Testimony – before the Joint Committee on Community Development and Small Business

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Good morning and thank you for the opportunity to be with you today to discuss the Massachusetts Community Development Partnership Act (H.988/S.1427). It is a pleasure to be with you to talk about this important piece of legislation.

My name is Bryce Maretzki and I am currently the Director of Business Development at the Pennsylvania Housing Finance Agency (PHFA). Prior to joining PHFA in April, 2011 I spent seven years at the Pennsylvania Department of Community and Economic Development (DCED) as Director of Policy, Director of Legislative Affairs and in 2009 was appointed Deputy Secretary for Administration. Prior to joining DCED in 2004 I was the Executive Director of the Family Support Policy Board at the University of Pittsburgh and managed a network of 32 community-based centers that focused on revitalizing neighborhoods and helping families with young children to succeed and thrive. Having worked for over twenty years in housing, community and economic development in a variety to non-profit and governmental organizations that included development low income housing, financing comprehensive neighborhood revitalization projects, designing and implementing targeted community development strategies and leading organizations committed to public/private partnerships I bring a deep knowledge of designing and implementing successful housing and community development efforts. (My resume is attached.)

The purpose of my remarks today is to provide relevant contextual information that I hope you will be able to use as you debate the significant merits of H.988 and S.1427. I will be discussing the work done in Pennsylvania with the Neighborhood Assistance Tax Credit Program (NAP) and how it has been a highly creative and successful tool for community development efforts across the Commonwealth of Pennsylvania.

Let me first give you a short summary of the program as originally enacted and then enhanced over the seventeen years.

The original NAP legislation was passed in 1994 (Act 48-1994) as the Neighborhood Assistance Act under Governor Robert Casey to encourage investment by business firms in neighborhoods needing revitalization or stabilization (the statewide program was modeled on the very successful partnership that was established on Philadelphia between Tasty Baking, Inc, maker of Tasty Cakes, and the surrounding neighborhood to make that neighborhood a more attract and prosperous place for workers of the company who were also residents of the neighborhood.)

This purpose is accomplished by awarding neighborhood organizations that propose projects in areas such as housing development, job training, education, crime prevention and community services with tax credits that can be provided to businesses making financial contributions to such projects. A portion of the tax credits are reserved for the promotion of qualified investments by private companies to rehabilitate, expand or improve buildings or land that facilitate community economic development and which in designated Enterprise Zones.

In 2007 the Pennsylvania General Assembly passed Act 55 as an amendment to the Tax Reform Code of 1971 and made significant modifications to the program. Act 55 increased the tax credit rates, increased the cap on contributions for a contributor/investor, extended the credits to businesses that do not pay corporate income tax but pass through their tax liability to individual members or stakeholders (such as subchapter S corporations) and allowed for the sale or transfer of NAP credits. I would recommend that Massachusetts consider adopting a similar set of provision in its legislation as this has turned out to be one of the most used and exciting part of the recent change.

The Neighborhood Assistance Program Tax Credits are broken down into four categories of tax credits, that include;

1) Regular NAP – can be used to support projects by a Neighborhood Organization. These credits must serve a designated Distressed Area or support Neighborhood Conservation. A 55% credit is available for this program.
2) Enterprise Zone – a private company within a distressed area that has been designated as an Enterprise Zone may seek tax credits to rehabilitate, expand or improve buildings or land which promote community economic development. A 25% credit is available for this program.
3) Special Program Priorities – projects that meet “special priorities” designated from time to time by the department may be eligible for tax credits. Current priorities include – community development in rural

communities, affordable housing development, crime prevention and immigrant communities. A 75% credit is available for this program.

4) Neighborhood Partnership Program – the flagship tax program of the NAP. This program is for businesses that make a substantial long-term contribution over a minimum of five years to support affordable housing, community economic development, crime prevention, education job training and neighborhood assistance (75% credit). For a commitment of six or more years an 80% credit is available under this program.

Let me turn now to a short summary of remarkable impact that this program has had on the neighborhoods and residents in those neighborhoods. For the most recent complete reporting year (2009/20010) the Department of Community and Economic Development received 201 applications for over $48 million in requests. From this overwhelming response 49 projects were approved under the various tax credits programs (6 food banks, 32 NPP's and 11 Enterprise Zones). These 49 applications represented $8.77 million in NAP tax credit funds.

Due to budget constraints the department agreed to a two year reduction of funding for this program ($9m in FY 09/10 and $8.1m in FY 10/11). Previously and beginning again in FY 11/12 the program has received $18 million in annual appropriation.

For purposes of this testimony I will focus the balance of my comments on the Neighborhood Partnership Program (NPP) of the Neighborhood Assistance Program.

Since the inception of the program in 1984 nearly $300 million has been invested through the allocation of NAP tax credits that has resulted in nearly $500 million in private funding made available for comprehensive neighborhood development including housing (rental, for-sale, rehabilitation and new construction), job training, micro lending, crime prevention and other community services.

In the Neighborhood Partnership Program (formerly the Comprehensive Services Program) since 2000 there have been 250 “projects/programs” funded through $38.5 million in tax credits that have leveraged $52.4 million in contributions from businesses. The total project funding for these 250 programs has been over $300 million for neighborhood and community development efforts.

The program staff has developed a rigorous set of performance measures for applications and both program and financial monitoring are done to ensure compliance efforts. The DCED and Department of Revenue estimate it costs about $300,000 annually to manage the program, review applications, contracting, tax compliance, credits sales, annual reporting and mentoring for approximately 200 applications that are received.

Additionally, of the roughly 200 applications that are received about 135 to 140 are approved. (These figures have changed in the past few years as the amount of credits to award has fallen.)

It is important to point out that since the legislative changes were made in 2007 the demand for the program has risen significantly. For many years the allocation of credits between the programs was favored the NAP “general” program but since about 2004 and dramatically since 2007 the interest in the NPP has grown. In response to this, and the desire to increase the long-term targeting, leveraging and impact of the credits the department increased the percentage of credits that went toward the multi-year NPP’s. (NPP’s now represent about 60% of the total allocation of credits.)

(Attached is the report from Pennsylvania Legislative Budget and Finance Committee that reviewed this tax credit along with a number of other state tax credits in 2009/2010.) (Also, attached is the most recent, FY 09/10 Neighborhood Assistance Tax Credit Program, Secretary’s Report to the General Assembly.)

The next area I would like to address in my testimony is how and why I feel that the NAP tax credit and specifically the NPP has been such a successful program in Pennsylvania.

The story of the success can be summed up best by William Mills former president of PNC Bank – “if we can help create jobs, support financial literacy programs, help transform struggling neighborhoods into safe communities, provide access to banking services and encourage homeownership then the entire region benefits. It’s responsible, smart investing, and hopefully additional corporations in Philadelphia and throughout the state will recognize the value and get involved.”

Let me also address the critical elements of success for the program. For Pennsylvania what the NAP has achieved is a real testament to public/private partnerships. Yes, companies are able to get a tax write-off, but for many that not the only reason they invest in the neighborhood and in this program. They see this as a vehicle for engaging with a neighborhood where they do business, locate their company and have employees that live there. They are stakeholders in that community and see long-term economic benefit from having the neighborhood thrive and grow.

As this field knows and recognizes the factors that cause and sustain social and economic distress in communities are interrelated and iterative. They often produce a negative synergy where the presence of one problem magnifies or multiplies other problems.

Despite this interconnectedness, communities commonly approach community development in narrow, categorical ways. These approaches frequently lack the critical mass of resources, flexibility and longevity of effort necessary to change the way community's access opportunities and attract investment. The goal of the Neighborhood Partnership Program (NPP) is to foster the development of collaborations among private for profit businesses, nonprofit community development organizations, local government, neighborhood residents and informal civic groups to improve the quality of life in distressed communities. The objective of this collaboration is to produce a comprehensive, asset-based and relationship-driven approach to community development.

This approach, when applied over the long term not only produces an enhanced quality of life in the community, but also builds the capacity of communities to sustain development efforts and to adapt to changing economic and social conditions.

This is clearly a model that works from multiple perspectives. Each taxpayer dollar is rewarded with corporate investments thereby securing a significant leveraging for the program with vigorous vetting by both DCED and Department of Revenue of applications. Communities and neighborhoods are the beneficiaries of new investment and new corporate citizens that become engage in many other ways with residents and organizations. (Increased marketing, in-kind corporate support, employee volunteers, professional expertise and enhanced capacity for revitalization activities are all benefits that accrue to these communities and organizations due to the leveraged use of the credit.)

The importance of increased community engagement by these companies in the "life" of the neighborhood has been remarkable and a real testament to the success of the credit. This same level of engagement is not seen in communities were the tax credit has been used – at least over the longer term. A real benefit of the program has been in helping to create and nurture a cadre of community leaders (both non-profit and corporate) who are able to plan and sustain longer term community revitalization efforts. Without the availability of the tax credit many of the companies would not be making the same level of "social" investment in community leadership as a way to make sure their investment pays off. They have provided crucial support to CDC leaders as mentors, board members, community advocates and champions for the goals of effective neighborhood revitalization. The corporate leaders bring credibility and a business "perspective" that has often been sorely missed in community development thereby making a comprehensive improvement effort sustainable.

The creation and enhanced utilization of the NPP program over the past ten (10) years and really increased since 2007 has allowed for significant, longer term investments in neighborhoods. The department has tried to move away from the one-off, transactional efforts and focus more on developing good plans that engage all residents of a community and then using that plan as a the base for moving forward with strategic investments. But for the NAP/NPP many of these communities would lack the resources for undertaking such comprehensive and sustained revitalization. The use of the credit has brought and kept corporate citizens at the table, has provided necessary resources for CDC's and has been able to leverage significant other public and private investment.

We all know and recognize that turning around a community will not be done in one year, two year or three years but will take many years and often decades to achieve – the NAP is the glue and incentive needed to allow that change to happened in a mindful and productive manner.

The final area I would like to address is the management of the program. As I stated earlier the estimated cost for DCED and Department of Revenue to manage the program is $300,000 annually. The program is really quite simple for both the corporate investor and CDC to keep their costs to a minimum. An application is submitted electronically by the CDC (non-profit) and reviewed by the department. Upon approval a tax credit allocation is awarded to the organization. The corporation that ultimately uses the credit then submits a one-page form to the Dept. of Revenue and a subsequent single page form if they elect to sell the credit. (The current program guidelines, for the "regular" NAP and NPP and corporation forms are attached.)

In conclusion I would like to emphasize the vital role that this tax credit has played in the ongoing community revitalization efforts for Pennsylvania. Without the availability of these credits many neighborhoods would not have undertaken these comprehensive initiatives, companies would not have made this level of unprecedented investment in terms of money, services, and leadership for communities. The real success is the story of engagement and partnership that has been created between CDC's, neighborhood residents and corporations all focused on a shared goal of a stronger and more vibrant community. The NAP has made this possible and continues to be a shining example of partnerships and positive investment for communities.

The Massachusetts proposal has the opportunity to meet many of the same objectives and is in fact a more streamlined and targeted approach to achieving. While the overall dollar amount allocated may be less than Pennsylvania it represents a significant starting point for new investment in community development. The state has a long and rich tradition of supporting housing and community development this new tax credit will engage new partners and quickly become an important part of the arsenal of you have created. It will be most significant in its ability to bring the private sector (corporations, individuals and other investors) to the table as new partners and leaders in an effort to revitalize neighborhoods and ensure the highest level of capacity and quality of community development efforts.

I congratulate the work of this committee and its chair's in moving forward with such a bold and exciting new proposal in the face of trying state economies, for creating a mechanism for finding and sustaining new stakeholders and champions and giving Massachusetts a new tool for communities.

I would be glad to provide any further assistance to the committee or information about the work being done in Pennsylvania as you advance H.980/S.1427 to enactment.