THE NEW COMMUNITY INVESTMENT

TAX CREDIT

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A new law will enable community development corporations in Massachusetts to attract partners and financial supporters and increase the scale of their impact.

For decades, community development corporations (CDCs) in Massachusetts have worked to strengthen lower-income people and places, and success stories abound from the Berkshires to Cape Cod. Now a new state law is giving CDCs an opportunity to raise their accomplishments to an even higher level.

A Bit of History

Thirty years ago residents in Boston's Jamaica Plain neighborhood began talking about what to do with the abandoned Haffenreffer Brewery Complex, which had been sitting vacant and blighted for years. The residents were determined to redevelop the complex as a job center even though many real estate experts told them it was impossible.

Unlike large development companies that could look for opportunities elsewhere, the residents felt they had no choice but to find a way to redevelop the complex and improve their neighborhood. They began to work with the Jamaica Plain Neighborhood Development Corporation, at the time a fledgling CDC, to transform the site brick by brick, job by job, building by building—until in 2009 the final building was finished.[1] Today, the complex is home to more than 50 businesses and 500 jobs, more jobs than the old brewery provided at its peak.

The Jamaica Plain Neighborhood Development Corporation purchased the Blessed Sacrament Church in September 2005 for affordable housing, commerical space, and other community uses.

Photo JPNDC

This story is not unique to Jamaica Plain. In Chelsea, Massachusetts, residents have worked with the Neighborhood Developers to transform the Box District Neighborhood into a vibrant residential, transit-oriented community.

In Franklin County, the CDC has been making loans to aspiring entrepreneurs for more than 20 years and for the past 10 years has helped local farmers, caterers, and restaurants grow their businesses through the state-of-the-art Western Mass Food Processing Center.

On Cape Cod, the Community Development Partnership is working with the Commercial Hook Fishermen's Association to help local fishermen compete in the highly regulated and competitive fishing industry by providing them with advice on business, fishing quotas, and capital.

In Worcester, the Main South CDC has partnered with Clark University on the University Park Neighborhood Restoration Partnership program, which is addressing an array of needs fundamental to the community's well-being, including housing, employment, public safety, recreation, and education.

In Fitchburg and Dorchester and other neighborhoods, residents are working with their CDCs to rebuild local housing markets devastated by the foreclosure crisis.

Throughout the Commonwealth, residents and businesses are working together to expand housing and economic opportunities and improve the quality of life. Whether individual projects are big or small, the aggregate impact is dramatic. Over the past 10 years, thousands of community leaders have worked with and through their CDCs to:

- build or preserve 13,328 homes;
- create or preserve 22,215 job opportunities;
- assist 15,065 entrepreneurs to start, grow, or stabilize their businesses;
- support 288,688 families with housing, jobs, foreclosure-prevention counseling, home-buyer education and other services; and
- attract $2.7 billion in both public and private investment to support their community improvement efforts.

Yes, more than $2 billion of investment—and yet CDCs will soon be doing more.

Greater Opportunities

On August 6, 2012, Governor Patrick signed into law the Community Investment Tax Credit, which will attract $66 million in

The Brewery Complex in the Jamaica Plain neighborhood of Boston was developed over a 30-year period and is now home to 50 businesses and 500 jobs.

Photo JPNDC

The Community Development Partnership on Cape Cod is working with the Commercial Hook Fishermen's Association to help local fishermen compete in the highly regulated and competitive fishing industry.

Photo Abigail Chapman

The Main South Community Development Corporation, in partnership with Clark University, the City of Worcester, and others, built these affordable homes for first-time homebuyers as part of the University Park Neighborhood Restoration Partnership program.

Photo Tammy Woodward Photography

private philanthropy and investment over six years to support high-impact community development initiatives statewide. Set to take effect on January 1, 2014, the tax credit is based on successful laws in several other states, where donation tax credits have leveraged private contributions to support high-performing organizations. The tax-credit program is designed to capitalize on the best practices that have emerged over the 40-year history of community development in Massachusetts, while leveraging innovation and collaboration that can drive increased performance in the future.

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To participate, nonprofit organizations must first be certified by the Department of Housing and Community Development (DHCD) as community development corporations. The certification process is modeled after the Community Development Financial Institutions Act in that it requires the organization to demonstrate that community residents are meaningfully represented on the board of directors and that local community members are engaged in setting and implementing the agenda. The organization must also have a core focus on community development activities and on serving low- and moderate-income people and places. Forty-one CDCs are currently certified, with another 10 to 15 expected to obtain certification in 2013.

Once certified, CDCs will apply through a competitive process to receive an allocation of tax credits from the DHCD. This process will require the CDC to submit a detailed "community investment plan" that outlines its goals, strategies, and capacity for improving economic opportunities for residents. Applicants will have to demonstrate that they have the technical and financial capacity to succeed and will have to describe how they will measure their success. The DHCD will pick the highest-quality applications. The bill sets aside 30 percent for Massachusetts Gateway Cities and 20 percent for rural areas.[2]

Once selected, the groups would use the credits to attract private donations from corporations and individuals. With a 50 percent tax credit, the state's investment will be leveraged dollar for dollar with private investment. The community will then use the new resources to leverage further dollars for specific programs and projects. In 2014 there will be $3 million of tax credits available, and starting in 2015, there will be $6 million in tax credits for each of the next five years. A CDC can receive between $50,000 and $150,000 in tax credits per year for up to three years. Since each dollar of tax credits leverages two dollars in donations, CDCs will have as much as $300,000 in new, flexible, private funding to support their work.

Organizations that receive tax credits will be accountable to three key constituencies—local community members and leaders, private donors, and state government—ensuring that their programs and activities are well designed, effective, and sustainable. CDCs that do not perform as promised will lose their tax credits.

Donors will benefit substantially. In addition to the 50 percent state tax credit, they will receive a federal deduction on their net donation. For some donors, the true cost of the donation may be as low as 32 cents on a dollar, allowing them to give much more. (See "Tax Benefits with the Community Investment Tax Credit.") Banks subject to the Community Reinvestment Act (CRA) will also be eligible for CRA credit.

The Community Investment Tax Credit program is built on a proven, evidenced-based model for sustainable community improvement focused on strengthening civic culture, improving the built environment, and building family assets.

Long-term community development requires people in the public, private, and nonprofit sectors to work together in new ways to achieve shared goals while ensuring that everyone is at the table, including lower-income people and other constituencies who tend to be left out.

As communities come together, local residents and other stakeholders can begin to change their physical environment. New housing, businesses, jobs, parks, and infrastructure can provide people with the stability, safety, and access to opportunity that they need. Effective CDCs have the technical capacity to work with residents to initiate, implement, and oversee complex projects that directly impact people's lives.

Placed-based efforts—the traditional focus of CDCs— can be further leveraged and enhanced by working directly with families and individuals to connect them to new opportunities and build their financial assets. Effective CDCs also are creating innovative partnerships to provide residents with financial education and savings programs, homebuying classes, foreclosure counseling, youth-development initiatives, and other efforts that can change the trajectory of their lives for the better.

As residents gain entry to the economic mainstream, they are better able to participate in the civic life of their communities. Time and again, we see participants in CDC programs become local leaders, helping to pay it forward for the next family and for the entire community as the cycle begins anew.

The Community Investment Tax Credit could not have come at a better time. As our economy slowly recovers, more and more scholars, policymakers, and practitioners are recognizing the power of this model. The Community Investment Tax Credit will provide solid returns to donors, taxpayers, communities, and families. It will spur a new wave of innovation, scale, and impact in the community development field. And best of all, it gives all of us—from wealthy donors to lower-income residents—an opportunity to help every family and community participate in and benefit from our shared economic future.

Tax Benefits with the Community Investment Tax Credit

$10,000	donation
–$5,000	state tax credit
–$1,750	federal tax deduction (based on 35 percent tax rate)
$3,250	net cost to the donor

Total Leverage=3:1

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Endnotes

1 See Sally Swenson and Chris Ney, "Beyond Neighborhood Revitalization," *Communities & Banking* 17, no. 1 (winter 2006), http://www.bostonfed.org/commdev/c&b/2006/winter/beyond.pdf.

2 Gateway Cities are midsize urban centers that anchor regional economies in Massachusetts: Brockton, Fall River, Fitchburg, Haverhill, Holyoke, Lawrence, Lowell, New Bedford, Pittsfield, Springfield, Worcester. See http://en.wikipedia.org/wiki/Massachusetts_gateway_cities.

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