



**Testimony of Joseph Kriesberg
President & CEO
Massachusetts Association of Community Development Corporations
in support of
An Act to Promote High-Impact Community Investment (H.2617 & S.1511)
May 9, 2017**

Good Afternoon, Chairman Brady, Chairman Kaufman and members of the committee. Thank you for the opportunity to appear before you today. On behalf of MACDC's board of directors and members, I am here today to offer our enthusiastic support for An Act to Promote High-Impact Community Investment (H.2617 & S.1511) filed by Senator Sal DiDomenico and Rep. Steve Kulik and 70 other members of the General Court.

This Act would extend and expand the Community Investment Tax Credit for a simple reason: **it is working.**

The CITC has generated nearly \$23 million in private philanthropic investment over the past three years, with a total of nearly 4,500 separate donations to 53 high performing community development organizations.

CITC has also been a gamechanger for these organizations, enabling them to deepen their community engagement, to expand their programming and to increase their impact. In 2016, these organizations engaged nearly 2,000 community leaders to achieve the following results:

- Homes Built or Preserved: 1,195
- Jobs Opportunities Created or Preserved: 3,903
- Small Business Assistance Provided: 717
- Families Served with Housing, Jobs, or Other Services: 70,840
- Invested in Local Communities: \$489.6 million

Equally important, CITC demonstrates that tax credits structured in a way that is consistent with the 2012 Tax Expenditure Commission Recommendations can ensure that public dollars are achieving their intended goals and that those dollars are effectively stewarded.

Indeed, the reason we are here today is precisely because the CITC program is currently scheduled to sunset in 2019, consistent with the recommendation of the Commission to include such a provision for tax credit programs. In 2012 when the law was first adopted, we specifically asked the legislature to include a sunset clause so that we would have both the

opportunity and the responsibility to come back to you now to make the case that the program is worthy of continuation. We are thrilled to have that opportunity today.

In my written testimony, I would like to do three things:

1. Explain how the Community Investment Tax Credit works and how it is benefiting the Commonwealth;
2. Share the results of the program during its first three years;
3. Discuss how the tax credit complies with the recommendations of the Legislature's Tax Expenditure Commission recommendations.

I have also attached to my testimony:

- A copy of the formal Program Evaluation published by Next Street Financial in December 2016;
- Letters written by CDCs explaining how the CITC has enabled them to better serve their communities;

You also will find a wealth of information and documents at www.macdc.org

How does the Community Investment Tax Credit Work?

The CITC entitles a donor to receive a 50% refundable state tax credit if it donates \$1,000 or more to a participating community development corporation or one of the two DHCD-designated community support organizations. The tax credit is available to any taxpayer, including individuals, corporations, and non-profit entities. Donors can also claim a federal tax deduction as allowed under federal law.

CDCs and Community Support Organizations are selected to participate in the program through a competitive process administered by the Department of Housing and Community Development. CDCs must first be state certified as CDCs under MGL Chapter 40H. Community Support Organizations must be able to provide capacity building services to CDCs. Currently, LISC and MACDC are the two CSOs that have been selected.

Tax credit allocations to participating CDCs are based on the scoring of each organization's Community Investment Plan (CIP), a comprehensive, multi-year business plan for community improvement and economic development. DHCD scores and ranks each CIP on a 100-point scale based on its effectiveness in meeting local and state-wide goals for community economic development, defined by the quality of response to the following plan elements:

1. Description of the service area and constituency;

2. Description of how community residents and stakeholders were engaged in the development of the plan and their role in monitoring and implementing the plan;
3. Goals sought to be achieved during the time-period of the plan, including how low- and moderate-income (LMI) households or LMI communities will benefit and how the entire community will benefit;
4. Activities to be pursued to achieve those goals;
5. How success will be measured and evaluated;
6. Description of the collaborative efforts that support implementation of the plan;
7. Description of how the different activities within the plan fit together;
8. Present financial strategy to support these activities;
9. Provide other information regarding the history and track record of the organization as determined by DHCD.

Based on the evaluators' assessment of these elements, CIPs are eligible for awards of \$50,000 to \$150,000 in credits on an annual basis. Each CIP is good for three years at which time the CDC must submit a new CIP. The CDCs have three years to use the credits they receive. Unused credits can be reclaimed by DHCD if they are not used in a timely fashion or if the CDC violates program requirements.

The program supported 38 organizations in 2014, and last week, Lt. Governor Karyn Polito announced 2017 tax credit allocations to 46 groups, bringing the total number of participating organizations to 54 (8 organizations have credits from prior years that they continue to use).

The CITC program also partners with the United Way so that it can reach more donors and provide additional support to CDCs across the state. Each year, CDCs and CSOs can allocate a portion of their tax credits to the United Way to leverage the United Way's broader CITC campaign to raise funds on their behalf. Approximately 30 CDCs have chosen to do this over the years.

I encourage you to watch this 3-minute video that further explains how CITC works:

<https://www.youtube.com/watch?v=Wqt6YyxXwS8>

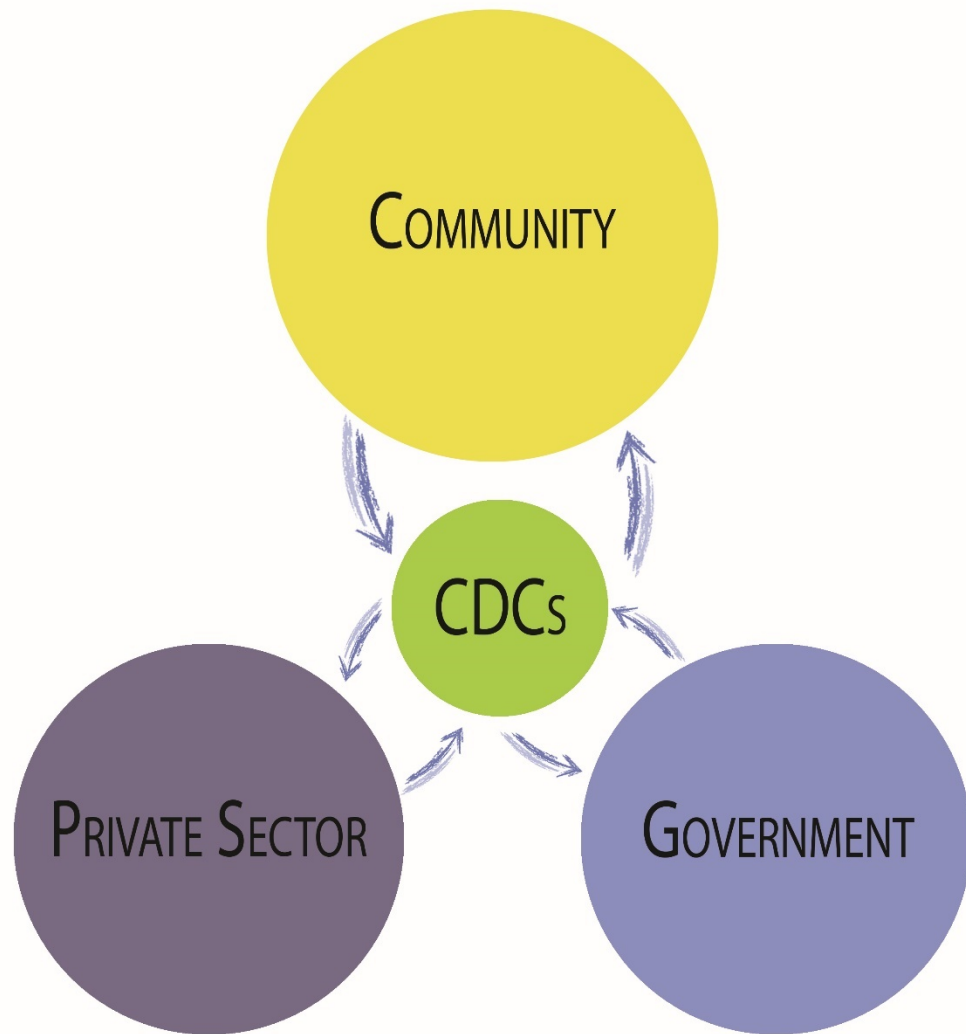
The CITC is an effective way to improve communities and help families across the Commonwealth:

When I appeared before this Committee on October 6, 2011 to make the case for enacting the CITC originally, I argued that it would benefit the Commonwealth in six ways. We believe the evidence is clear that the program has worked as intended. We said then and still believe today that the CITC works well for these reasons:

1. **CITC attacks income and wealth inequality:** Massachusetts has a relatively strong economy, but we struggle with significant income and wealth inequality. That inequality is particularly acute along two dimensions – race and geography. CITC supports high impact community development that spurs economic activity through the creation and preservation of homes, jobs and local businesses. Community development works in precisely those places that are too often left behind by the broader economy whether they be distressed inner city neighborhoods or struggling rural areas. By supporting homeownership and business development among communities of color we also help address the dramatic wealth gap between people of color and the white community. Last year alone, CITC groups generated \$489.6 million in economic activity, helping 70,840 families, 717 businesses and creating or preserving 3,903 jobs.
2. **CITC generates broad community benefits:** By providing families with safe, affordable homes in high quality neighborhoods, CDCs also help advance a broad range of other social goals, including public health, educational attainment, public safety and environmental protection. A few years ago, we commissioned a major research study that looked at how CITC could benefit public health and today we see more and more CDCs working with the health sector to improve community health. And we all know that kids learn better when they have a stable home and parents are better able to obtain and retain a job.
3. **CITC promotes community-driven solutions:** CITC helps community residents, local businesses and other local stakeholders develop and implement locally-devised strategies that meet the needs and takes advantage of the opportunities in their specific local environment. Indeed, this is the basis of the Community Investment Plans developed by the CDCs and a major factor in DHCD’s review and scoring of those plans. The results are market-based, strategic initiatives tailored to local community conditions.
4. **CITC leverages private investment that stays in the community:** A key purpose of this program was to attract new private philanthropy to the community development sector. Over the past three years, this program has generated nearly \$23 million for CDCs across the state. For the state, every dollar of lost revenue has generated \$2 for the community and virtually all this money stays in the community, multiplying its local impact. Over the past two years, CITC organizations generated \$1.2 billion in economic activity while using about \$9.3 million in tax credits to raise \$18.6 million dollars – a leverage ratio of 130-1.
5. **CITC drives resources to high performing organizations:** This program is competitive and performance-driven, with each organization identifying specific outcomes and impacts that they seek to achieve and being held accountable for them. The program institutionalizes best practices that have emerged in recent years – long-term planning, robust community engagement, market-based solutions, strategic-

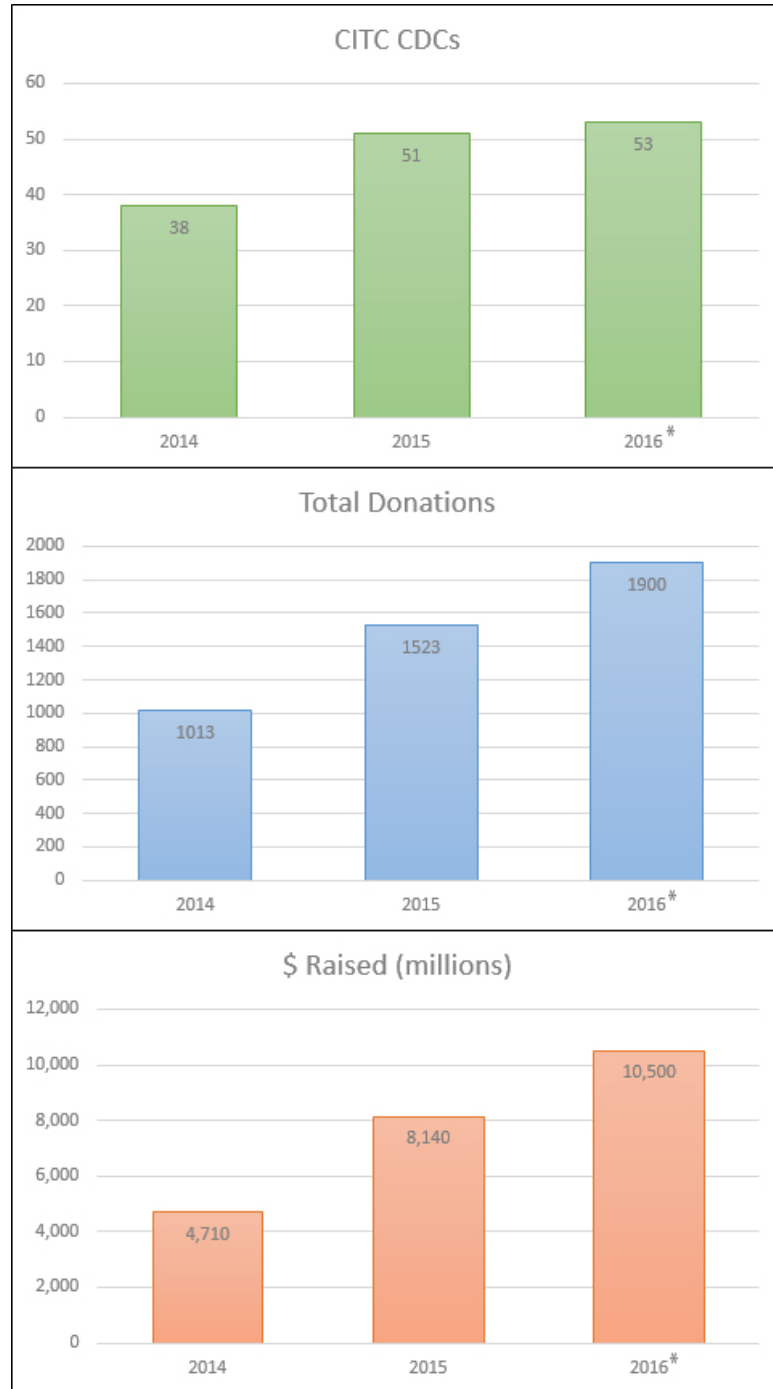
deployment of resources, data-informed decision making, modern communications, collaboration and thorough evaluation.

6. **CITC ensures a high level of accountability:** Organizations that receive tax credits are held accountable to three key constituencies: (1) local community members and leaders, (2) private donors, and (3) the public sector via DHCD. We set it up this way because our research shows that the most effective CDCs in the country are the ones who can work effectively with each of these constituencies and can navigate the tensions that may exist between/among them. Under CITC, only those groups that can do this will receive any new dollars.



The CITC program is getting impressive results

In its first three years, the CITC has proven to be an effective tool at achieving the goals we laid out six years ago. Over the past three years, the program has grown steadily:¹



* - PRELIMINARY DATA

¹ 2016 data is estimated based on DHCD's current information. We expect a few more 2016 donations to be recorded as donors file their paper work in the coming weeks.

The donations have ranged in size from \$1,000 to \$500,000, with over 70% of the donations at \$5,000 or less. According to the evaluation by Next Street Financial, we estimate that 1,316 donors that participated in the first two years were new donors. We estimate that over 90% of donors are either new donors or donors who doubled their prior year contribution because of CITC. CITC is clearly attracting new donors and new money to the field.

We are also pleased to see a wide range of donors participating. In 2014 and 2015, 66 percent of the donors have been individuals. Among business donors, financial services, construction, and real estate have been among the biggest donors. And we have begun to see more and more foundations and non-profits participate, with the biggest contribution to date coming from Bay State Medical Center in Springfield. The United Way has been a major player, raising over \$ 4 million so far that was subsequently distributed to CDCs.

As the program grows, we need to lift both the \$6 million aggregate cap and the \$150,000 organizational cap. More and more CDCs are running out of credits before the year ends and could raise more money if they had more credits. Statewide, the program is now oversubscribed and the problem is going to get worse as more CDCs join the program and they become more and more effective at raising money. We will be missing opportunities to secure more resources and deepen our impact unless we lift those caps soon.

The CDCs are putting this money to good use. According to the Next Street evaluation, these dollars have been transformative for CDCs, enabling them to invest in badly needed infrastructure, hire additional staff, expand existing programs and create new ones. The Next Street evaluation examined this issue and found the following:

- 64% of the CDCs reported an expansion of their organization's goals;
- 81% of the CDCs reported an expansion in organizational activities;
- 83% of the CDCs reported that they increased their internal organizational capacity, which included 61% reporting an increase in program staffing; and
- 89% reported deepening their community engagement through increased Board involvement, increased volunteerism and higher attendance at community events.

We are also collecting data to determine how this new capacity is boosting impact. DHCD has contracted with MACDC to help collect data from all the CITC groups as part of our Growing Opportunities, Assets and Leaders (GOALS) Survey. Each year, we survey the CITC groups in January to collect data across a range of program areas, along with organizational data. This data base will soon be available online for anyone to use, with detailed and comprehensive data available to the public on everything from housing development, to ESOL classes, to staff size, as we are committed to full transparency.

The GOALS survey tells us that in 2015 and 2016, these organizations engaged nearly 2,000 community leaders to achieve the following results:

- Homes Built or Preserved: 2,916

- Jobs Opportunities Created or Preserved: 8,743
- Small Business Assistance Provided: 1,420
- Families Served with Housing, Jobs, or Other Services: 135,054
- Invested in Local Communities: \$1.2 billion

The program is also helping CDCs expand their housing development pipeline: last year CITC groups added 33 projects, with a total of 2,133 units, to the pipeline on top of the 4,203 units that were already in the pipeline.

Of course, the real impact can best be understood by stories, not just numbers. In addition to the CDCs you will hear from today, we have attached letters from CDCs in which they tell their story. As designed, each CDC is using these resources for different, locally-tailored strategies, so it is not easy to aggregate the impact into numbers. But as you will read, the impact is very real nonetheless. Through CITC, CDCs have been offering a broader array of programs and services, including:

- Environmental and open space improvements
- English classes(ESOL) and job training programs in such areas as web design, digital art and design, entrepreneurship courses
- Fresh food access and programming to promote active, healthy living
- Homebuyer education and financial stability workshops
- Community planning and youth programming and engagement

The legislature was also wise to include a strong capacity building element to the CITC program. The statute allows DHCD to designate two CITC Community Support Organization (CSO) specifically to provide support to CDCs participating in the program. MACDC and LISC were designated for that role and play a critical role in helping CDCs accomplish their mission. MACDC has played this role by:

- Providing individual Technical Assistance to the CDCs involved in the CITC program on a wide range of issues from program administration to fundraising to implementation.
- Offering courses through the Mel King Institute for Community Building, which MACDC co-founded and operates. Over the past three years, the Mel King Institute offered 85 courses with 1,491 participants;
- Facilitating peer groups for CDCs across the Commonwealth. Over the past three years, MACDC has facilitated eight peer groups addressing critical topics for our members, such as real estate development, community organizing, and the CITC program;
- Leading statewide CITC donor development and outreach. Over the past three years, MACDC conducted large-group information sessions for prospective donors, led a public relations campaign; hosted a CITC fundraising breakfast with United Way

Massachusetts Bay and Merrimack Valley and LISC Boston; and conducted a donor outreach email campaign;

- Conducting our annual state of the sector report, the GOALS Report. Over the past three years, the GOALS Report has become a critical reporting resource for DHCD's evaluation of program performance;

With a renewed allocation of credits, MACDC's role as a CITC program CSO will continue.

DHCD and DOR are doing an excellent job administering the program

DHCD and the Department of Revenue are jointly responsible for administering this program. From day one, both departments have worked diligently, collaboratively and creatively to ensure the smooth and effective operation of the program. Each year, they have adopted improvements to make the process easier for donors and CDCs (moving from a paper system to a purely online system), while reducing the time and cost for agency staff. These improvements are also helping with data management and transparency. Staff at both agencies have been extremely helpful to donors and CDCs alike, answering questions and helping them with specific problems. DHCD has also done a phenomenal job developing a fair and effective allocation system, with clear criteria, objective scoring metrics and a reasonable time for response. While we hope that DHCD can get onto a regular schedule of issuing the RFP in September or October (as opposed to January or February), we appreciate that they must review many applications in a tight timeframe. And, of course, we are grateful that the program has received such strong support from both Governor Patrick and now Governor Baker.

CITC and the Tax Expenditure Commission

The state's Tax Expenditure Commission issued its recommendations in April 2012 and Governor Patrick signed CITC into law in August 2012. He specifically said that his decision to sign CITC – while simultaneously vetoing three other tax credits included in the same legislation – was because of how well it adhered to those recommendations. Specifically, the CITC was designed to be a model tax credit program. Consistent with the Commission's recommendations, the CITC has the following elements:

1. **Purpose Clause:** The Commission recommends that every tax credit have a clearly stated purpose, so it is possible to evaluate the program's effectiveness in achieving that purpose. The CITC law includes the following: "The purpose of this section shall be to enable local residents and stakeholders to work with and through community development corporations to partner with nonprofit, public and private entities to improve economic opportunities for low- and moderate-income households and other residents in urban, rural and suburban communities across the commonwealth."

2. **Sunset Clause:** As noted before, the reason we are here today is because the program sunsets in 2019. The legislation proposes to extend the sunset to 2025, ensuring that we will need to come back to the Legislature again, in the future, to make our case that the program is worthy of continuation.
3. **Caps:** CITC is capped at \$6 million, thereby providing an upper limit on the program's annual revenue loss. The program also caps individual organizations at \$150,000, and individual donors at \$1 million. We believe the first two caps should be lifted, although, we agree that the program should have caps.
4. **Competitive:** These tax credits are not an entitlement. In fact, they must be earned through a competitive process administered by DHCD with explicit criteria and scoring procedures. This process ensures quality and enables DHCD to annually underwrite each participating organization to ensure that they are using these resources for the intended purpose.
5. **Evaluation:** DHCD, LISC and MACDC jointly commissioned a third-party evaluation last year to assess the efficacy of the program. The report by Next Street Financial found the program to be effective, but also recommended some areas for improvement.
6. **Transparency:** As noted earlier, we are committed to full transparency with respect to the CDCs participating, the money they raise and the work they are doing in the community. In addition, DOR makes available a list of donors who are claiming these credits, so there is full transparency in that respect as well.
7. **Accountability:** DHCD can claw-back tax credits from CDCs that do not use their credits in a timely manner, or violate program rules and regulations. CDCs that fail to perform do not receive new credits until they address these deficiencies.

In conclusion, we ask that you give a favorable report to An Act to Promote High-Impact Community Investment (H.2617 & S.1511). The CITC is a model tax credit program that is working as intended to expand opportunities for places and people across the Commonwealth.