avoid the elimination of non-metropolitan areas within a county in the northeastern U.S. that fall outside of Metropolitan NECTAs. This definition is within the standard definitions of metropolitan areas as defined within OMB 04-03.

2. Proportionality. With respect to this issue, we advocate assessing proportionality on the basis of people (population), using the best available measure of the proportion of U.S. people who live in non-metropolitan areas (2.a.i). We believe this is best determined by the data drawn from the 2000 Census reports and tabulated by the USDA Economic Research Service. Furthermore, under 2.c, we believe the QLICI determination should be based on the dollar size of each QLICI.

3. Review Process. We believe priority points should be awarded during the application review process as follows:

   I. Five (5) points for having the allocatee's principal place of business in a non-metropolitan area or for having a contract for services with a qualified rural practitioner. This gives preference to an applicant (or contracted service provider) that is in the right place to understand the needs and deliver results (1.b.i).
   II. Five (5) points for a proven track record of serving non-metropolitan areas (or affiliated working partner with same). This is also an indicator of experience and would mitigate against unqualified allocatees simply seeking points. (3.a.i).
   III. Up to ten (10) points for forward-looking commitments based on the percentage of activities that will be directed to non-metropolitan areas (3.a.ii).

4. Compliance. Each allocatee should be required to meet its stated commitment to place QEIs (as determined by the location and dollar value of its QLICIs) in non-metropolitan areas in its allocation agreement. Since this would be a contractual compliance requirement, no stated leeway or cushion for failure seems necessary, since the CDFI Fund would be able to utilize judgment in determining compliance – e.g., if the requirement were 50% and the allocatee achieved 48% the Fund could waive this default as not material.

We appreciate your consideration of the aforementioned points, and would be glad to provide you with additional information or perspectives. Please contact Charlie Spies, Managing Director (cspies@ceimaine.org) or myself (rlp&ceimaine.org) should you have any questions. Thank you.

Respectfully,

Ronald L. Phillips

Ronald L. Phillips
President

cc: Kimberly Reed
Linda Davenport

Exhibit A: Example of City Town Listing for Penobscot County Maine and Bangor Metropolitan NECTA:

Cities and Towns within Penobscot County but not defined in the Metropolitan NECTA would be considered non-metropolitan. Millinocket is an example of a town in Penobscot County that is not in the NECTA. Likewise Cities and Towns outside of Penobscot County but within the Bangor Metropolitan NECTA would be classified as metropolitan.

A.1 - Penobscot County – All Cities and Towns (* indicate nearly 30 cities and towns in Penobscot County that are not included in the Bangor, Metropolitan NECTA):

Alton
Argyle Township
Bangor
Bradford
Bradley
Brewer
Burlington*
Cardville*
Carmel
Carroll Plt*
Charleston
Clifton
Corinna*
Corinth
Dexter*
Dixmont
East Holden
East Millinocket*
East Newport
Eddington
Edinburg
Enfield
Etna
Exeter
Garland
Glenburn
Greenbush
Greenfield Township*
Hampden
Hermon
Holden
Howland
Hudson
Indian Island
Kenduskeag
Kingman*
Kingman Township*
Lagrange
Lee*
Levant
Lincoln*
Lincoln Center*
Lowell
Mattamiscontis* Township
Mattawamkeag*
Maxfield
Medway*
Milford
Millinocket*
Mount Chase*
Newburgh
Newport
Olamon*
Old Town
Orono
Orrington
Passadumkeag
Patten*
Plymouth
Prentiss Township*
Ripley*
Seboeis Plt*
Sherman Station*
Springfield*
Stacyville*
Stetson
Stillwater
Veazie
Webster Plt*
West Enfield
Winn*
Woodville*

A.2 - Bangor, ME Metropolitan NECTA – Cities and Towns (* Indicate cites towns outside of Penobscot County)

Amherst town, ME*
Aurora town, ME*
Dedham town, ME*
Alton town, ME
Argyle unorganized territory, ME
Bangor city, ME
Bradford town, ME
Bradley town, ME
Brewer city, ME
Carmel town, ME
Charleston town, ME
Clifton town, ME
Corinth town, ME
Dixmont town, ME
East Central Penobscot unorganized territory
Eddington town, ME
Edinburg town, ME
Enfield town, ME
Etna town, ME
Exeter town, ME
Garland town, ME
Glenburn town, ME
Greenbush town, ME
Hampden town, ME
Hermon town, ME
Holden town, ME
Howland town, ME
Hudson town, ME
Kenduskeag town, ME
Lagrange town, ME
Levant town, ME
Lowell town, ME
Maxfield town, ME
Milford town, ME
Newburgh town, ME
Newport town, ME
Old Town city, ME
Orono town, ME
Orrington town, ME
Passadumkeag town
Penobscot Indian Island Reservation, ME
Plymouth town, ME
Stetson town, ME
Veazie town, ME
Frankfort town, ME*
Winterport town, ME*

Exhibit B: Meeting Higher Distress Requirements in Non-Metropolitan Areas

A. Include a "loss of major employer" (mill closing) criterion in rural and smaller metropolitan areas [over 100 employees in a rural area and over 200 employees in a smaller metropolitan area (250,000 people or less)].

B. Add a higher distress item for an area (NMTC census tract) where unemployment has increased over 50% in the year prior to closing or since the Year 2000 census figure.

C. Reinstate the original SBA HUB Zone criterion – without requiring the QALICB to become an approved SBA HUB Zone contractor.

D. For deals with assets spread over a wide geographic area (e.g., working timberlands), designate the transaction as higher distressed if over 50% of the assets are in higher distressed census tracts.

E. From the Round V Higher Distress Criteria, allow the following distress measure which now counts for only one measure of distress to be separated into three distinct distress measures that would each count for a distress measure (meeting two of these, for example, would qualify a tract as higher distressed):

Census tract with one of the following:

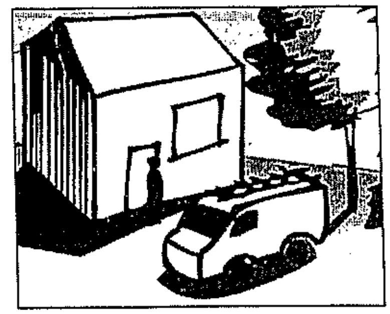
(i) poverty rate greater than 25%;

(ii) median family income less than 70% *(see MFI criteria in above second bullet for details)*;

(iii) or (iii) Unemployment rate at least 1.25 times the national average.

National Rural Assembly

June 2007

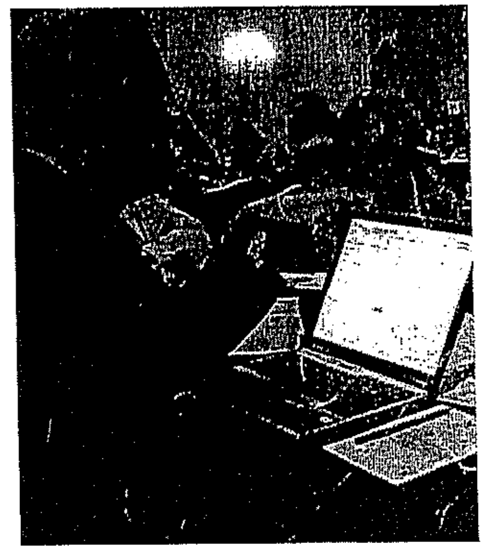


Preliminary Report

Nearly 300 advocates and leaders from the nonprofit sector, tribal, state and local elected officials, artists, writers, philanthropists and other cultural figures gathered together at the first National Rural Assembly to raise the visibility of rural issues, to organize a national network of rural interests, and to develop rural policy initiatives.

Participants represented the breadth of rural America with *43* states and over *250* different organizations focused on rural interests. In small groups, participants worked with table moderators to examine a wide range of topics. Then, using keypad polling and groupware computers, participants identified room-wide themes and collective priorities.

Presenters set the stage with research on the current sociological, economic, and political conditions in rural America. Over the course of the multi-day meeting, practitioners identified the assets and challenges of rural America, developed a vision, devised national strategies and explored federal policies. Groundwork was laid on a series of next steps to ensure follow-through on the outcomes of the Assembly. Over 90% of participants supported or strongly supported the idea of a coalition of organizations.



National Rural Assembly participants deliberated in small groups supported by facilitators and technology.

PARTICPANTS' HOPES FOR ASSEMBLY OUTCOMES

- "One Voice/One Vision" leading to national decision makers knowing that "rural matters."
- "A well articulated rural political agenda that features new thinking about rural sustainability."
- "United rural voice" focused on rural policy agenda that includes minority and disadvantaged people: Native American, Latino, African American, and the Disabled.
- "Busting the myths" about rural.
- Create a shared and clear definition of rural.
- Focus on policies on rural poverty, healthcare, entrepreneurship.
- Recognize and strengthen rural and urban community connections.
- Increase the political power/influence of Rural America; influence the presidential debate to include its issues.
- "All groups in the room become familiar with each other," building on strengths and create a viable and user-friendly, national network.
- A continuing, effective process for creating new and integrated policies for Rural America (with money and support to make this happen.

Demographic Transitions

- The rural community is more demographically diverse, leveraging the creative energy of all ages, cultures, ethnicities, and interests.
  - ⇒ Youth serve as leaders and entrepreneurs.
  - ⇒ Elderly serve as a source of wisdom and a market base for local businesses.
  - ⇒ Integrated, open, and vibrant civic life.
  - ⇒ Communities actively engage all residents to find solutions to local problems and make positive contributions.

Changing Rural Economy

- Affordable credit and capital is available through public, private, and nonprofit institutions for individual asset-based investments.
- Quality education, technological resources, and entrepreneurial opportunities encourage local youth to stay and invest in the rural life.
- Small businesses and entrepreneurs compete effectively in local and global markets and are supported by balanced economic development policies and a comprehensive technology infrastructure.
- Rural communities are part of vibrant, innovative and scaleable regional economies that provide livable wages and leverage local and natural resources to create value-added economic opportunities.
- Rural communities embrace diversity, retain current residents, and attract newcomers through amenities, urban-rural connections, and a recognized quality of life.

Investment and Resource Distribution

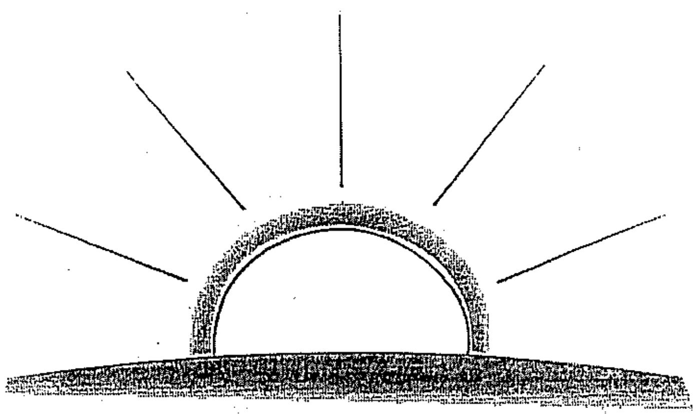
- Rural America has sustainable, harmonious, equitable communities with their own identities because local institutions have flexible and sufficient resources and power to support education, health, economy, housing and transportation.
- Everyone in rural America has adequate and affordable healthcare.
- Collaboration exists across interests and place (rural, urban, tribal, state, federal, local, generations, cultures, public and private sectors) ensuring equitable provisions of services and investment in rural America. *"Interdependence works!"*
- Rural communities tap local wealth, skills, knowledge and experience to leverage, expand and strengthen their asset base.

Community Institutions and Civic Leadership

- Diverse community residents are civically engaged and have the leadership skills to collaborate in planning and making decisions about a wide range of sisues.
- Community institutions and leaders effectively leverage political influence and public and private resources to ensure economic vitality.
- Young people have ample opportunities to participate in civic activities and contribute to the leadership and well-being of the community.
- CDC's, local governments, and non-profits work together to improve and sustain community amenities (education, health, housing, youth, downtowns).

Environmental Challenges

- America's rural areas are comprised of healthy and resilient landscapes and communities with:
  - ⇒ Renewable energy and sustainable food production is locally owned and linked to good stewardship of natural resource systems.
  - ⇒ Value-added businesses and jobs related to natural resources are located within and owned by communities;
  - ⇒ Settlement patterns with people in villages rather than sprawl with appropriate infrastructure to minimize the foot print we have on climate change and natural resources.
  - ⇒ Education of youth, urban, and rural people support a strong sense of place and stewardship of natural resources. Rural America is no longer a dumping ground for urban trash.



Community Institutions and Civic Leadership

Strategy: Direct funding to education and training geared at youth, entrepreneurs, and local leadership development.

- Expand and preserve national and community service programs (e.g. VISTA AmeriCorps, Learn & Serve); target resources on youth entrepreneurship, and leadership.
- Maintain and increase investment (federal funding) in 4H and youth programs in high priority areas (leadership, entrepreneurship); insist on diversity, including Native American communities.
- Increase funding for CDBG's to states and review/change the oversight and distribution process as it relates to rural communities to support youth, entrepreneurial, and local leadership activities.
- Create a GI bill to retool rural America to compete in the global economy.
- Shift Farm Bill funding out of existing commodity funding and expand funding to added value (sustainable agricultural and forest) products.
- Create a new workforce investment program geared at young people (mentorship, entrepreneurship, information technology skills).
- Fund demonstration projects geared at minority-owned businesses and Indian reservations to incubate projects that could benefit rural America reconfigured to include the capacity ca as a whole.
- Change No Child Left Behind to allow more local flexibility customized curriculum for local communities.
- The Small Business Administration should be reconfigured to include the capacity specifically targeted at supporting rural micro-businesses and include financing, technical assistance, and training.
- Create federal policy that would ensure every child in every state to have decent public education without having to trun to charger schooling to obtain decent K-12 education (e.g. Mississippi legislature trumping equal education).

Community Institutions and Civic Leadership

Strategy: Promote greater investment in rural infrastructure (transportation, multipurpose facilities, health care, telecommunications, and sustainable natural resource enterprises) by public, private, and philanthropic institutions.

- Make community block grants larger, more focused on underserved, low- and moderate-income communities, and available for rural infrastructure formerly unavailable.
- Require Community Reinvestment Act to encourage investment in rural areas.
- Create incentives to encourage small scale community owned businesses rather than having rural business owned by large corporations headquartered elsewhere.
- Reverse USDA Rural Development Policy back to grants/loans instead of loan guarantees.

Set aside federal research grants for rural areas to increase their competitiveness with urban areas.

Environmental Challenges

Strategy: Shift resources away from traditional farm and commodity programs and provide mandatory funding for sustainable agriculture and energy and rural development.

- Shift Farm Bill priorities to increase funding for sustainable agriculture, energy, and rural development programs and cap subsidies to individual farmers.
- Fund and strengthen USDA Forest Service and BLM Rural Development programs
- Offer tax incentives for companies who use alternative energy in Rural America
- Create a Sustainable Communities Block Grant program
- Provide an amendment to the Farm Bill to allocate land grant college funds away from commodity programs and towards more diverse rural development needs.
- Enact a new federal policy that will shift resources away from farm programs, and put money into new agricultural programs which support sustainable rural development.
- Implement a Micro co-op act.
- Require, fund and support schools and government institutions to source a percentage of their food from local, sustainable farmers

Strategy: Re-tool economic development policies to couple enterprise development with environmental stewardship

- Add scoring criteria to federal economic development programs to give mandatory priority points for advancing environmental stewardship.
- Provide incentives for educational institutions in rural areas to provide workforce development training in green collar jobs.
- Create a green innovation tax credit for small businesses and local governments
- Initiate a Sustainable Communities Block Grant Program that links economic development, community development and ecological stewardship.
- Reform federal agency procurement policies to integrate local economic development and ecological objectives
- Develop a renewable energy policy that supports energy production through community-based and owned facilities and remove subsidizes to oil, coal, and other polluting industries.
- Appropriate adequate dollars for forest and watershed restoration to support markets for ecosystem services and recreation that can be captured by local entities.
- Create a national education initiative that focuses on the ecological impacts of human disturbance, an understanding of our choices on the environment and local perspectives and issues.
- Support the re-authorization of the Secure Rural Schools and Community Revitalization Act.
- Create rural enterprise zones that are focused on sustainable development priorities and enterprises.