Commonwealth of Massachusetts
DEPARTMENT OF HOUSING & COMMUNITY DEVELOPMENT
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Testimony of Aaron Gornstein, Undersecretary for Housing and Community Development, Commonwealth of Massachusetts

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Chairman Tiberi, Ranking Member Neal, and members of the Subcommittee, thank you for the opportunity to testify today. I want especially to acknowledge your leadership on a national level, Mr. Chairman and Mr. Neal, and to thank you for it.

My name is Aaron Gornstein and I am the Undersecretary for Housing and Community Development for Massachusetts Governor Deval Patrick. Our agency administers nearly $1 billion in state and federal resources for affordable housing and community development each year. Prior to joining state government four months ago, I worked for 22 years as Executive Director of Citizens' Housing and Planning Association, a non-profit organization in Massachusetts.

I am here to urge you to extend certain critical programs that support economic development, housing, and community development. Some of these successful job-creating programs expired in 2011, while others were deemed to not be "traditional extenders" in 2010, regardless of their proven effectiveness. The New Markets Tax Credit, Build America Bonds, Empowerment Zones and Empowerment Zone Bonds, and

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Low Income Housing Tax Credits have created hundreds of thousands of jobs and housing units throughout the nation. As we continue to climb out of the Great Recession, now is the time to extend these programs and the work they support. We cannot afford to lose these instruments of economic growth, and the Congress should take action to extend these programs as soon as possible. On the longer horizon, as this Committee undertakes the important task of reforming our tax code, it is important to understand the tradeoffs that are involved in eliminating these provisions, as there often does not exist a comparable way to enhance community development through other sectors of the government. In fact, while the Congress continues to cut spending programs in various programs under a number of departments, these projects can often only rely on supports in the tax code to continue. Elimination of these tax benefits could very well terminate a history of public-private partnership that has brought so much growth to our state and the country.

Let me briefly describe each and what they have meant to Massachusetts.

New Markets Tax Credit Program

The first New Markets Tax Credit (NMTC) allocations were awarded only nine years ago, yet already the NMTC has established a track record as a major source of community development financing in America. Congress authorized the NMTC in 2000 in an effort to stimulate private investment in low-income urban neighborhoods and rural communities that lacked access to the capital needed to support and grow businesses, create jobs, and sustain healthy local economies. Since the first NMTC allocations were awarded in 2001, this well-designed program has generated impressive community development results. Between 2003 and 2010, close to 300 community development entities (CDEs) have received NMTC allocations.

These CDEs, including community loan funds, Community Development Corporations and private financial institutions, have used the NMTC to finance thousands of retail, commercial, and cultural facilities, with over 92 million square feet of space.

Investments in NMTC financed-business totaled $45 billion during this period. Of this amount, an estimated $20.9 billion was direct NMTC investments, and the balance was leveraged from other sources –both public and private. These NMTC investments created or retained an estimated 300,000 jobs at a cost of $17,000 per job.

In 2010, investments in NMTC financed businesses totaled $9.5 billion. Of that amount, NMTC financing totaled $4.7 billion. This activity in 2010 created close to 70,000 jobs. All of this economic success is achieved for a relatively modest federal investment. A private investor in a New Markets Tax Credit project, investing in a financial intermediary or Community Development Entity, receives a 39% credit against its federal tax liability. In 2010, taking into consideration the funds leveraged at the project level, the NMTC program produced $8 of project-level investments for each $1 of foregone tax revenue.

Perhaps most important is the fact that every NMTC investment has been made in a business in a neighborhood or community historically underserved by private capital. Countless successful communities throughout the country are magnets for private investment – investment that does not need the encouragement of a federal or state government incentive. These are not the communities served by New Markets Tax Credit. The New Markets communities have significant poverty levels and relatively low median incomes. Over time, these communities have been written off by private capital. Yet these places are called home by millions of Americans who work hard, want to live in strong communities, and want to ensure that their children have every opportunity to achieve the American dream.

New Markets investments can only be made in communities with a poverty level of at least 20% or a median income at or below 80% of area median income. While these are the minimum thresholds, statistics show that New Markets investments frequently reach communities with deeper poverty levels and lower median incomes than required by statute. In fact, seventy-five percent of NMTC activity is in communities with higher distress – poverty rates of at least 30% or median incomes that do not exceed 60% of area median income. Approximately 60% of the activity is in communities with unemployment rates at least 1.5 times that national average. NMTC investments are creating jobs and supporting development in places where it is most needed. These investments are also halting blight, restoring abandoned buildings to tax rolls, revitalizing small downtown business districts, and creating momentum for further development in underserved neighborhoods, cities, and towns. And the cities and towns that are benefiting from this powerful program are located in each of your Congressional Districts.

I am sure that you are familiar with the New Markets investments in your districts, and understand the impact they have had on the communities you represent. But I want to highlight a couple of projects from our state. The first I'd like to highlight is the River Valley Market in Northampton, Massachusetts. The owners of this local food business and cooperative, in need of a home in the small city of Northampton, selected a former granite quarry on a major highway as their site. But they could not attract investors or secure financing for the work needed to house their business. With a New Markets award, the owners were able to support the construction of the quarry space and open a food cooperative that features produce and meat from dozens of local farmers, take-out food service, and a sit-down café. In addition to generating retail opportunities in the agricultural center of Massachusetts, the River Valley Market is a true community gathering place, with hundreds of area residents and tourists converging on its food stalls and take-out stands on every day of the week. Residents from towns and cities throughout the Connecticut River Valley are benefiting from this facility, which could not attract private investment on its own.

Another project with which I know Congressman Neal is familiar is the Holyoke Health Center Project in Holyoke. With a New Markets award from the Massachusetts Housing Investment Corporation (MHIC), a closed health center was replaced by a full service, one-stop medical complex, renovated into three commercial properties located in the heart of the central business district. Holyoke once was the world's largest paper manufacturer – a thriving 19th century community with 25 active paper manufacturing plants. In recent decades, Holyoke has become one of the lowest income communities in Massachusetts and has been designated a "medically underserved area". The new facility has helped fill a substantial need for primary care medical services and has reduced the extremely costly reliance on emergency room care. The new center also offers important new services, including a diabetes clinic and substance abuse programs. The MHIC New Markets award generated over $9 million in debt financing for this important projects. And the New Markets investment led to the creation of 350 jobs in this small Massachusetts city burdened for years by high unemployment rates.

Several blocks from the Holyoke Health Center, a new computer center is a beneficiary of New Markets investment. The High Performance Computing Center is a $168 million technology hub under construction at a former industrial site in the heart of downtown. When completed, the facility will be New England's first high performance computing center and will rank among the 500 most powerful computing centers world-wide. The center was developed through a private/public partnership including five Massachusetts universities – Harvard University, the Massachusetts Institute of Technology, Boston University, Northeastern University, and the University of Massachusetts – as well as Cisco Systems and

EMC Corporation. Over 600 construction workers have been employed on this critically important project, which has attracted attention throughout New England.

I would like to describe another New Markets investment in western Massachusetts. The city of Pittsfield is located in the heart of the Berkshires – an important tourist destination for our state. The city's economy declined sharply several decades ago when General Electric closed its facilities and moved its jobs out of state. Unemployment increased immediately, as did the poverty level. Since that time, city officials have worked hard to attract new business, create a stronger local economy, and participate in the tourism industry in this beautiful region of the state. With a New Markets award from MHIC in 2006, a historic theater in the center of the city – closed for 50 years -- was beautifully restored. The restored theater is a symbol of the re-emergence of Pittsfield, after many difficult decades, as the economic and cultural center of the Berkshires.

Shortly after the Colonial Theater restoration, the city benefited again from a New Markets award. With $17.2 million in financing from MHIC, the six-screen Beacon Cinema Complex was restored in a long-vacant historic property near the Colonial Theater. The new cinema opened for business in 2009. Together, the cinema and the theater have changed downtown Pittsfield, attracting as many as 400,000 new visitors a year to the area. The city estimates that 45 new businesses have opened since the restorations were completed. The well-known Barrington Stage Company relocated to downtown Pittsfield. Downtown foot traffic has increased, retail sales have improved, and vacant downtown storefronts are now few and far between. The New Markets Tax Credit program has been the catalyst for major improvement in this small western Massachusetts city.

I have given you Massachusetts examples because they are best known to us. But thousands of New Markets projects exist in communities throughout the country – and, in the short span of nine years, these projects have demonstrated their significance and their value.

The New Markets Tax Credit expired on December 31, 2011. But it is not too late to extend it. Because of its importance and success, I would ask the Committee and the Congress to take three actions: 1) Make the program permanent; 2) At a minimum, extend this program for five more years at an annual allocation level of $5 billion by passing H.R, 2655. We thank Congressman Neal and Congressman Gerlach for their sponsorship of this important legislation; and 3) Allow the NMTC to be used to offset taxes paid under the Alternative Minimum Tax (AMT) structure. In the long term, as this Committee considers ways to reform our code, I am glad that this program enjoys the strong support of many Committee members and I hope that support will provide for its proper consideration at the appropriate time.

Build America Bonds

Build America Bonds have been extremely important to Massachusetts and it is our hope that Congress will reinstate this program at least through 2013. As you know, the Build America Bonds were authorized under the American Recovery and Reinvestment Act of 2009—and thus they do not have the history of performance shared by the New Markets Tax Credit and the Low Income Housing Tax Credit. But in the short time they were available – less than three years -- they made a tremendous impact by enabling states and cities to access capital at significant cost savings.

Build America Bonds are taxable bonds. The U. S. Treasury pays a 35% direct subsidy to the issuer of the bonds, thus driving down significantly the cost of borrowing. Between April 2009 and December 2011, there were over 2,275 separate issuances of Build America Bonds, raising over $181 billion for capital projects such as bridges and schools. Massachusetts issued close to $5 billion in Build America Bonds, and the impact has been evident in every region of the state. The bonds attracted investors for projects such as our $3 billion Accelerated Bridge Program, which created 12,000 construction jobs while enabling the Commonwealth to repair hundreds of aging bridges, including the historic Longfellow Bridge over the Charles River. Our schools and universities – so important to our economy -- also benefited from these bonds. As one example, our largest school -- the University of Massachusetts Amherst -- renovated two laboratories and is building a new Commonwealth Honors Residence Complex that is scheduled to open next year. This extremely successful program was terminated in 2010, and I urge the Committee to work to reinstate it. State and local governments were quick to issue bonds, and the private sector was quick to purchase them. As we wait for the Congress to act on a long-term extension of the highway bill, reinstating the Build America Bonds program could help ensure that projects are not terminated or even aborted because of the uncertainty of project funding.

Within the Build America Bond program, Congress established the Recovery Zone Bond Program, with a combined national volume cap of $25 billion. The Commonwealth of Massachusetts was allotted $557 million. Governor Deval Patrick signed Executive Order 514 in October, 2009, officially opening the Recovery Zone Bond program in Massachusetts and identified the existing state Economic Target Areas as Recovery Zones. All the bond allocation controlled by the Patrick-Murray Administration was used, with the Recovery Zone Bond program being most attractive to companies that wanted to rehabilitate or expand their existing facilities.

In Lenox, the Allegrone Company, a family-owned real estate and construction firm that has served the Berkshires for four generations, used a $3 million Recovery Zone Bond issue to acquire, renovate and expand a foreclosed building. The Iredale Mineral Cosmetics company in Great Barrington benefited from a $4.6 million bond issue that enabled it to convert a former elementary school into its new headquarters, expand its staff, and prepare for growth. And Springfield will get a new 72,000 square-foot surgery center and medical office building constructed for Bay State Health Systems with the backing of a $17.8 million bond. Past Congresses considered legislation to enhance the Recovery Zone Bond program so that more jurisdictions would be able to take advantage of them. It makes sense to consider those improvements and extend the Recovery Zone Bond program.

Similar to the New Markets program, the Build America Bond program and Recovery Zone Bond program have had a significant economic impact and have provided the impetus for projects that otherwise might never have gone forward. And most importantly, the programs have proven to be a more efficient means of delivering the tax benefit on state and local borrowings. For these reasons, we strongly urge Congress to extend this important program through December 2013.

Empowerment Zone Bonds

Empowerment Zones were created by Congress in 1993, but it was 1999 before HUD designated an Empowerment Zone in the City of Boston. Along with the designation, Boston received tax-exempt bonding authority in the amount of $130 million. The Empowerment Zone program ended at the end of 2011, after a retroactive extension. As of January, 2012, over 14,000 jobs had been either created or retained in City's Empowerment Zone, a diverse area that includes five neighborhoods. The Newmarket Square district in the neighborhood of Roxbury is an example of how this program transformed a blighted area. Best Western Hotels redeveloped a 150-year old, industrial building into a 92-room hotel that serves the Boston Medical Center. With several other such projects, this area is no longer desolate, but is a thriving local center of commerce. According to a 2010 report on the Boston Empowerment Zone by researcher James Jennings: “A key accomplishment of the Empowerment Zone is the significant, positive change in perceptions about doing business in some areas in this part of the city.”

The same report cites that between 2000 and 2009, the rate of growth in the Empowerment Zone increased by 12.2 percent, far exceeding the 1.5 percent job growth in the rest of the city, and growth rates of per capita income and median household income also outpaced the rest of the city. These are no small accomplishments, and speak to the importance of extending the Empowerment Zones and their bonding authority. Additionally, two other complimentary programs, the Enterprise Community and Renewal Community programs, were terminated at the end of 2010. Many of these areas of economic downturn were located in rural areas, and could benefit from a long-term extension that would ensure certainty to investors in those areas.

The Low Income Housing Tax Credit Program

The successes of the New Markets Tax Credit Program are particularly powerful. But the outcomes generated by the Low Income Housing Tax Credit program are equally powerful. Authorized by Congress in the Tax Reform Act of 1986, the Low Income Housing Tax Credit program was created to spur the development of badly needed affordable rental housing. It has undoubtedly achieved that goal. Since its authorization, the Low Income Housing Tax Credit has created or preserved over 2.5 million units of rental housing. No other federal housing program – and certainly no state-funded housing program – can equal that record. As the House considers tax reform measures in the coming year, we urge that it recognize the tremendous accomplishments of the Low Income Housing Tax Credit program and ensure its continued success.

The Low Income Housing Tax Credit is not just a housing program; it is a significant community development program. The credit creates jobs, restores abandoned or underutilized properties, reclaims urban in-fill sites, and supports retail and commercial opportunities near projects. In fact, the Low Income Housing Tax Credit program is one of the premier community development programs in the country.

Let me provide more detail on community development through the housing credit. As it produces or preserves units, the credit creates jobs – millions of jobs over the life of the program. In Massachusetts alone, credit awards have helped create over 40,000 jobs – and that is just during construction. Once a project has been built or rehabilitated, it creates permanent jobs on site – jobs for property managers, service coordinators, maintenance employees, and office staff.

Administered at the state level by housing credit agencies such as our Department, the program is highly flexible. The credit can be awarded to all kinds of projects: new construction, rehabilitation, and preservation; projects for families, for seniors, for veterans, for persons with disabilities, for individuals with certain needs, for the formerly homeless. The credit can support rental housing that is completely affordable, but it can also support mixed-income rental housing, with affordable units and market units side by side in the same building.

Countless housing credit projects have had major impacts on the neighborhoods in which they are located and have been the catalyst for private investment. It is easy to understand why. Many credit projects involve the rehabilitation of abandoned or underutilized properties that are an eyesore and a blight on the surrounding neighborhood. When abandoned or underused properties are rehabilitated and returned to the tax rolls, the neighborhood improves – and private investors, always alert for opportunities, begin to take notice. This is community development at its best.

In our largest cities, housing credit projects often are built on urban in-fill sites – sites that frequently have become environmental hazards through illegal dumping and other criminal activity. In thousands of American neighborhoods, the tax credit program has brought these sites to life and has helped spur additional investment – retail opportunities or market rate housing -- in the surrounding blocks. This is community development in the truest sense.

Tax credit projects throughout the country feature new office, retail, or commercial space serving residents of the property but also the broader community. In addition, the residents in housing credit projects constitute a ready-made market of new consumers, who often buy from local merchants and support local businesses – major community development goals. Research confirms that a housing project -- an affordable rental housing project – frequently leads to an increase in property values in the surrounding neighborhood. This also is community development.

In Massachusetts, the Department of Housing and Community Development has been the state allocating agency for the credit since the program began. To date, we have awarded tax credits to 574 projects comprising 39,016 units located in every region of the state. Approximately 85 percent of the units are affordable to individuals or households earning no more than 60% of area median income – the target group intended by Congress when the program was authorized 26 years ago. The program serves very needy individuals and families, but it also serves thousands upon thousands of working families. In the Boston metropolitan area, our family tax credit projects are filled with workers often employed in health care, food service, maintenance, small business enterprise, construction, education, transportation. These are not high-paying jobs – often below $50,000 -- but these jobs are in many ways central to the economy.

I also want to highlight another very important aspect of the program: tax credit support for vulnerable populations. The Commonwealth of Massachusetts is very interested in making tax credit awards to projects for homeless veterans. We have just completed a tax credit funding competition and were able to make credit awards to two new veterans' projects. Gordon H. Mansfield Village will be built in a vacant police training academy in Agawam, a small city in Western Massachusetts. The sponsorship entity includes Soldier On – a group that exclusively serves veterans and has extensive experience with homeless veterans. Soldier On operates homeless shelters, job training, financial management training, counseling, and other supportive services that veterans need. When the Agawam project is ready for occupancy, 56 currently homeless veterans will move into newly rehabilitated apartments and will receive support services.

The Agawam project will be Soldier On's second project featuring permanent housing and services for homeless veterans. The first project – also funded by DHCD and other public lenders – is located in Pittsfield, MA, and includes 40 units for homeless veterans. Also called Gordon H. Mansfield, the project has been occupied for almost two years, is highly successful, and has received national recognition.

Our Department also has just awarded tax credits to Pleasant Street, a historic rehabilitation project for homeless veterans located in the central business district in Beverly, one of our smaller cities. Peabody Properties – one of the Pleasant Street sponsors -- has solid experience in developing and managing properties for homeless families and individuals, including homeless veterans. Peabody's management company will work with a local veterans' group – whose offices are just a block away from the project – to ensure the availability of services to the 40 veterans who will move into Pleasant Street sometime next year.

At this time, DHCD is working with three additional veterans' projects whose sponsors intend to seek tax credits as the cornerstone of their financing. On behalf of the Department, I want to tell you that using tax credits to support veterans housing is one of our highest priorities. We are fully committed to serving this population, and the tax credit program allows us to do that.

Let me close with an example of the Low Income Housing Tax Credit supporting high impact community development. As recently as eight years ago, hundreds of deteriorated rental units were clustered in several neighborhoods near downtown Springfield, MA. Some of the projects had been purchased by out-of-state owners who provided minimal management and reacted slowly, if at all, to criminal activity within their properties. These properties were notorious within the larger Springfield community and constituted a drain on public safety resources. The Worthington neighborhood was particularly impacted by these deteriorated projects. Seven years ago, an experienced tax credit developer put together a strong partnership with the city of Springfield and our Department and began assembling resources to acquire, rehabilitate, and manage these properties. With tax credit awards from DHCD, the development entity, First Realty Resources, acquired the first properties and took over management in 2006. As rehabilitation got underway, First Realty's management company focused sharply on changing the behavior of the residents by enforcing rent collections and lease terms. City officials and the police department have been very happy with the results, including a substantial drop in criminal activity in the neighborhood.

With tax credit awards from our Department, First Realty now has finished rehabilitating over 340 units in the Worthington neighborhood. This is a true community development and community revitalization project. The appearance of the neighborhood has changed significantly, as has quality of life for its residents. No program other than the Low Income Housing Tax Credit is powerful enough to support rehabilitation and neighborhood improvement at this scale. This is one of many reasons we ask you to support this program in the years to come.

On a specific matter, we particularly urge Congress to extend the so-called fixed 9% credit, established in the Housing and Economic Recovery Act (HERA) of 2008. When the HERA legislation replaced a floating tax credit rate with the fixed 9% rate, Congress brought consistency and clarity to the program. Developers could predict with much greater accuracy the value of the 9% credit to private investors. Chairman Tiberi and Congressman Neal, we appreciate your leadership on this issue with your introduction of legislation to make the flat 9% credit permanent, H.R. 3661.

While current law expires for properties placed in service after 2013, it has effectively expired already since new allocations of Housing Credits cannot reasonably assume that the property will be built and occupied within the next year and a half. Property developers receiving allocations of credits in Massachusetts and other states must now assume a low credit amount. This has effectively reduced the amount of equity that can be raised for Housing Credit development by almost 20%, making it more difficult to develop this housing. We ask that the fixed 9% rate be extended.

Conclusion

In conclusion, these community development tax credits provide many important benefits. They leverage funds for economic development, community development, and housing. They create jobs, rebuild infrastructure, and they transform distressed neighborhoods. They represent the kind of innovative thinking that is the core of this country's greatness. Again, I urge you to extend these tax credit programs on a long-term basis so that we can use them to continue to build the road to economic recovery. And as you consider ways to streamline and reform the tax code please take into consideration the important contributions that these programs have made, especially while undertaking any base-broadening exercises to lower the top corporate and individual rates.