TESTIMONY OF JULIA NELMARK
PRESIDENT & CEO OF MIDWEST MINNESOTA COMMUNITY DEVELOPMENT CORPORATION (MMCDC) and CEO OF WHITE EARTH INVESTMENT INITIATIVE

BEFORE THE SENATE COMMITTEE ON FINANCE

HYBRID HEARING ENTITLED, "TAX TOOLS FOR LOCAL ECONOMIC DEVELOPMENT"

July 30, 2024

Introduction

Mr. Chairman, my name is Julia Nelmark and I am the President & CEO of Midwest Minnesota Community Development Corporation (MMCDC). MMCDC serves Minnesota and surrounding states with several types of lending, provides housing in northwest Minnesota, and serves Native Americans in Minnesota mainly through our subsidiary White Earth Investment Initiative.

I am also Vice Chair of the New Markets Tax Credit Coalition, a national membership organization comprised of New Markets Tax Credit practitioners including Community Development Entities and Investors. The Coalition conducts policy research and advocates on behalf of the Credit.

Today I would like to highlight the significant impact of the New Markets Tax Credit on low-income communities across our nation and to advocate for its permanent inclusion in the federal tax code.

The New Markets Tax Credit (NMTC) was established in the Community Renewal Tax Relief Act of 2000 (PL 106-554) and has been extended by Congress eight times since its original authorization in 2000. These extensions, along with the original NMTC legislation, have been supported by both political parties. The current authorization, enacted in the Taxpayer Certainty and Disaster Tax Relief Act of 2020 (PL-116-260), extended NMTC for 2021-2025 at $5 billion in annual allocation authority.

The New Markets Tax Credit is one of the most effective tools we have for community development. It provides lower cost financing for businesses and community facilities in America's most distressed urban and rural communities. Congress authorized the New Markets Tax Credit in 2000 to reduce the cost of capital in communities outside the economic mainstream.

New Markets is a simple concept: Taxpayers receive a 39% tax credit (taken over seven years) for qualified investments into Community Development Entities (or "CDEs"), organizations with a track record of loans and investments in underserved areas. CDEs use the proceeds of those investments, leveraged with debt, to finance manufacturing and business expansions, healthcare and daycare facilities, business incubators and other important revitalization projects. Its flexibility makes it particularly useful in supporting the needs of each business and community as determined by those working on the ground. The nonprofit and industry sectors receiving New Markets financing are diverse, reflecting a cross-section of the American economy.

Through the allocation of tax credits to CDEs, including Midwest Minnesota CDC, the New Markets Tax Credit has facilitated the flow of capital into projects that spur economic growth, create jobs, and improve the quality of life for residents in underserved areas. And it does so in a cost-effective manner – New Markets provides a return to the government on its investment through increased tax revenue. For example, in 2015, New Markets generated $15.2 billion in economic activity, resulting in $872 million in federal tax revenue – more than offsetting the $759 million annual cost of New Markets Tax Credits in 2015 and providing a $113 million return (15%). This activity also boosted state and local revenues by $502 million in 2015.

Impact

Since its inception, the New Markets Tax Credit has delivered over $135 billion in financing to over 8,500 businesses and community development projects. New Markets projects have created over 1.2 million jobs to date at a cost to the federal government of under $20,000 per job.

The New Markets Tax Credit has helped jump-start the American manufacturing industry by helping nearly 2,000 manufacturing and industrial businesses expand.

New Markets also helps expand access to community facilities and amenities. To date, New Markets has financed over 3,700 federally qualified health centers, schools, nursing homes, daycare centers, apprenticeship programs, treatment facilities, and other service providers. Recently, we helped finance the redevelopment of the historic Coliseum building in Minneapolis. Severely damaged in the civil unrest following the murder of George Floyd, this will be home to several small businesses, which will gain an equity stake over time.

In Minnesota, New Markets has financed 274 projects totaling $3.4 billion, supporting nearly 16,000 permanent jobs and nearly 15,000 construction jobs. New Markets projects supported 71 Minnesota manufacturing and industrial businesses, 47 healthcare expansions, and much more. And this isn't only for large businesses – of the 116 projects MMCDC has financed through New Markets, over half were below $4 million, over a third were below $2 million. For example, a $1.8 million loan to Wind River Internet in rural Wyoming helped finance equipment and fiber connections to homes and businesses – financing that is difficult to obtain from banks.

The New Markets Tax Credit Coalition conducts an annual survey of the previous year's New Markets Tax Credit projects. Our survey of 2023 projects found that the program:

- Financed 322 projects totaling $7.6 billion.
- Created nearly 60,000 jobs in 49 states, the District of Columbia, and Puerto Rico.
- Supported 89 manufacturing and industrial businesses through working capital, new equipment, or new or renovated industrial space, including shared light industrial space.
- Expanded healthcare access for residents of low-income communities through 89 health-focused projects, including 49 federally qualified health centers, safety-net hospitals, and free clinics.

Targeting:

All New Markets Tax Credit investments must be in low-income communities, defined as communities with poverty rates over 20% or median incomes at or below 80% of the area median income. However, the vast majority of New Markets financing goes to severely distressed communities with extreme levels of poverty and unemployment.

The New Markets Tax Credit supports both urban and rural America. There is a 20% set-aside for non-metropolitan (~rural) communities. In 2023, nearly 30% of New Markets investments were in non-metropolitan counties (20% cumulatively throughout the course of the program). As I mentioned the program targets investment at the census tract level. Some rural communities would be better served by targeting at the census block level. The large size of census tracts in many rural areas tends to average out pockets of poverty, making it difficult to reach some of those small, distressed communities. Allowing CDEs to utilize a subset of the census tract, at the block level, would open up the ability to reach those areas.

New Markets Tax Credit Extension Act of 2023:

The New Markets Tax Credit Coalition urges Congress to pass the bipartisan New Markets Tax Credit Extension Act of 2023, S. 234, introduced by Senators Cardin and Daines. I want to thank both of you for your leadership on the New Markets bill. The legislation would do three things:

1) First, it would make New Markets a permanent part of the Internal Revenue Code. The New Markets Tax Credit has been extended by Congress eight times since its enactment in 2000, and the program will expire once again on December 31, 2025. Making the program permanent would boost its efficiency by providing certainty to businesses and community leaders, investors and CDEs, delivering more capital to low-income communities.
2) Second, it would index future allocation levels to inflation. Most tax policies (including the Low-Income Housing Tax Credit) are indexed to inflation. Congress first authorized $5 billion in New Markets Tax Credit authority in 2019, an amount that is now equivalent to just over $6 billion (adjusted for inflation).

3) Third, S. 234 would provide New Markets Tax Credit investors with relief from the Alternative Minimum Tax (or AMT). Unlike most federal community development tax credits, New Markets investors cannot use the New Markets Tax Credit to offset the AMT. This prevents many investors from participating in the program. Right now, the vast majority of New Markets Tax Credit investors are large, regulated financial institutions. New Markets Tax Credit equity pricing declined sharply during the 2008 and 2020 recessions – times when resources are most needed in low-income communities - because investors faced uncertainty regarding their future tax liability. Increasing the pool of investors participating in the program could stabilize demand in the New Markets Tax Credit equity markets during economic shocks and bring new investors into low-income markets. Information on AMT is attached.

   Taken together these changes will increase the certainty for CDEs, Investors and communities, allowing better planning and coordination of revitalization efforts. This will lead to better pricing for the Credit increasing dollars to the communities, and additional availability of patient, flexible capital that is often lacking in economically distressed communities. Additionally, a comparison of New Markets Tax Credits and Opportunity Zones is attached. One doesn't replace the other; they are complimentary incentives that use different tax planning tools and reach different investors.

Indian Country:

Many policymakers – and practitioners – have been concerned that New Markets does not adequately reach Tribal communities. Historically, only about 3% of New Markets financing supported these communities. The good news is there has been some recent increase in this trend. According to the New Markets Tax Credit Coalition's latest survey, in 2023 a record percentage of investment – 7% – went to businesses and facilities supporting indigenous populations. We expect this trend to continue into 2024 and 2025 after the CDFI Fund awarded allocation to several organizations with an extensive history investing in Indian Country. (The CDFI Fund tracks the amount of New Markets Tax Credits used on Tribal lands and homelands. Many Native Americans live outside of federally designated Tribal lands, and receive benefit from additional New Markets transactions, reflected in the figure above.)

As a CDE focused in the Minnesota and the Dakotas, we have funded $63.5 million in Native projects (10% of our cumulative allocation), primarily healthcare, education and cultural centers. These projects are often more time-consuming to bring to closing, and often suffer from significant appraisal valuation gaps, making New Markets all the more essential to realizing these projects. One project on a Minnesota reservation needed additional collateral, equity and other funds, as the appraised value for the project was about half of total development costs. That project took a year to get to closing. Another recent project supported the development of a new health center in Naytahwaush, a remote village on the White Earth Reservation. The facility (over 29,000 sf) provides family practice, lab, pharmacy, PT, OT, dental, behavioral health and other related services to the community.

While we have seen some progress in recent years in the form of an uptick in investment in Indian Country, we can do more. The New Markets Tax Credit Coalition supports the Tribal Tax Investment and Reform Act of 2024, bipartisan legislation introduced in the House, and we hope to see introduction soon in the Senate. Among other changes, the legislation would provide $175 million in additional New Markets Tax Credit allocation for Tribal Communities.

Rural Jobs Act:

The New Markets Tax Credit has helped hundreds of small farming towns and rural communities access the capital they need for business expansions, healthcare centers, broadband expansions, and other locally prioritized revitalization projects. The Rural Jobs Act (S.1455), introduced by Sens. Roger Wicker (R-MS), and Mark Warner (D-VA) would build on the success of the New Markets Tax Credit, providing additional resources to some of America's hardest-hit rural areas. The legislation would add $1 billion in New Markets Tax Credit allocation over two years targeted to Rural Jobs Zones, which are New Markets-eligible census tracts in rural communities, as defined by the USDA B&I program. Of the $1 billion in new allocation, at least 25% would be prioritized to rural persistent poverty counties and high out-migration rural counties.

In summary, while the New Markets Tax Credit has proven its effectiveness at incentivizing investment in those areas most in need of affordable financing, it is not yet permanent. Making New Markets permanent along with AMT relief and inflation adjustment, will improve its effectiveness and increase the success of communities and businesses throughout the country.

More information can be found at https://nmtccoalition.org

More project examples, with searching by project type, state, Congressional District, CDE, year, metro or non-metro, can be found at https://nmtccoalition.org/projects/

WIND RIVER INTERNET

Wind River Internet (WRI) is an operating component of Northern Arapaho Tribal Industries (NATI), a tribal corporation, located on the Wind River Indian Reservation in Wyoming. WRI began operations in 2011, providing internet and fixed wireless voice services to 332 business and residential customers within the boundaries of the Wind River Indian Reservation. They currently serve about 700 homes and businesses using a wireless network.

As a complement to the wireless services being provided, WRI also began a project involving fiber optic broadband. To date, approximately 25.6 route miles of "Middle Mile" fiber and 3.5 route miles of "Last Mile" fiber have been installed.

To help make this project a reality, Midwest Minnesota Community Development Corporation (MMCDC) provided a $1.8 million NMTC loan. The proceeds will be used to finance equipment, an equipment shelter, and fiber connections from the backbone to homes and businesses along 17 Mile Road, primarily in the communities of Arapaho and Ethete.

The project is expected to create 2 FTE jobs at WRI and approximately 15 construction or predevelopment jobs through contractors. Project representatives have set a goal to increase broadband internet services by an additional 123 households and businesses within the seven year NMTC compliance period. As customer numbers grow WRI believes they can reduce the marginal price of broadband internet while boosting internet speeds by up to ten times the current available speed.

More importantly, high speed internet will assist school children in doing their homework after they leave school each day. Many of these children do not have ready access to a reliable internet connection once they leave school.

Small businesses in this remote area will have an important link to various resources and will have the opportunity to extend their commerce beyond their geographic address.

NMTC ALLOCATEE

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COMMUNITY PROFILE

- Wind River Indian Reservation, WY
  - Riverton, WY
  - Arapahoe, WY
  - Ethete, WY
- 1.65x greater than national unemployment rate
- Minority owned/controlled business

PROJECT HIGHLIGHTS

- Total Project Cost: $1.8
- NMTC Loan: $1.8 million
- Investor: Wells Fargo
- Jobs: 15 construction, 9 retained direct jobs, 2 direct jobs

Top: Wind River Internet logo
Bottom: Picture of highway near Ethete, WY

Midwest Minnesota Community Development Corporation
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Financial and Social Impact

Square Footage Acquired, Constructed or Improved:
79,643

Projected Job Creation:
47 FTEs plus 90 construction-related workers

Co-Developers / Owners:
CommonSense Consulting; The Montana Family; Redesign, Inc.; Urban Design Perspectives

REDESIGNED

A rendering of The Historic Coliseum Building, a landmark on Lake Street in Minneapolis. A New Markets Tax Credit loan from MMCDC, plus additional financing, is supporting renovation following damage in the civil unrest of 2020.

THE HISTORIC COLISEUM BUILDING

A $6.89 million loan from MMCDC will help build a more equitable economic future for Minneapolis.

The loan to Redesign, Inc., supports the company's $28.25 million renovation of The Historic Coliseum Building. Redesign is lead developer and master lessor.

The building was severely damaged during civil unrest, after the nearby murder of George Floyd in 2020. Following renovation, it will be home to several BIPOC businesses.

"The New Markets Tax Credit financing from MMCDC came in first and was so easy to work with," said Taylor Smrikarova, Real Estate Development Director at Redesign. "The team made several visits to the site and our offices and truly partnered with us through this entire process. Construction would not have been possible without their commitment."

(L to r) Janice Downing, of CommonSense Consulting, with project architect Alicia Belton, of Urban Design Perspectives.

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NEW SPIRIT CLINIC

Financial and Social Impact

Federally Qualified Health Center, White Earth Reservation: 14,418 Outpatient visits annually

Projected Job Creation:
84 FTEs jobs, 52 construction jobs

Square Footage:
29,033 plus room for expansion

Services Provided:
Family Practice, Dental, PT, OT, Lab, Pharmacy, Behavioral Heath

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NAYTAHWAUSH COMMUNITY CLINIC, WHITE EARTH RESERVATION

Midwest Minnesota CDC allocated $10M to assist with a portion of the $17.9M development, construction, equipment, and other project costs for a new health center in Naytahwaush on the White Earth Reservation.

The new health center facility is 29,033 sq. ft. (with room for future expansion) and has the ability to provide family practice, lab, pharmacy, PT, OT, dental, behavioral health, and other related services.

The project created 53 new FTE jobs for the White Earth Reservation, located in Becker, Clearwater and Mahnomen counties in north-central Minnesota. The new facility delivers healthcare to White Earth Band tribal members and Native Americans living on the reservation or living nearby and seeking direct care services.

MMCDC Midwest Minnesota Community Development Corporation
Blending Capital With Innovation For Successful Community Development

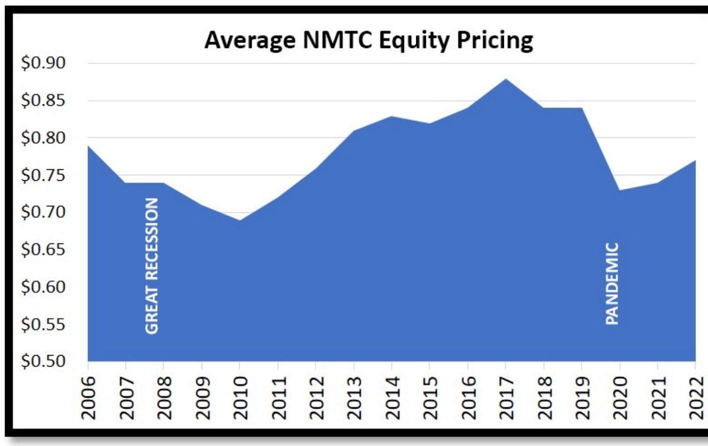
Alternative Minimum Tax Relief for New Markets Tax Credit Investors

A low-cost proposal to enhance the efficiency of the NMTC during economic shocks

Proposal: Provide New Markets Tax Credit (NMTC) to investors with relief from the Alternative Minimum Tax (AMT).

Current Law: Unlike most federal community development tax credits, including the Low Income Housing Tax Credit (LIHTC) and the Historic Tax Credit (HTC), NMTC investors may not use the NMTC to offset the AMT. This prevents many investors from participating in the program. However, Congress did allow community development tax credits, including NMTC, to be taken against the new minimum book tax, and therefore, a similar policy should be extended to the AMT.

Benefits of Expanding the NMTC Investor Market: Right now, the vast majority of NMTC investors are large, regulated financial institutions. NMTC equity pricing tends to decline during recessions and periods of economic uncertainty when NMTC investors face uncertainty regarding their future tax liability. This problem is exacerbated by the limited pool of investors that the AMT policy creates. NMTC equity pricing declined sharply during the 2008 and 2020 recessions – when resources are most needed in low-income communities. Increasing the pool of investors participating in the program could stabilize demand in the NMTC equity markets during economic shocks.



Why NMTC Equity Pricing Matters: Higher NMTC equity pricing translates to more benefits flowing to businesses and economic revitalization projects. It also means that each federal dollar is stretched even further in low-income communities and leverages more private investment. For the NMTC, it would mean a lower cost of capital for NMTC-financed businesses and projects.

Cost: The cost of providing AMT relief to NMTC investors is nominal because it would not increase the credit allowance. JCT recently scored AMT relief at $6 million over ten years.

Legislative Text: From the Bipartisan New Markets Tax Credit Extension Act of 2023 (H.R. 2539/S. 234)

> (C) Alternative Minimum Tax Relief.—Subparagraph (B) of section 38(c)(4) of the Internal Revenue Code of 1986 is amended—
>
> (1) by redesignating clauses (vii) through (xii) as clauses (viii) through (xiii), respectively, and
>
> (2) by inserting after clause (vi) the following new clause:
>
> "(vii) the credit determined under section 45D, but only with respect to credits determined with respect to qualified equity investments (as defined in section 45D(b)) initially made after December 31, 2022,".

The New Markets Tax Credit and Opportunity Zones: Complimentary Incentives

We are often asked about the difference between the New Markets Tax Credit and the Opportunity Zones program. The two programs are very different but complement each other well. Both seek to revitalize distressed communities but use different tax planning tools and therefore different financial products and investors to push private capital into economically distressed areas. They can be used to fit a specific need for communities, economic developers and investors - sometimes side-by-side but most often or as important stand-alone tools to accomplish this mission.

Differences between the New Markets Tax Credit and the Opportunity Zones Program

Low-income communities need access to patient, flexible capital, in the form of ***both*** debt and equity	
New Markets Tax Credit	**Opportunity Zones**
A vast majority of the NMTC subsidy goes to projects that *lower the cost of debt* for businesses and projects in targeted communities. An independent evaluation of the NMTC by Summit Consulting in 2017 confirmed that NMTC projects significantly lower the cost of capital for businesses in distressed areas.	OZs are designed to attract market-rate equity to projects in targeted communities.

Recently, market-rate investment capital has increasingly clustered in affluent areas. Both the NMTC and the OZ programs bring new investors to low-income areas, but ***the two programs attract different classes of investors*** using different tools to offset their respective tax liability	
New Markets Tax Credit	**Opportunity Zones**
NMTC investors are typically regulated financial institutions who use the NMTC to offset income taxes and to finance high impact projects that meet help them their obligations under the Community Reinvestment Act.	OZ investors are any taxpayer with an unrealized capital gain. Instead of banks, most OZ investors will be high net worth individuals and corporations seeking to minimize capital gains tax.

The type and risk-profile of projects will be different	
New Markets Tax Credit	**Opportunity Zones**
NMTC allocation is capped annually and is awarded competitively to community development organizations that can demonstrate community impact. The application process and the limited availability of credits drives NMTC-financing to businesses and economic development projects that would not have been economically feasible without the NMTC benefit, including community facilities, healthcare centers, rural broadband, and mission-driven service providers.	The OZ program is an uncapped program designed to generally make equity capital available in targeted areas. Though there are no requirements to do so, socially-focused OZ investors and community development organizations plan to use the OZ program to enhance their community impact. However, OZ investors receive the maximum tax benefit from investments held by an Opportunity Fund for at least ten years. After ten years, appreciation of any OZ investments is exempt from the capital gains tax. For this class of investors, Opportunity Funds are more likely to pursue real estate investments with lower risk profiles than the NMTC.
For the most part, the NTMC cannot be used to finance residential rental property.	The OZ program is expected to enhance the impact of Low-Income Housing Tax Credit projects.

Why the New Markets Tax Credit and the Opportunity Zones programs complement each other:

Both programs target new investment to America's hardest hit rural and urban areas.

New Markets Tax Credit	Opportunity Zones
The NMTC is targeted to about 40% of the nation's census tracts based on set criteria for economic distress. However, in 2017, 83% of NMTC investments were located in a smaller subset of the most severely distressed tracts.	The OZ program is more limited. It targets a quarter of NMTC-eligible tracts (10% of all tracts) as determined by states. The economic profile of the tracts is similar to NMTC-eligible tracts, though there are allowances for tracts adjacent to eligible tracts (accounting for only 2.6% of OZ tracts).

Both programs deliver capital to areas with dwindling federal support. As a share of GDP, federal spending on community development has declined by more than 75% over the past 40 years. Incentives like the NMTC have helped fill that gap, and the OZ program is a welcome addition providing equity capital.

New Markets Tax Credit	Opportunity Zones
The NMTC is capped and awarded competitively. The program supports projects totaling about $6 billion annually.	The OZ program is uncapped.

Communities have diverse needs and they benefit from flexible incentives. Both programs are very flexible. Only a small number of "sin businesses" like casinos and liquor stores are exempt.

New Markets Tax Credit	Opportunity Zones
Ineligible: residential rental property, the development or holding of intangibles, golf courses, race tracks, gambling facilities, certain farming businesses, liquor stores, and suntan or hot tub facilities.	Ineligible: the development or holding of intangibles, golf courses, race tracks, gambling facilities, liquor stores, and suntan or hot tub facilities.