

*THE COMMUNITY DEVELOPMENT FINANCE LAB*

Application to the Lincoln Institute of Land Policy Curriculum Innovation Awards

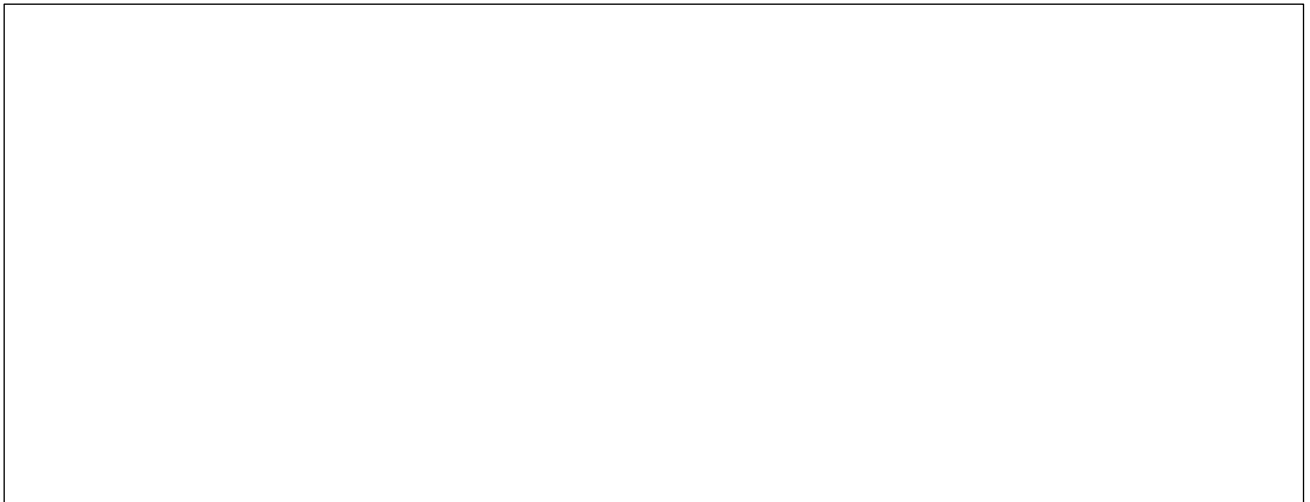
*Proposer:*

*Kevin McQueen, Adjunct Instructor*

*Public and Urban Policy Program*

*Milano School of International Affairs, Management, and Urban Policy*

*The New School*



**Title:** COMMUNITY DEVELOPMENT FINANCE LAB

**Topic and Subtopics:** The Community Development Finance Lab examines project analysis, deal structuring, financing tools, and community capital markets through classroom instruction combined with real-world projects. The course consists of three components:

- 1) Classroom instruction on analysis, underwriting and structuring to build technical skills, with learning modules covering the following topics:
  - a. Community Development Finance Industry Overview and Approaches to Community Development Lending and Investing
  - b. Introduction to Financial Statement Analysis and Deal Structuring
  - c. Underwriting and Deal Structuring of For-Profit, Nonprofit, and Social Enterprises
  - d. Real Estate Finance: Basic Structures
  - e. Introduction to Subsidies and Tax Credit Finance
  - f. Real Estate Finance Using Low-Income Housing and New Markets Tax Credits
  - g. Underwriting and Deal Structuring of Energy Efficiency Projects
  - h. Creating and Measuring Impact: Social Return on Investment
  - i. The Future of Community Development Finance
- 2) Team projects that allow students to work in partnership with community-based organizations to complete feasibility studies and business plans for financing their impact investment and community development projects.
- 3) Lectures by experts on specific finance-related issues, strategies, and techniques provide students with the most cutting-edge and relevant information from the development finance and impact investment fields.

**Learning Goals**

1. Utilize several techniques and approaches to complete a financial statement analysis for an enterprise or real estate project, employing financial ratios and other calculations for assessing liquidity, solvency and management effectiveness, while recognizing the limitations of those techniques and approaches in the evaluation of a project or venture.
2. Through written reports and oral presentations, demonstrate familiarity with the fundamental concepts, tools and techniques of development finance and impact investing, as implemented in local communities within the United States.
3. Formulate the initial underwriting and structuring recommendations for community development investments, through the analysis and evaluation the financial needs of an enterprise or real estate project from the investor's perspective, and thereby demonstrate an understanding of various investment products, key underwriting criteria and structural challenges to accessing capital for community development activities.

4. As a member of a project team, produce a feasibility study or business plan for a community development organization or project, including financial models, new analytic and decision-making frameworks, and executable implementation plans.

**Primary Audience** – Graduate students and upper-level undergraduate students in urban planning, urban policy, nonprofit management, urban design, and architecture.

**Prerequisite Knowledge** - Some prior knowledge of accounting, economics, or finance is helpful but not essential, and many students take this course without having a firm grasp of those subjects. Students seeking to strengthen their financial statement literacy before starting the course are encouraged to complete a self-paced tutorial on financial accounting through the course material available at Harvard Business Publishing –  
(<https://cb.hbsp.harvard.edu/cbmp/product/6002-HTM-ENG>).

### **Summary of the Community Development Finance Lab**

*Learning Objectives* - The Community Development Finance Lab provides a two-semester, practicum-based curriculum where students learn to apply the interdisciplinary skills they have garnered through courses at Milano in policy, planning, public administration and nonprofit management to real-world challenges in community development, nonprofit finance, and impact investing. One of the principal learning objectives of this course is to help students develop competencies in identifying and structuring various sources of capital to launch and/or advance the completion of community economic development projects and strategies and other nonprofit endeavors. In addition, students learn how to craft financially sound, innovative policy solutions, partnerships and cross-sector strategies that address constrictions in the supply of capital for these initiatives. In pursuing these learning objectives, the Community Development Finance Lab adheres to the following principles:

- Equity in policy, planning and development
- Value in the diversity of all communities, and those who live, learn, work and play therein
- Value in social and public benefits as well as financial return
- Opportunity and innovation across public, private and nonprofit sectors

*Materials* – Students in the Community Development Finance Lab can access case studies, selected readings, model spreadsheets and other resources, which are available through Harvard School Business Publishing (<https://cb.hbsp.harvard.edu/cbmp/access/38378378>) or on the course’s website. A bibliography of the materials used in this year’s course appears in the Appendix.

*Instructional Methods* – The Community Development Finance Lab utilizes the following pedagogical approaches in pursuing its learning objectives:

- Lectures – The instructor gives oral presentations on specific topics, combined discussions on the materials covered in the readings.
- Case Study - Students analyze the case and present findings and/or recommendations.

- Reading - Students read assigned course content or review materials to prepare for lectures.
- Excursions – As part of their team projects, students meet with their community partners in the environments where the task is performed.
- Guest Lectures – Seasoned professionals from the development finance and impact investing fields share their perspectives and engage students in a discussion on key issues.

*Assessments* - Direct evidence of the achievement of learning outcomes is obtained from the work produced by students. The students in the Community Development Finance Lab are graded written assignments (Case Analysis Memos), class participation, and a team project. The completion of seven assigned Case Analysis Memos accounts for 30% of a student's grade. The typical assignment includes a Problem Statement with explanation of the quantitative analysis completed, along with the spread sheets used in the work. Students also complete a qualitative narrative for the final case submission, which identifies the key decision criteria, alternative analysis, and recommendations. The entire Case Analysis memo is approximately four, single-spaced pages in length, and must reflect standards generally expected of a graduate-level course. The Instructor provides feedback regarding the content and writing quality. In order to ensure consistency in assessing the learning demonstrated by students, the Community Development Finance Lab employs a scoring rubric (see Appendix).

Furthermore, active engagement is an essential part of the course; therefore, class participation accounts for 25% of the course grade. Students are expected to contribute meaningfully to class discussions and energetically take part in group work. The third portion of a student's grade is the completion of a final project in collaboration with a student team, which accounts for 45% of the course grade. Each student team consists of three to four members, whose work is supervised by the Instructor. Students are expected to: 1) work with the community partner in developing a mutually agreed-upon scope of work, timeline and budget for the project; 2) produce professional quality deliverables for the partner organization within specified timeline; 3) attend meetings with their fellow team members and partner organization as needed throughout project; and 4) produce a final report and presentation for the partner organization.

Indirect evidence of how students have achieved the learning outcomes is obtained through a course evaluation. Students provide feedback on the course through an online survey, and the Instructor relies on the course rating for an assessment of the course content and teaching methods. Without this information, it can be difficult for the Instructor to reflect upon and improve teaching methods and course design. Indirect evidence regarding the achievement of learning outcomes can also come from other indicators, such as job placements. Milano graduates who completed the Community Development Finance Lab are now working in organizations throughout the public, private and non-profit sectors including New York City Housing Preservation and Development, JPMorgan Chase, Fitch's Rating, Ford Foundation, Enterprise Foundation, LISC, Nonprofit Finance Fund, and Corporation for Supportive Housing, to name a few.

### **How the Community Development Finance Lab Fits into a Broader Program of Study**

Since its launch in 2001, the Community Development Finance Lab has embodied The New School's commitment to learning in action, educating graduate students in an array of broad-based community development skills and in-depth knowledge of finance through intensive work with real-world, community-based partners. The Community Development Finance Lab has delivered over 39,300 hours of student engagement with 53 nonprofit groups and public agencies in nine different cities. Additionally, the course helped advance 12 projects beyond the feasibility analysis phase, which eventually led to the construction of four buildings through the leveraging of over \$160 million in public and private investment in blighted communities. Moreover, thanks to a partnership with the Ford and Greater New Orleans Foundations, the faculty of the Community Development Finance Lab successfully replicated this curriculum to the Center for Urban and Public Affairs at the University of New Orleans. The cumulative impact of these activities is to expand the pipeline for future community development professionals and to enhance the capacities of community development finance institutions (CDFIs) and community-based organizations working to spur economic development, add quality affordable housing, increase commercial activity, and advance other initiatives that contribute to stronger communities. As a result of the course's success to date, the Community Development Finance Lab was cited as a successful model for growing the community development finance field by the Opportunity Finance Network.<sup>1</sup>

Moreover, it is in the context of a rapidly evolving financial environment and the struggle of social impact organizations to keep up with these changes that the Community Development Finance Lab can provide value to planning students. The course participants recognize the importance of acquiring financial skills and understanding the policy environment that affects community development and other social impact organizations. Also, the alumni of the Community Development Finance Lab continue to espouse the benefits to their careers that this practicum-based experience gave them, through opportunities for service learning with community partners outside of the classroom.

Lastly, the Community Development Finance Lab fits squarely within the broader academic objectives of The New School, a design-led university where social innovation, civic engagement, and a commitment to developing more effective products, environments, and organizations are core values. At The New School, addressing the complex problems of America's cities engages a range of academic disciplines: architecture, urban design, public policy, development finance, etc. The Community Development Finance Lab brings planning, policy, and finance students together with artists and designers to create replicable design interventions and financial models for a more equitable distribution of economic, political and social benefits across urban communities. Over the past several years, students from the Community Development Finance Lab and design studies at Parsons partnered with community-based nonprofit organizations, and used a combination of art and design thinking, financial analysis and deal-structuring expertise, and policy analysis skills to create innovative

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<sup>1</sup> Opportunity Finance Network, "CDFIs v 2.0: The Vision of a New Generation," December 2011 ([www.liifund.org/wp-content/uploads/2012/01/CDFIv2\\_Paper\\_121311.pdf](http://www.liifund.org/wp-content/uploads/2012/01/CDFIv2_Paper_121311.pdf)).

solutions to underserved neighborhoods in Greensboro (NC), Los Angeles, New Orleans, Orange (NJ), Warren (OH), and Washington, DC.

### **Explanation of Innovative Approach**

The Community Development Finance Lab offers a unique opportunity for graduate and upper-level undergraduate students participate in multi-disciplinary and highly technical educational experience, drawing on Milano's strengths in management and policy, while equipping students with the financial acumen necessary to help move community development and impact investments forward. Through this framework, this course is aligned with the Lincoln Institute's key issues in the area of informality and urban poverty. Like the Institute, the Community Development Finance Lab provides technical assistance that helps communities minimize gentrification and displacement through the employment of development finance and impact investment tools. As a result, the course contributes to the advancement of sustainable economic development and equitable regeneration in struggling postindustrial cities.

To overcome barriers to learning, the course is structured to provide theory and skill building during the first semester, culminating in a project with a community partner organization in the second semester. The theory and skill building focus on real-world applications of LIHTC calculations, cost-benefit analysis, and financial tools. During the first semester, the students complete case study analysis and other challenging assignments. For students experiencing difficulties with the material, the Instructor offers one-on-one instruction outside of class time. This individualized attention students fully grasp the complicated and technical concepts, and helps them translate the course material into real-time solutions.

The innovative approach of the Community Development Finance Lab is found in methodologies that incorporate stakeholder feedback at all stages. Outcomes embody a range of new models for urban life and new practices for collaboration, inspired by local citizens and supported by students of urban planning and design, in an ongoing and generative loop. The students learn to employ financial and business planning interventions to change perceptions and identities and create amenities, catalysts or models for greater civic participation that invite visioning around equitable development. Moreover, one of the objectives of the Case Analysis Memos and the team projects is to imagine multiple financial and business planning interventions and strategies through the adoption of community engagement and participatory research methods.

Furthermore, our approach is signified by a sequence of dynamic interactions that follow a digressive and non-linear path and invite interaction and inflection in a continuous and additive loop. Our projects focus on communities of need, in a range of US postindustrial cities. The methods of social engagement share with other disciplines are listening, empathy, storytelling and narrative. Also, students in the course learn to develop new tools or variations of tools as they seek to understand how best to capture the range of civic interests. The finance and policy students develop business planning interventions and innovative funding strategies. The community partners assess the students' recommendations and suggest alternatives. As a result, the students and the community partners pursue a coordinated strategy that produces a

range of options, in varying scales of inquiry, which reference and support each other and respond to specific assets, needs and desires. Ultimately, this collective work creates financing strategies that address gentrification and displacement, identify opportunities for job creation, and incorporate quality-of-life indicators, such as health, well-being, and food security.

Currently, no other institution of higher education offers a practicum-based community development finance and impact investing course. The most significant comparable experience for students interested in studying these topics is found among several nonprofit organizations that offer training and certification programs in community development finance. For instance, the National Development Council, a national community development organization, offers a four-course program in both economic development and housing development finance that awards participants with a *“Economic / Housing Development Finance Professional”* certification. Similarly, the Council of Development Finance Agencies, a national association of state, county and municipal development finance agencies and authorities and other organizations interested in economic development finance, offers a six-course program that leads to a certification as a *“Development Finance Certified Professional”*. For community development and nonprofit professional seeking a program that provides industry-specific training with a recognizable certification, these programs offer a strong option.

**Academic Years Offered** - The Community Development Finance Lab was first launch in 2001 and has been offered continuously for the past 17 years.

**Course Deliverables** – A detailed syllabus and schedule for the Community Development Finance Lab are attached. Listed below is detailed information on three exemplary modules in the course that showcase instructional methods, materials and assessments:

### **Class One: Community Development Finance Industry Overview and Approaches to Community Development Lending and Investing**

- *Learning Objectives:* The first session will provide an introduction to the community development finance industry. The class will explore the origins of community development finance, CRA legislation, and different organizations that operate in the community development ecosystem. This session also examines the viability of a community development project or mission-driven venture and its strategies within the framework of accounting rules and conventions.
- *Readings Prior To Class:*
  - *“What is the Community Reinvestment Act?” (video)*
  - *“The Community Reinvestment Act: Its Evolution and New Challenges”*
  - *“Effective Strategies for Community Development Finance”*
- *Lecture Notes: Attached*
- *Case Study Analysis Assignment:* “To Understand A Growing Organization: Greater Miami Neighborhoods”- This case study explores the factors that are important in analyzing the health and soundness of a project in a growing nonprofit housing company with multiple program areas.

### **Class Five: Introduction to Subsidy & Tax Credit Finance**

- *Learning Objectives:* This session examines the application of the myriad tax credit programs tax credit programs that exist to help communities create jobs and energize their economies. We will discuss the practical application of tax credit programs including new markets, low-income housing, historic preservation, brownfields, and state-specific programs.
- *Readings Prior To Class:*
  - *"Public Incentives in Community Development"*
  - *"Three Decades of Politics and Failed Policies at HUD"*
- *Lecture Notes: Attached*
- *Case Study Analysis Assignment: "Seeking Neighborhood Revitalization In Philadelphia: Using Tax Credits To Link The Private And Nonprofit Sectors"*- This case study raises the question of whether it is prudent or effective for state government to direct funds toward nonprofits in this way; whether government should facilitate such "tripartite" (public, private, nonprofit) arrangements which could redound to the business advantage of firms; whether public sector involvement in fundraising for nonprofits will support their mission or divert them from it. The case also raises the question of whether the work of nonprofits such as those described in the case can be an effective means of improving distressed neighborhoods and how such improvement could or should be measured.

### **Class Eight: Creating and Measuring Impact: Social Return on Investment, Coalition Building and Community Development**

- *Learning Objectives:* This session is intended to step beyond the traditional measures of financial return and look at double and triple bottom line returns. Students will explore REDF's excel model for measuring social return and will discuss the strengths and weaknesses of the REDF methodology, as well as other potential ways to quantify and measure social impact and incorporate them into traditional financial projections.
- *Readings Prior To Class:*
  - *"REDF's SROI Approach: Key Concepts and Financial Tools"*
  - *"Measuring Impact"*
  - *"Guidelines on Social Return on Investment"*
- *Lecture Notes: Attached*
- *Case Study Analysis Assignment: "Asian Neighborhood Design"* – This case study enables students to analyze the true financial position of a nonprofit enterprise and provides one potential method for quantifying the net social benefits.



## COURSE DELIVERABLES

### **Community Development Finance Lab**

NURP 6009 A; CRN 4643

Fall 2016 / Spring 2017

Friday, 5:00 pm – 7:00 pm

**Instructor:** Kevin McQueen

**Office Hours:** By appointment

#### **Course Description**

The Community Development Finance Lab examines community capital markets through real-world projects and working tools that community development and impact investment professionals can use every day. The course consists of three components: (1) classroom instruction on analysis, underwriting and structuring to build technical skills, (2) lectures by community development finance experts on specific finance-related issues and techniques, and (3) team projects that allows students to work in partnership with community-based organizations to complete feasibility studies or business plans for financing their community economic development projects.

#### **Learning Outcomes**

By the successful completion of this course, students will be able to:

5. Utilize several techniques and approaches to complete a financial statement analysis for an enterprise or real estate project, which employs major ratios and other calculations for assessing liquidity, solvency and management effectiveness, while recognizing the limitations of those techniques and approaches in the evaluation of the venture.
6. Through written reports and oral presentations, demonstrate familiarity with the fundamental concepts, tools and techniques of development finance, as implemented in local communities within the United States.
7. Formulate the initial underwriting and structuring recommendations for community development investments, through the analysis and evaluation the financial needs of an enterprise or real estate project from the investor's perspective, and thereby demonstrate an understanding of various investment products, key underwriting criteria and structural challenges to accessing capital for community development activities.
8. As a member of a project team, produce a feasibility study or business plan for a community development organization or project, including financial models, new analytic and decision-making frameworks, and executable implementation plans.

## COURSE DELIVERABLES

WEEK	DATE	SESSION TOPIC	ASSIGNMENTS
<b>PRIOR TO FIRST CLASS</b>			<p><b>Homework (Post to the "People" section of Canvas):</b></p> <ul style="list-style-type: none"> <li>• A brief biographical statement</li> <li>• Recent headshot</li> </ul> <p><b>READINGS PRIOR TO FIRST CLASS:</b></p> <ul style="list-style-type: none"> <li>• <i>"What is the Community Reinvestment Act?" (See video in "Course Reserves")</i></li> <li>• <i>"The Community Reinvestment Act: Its Evolution and New Challenges"</i></li> <li>• <i>"Effective Strategies for Community Development Finance"</i></li> </ul> <p><b>Due: 9/08@NOON</b></p>
1	9/08/17	<p><b>Class One: Community Development Finance Industry Overview and Approaches to Community Development Lending and Investing</b></p> <p><i>Learning Objectives:</i> The first session will provide an introduction to the community development finance industry. The class will explore the origins of community development finance, CRA legislation, and different organizations that operate in the community development ecosystem. This session also examines the viability of a community development project or mission-driven venture and its strategies within the framework of accounting rules and conventions.</p>	<p><b>Homework:</b> "Greater Miami Neighborhoods"</p> <p><b>Reading for next class:</b></p> <ul style="list-style-type: none"> <li>• <i>"Financial Statement Overview"</i></li> <li>• <i>"Objectives of Financial Statement Analysis"</i></li> <li>• <i>"Tools and Techniques of Financial Statement Analysis"</i></li> </ul> <p><b>Due: 9/22/17</b></p>
2	9/22/17	<p><b>Class Two: Introduction to Financial Statement Analysis</b></p> <p><i>Learning Objectives:</i> This session explores the credit analysis process and various methods for evaluating project performance. These principles are applied, in conjunction with information from the community development capital markets, to a variety of managerial decisions including determining appropriate capital structures and financing choices. Pro forma financial statements for financing decisions will be created using various forecasting techniques.</p>	<p><b>Homework:</b> "Seeking Sustainability - Neighborhood Housing Services of Chicago Faces Financial Challenge"</p> <p><b>Reading for next class:</b></p> <ul style="list-style-type: none"> <li>• <i>"Small Business Lending"</i></li> <li>• <i>"Nothing Ventured, Nothing Gained: Addressing Critical Gaps in Risk-Taking Capital for Social Enterprise"</i></li> <li>• <i>"Collaborators or Competitors? Exploring the Relationships between Community Development Financial Institutions and Conventional Lenders in Small Business Finance"</i></li> </ul> <p><b>Due: 10/13/17</b></p>

## COURSE DELIVERABLES

3	10/13/17	<p><b>Class Three: Deal Structuring and Underwriting of For-Profit, Nonprofit and Social Enterprises</b></p> <p><i>Learning Objectives:</i> In this session, students will learn to analyze and evaluate the financial needs of a for-profit or nonprofit venture or social enterprise or business from the lender's perspective. The topics to be covered include evaluating the financial statements of a venture / enterprise / business; effective financial management practices; the available types of financing; and using financial ratios to analyze financial condition and performance. The session will also introduce the basic financial concepts of time value of money, NPV, IRR and discounted cash flow analysis.</p>	<p><b>Homework:</b> "Aspire, Inc.: Financing Options for Healthier Nonprofits"</p> <p><b>Reading for next class:</b></p> <ul style="list-style-type: none"> <li>• "Factors Used by Lenders to Evaluate Loan Applications"</li> <li>• "Rental Housing Development Finance":             <ul style="list-style-type: none"> <li>• Chapter Two -- The Rental Housing Development Process</li> <li>• Chapter Three -- Lender Underwriting Criteria"</li> </ul> </li> </ul> <p><b>Due:</b> 10/20/17</p>
4	10/20/17	<p><b>Class Four: Real Estate Finance: Basic Structures</b></p> <p><i>Learning Objectives:</i> This session will focus on how to evaluate the financial feasibility of financing multifamily housing and commercial real estate projects. The students will examine analyses of project costs, income and expenses, debt and equity capital structures, and the effective use of "subsidy", as well as learn to perform static and dynamic real estate finance analyses. The class will also review development budgets, create income/expense pro forma and calculate debt capacity, breakeven point and return on investment.</p> <p><b>Client Projects: Introduction</b></p>	<p><b>Homework:</b> "Revere Street"</p> <p><b>Reading for next class:</b></p> <ul style="list-style-type: none"> <li>• "Public Incentives in Community Development"</li> <li>• "Three Decades of Politics and Failed Policies at HUD"</li> </ul> <p><b>Due:</b> 10/27/17</p>

## COURSE DELIVERABLES

5	10/20/17	<p><b>Class Five: Introduction to Subsidy &amp; Tax Credit Finance</b></p> <p><i>Learning Objectives:</i> This session examines the application of the myriad tax credit programs that exist to help communities create jobs and energize their economies. We will discuss the practical application of tax credit programs including new markets, low-income housing, historic preservation, brownfields, and state-specific programs.</p> <p><b>Client Projects: Selection</b></p>	<p><b>Homework:</b> "Seeking Neighborhood Revitalization in Philadelphia"</p> <p><b>Reading for next class:</b></p> <ul style="list-style-type: none"> <li>• "Introduction to Low-Income Housing Tax Credits"</li> <li>• "The Disruption of the Low-Income Housing Tax Credit Program: Causes, Consequences, Responses, and Proposed Correctives"</li> <li>• "Promoting Investment in Distressed Communities: The New Markets Tax Credit Program"</li> <li>• "The New Markets Tax Credit Program: A Midcourse Assessment"</li> </ul> <p><b>Due:</b> 11/03/17</p>
6	11/03/17	<p><b>Class Six: Real Estate Finance Using Tax Credits</b></p> <p><i>Learning Objectives:</i> This session will cover detailed analysis of the following tax credit programs:</p> <p><b>(1) Low Income Housing Tax Credits (LIHTC)</b> -- Students will be provided with an overview and history the tax reforms in 1986 that created the LIHTC program. In addition, students will explore the financial structure of a 4% and 9% deal including rent restrictions, subsidy layering, and calculating the eligible basis and annual credit amount.</p> <p><b>(2) New Markets Tax Credits (NMTC)</b> – Students will analyze this principal financing source for community development real estate transactions including community facilities and mixed-use projects. A brief overview of the creation of NMTC program will be provided.</p>	<p><b>Homework:</b> "LIHTC Model" and "Via Verde"</p> <p><b>Reading for next class:</b></p> <ul style="list-style-type: none"> <li>• "Energy Efficiency Finance 101: Understanding the Marketplace"</li> <li>• "Recognizing the Benefits of Energy Efficiency in Multifamily Underwriting"</li> <li>• "Clean Energy Works Portland: A National Model for Energy-Efficiency Retrofits"</li> </ul> <p><b>Due:</b> 11/17/17</p>

## COURSE DELIVERABLES

7	11/17/17	<p><b>Class Seven: Underwriting and Deal Structuring of Energy Efficiency Projects</b></p> <p><i>Learning Objectives:</i> This session will focus on financial strategies and tools necessary to create a sustainable world through improvements in the energy efficiency of commercial and residential properties. The class will examine the wide range of tools available for financing energy efficiency projects, including bonds, tax credits, revolving loan funds, grant programs, etc.</p>	<p><b>Homework:</b> "Rose Smart Growth Investment Fund"</p> <p><b>Reading for next class:</b></p> <ul style="list-style-type: none"> <li>• "REDF's SROI Approach: Key Concepts and Financial Tools"</li> <li>• "Measuring Impact"</li> <li>• "Guidelines on Social Return on Investment"</li> </ul> <p><b>Due:</b> 12/01/17</p>
8	12/01/17	<p><b>Class Eight: Creating and Measuring Impact: Social Return on Investment, Coalition Building and Community Development</b></p> <p><i>Learning Objectives:</i> This session is intended to step beyond the traditional measures of financial return and look at double and triple bottom line returns. Students will explore REDF's excel model for measuring social return and will discuss the strengths and weaknesses of the REDF methodology, as well as other potential ways to quantify and measure social impact and incorporate them into traditional financial projections.</p>	<p><b>Homework:</b> "Asian Neighborhood Design"</p> <p><b>Reading for next class:</b></p> <ul style="list-style-type: none"> <li>• "How CDFIs Can Best Ride the Impact Investing Wave"</li> <li>• "Coming Out as a Human Capitalist: Community Development at the Nexus of People and Place"</li> </ul> <p><b>Due:</b> 12/15/17</p>
9	12/15/17	<p><b>Class Nine: The Future of Community Development Finance &amp; Semester Wrap-Up</b></p> <p><i>Learning Objectives:</i> This final session examines the most pressing problems that urban communities face, such as continued disinvestment, ongoing housing foreclosures and declines in public funding, and explores that the community development finance field must do to meet these challenges.</p>	
<b>End of the Fall Semester</b>			

## SPRING SEMESTER

WEEK	DATE	TOPIC	
1	01/26/18	Project Team Meetings	

## COURSE DELIVERABLES

WEEK	DATE	TOPIC	
2	02/02/18	Project Team Meetings	
3	02/09/18	Guest Lecturer (Tentative)	To be announced
4	02/16/18	Project Team Meetings	
5	02/23/18	Project Team Meetings	
6	03/02/18	Guest Lecturer (Tentative)	To be announced
7	03/09/18	Project Team Meetings	
8	03/16/18	Project Team Meetings	<b>Project Midpoint Report Due</b>
<b>SPRING BREAK</b>			
9	TBA	Guest Lecturer (Tentative)	To be announced
10	03/30/18	Project Team Meetings	
11	04/06/18	Project Team Meetings	
12	04/13/18	Guest Lecturer (Tentative)	To be announced
13	04/20/18	Final Presentation Rehearsal	
14	04/27/18	Final Presentation Rehearsal	
15	05/04/18	Final Presentations	<b>Final Report Draft Due</b>
16	05/11/18	Course Wrap-Up	
<b><i>End of the Spring Semester</i></b>			

### Course Readings and Materials

All case studies are available for purchase through Harvard School Business Publishing - <https://cb.hbsp.harvard.edu/cbmp/access/38378378>. The required readings, model spreadsheets and other resources will be posted on the New School's Canvas. All completed homework assignments must be posted to Canvas no later than **Noon one day prior to each class session.**

### Course Requirements/Graded Activities

Homework Assignments – Students will be required to produce a Case Analysis for each case study assigned. These memos should be approximately four, single-

## COURSE DELIVERABLES

spaced pages in length, written in a professional (formal) style, and contain the following sections:

- Problem Statement
- Data Analysis
- Key Decision Criteria
- Alternatives Analysis
- Recommendations

The grading of the Case Analysis Memos will reflect the standards generally expected of a graduate-level course. The first semester homework assignments will be graded as A, B, or C, with feedback from the Instructor regarding the content and writing quality. *Late assignments will only be accepted with prior approval, and a grade of F will be given for any assignment not submitted.* The course is designed to prepare students for professional work. As such, all homework assignments will need to reflect professional standards in analysis, presentation, writing and timeliness.

Class Participation -- Class participation is an essential part of the class and includes keeping up with reading, contributing meaningfully to class discussions, active participation in group work, and coming to class regularly, prepared and on time.

Final Projects – This project-centered laboratory gives students an opportunity to work in partnership with nonprofit organizations or government agencies, in conducting feasibility analyses and developing business plans for their programmatic activities and projects. These real-world projects allow the Finance Lab students to examine capital markets and produce working solutions, such as financial models, analytic and decision-making tools, and implementation plans that nonprofit organizations can use every day.

Each student will be assigned to a team consisting of three to four members, whose work will be supervised by the Instructor. Students are expected to: 1) work with the client in developing a mutually agreed-upon scope of work, timeline and budget for the project; 2) produce professional quality deliverables for the partner organization within specified timeline; 3) attend meetings with their fellow team members and partner organization as needed throughout project; and 4) produce a final report and presentation for the partner organization.

### Final Grade Calculation

1. Homework Assignments –	30%
2. Class Participation –	25%
3. Final Project –	45%
<b>TOTAL</b>	<b>100%</b>

## COURSE DELIVERABLES

Final grades of A will be reserved for those students who perform exceptional work on all aspects of the course. Grade of B will reflect adequate graduate school level work. Any grade below a B will be an indication that the student is performing at less than an adequate graduate school level. *Incompletes will be granted only in highly unusual situations and only with prior written request and approval.*

### Online Resources

Community Development Finance Lab YouTube Channel:  
[https://www.youtube.com/playlist?list=PL\\_6uvvSK-TL8hRhyOxzgowkHT8a-PB9TA](https://www.youtube.com/playlist?list=PL_6uvvSK-TL8hRhyOxzgowkHT8a-PB9TA)

### University Resources

The university provides many resources to help students achieve academic and artistic excellence. These resources include:

- ❖ The University (and associated) Libraries: <http://library.newschool.edu>
- ❖ The University Learning Center: <http://www.newschool.edu/learning-center>
- ❖ University Disabilities Services: <http://www.newschool.edu/student-services/student-disability-services>. In keeping with the university's policy of providing equal access for students with disabilities, any student with a disability who needs academic accommodations is welcome to meet with me privately. All conversations will be kept confidential. Students requesting any accommodations will also need to contact Student Disability Service (SDS). SDS will conduct an intake and, if appropriate, the Director will provide an academic accommodation notification letter for you to bring to me. At that point, I will review the letter with you and discuss these accommodations in relation to this course.

### University, Divisional/School, and Program Policies

#### Academic Honesty and Integrity

Compromising your academic integrity may lead to serious consequences, including (but not limited to) one or more of the following: failure of the assignment, failure of the course, academic warning, disciplinary probation, suspension from the university, or dismissal from the university.

The New School views "academic honesty and integrity" as the duty of every member of an academic community to claim authorship for his or her own work and only for that work, and to recognize the contributions of others accurately and completely. This obligation is fundamental to the integrity of intellectual debate, and creative and academic pursuits. Academic honesty and integrity includes accurate use of quotations, as well as appropriate and explicit citation of sources in instances of paraphrasing and describing ideas or reporting on research findings or any aspect of the work of others (including that of faculty members and other students). Academic



## COURSE DELIVERABLES

dishonesty results from infractions of this “accurate use”. The standards of academic honesty and integrity, and citation of sources, apply to all forms of academic work, including submissions of drafts of final papers or projects. All members of the University community are expected to conduct themselves in accord with the standards of academic honesty and integrity.

Students are responsible for understanding the University’s policy on academic honesty and integrity and must make use of proper citations of sources for writing papers, creating, presenting, and performing their work, taking examinations, and doing research. It is the responsibility of students to learn the procedures specific to their discipline for correctly and appropriately differentiating their own work from that of others. Individual divisions/programs may require their students to sign an Academic Integrity Statement declaring that they understand and agree to comply with this policy.

The New School recognizes that the different nature of work across the schools of the University may require different procedures for citing sources and referring to the work of others. Particular academic procedures, however, are based in universal principles valid in all schools of The New School and institutions of higher education in general. This policy is not intended to interfere with the exercise of academic freedom and artistic expression.

Academic dishonesty includes, but is not limited to:

- Cheating on examinations, either by copying another student’s work or by utilizing unauthorized materials
- Using work of others as one’s own original work and submitting such work to the university or to scholarly journals, magazines, or similar publications
- Submission of another students’ work obtained by theft or purchase as one’s own original work
- Submission of work downloaded from paid or unpaid sources on the internet as one’s own original work, or including the information in a submitted work without proper citation
- Submitting the same work for more than one course without the knowledge and explicit approval of all of the faculty members involved
- Destruction or defacement of the work of others
- Aiding or abetting any act of academic dishonesty
- Any attempt to gain academic advantage by presenting misleading information, making deceptive statements or falsifying documents, including documents related to internships
- Engaging in other forms of academic misconduct that violate principles of integrity

## **COURSE DELIVERABLES**

(This is an abridged version of the policy. For the full policy text, which includes adjudication procedures, visit:  
[www.newschool.edu/WorkArea/DownloadAsset.aspx?id=81698](http://www.newschool.edu/WorkArea/DownloadAsset.aspx?id=81698))

### **Attendance**

Note that class participation accounts for **25%** of each student's final grade. For many students, the level and kind of participation makes the difference between a higher and lower final grade at the end of the year. In order to earn a high grade for participation, students should:

- Attend every class during the fall semester
- Arrive at class on time and stay for the entire class
- Read all the assigned readings and come to class with questions about and thoughts on the readings
- Consistently take an active part in class discussions

### **Course Policies**

#### Responsibility

Students are responsible for all assignments, even if they are absent. Late papers, failure to complete the readings assigned for class discussion, and lack of preparedness for in-class discussions and presentations will jeopardize your successful completion of this course.

#### Delays

In rare instances, the Instructor may be delayed arriving to class. If the Instructor has not arrived by the time class is scheduled to start, students must wait a minimum of thirty minutes for his/her arrival. In the event that the Instructor will miss class entirely, a sign will be posted at the classroom indicating the students' assignment for the next class meeting.

### **Optional, Additional Course Information**

#### Student Course Ratings

During the last two weeks of each semester, students are asked to provide feedback for each of their courses through an online survey and cannot view grades until providing feedback or officially declining to do so. Instructors rely on course rating surveys for feedback on the course and teaching methods, so they can understand what aspects of the class are most successful in teaching students, and what aspects might be improved or changed in future. Without this information, it can be difficult for an instructor to reflect upon and improve teaching methods and course design. In addition, program/department chairs and other administrators review course surveys.

# Community Development Finance Lab

## Session Eight: Measuring Social Return On Investment

# Why measure social outputs, outcomes and impacts?

- Improved program management
  - More effective planning
  - More effective evaluation
- Increased understanding of the impact of an organization's work
- Stronger communication of the value of the organization's work to 'the people that matter' (internal and external stakeholders)
- Enhanced attention to the social, economic and environmental value created by organizations and businesses across different economic sectors

# Key Terms

- *Inputs* - resources invested in your activity
- *Outputs* - the direct and tangible products from the activity, i.e., people trained, trees planted, products sold
- *Outcomes* - changes to people resulting from the activity, i.e., a new job, increased income, improved stability in life
- *Impact = Outcomes less an estimate of what would have happened anyway*

## What gets measured? Establishing a *Theory of Change*

- What are the core beliefs / values of the organization, and what circumstances in the world should be preserved or changed?
- Who is the primary customer / client of the organization, and what is it about this constituency that calls the organization to action?
- What is the most effective and practical approach or intervention that will produce the most desired result?
- What will be the results if the selected intervention is successful?

# Ways to Measure Social Value

- **Cost Benefit / Effectiveness Analysis**
  - The most widely used family of tools; counts up costs and benefits, and then applies discount rates. Often used for large public programs.
  - Disagreements about the actual numbers and weightings in the calculation, as well as the conclusions of the analysis.
- **Preferences**
  - *Stated*: Asks people what they would pay for a service or outcome; but often do not correlate with actual behaviors.
  - *Revealed*: Examines the choices that people have actually made to infer the relative worth of different options; few fields have enough usable data.
- **Other Assessment Methodologies**
  - Public Value
  - Value-Added
  - Quality-Adjusted Life Years/Disability-Adjusted Life Years
  - Life Satisfaction
  - Government Accounting

## What is SROI?

- It stands for **Social Return on Investment**
- BOTH Economic and Socio-Economic Values
- Uses True Cost Accounting
- Uses Discounted Cash Flow (DCF) analysis
- *For each dollar invested, what is the resulting benefit to society?*



# Understanding True Cost Accounting

TRUE COST ACCOUNTING	
INCOME STATEMENT	
Sales	\$ 53,830
Cost of Goods Sold	<u>\$ 34,144</u>
Gross Profit	\$ 19,686
Operating Expenses	<u>\$ 11,233</u>
Net Income Before Subsidies and Social Costs	\$ 8,453
Support and Subsidies	\$25,000
Social Operating Expenses	<u>\$ 33,105</u>
Net Income Including Support and Subsidies	<u><u>\$ 348</u></u>

Source: REDF

# Measuring BOTH Types of Value

type of value created	metric	definition
Economic	Enterprise Value	Present value of excess cash generated by enterprise's business operations (excluding social operating expenses and subsidies)
Socio-Economic	Social Purpose Value	Present value of projected social savings and new tax revenue generated by employees of social purpose enterprises less social operating expenses
Socio-Economic	Blended Value	Enterprise Value + Social Purpose Value – Long-term debt

Source: REDF

# Six Stages of SROI Analysis

STAGE 1: CALCULATE ENTERPRISE VALUE

STAGE 2: CALCULATE SOCIAL PURPOSE VALUE

STAGE 3: CALCULATE BLENDED VALUE

STAGE 4: CALCULATE ENTERPRISE INDEX OF RETURN

STAGE 5: CALCULATE SOCIAL PURPOSE INDEX OF RETURN

STAGE 6: CALCULATE BLENDED INDEX OF RETURN

Source: REDF

# Return Calculations

FIGURE 2-3: INDICES OF RETURN

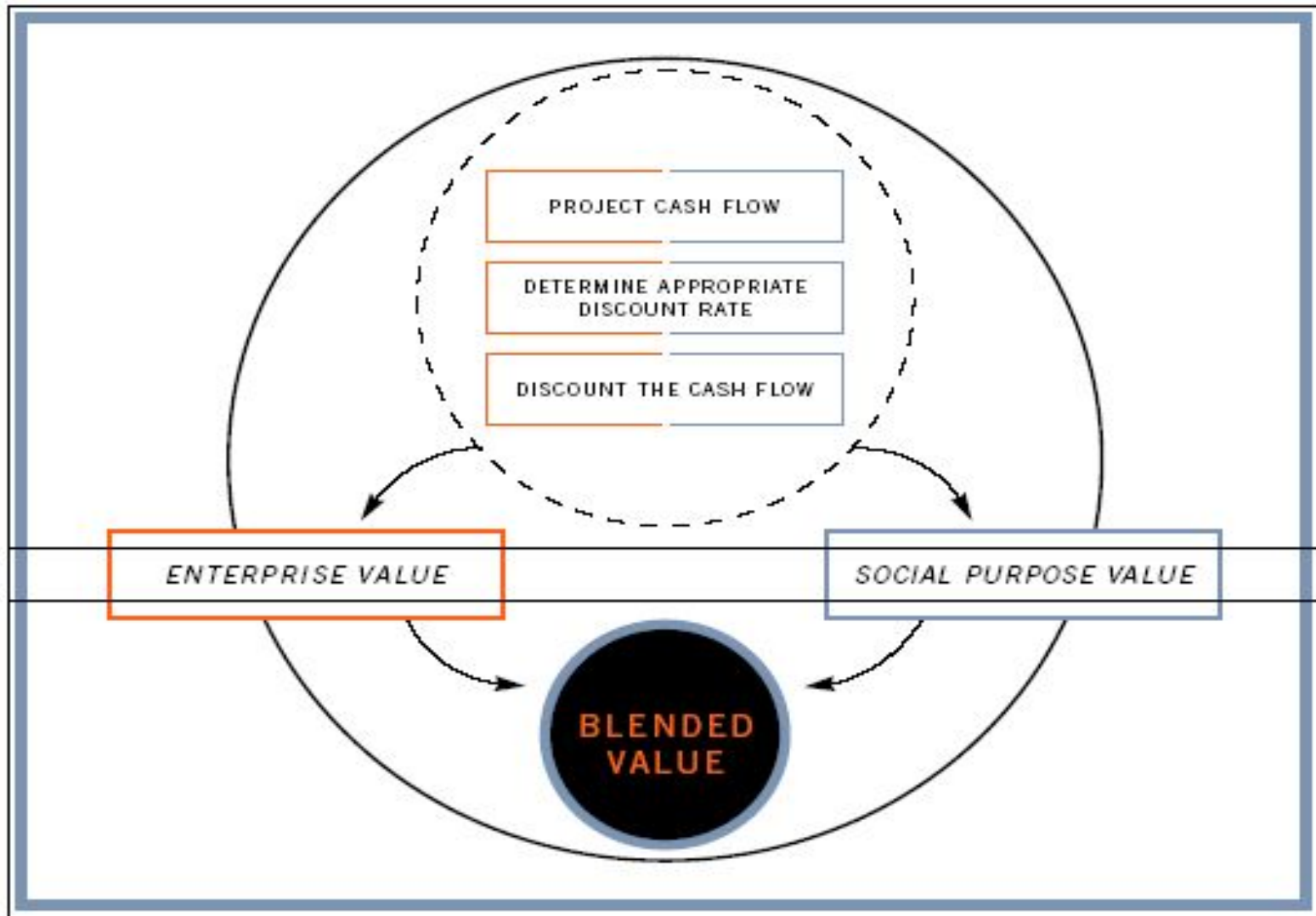
Enterprise Index of Return	-	Enterprise Value / Present Value of Investment to Date
Social Purpose Index of Return	-	Social Purpose Value / Present Value of Investment to Date
Blended Index of Return	-	Blended Value / Present Value of Investment to Date

Source: REDF

# What type of information do you need?

1. **Income Statement** (historical, current and 10 year projections)
2. **Balance Sheet Items** (current and/ or historical years)
3. **Total Outstanding Debt**
4. **Average Cost of Debt** (Industry data)
5. **Economic Data** (Treasury Bond, Municipal Bond Rate)
6. **Debt to Equity Ratio** (Industry data)
7. **Capital Expenditures** (10 year projection)
8. **Social Impact Data**
  - a) **Social Cost Savings**
    - i. **Change in use of public assistance (in actual dollars) on a per employee basis**
    - ii. **Change in use of social service programs on a per employee or per use basis**
  - b) **New Tax Revenue: Change in income on a per employee basis**
  - c) **Expected number of target population employees**

# Blended Value



# As with any model, there are ASSUMPTIONS

Discount rate?

Measuring social cost savings?

What about taxes?

Appropriate time horizon?

Separating the Investment?

Separating the Debt?

**Kevin McQueen**

Adjunct Instructor

Milano School of International Affairs, Management and Urban Policy

# COMMUNITY DEVELOPMENT FINANCE LAB

## SESSION ONE:

# OVERVIEW OF THE COMMUNITY DEVELOPMENT FINANCE INDUSTRY

**THE  
NEW  
SCHOOL**  

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00.00.2015



# What is *Capital*?

## Adam Smith

- Any relatively durable thing or attribute that leads to the satisfaction of wants, which has existed since the dawn of humanity and is not confined to any ***specific mode of production***

## Karl Marx

- The productive factors under circumstances where workers are employees and do not own the ***material means of production***

## Max Weber

- The ***money value*** of tangible and intangible assets owned by the person or firm, which in principle can be used as collateral and serve to buy or hire resources to ***produce goods or services*** for commodity exchange

# Key Characteristics of *Capital*

1. Its use rights **can be owned or hired**
2. It **can be sold** with all rights of ownership transferred to the purchaser
3. Its value is **measurable**
4. It has a price formed in the **market**
5. It can be used as **collateral to borrow money**

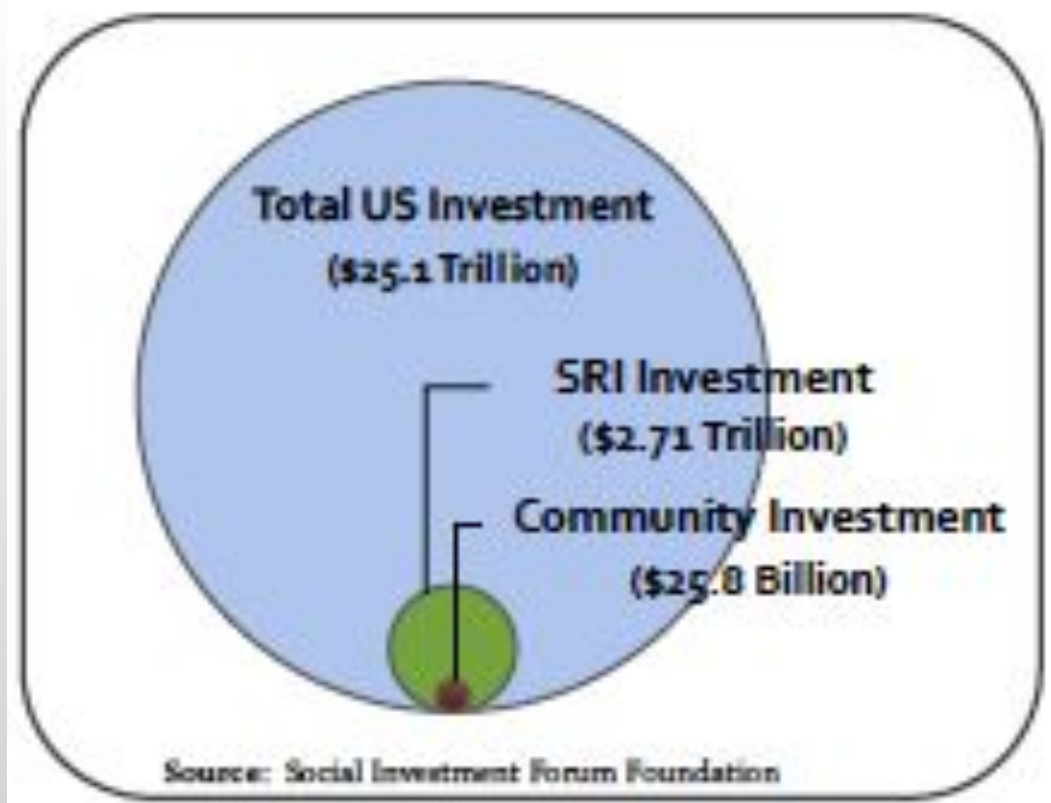
# Impact Investing

- A term first coined by the Rockefeller Foundation in 2009
- A part of the corporate social responsibility tradition = Domestic and international financial institutions and corporations are accountable for harmful employment, community, or environmental impacts
- A means of harnessing the power of the market for the good of the commons

***“Creating positive impact beyond financial return”***

# What is Community Development Finance?

*“The application of capital to achieve targeted outcomes for underserved communities and to build equitable and sustainable cities”*



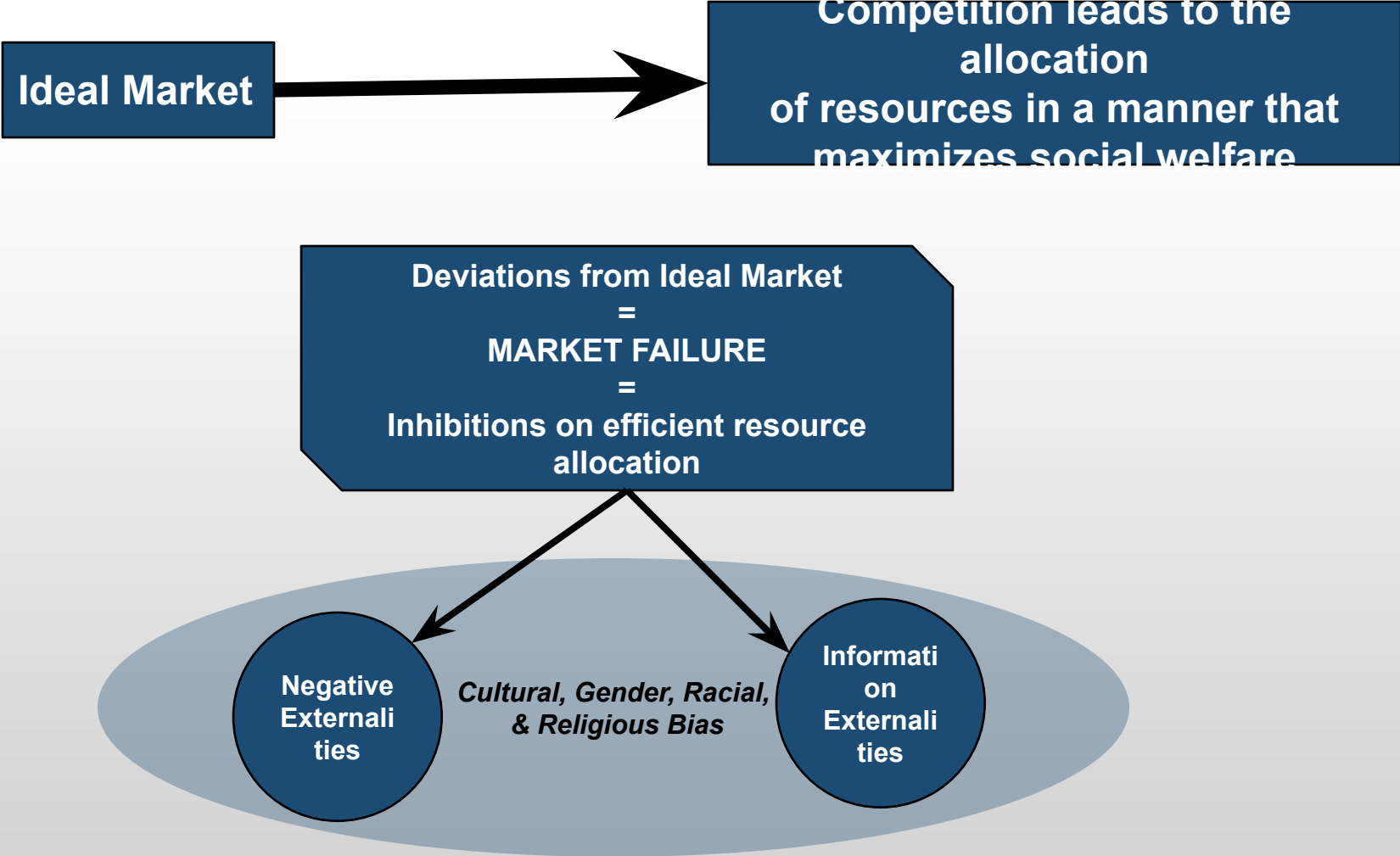
# What is Community Development Finance?

*“The application of capital to achieve targeted outcomes for underserved communities and to build equitable and sustainable cities”*

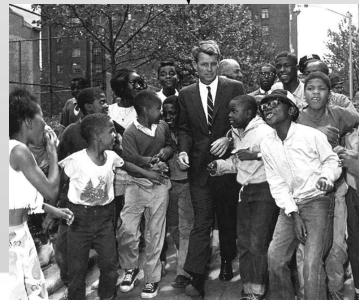
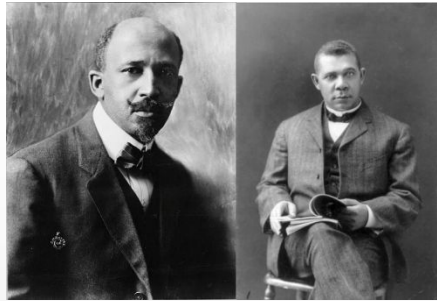
## Community Investment Issues and Sectors

- Access to financial services
- Affordable housing
- Arts and culture
- Economic development
- Education
- Energy efficiency
- Health and wellness
- Public safety
- Small business development
- Transit-oriented development
- Urban regeneration

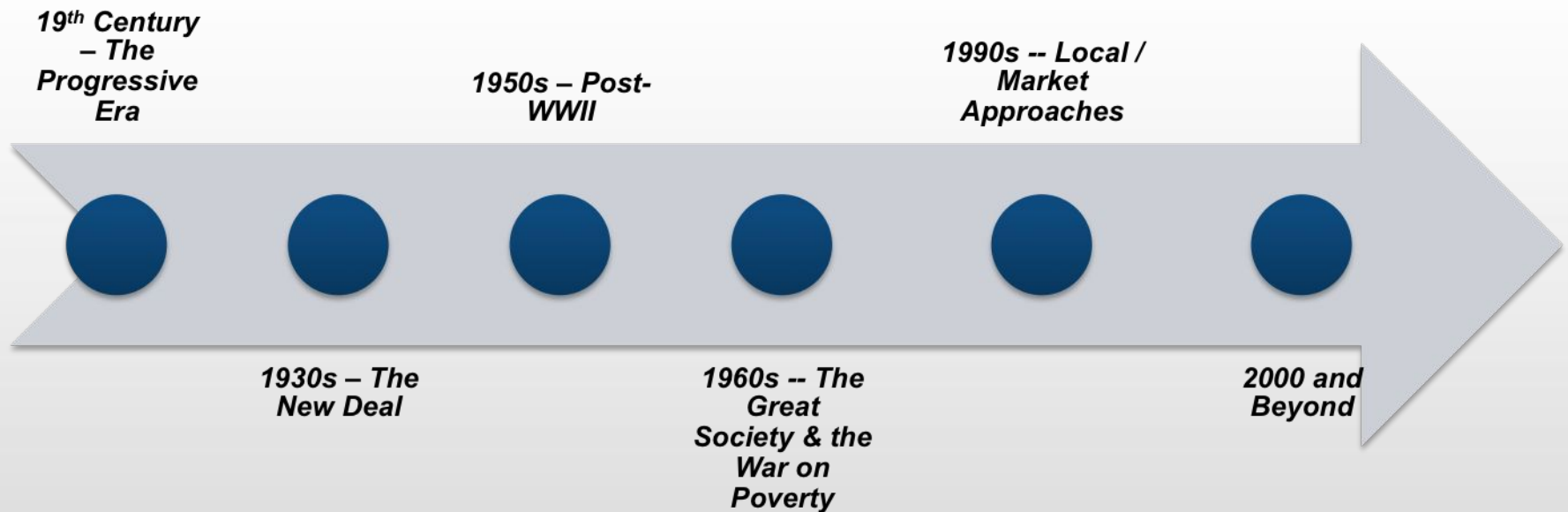
# Why does Community Development Finance exist?



# The “Roots” of Community Development Finance



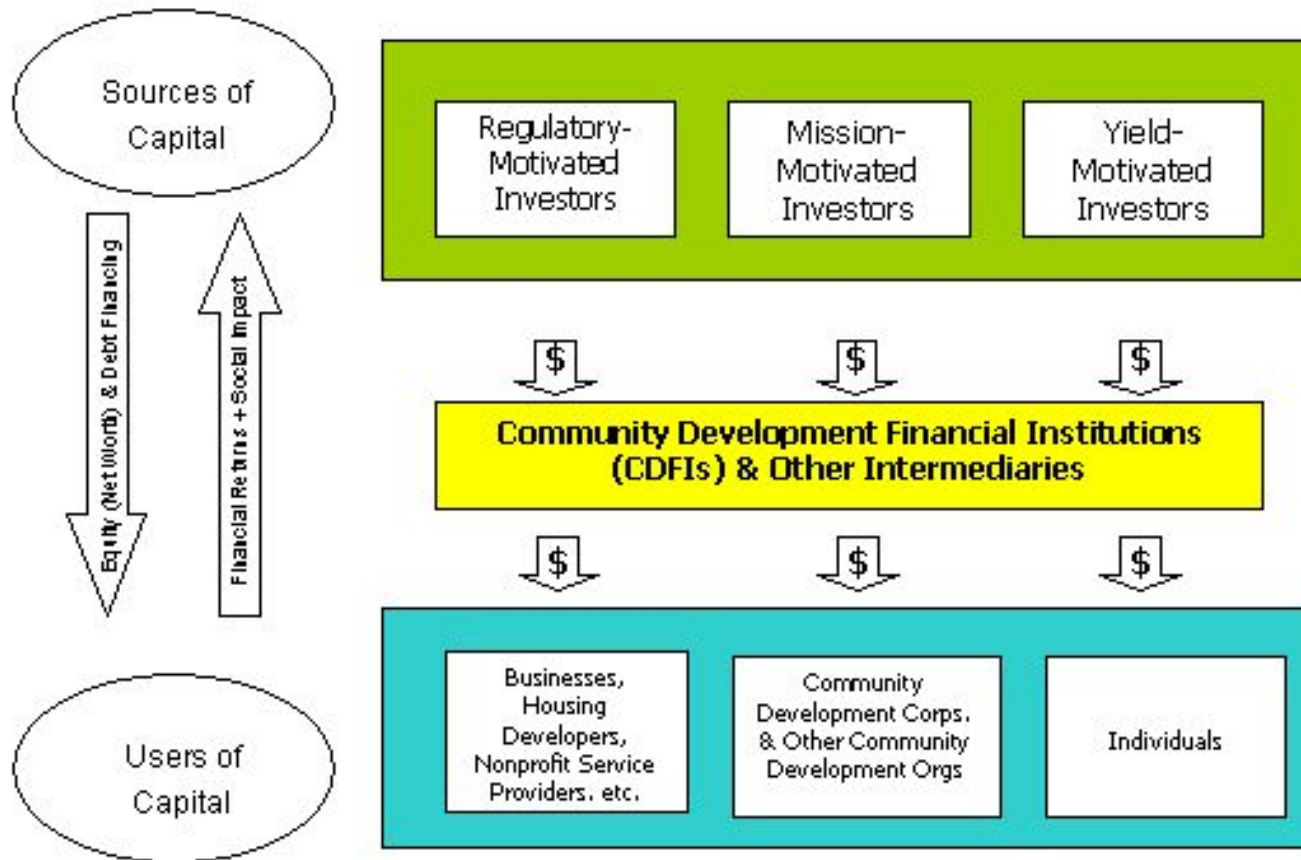
# The History of Community Development





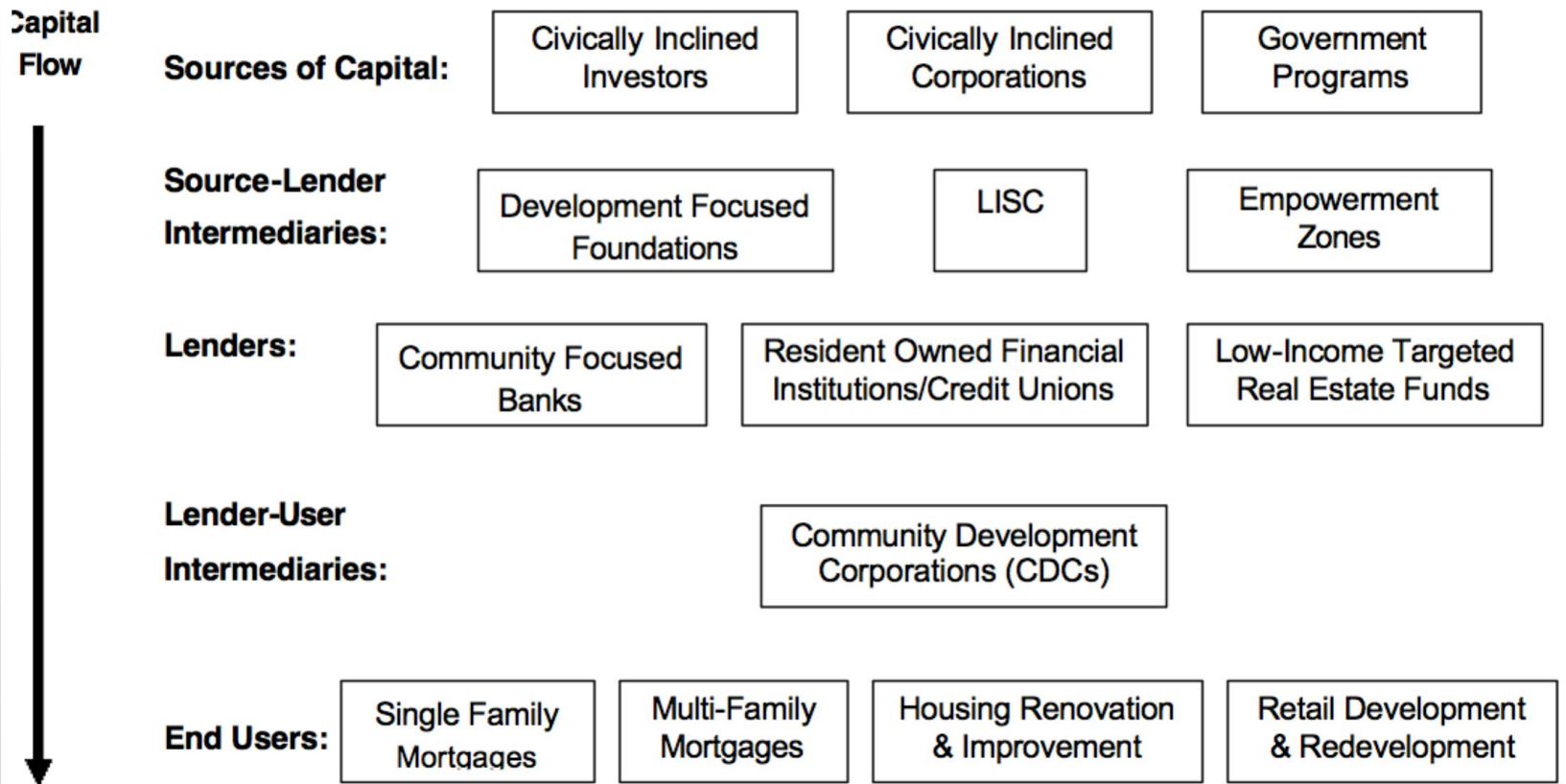
# The Role of Intermediaries in the Community Development Capital Markets

Simple Illustration of the Relationships Between Sources & Users of Community Development Capital



# The Role of Intermediaries in the Community Development Capital Markets

Figure 1. A Structural Model of Nontraditional Investment



# Traditional Lender versus Community Development Lender

## ■ Traditional Lender

- Conservative credit policies
- Measurable goals
- Relatively easier-to-book deals

## ■ Community Development Lender

- CD lending credit policies
- Measurable goals
- Involved early
- Identifies potential partners
- Layers of financing, Longer cycle
- Manages internal expectations

# What are CDFIs?

- CDFIs provide a range of products & services:

- Financial Services

- Loans

- Investments

- TA & Training

- Registered with the CDFI fund

- CDFIs partner with Treasury and conventional financial institutions



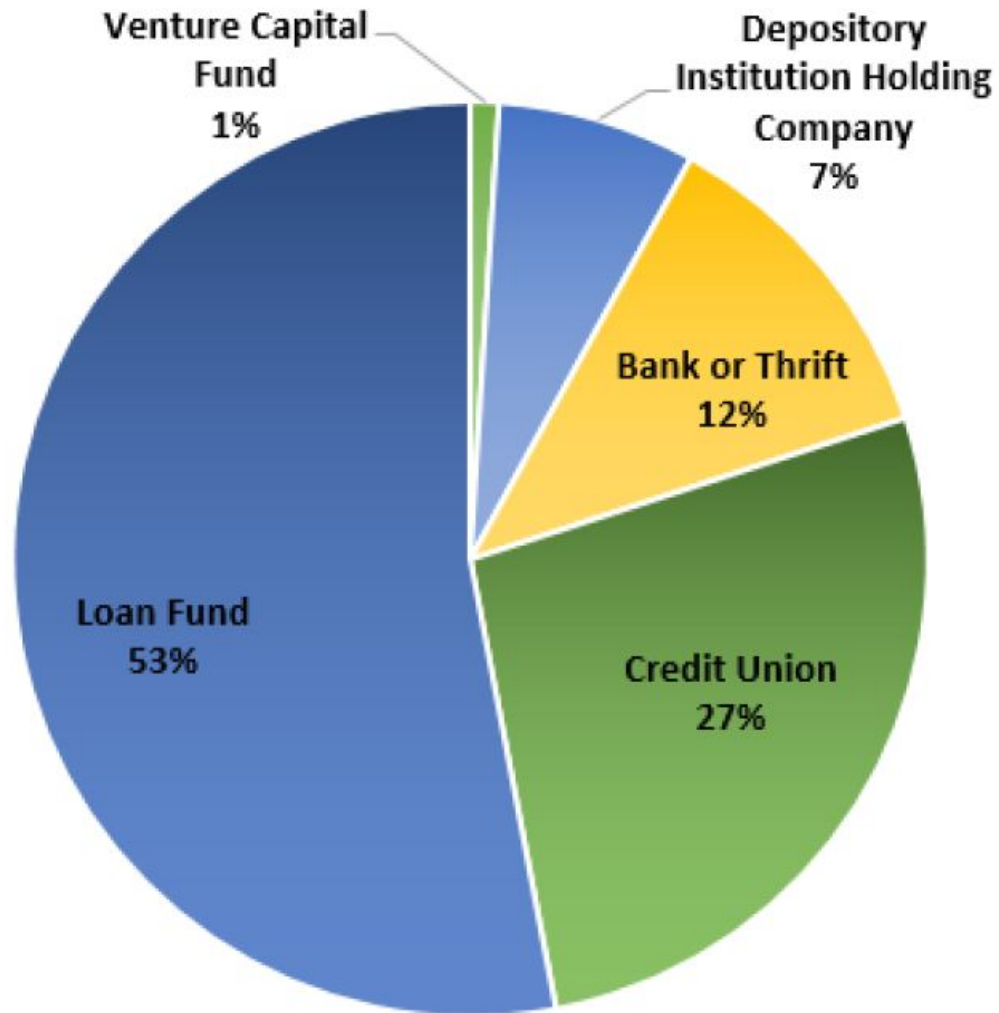
# CDFIs Certified by Treasury Dept.

1. Legally organized with community development mission
2. Serve investment area or targeted population
3. Be a depository institution or make loans or development investments as a predominant business activity
4. Provide development services in conjunction with financing activity
5. Maintain accountability to its target area
6. Be a non-governmental entity and not controlled by nongovernmental entity

## **Certified CDFIs (2016) = 991**

- Loan Funds = 524
- Credit Unions = 267
- Banks or Thrifts = 119
- Depository Institution Holding Companies = 67
- Venture Capital Funds = 14

# Distribution of Certified CDFIs



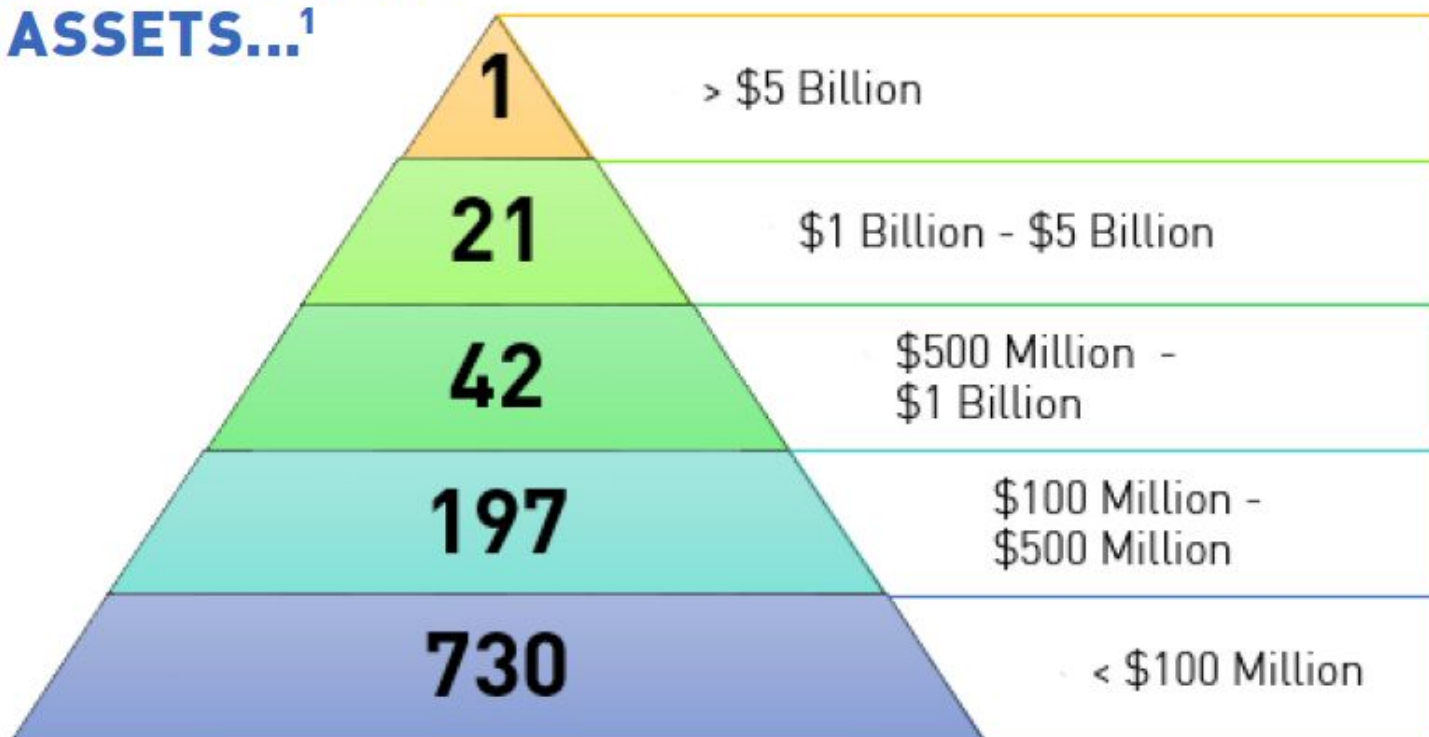
# Certified CDFIs by Asset Size

Asset Size of Certified CDFIs (By Type) as of January 2016

CDFI Type	Total Assets \$	Total Assets %	Average of Total Assets	Media Assets
Bank or Thrift	\$37,927,503,000	35%	\$318,718,513	\$215,786,000
Credit Union	\$55,672,216,871	52%	\$208,510,176	\$52,993,128
Loan Fund	\$14,185,047,966	13%	\$27,070,702	\$7,007,023
Venture Capital Fund	\$208,763,372	0%	\$14,911,669	\$4,661,726
<b>Grand Total</b>	<b>\$107,993,531,209</b>	<b>100%</b>	<b>\$116,876,116</b>	<b>\$19,731,943</b>

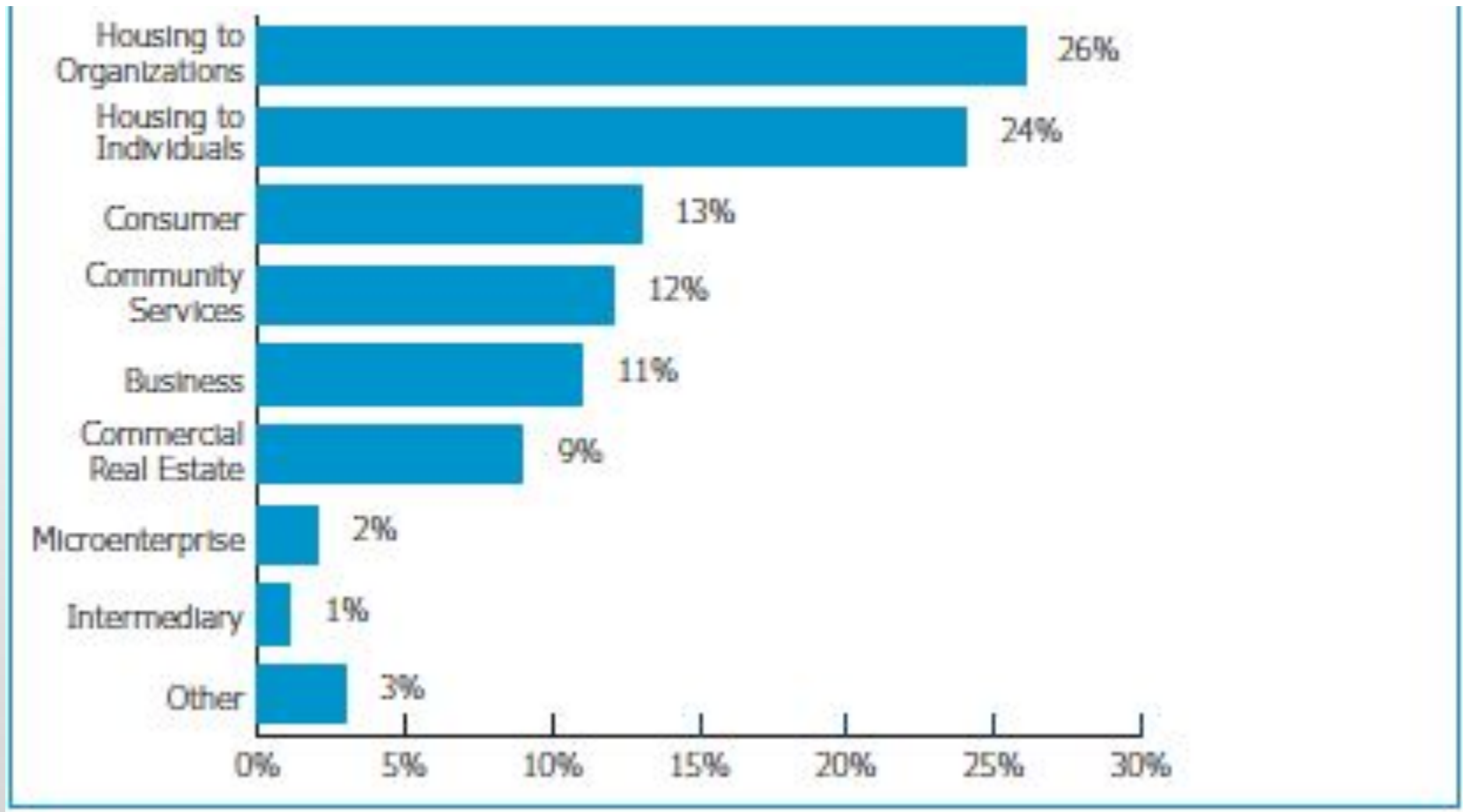
# Certified CDFIs by Asset Size

## THE NUMBER OF CERTIFIED CDFIS WITH ASSETS...<sup>1</sup>





# CDFI Investments: Total Dollars By Sector (2015)



# CDFI Investments: Geographic Breakdown (2016)

CDFI Loans Source: cfn.org

Points filtered by:

Sector: Color Code All

- Microenterprise
- Consumer
- Housing to Individuals
- Small Business
- Housing to Organizations
- Community Services
- Commercial Real Estate
- Other



# **Community Development Finance Lab**

## **Session Five: Introduction to Subsidy & Tax Credit Finance**

**Is housing a right or a privilege?**

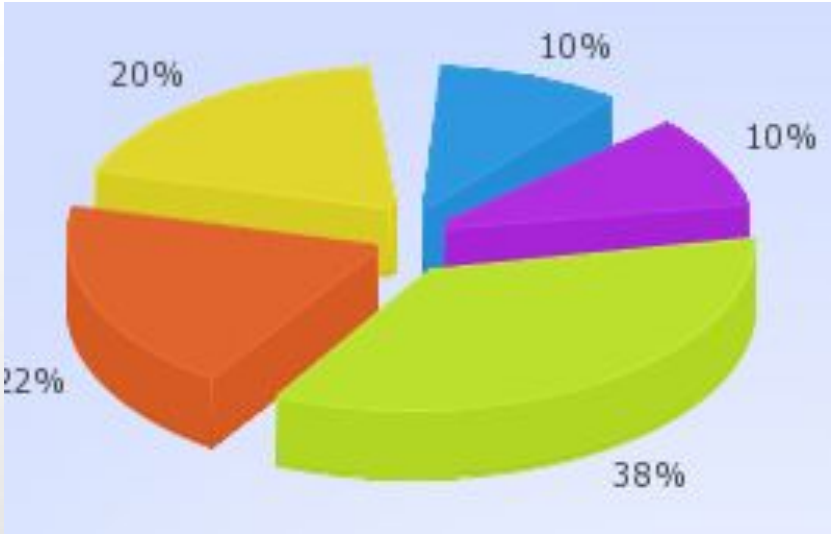
# What is a *Subsidy*?

- *A form of assistance provided by the government to a subset of the public that lowers the cost of producing a good or the price that a consumer pays for a good.*

## What things should a government subsidize?

- *Pure Public Goods vs. Pure Private Goods*

# Federal Domestic Assistance Program Distribution: Top Five Issuing Agencies

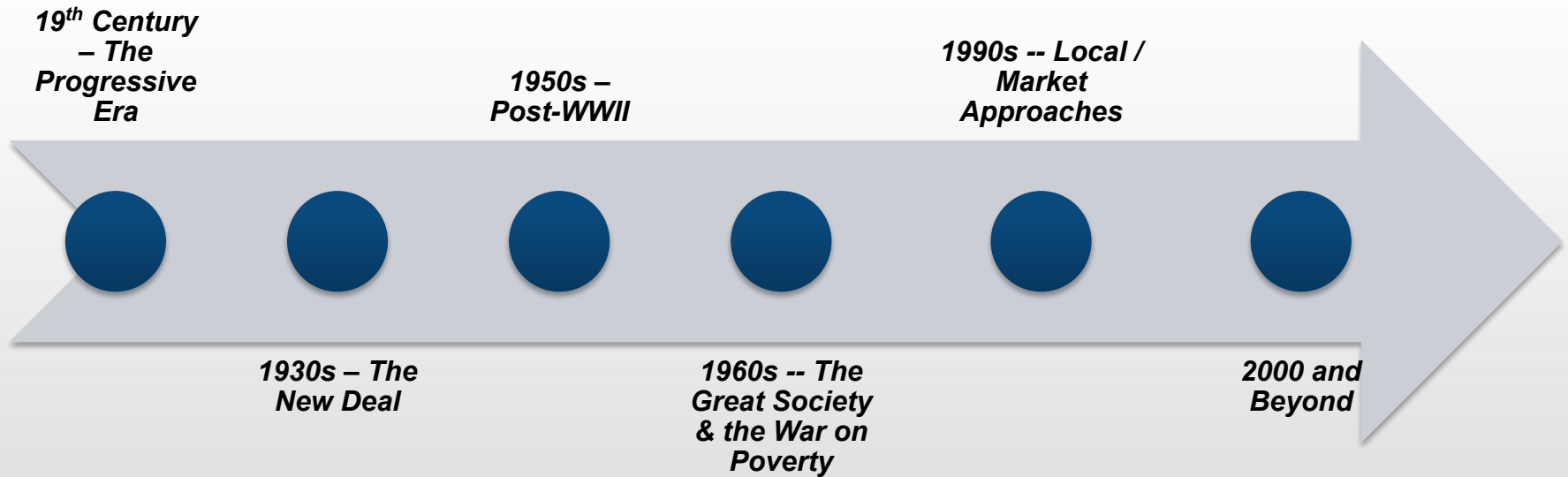


459	Department of Health and Human Services
265	Department of the Interior
241	Department of Agriculture
125	Department of Education
124	Department of Housing and Urban Development

# Subsidizing Community Development

- Public policy responses designed to affect low and moderate-income communities by
  - Correcting sources of market failure and/or overcoming market inefficiencies
  - Improving public health
  - Improving fairness, justice and societal stability
  - Stimulating economic growth

# The History of Community Development





# The History of Federal Subsidies for Community and Economic Development

- **First Era – “The New Deal”: 1930s – 1950s**

- The Housing Act of 1937
- Title 1 / Urban Renewal of the Housing Act of 1949
- Rural Resettlement Administration / U.S. Department of Agriculture’s Rural Electrification Administration, Rural Development Assistance program, and Farmers Home Administration (1930s and 1940s)
- Small Business Loan Guaranty (1953– ) and Venture Capital (1958– )

# The History of Federal Subsidies for Community and Economic Development

## ■ **Second Era – “War on Poverty”**: 1960s

- Fair Housing Act (1964 - )
- Office of Economic Opportunity (1964 – 1981)
- Economic Development Administration (EDA) grant programs (1965 – )
- Model Cities program (1966–1974)
- New Communities program (1968–1983)
- National Park Service grant programs (1968– )

# The History of Federal Subsidies for Community and Economic Development

## ▪ Third Era – “New Federalism”: 1970s

- Community Development Block Grant (CDBG) / Section 108 Loan Guarantee program / Economic Development Initiative (EDI) / Brownfields Economic Development Initiative (BEDI) (1974 – )
- EDA Revolving Loan Fund (1974 – )
- Urban Development Action Grant (UDAG) program (1977–1986)
- Historic Rehabilitation Tax Credits (RTC) (1977– )
- Community Reinvestment Act (CRA) (1977– )

# The History of Federal Subsidies for Community and Economic Development

- **Fourth Era – “Market-Based Solutions”: 1980s and beyond**
  - Low Income Housing Tax Credit (LIHTC) program (1986– )
  - HOME Investments Partnership program (1990– )
  - HOPE VI program (1993– )
  - Renewal Community/Empowerment Zone/Enterprise Community (RC/EZ/EC) initiative / Neighborhood Revitalization Zones / HUB zones / Gulf Opportunity Zone (1993– )
  - USDA Rural Development loan and grant programs (1994- )
  - Community Development Financial Institutions (CDFI) Fund (1994-)
  - New Markets Tax Credit (NMTC) program (2000 --)

# State and Local Community and Economic Development Finance Programs

- State tax credits for business
- Tax increment financing (TIF)
- Industrial revenue bonds (IRBs)
- Industrial development bonds (IDBs)
- State enterprise zones (EZs)
- Tax abatements
- Inclusionary zoning ordinances
- Community benefits agreements (CBAs)

# Subsidies Provided by the Philanthropic Sector

Private philanthropists and foundations may apply the same principles used by public-sector decision-makers in using subsidies to address problems of inequity and market failure.

- Credit Enhancements
- Below Market-Rate Interest
- No-cost or Low-cost Equity
- Guarantees
- Technical Assistance / Capacity-Building

# Comparison of Subsidies from Federal and Private Sources

## Federal Programs

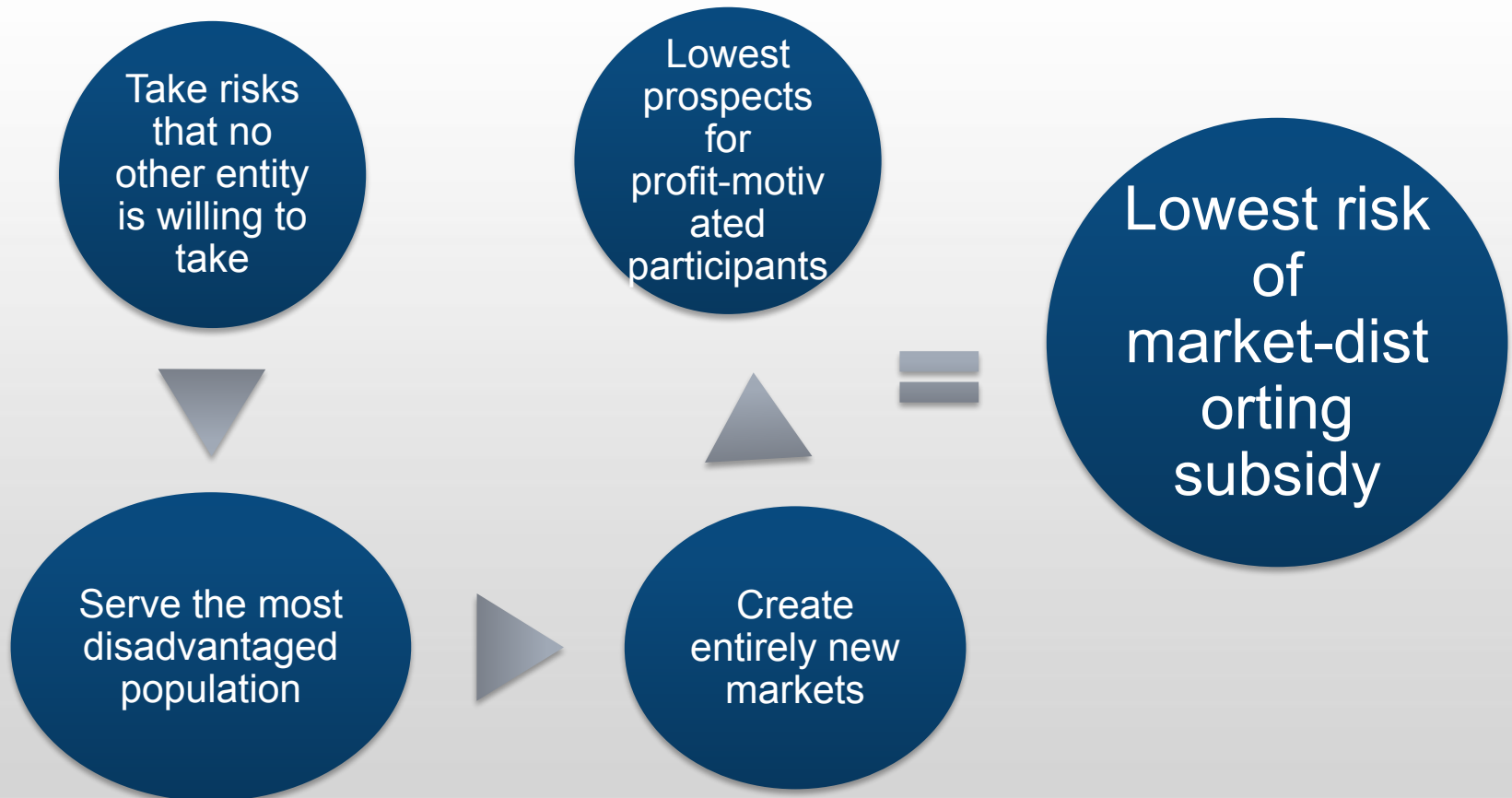
HUD (HOME) and Treasury (LIHTC, NMTC) provide the most dollars to CDCs and CDFIs = Between \$4 billion and \$8 billion annually, which is between 0.1% and 0.2% of the total federal budget.

**VS.**

## Private Sector

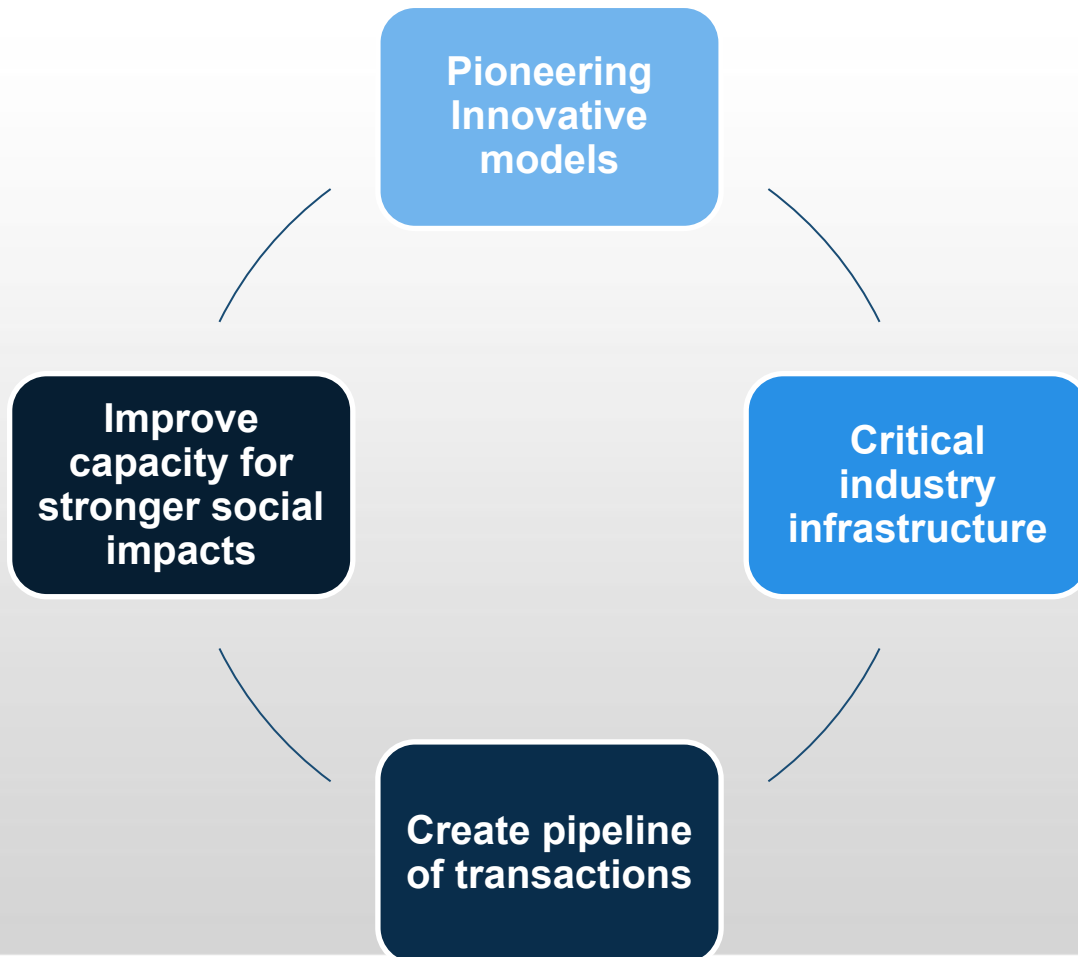
Investments into LMI communities prompted by CRA (\$242 billion) have exceeded the federal subsidies for community development as a whole (\$45 billion).

# Using Subsidies in Community Development Finance: *To Spur Market Development*





# Using Subsidies in Community Development Finance: *To Catalyze Other Models of Scale*



# Negative Consequences of Subsidies

- **Undermining the discipline of the market:** Providing subsidized capital to one community development entity but not all entities in a field
- **Inefficient use of capital:** Only high-performing and innovative community development entities will ultimately create massive direct social impact
- **Lack of focus on low-scale social impact outcomes:** A community development financial system will succeed only if CDFIs are able to demonstrate strong investment acumen and the ability to work constructively with community development entities to achieve massive, direct social impacts

# Negative Consequences of Subsidies

- **Creates new inefficiencies:**
  - Community development entities must structure complicated, layered financing for their projects
  - Multiple investment and subsidy sources have their own restrictions and requirements, which results in high transaction costs, high compliance/reporting costs, and a lack of uniform, rigorous standards

# Using the Tax Code to Subsidize Community Development

- The Federal Government has used the tax system to partner with the private sector for community development initiatives.
  - These tax incentives have been tied to low-income communities.
  - These tax incentives subsidize property development in targeted areas or the employment of those living there.

# Using the Tax Code to Subsidize Community Development

- Three basic kinds of tax benefits encourage community development.
  - **The Work Opportunity, Empowerment Zone, and Renewal Community Tax Credits** offer credits to businesses for hiring workers from targeted underemployed groups.
  - **The New Market Tax Credit** offers tax subsidies for investing in low-income communities.
  - **The Low-Income Housing Tax Credit** subsidizes the construction of affordable rental housing for low-income families.

# Tax Credits versus Tax Deductions

- **Credits:**

- Tax credits are subtracted directly from one's tax liability.
- Credits reduce tax liability dollar-for-dollar.
- Example: *A \$1,000 credit in a 15% tax bracket reduces tax liability by \$1,000.*

# Tax Credits versus Tax Deductions

- **Deductions:**

- Tax deductions are subtracted from a taxpayer's total income to compute his or her tax base.
- Deductions reduce tax liability by the amount of the deduction times the tax rate.
- Example: *A \$1,000 deduction in 15% tax bracket reduces taxable income by \$1,000, thereby reducing tax liability by \$150.*
- Tax credits can have a much larger impact than tax deductions.

# LIHTC Program Overview

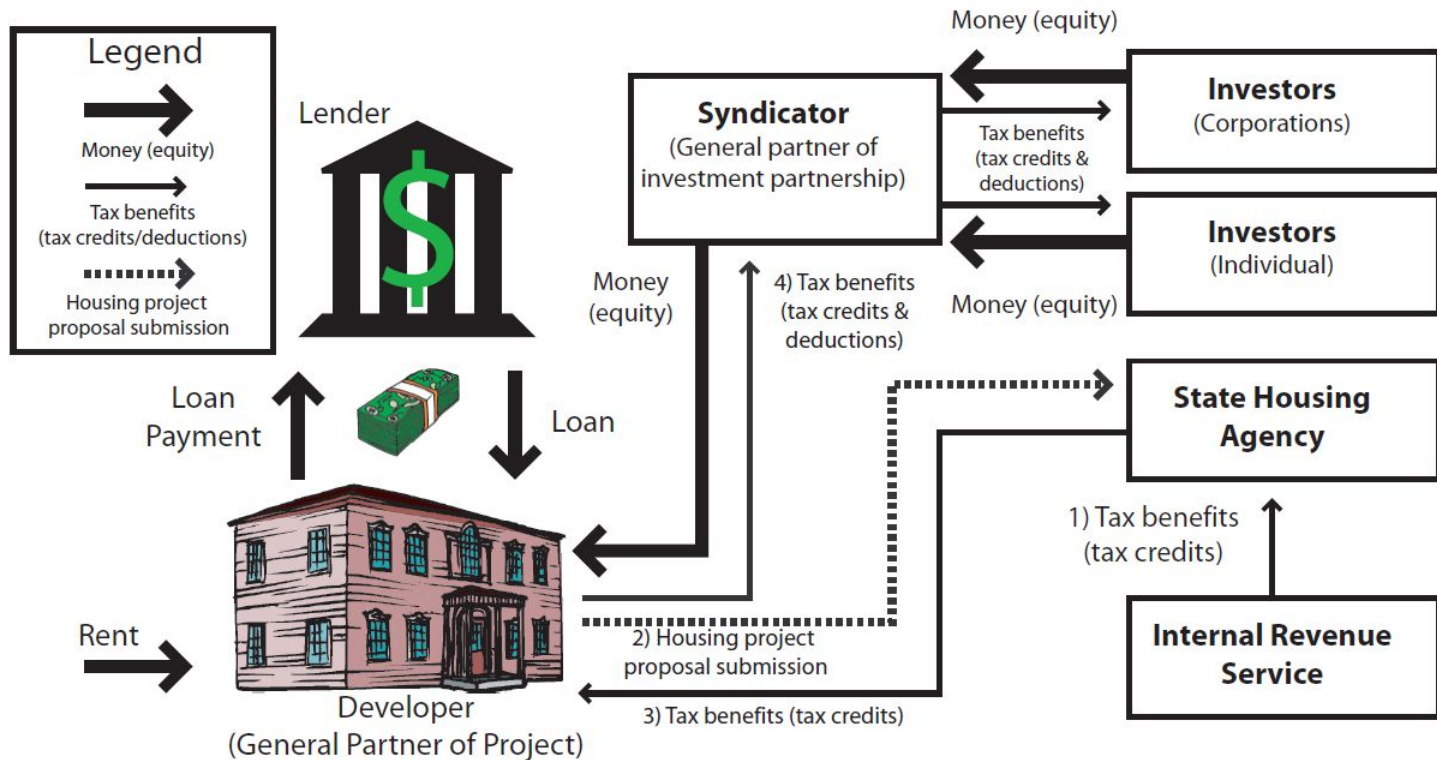
- The LIHTC program has been the federal government's ***most successful program for producing quality rental housing for low-income families*** and individuals
  - Engages private capital and imposes financial discipline
  - Produced over 2.2 million units of housing in 35,000 separate properties
  - Annualized foreclosure rate of 0.03%
- Program is facing a number of challenges today
  - Overall debate around tax reform and uncertainty of tax liabilities
  - Tied to corporate earnings so doesn't perform well in a recession



## How does the LIHTC program work?

- A housing subsidy program for rental housing
- Created within Section 42 of the Internal Revenue Code
- Each state receives \$1.75 per capita annually in tax credits to allocate and is administered by housing finance agency
- Eligibility is based on tenant income

# Typical LITHC Structure



# NMTC Program Overview

---

- Created under The Community Renewal Tax Relief Act of 2000
  - Since inception, 664 allocations totaling of \$33 billion in tax credit authority to CDEs
    - 64 % of investments made by CDEs have been to businesses that develop or lease real property for use by others.
    - 36 % of investments made by CDEs been to operating businesses in low-income communities.
  
- Administered by CDFI Fund (U.S. Treasury Department) and IRS
  - Highly competitive application process: Applications have oversubscribed available allocations by approximately 10 times
  
- Process is different from Low-Income Housing Tax Credit
  - Credits are controlled by CDE, not by developer
  - Basis for credit is amount invested in CDE, not project cost
  - CDEs have one year to complete investments into projects/businesses

# The New Markets Tax Credit Program

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<b>Purpose:</b>	Encourage the investment of private capital in low-income communities overlooked by investors.
<b>What does it provide?</b>	39% of the capital invested in a community development entity (CDE), over 7 years (5% in yrs 1-3; 6% in yrs 4-7).
<b>Who applies for the credit?</b>	Only a Community Development Entity (CDE) can apply for an allocation of federal tax credits.
<b>Who benefits from the credit?</b>	The investor/lender making an investment in a CDE gets a tax credit of \$0.39 for every \$1 invested. The CDE directs capital into qualified projects or businesses.
<b>Eligible Property Types:</b>	Low-income community businesses Commercial or mixed-use projects (at least 20% of gross income from commercial component)

# Typical NMTC Structure

