THE CDC TAX CREDIT:
AN EFFECTIVE TOOL FOR
ATTRACTING PRIVATE RESOURCES TO
COMMUNITY ECONOMIC DEVELOPMENT

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The Brookings Institution Center on Urban and Metropolitan Policy would like to thank the Ford Foundation for its support of the Center’s research and policy work on the future of community empowerment. The Center is examining ways in which public policies and private sector actions can better support community development efforts to build and preserve strong neighborhoods. This becomes increasingly important as a number of new challenges (e.g., growing concentrated poverty, welfare reform, continued exodus of jobs and families from central cities) are making it harder for community development corporations, faith-based organizations, and other community-based institutions to effectively serve their neighborhoods -- and the families who reside there. This discussion paper evaluates the effectiveness of a federal demonstration program to help promote community economic development, a tax credit that was enacted in 1993.

ABOUT THE AUTHOR

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I. EXECUTIVE SUMMARY

In 1993, Congress established a pilot program that provided a tax credit for community development corporations (CDCs) to help these nonprofit organizations promote economic development in low-income areas. Under the program, individuals and corporations may claim a credit on their federal income taxes for cash grants and loans made to 20 CDCs selected competitively by the U.S. Department of Housing and Urban Development (HUD). Congress directed that at least eight of the winning groups had to be rural organizations. Each CDC in the demonstration received $2 million in tax credits.

Each year for 10 years, funders who give grants, provide loans or make investments in these CDCs can claim a tax credit equal to 5 percent of the overall amount they provided. If the contribution is a grant, the contributor may claim both the CDC tax credit and the standard income tax deduction for charitable contributions. CDCs must use the money generated from tax credits to create employment and business opportunities for residents of their target areas.

In authorizing this one-time demonstration, Congress followed two well-established precedents. First, the lawmakers encouraged investment in an important national priority – community economic development – through the tax code. And second, Congress sought to gain experience with a pilot before extending the program to more CDCs.

The demonstration shows that the 1993 CDC tax credit can be a very good vehicle for promoting community development and that it should be reauthorized and expanded. The pilot was also useful in showing the modifications that could be made in the tax credit’s present structure to make it more effective.

Tax credits work well in today’s community development environment.

Until a few years ago, the promotion of community economic development in low-income areas had to be financed largely by public sector grants. Tax credits were not a preferred method of stimulating revitalization because most poor communities did not have a strong enough infrastructure of organizations, or sufficient development opportunities, to attract meaningful private sector investment or participation.

The emergence over the past two decades of thousands of nonprofit community development corporations and allied organizations in low-income areas has changed the equation dramatically and ushered in a new era in community development. With the help of a strong corps of national and in some cases local
intermediary organizations, CDCs have developed a solid capacity to undertake community development in partnership with the private sector, even while remaining community-based and controlled. Now, tax credits can be an effective tool for promoting economic activity that engages significant private financial support and that is sensitive to community needs.

Tax credits’ most important advantage is that they engage the private sector directly in community building. The projects or activities undertaken in exchange for tax credits have private-sector discipline, and sponsoring organizations are held accountable for results. Well-structured tax credit transactions typically leverage private investment many times the amount of public funds foregone. Working with private sector partners on tax credit activities can be an excellent way for nonprofits to forge lasting relationships with banks, corporations and other investors whose participation is vital to effective community revitalization.

A prime example of the positive potential of tax credits is the Low Income Housing Tax Credit, enacted as part of the Tax Reform Act of 1986 and made permanent in 1993. The housing credit has increased the nation’s supply of affordable housing by nearly one million units. Housing credit projects have anchored revitalization activities in many communities and primed the pump for further redevelopment. CDCs that sponsor housing credit projects have grown stronger organizationally. The mutual respect and personal relationships created between CDCs and their private sector partners in housing credit transactions have often carried over into other joint community development activities.

The Low Income Housing Tax Credit has become the nation's primary engine for affordable rental housing. Both Congressional leaders and the Administration support its expansion. The housing credit has generated 80,000 -100,000 units each year – plus an estimated 70,000 jobs, $1.8 billion in wages, and $700 million in tax revenues annually.
To be sure, tax credit programs have limitations. The approach is not appropriate for every group or all types of activities. In their initial years of operation, new tax credit programs are not always efficient, since the marketplace needs time to master their complexities. Nor does the use of tax policy to promote community development obviate the need for other grant programs that help community groups build capacity so that they can undertake this complex work.

But, just as the Low Income Housing Tax Credit has spurred substantial private investment in housing, a federal tax credit targeted toward CDC economic development activities can be an important tool for drawing private investment into low-income communities. The timing is right. The ground level network of strong organizations that can make effective use of a tax credit exists. The private sector has demonstrated a willingness to participate. And the neighborhoods themselves are ready, with many now able to sustain economic development over the long term.

Experience with the 1993 CDC tax credit offers valuable lessons.

The 20 CDCs selected to participate in the CDC tax credit demonstration had, as of mid-1998, used the credit to raise about $20 million in private-sector grants, loans and investments for their activities. The majority of those dollars came from banks, and grants accounted for a higher percentage than loans. The funds had been used for a variety of purposes, including economic development loan funds, small business promotion, CDC operations, commercial projects and other development-oriented activities.

CDCs’ experience with the 1993 credit also offers valuable lessons about how the credit could be improved. While a handful of CDCs have had no difficulty finding donors and investors, many have had to invest substantial staff time and resources trying to place their tax credits or design market worthy transactions. Of course, this is to be anticipated with any new program. By mid-1998 – with one year remaining before the CDC pilot tax credit program expires – about half of the eligible CDCs had met their $2 million CDC tax credit limit. As the expiration deadline approaches, CDCs are intensifying their efforts.

Of the CDCs that have raised significant amounts using the CDC tax credit, three received major technical and financial help from the Local Initiatives Support Corporation (LISC), a national community development intermediary. LISC pioneered an innovative limited partnership that made it economically worthwhile for major banks to make contributions and loans in exchange for the credits. Importantly, LISC’s complex limited partnership structure could not have been designed without the active participation of the banks, which were drawn to help because of the mutual trust and respect between them, the CDCs, and LISC.

As structured, the pilot CDC tax credit is primarily designed to attract grants to CDCs. The double benefit allowed for grants – the CDC tax credit plus the standard charitable deduction – is relatively generous. To make it financially feasible to serve low-income residents, CDCs almost always need some grant funds in their projects, combined with market rate loans, investments and other financing. Grants can
also be extremely valuable in helping CDCs build their operational capacity. Consequently, a tax credit designed to generate a larger flow of grants can benefit CDCs by enabling these groups to expand both their community economic development activities and their organizational capabilities.

However, the institutions that CDCs have historically tapped for grants are almost exclusively tax exempt – primarily foundations, government agencies, and religious institutions. For these traditional funders of community development, the CDC tax credit is not a drawing card.

Armed with the CDC tax credit, CDCs could expand their grant raising activities among individuals and institutions with tax liability. But that would require marketing of a kind that has not yet accompanied the pilot credit. Apart from the very limited efforts of some individual CDCs and LISC, marketing of the 1993 CDC tax credit has been virtually non-existent. Without clear direction from the Internal Revenue Service about the tax treatment of grants made in exchange for the CDC tax credit, some potential contributors have shied away, fearing later consequences if their assumptions turn out to be wrong.

The CDC tax credit hasn’t been an easy vehicle for attracting bank loans or other investments, either. Without complex financial structuring of the kind provided by LISC, the rate of return on loans made to get the CDC tax credits is too low to entice a bank or other corporation to lend to CDCs, which are relatively risky, carrying higher than average transaction costs. Now that LISC has created a limited partnership structure, these problems should be easier to address. But more than one CDC leader described a process of finding a bank potentially interested in the credits – and then being shuttled back and forth between a bank’s loan division and its charitable department. Said one CDC executive director: “Some bankers we approached said the tax credits didn’t fit their investment profile and sent us to their charitable contributions division – which then told us it wasn’t a contribution either. And we went around and around.”

The 1993 CDC tax credit can be made more effective.

CDC practitioners offer the following suggestions for improving the effectiveness of the CDC tax credit in promoting economic development in low-income communities.

1. **Undertake a centralized marketing campaign to attract more grant dollars**.

Most CDC practitioners agree that a concerted marketing effort, with participation by the federal government, could draw in new grant dollars to CDCs from individuals and other tax-liable entities, particularly in a strong economy. To be successful, the effort would have to inform and excite a national audience about the positive track record of CDCs and ensure that the relevant federal regulators publicize clear formal guidance about the treatment of the CDC tax credits.

2. **Adjust the tax credit to better reflect today’s emerging market-based approach to community development**.
revitalization and to better attract more loans and investments.

As structured, the pilot CDC tax credit still mirrors the old-style grant approach to community development rather than the decentralized investment orientation reflected in the Low Income Housing Tax Credit. HUD selects the winning groups, not the marketplace. The amount of tax credits that CDCs receive is fixed, not flexible. Continued high performance by the CDC is not required or even rewarded by the pilot CDC tax credit structure. In truth, not all of the 20 CDCs chosen by HUD for the pilot tax credit have exhibited the capabilities to handle complex financing. Nor is $2 million in tax credits necessarily the right amount for every organization. Such factors make the CDC tax credit less attractive to private sector lenders and investors than it could be with relatively slight modifications.

An alternative approach would be to modify the CDC tax credit so that it is better aligned with today’s market-oriented style of community revitalization. Such a tax credit would have the following features:

- **Is Market-Based.** While the selection of the CDCs eligible for the 1993 tax credit was made through a competitive process, the competition was marked by a set of rigid rules. In short, the selection was based on a pre-determined number of winners and a pre-determined size of the tax credit. A market-oriented competition would reward CDCs that have demonstrated capacity and have specific projects or activities in mind. Winners of a more flexible selection process would not be limited to only 20 CDCs but may involve hundreds of CDCs with smaller tax credits, depending again on the identified project or activity. The amount of the tax credit should be determined by the specific financial needs of the project or the activity to be covered, not by a one-size-fits-all statute. Overall, this process would help ensure that the organizations that receive the tax credits have the capacity to effectively carry out the transactions and that their projects and activities satisfy a market threshold. A market-based competitive program for credits of varying amount is a natural outgrowth of the 1993 CDC tax credit demonstration.

- **Promotes Public-Private Partnerships.** One condition of winning tax credits could be that CDCs must secure a contingent financial commitment from one or more private sector partners either to invest jointly with the CDC in any development project for which tax credits are being sought or to participate as a partner or mentor to the CDC for non-project activities to be covered by the tax credits. Such non-project activities might include programs to promote small business growth, home ownership or welfare-to-work transitions, or to enhance CDC operational capacity. The private sector partner or mentor requirement acts as a screen to help ensure recipient groups are capable. Even more important, it fosters the long-term relationships between nonprofits and private companies that have become so vital to community revitalization.

About a dozen states have enacted state tax incentive programs to promote investments, grants and
donations of cash and goods and services to CDCs and related organizations. The state programs have encouraged strong partnerships between the corporate and nonprofit sectors. The best state programs are flexible, well targeted and easily monitored to avoid potential pitfalls in program administration.

Conclusion

The CDC tax credit has significant potential as a tool for community economic development. To realize every bit of this potential, Congress should modify the tax credit’s structure, and reauthorize and expand the 1993 program. Just as the Low Income Housing Tax Credit has spurred billions of dollars of private investment in affordable housing, a federal tax credit targeted toward CDC economic development activities could become a tool for drawing private investment into low-income communities. The private sector has demonstrated a willingness to participate in such transactions. CDCs have developed a solid capacity to undertake community development in partnership with the private sector without losing community control or endangering their local base. Tax credits can promote economic activity that is attractive to private investors and responsive to community needs.

The following paper provides an expanded explanation of the 1993 tax credit for CDCs and Congress’ original intent for the program. Based on interviews with the 20 CDCs qualified to use the tax credit, various community development intermediaries, and other practitioners in the CDC field, this paper reviews the experience of the tax credit program to date and makes recommendations on ways in which the program can be restructured and improved.
II. CDC Tax Credit Background and Use

How the CDC tax credit works

Congress established the CDC tax credit in the Omnibus Budget Reconciliation Act of 1993 as part of its Empowerment Zones/Enterprise Communities initiative. The idea originated with Dennis West, then-president of Eastside Community Investments, a large Indianapolis CDC. West prevailed on then-Representative Andy Jacobs of Indianapolis to introduce the credit to his fellow lawmakers. Under the pilot program, individuals and corporations may claim a credit on their federal income taxes for qualified cash contributions made to any of 20 CDCs selected competitively by HUD.

Congress authorized the tax credit as a one-time demonstration only – meaning that the lawmakers would have to pass additional legislation to extend the program beyond 1999 or to include groups other than the current 20 designees. The program is governed by Section 13311 of Title XIII, Chapter I, Subchapter C, Part II of the Omnibus Budget Reconciliation Act of 1993.

Each participating CDC may offer up to $2 million in credits to any combination of donors and investors. To qualify for the program, a CDC must be a 501(c)(3) tax-exempt charity, and its primary purposes must include promoting employment and business opportunities for individuals who reside in its target area. That target area must meet the geographic designations for an Empowerment Zone or Enterprise Community, have an unemployment rate at or above the national average and have a median family income at or below 80 percent of the locality's median family income. Congress directed HUD to give priority to CDCs with a demonstrated record of performance in administering community development programs that target at least 75 percent of the jobs emanating from their investment funds to low-income or unemployed people.

A funder may provide a loan or other long-term investment, a gift or a Section 170 charitable contribution, and must make the transfer of cash before June 30, 1999. The contribution must be available to the CDC for at least 10 years, and the CDC must designate the contribution as eligible for the credit. Funders can claim a tax credit of 5 percent of their total contribution each year for 10 years. The credit period begins with the taxable year during which the contribution is made. The credit is subject to the general business credit limitations of Section 38 of the IRS Code and, therefore, may not be used to reduce alternative minimum tax. If a CDC grants a credit for a project that is subsequently found not to be in compliance with the authorizing Act, corrective action will be solely against the CDC, not the investor.

CDCs interested in participating applied to HUD, which made its selections based on a point system. The CDCs agreed to submit annual progress reports to HUD for 10 years, detailing all of the programs and activities undertaken with designated contributions, the census tracts within which they took place, the dollar amounts of contributions spent, the number of jobs and/or businesses generated during that time period, and other public and private participating parties including their roles and contributions. This report must be filed
on or before December 31 of each year. There are no other reporting requirements. In the event of any non-compliance, HUD reserved the right to revoke a CDC’s designation at any time.

HUD moved quickly in selecting the CDCs, motivated by a July 1, 1994 deadline. Selection criteria appeared in the request for proposals to participate in the pilot. HUD did not write regulations. Although the CDC tax credit and Empowerment Zones/Enterprise Communities were joined legislatively, neither Congress nor HUD ever linked the two initiatives in practice.

**Intermediaries step in to help implement the CDC tax credit.**

Three of the designated CDCs placed all of their tax credits quickly. Among the first was Southern Dallas Development Corporation, headed by a former Dallas assistant city manager. The CDC struck an agreement with Texas Instruments, which had committed to create new jobs for local residents to compensate for a plant closure. Texas Instruments’ $2 million grant to Southern Dallas Development Corporation in exchange for tax credits fulfilled the company’s job pledge. Two other CDCs – Bethel New Life in Chicago and Urban Edge in Boston – also had no difficulty securing commitments for their $2 million in tax credits. Both groups are experienced organizations, located in cities with aggressive financial institutions and a long tradition of community development activism.

For other CDCs, however, placing the tax credits became a tougher challenge. By 1995, 17 groups still had not raised any meaningful tax credit money, and Congress nearly rescinded the CDC tax credits that had not already been placed. By mid-1997, HUD program administrators concluded that some changes in the tax credit structure would likely be necessary before extending it more broadly. “A review of the most recent annual reports submitted by the CDCs authorized to offer tax credits in exchange for cash contributions reveals at the very least a wide disparity between organizations’ marketing ability -- and probably more acutely an initiative that was born from the wrong premise,” a May 12, 1997 HUD memo stated.

But there were some hopeful signs. The Local Initiatives Support Corporation (LISC), a national community development intermediary, began achieving results with a new limited partnership structure that it designed to place the tax credits. The novel structure overcame the weaknesses of the CDC tax credit as an investment vehicle for banks and major corporations.

Under LISC’s structure, a limited partnership is formed. The National Equity Fund (NEF) – a LISC subsidiary – serves as the one percent managing general partner and the investor is the 99 percent limited partner. The partners make an initial investment. LISC supplies a bridge loan to the partnership for the balance of what will become over time the investor’s full contribution. Structured payments from the investor then finance the repayment of LISC’s loan. In creating the structure, LISC synthesized a credit that resembled the Low Income Housing Tax Credit. One goal was to make the CDC tax credit economically worthwhile for investors by expanding the basis on which the credit can be claimed. LISC’s bridge financing
boosts the yield.

On January 16, 1997, LISC closed its first $2 million CDC tax credit transaction, with Coastal Enterprises, Inc. in rural Maine. KeyBank Corp., a bank with a long relationship with both the CDC and with LISC, worked aggressively to help make the transaction feasible. Transaction time and costs were high, but a structure was eventually crafted that could be replicated. In March 1998, Kentucky Highlands Investment Corporation placed all of its tax credits with Bankers Trust using the LISC structure. A third deal was set to close in mid-1998 for Marshall Heights Community Development Organization in Washington, DC. That CDC appeared likely to place most of its tax credits with NationsBank and Citibank using the LISC structure.

LISC also began working to create a master partnership arrangement with a large national bank to help other CDCs with smaller tax credit transactions. The idea was to create a $6 million - $10 million contributions pool from the bank that would assist about five CDCs that did not have the full $2 million left to place or that lacked sufficient financial strength to provide the collateral needed for a $2 million influx.

LISC deliberately targeted banks in arranging its transactions, mainly because of the Community Reinvestment Act, which requires banks to serve all communities where they have branches and which has drawn in hundreds of millions of dollars of investment to CDC activities. LISC also reasoned that banks would be more comfortable than other corporations with its limited partnership structure involving both a grant and a loan component.

Furthermore, by approaching banks LISC increased the possibility that it could generate some measure of standardization and economies of scale for its structure – thus reducing the very heavy transaction costs and time requirements of these deals. Banks were attracted to the non-recourse feature of the CDC tax credits. Unlike Low Income Housing Tax Credits, which can be taken away for nonperformance, the individual or institution that claims CDC tax credits in exchange for grants or loans can keep the credits even if the CDC fails to perform.

In addition to banks, Prudential Insurance, a company with an aggressive and experienced social investing arm, became interested in the CDC tax credit. Prudential purchased $2 million in tax credits from New Communities Corporation, located in its hometown of Newark, and from New Economics for Women, in Los Angeles. Both transactions were based on the LISC model.

Elsewhere, two CDCs leveraged state tax incentive programs to successfully sweeten the economic appeal of the federal CDC tax credit for investors. Virginia Mountain Housing, located near Roanoke, combined the federal CDC tax credit, which is only applicable to cash contributions, with a state tax credit that also allows write-offs for contributions of real estate, goods and services. First Union bank agreed to contribute. Because Virginia’s tax credit program limits how much corporations can claim in any one year, First Union’s contributions will be made over three years.
And Chautauqua Opportunities Inc., serving a rural county about 50 miles from Buffalo, New York, raised about $100,000 in tax credit contributions by combining the federal CDC tax credit with a state economic development zone program that offers incentives for contributions to groups serving designated lower income areas.
LISC Limited Partnership Draws in Banks

The chart below shows how the LISC structure works for a $2 million investment, created from an initial contribution of $100,000 and a $1.9 million bridge loan.

The CDC receives $2 million from the limited partnership at closing – some as a grant, the rest as a loan, with the precise blend tailored to the specific needs of the CDC and the economic return required by the investor. In this model, the CDC receives $1.2 million as a charitable donation and $800,000 as a 10-year loan, carrying an interest rate that is set to meet the economic needs of the investor and provide attractive capital for the CDC.

The investor receives a tax deduction in the full amount of the charitable donation made by the partnership to the CDC. The investor also receives a 5% tax credit annually for 10 years equal to the total amount invested in the partnership, as well as any interest on a loan from the partnership to the CDC and repayments of the loan principal after the 10th year.

Designing the structure – and implementing three transactions – was highly time intensive. Among the challenges was to figure out how loans to the CDCs from the limited partnership could be collateralized when no specific project secures the transaction. LISC solved this by having the CDCs buy a Certificate of Deposit – using revenues separate from the transaction – to pledge to the partnership as collateral. For CDCs without sufficient cash available to buy a large CD, LISC is also looking at doing smaller loans.
## CDC Usage of the Tax Credit
### (As of May 1998)

<table>
<thead>
<tr>
<th>CDC Name</th>
<th>Contributions, mostly relatively small, have been dedicated to a revolving loan fund that totals over $100,000. This flagship CDC is seeking only grant funds.</th>
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<tr>
<td>Bedford Stuyvesant Restoration Corp.</td>
<td>Bedford Stuyvesant Restoration Corp. 1368 Fulton Street Brooklyn, NY 11216 The full amount has been raised, as follows: A zero interest loan for $1,425,000 A zero interest loan for $200,000 Donations of $100,000 and $275,000 All of this was committed in 1995.</td>
</tr>
<tr>
<td>Bethel New Life</td>
<td>Bethel New Life 367 North Karlov Chicago, IL 60624 Over $500,000 has been raised, with a major portion coming from Key Bank in Buffalo in a phased series of grants. $100,000 of that amount came from combining the federal tax credit with a state economic development zone program. The CDC is negotiating for about $400,000 in additional tax credit contributions, including a potential $200,000 micro loan package from Chase Manhattan Bank.</td>
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<td>Chautauqua Opportunities Inc.</td>
<td>Chautauqua Opportunities Inc. 188 South Erie Street P.O. Box B Mayville, NY 14757 Over $500,000 has been raised, with a major portion coming from Key Bank in Buffalo in a phased series of grants. $100,000 of that amount came from combining the federal tax credit with a state economic development zone program. The CDC is negotiating for about $400,000 in additional tax credit contributions, including a potential $200,000 micro loan package from Chase Manhattan Bank.</td>
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<tr>
<td>Coastal Enterprises, Inc.</td>
<td>Coastal Enterprises, Inc. P.O. Box 268 Wiscasset, ME 04578 After a two year effort, this CDC raised the full $2 million from KeyBank Corp., using the structure designed by LISC, providing $1.2 million as a grant and $800,000 as a loan. Coastal Enterprises is using the money to establish a $1.8 million revolving loan fund for job creating small businesses. Some $200,000 has been set aside over a two-year period to pay for project management costs associated with the lending and job development activities.</td>
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<tr>
<td>Delta Foundation</td>
<td>Delta Foundation 819 Main Street Greenville, MS 38701 This old-line CDC has had a hard time raising tax credit contributions. Southern Development Bancorp had been interested in providing funding, but the deal fell through. Delta has also sought assistance from LISC.</td>
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<tr>
<td>El Pajaro</td>
<td>El Pajaro 318 Main Street, Suite 208 Watsonville, CA 95076 This small CDC has raised about $200,000 in pieces from banks and other groups, including $25,000 from local agricultural growers. El Pajaro had been negotiating with Prudential, but that transaction apparently fell through. LISC was working to help the CDC raise additional tax credit funds.</td>
</tr>
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</table>
Free the Children  
1192 Peabody  
Memphis, TN  38104  
Since raising $100,000 at the end of 1995, this group has not attracted many new contributors. A collaborative effort based in Pittsburgh fell through.

Grasp Enterprises, Inc.  
55 Marietta Street, NW Suite 2000 Atlanta, GA  30303  
The CDC has not raised significant tax credit contributions to date. Prudential is considering a transaction, and LISC is working with the CDC to raise additional funds.

Hough Area Partners in Progress  
8610 Hough Avenue  
Cleveland, OH  44106  
This small organization has raised no significant tax credit contributions. One issue has been CDC staff turnover. The group that applied for and won the HUD designation has departed. LISC is working with Hough Area Partners to approach Cleveland banks, which have tended to look favorably on these kinds of investments. CDC capacity may remain an issue.

Kentucky Highlands Investment Corp.  
P.O. Box 1738  
London, KY  40743  
In March 1998, Kentucky Highlands finally closed a transaction with Bankers Trust in New York City for the full $2 million, using the LISC partnership structure. Considering the strength of the Kentucky Highlands’ balance sheet and its noteworthy track record, this CDC’s difficulties in attracting regional banks was a strong indicator of the hardships rural groups have had in using the CDC tax credit.

Marshall Heights Community Development Organization, Inc.  
3917 Minnesota Ave., N.E., 2nd Floor  
Washington, DC  20019  
This well-respected CDC was poised to close the third partnership transaction structured by LISC. NationsBank is providing $1.2 million; Citibank is supplying a $750,000 loan. This tax credit transaction is fairly unusual in that it is structured around a specific project.

New Community Corp.  
233 West Market Street  
Newark, NJ  07103  
This large CDC placed all of its tax credits with Prudential, using the structure pioneered by LISC.

New Economics for Women  
379 South Loma Drive, Suite One  
Los Angeles, CA  90017  
This CDC placed all of its tax credits with Prudential using the structure pioneered by LISC. Prudential provided $1.2 million as a grant and $800,000 as a 10-year loan.
North Cambia Community Development Corp.
P.O. Box 174
Barnesboro, PA 15714

This CDC has raised contributions from two banks in its area: $30,000 from US National Bank and $6,000 from Portage National Bank. It’s also received $145,325 from PNC Bank of Pittsburgh, which also gave NORCAM a small building. A portion of the contributed capital went into renovations, thus the unusual sum of cash. NORCAM is currently working with LISC to raise additional tax credit funds.

Rural Development & Finance Corp.
711 Navarro Street Suite 350
San Antonio, TX 78205

This CDC has not raised any tax credit funds but is now working with a major bank. It has also sought help from LISC.

Southeast Development, Inc.
10 South Wolfe Street
Baltimore, Maryland 21231

First Union provided a $250,000 grant in exchange for tax credits. Other banks – including Mercantile, Provident and First National -- are reportedly very interested.

Southern Dallas Development Corp.
201 Griffin Street West
Dallas, Texas 75215

This group was among the first CDCs to raise the full $2 million in tax credit contributions. It did so from one corporation – Texas Instruments – which provided the money as a grant to the CDC to create jobs that the company had committed to generate.

Tacolcy Economic Development Corp.
645 N.W. 62nd Street, Suite 300
Miami, Florida 33150

This group raised $50,000 in tax credit contributions. It’s pitching the remaining tax credits to banks for two real estate transactions – a Walgreen’s store and a Winn-Dixie. The CDC has reportedly generated interest from Chase Manhattan Bank and NationsBank.

Urban Edge Housing Corp.
2010 Columbus Avenue
Boston, Massachusetts 02119

This experienced CDC raised the full $2 million with $1,075,000 as grants and the balance of $975,000 as bank loans.

Virginia Mountain Housing, Inc.
930 Cambria Street, N.E. Christiansburg, VA 24073

This rural CDC raised the full amount by combining the federal tax credit with Virginia’s state tax credit program in innovative bundling. First Union bank provided the contributions in three parts. A small community bank also supplied $25,000 using the federal credit.
III. LESSONS LEARNED FROM THE PILOT CDC TAX CREDIT

A lack of aggressive marketing of the tax credit has made it difficult for CDCs to attract a new wave of grant dollars.

Congress intended that the tax credit would generate new grants for community economic development. But from the outset, the designated CDCs found little appetite among traditional community development donors for such grants because the vast majority are already tax-exempt. In addition, the number of corporations with little or no useable tax liability is higher than most CDC leaders initially recognized – until they started asking companies for contributions in exchange for tax write-offs. “We could interest only a modest few whose companies had had a great year,” said a rural director. “And they were only interested in providing us $25,000 or less.”

While individual donors might indeed benefit from the CDC tax credit, most CDCs have never gone to individuals to raise significant amounts and have little experience marketing to this audience. Because the credit was new and because it was unclear how the IRS would treat it for tax purposes, some potential donors were advised by their attorneys to shy away. “The first question out of people’s mouth is ‘will this cause me to be audited,’” said one CDC director. “There are also alternative minimum tax concerns,” he added.

There was no marketing of the CDC tax credit by the federal government and very little, initially, by the national community development intermediaries. As a result, individual CDCs had to try to sell the investment and donor community on the new instrument by themselves. “Once the tax credit passed, nobody became its champion,” said the director of one community development intermediary. “No one publicized it.” The National Congress for Community Economic Development (NCCED) came up with a plan for CDCs to pool their tax credits, with NCCED mounting a national marketing campaign to find athletes and sophisticated investors to purchase them. The initiative never got organized.

Some CDC leaders may have expected to place their credits relatively easily because of their experience with the Low Income Housing Tax Credit. After more than a decade, the housing tax break has spawned a robust industry ready to package, sell, invest in and market the housing tax credits. “I didn’t have to market anything to generate interest in a million-dollar housing tax credit project,” said one CDC director. “But I have to do three or four song and dances to get even a nibble of interest on the CDC tax credit.” Courting potential donors and investors requires even more time, the director said. “First they come to visit and we show them our operations. Then we propose a package. Then there’s a revision to that package. All of this takes months and very intense transaction time from our staff.”

One reason marketing has been so challenging is because the tax credit is a demonstration, and it is unique. “We’re the only group in our state that has this,” said a CDC director. “So when I go to a bank or corporation, they don’t know from federal community development tax credits. They think housing credits or
historic preservation tax credits. There's a high learning curve. And the responsibility is almost totally on the CDC.”

Experience with the CDC tax credit pilot shows that the rural CDCs have had a particularly difficult time placing their tax credits and may need extra marketing assistance in the future. Congress’ requirement that eight winners had to be rural is understandable given the need for economic development in these communities. But most rural CDCs, even the strongest ones, operate in an environment without a high concentration of banks or other financial institutions. Kentucky Highlands Investment Corporation is a prime example. This 30-year-old flagship CDC has an enviable track record and a multi-million dollar fund balance, but it could not find any local banks interested in its tax credits. Finally, Bankers Trust – headquartered 700 miles away in New York City – agreed to do a deal using LISC’s limited partnership structure. Because Bankers’ Trust is meeting the lending needs of the neighborhoods in its own assessment area, CRA regulations allow the bank to get CRA credit for the Kentucky Highlands investment.

The current structure of the CDC tax credit requires CDCs to package complex financial deals in order to make the tax credit economically attractive to major lenders or investors.

One community development finance professional likened each CDC tax credit transaction to “a finely crafted Faberge Egg.” They are great to look at but require much time and expense to put together. That’s because, by itself, return from the CDC tax credit has not been large enough to generate a wave of investments and loans to CDCs. “We haven’t found any financial analysis that says the 5 percent tax credit, coupled with charitable deduction, will motivate many corporate investors. It simply isn’t that big,” noted a representative from a community development finance intermediary. “You can’t sell this on the basis of a return,” added the director of another intermediary.
A major problem is the way the accounting is done. The company making a charitable donation has to take a huge expense deduction in year one on its books, but it must take 10 years to claim the full value of the tax credit. “Having the credit spread over 10 years – even on $2 million – is not substantial enough to attract contributors unless they already are seriously considering such gifts,” HUD’s memo of May 12, 1997 concluded.

Take a simple case where an investor – say it is a bank – is considering making a loan for the full $2 million in tax credits to a qualifying CDC. That bank would receive $100,000 in tax credits annually for 10 years – or the equivalent of 5 percent annual interest. If the bank charges no interest to the CDC for that loan, the bank gets the equivalent of about an 8 percent return, figuring in the after-tax value of the credit. An 8 percent return isn’t bad – but it’s not high enough to motivate banks to lend to nonprofit community groups. The bank could get an acceptable return by charging the CDC interest on the loan of somewhere around 4 percent. But that’s not such a good deal for the CDC.

Another issue became how to collateralize a loan made in exchange for the CDC tax credits. Congress did not require that the tax credits be applied to a designated project. While this gave CDCs more flexibility in the use of funds, some lenders felt uncomfortable considering loans without tangible collateral.

As bankers looked at the CDC tax credit, most immediately recognized that it was designed to generate donations, not investments. But donation decisions are typically made in a different department of a financial institution. Very few CDCs have the connections to most senior-level executives that would permit that kind of conversation. Even if they did, most banks do not make very large donations – and nowhere near the $2 million level. “Financial institutions as a rule don’t have large grant budgets,” said a community development finance expert. “If they make a $25,000 grant, that’s a big deal.”

LISC’s structure overcame the CDC tax credit’s major financial barriers by enabling banks to make a market-worthy investment in a limited partnership created and funded by LISC. In so doing, the intermediary synthesized a structure that looks a lot like the Low Income Housing Tax Credit – which gives the investor the ability to base tax write-offs on the entire cost of the project, not the size of the investment made. As explained in the sidebar above, LISC also solved the collateral problem by requiring its CDCs to buy a Certificate of Deposit – using resources acquired outside of the transaction -- and pledge it to the partnership as collateral.

The LISC model works and can be reused often, but it has been somewhat hard to market. “It takes a unique program and then makes it more complicated,” said one CDC director. “Even though it's of more benefit to the bank – it's hard for the bank staff to digest it.” LISC’s efforts also couldn’t address a related problem: potential bank investors keep merging or consolidating. LISC and the CDCs would start conversations with one group of bankers, trying to explain this difficult credit and how it could be contorted
to work on a financial basis, and then the decision-making power would shift somewhere else.

While having HUD select the winning CDCs may have been appropriate in a demonstration, an expanded CDC tax credit program should use a more flexible and competitive process.

In providing a level playing field in the competition to be chosen as a tax credit eligible CDC, HUD may have unwittingly given too much of an advantage to smaller and younger CDCs without a significant track record. As a result, some CDCs that won didn’t have the background, experience or capability to use $2 million in tax credits. “Any time you award something on proposal writing skills and there’s no chance of taking it away – that’s a danger,” said one CDC practitioner. “We looked more at what the CDCs proposed to do with the money than understanding the structure of how they would get the credit out,” a former HUD official said. “Looking back, that was the wrong way to do it.”

Providing $2 million per group would also not be the optimal approach for the future, most CDC finance experts agree. Some groups can easily handle that amount or more, while others would do better with a much smaller or more flexible designation.
IV. LESSONS FROM RELATED TAX CREDITS

Low Income Housing Tax Credit

The Low Income Housing Tax Credit has become the nation's primary generator of affordable rental housing. The housing credit has facilitated the construction of 80,000 - 100,000 units each year. In addition, it has created about 70,000 jobs, $1.8 billion in wages and $700 million in tax revenues annually. Since 1986, the housing credit has leveraged over $12 billion in corporate investment – much of it from corporations that had not previously invested in affordable housing. Many of the state agencies that administer the Low Income Housing Tax Credit have become highly creative and active in the multifamily housing arena. An April 1997 report from the General Accounting Office found that while some areas needed improvement, especially in program oversight, the housing credit has been very effective in generating new affordable housing for low-income people.

It took a decade for the Low Income Housing Tax Credit to become an efficient instrument for promoting low-income housing. Eventually, its presence spawned the development of a healthy professional infrastructure of private and nonprofit developers, attorney, accountants, appraisers and marketers. Because it is small and a pilot, the CDC tax credit has not created a similar supporting cast. But it presumably could do so if expanded. It might even capitalize on the infrastructure already created to support the housing tax credit.

In 1998, Senators Alfonse D'Amato (R-NY) and Bob Graham (D-FL) introduced legislation that would increase the annual state authority to allocate housing tax credits from the current $1.25 per capita to an inflation-adjusted $1.75 per capita -- a 40 percent increase. The increase would spur the production of an additional 30,000 – 36,000 housing units annually. The bill would index the housing credit for inflation beginning in 1999. Similar legislation is also pending in the House of Representatives. Citing the Low Income Housing Tax Credit as a key to revitalizing America's distressed communities, Vice President Al Gore, on a January 1998 visit to a Chicago neighborhood that had been rebuilt by the housing tax credits, announced the Administration’s support for the 40 percent increase in its FY 1999 budget.
State Tax Credit Programs for Neighborhood Development

About a dozen states have enacted state tax incentive programs to promote investments, grants and donations of cash and goods and services to CDCs and related organizations. These so-called “neighborhood assistance programs” are informative in the context of the federal tax credit program.

Most state tax incentives programs for neighborhood development offer tax credits to businesses and individuals who make cash and non-cash contributions to CDCs. In some cases, buildings, land, computers, office equipment and management and financial services are considered tax-credit eligible donations, as are related contributions that support the CDC’s ongoing work – for example, donations of new appliances for affordable housing units or emergency energy funds to help families pay high fuel bills. In such cases, an independent appraiser typically establishes the value of the non-cash contributions for tax purposes. Most state programs allow tax credits to go to businesses or individuals not only for supporting CDC projects and activities, but also in exchange for providing general operating support to CDCs.

Writing in the January/February 1997 issue of Shelterforce magazine, Carol Wayman, associate director of programs for NCCED, reported that neighborhood assistance programs were operating in 11 states – Connecticut, Delaware, Florida, Indiana, Kansas, Maryland, Missouri, Nebraska, Pennsylvania, Virginia, and West Virginia – with legislation pending in at least two others.

Some states prescribe a minimum contribution in return for the tax credits. Some have a maximum allowable donation, ranging from $25,000 to $500,000. Businesses may usually carry over unused tax credits for up to five years. The community development organization is typically required to submit a report, if not a formal audit, documenting how it used the tax credit eligible contributions. Each state has its own procedures for designating nonprofits that are eligible for tax credit contributions, and for proposal review, project certification, tax credit approval and follow up. The best programs tend to be simple and flexible.

Wayman reports that state tax credits for neighborhood assistance have “created solid and unprecedented partnerships between the corporate and nonprofit sectors.” The best tax credit programs, she advises, are well targeted and easily monitored to avoid potential pitfalls in program administration that can lead to unused or abused programs. The range of services permitted should be relatively wide. To encourage the participation of small businesses, legislation should set low minimum contributions.

In the early 1990s, Congress and community advocates discussed legislation that would provide federal support for state neighborhood assistance programs. Among other features, the legislation would have provided federal matching funds for the administration of state-run programs and adjusted the federal tax code to exempt the state tax credits from federal taxation. While some CDC leaders still support the idea of federal backing for state programs, most would like to see the federal government adopt its own CDC tax
credit program for community economic development.

**Philadelphia Plan enlists major businesses as CDC partners**

Pennsylvania adopted the nation’s first state tax credit program for neighborhood development in 1967. Philadelphia corporations have used that program to create an innovative model of how tax credits can be used to attract major private sector backing for community revitalization.

Under the Philadelphia Plan, begun in 1994, a private business that agrees to become a long term partner with an individual CDC can receive significant tax credits. The business is expected to be a full participant with its CDC partner in community development for at least 10 years – including helping the CDC develop a revitalization plan for its neighborhood. The business is expected to provide financial, accounting, legal, audit and other in-kind support to help the CDC with its management. The private sector partner donates up to $250,000 a year in cash and in-kind contributions to the CDC and, in return, receives a 70 percent state tax credit for eligible donations – or up to $175,000 in state tax write offs.

A dozen CDCs in Philadelphia now have corporate partners under the program. Philadelphia Plan Executive Director Philip Price believes the city could probably support double that number of partnerships but is limited by a $3.25 million state cap on the number of tax credits that can be issued annually. “There are plenty of able CDCs in Philadelphia,” Price says, “and a growing number of corporations that are interested.”

Among the businesses participating in the Philadelphia Plan are the city’s major banks, a box manufacturer, a local utility, Lucent Technologies, Tasty Baking Company and two insurance giants -- Allstate and State Farm. Price and his staff are presently working with Rep. James C. Greenwood (R-PA) to encourage Congress to consider a pilot effort to support state tax credit programs like the one Philadelphia firms have used to help CDCs.

In addition to forging strong relationships between CDCs and their business partners, the Philadelphia Plan is considered a national model because it creatively addresses a thorny problem that many CDCs face: how to enlist longer term support for their core operations and management.

**Community Revitalization Tax Credit**

Legislation is also pending in Congress that would create a Community Revitalization Tax Credit for non-residential real estate projects. That tax credit would provide incentives for private firms that make equity investments in commercial development in lower-income areas. Unlike the Community Revitalization Tax Credit, the CDC tax credit can be used for a much wider range of economic development and operational
activities.

**Community Development Financial Institutions Tax Credit.**

As part of the Administration’s welfare to work initiative, the FY 1998 budget proposed a $100 million credit, to exist between 1997-2006, for investors in a particular type of community development organization known as a Community Development Financial Institution (CDFIs). Although the proposal had similarities to the CDC tax credit, the number of CDFI organizations that could qualify for the tax credit was far smaller than the thousands of CDCs and closely related nonprofit organizations that would be eligible for the CDC tax credit. As initially proposed, an investor could invest up to $1 million in a CDFI and claim the CDFI tax credit, including up to 25 percent of the investment in the year it was made. The Administration did not propose the CDFI tax credit in the FY 1999 budget.
V. OPTIONS FOR GOING FORWARD

Reauthorize and expand the CDC tax credit.

Nearly all of the CDC representatives interviewed for this paper favored a renewal and expansion of the CDC tax credit, with a few important modifications to improve its use. Tax credits encourage a performance-based style of community revitalization that most CDCs welcome. CDCs want a tool that engages the private sector directly in community building – to provide resources, bottom-line discipline, leverage and flexibility. They have come to understand that without significant private sector participation, effective neighborhood revitalization cannot go forward.

A revitalization approach rooted in public-private partnerships might not have been so feasible a decade or so ago. But today, the presence of a strong and capable network of thousands of community development corporations in low and moderate income areas -- and allied intermediary organizations that support them – helps ensure the tax credits will be used well and attract maximum leverage. From a national policy standpoint, too, CDCs are worth investing in. They are community controlled and geographically based in distressed neighborhoods and rural counties. Perhaps their greatest value is that they are an effective point of operational intervention in communities that have typically lost many of their strong and responsible institutions.

Make the CDC tax credit more effective.

CDC practitioners offer the following suggestions for improving the effectiveness of the CDC tax credit in promoting economic development in low-income communities:

1. To attract more grant dollars using the CDC tax credit, undertake a centralized marketing campaign.

The majority of CDC practitioners interviewed for this paper believe that a marketing campaign that includes federal government involvement could draw in new grant dollars to CDCs from individuals and other tax-liable entities, especially now that the economy is booming. The campaign must raise awareness of CDCs’ strong history of success, and it must include clear guidance from relevant federal regulators about the treatment of the CDC tax credits. One recommended approach is to have the marketing campaign sponsored by CDC intermediaries, with the IRS, HUD, and banking regulators providing formal guidance on the tax treatment.

One CDC director recommended the establishment of a national board, with significant private sector representation, to advise on the marketing of the CDC tax credit. “There needs to be serious private sector involvement in the operation of the marketing campaign so we get corporate buy in from the get go,” he said.
2. To attract more loans and investments, adjust the CDC tax credit to better reflect today’s emerging market-based approach to community revitalization.

The pilot CDC tax credit reflects an old-style grant approach to community development, not the decentralized investment orientation reflected in the Low Income Housing Tax Credit. Instead of the marketplace selecting the best groups, HUD does. Instead of a flexible amount of tax credits, determined by their need, CDCs receive a fixed sum. The pilot program did not require a CDC to show continued high performance, nor did it reward high performance. As a result, some of the 20 CDCs chosen by HUD for the pilot tax credit have not been able to handle complex financing. Moreover, not every organization needs or can place $2 million in tax credits. As structured, the CDC tax credit is less attractive to private sector lenders and investors than it could be with slight modifications.

LISC’s limited partnership has effectively bridged the gulf between the CDC tax credit as presently structured and the market requirements of corporate lenders. But this has exacted a high cost in terms of transaction time, staff resources and complexity. As good as the LISC structure is, it would be advantageous also to modify the CDC tax credit so that it addresses some of the market needs of investors before the fact, not after, and is better aligned with today’s market-oriented style of community revitalization. Such a tax credit would have the following features:

*Is Market-Based.* While the selection of the CDCs eligible for the 1993 tax credit was made through a competitive process, the competition was marked by a set of rigid rules. In short, the selection was based on a pre-determined number of winners and a pre-determined size of the tax credit. A market-oriented competition would reward CDCs that have demonstrated capacity and have specific projects or activities in mind. Winners of a more flexible selection process would not be limited to only 20 CDCs but may involve hundreds of CDCs with smaller tax credits, depending again on the identified project or activity. The amount of the tax credit should be determined by the specific financial needs of the project or the activity to be covered, not by a one-size-fits-all statute.
CDC leaders are nearly unanimous in recommending that the eligibility criteria be sharpened to ensure that qualifying CDCs have had considerable experience in economic development and project finance. Such experience will translate into stronger connections with lending institutions and less problems placing the tax credits. If Congress wants less experienced CDCs to be able to use tax credits, the lawmakers may want also to support technical assistance for groups that need help placing their tax credits or structuring complex transactions.

Overall, this modified selection process would help ensure that the organizations that receive the tax credits have the capacity to effectively carry out the transactions and that their projects and activities satisfy a market threshold. A market-based competitive program for credits of varying amount is a natural outgrowth of the 1993 CDC tax credit demonstration.

Finally, Congress could improve the attractiveness of the CDC tax credit to lenders and investors by boosting the rate of return – but this would come at an additional cost in foregone revenues. Investors could find it more economically effective to claim the full value of the CDC tax credit over five years instead of ten. Congress could, of course, also boost the rate of return by increasing the amount of credit that can be claimed.

**Promotes Public-Private Partnerships.** The tax credits could be awarded only to those CDCs that have secured a contingent financial commitment from one or more private sector partners. These partners could either invest jointly with the CDC in any development project for which tax credits are being sought or they could be a partner or mentor to the CDC for non-project activities to be covered by the tax credits, such as programs to promote small business growth, home ownership or welfare-to-work transitions, or to enhance CDC operational capacity. This requirement screens out the groups that are less able to take advantage of the program. More importantly, it fosters the long-term relationships between nonprofits and private companies that have become so vital to community revitalization. The state tax credit programs in general, and the Philadelphia Plan in particular, have been especially successful in encouraging strong partnerships.

Once designated for a tax credit award, the CDC should have a set period of time to formalize the partnership. If it cannot do so, the tax credits could go back into the pool where other groups could compete for them.
**Is Flexible.** The amount of tax credit should be determined by the specific financial needs of the project or the activity to be covered, not by arbitrary legislative language.

**Fills Market Gaps.** To the greatest extent possible, the CDC tax credit should not duplicate existing federal tax incentives but should instead be designed to fill market gaps. Because of the Low Income Housing Tax Credit, Congress should continue to exclude rental housing production from eligibility under the CDC tax credits. A CDFI tax credit, if enacted, would not take the place of the CDC tax credit. Although similar in structure, the CDC tax credit would be available to a far wider number and range of community-based development organizations. The vast majority of community development groups are not CDFIs.

Importantly, the CDC tax credit would not be an economic development analogue to the housing tax credit in the strictest sense. If the CDC tax credit is modified to better respond to private market signals, the two tax credit programs would necessarily share similarities. But community economic development is not as absolute or easily quantified as real estate development. Where the housing tax credit must satisfy very specific outcome requirements – in terms of number of units produced, the income level of people served and the like – the CDC tax credit would need to continue to be much more flexible and ecumenical in its performance criteria.

**Conclusion**

Congress should reauthorize the 1993 CDC tax credit program with modifications in the tax credit’s present structure to make it more effective, because this tax credit can be an excellent way to promote community economic development. A federal tax credit targeted toward CDC economic development activities could become a tool for drawing private investment into low-income communities, along the lines of the way the Low Income Housing Tax Credit has generated billions of dollars of private investment in affordable housing. The private sector has already shown that it is willing to participate in such transactions, and CDCs are now able to enter into partnerships with the private sector and simultaneously maintain their vital community connections. Tax credits can promote economic activity that attracts substantial private investment and, thanks to CDCs, is sensitive to community needs.
APPENDIX 1:  
OMNIBUS BUDGET RECONCILIATION ACT OF 1993: SEC. 13311

Subchapter C – Empowerment Zones, Enterprise Communities, Rural Development Investment Areas, Etc.

Part II – CREDIT FOR CONTRIBUTIONS TO CERTAIN COMMUNITY DEVELOPMENT CORPORATIONS

SEC. 13311. CREDIT FOR CONTRIBUTIONS TO CERTAIN COMMUNITY DEVELOPMENT CORPORATIONS

IN GENERAL.—For purposes of section 38 of the Internal Revenue Code of 1986, the current year business credit shall include the credit determined under this section.

DETERMINATION OF THE CREDIT.—The credit determined under this section for each taxable year in the credit period with respect to any qualified CDC contribution made by the taxpayer is an amount equal to 5 percent of such contribution.

CREDIT PERIOD.—For purposes of this section, the credit period with respect to any qualified CDC contribution is the period of 10 taxable years beginning with the taxable year during which such contribution was made.

QUALIFIED CDC CONTRIBUTION.—For purposes of this section—

IN GENERAL.—The term “qualified CDC contribution” means any transfer of cash—

which is made to a selected community development corporation during the 5-year period beginning on the date such corporation was selected for purposes of this section,

the amount of which is available for use by such corporation for at least 10 years,

which is to be used by such corporation for qualified low-income assistance within its operational area, and

which is designated by such corporation for purposes of this section.

LIMITATIONS ON AMOUNT DESIGNATED.—The aggregate amount of contributions to a selected community development corporation which may be designated by such corporation shall not exceed $2,000,000

SELECTED COMMUNITY DEVELOPMENT CORPORATIONS.—

IN GENERAL.—For purposes of this section, the term “selected community development corporation” means any corporation—

which is described in section 501(c)(3) of such Code and exempt from tax under section 501(a) of such Code,

the principal purposes of which include promoting employment of, and business opportunities for, low-income individuals who are residents of the operational area, which is selected by the Secretary of Housing and Urban Development for purposes of this
section.

ONLY 20 CORPORATIONS MAY BE SELECTED.—The Secretary of Housing and Urban Development may select 20 corporations for purposes of this section, subject to the availability of eligible corporations. Such selections may be made only before July 1, 1994. At least 8 of the operational areas of the corporations selected must be rural areas (as defined by section 1393(a)(3) of such Code).

OPERATIONAL AREAS MUST HAVE CERTAIN CHARACTERISTICS.—A corporation may be selected for purposes of this section only if its operational area meets the following criteria:

  The area meets the size requirements under section 1392(a)(3).
  The unemployment rate (as determined by the appropriate available data) is not less than the national unemployment rate.
  The median family income of residents of such area does not exceed 80 percent of the median gross income of residents of the jurisdiction of the local government which includes such area.

QUALIFIED LOW-INCOME ASSISTANCE.—For purposes of this section, the term “qualified low-income assistance means assistance—

  which is designed to provide employment of, and business opportunities for, low-income individuals who are residents of the operational area of the community development corporation, and which is approved by the Secretary of Housing and Urban Development.
APPENDIX 2:
LETTER TO CDC Awardees

CEO of Urban Designee
Name of Urban Designee
Address
City, State & Zip Code

Dear

I am pleased to inform you that (name of urban designee) has been selected in accordance with Section 13311 of Title XIII, Chapter I, Subchapter C, Part II of the Omnibus Budget Reconciliation Act of 1993 (Public Law 103-66) as one of twenty designated Community Development Corporations (CDCs). As a designated CDC your organization may accept cash contributions from tax-paying entities that in turn may receive a five percent tax credit for their qualified contributions. The total amount of contributions received and designated by a CDC is $2,000,000 and must be received within the five years immediately following the date of this notification.

The aforementioned Law and the Notice published by the U.S. Department of Housing and Urban Development (HUD) in the Federal Register on March 22, 1994 set forth the requirements prescribing the use of qualified contributions and the operational area in which eligible activities and programs may be undertaken.

It is suggested that if you have any questions regarding the qualifications of cash contributions you confer with the Office of the Chief Counsel, Branch 5, of the U.S. Internal Revenue Service or legal counsel qualified to give tax advice.

The operational area you designated in your application will be the prescribed area in which (name of urban designee)’s programs and activities must be undertaken. If any of the census tracts or block numbering areas within that prescribed area do not meet the income limits of eighty percent (80%) of the median family income of the local jurisdiction in which your operational area is located those census tracts or blocks will be considered ineligible and no contributions can be used nor any programs and activities you proposed in your Application to HUD be undertaken in those tracts or numbering blocks. The median family income for census tracts, block numbering areas and local jurisdictions is based on the 1990 decennial census.

If any part of your prescribed operational area includes a census tract that is located in a central business district as described in the 1982 Census of Retail Trade, RC82-C-5, Major Retail Centers in Standard Metropolitan Statistical Areas, that census tract must have a level of poverty of not less that 35 percent of the population or it must be excluded from the operational area. State Data Centers should have information on current designation of most recent Central Business Districts.
In your Application you agreed to submit a progress report no later than December 31 of each calendar year for the ten (10) years following the date of your designation, and you agreed to any review that HUD may deem necessary. The first progress report will be due no later than December 31, 1994.

Those progress reports should include, in detail, all of the programs and activities undertaken with designated contributions, the census tracts within which they took place, the dollar amounts of contributions spent, the number of jobs and/or businesses generated during that time period, and other public and private participating parties including their roles and contributions.

In the event of any non-compliance with a HUD inquiry, HUD reserves the right to revoke a CDC's special designation at any time. Those annual reports should be addressed to the following Office:

The Office of Economic Development  
U.S. Department of HUD  
Room 7136  
Washington, D.C. 20410

Again, congratulations on your designation. If you have any questions on this designation or the reporting process, don't hesitate to call Roy Priest, Director, Office of Economic Development at (202) 708-2290 or Donner Buchet, Director, Community and Economic Development Services division at (202) 708-2290.
Honorable Margaret Milner Richardson  
Commissioner of Internal Revenue  
1111 Constitution Avenue N.W.  
Washington, D.C. 20224

Dear Ms. Richardson:

The Omnibus Budget Reconciliation Act of 1993 authorized the Secretary of the U.S. Department of Housing and Urban Development (HUD) to select 20 Community Development Corporations (CDCs) to entitle them to accept contributions from taxpayers who in turn may receive special tax credits for such contributions. The statute required HUD to select the CDCs receiving this special designation before July 1, 1994. Eight of the organizations selected were required to be in rural areas and twelve in Urban areas.

On March 22, 1994, HUD published a notice in the Federal Register advertising the opportunity for certain nonprofit organizations to request consideration for CDC designation by HUD. Applications were received from 165 organizations by the deadline date of May 16, 1994.

HUD's Office of Community Planning and Development (CPD) evaluated and scored all applications. A representative from the Department of Agriculture assisted with the assessment of the rural applications.

This letter is to inform you that on June 30, 1994 the following CDCs were designated by HUD in accordance with the statute:

Grasp Enterprises, Inc.
55 Marietta Street, NW  
Suite 2000  
Atlanta, GA  30303

Southeast Development, Inc.
10 South Wolfe Street  
Baltimore, MD  21231

Urban Edge Housing Corporation  
2010 Columbus Avenue  
Boston, MA  02119
Bethel New Life, Inc.
367 North Karlov
Chicago, IL  60624

Hough Area Partners In Progress
8610 Hough Avenue
Cleveland, OH  44106

The Southern Dallas Development Corporation
201 Griffin Street West
Dallas, TX  75215

Marshall Heights Community Development Organization, Inc.
3917 Minnesota Ave., N.E., Second Floor
Washington, DC  20019

New Economics For Women
379 South Loma Drive, Suite One
Los Angeles, CA  90017

Free The Children, Inc.
1192 Peabody
Memphis, TN  38104

Tacolcy Economic Development Corp., Inc.
645 N.W. 62nd Street, Suite 300
Miami, FL  33150

Bedford Stuyvesant Restoration Corporation
1368 Fulton Street
Brooklyn, NY  11216

New Community Corporation
233 West Market Street
Newark, NJ  07103

El Pajaro Community Development Corporation
318 Main Street, Suite 208
Watsonville, CA  95076

Kentucky Highlands Community Development Corporation
P.O. Box 1738
London, KY  40743

Coastal Enterprises, Inc.
P.O. Box 268
Wiscasset, ME  04578

Delta Foundation
819 Main Street
Greenville, MS  38701

Chautauqua Opportunities Inc.
188 South Erie Street
P.O. Box B
Mayville, NY  14757

North Cambria Community Development Corporation
P.O. Box 174
Barnesboro, PA  15714

National Rural Development & Finance Corporation
711 Navarro Street
Suite 350
San Antonio, TX  78205

Virginia Mountain Housing, Inc.
930 Cambria Street, N.E.
Christiansburg, VA 24073

If you need more information, please call Roy Priest or Donner Buchet in HUD's Office of Economic Development at (202) 708-2290.