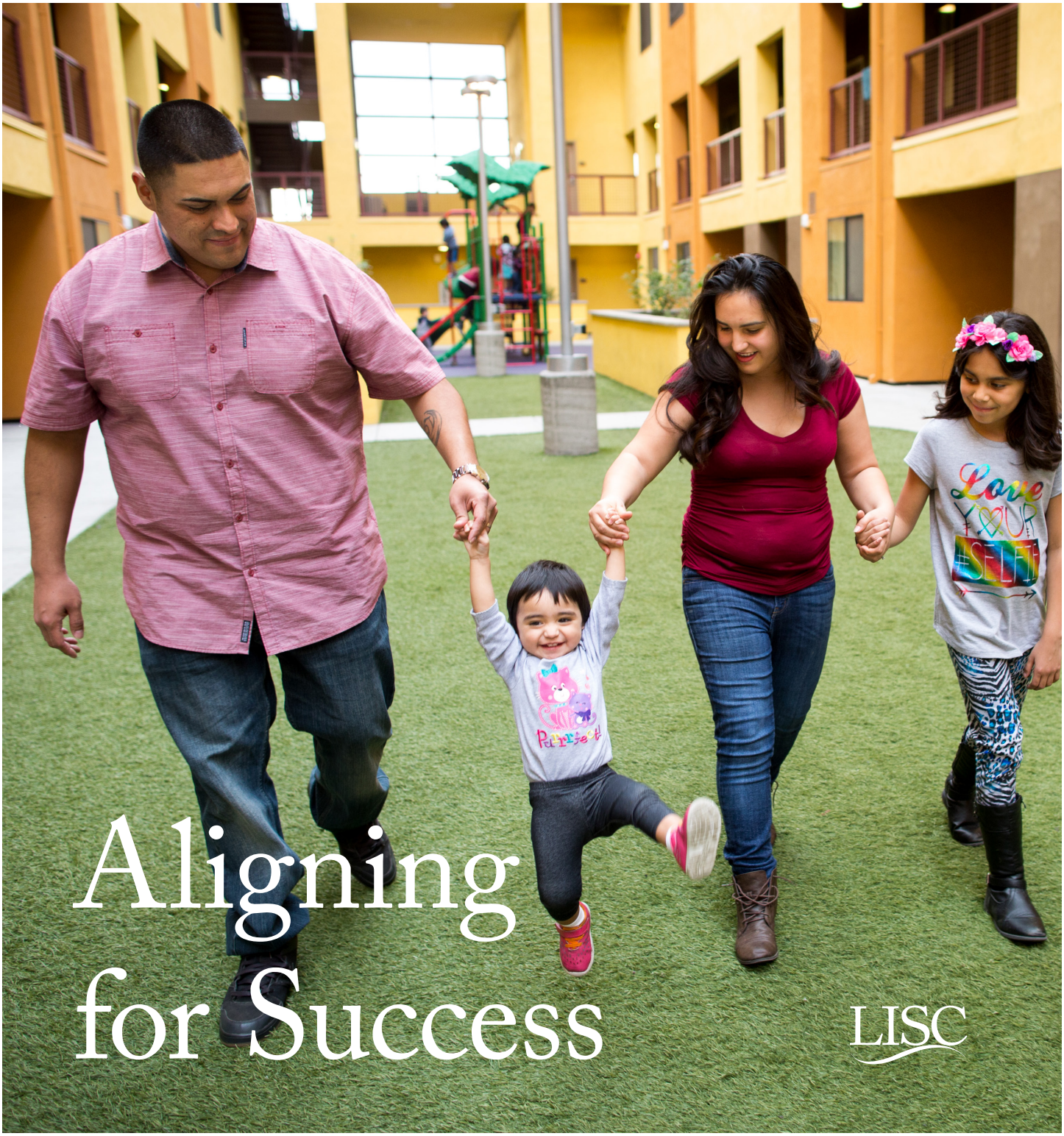

Aligning for Success

LISC

How government can partner with the private sector and local stakeholders to revitalize communities and spur economic mobility

Foreword from the Local Initiatives Support Corporation

The Local Initiatives Support Corporation (LISC) has spent 36 years developing, testing and financing strategies that catalyze economic opportunity for people and places. LISC is embedded in communities across the country, working locally with nonprofits, business leaders, anchor institutions and municipalities to tackle long-standing challenges and develop community infrastructure that families need to thrive. To date, we've invested over $16 billion in 277 congressional districts in 46 states and Washington, D.C.

In this document, we provide over two dozen policy proposals that offer low-income families and communities tools to eliminate poverty—and contribute to national economic growth in the process. The proposals run the gamut, from administrative changes that don't require statutory changes or additional funding, to new initiatives and expansions that would require significant federal resources. In most instances, the government resources would leverage substantial private-sector investments and catalyze additional economic growth.

So much of what it means to live well in America is tied to "place." It's a foundation for our economic well-being, and the backdrop for our children as they learn to navigate the world. Year after year, data makes clear that the amount of opportunity we enjoy is closely linked to where we live.

That has significant policy implications, particularly for the range of programs that help people overcome poverty. It is very difficult for families to improve their quality of life when good jobs, good schools or good housing is out of reach, when gangs or drugs are whittling away at safety, or when there isn't healthy food, or health care or child care or recreational space for families.

It takes a sustained effort focused on both people *and* place to address all of that, and to give low-income families the opportunity to reach the middle class.

Frequently, our investments have been augmented by funding made available through federal government initiatives. Our experience makes clear that the most effective federal programs are those that can engage the private sector and local decision makers to work together to achieve shared success on behalf of families. Government resources alone are not the sustainable solution -- but they can be a catalyst for growth by attracting private capital to places it might not go on its own, and by providing critical support to help low-income families escape the cycle of poverty.

The proposals span 11 different federal agencies, consistent with LISC's fundamental belief that success can only be achieved through strategic investments in multiple sectors, including: affordable housing; commercial and community revitalization; economic mobility; education; and community health and safety. All are fundamental to quality of life for both families and communities.

The next Administration is likely to inherit a strong economy, but also approximately 43 million Americans trapped below the poverty line. There is untapped economic power in those numbers, and a wealth of human potential. We can't leave either on the sidelines.

The policy recommendations that follow recognize the bipartisan work that has already been done to align federal resources with local opportunities. We look forward to working with members of Congress and the new president in the months to come.

Maurice Jones
LISC President and CEO

Matt Josephs
LISC Senior Vice President for Policy

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Community Facilities Relending Program

Summary

More than 350 counties across the country deal with **persistent poverty**, defined as 20 percent or more of the population living below the poverty line for the past 30 years. More than 85 percent of counties with persistent poverty are in nonmetropolitan areas. Persistently poor areas face weak infrastructure, insufficient private investment, and a host of social challenges. The USDA/RD Community Facilities (CF) Relending Program is a flexible tool that provides grants and direct and guaranteed loans for community facilities. By providing long-term capital at competitive rates, CF loans support healthcare, public safety, and educational facilities; utility and community support services; and food systems. Despite significant needs, affected counties have been unable to access these funds, largely because of **financial hardship and lack of capacity** to pursue and deploy the funding.

Background

The Community Facilities Loan Program was established in 1972 to help address financing needs in rural communities. Under the program, the US Department of Agriculture (USDA) can make grants and direct loans to public bodies, community-based nonprofits, and federally recognized tribes to purchase, construct, or improve essential community facilities. The USDA also has authority to guarantee CF loans made by approved lenders. CF funds can be used in rural areas with no more than 20,000 residents, with a priority for communities with a population under 5,500 or with low median family incomes. CF grant funds are limited by small appropriations and are typically used in conjunction with CF direct loan funds to assist the neediest communities. The grant funds are directed according to special initiatives, such as Economic Impact Initiative Grants targeted to communities suffering economic hardship and population out-migrations.

Community Facilities Investments
(Direct and Guaranteed Loans and Grants)

	Facilities	Investment ($)	Portfolio share (%)
Healthcare	1,498	$3.6 billion	49.3
Public safety	6,139	$1 billion	13.7
Public buildings	2,219	$1 billion	13.7
Education	1,878	$1.7 biillion	23.3

Note: As of June 29, 2016 per USDA Community Facilities webinar (July 7, 2016).

In recognition of the needs of rural communities, authorization levels for CF direct loans were increased from $1.3 billion in fiscal year 2013 to $2.2 billion in each fiscal year from 2014 through 2016. Despite the significant needs in rural America, CF loan funds have been undersubscribed, particularly in areas with persistent poverty. Although CF loan funds are offered on attractive terms, the relative complexity of the process and the financial hardships in persistently poor areas mean that funds often do not reach the communities that need them most.

LISC

The USDA recently established the CF Relending Program to better deliver direct loan funds to persistently poor communities through community development financial institutions, credit unions, and other lenders with deep local networks and capacity for technical assistance. Under the program, eligible lenders may apply for an obligation for a portion of total CF direct loan funding. They then originate and underwrite eligible CF loans. The USDA advances funds after approving loans. Though the relending authority, together with leveraged private funds, will help some communities, the cost of the funds is still too high for many projects in persistently poor communities.

Because many rural communities are unable to access CF funds, Congress authorized the Community Facilities Technical Assistance and Training Grant in the 2014 Farm Bill. This program funds 3 to 5 percent of the total CF appropriation to help communities identify and plan for their needs, apply for funding, and improve management of facilities. The USDA has committed to making the maximum 5 percent of funds available until further notice.

Building Healthy Communities: Coastal Family Health Center

LISC provided grants, acquisition financing, and technical assistance to Mercy Housing and Human Development Inc. to obtain a CF direct loan for constructing the Coastal Family Health Center, which opened in D'Iberville, MS, in 2011.

The center was an integral part of D'Iberville's redevelopment following Hurricane Katrina. The 5,000-square-foot facility is the only clinic providing affordable care and preventive medicine for adults and children in this area. It also includes a special-needs shelter. The $1.4 million total development cost would not have been possible without significant grant support from LISC and other funders, in addition to the CF loan.

Proposal: Enhance the CF Program

To better reach persistently poor communities, we propose the following improvements to the CF Program:

- **Provide a flexible interest rate structure for the relending program.** The program makes CF funds available to relenders at the same market rate available to all borrowers, currently 2.75 percent. Though this rate is historically low, it does not reflect the USDA's reduced risk and processing cost, since it is the relender that completes all underwriting and provides security for the loan. Relenders incur costs in processing and servicing CF loans, and when those costs are added to the CF market rate, the interest rate becomes too high to provide a viable financing option for many persistently poor communities.
- **Permit relenders to recycle funds.** By allowing relenders to draw down their full obligation and make loans throughout the 40-year loan period, the program would reach more communities.
- **Provide additional funding for CF Training and Technical Assistance Grants.** Such assistance is currently taken from the overall CF appropriation. This approach reduces the total funding available for CF projects and does not reflect the needs. The size of the appropriation may not correspond to the number of borrowers or their needs in a given year. To provide the **robust training and assistance** needed for success for projects and long-term community improvement, we recommend an additional appropriation of no less than 5 percent of the total CF appropriation.

For more information on this proposal, please contact Matt Josephs at mjosephs@lisc.org.

LISC

US Department of Agriculture

Rural Home Repair Program

Summary

The housing stock in rural communities is predominantly home ownership units, many of which need repairs and modifications. Unaddressed physical needs can create unhealthy and more costly living conditions. Repair and modification needs also can prevent elderly households from aging in place. Although a robust home repair program would improve housing stock and stimulate many rural economies, low incomes and low property values present challenges to financing home repairs. **A housing repair fund would significantly improve the housing stock and stimulate local economies in the poorest rural counties.**

Background

In rural areas, home ownership is the most common type of housing tenure. More than 71 percent of rural households own their home, and among rural seniors, the home ownership rates are even higher. The population of many of these rural areas is older than that of the nation as a whole,[1] and residents often wish to age in place in their homes and communities. Research suggests that aging in place is more cost effective for families and the government than moving to an institutional setting.[2]

However, in areas of persistent poverty, the quality of the housing stock is not as high. Both stick-built and manufactured homes require significant repairs to reach modern standards for safe and efficient housing.[3] Although home repair loans and home equity loans provide a solution for some homeowners, conventional loans are not viable in rural communities, particularly persistently poor communities. In those communities, the costs of materials and repairs are comparable to costs in more metropolitan and higher-income areas, but property values and incomes are much lower, making financing repairs a challenge.

The US Department of Agriculture Section 533 Housing Preservation Grant (HPG) Program provides grants to sponsoring organizations for the repair or rehabilitation of low- and very-low-income housing. The sponsors are local governments and nonprofits that provide grants and loans to homeowners to make repairs. Funds are competitively awarded to sponsors, and preference is given to sponsors that will target very-low-income homeowners and leverage grant funds. Although the HPG program provides valuable assistance that could be helpful to homeowners wishing to age in place, it has been funded at

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[1] Eric Oberdorfer and Keith Wiley, "Housing an Aging Rural America: Rural Seniors and Their Homes," Housing Assistance Council, Washington, DC, 2014.

[2] US Department of Housing and Urban Development, Office of Policy Development and Research, "Measuring the Costs and Savings of Aging in Place," *Evidence Matters*, Fall 2013.

[3] US Department of Agriculture, Economic Research Service, "Geography of Poverty," http://www.ers.usda.gov/topics/rural-economy-population/rural-poverty-well-being/geography-of-poverty.aspx. *Persistent poverty* is defined at the county level as counties where at least 20 percent of the population has been living in poverty over the past 30 years. There are approximately 350 persistently poor counties, more than 300 of which are nonmetropolitan.

very low levels of just $3.5 million in the past two fiscal years. This level of funding is insufficient to have a meaningful effect, particularly in persistently poor areas that have difficulty competitively accessing funds.

Proposal: Expand the Rural Home Repair Program

Robust home repair funding targeted to persistently poor communities is needed to improve the quality of the housing stock and stimulate local economic development. **We encourage the development of an enhanced home repair program administered through the Section 533 HPG program to address the needs of rural homeowners.** The program would:

- Fund up to $100 million in grants to regional nonprofits and intermediaries. Grantees would leverage the funds with other government, private, and philanthropic resources. Funds would be used to make loans and grants to homeowners for repairs.
- Target a portion of pilot repair funds to areas of persistent poverty and elderly homeowners. To facilitate this targeting, the program should permit assistance to households with incomes up to 100 percent of area median income in persistently poor counties.
- Make assistance available on the following terms:
    - Blend of loans and grants based on income level of the homeowner
    - Loan funds provided as secured long-term financing at a fixed rate and term of no less than 20 years
    - Grant funds structured as a forgivable loan based on years of occupancy
- Permit grantees to recycle for further home repair program activities those grant funds that were used to make a loan and were repaid.

Small Grants Making a Big Impact: Self-Help Enterprises, CA

Self-Help Enterprises (SHE) is a private nonprofit housing organization serving the eight counties of the San Joaquin Valley, CA. Since 1986, SHE has received 24 awards under the Section 533 program. With these awards, totaling just, $3,029,268, SHE has assisted 282 households.

Of the households that SHE assisted, 46 percent were elderly households, 24 percent were households that included people with disabilities, and 35 percent were farmworker households. The overwhelming majority, 74 percent, were very-low-income households with income less than 50 percent of area median income.

Additional funding and flexibility will allow nonprofits like SHE to expand their reach to assist more households and further stimulate local economies.

For more information on this proposal, please contact Matt Josephs at mjosephs@lisc.org.

LISC

US Department of Agriculture

Rural Multifamily Rental Housing

Summary

Rural communities include more than 7 million renter-occupied housing units, and more than half of those households live in multifamily housing. Rural households have not escaped the reach of growing rent burdens. In rural areas, 48 percent of very low-income renters pay more than 30 percent of their income in rent. Many of the affordable housing programs used in urban areas have been unsuccessful in rural communities because of the smaller scale. The Section 515 Rural Rental Housing Program provides affordable rental housing for rural communities, but the stock of Section 515 properties is aging and at risk of loss. A comprehensive strategy is needed to **preserve and expand multifamily rental housing in rural communities**.

Background

The Section 515 Program was created in 1962 to spur the development of rental housing for very-low-, low-, and moderate-income households in rural communities. Under the program, the US Department of Agriculture (USDA) Office of Rural Development (RD) provides direct mortgage loans, typically accompanied by interest-reduction subsidies or rental assistance to facilitate development of multifamily rental housing. At its peak, the program produced approximately 1,000 units per year. The current Section 515 portfolio includes approximately 13,830 properties that comprise 416,000 units.

Section 515 by the Numbers

- **$13,600**: average household income of residents of Section 515 properties
- **61%**: share of households with members who are elderly or disabled
- **72%**: share of households headed by women
- **67%**: share of households benefiting from rental assistance
- **3,668** properties and **102,736** units: projected loss of units by 2033

The existing stock of Section 515 projects is aging. The recent Multifamily Housing Comprehensive Property Assessment projects that an additional $5.596 billion will be needed to meet the physical needs of the portfolio in the next 20 years. The properties not only have physical needs, but are also facing maturity and release of affordability restrictions and rental assistance. Approximately 888 projects that comprise more than 21,000 units will leave the program in the next 12 years, with approximately 2,780 properties and 81,820 units leaving the program in the subsequent five years (2028–32) and a **peak loss more than 20,000 units per year** after 2033. When the mortgages mature, accompanying rental assistance ends and tenants are unprotected. When loans are prepaid, eligible tenants qualify for rental assistance vouchers, but use of the vouchers has been diminished because their value is limited to the rent on the date of prepayment.

The small size of most Section 515 projects, the extremely low incomes of Section 515 residents, and the rental assistance that terminates on maturity or prepayment create significant challenges for preservation

and recapitalization. These challenges are further compounded by limited data on the Section 515 housing stock, policies that complicate transfers, and limited funding under programs that could recapitalize this stock. The Multifamily Preservation and Revitalization (MPR) program provides a flexible set of debt-restructuring tools including grants, soft debt, and no-interest loans that finance the preservation of certain Section 515 projects, but MPR has lacked consistent and sufficient funding over its 10-year existence. New Section 515 loans may also provide a financing source for recapitalization, expansion, or even replacement of Section 515 housing, but appropriations have been small and since 2012 have not been used for new construction. The USDA RD has made great strides in the past year to provide more data on the Section 515 portfolio and to begin planning for the long-term preservation of these vital housing assets, but as the number of maturing properties increases, a comprehensive set of preservation strategies is needed.

Preserving and Expanding Affordability in Rural Maryland

The Meadows is an affordable elderly housing development in rural Garrett County, MD. It comprises two Section 515 properties that were preserved and an additional 32 units constructed as part of the same low-income housing tax credit transaction. The Section 515 loans were continued and subordinated to new financing. Financing for the $14 million construction and rehabilitation included a LISC construction loan, low-income housing tax credits, the subordinated Section 515 loans, Community Development Block Grants, HOME funds, and an Affordable Housing Program grant from the Federal Home Loan Bank.

Proposal: Enhance the Section 515 Program

We encourage the administration to develop a comprehensive strategy for preserving and expanding safe and affordable multifamily rental housing in rural communities. We propose that the strategy include, but not be limited to, the following elements:

- **Fund new Section 515 loans for the development or substantial rehabilitation of affordable multifamily rental units.** Rental assistance funding should be continued where a new Section 515 loan is used for the rehabilitation or expansion of an existing assisted project and also should be made available for new Section 515 properties.
- **Permanently authorize the MPR program and increase funding to better meet demand.**
- **Revise transfer and prepayment procedures in consultation with lenders, investors, owners, and tenants to promote preservation.**
- **Modify existing USDA energy-efficiency programs (including but not limited to the Rural Energy for America Program) to serve rural rental housing.** Including multifamily housing in these programs could reduce energy consumption, cut costs for USDA RD assisted units, and help preserve rental housing.
- **Provide tenant-based vouchers for residents of Section 515 projects when the mortgages mature, not just on mortgage prepayment.** Rent should cover up to the comparable market rents for a unit at the maturing project or, if used elsewhere, the lesser of a comparable market rent or an established standard amount for the area.

For more information on this proposal, please contact Matt Josephs at mjosephs@lisc.org.

LISC

Corporation for National and Community Service

AmeriCorps Economic Mobility Corps

Summary

Economic mobility is hindered by an individual's lack of knowledge on how to manage, save, and protect financial resources. Community development financial institutions (CDFIs) and other community-based organizations help spur economic mobility by providing financial education and counseling, first-time homebuyer counseling, small-business development services, and financial and technical assistance for nonprofit developers of affordable housing and community facilities. One area of constant need for CDFIs and similar community-based organizations is talent and human capacity. A partnership between the Corporation for National and Community Service (CNCS) and the US Department of the Treasury would result in a proposed Economic Mobility Corps. The goal of this initiative is to **help low-income individuals and families gain economic stability** while increasing local capacity and providing more national service opportunities.

Background

Positive outcomes in comprehensive community development are achieved when public agencies collaborate and use funding resources to promote similar goals within issue areas. A partnership between AmeriCorps and the CDFI Fund would help CDFIs and other community-based nonprofits increase their human capital. The dearth of qualified candidates to expand CDFI capacity, engage resident volunteers in comprehensive neighborhood investment, and provide the direct services needed to create places of choice for people to live, work, and play poses a unique opportunity for the CNCS and the Treasury department to collaborate.

AmeriCorps Impact

- Started in 1994
- Connects **70,000** Americans annually to intensive community service
- More than **1 million** Americans serving more than **1.4 billion** hours
- Successful partnerships with FEMA and the Department of Education

Successful partnerships between the Federal Emergency Management Agency (FEMA) and the US Department of Education have worked in high-priority areas. A thousand FEMA Corps members have focused on disaster preparedness, response, and recovery. And each year, the School Turnaround AmeriCorps program places 650 members in persistently underachieving schools across the country.

An Economic Mobility Corps would focus on providing low-income individuals the resources to access and use financial tools to climb the ladder of opportunity. Members would support grassroots-identified activities that could lead to nationally determined outcomes related to improving the financial capability skills of youths, individuals, and families with low to moderate income, including saving for home

ownership. In turn, a dedicated cadre of corps members would enable CDFIs and other community-based organizations to better meet their missions of revitalizing low-income neighborhoods and lifting families out of poverty.

Proposal: Create an Economic Mobility AmeriCorps Program

We propose the development of an Economic Mobility AmeriCorps program. Through this program, corps members would work to build the capacity of CDFIs and other community-based organizations focused on lifting families out of poverty through access to financial education and products. The AmeriCorps members would provide direct services to help residents pursue place-based and other strategies to increase economic mobility.

The program would work as follows:

- A small investment by either CNCS or the Treasury Department's CDFI Fund would be used to pilot and develop the program.
- Grants would be made through an open competition to state commissions, AmeriCorps National Direct programs, and certified CDFIs.
- The Economic Mobility Corps would have flexibility to meet the specific need identified by the CDFI or community-based organization and the community that it serves. Corps members would provide specific interventions to address the unmet need for a specific geographic area.
- Examples of Economic Mobility Corps members might include, for example, foreclosure prevention specialists, first-time homebuyer counselors, affordable housing project assistants, financial coaches, and community engagement coordinators.
- The metrics used to measure success would depend on the activities of the AmeriCorps member and the intervention strategy.
- The program's performance would be measured by factors such as increased positive net income; increased credit score or greater access to credit (borrowing power); number of economically disadvantaged individuals transitioning into safe, decent, affordable housing; increased level of financial knowledge; and number of individuals receiving services.

AmeriCorps and Community Investment

Since 1994, LISC has placed **2,875 full-time and part-time members** in more than **54 cities**.

To date, members have been instrumental in assisting **48,439 people** with homeowner counseling and foreclosure prevention counseling. Members also provided **12,828 clients** with services, leading **4,793 individuals** to secure employment.

Breyana Ellis served as an AmeriCorps member at Urban Edge in Boston, MA. She was a first-time homebuyer counselor and foreclosure prevention specialist.

For more information on this proposal, please contact Abigail Santos at asantos@lisc.org.

LISC

Corporation for National and Community Service

Social Innovation Fund

Summary

The Social Innovation Fund (SIF) was created to catalyze the use of data-driven approaches shown to be effective in local communities. Through an intermediary structure, the program mobilizes public and private sector resources to address local and national challenges in three priority areas: economic opportunity, healthy futures, and youth development. The four-year SIF pilot program authorized through the Serve America Act has expired. To continue to leverage federal and philanthropic resources to adequately address emerging social challenges, we propose that the SIF **be authorized with full funding of $150 million annually** and that the Corporation for National and Community Service (CNCS) **develop a comprehensive plan** that communicates awardee successes to relevant federal agencies and encourages them to consider using SIF-supported innovations in existing programs.

Background

Authorized by the Edward M. Kennedy Serve America Act of 2009, the SIF combines public and private resources to increase the effect of innovative, community-based solutions that have compelling, rigorous evidence of results. Currently, two programs are funded through the SIF to support these efforts.

The SIF Classic program awards grants to eligible grant- making institutions or partnerships to select, fund, support, and evaluate community-based nonprofit organizations seeking to develop innovative, evidence-based solutions in the areas of economic opportunity, healthy futures, and youth development. The program requires a 2:1 match of nonfederal funds and also requires nonprofits to participate in an extensive evaluation of their programs' effectiveness. This approach helps to improve accountability and promotes knowledge sharing in the targeted sector.

The SIF Pay for Success (PFS) program awards grants to eligible nonprofits to leverage up-front philanthropic and private dollars to fund social service programs that demonstrate success through measurable outcomes. The PFS model allows private investors to receive enhanced returns if public sector savings are achieved.

SIF by the Numbers

- More than **$900 million** invested in compelling community solutions since 2010
  - **$295 million** in federal grants leveraged by more than **$627.5 million** in nonfederal match commitments
- SIF Classic
  - **43 awards** to grant-making organizations working in **17 states** and the District of Columbia.
  - Rigorous models funded for more than **450 nonprofits**
- SIF Pay for Success
  - **65 organizations across 25 states** engaged in testing and implementing SIF PFS projects

LISC

Proposal: Expand and Promote the SIF

Authorization for the original four-year SIF pilot program has expired, and despite the widespread success of SIF-supported innovations, many federal agencies remain unaware of relevant, compelling program data and evaluations supported by the SIF. To adequately address emerging social challenges, we propose the following:

- Authorization of the SIF with full funding of $150 million annually, with a 30 percent funding set-aside for the SIF Pay for Success program.
- CNCS development of a comprehensive plan to communicate data, evaluations, and programmatic successes of SIF-funded initiatives to relevant federal agencies. This plan should not only publicize the results of SIF evaluations, but also facilitate opportunities to foster meaningful dialogue on scaling and integrating of SIF innovations within complementary federal programs.

SIF Classic

LISC received SIF Classic awards to pilot and bring to scale its network of Financial Opportunity Centers (FOCs) and to connect FOC clients to "middle skills" jobs with a career pathway by introducing them to local employers. FOCs are one-stop shops that provide low-income individuals with integrated services across three different areas: employment services and career planning, financial coaching, and access to income supports. An independent research assessment conducted as part of LISC's first SIF Classic award shows that "FOCs had significant impacts on increasing employment stability, reducing non-asset-related debts, and building positive credit histories."[1]

[1] Anne Roder, *First Steps on the Road to Financial Well-Being* (New York: Economic Mobility Corp., 2016), http://www.lisc.org/media/filer_public/f7/f7/f7f7402d-690d-47f5-a7fa-537ab7b793c4/16024-first-steps_r5-report-web.pdf.

SIF Pay for Success

LISC received a PFS award to help social service providers design effective programs, raise private capital, and produce the metrics needed to demonstrate positive outcomes in vulnerable communities.

We are focusing on the following areas:

- **Youth development:** Preparing America's youth for success in school, active citizenship, and productive work, and reducing crime through initiatives focused on juvenile delinquency and victimization prevention and response
- **Economic opportunity:** Increasing such opportunities for economically disadvantaged individuals
- **Healthy futures:** Promoting healthy lifestyles and reducing the risk factors that can lead to illness

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For more information on this proposal, please contact Nicole Barcliff at nbarcliff@lisc.org.

LISC

US Department of Education

Credit Enhancement for Charter Schools Program

Summary

Public charter schools provide educational options to students and their families, boost educational achievement, and positively affect students' future earnings potential. Today there are approximately 6,700 charter schools across the country, serving 2.9 million primarily low-income students. One of the largest challenges facing charters is the ability to secure and adequately finance high-quality facilities. Because these schools are achieving positive results, more than 1 million students are on charter school waiting lists nationwide. The US Department of Education Credit Enhancement for Charter Schools Program (CEP) is successful in helping charters overcome their challenges in financing facilities, but unfortunately, the demand for capital outstrips funding availability. Given the high demand for charter school facilities capital and the efficacy of the CEP, **we propose full funding of the program and more flexibility in the use of CEP award dollars.** Specifically, we propose that after the original award dollars have been deployed according to the authorized permissible uses, the awardee be granted the authority to use the funds to establish a revolving pool of low-interest capital to leverage investor capital in support of charter schools. We also propose that at the end of the 30-year period, the funds be retained by the awardee for general use.

Background

Most jurisdictions with charter laws do not provide a public funding stream for charter school facilities, meaning that charter schools must put significant portions of their operating budgets—usually around 20 percent—toward facilities costs. The US Department of Education established the CEP to help charter schools overcome financial challenges that can limit their ability to access appropriate accommodations. The CEP provides grants to eligible entities (states; local governmental entities; private nonprofits; and state, local, and private nonprofit consortiums) to help public charter schools improve their credit so that the schools can obtain private sector capital to buy, construct, renovate, or lease academic facilities.

Despite modest increases in appropriations in recent years, the CEP is being funded at much lower levels than it was a decade ago. Additionally, as currently authorized, CEP award dollars may be used only as credit enhancements. They may not be used to directly pay for a charter school's construction, renovation, repair, or acquisition, nor to provide a down payment on facilities to secure loans for charter schools.

CEP Program Facts

- Charter schools have a financing need conservatively estimated at **$1.3 billion** annually.
- $297 million of CEP grants have leveraged over **$3.2 billion** of private financing.
- The Local Initiatives Support Corporation (LISC) has leveraged **more than $533 million** in private sector investments through the CEP.
- On average, LISC-financed charter schools' test scores outpace those of other schools in their respective districts by **20 percent**.

Proposal: Full Funding and Flexibility for CEP

Given the high demand for charter school facilities capital and the efficacy of the CEP, we propose that the CEP program be fully funded.

The Every Student Succeeds Act (ESSA) sets aside 12.5 percent of charter school program (CSP) funding for facilities, and 50 percent of facilities funding for the CEP. Currently, facilities are being funded at about 9 percent of the total CSP, resulting in the CEP being funded well below the authorized levels. **Fully funding the CEP will help meet the overwhelming demand for facilities resources.**

Additionally, we propose that after original award dollars have been deployed according to the authorized permissible uses, **awardees be granted the authority to use the funds to establish a revolving pool of low-interest capital** to leverage investor capital in support of charter schools and that at the end of the 30-year period, **the funds be retained by the awardee for general use.**

As currently authorized, CEP award dollars may be used only as credit enhancements. They cannot be used to pay directly for a charter school's construction, renovation, repair, or acquisition, nor to provide a down payment on facilities to secure loans for charter schools. Flexibility in the redeployment of award dollars will allow eligible entities to leverage additional investor capital and to meet the needs of a larger segment of the charter school population.

For more information on this proposal, please contact Nicole Barcliff at nbarcliff@lisc.org.

LISC

US Department of Health and Human Services

Community Health Center Loan Guarantee Program

Summary

Nearly 62 million Americans do not have a regular source of primary healthcare. Because of this, they are not getting the preventive care they need. All too often, these individuals' first interactions with the healthcare system are at an emergency room or hospital. The lack of access to primary healthcare not only has a detrimental impact on one's personal health and well-being, but also results in much higher treatment costs for individuals as well as the federal government. The nation's network of **Federally Qualified Health Centers** (Community Health Centers, or CHCs) **provides the means to expand access to healthcare** to underserved families, and it is projected that CHCs will serve millions more patients in the coming years. However, many CHCs do not have access to the financing needed to expand, rehabilitate, or open new facilities to meet these patients' needs. The Community Health Center Loan Guarantee Program facilitates private sector financing to meet this need.

Background

Current trends indicate that CHCs are on track to serve **32 million patients** by 2020—a 45 percent increase over their current patient population. To serve this expanded population, however, they will need **$8.5 billion**[1] to support the construction of new delivery sites and the expansion and rehabilitation of existing treatment centers. An $8.5 million investment would fund construction or renovation of **22 million square feet of space,** accommodate **11,300 new providers**, and serve **10 million new patients annually**.[2]

Public funding alone will not be sufficient to meet the CHCs' anticipated expansion needs. Rather, public funds must be employed strategically in a way that attracts private sector capital to support these efforts. The Community Health Center Loan Guarantee Program, established in 1997, does this by offering a federal guarantee of up to 80 percent of the amount of a facilities loan provided by a private lender to a CHC. The guaranteed loan proceeds may be used for the costs of construction, renovation, and modernization of these facilities.

Impacts at a Glance: CHC Loan Guarantee Program

- The program has guaranteed loans for **18** health centers.
- It has supported **$233.6 million** in total development costs for more than 600,000 square feet of facilities space.
- In 2014, these centers served **375,000 patients**.
- There has never been a default on a facilities loan.

[1] Capital Link, "Capital Plans and Needs of Health Centers: A National Perspective," Boston, 2015.
[2] Ibid.

LISC

Proposal: Modify and Expand the CHC Loan Guarantee Program

The Community Health Center Loan Guarantee Program has been highly effective—over $230 million has been invested through the program in 18 different health centers without a single instance of loan default. However, because of structural and administrative barriers (none statutory), the program remains relatively underused by the private sector. In addition, the appropriations needed to backstop the guarantee will be fully used by fiscal year 2017, meaning that no additional healthcare centers can be financed under this program.

We recommend the following improvements to the program:

- **Provide additional appropriations.** We propose that the program be provided with additional appropriations of **$35 million**, which, at the program's current credit subsidy rate, would support over $1 billion in private sector loans.
- **Pursue program improvements**. The CHC Loan Guarantee Program is structured unlike any other federal guarantee. Its unique provisions, which include Health Resources and Services Administration (HRSA) "step-in" rights and multiple points of underwriting, have made it very unattractive to private lenders and have hindered the ability to establish a secondary market for the loans. We recommend that the US Department of Health and Human Services (HHS) pursue administrative fixes, modeled after other federal guarantee programs such as the US Department of Agriculture's community facilities program, to encourage wider use of guarantees by private lenders.
- **Market the program to CDFIs and the private sector.** CDFIs and other financial institutions are increasingly investing in CHCs and are well poised to use this program, particularly in the wake of a recent collaboration between HHS and the US Department of the Treasury that resulted in specialized training to CDFIs focusing on healthcare lending. HHS should conduct outreach to CDFIs and other financial institutions to better educate them about this program.

PrairieStar Health Center: Hutchinson, KS

In 2013, PrairieStar Health Center was facing eviction from its leased space and had already outgrown the facility. A local bank was interested in financing a new building, but it required additional collateral to secure the loan, which the health center could not provide.

Obtaining the HRSA loan guarantee enabled the health center to obtain the loan and build a new 32,000-square-foot facility. The new state-of-the art medical facility, which opened in March 2015, allows PrairieStar to serve almost 10,000 patients annually from seven counties.

For more information on this proposal, please contact Matt Josephs at mjosephs@lisc.org.

LISC

Credit Building and Individual Development Accounts

Summary

With the rise of payday lending and loan rates often in excess of 200 percent, access to affordable financial products has never been more important. Unfortunately, low credit scores are a barrier for many low-income people seeking access to capital. Low scores can limit access to safe and affordable rental apartments, can lead to higher cell phone payments, and may even limit employment options. The incentives provided in an Individual Development Account (IDA) (i.e., matching funds that encourage savings for home ownership or education) would have a greater effect on an individual's financial bottom line if combined with credit building. **We propose that the Individual Development Accounts used in the US Department of Health and Human Services (HHS) Assets for Independence (AFI) Program incorporate credit building** so that individuals with socioeconomic challenges not only build their savings, but also begin to build their credit.

Background

The cost of having poor credit or no credit history is at an all-time high; **credit building is an imperative** for all Americans, especially those with tight budgets. Beyond fixing a person's credit report, credit-building strategies promote sound financial management behaviors that **increase the credit score both in the short term and over time**.

Low Credit by the Numbers

- Over **64 million** Americans have low credit.
- The cost of having a low credit score is **more than $200,000** over the course of a lifetime.
- **47 percent** of employers conduct credit checks on some or all job applicants.

LISC Twin Accounts

To help clients along the road to self-sufficiency, the Local Initiatives Support Corporation (LISC) developed Twin Accounts—an innovative financial product that uses behavioral economics principles to promote savings and credit building among low- to middle-income Americans. Participants are able to build and improve their credit score, which will allow them to access lower-cost financial products.

The Twin Accounts product combines the incentives provided in an IDA (i.e., matching funds that encourage savings for home ownership or education) with credit building to achieve a high level of influence on an individual's financial bottom line. Participants in LISC Twin Accounts programs receive a "loan" of $300, which is not drawn immediately. Instead, the participant pays back the loan in installments over a 12-month period. By the end of the 12 months, participants not only have saved $300, but also have earned a dollar-for-dollar match on every on-time payment, thereby doubling their savings to $600. Their payments are reported to credit bureaus, which enables them to build their credit scores or establish a credit history.

We believe that the underlying credit-building strategy of LISC Twin Accounts would enhance the effectiveness of existing federal programs with a matched-savings component.

Proposal: Incorporate Credit Building into HHS IDAs

The HHS AFI program helps low-income individuals move toward greater self-sufficiency through financial education and the use of matched savings accounts, also known as IDAs. Every dollar that a participant deposits into an AFI IDA is matched (from $1 to $8 in combined federal and nonfederal funds) by the AFI project. AFI participants use their IDAs and matching funds for one of three allowable assets: to purchase a first home, to capitalize or expand a business, or to fund postsecondary education or training.

We propose that the AFI program be enhanced by incorporating a credit-building component. Specifically, HHS should encourage credit bureaus to allow payments made in matched IDA accounts to qualify for consideration in credit scores. HHS should subsequently educate program administrators on how to report these payments to credit bureaus.

Alternatively, HHS can allow for a structure modeled on the Twin Accounts program, by which

- A portion of participants' IDA match funds is used to secure a "loan."
- Participants are required to repay the loan in installments as a match for every on-time payment and cannot draw down on the loan until it is fully paid.
- The program administrator reports on-time AFI IDA deposits to credit bureaus.

This adaptation will help participants build their credit scores or establish a credit history while saving for home ownership, education, or entrepreneurship.

Benefits of LISC Twin Accounts

- Nearly **70 percent** of all participants successfully complete the program. Of those, the majority increase their credit score.
- On average, participants who start the program with no score will exit with a score of **over 630**. The effect of the increase is fast. Nearly all who begin the program with no score have a score of **over 600** after six months.
- For individuals who begin the program with a score, those who experience an increase have an average increase of **60 points**. For most, the increase moves them from having a poor or subprime score to having a prime score.
- During the life of the program, **78 percent** of all participants in the program made all payments on time.

For more information on this proposal, please contact Nicole Barcliff at nbarcliff@lisc.org.

LISC

Early Childhood Facilities

Summary

High-quality early care and education is widely regarded as the single most effective intervention to promote healthy development and close the academic achievement gap for low-income children at risk for poor social and economic outcomes. Although many factors contribute to program quality, the **physical environment is an essential feature** that is often overlooked. Despite what is known about the importance of the spaces where learning takes place, there is no dedicated source of federal capital to help early care and education programs develop suitable well-designed facilities. We propose creating a dedicated funding stream for **early childhood facilities** to help fill the financing gap between the amount of capital that programs can generate and the cost of the acquisition, construction, or renovation of an early childhood facility.

Background

Early Childhood is a Critical Period

Decades of research show that early life experiences are extremely important to children's social, emotional, and academic development.[1] Proponents of community revitalization maintain that early childhood programs are essential parts of every neighborhood because they prepare young children for success in school and life, support working parents, and improve family well-being. Regrettably, many families—in particular, low-income families and those in rural areas—lack access to the stable, high-quality early childhood centers that children need to thrive and parents need to maintain gainful employment.

Data Demonstrate That Facilities Matter

Optimum layout, size, materials, and design features of a facility improve program quality; poorly adapted and overcrowded environments undermine it. Ample classrooms divided into well-configured activity areas support uninterrupted self-directed play and exploration and lead to fewer conflicts among children. Accessible cubbyholes, child-height furnishings and fixtures, and bathrooms adjacent to classrooms increase children's autonomy and competence while decreasing the demands on teachers. One study conducted at a preschool program in West Hartford, Connecticut showed that the newly

[1] Jack P. Shonkoff and Deborah A. Phillips, eds., *From Neurons to Neighborhoods: The Science of Early Childhood Development* (Washington, DC: National Research Council Institute of Medicine, National Academy Press, 2000).

constructed, age-appropriate space configuration increased teacher–child interaction, improved play experiences, and allowed teachers to use their time in a more effective and rewarding way, resulting in higher morale and lower turnover among staff members.[2]

Providers in Low-Income Communities Face Challenges Financing Facilities

Historically, private financial institutions have not made significant infrastructure investments in early care and education—particularly in economically distressed areas. Early childhood facilities projects tend to require relatively small, complex loans often characterized by uncertain future funding for repayment through government operating subsidies, and few traditional lending institutions are willing to finance such projects. Private banks typically do not employ personnel with specialized knowledge of the early care and education sector; consequently, these banks are unable to understand the needs of early childhood centers or assist program directors lacking experience with real estate development and financing. Programs serving low-income communities are highly dependent on public operating revenues, which do not cover the cost of purchasing or renovating facilities. In addition, early childhood facilities projects generally have little to no equity and limited collateral value.

What We Know

- Well-designed facilities enhance child development and program quality.
- An adequate supply of facilities is needed to support expanding preschool education programs.
- The quality and location of the facilities can encourage enrollment and parent involvement.
- Childcare program income, especially in low-income communities, does not allow for the added cost of constructing or improving appropriate facilities.
- Most centers need specialized technical assistance to address their facilities' needs.

Proposal: Early Childhood Facilities Financing

Young children—especially those in low-income communities—should be educated and cared for in physical spaces supporting high-quality programs. **We propose the establishment of dedicated federal resources for the costs of acquisition, construction, or renovation of early childhood facilities.**

Effective federal policies should reflect the following principles:

- Capital subsidies must be available to develop high-quality facilities.
- Federal early childhood facility capital subsidies are most effective when disseminated via entities that specialize in facilities financing and development and that have demonstrated experience and success providing technical or financial assistance to childcare providers.
- The subsidies, which may take the form of grants, loans, loan guarantees, or other resources, are most effective when used as a tool to leverage additional capital from the private sector.

[2] Tony Proscio, Carl Sussman, and Amy Gillman, *Child Care Facilities: Quality by Design* (New York: LISC Institute for Comprehensive Community Development, 2004).

US Department of Housing and Urban Development

Building Credit through Rent Reporting

Summary

Many residents of public and assisted housing properties overseen by the US Department of Housing and Urban Development (HUD) have little or no credit history and no credit score. This credit gap results, in part, from policies and practices that have left low-income and minority communities without access to financial services that would help build and maintain credit. Without access to affordable credit, residents of HUD assisted housing may become dependent on predatory loan products with high interest rates, face hurdles finding jobs, face higher costs for everything from automobiles to cell phone service, and have problems finding housing in the private market. Credit bureaus are now equipped to collect rental payment data, and on-time rental payments can help improve credit scores. Federal housing programs should **facilitate the use of rent payments to help assisted households build credit,** which will lead to upward financial mobility and increased access to housing.

Background

Estimates suggest that as many as 45 million people have limited credit history. These "credit invisible" consumers include approximately 26 million people, or 11 percent of the adult population, who lack credit records or scores, and 19.6 million people, or 8.3 percent, who have unscored credit records.[1] Credit invisibility can affect a household's access to housing, utilities, and employment.

Residents of low-income neighborhoods are more likely than residents of moderate-, middle-, or upper-income neighborhoods to be credit invisible.[2] A higher proportion of black and Hispanic households have limited credit histories than do white or Asian households.[3] These demographics overlap with those of subsidized housing populations, indicating that many residents of public and assisted housing may be credit invisible.

Who Are the Credit Invisible?

- They are numerous:
  - **45 million** people have limited credit history.
  - **26 million** people have *no* credit record or score.
- Many are low income:
  - **30 percent** of low-income households have no credit history.
  - **15 percent** have unscored records.
- They are more likely to be minorities.

Credit records are maintained by national credit reporting agencies. **All three major agencies— Experian, Equifax, and Transunion—receive rental data and include it on credit reports, but landlords' reporting of rental data to the agencies is voluntary.**

Even when collected, rental data are treated differently from data on other debt and credit transactions in the calculation of credit scores and are often not considered by lenders and prospective creditors.

[1] Kenneth Brevoort, Philipp Grimm, and Michelle Kambara, "Credit Invisibles and the Unscored." *Cityscape* 18, no. 2 (2016).
[2] Ibid., 18
[3] Ibid., 19

Unfortunately, limited access to credit makes it difficult and costly for credit invisible consumers, many of whom are likely to be residents of subsidized housing, to access mainstream financial products needed for upward financial mobility.

Proposal: Build Credit through Rent Reporting

Federal housing policy should support practices that maximize the opportunity build a positive credit history. To support tenants on a path to upward financial mobility, HUD programs should promote landlord reporting of rental payments to the credit bureaus and prudently use the resulting data in credit-related decisions.

- Public housing authorities are able to report rent payments, but the additional cost and administrative burden create a disincentive to do so. They should be encouraged to report rental payments and should be permitted to use operating funds for the cost. Rent reporting should be a required component of supplemental programs intended to foster financial self-sufficiency, including HUD's Family Self-Sufficiency and Jobs Plus.
- Private owners of properties subject to project-based rental assistance agreements should be encouraged to report rent payments and permitted to include the cost of reporting as an operating expense in the project's budget.
- At the time that a Housing Choice Voucher contract is executed, landlords should be provided with information on the process for reporting rental payments and on the benefit to tenants.
- The Federal Housing Administration (FHA) should evaluate the predictive value of reported rent payment data and issue guidance to FHA mortgage lenders encouraging use of such data where appropriate to expand the availability of mortgage credit. Through careful analysis and guidance on how to responsibly weigh the data, HUD and the FHA can serve as thought leaders and market influencers in expanding access to homeownership.

Building Credit and Opportunity: LISC Financial Opportunity Centers

A key element of the LISC strategy for revitalizing communities and creating opportunity is helping families stabilize income and build wealth. LISC's Financial Opportunity Center (FOC) model offers bundled services that include one-on-one financial counseling, employment assistance, and help accessing public benefits to supplement work income. FOC clients are more likely to be employed year-round, reduce non–asset-related debt, and build positive credit histories.

A recent evaluation found FOC clients were significantly more likely than those in a comparison group to have a credit score after two years and were also significantly more likely to have prime credit scores after two years.

Rental reporting would help households like those that participate in FOC programs to build credit histories that would allow access to greater resources and lower cost of services and borrowing.

Source: Anne Roder, *First Steps on the Road To Financial Well-Being: Final Report from the Evaluation of LISC's Financial Opportunity Centers* (New York: Economic Mobility Corporation, 2016).

For more information on this proposal, please contact Matt Josephs at mjosephs@lisc.org.

LISC

US Department of Housing and Urban Development

Community Development Block Grant–Disaster Recovery Program

Summary

When communities are hit with a disaster, their resilience and long-term stability depend on the rapid and efficient deployment of resources to support recovery efforts. Although some emergency funding flows through Federal Emergency Management Agency (FEMA) assistance, much of the federal government funding for long-term recovery is provided through the Community Development Block Grant–Disaster Recovery (CDBG-DR) program. Unfortunately, this funding is available only if Congress passes a special supplemental appropriations bill. Even after funds are appropriated, the assistance must be allocated by the US Department of Housing and Urban Development (HUD) and delivered through a program (CDBG) that was not designed to address the special urgencies brought on by a disaster. This long, unpredictable process delays the community's recovery and has a lasting impact on the health and economic well-being of residents.

Background

Although disasters are unpredictable, they are inevitable. And when they strike, **timely and well-targeted federal assistance is critical to recovery**, particularly in low-income communities, which are often communities of color. The Stafford Act includes a broad framework for providing federal funding after the federal declaration of disaster, but there is no assurance of how or when this help will be given. Under the current system, a state must request assistance, federal agencies must calculate the need, and a request must be made to Congress for supplemental appropriations. This process almost always takes several months after the disaster occurs. When tornados devastated Tuscaloosa, AL, and Joplin, MO, in 2011, supplemental appropriations took more than six months. When Hurricane Katrina struck Mississippi and Louisiana and captured national attention, the appropriations bill ppassed more than four months after the storm struck.

Once appropriated, long-term recovery funding for community development and housing recovery is typically provided through CDBG-DR. After an appropriation is made, HUD undertakes a typically lengthy process to establish any policies and procedures necessary to comply with the appropriation's statute and to allocate funding in accordance with plans submitted by the states and entitlement jurisdictions. In the case of Tuscaloosa and Joplin, HUD' s initial guidance was issued five months after the supplemental appropriations bill was passed—in other words, approximately a year after the disasters occurred.

Funds allocated through CDBG-DR are subject to standard CDBG requirements, which are frequently impractical in a disaster recovery setting. Waivers to CDBG requirements are common for CDBG-DR communities. Although similar (if not identical) waivers have been granted to most disaster recovery

jurisdictions over the past two decades, **many waivers must be sought on a case-by-case basis, which further slows the deployment of recovery funding** in disaster-stricken communities. In the wake of Hurricane Katrina, HUD issued 19 separate rules notices over more than three and a half years. Following Hurricane Sandy, HUD published 22 regulatory notices over a similar period.

Proposal: Permanently Authorize Disaster Relief

We propose expediting the recovery of communities following a disaster by permanently authorizing disaster relief through CDBG-DR and by providing a modest appropriation to allow for immediate assistance.

- **Separate statutory authority for disaster recovery should be created.** The program should cross-reference CDBG requirements where appropriate, but it should have parameters that reflect the most frequently granted waivers for the CDBG-DR program, including the following:
  - Flexibility in meeting the CDBG national objectives, including the "urgent need" category, which is currently not well defined
  - Flexibility in meeting the percentage of funds that must benefit low- and moderate-income communities and further their recovery
  - Environmental review requirements that facilitate responsible rebuilding and prevent unnecessary work stoppage
- **Annual appropriations should be provided for the disaster recovery program.** Funding would be a set percentage of the weighted average annual disaster need over the past 10 years, plus any recaptured funds available through the Declared Disaster Recovery Fund. Thus, after a disaster declaration, immediate assistance would be available until supplemental funding could be approved.
- **The program should use state and federal agency data to identify a formula for calculating the relative need of each affected community.** With a formula and standard data points, both initial funds and any necessary supplemental appropriations could be distributed quickly.
- **The program should provide for philanthropic and nonprofit engagement in recovery** through grants to nongovernmental organizations with a demonstrated track record of engaging with and leveraging federal funds to serve vulnerable populations. Eligible organizations could not only aid in recovery efforts, but also lead resilience planning efforts that would foster expedient and sustainable recovery.

Build It Back: New York City

In 2012, Hurricane Sandy caused an estimated $19 billion of damage in New York City. Thousands of buildings sustained damage from flooding and winds. The already high-cost New York City housing market could not sustain a long-term loss of units. To repair homes damaged by the storm, the city established NYC Build It Back using CDBG-DR funds. Assistance for rehabilitating multifamily properties is provided in the form of a forgivable loan to cover unmet costs. LISC NYC administers Build It Back funds as a subgrantee of NYC Housing Preservation and Development.

For more information on this proposal, please contact Matt Josephs at mjosephs@lisc.org.

LISC

Housing Choice Voucher Program Expansion

Summary

The United States is facing a housing affordability crisis. More than half of all renter households are cost-burdened, spending more than 30 percent of their income on shelter costs. Among households with annual incomes of less than $15,000, 72 percent spend more than half of their income on housing. The Section 8 Housing Choice Voucher (HCV) program and other programs designed to enable very low-income households to afford decent and safe housing can no longer keep up with the demand. Currently, only **one in four** households eligible for rental assistance receives it. Eligible households that do not "win the lottery" by getting assistance face housing instability, a greater likelihood of homelessness, and a much more challenging path to escaping the cycle of poverty. To meet growing affordable housing rental needs and to reduce the negative effects of unstable housing, **we propose expanding the Section 8 HCV program.**

Background

Under Section 8 of the Housing and Community Development Act of 1974, as amended, local housing agencies may issue vouchers to provide low-income households with rental housing assistance in the private housing market. The program, known as the Housing Choice Voucher program, is now the most widely used form of federal housing assistance. The program currently serves more than 2.1 million households throughout the country.

HCV Figures

- **18 percent** jump in number of very-low-income households, 2007–13
- **26 percent** of eligible households receive rental assistance
- **23 months:** average wait time for a voucher in 2013
- **45,000** fewer families served since cuts made through sequestration

The program targets the lowest-income households. Of the new households admitted each year, 75 percent must have incomes not exceeding 30 percent of the area median income (AMI), and the balance must have incomes not exceeding 80 percent of AMI. Voucher holders pay the greater of $50 or 30 percent of their adjusted income toward monthly rent, and the federally subsidized HCV pays the difference between the tenant's contribution and the unit rent up to an area's payment standards.

Stagnating wages, increased demand for rental units, and rising costs have contributed to an increasing number of households with worst-case housing needs. Despite the growing number of rent-burdened households, voucher funding has not expanded. In fact, sharp cuts during sequestration resulted in the loss of approximately 100,000 vouchers, 45,000 of which have not been restored. In recent years, Congress has funded vouchers at levels barely sufficient to renew existing levels of assistance and has not addressed the growing need.

Proposal: Expand the Housing Choice Voucher Program

Vouchers have proven to be effective at not only reducing homelessness and providing housing stability to low-income families, but also offering access to new neighborhoods and improving other life outcomes. We propose expanding the HCV program so that **all** eligible extremely low-income households receive assistance.

- **All households with incomes not exceeding 30 percent of AMI** that apply would receive access to to an HCV instead of entering a lottery or joining a waiting list.
- To achieve the goal of making housing affordable to all, Congress must not only continue to fully fund the renewal of all existing vouchers, but also **increase funding** for vouchers for all eligible households still waiting for assistance.
- Families once suffering from housing instability because of high rent costs would be able to **use more of their income to meet their basic needs** for food, health care, education, and transportation.
- Although expanding the program requires additional funding, research has shown that doing so **not only will provide more stable housing, but also could offer savings in other public expenditures**.

Saving Money and Improving Lives with Vouchers

Research suggests that voucher assistance **reduces homelessness and housing instability by up to 80 percent.** Studies have also shown that vouchers can reduce other costs:

- Rental assistance combined with supportive services for families at risk of losing their children to the child welfare system produced savings in the emergency shelter and child welfare systems that **offset almost the entire cost** of rental assistance and services.
- Vouchers provided to homeless families with children **reduce other shelter costs enough to offset nearly the entire cost of the voucher**.
- Rental assistance combined with supportive services for homeless individuals with serious health problems can **achieve savings in the healthcare, corrections, and emergency shelter systems**.

Research further demonstrates that when vouchers are used to move young children to lower-poverty areas, those children experience **improved life outcomes**:

- Higher average annual earnings
- Increased rates of college attendance
- Decreased likelihood of single parenthood

Source: Will Fischer, "Research Shows Housing Vouchers Reduce Hardship and Provide Platform for Long-Term Gains Among Children." Center on Budget and Policy Priorities, October 7, 2015, http://www.cbpp.org/research/housing/research-shows-housing-vouchers-reduce-hardship-and-provide-platform-for-long-term?fa=view&id=4098.

For more information on this proposal, please contact Matt Josephs at mjosephs@lisc.org.

LISC

Persistent Poverty Initiatives

Summary

In the United States, *persistent poverty* is defined at the county level as counties where at least 20 percent of the population has been living in poverty for the past 30 years. There are approximately 350 persistently poor counties, more than 300 of which are nonmetropolitan.[1] Persistently poor counties need economic resources to create jobs and improve the infrastructure that supports those jobs, including housing, yet they struggle to compete for and deploy federal funds. **Challenges to addressing communities characterized by persistent poverty could be better met by US Department of Housing and Urban Developments (HUD) programs if those programs offered more flexibility when used in persistently poor communities.**

Background

In persistently poor areas, incomes are often low and resources are scarce. Although persistently poor areas are eligible for federal resources, including HUD resources such as HOME and Community Development Block Grant (CDBG) funding, a lack of capacity and an inability to attract sufficient private resources prevent these communities from accessing and deploying federal funds. Furthermore, even when funds are available, low income limits and other federal requirements can make these programs difficult to use, given the extremely low incomes prevalent in persistently poor areas.

Incomes in areas with persistent poverty are typically well below incomes in other parts of the state, such that even the median income in these areas would be considered low income in many other parts of the state. These deep restrictions on very low incomes make it a challenge to finance and develop housing and community development projects that meet the income limit requirements of programs such as HOME and CDBG. The cost for constructing, repairing, and operating housing is no less for the lowest- income households; however, the restricted rents or mortgages generated from these extremely low-income households are insufficient for operations, much less debt financing.

HUD has special initiatives to address specific needs in persistently poor areas, including the Border Community Capital Initiative and the Appalachian Economic Development Initiative, but the requirements of core HUD programs remain tailored to more economically diverse metro areas. This limitation creates a hurdle to successful development in many areas with persistent poverty. Flexibility in the application of program requirements to persistently poor areas could help stimulate the economies of these communities and better assist their residents.

[1] US Department of Agriculture, "Geography of Poverty," http://www.ers.usda.gov/topics/rural-economy-population/rural-poverty-well-being/geography-of-poverty.aspx.

Proposal: Provide Program Flexibility for HUD Program Dollars Targeting Persistently Poor Communities

We encourage the administration to examine HUD programs to identify policy and regulatory changes that would facilitate the use of federal resources in persistently poor communities. Changes reviewed should include, but not be limited to, the following:

- **Use of income banding in certain programs.** The US Department of Agriculture, Rural Development, recently initiated a pilot program within its Section 502 and Section 504 single-family mortgage programs to permit the use of income banding. In pilot areas, for purposes of income eligibility, income limits are based on bands of family sizes rather than on specific family sizes. Households with four or fewer members are subject to the four-person household income limit, and households with five to eight members are subject to the eight-person limit. This income-banding approach still uses the prescribed income limits, but through discretion in the adjustments for family size, it provides flexibility that makes the programs more viable. HUD should explore similar discretion for the HOME and CDBG programs.
- **Flexibility in match requirements.** Some HUD programs, including HOME, require a match from the local jurisdiction or the borrower. In persistently poor communities, it can be difficult to meet these match requirements given the scale of the need and the limited ability to attract private resources. Flexibility in match requirements, including the use of sweat equity, should be explored.

For more information on this proposal, please contact Matt Josephs at mjosephs@lisc.org.

LISC

US Department of Housing and Urban Development

Rental Assistance Demonstration Program

Summary

The nation is facing a housing affordability crisis, with approximately half of all renter households rent burdened.[1] Among the lowest-income households (those with less than $15,000 income), 72 percent spend more than half their income on rent. More than 1.1 million public housing units provide critically needed housing to households with an average income of just $14,497. Years of underfunding have created a capital backlog for the public housing stock that has not been addressed through appropriations. This backlog is difficult to remedy with private resources under the public housing regulatory regime.[2] These and other assisted housing units face physical obsolescence. Given the scarcity of safe and affordable housing for low-income families, **these resources must be preserved**. The Rental Assistance Demonstration (RAD) program has provided a path to preservation for select units. Expanding the program would **help attract private capital** to preserve thousands more units.

Background

Public housing authorities (PHAs) rely on federal funding for operating assistance and capital to make needed repairs. More than 30 years of underfunding of the Public Housing Capital Fund has created a backlog of more than $26 billion in repair needs, which is expected to grow by more than $3 billion per year.[3] Failure to address this backlog could lead to an annual loss of 10,000 to 15,000 units from the permanent public housing inventory. In 2012, in recognition of these mounting needs and the increasing constraints on federal funds, Congress authorized RAD. Under RAD, PHAs may elect to convert public housing assistance streams to project-based Section 8 contracts (project-based rental assistance, or PBRA) that can subsidize publicly or privately owned properties. PBRA is a subsidy vehicle familiar to lenders and investors, which makes it easier to underwrite loans and attract equity investment.

RAD by the Numbers

	Units	Projects
Already converted	36,332	337
In process	138,705	1072
Waitlist	16,416	115
Total	191,453	1614
Unit cap	185,00	N/A

Private investment: over $2 billion
Leverage: $9:$1

Under RAD, the total funding available under the PBRA contract in the initial year may not exceed the sum of the operating and capital funds attributable to the project. This stipulation makes RAD conversions **budget neutral**. The *Interim Report on the Evaluation of HUD's Rental Assistance Demonstration* found that RAD is successfully leveraging private capital at a rate of $9:$1. RAD offers the

[1] Joint Center for Housing Studies, "The State of the Nation's Housing," Harvard University, Cambridge, MA, 2016
[2] US Department of Housing and Urban Development, "Resident Characteristics Report," Washington, DC, May 1, 2015–August 31, 2016.
[3] Barry L. Steffen et al., "Worst Case Housing Needs: 2015 Report to Congress," US Department of Housing and Urban Development, Washington, DC, April 2015.

opportunity to recapitalize existing units or redevelop units on site or in a new location. By allowing PHAs to partner with developers and investors for recapitalization or redevelopment, RAD helps **leverage private investment** and debt to support improvements that can foster more opportunity for tenants. RAD was initially authorized for 60,000 units. Congress later authorized an additional 125,000 units, but those have been fully subscribed. Thousands more units are on a waiting list. The uncertainty created by the cap limits private market interest in the program and puts units at risk of loss.

Proposal: Expand the RAD Program

To address the critical backlog of capital needs in the public housing properties, we propose the following improvements to the RAD program.

- **Lift the RAD unit cap**. RAD is currently authorized for 185,000 units. The program is oversubscribed, and many PHAs interested in conversion have not submitted because of the cap. Eliminating the cap will allow private capital to be leveraged for the rehabilitation or development of thousands of units.
- **Expand RAD eligibility** to include Section 202 Project Rental Assistance Contract (PRAC) properties. Properties assisted with Section 202 capital advances were first funded in the early 1990s. Because the properties had no mortgage debt, the PRAC covers only operating expenses. As these properties age and need repair or new ownership, financing has been challenging. Allowing them to convert to project-based Section 8 under RAD would provide a subsidy form that could better attract private investment.
- Provide a limited appropriation to **assist the most complex preservation transactions**. RAD has provided a budget-neutral opportunity to reinvest in public and assisted housing resources for thousands of properties. Because of low rent levels or significant physical needs, some properties cannot support the needed recapitalization with the RAD conversion alone. A small pool of additional funds to be administered as grant support or soft debt would facilitate preservation of these affordable housing resources. Funding could be awarded to the transactions demonstrating the greatest need and to community-supported redevelopment plans.

Transforming Neighborhoods with RAD: Richmond, VA

Baker School Apartments is an adaptive reuse of a historic school building in the Gilpin Court neighborhood of Richmond, VA. The now-vacant building will be rehabilitated to provide housing for **51 senior citizens** who currently reside in the Fay Tower of the Gilpin Court public housing development. Through RAD, the Richmond Redevelopment and Housing Authority (RRHA) is able to provide a rental subsidy that will allow residents to move to the nearby Baker School, which will be rehabilitated by the developer and subject to a ground lease with RRHA.

Residents will benefit from improved housing while remaining in this historically significant neighborhood that is now experiencing reinvestment.

For more information on this proposal, please contact Matt Josephs at mjosephs@lisc.org.

LISC

US Department of Housing and Urban Development

Section 4 Capacity Building Program

Summary

Community-based nonprofits, such as community development corporations (CDCs), are often best positioned and most willing to be early responders to address broad community needs. Although long-term capacity for local housing and community development is critical for stable and affordable communities, the small size and lean budget of such nonprofits often means that they lack the ability to implement some critical components development strategies. This is true even for some established nonprofits, as the structure and financing of development transactions has become increasingly complicated in recent years. The Section 4 Capacity Building for Community Development and Affordable Housing Program provides vital grant funding to community-based organizations to build their capacity to adapt to the changing needs of their communities.

Background

The Section 4 Capacity Building Program was established as part of the HUD Demonstration Act in 1993. Funds are appropriated annually, and HUD awards funding competitively to eligible national intermediaries through a notice of funding availability. The intermediaries then use their national networks to award funding to the community-based organizations. The national networks and deep technical expertise of the intermediaries allow them to better identify needs and deliver financial support along with technical assistance and other tools. Grants are typically small, averaging $34,471 for the period 2010–14. Every $1 of Section 4 funding must be leveraged with at least $3 in private sources, but in practice, **leverage consistently exceeds $20:$1**.

Section 4 Results (2010–14)

- **1,233** organizations supported in all 50 states
- **37,611** homes built or preserved
- **7,459** trainings provided
- **$5.7 billion** of total development cost supported
- **More than $20** leveraged for every $1 of Section 4 funding

Section 4 funding is flexible and helps organizations increase their human, financial, and technical resources to meet evolving community needs. Effective support may fall into multiple categories, including operational support, training and technical assistance, strengthening of organizational systems, and seed capital for new programs and innovations.

The needs of community-based organizations are as varied as the communities they serve. As the housing affordability crisis grows and highlights the racial and economic inequities that community-based organizations have long recognized, the resources to address these deep needs are constrained. The Section 4 Capacity Building Program has been funded at roughly the same level since 2004, with temporary increases made in 2010 and 2011 as part of the economic recovery strategy.

Proposal: Strengthen the Section 4 Toolbox

We propose the following improvements to Section 4 that will address the growing needs of communities by strategically strengthening organizations rooted in growing equitable communities of opportunity:

- **Fund the Section 4 program at $45 million.** It has been funded at roughly the same level since fiscal year 2004, except for increases made in fiscal years 2010 and 2011 for economic recovery. When adjusted for inflation, funding at this level would be roughly equivalent to fiscal year 2004 funding levels. Increased funding would help leverage **more resources** for community-based nonprofits to address the housing affordability crisis and develop programs that create greater opportunity for residents.
- **Commission a national assessment of the needs of community-based nonprofits, including CDCs.** Assessing the financial and organizational health of CDCs will identify strengths and opportunities within the nonprofit community, which, in turn, will help determine how to best leverage funds and programs to support CDCs and increase their capacity to create opportunity in their communities.
- **Fund an innovation pilot to test new financial and administrative structures for CDCs.** There are few funding sources for the operations of community-based nonprofits. These mission-driven organizations historically have derived a large percentage of their funding from developer fees on the development of housing and commercial space in the neighborhoods they serve. As financing tools for housing and commercial projects have become more sophisticated and housing costs have skyrocketed, local nonprofits find that they cannot rely on developer fees for a steady source of funding. Exploring **innovative funding and administrative structures** will identify new opportunities to fund nonprofits as a consistent presence in the communities and will encourage a broader view of community development that may increase opportunities for residents.

Strengthening Neighborhoods: Cincinnati, OH

LISC has provided Section 4 grant support to Price Hill Will, a nonprofit that is leading real estate development and community engagement in Cincinnati's Price Hill neighborhood. Price Hill is a largely residential community with numerous schools and three stable business districts. It was hit hard during the foreclosure crisis. Section 4 funds have helped fund real estate development staff members who have helped renovate 61 blighted single-family homes and are now piloting a homesteading program. That program will provide a path to home ownership for people who might not be able qualify for a traditional mortgage but who have renovation skills and are able to put in some sweat equity.

For more information on this proposal, please contact Matt Josephs at mjosephs@lisc.org.

LISC

US Department of the Interior

Investment in Programs and Resources for Parks

Summary

Safe, well-maintained places to gather, exercise, and play are fundamental to the development and well-being of the members of any community—especially children. In distressed neighborhoods, where positive recreational outlets may be scarce, a playing field or park can serve as a welcome refuge from unsafe streets and as a deterrent to gang activity and other negative influences. Federal funding for open space and recreation projects is crucial for states, cities, and localities. We urge greater investment in state and local community recreation spaces by permanently, fully, and equitably reauthorizing the Land and Water Conservation Fund (LWCF); funding the Outdoor Recreation Legacy Partnership (ORLP) Program; and revitalizing the Urban Park and Recreation Recovery (UPARR) Program.

Background

The LWCF is a critical funding source to help preserve, develop, and ensure access to outdoor recreation facilities to strengthen the health of US citizens. Within the LWCF, the State Assistance Program provides matching funds to state and local governments. The State Assistance Program supports states in planning, acquiring, and developing outdoor recreation lands and waters. This funding is important because there are 7,800 state parks and more than 100,000 locally managed parks throughout the country.

The ORLP Grant Program, a portion of the LWCF's State Assistance Program, is targeted to help urban communities address outdoor recreation deficiencies through innovative partnerships. The UPARR Program was authorized at $725 million to provide matching grants for facilities and technical assistance to economically distressed urban neighborhoods, but funding was halted in 2002.

Throughout LISC's local offices and rural programs across the country, we have been able to create or revive hundreds of parks, greenways, trails, and playgrounds to

Investing in Detroit's Youth and Lipke Park

The National Football League (NFL) Foundation Grassroots Program awarded S.A.Y. Detroit a $200,000 grant to help install a synthetic turf playing field. S.A.Y. Detroit is a local nonprofit that assists homeless and low-income individuals and families. Recently, its focus has expanded to include youth recreation.

The city of Detroit and Detroit Lions quarterback Matthew Stafford's Score7 Foundation provided match funding for the grant. The project was a part of a larger revitalization plan to improve the neighborhood.

make neighborhoods healthy and sustainable. For example, in partnership with the NFL Foundation's Grassroots Program, we seek to address the shortage of clean, safe, and accessible athletic fields in low- and moderate-income neighborhoods.

Proposal: Invest in Parks Programs and Resources

The LWCF was originally authorized at $900 million annually, with funding provided through revenues collected mostly from oil and gas leasing in the Outer Continental Shelf. Unfortunately, of the total revenues that have accrued throughout the history of the program, less than half have been appropriated. Though leasing revenues exceed credited monies, the funds cannot be spent unless appropriated by Congress. **The LWCF is currently authorized through September 2018. We support the long-term or permanent reauthorization of the LWCF, including full and permanent funding.**

We urge continued federal investments under the LWCF by:

- **Allocating a minimum of 40 percent of LWCF appropriations to the State Assistance Program**. Current law mandates that at least 40 percent of the total LWCF annual appropriations be provided to the federal land acquisition program but does not specify an amount for the state program. Through 2014, $16.8 billion appropriated has been unevenly allocated among federal land acquisition (62 percent), the state grant program (25 percent), and other purposes (13 percent).[1] We propose equity between the federal and state programs with 40 percent for each, with the remaining 20 percent for other purposes.

Impacts at a Glance:
LWCF State Assistance Program

- Over **40,000** one-to-one matching grants in 40 years
- **10,600** grants for acquisition of park and recreation lands
- **26,420** grants for development of recreation facilities
- **2,760** grants for redevelopment of older recreation facilities
- **641** state planning grants

- **Continuing the innovative ORLP competitive grant program in the amount of $12 million annually, under state grants.** The program seeks to identify and highlight new ways of promoting opportunities for expanding outdoor play in areas with great need, as well as promoting development of new or enhanced partnerships for outdoor recreation in urban communities nationwide.
- **Revitalizing UPARR and allocating up to $25 million in funding out of LWCF appropriations.** Over the course of two decades, UPARR has assisted 1,500 sites and facilities in 380 localities, providing $272 million in matching grants directly to municipalities in metropolitan areas. The program also requires changes to its eligibility guidelines, which have not been updated since the 1970s.
- **Ensuring that any amount allocated to either the ORLP or UPARR program is not done at the expense of existing core formula grants** distributed to the states for conservation and active recreation.

[1] Carol Hardy Vincent, *Land and Water Conservation Fund: Overview, Funding History, and Issues* (Washington, DC: Congressional Research Service, 2014), http://www.fas.org/sgp/crs/misc/RL33531.pdf.

US Department of Justice

Byrne Criminal Justice Innovation Program

Summary

Safety is fundamental to the health and vitality of communities. In neighborhoods across the country, the Byrne Criminal Justice Innovation (BCJI) Program supports projects that work to reduce crime and improve community safety. The program is part of a comprehensive strategy to advance neighborhood revitalization goals. Through a broad cross-sector partnership team, including law enforcement officers and residents, BCJI sites target neighborhoods with hot spots of violent and serious crime. The sites employ data-driven, cross-sector strategies to reduce crime and violence. These strategies are reducing crime in targeted areas and surrounding neighborhoods and are forging meaningful police–community partnerships. Given the BCJI model's success and the high demand for federal resources from communities around the country, we propose authorization of the BCJI Program.

Background

In many communities, the same locations—a set of blocks or a few discrete intersections—pose major crime problems for years, unyielding to traditional methods of law enforcement or other community-led efforts to interrupt crime patterns. The BCJI Program gives community leaders and law enforcement agencies the resources to work with local research partners to examine the varied factors contributing to crime. The unique cross-sector partnerships develop and implement concrete strategies to reduce and prevent crime and to spur neighborhood revitalization. Since its inception in late 2012, the BCJI Program has grown to encompass a diverse network of 65 sites in urban, rural, and tribal areas all over the country.

Results: Safer and Stronger Communities

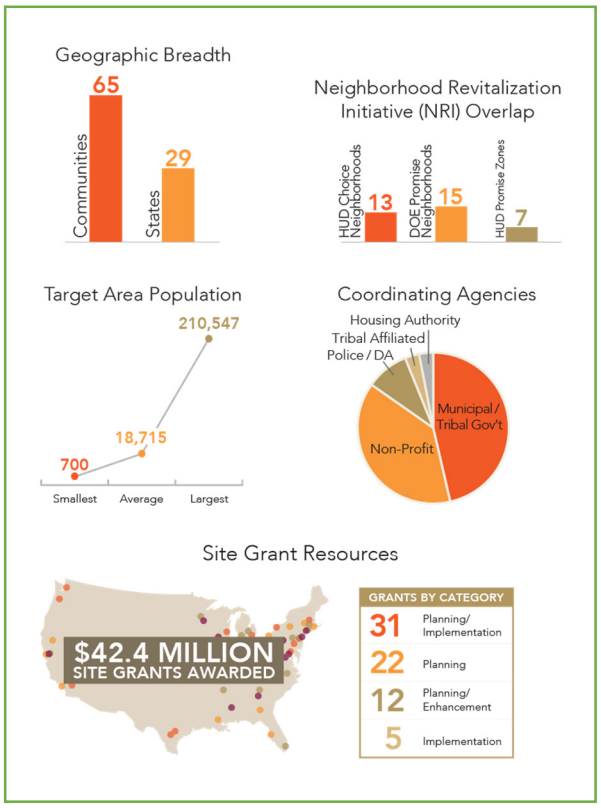
All BCJI sites share a common goal: to reduce crime and increase community safety in specific places within their neighborhoods. The comprehensive nature of the BCJI model, and its emphasis on involving residents in identifying problems and solutions, means that many BCJI sites also achieve results that lead to broader neighborhood well-being.

In addition to documented crime reduction in targeted hot spots and surrounding neighborhoods, BCJI sites have succeeded in reducing blight, crafting more effective social service and policing activities to

prevent and suppress crime, and improving the relationship between local residents and law enforcement.[1] In neighborhoods where fear and distrust too often shape daily life, BCJI sites have documented improvements in social cohesion: more people participate in neighborhood events, new cadres of local leaders devote time and energy to making their communities safe, and residents report greater confidence in the police.

Proposal: BCJI Program Authorization

Local and national leaders are examining ways to address crime—particularly in places that have seen a recent uptick in violence—and to build positive, collaborative relationships between communities and law enforcement. The BCJI model responds to both needs with promising results.



We propose authorization of the BCJI Program to ensure that data-driven and evidence-informed strategies are used to create safer and stronger communities. The following criteria should guide BCJI authorization:

- Entities eligible to serve as fiscal agents should include states, units of local governments, nonprofit organizations (including tribal nonprofit organizations), and federally recognized Indian tribal governments.
- Applicants must develop a cross-sector partnership team, led by the fiscal agent that includes law enforcement, neighborhood residents, a local research partner or research team, and relevant community stakeholders.
- Applicants must focus on communities with concentrated, chronic hot spots of violent and serious crime that represents a significant proportion of crime or within the larger community or jurisdiction.
- Grants will support both planning and implementation:
    - **Planning funds** will allow recipients to work with a local research partner, identify the drivers of crime in the targeted area, and design and complete a strategic, collaborative, and community-oriented plan to reduce crime in the target neighborhood or community.
    - **Implementation funds** will support recipients as they carry out the community-oriented plan, modify strategies as appropriate, measure the outcomes, and implement a long-term plan to support the work after grant funding expires.

[1] Local Initiatives Support Corporation, "Byrne Criminal Justice Innovation Program, Summer 2016 Update," http://programs.lisc.org/CSI/Images/BCJI_Update_Summer_2016.pdf

US Department of Labor

Financial Coaching in Workforce Development Strategies

Summary

LISC is committed to creating healthy communities made up of people who have living wage jobs and who feel confident about their economic future. To get there, residents need the skills to manage their money well and advance along the path of employment. Implementation and evaluation of LISC's Financial Opportunity Center (FOC) model demonstrates that financial coaching and adoption of a personal budget yield **net income** (expenses subtracted from income) **as a key indicator of financial and employment stability**. As the US Department of Labor, the US Department of Education, and other agencies offering comparable discretionary grant programs align their programming efforts to move people toward economic stability and self-sufficiency, **we propose that net income be included as a performance accountability indicator in workforce development programs and strategies.** Doing so will support the use of **financial coaching**.

Background

LISC supports a network of **nearly 80 FOCs**—career and personal finance service centers that help low- to moderate-income people build smart money habits and focus on their financial bottom line. Analysis and rigorous evaluation of FOCs reveal that integrated or "bundled" services—employment, income supports, and financial management skills—lead to concrete gains in net income and job retention. In a recent study, program participants who took advantage of bundled services made significant, lasting progress. More than half of the participants increased their net worth, incomes expanded by an encouraging 76 percent, 60 percent of participants increased their credit score or acquired a credit score, and 58 percent of those who started with zero or negative net income moved to positive net income.[1] Data also demonstrate that long-term job retention—holding a job for a year or more—almost doubles when financial coaching reinforces the work of employment counseling.

[1]Sarah Rankin. "Building Sustainable Communities: Integrated Services and Improved Financial Outcomes for Low-Income Households," LISC, New York, April 2015, http://www.lisc.org/media/filer_public/8d/d0/8dd0ddcd-e6b4-443a-bf47-a0c67096e212/041415_srankin_foc_report.pdf.

Proposal: Promote Financial Coaching in Workforce Development Strategies

Programs operating under the Workforce Innovation and Opportunity Act (WIOA) encourage interagency collaboration to move people toward economic stability and self-sufficiency.

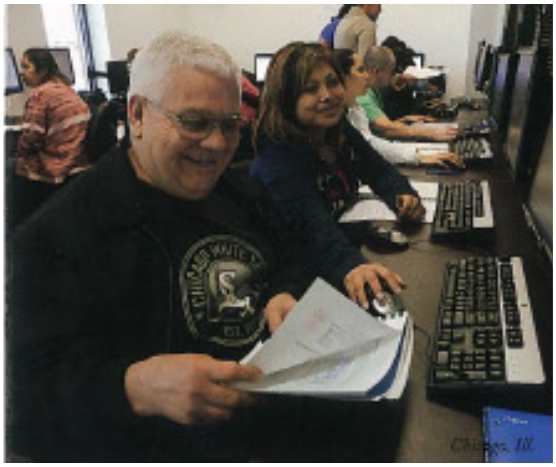
States must include multiple primary indicators of performance in their WIOA Unified or Combined State Plan. Among those primary indicators are unsubsidized employment, median earnings, credential attainment, skill gains, and effectiveness in serving employers.

Although the primary indicators are important measures of program success, they alone do not necessarily give state and local systems incentives to move program participants toward long-term economic stability. States may elect to develop additional or enhanced performance indicators to measure the outcomes of program participants.

We propose that the US Department of Labor set criteria and guidance for areas where net income is encouraged as an enhanced performance indicator. A net income performance indicator could be applied to workforce system customers who access individualized career services, receive an individual employment plan, receive counseling or career planning, take internships or obtain other work experience, and receive financial literacy services.

Facts about Financial and Employment Stability

- True financial security comes from the totality of how individuals manage their financial affairs.
- The best way to improve the financial bottom line for low- to moderate-income families is by helping people to simultaneously boost earnings and reduce expenses.
- The likelihood of holding a job for a year or more almost doubles when financial coaching reinforces the work of employment counseling.



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For more information on this proposal, please contact Nicole Barcliff at nbarcliff@lisc.org.

LISC

Small Business Administration

Community Advantage Program

Summary

Transforming distressed neighborhoods into vibrant places to live and work requires targeted economic development that helps small businesses grow. However, in recent years, even the strongest small businesses have had trouble accessing capital. For minority-owned businesses and for businesses operating in troubled neighborhoods, the challenges are magnified. It is very difficult for those businesses to obtain the capital needed to build facilities, expand their product lines, hire additional staff, and replace aging equipment. The Small Business Administration's (SBA) Community Advantage (CA) Program is helping to fill this critical financing need by giving "mission-based" lenders access to SBA 7(a) loan guarantees.

Background

Community Advantage is a pilot loan program introduced by the SBA to meet the credit, management, and technical assistance needs of small businesses in underserved markets. CA provides mission-oriented lenders—primarily nonprofit financial intermediaries focused on economic development—access to 7(a) loan guarantees of up to 85 percent for loans of $250,000 or less. SBA's goals for CA are: (a) to increase access to credit for small businesses located in underserved areas; (b) to expand points of access to the SBA 7(a) loan program by allowing nontraditional, mission-oriented lenders to participate; (c) to provide management and technical assistance to small businesses as needed; and (d) to manage portfolio risk.

Participation in the CA pilot is limited to organizations with a demonstrated track record in small business lending. Once approved, all participating CA lenders are required to make at least 60 percent of their CA loans in underserved markets, as defined by the SBA.

Community Advantage Figures through September 2016

- **113** SBA-approved CA lenders in **39 states**
- **2,744** loans originated in **46 states**, with a current outstanding portfolio balance of over **$198 million**
- Average loan size of **$127,040**
- **86 percent** of loans in underserved markets
- Cumulative default rate of **3.4 percent**

Proposal: Strengthen the Community Advantage Program

Currently, 113 approved CA lenders have provided close to $200 million in guaranteed loans through the program, close to 86 percent of which have gone to businesses in underserved communities. Despite this tremendous track record of success, the program is still in a pilot phase. **CA is scheduled to operate through March 31, 2020, unless it is extended or made a permanent part of the SBA's financial assistance programs.**

Policy Recommendations

- **Make the CA program permanent**. The pilot has been well used and is highly effective. Permanence will provide certainty to existing CA lenders, as well as to those lenders who want more assurances before committing the resources needed to secure CA designation and develop a product line.
- **Raise the CA loan cap from $250,000 to $500,000.** It is notable that even a cap of $500,000 is significantly lower than the current cap of $5 million under the traditional 7(a) program.
- **Authorize an 85 percent guarantee on all CA loans of $250,000 or less.** Currently, loans of over $150,000 are eligible for only a 75 percent guarantee. The conventional 7(a) market is generally not providing loans of less than $250,000. To encourage such loans, policymakers should set the CA guarantee uniformly at 85 percent for all loans of less than $250,000.
- **Allow CA lenders to sell participating interest in CA loans.** Such sales are currently allowed under the 7(a) program but are prohibited under the CA pilot. Permitting CA lenders to sell their loans will free up capital for additional CA lending.
- **Expand the CA pilot's definition of eligible underserved markets.** This definition should include Promise Zones, minority- and women-owned businesses, and veteran-owned businesses.

Investing in Small Business: Chicago, IL

After 18 years in the education and philanthropy sectors, Ramona Thomas returned to her childhood passion: chocolate. Her love of baking and sweets led her to start My Chocolate Soul in January 2011. As the business grew, it became clear that demand for My Chocolate Soul sweets would soon outpace Ramona's ability to keep up with the increasing number of orders while operating out of the shared commercial kitchen space she had been renting.

A Community Advantage loan from LISC allowed Ramona to lease a kitchen space and retail storefront of her own to grow her operations. "There is no way I could expand and grow my business without the loan and support from LISC Small Business. They are helping me reach my goals and fulfill my dream," she said.

For more information on this proposal, please contact Matt Josephs at mjosephs@lisc.org.

LISC

Reconnecting Communities

Summary

The Interstate Highway System that connected many places in the 20th century also cut off many communities from resources and opportunity. The impacts are nationwide, and without concerted efforts and funding to reconnect these communities, the effect of even comprehensive reinvestment is constrained. Recent policy changes and demonstration programs at the US Department of Transportation (DOT) offer resources for a limited number of communities to engage in this reconnection planning. To give all communities opportunity and to ensure that community investments have the greatest impact, **all communities should have access to tools to reconnect their neighborhoods**.

Background

The Interstate Highway program that began in the 1950s created a well-developed system of roads that connected to other modes of transportation. Although this new system meant unprecedented mobility for many Americans, the same infrastructure divided and isolated other neighborhoods. Often, residents were cut off from newly formed social and economic centers and were left with limited mobility and transportation options.

Every Place Counts Design Challenge Cities for 2016

- Spokane, WA
- Philadelphia, PA
- Nashville, TN
- St. Paul/Minneapolis, MN

The Every Place Counts Design Challenge, a federally funded initiative, started a discussion about reconnecting communities. The challenge encourages communities to imagine innovative and restorative infrastructure designs that will correct mistakes in existing projects. Through community-engaged design and planning, the challenge aims to reconnect people and neighborhoods to opportunity.

The primary benefit of the initiative is a two-day technical assistance program for “community vision” design. The program draws on DOT experts and volunteer technical experts to aid in the design process. The program differs from the Planning Pilot for Transit-Oriented Development in that it is centered on addressing the impacts of existing highway developments rather than new mass transit investments. Community engagement and a formal design process are critical to reconnecting communities, but those things alone are not sufficient to create and connect to opportunity. Permanent technical assistance resources and financing sources are essential for successful reconnection of isolated communities.

Proposal: Create a Permanent TA Program and Funding Sources for Reconnecting Communities

To reconnect communities to opportunity, we propose the establishment of a permanent technical assistance program that would include the following elements:

- **Technical assistance** for facilitated community design sessions similar to the Every Place Counts Design Challenge.
- **Ongoing support in the implementation of the plan.** A corps of volunteers could help match communities with the expertise needed to address their challenges, as modeled by the Every Place Counts Design Challenge.
- **Establishment of a stand-alone source of funding** (e.g., a revolving loan fund) to support projects incorporated in a plan for reconnecting communities, or absent that option, a **funding preference** for such projects in programs for funding federal transportation, housing, and community facilities.

Reconnecting in the Capital: Washington, DC

In Washington, DC, the Anacostia River separates wards 7 and 8 from much of the flourishing city. The 11th Street Bridge provides one of the main thoroughfares between wards 7 and 8 and other areas of the city.

With the 11th Street Bridge set for replacement, civic leaders and community members saw an opportunity to help connect the communities. An elevated bridge park will be developed that will use the piers of the old bridge. Feedback was solicited at more than 700 stakeholder meetings, and a design was created. The new park will include an amphitheater, a café, urban agriculture, a boat launch, plazas, and gardens.

To help ensure that this $11 million investment in the community (and the private investment that it will inevitably attract) does not contribute to the economic displacement of long-time residents and businesses, the Local Initiatives Support Corporation helped develop an Equitable Development Plan and has launched a $50 million Elevating Equity Fund to provide financial support for the plan. Technical assistance and access to finance could make equitable investments such as the 11th Street Bridge Park possible in every community.

For more information on this proposal, please contact Matt Josephs at mjosephs@lisc.org.

LISC

US Department of Transportation

Transit-Oriented Development Loan Fund

Summary

For too many years, transportation policy has not considered the full impact of transit investments on communities, especially lower-income and minority communities. From highways built through low-income neighborhoods that isolate those neighborhoods from the larger community, to residents and businesses displaced as mass transit systems are built or expanded, transit investments have often isolated rather than connected communities. The consequences of these transportation policies are lasting. Recent policy changes and new initiatives seek to address these inequities by thinking more comprehensively about the scope and impact of transportation investments; however, the effect of these initiatives has been limited because funding for transit investments and nearby nontransit investments is largely unaligned. **A permanent planning and financing vehicle is needed to help maximize investment and create inclusive communities.**

Background

Transit-oriented development (TOD) creates compact communities near transit where residents can easily access employment, services, and recreational facilities. TOD and smart growth principles have gained popularity in recent decades, but until recently they have not been incorporated into federal transportation policies and programs. Although mixed-use TOD has become a popular and effective strategy for leveraging private investment for neighborhood revitalization and economic growth, there has been no dedicated program or source of funding for implementation. This lack of funding and program structures has often meant that TOD projects are carried out without engagement from the full community.

The Moving Ahead for Progress in the 21st Century Act (MAP–21) authorized the TOD Planning Pilot program. The pilot program's goal was to provide funding to local communities to integrate land use and transportation planning with a transit capital investment sought through the Capital Investment Grant Program (CIG). Planning funded in this way has helped localities analyze ways to improve economic development, connectivity, and transit access; to identify infrastructure needs; and to facilitate mixed-use development near transit. The program has funded planning work that includes strategies to prevent gentrification and displacement throughout a transit corridor rather than just in a station or stop area.

In addition to planning resources for a small number of projects, the Department of Transportation (DOT) has sought to make the planning around all investments more comprehensive and equitable. For instance, the Federal Transit Administration (FTA) recently updated the guidance around the CIG Program to include land use factors that for the first time consider the availability of affordable housing and other economic development influences around proposed transit investments. The funded cross-sector planning in the TOD pilot and the more holistic analysis of the effect of proposed projects are

critical steps toward equitable TOD. However, the effectiveness of planning efforts is limited by the small scale of the pilot and a lack of implementation funding for nontransit elements of TOD planning.

Proposal: Create a Permanent Planning and Financing Program for TOD

To support equitable development and expand access to opportunity in all communities, we support an expanded TOD program and the establishment of a Transit-Oriented Development Loan Fund:

- **Expand the TOD Planning Pilot** and make it available to all projects funded through any future infrastructure bank or special funding source that would otherwise be eligible as Capital Improvement Program projects. Access to planning resources will help ensure that future investments support equitable development that does not duplicate the costly mistakes of the past.
- **Establish a TOD investment fund** to provide implementation funding for nontransit development activities that were included in the TOD planning, such as affordable housing, small businesses, and community facilities:
    - Funds would be made available to CDFIs and other approved, community-based lenders to reinvest in eligible projects.
    - The investment fund could be designed as a revolving loan pool in which participating lenders would get continuing access as loans are repaid and new projects identified.
    - At least a portion of the funding also could be made available as grants that the lender could use to leverage additional private capital (e.g., through loan guarantees or predevelopment funding, or to blend down the rate on a subordinate loan product).

Connecting Communities: Phoenix, AZ

In Phoenix, a city long associated with sprawling development, the community is embracing mass transit and transit-oriented development with the addition of new light rail and bus rapid transit lines connecting adjacent cities. Although new investment is a hopeful sign for a city hit hard by the foreclosure crisis and recession, LISC and its partner Raza Development Corp. wanted to ensure that residents of low-income communities would benefit from the rail lines and not be displaced.

To foster truly equitable and inclusive development, LISC and Raza have invested $20 million and pledged another $30 million to leverage equitable growth around transit stops. With this funding and other community supports, 2,100 units of affordable housing have been added along the light rail.

The area's needs are not limited to housing. LISC also provided grant support and small-business loans to businesses along the corridor to ensure that they were not displaced during or after the construction of the line. LISC and its partners in Phoenix have seen great success to date, but many more resources are needed to ensure that these exciting transit projects connect all members of the community to opportunity.

For more information on this proposal, please contact Matt Josephs at mjosephs@lisc.org.

LISC

US Department of the Treasury, CDFI Fund

CDFI Community Revitalization Initiative

Summary

For several decades, the federal government has supported programs that target specific communities for federal investments. However, the government cannot on its own provide the resources needed to address the myriad interventions needed in communities throughout the country. The **private sector needs to be given an incentive to invest** alongside the federal government in the communities that show the most promise. Community development financial institutions (CDFIs)—which have successfully worked in economically challenged regions *and* which have the tools and knowledge to attract private investment capital—are well positioned to connect these communities with the capital to make their plans a reality. This effort is the goal of the proposed CDFI Community Revitalization Initiative (CCRI).

Background

In the 1990s and early 2000s, several new programs were created that provided federal designations to communities to facilitate community revitalization efforts. These programs—including Enterprise Zones, Empowerment Zones, and Renewal Communities—also provided tax incentives and, in some cases, federal funding. The programs generally received wide bipartisan support. The Obama Administration offered a suite of programs under its **Neighborhood Revitalization Initiative (NRI)** that similarly sought to provide designations or funding (or both) for communities identified through a competitive selection process. The NRI programs include Promise Neighborhoods, Choice Neighborhoods, the Byrne Criminal Justice Innovation Program, and Promise Zones.

NRI Figures through 2016

- 60 communities awarded **Byrne Criminal Justice Innovation grants**
- **90 Choice Neighborhood** grants awarded to **85** communities
- **58 Promise Neighborhood** grants awarded to **46** communities
- 22 communities designated as **Promise Zones**

To date, close to **200 communities** have received federal recognition (either a designation or funding) through these NRI programs. *However, because of limited appropriations, very few of these communities have received the funding needed to fully implement their proposals*. The limited availability of appropriated funds (the fiscal year 2016 budget, for example, collectively provided only $213.5 million across all four programs) has meant that the vast majority of organizations are receiving only planning grants and not implementation grants. In addition, in some cases, the funding cannot be used to support physical infrastructure needs. And in the case of Promise Zones, federal funding is not available at all. **The CCRI will allow CDFIs to secure private sector financing to fill these funding gaps so that these plans can be implemented.**

Proposal: Establish a CDFI Community Revitalization Initiative

We propose the creation of a CDFI Community Revitalization Initiative. The CCRI would be housed at the Treasury Department's CDFI Fund and would be available to CDFIs with experience in financing community development projects in underserved neighborhoods.

The program would work as follows:

- CDFIs would be invited to **compete** for a pool of funds made available specifically for leveraging private sector capital investments in projects (housing, commercial real estate, community facilities, operating businesses, etc.) located in communities that federal agencies have designated for revitalization.
- Applicants could use the funds in a very flexible manner (e.g., as loss reserves, subordinated debt, or credit enhancements), but they have to meet minimum **leveraging** requirements (e.g., 5:1)[1] to secure nonfederal investment dollars.
- Applicants would be rated on several factors, such as their deployment track record, deployment strategy, ability to leverage funds, ability to create community impacts, and management capacity.
- The CCRI could be a stand-alone initiative (which would require authorization), or it could be administered through the targeting of *additional* award dollars through the CDFI Financial Assistance (FA) Program. In either case, the CCRI should *not* be funded from the CDFI Fund's current budget, but rather should be created with a new source of funding.
- So that efficiencies in scale could be achieved, awards would be much larger than typical awards made by the CDFI Fund—perhaps up to $10 million or more, as opposed to a typical award of $2 million or less.[2]

Investing in a Choice Neighborhood: Dorchester, MA

In 2013, LISC invested $10 million of new markets tax credit capital to redevelop the former **Pearl Meats Factory** into a shared-use and multitenant food production facility. The project is an integral part of Dorchester Bay Economic Development Corporation's **Quincy Corridor Initiative**, which will bring $80 million of public and private investment into a four-block stretch of Quincy Street, including a **$20 million Housing and Urban Development (HUD) Choice Neighborhood grant** that will, among other things, help to redevelop 129 homes for low-income families.

[1] The 5:1 leveraging requirement is conservative. The Capital Magnet Fund included a leveraging requirement of 10:1, and the awardees committed to leverage, on average, at a rate of 15:1. Under the Department of Education's Charter School Credit Enhancement Program, awardees generally have leveraged these awards dollars 11:1.

[2] If this initiative were to be operated within the confines of the FA program, it might be necessary to seek legislative authority to waive the requirement that no single CDFI receive more than $5 million in awards over a three-year period.

For more information on this proposal, please contact Matt Josephs at mjosephs@lisc.org.

LISC

US Department of the Treasury, CDFI Fund

Healthy Food Financing Initiative

Summary

Access to fresh, affordable food is a crucial component of a healthy community and one of the keys to combating chronic, nutrition-related diseases such as obesity and diabetes that plague impoverished neighborhoods. The Community Development Financial Institutions (CDFI) Fund's Healthy Food Financing Initiative (HFFI) supports projects that increase access to healthy, affordable food in so-called food deserts (low-income neighborhoods that lack grocery stores). CDFIs work in economically challenged regions and have the tools and knowledge to attract private investment capital. This combination of location, tools, and knowledge makes CDFIs integral to connecting communities with capital to fund projects that aid food deserts. **We propose a continued source of dedicated funding to support the HFFI–Financial Assistance (FA) program.**

Background

Nationwide, the US Department of Agriculture (USDA) estimates that 23.5 million people, including 6.5 million children, live in low-income areas that are more than a mile from a supermarket.[1] In an effort to address these food deserts, the Obama Administration established the HFFI, an interagency effort involving programs at the US Department of Health and Human Services, the USDA, and the US Department of the Treasury. The Treasury Department's role involved creating a dedicated pool of funding for CDFIs that would be used to finance food retail outlets (supermarkets, cooperatives, farmers' markets, etc.) in low-income communities. The CDFI Fund made the first round of HFFI awards in 2011 and has offered an HFFI award round every year since (including in 2016, when it awarded $22 million to nine CDFIs).

FY 2011–2016 HFFI–FA Award Statistics

- **$135 million** in federal grants awarded
- **34** CDFIs received HFFI awards, financing hundreds of healthy food retail facilities
- **20** states are home to HFFI grantees

Source: US Department of the Treasury, CDFI Fund Awards web page, https://www.cdfifund.gov/awards.

In 2014, Congress passed the Farm Bill, which established a stand-alone HFFI program at the USDA and authorized up to $125 million for the program. To date, however, the program has not been funded at a sufficient level to supplant the CDFI Fund's HFFI.

[1] USDA 2017 Budget Summary, http://www.obpa.usda.gov/budsum/fy17budsum.pdf.

Proposal: Continue Supporting HFFI

Investments in grocery stores benefit the residents of low-income communities by **improving health outcomes** through increased access to healthy food options. In addition, **economic revitalization** often occurs when investments are made in grocery-anchored retail centers. The HFFI program at the CDFI Fund has proven very successful at getting capital to CDFIs with the capacity to finance grocery stores and other healthy food retail outlets in low-income communities. The success of this initiative is attributable in part to the CDFI Fund's simultaneously developing a technical assistance program. That program helped to build the capacity of CDFIs to understand the grocery store industry, identify optimal areas for grocery store development, and underwrite loans to healthy food retailers.

Investing in Healthier Communities: Brockton, MA

The Local Initiatives Support Corporation (LISC) provided a $3.6 million loan to enable the successful **Vicente's Tropical Supermarket** to expand to a second location on a site that had been vacant since 2007. The redeveloped five-acre site now houses a 33,000-square-foot full-service supermarket with a small café. The $14.1 million project created an estimated 96 new permanent full-time jobs, with preference given to local low-income residents.

We therefore propose the following:

- The CDFI Fund should **continue to offer a stand-alone HFFI funding stream**, at least until the USDA HFFI is funded at sufficient levels.
- The stand-alone HFFI funding stream should continue to be **over and above the levels of funding otherwise available to CDFIs through the traditional CDFI Financial and Technical Assistance award programs**, and the CDFI Fund should continue to make the awards on a competitive basis to CDFIs that can demonstrate that they can deploy these dollars.

For more information on this proposal, please contact Matt Josephs at mjosephs@lisc.org.

LISC

US Department of the Treasury, CDFI Fund

Long-Term Capital for CDFIs

Summary

Lenders face many challenges in providing loans and investments in low-income communities, yet Community Development Financial Institutions (CDFIs) are remarkably resilient in these markets. CDFIs finance all types of loans, including first lien debt, subordinated debt, and unsecured loans. They finance loans for most stages of a project's life cycle, from predevelopment through construction and takeout. However, CDFIs can offer only debt products that match the duration of the debt they secure from the private capital market. And because the private capital market generally does not provide them loans of longer than five to seven years, CDFIs cannot provide the long-term, takeout financing that is critical for financial stability. As a result, many projects—including those for affordable housing, daycare facilities, charter schools, and community health centers—face major financing and operational challenges when balloon payments are due and interest rates rise. **CDFIs need better access to long-term capital.**

Background

The CDFI Fund offers two financing products that can equip CDFIs with the capital to make long-term loans to borrowers in their communities:

- The **CDFI Bond Guarantee Program (BGP)**: Authorized under the Small Business Jobs Act of 2010, this program was created to enable CDFIs to secure long-term (up to 30-year) debt capital by providing a 100 percent federal guarantee on bonds issued by CDFIs. Through the BGP, qualified issuers (CDFIs or their designees) apply to the CDFI Fund for authorization to issue the bonds, the proceeds of which are used to finance eligible community development activities. The minimum bond size is $100 million, and up to 10 CDFIs may participate in a single issuance. CDFIs that do not receive funding directly through the BGP may still participate as secondary borrowers by securing funding from CDFI BGP recipients and in turn using those funds to invest in eligible community development projects.

CDFI Bond Guarantee at Work: Henry Johnson Charter School (HJCS)

HJCS was founded in 2008 to help close the educational achievement gap in Albany, NY. The school serves 390 low- and moderate-income minority students in grades K–4. HJCS received a $6 million loan from LISC through the CDFI Bond Guarantee Program to purchase its building from its sponsor, the Brighter Choice Foundation. HJCS will use the loan proceeds to refinance $3 million in New Markets Tax Credit debt and lock in financing for 28 years at 6 percent.

- The CDFI Long-Term Loan Product: Under the CDFI Financial Assistance (FA) program, CDFIs may apply competitively for grants, loans, or equity capital from the CDFI Fund. The CDFI Fund recently created a standardized loan product that it can offer to CDFIs through the FA program—a 13-year loan that is priced at approximately the 10-year Treasury rate. It is interest-only for the first 10 years, with principal payments due in equal tranches in years 11–13.

Proposal: Modify CDFI Fund Programs to Facilitate Long Term Capital

Although both the BGP and the long-term loan product offer great potential, use by CDFIs is not widespread. We believe that there are inherent limitations to the programs as they are currently structured, but that with the right improvements, there will be tremendous uptake by the CDFI industry.

1. We propose the following changes to the BGP:

- **Make the BGP permanent, with $1 billion of guarantee authority annually.** The BGP is a "zero cost" program (i.e., no appropriations are needed to protect against losses), but Congress still needs to establish the level of guarantee authority that may be provided by the CDFI Fund. The BGP will expire as of fiscal year 2016 unless Congress extends it.
- **Streamline the underwriting process.** All bond issuances must be underwritten by the federal government up front as well as when individual project loans are made, and any substantive changes to the use of funds, as well as loan modifications, must be approved by the government along the way. This process creates uncertainty about the timing of projects and drives up program costs.
- **Impose appropriate collateralization requirements.** The Treasury Department and the Office of Management and Budget have established highly stringent collateralization requirements that make the program difficult to use. For instance, CDFIs must pledge all bond loans as collateral to Treasury and must substitute other loans as collateral if a loan should fail, in essence putting the government ahead of private sector lenders. In addition, CDFIs that want to use an alternative financing structure must provide substantially higher reserves than are contemplated in the statute.
- **Remove or significantly reduce the minimum bond caps.** Currently, each bond issuance must be at least $100 million, and no more than 10 CDFIs may be part of a single bond issuance. Hence, even large CDFIs usually need to partner with other CDFIs to secure bond funds, and many small CDFIs do not participate at all because even $10 million in debt might be more than their balance sheets can absorb.

2. **We propose that the CDFI Long-Term Loan Product be amended to provide an exception to the award caps for loans to CDFIs.** Currently, CDFIs cannot receive more than $5 million through the FA program over a three-year period, and the CDFI Fund generally caps its awards at $2 million in any given round. Thus, a CDFI eligible to receive a grant (based on the form of matching funds it brings to the table) has no incentive to instead request a loan. If the cap were raised with respect to loan requests, some CDFIs would have a financial incentive to receive a loan rather than a grant. This change will not only allow CDFIs to access more debt capital, but also allow the Treasury Department to stretch its appropriated dollars.

US Department of the Treasury, CDFI Fund

Secondary Market for CDFI Loans

Summary

Community Development Financial Institutions (CDFIs) engage in a wide variety of lending across different asset classes. They make home mortgage loans, small-business loans, commercial real estate loans, loans to support the development of single-family and multifamily housing, and loans to support the development of community centers such as healthcare centers, daycare centers, and charter schools. Although these loans are generally high performing, in most cases they are nontraditional loans that do not meet the underwriting and collateralization standards required by conventional banks. As a result, there is not a vibrant secondary market where CDFIs can sell these loans to investors. CDFIs need access to a secondary market of loan purchasers to obtain the capital needed to finance additional community and economic development activities. There is already a program housed at the CDFI Fund that can support such a secondary market. **This CDFI Secondary Market Initiative needs to be funded.**

Background

The CDFI Fund was established under the Riegle Community Development and Regulatory Improvement Act of 1994. Section 113 of the Riegle Act authorizes the CDFI Fund to "provide assistance for the purpose of providing capital to organizations to purchase loans or otherwise enhance the liquidity of community development financial institutions." In other words, the act authorizes the CDFI Fund to provide grant or loan funds to an organization that will in turn use that capital to purchase loans from CDFIs. As contemplated in the statute, the CDFI Fund may award up to $5 million of assistance to an organization (or its subsidiaries or affiliates) during any three-year period. The assistance may be provided in a lump sum or over a period of time. The awardee must provide a dollar-for-dollar match of nonfederal funding in the same form (e.g., loan versus grant) and in the same value as the CDFI Fund's award. The awardee need not be a CDFI, but the loans it purchases must be purchased from CDFIs—and the CDFIs must in turn use any proceeds from the loan purchases for community development purposes.

Sample Structure: An organization would apply to the CDFI Fund for a $5 million grant to establish a secondary market fund, and it would match the CDFI Fund's investment with an additional $5 million of nonfederal funding, likely some combination of philanthropic grants or retained earnings. The organization could then use this $10 million capital base as a reserve fund to leverage private sector capital. The organization would use the capital to purchase loans from CDFIs, with the investors in the fund receiving returns that were based on the income stream (minus any servicing costs) from these pooled loans. Depending on how the fund is structured and the risk of the asset class (unsecured small-business loans are riskier than secured real estate loans, for example), the reserve fund would be sized to cover the projected losses of the pool—meaning the investors would continue to receive their payment streams without disruption if losses did occur.

Proposal: Fund the CDFI Fund's Secondary Market Initiative

The CDFI Secondary Market Initiative has great promise but has never been funded by Congress. The following principals should guide the funding of this initiative:

- **Any appropriations provided by Congress should be *over and above* appropriations that have historically been provided to CDFIs through existing programs such as the CDFI Financial and Technical Assistance Programs.** The CDFI Secondary Market Initiative is a liquidity mechanism to free up additional loan capital for CDFIs. It is not a replacement for the direct capital provided under the CDFI Program, which can support CDFI balance sheets and operations as well as lending.
- **Awardees should be selected on the basis of their demonstrated track record of assembling loans for sale on the secondary market,** with a particular preference for organizations that have packaged community development loans.
- **Awardees should be encouraged to leverage funding above and beyond the match.** No single organization may receive more than $5 million in a single award. Assuming the organization can provide a match of $5 million in grants, the maximum capital base is now $10 million, which is a very small sum of money to establish a loan purchase pool. However, if the funds are used primarily as reserves, as in the aforementioned example, the pool could be expanded to attract between $50 million to $100 million of capital—which is a large enough scale to attract larger investors, as well as to amass enough loans to diversify the loan pool and further protect against losses.
- **The CDFI Fund should consider allowing multiple organizations to jointly finance a fund or set of funds**. Even a loan pool of $50 million to $100 million is relatively small in the world of secondary market funds. Better yet would be a scenario where three or four different organizations could apply jointly and each receive up to $5 million. Under that scenario, they could administer a much larger fund or set of funds so that they could diversify their loan pools with respect to geographies, asset classes, and other criteria.
- **The CDFI Fund will need to collect loan-level data from the "seller" CDFIs** to verify that they used substantially all of the loan proceeds to make additional loans in low-income communities.

For more information on this proposal, please contact Matt Josephs at mjosephs@lisc.org.

LISC

US Department of the Treasury

Low-Income Housing Tax Credit

Summary

The Low-Income Housing Tax Credit (LIHTC) stimulates investment in affordable housing in underserved inner-city and rural communities and in higher-cost suburban communities across the nation. It provides low-income families with a safe and decent place to live and, by lessening their rent burdens, frees additional income that can be spent on other necessities or saved for education or home ownership. The LIHTC is also a vital community and economic development tool, creating jobs and catalyzing redevelopment in struggling communities. It is the single most widely used tool for development and rehabilitation of affordable housing at a time when we are witnessing an unprecedented need for additional affordable housing as well as an unprecedented demand for the credit from developers and investors. For all these reasons, **we need to significantly expand the** LIHTC.

Background

The Need for Additional Affordable Housing

- More than 11.4 million households, or one in four of all renter households, spend *more than half* of their monthly income on rent.[1]
- This number is expected to grow to 14.8 million households by 2025 as more renter households enter the market and rental prices continue to rise.[2]
- Our affordable housing needs increase, yet each year we continue to *lose* affordable housing from our nation's stock. Since 2001, more than 650,000 affordable apartments have been permanently lost, and more than 2 million more may be lost in the next decade.[3]
- Meanwhile, rental assistance resources have stagnated. Only one in four income-eligible renter households receives housing assistance of any kind.[4]

LIHTC at a Glance

- LIHTC has financed more than **3 million homes** serving more than **6.5 million families**.
- Of these families, **48 percent** are extremely low income (at or below 30 percent of area median income), and **82 percent** are very low income (at or below 50 percent of area median income).
- Properties receiving the credit outperform market rate housing, with occupancy rates topping **96 percent** and a cumulative foreclosure rate of just 0**.62 percent**.
- Each year, the LIHTC supports nearly **96,000 jobs** and adds roughly **$3.5 billion** in taxes and other revenues to local economies.

[1] Joint Center for Housing Studies, "The State of the Nation's Housing," Harvard University, Cambridge, MA, 2016.
[2] Allison Charette et al., "Projecting Trends in Severely Cost-Burdened Renters: 2015–2025," Enterprise Community Partners, Columbia, MD, and Joint Center for Housing Studies, Harvard University, Cambridge, MA, 2015.
[3] Joint Center for Housing Studies, "The State of the Nation's Housing."
[4] Ibid.

How the Housing Credit Works

- Federal tax credits are allocated to state housing finance agencies through a formula based on population.
- Each state agency establishes its affordable housing priorities, and developers compete for an award of tax credits that is based on how well their projects satisfy the state's housing needs.
- Developers receiving an award use the tax credits to raise equity capital from investors.
- The tax credits are claimed over a 10-year period, but the property must be maintained as affordable housing for a minimum of 30 years.
- Because tax credits can be recaptured for any noncompliance, investors closely supervise properties to ensure long-term viability and compliance with Internal Revenue Service and state allocating agency requirements.
- Units funded by the LIHTC must be affordable (i.e., rents capped at 30 percent of income level) for families earning no more than 60 percent of the area median income.

Proposal: Expand and Strengthen the LIHTC

The LIHTC was created in 1986 and has been a permanent part of the tax code since 1993. In 2000, the allocation formula for awarding the credits to states was increased from $1.25 per capita to $1.75 per capita, with an annual inflation boost that has increased the amount to $2.35 per capita. But even with this inflationary adjustment, the credit is not keeping up with demand. In 2013, the last year for which data is available, developers requested more than three times as many housing credits as states could award.[5] As of March 2016, investors were paying, on average, $1.01 for each $1.00 of tax credits.[6] In some markets, pricing has reached $1.20 or higher.

- Increase the formula allocation to states by 50 percent, phased in over a five-year period.
- Create incentives for housing agencies and developers to target more units to families with very low or extremely low income.
- Drive more equity into certain housing credit properties by creating a "minimum" credit rate.
- Standardize income eligibility for rural properties and encourage investment in Native American housing.
- Help preserve existing affordable housing.
- Implement a host of changes that will clarify rules and simplify program administration.

[5] National Council of State Housing Agencies, *State HFA Factbook: 2013 NCSHA Annual Survey Results* (Washington, DC: National Council of State Housing Agencies).
[6] Novogradac and Company, LIHTC Pricing Trends (2016).

Neighborhood Housing Tax Credit

Summary

Poor and blighted neighborhoods are often the first to feel the effects of a recession and the last to recover. Financially troubled and abandoned properties destabilize neighborhoods, decrease property values, and discourage investment. Home ownership in these poor and blighted communities can be a critical factor for community stabilization, especially when housing prices fall and there are more opportunities for owning a home. However, in markets characterized by declining home ownership rates and property abandonment, the costs of development or repairs that are needed to bring homes to market often exceed the appraised value of those homes. This appraisal gap leaves these neighborhoods trapped in a cycle where low property values prevent the construction and renovation of attractive homes. A new Neighborhood Housing Tax Credit (NHTC), modeled on other successful tax credits such as the Low-Income Housing Tax Credit (LIHTC) and New Markets Tax Credit (NMTC), can help to fill this appraisal gap and spur home ownership in these communities.

Background

Tax incentives can be very effective inducements for directing private sector capital to support public needs. The LIHTC and NMTC have proven tremendously successful at directing investments into affordable rental housing and community/economic revitalization. However, neither the LIHTC nor NMTC program is well suited to support home ownership as a strategy for revitalizing distressed communities. We believe that by borrowing the best attributes from these programs—including limited federal subsidy, rigorous competition, private market discipline, and state and local prioritization—we can design a tax credit that will address one of the major barriers to economic revitalization in distressed neighborhoods, while also promoting asset building for low-, moderate-, and middle-income families.

The NHTC would attract private capital to help revitalize poor and blighted neighborhoods by building and rehabilitating owner-occupied homes in neighborhoods where the cost of construction or renovation exceeds the market value of the homes. The NHTC would support the construction and rehabilitation of homes sold to eligible buyers, as well as the substantial rehabilitation of homes by existing homeowners. The NHTC would fill the gap between the cost of construction and the appraised value of the property. As in the case of the LIHTC, states would receive a formula allocation of NHTC authority and would monitor the use of funding to ensure that the subsidy provided was necessary and not excessive to bring the projects to fruition. The private market would bear construction and marketing risks, and the tax credits could not be claimed until the construction work was satisfactorily completed and homes were owner occupied. The NHTC's flexible design would accommodate a variety of approaches and participants, including developers and home builders that were looking to invest in multiple properties in eligible communities, as well as financial institutions—including Community

Development Financial Institutions (CDFIs) interested in creating a loan fund to support owner-occupied homes in need of substantial repairs.

Proposal: Create a Neighborhood Housing Tax Credit

An NHTC would facilitate loan and investment capital that will help rehabilitate distressed single-family for-sale homes in communities characterized by blight and disinvestment. The tax credit would work as follows:

- **State allocating agencies (most likely the state housing finance agencies) would receive a formula allocation of NHTCs.**
- **The credits would be awarded to eligible entities (investors, developers, or financial institutions, including CDFIs) through an annual competition.** The eligible entity would identify a strategy for developing or rehabilitating properties in eligible communities. Such properties could be new homes, existing owner-occupied homes, or vacant homes that will be brought to market. The eligible entities could be developers or financial institutions, including nonprofit CDFIs and other entities looking to capitalize a loan pool.
- **States would allocate only the tax credits reasonably needed for financial feasibility,** determined both at the time of application and again when the homes were sold or owner-occupied rehabilitations were completed.
- **Program limitations would ensure that the credit benefited the right projects and communities:**
  - The maximum value of the credit would be 35 percent of construction, substantial rehabilitation, and building acquisition and demolition costs.
  - The maximum cost basis for calculating the tax credits would not exceed the national median existing home sales price or four times the area median family income, whichever was higher.
  - The credits would prioritize home ownership by low-income and middle-income home buyers.
  - Only those neighborhoods characterized by some combination of high poverty, low median family income, and low home values would be eligible for investments. In addition, the states would be required to further define neighborhood eligibility requirements to ensure that the program was *not* targeting neighborhoods where there was a recent influx of investment marked by improving property values, higher rents, or a displacement of lower-income families.

For more information on this proposal, please contact Matt Josephs at mjosephs@lisc.org.

US Department of the Treasury

New Markets Tax Credit Program

Summary

Too often, distressed communities cannot access the capital needed to make the transformation to vibrant and healthy communities. The New Markets Tax Credit (NMTC) Program helps to close the financing gap and spur private sector investments into some of the nation's most distressed communities. NMTCs are an extremely flexible financing tool and therefore align well with **comprehensive community revitalization** needs. They support a variety of asset classes, including small businesses and retail, manufacturing, and community facilities, including daycare, healthcare, and educational facilities. NMTCs are used to revitalize commercial corridors in dense metropolitan areas as well as in smaller cities, yet also have been used to support large manufacturing centers in rural communities devastated by job losses.

Background

The NMTC Program was established in 2000. Under the program, investors receive a tax credit for making equity investments in certified **Community Development Entities (CDEs)**. The CDEs, in turn, use the proceeds to make loans and investments in businesses, real estate projects, and community facilities in low-income communities. The credit totals 39 percent of the original investment amount and is claimed over a period of seven years. The investment cannot be redeemed before the end of the seven-year period. CDEs apply competitively to the US Department of the Treasury for the authority to offer the tax credits to their investors. The application process is rigorous, with generally **fewer than one in four applicants selected** to receive credit allocations in any given year.

NMTC Program at a Glance through 2015

- **$43.5 billion** of NMTC investment authority allocated by the Treasury department
- NMTC investments made in **4,800** business and real estate projects in low-income communities
- **73 percent** of investments made in communities characterized by "severe economic distress"
- **165 million square feet** of real estate developed or rehabilitated
- **197,500** jobs created
- **12,700** affordable homes financed

Source: CDFI Fund, FY 2015 Year in Review

One size does not fit all in communities throughout the United States, which makes the NMTCs invaluable. The decision making and project underwriting are the responsibility of community development organizations with deep ties to the communities in which they work. The program allows localities to make investments by addressing the diversity of each community's needs. The US Government Accountability Office reports that **88 percent of investors would not have made the same investment** without the NMTC, and the Treasury Department indicates that NMTCs generate **$8 of investment for every $1 of forgone tax revenue.**

Proposal: Permanent Authorization and Program Improvements

NMTCs are in high demand. In any given application round, the Community Development Financial Institutions (CDFI) Fund is able to make awards only to approximately one in four CDE applicants, and it receives requests for seven times the amount of allocations that are available. Investors are currently paying record-high prices for the credits, which translates into more equity for projects. The program is currently **authorized through 2019,** at **$3.5 billion of allocation authority per year**.

We propose the following improvements to the NMTC program:

- **Provide permanent authorization.** Making the program permanent will increase certainty among investors and CDEs and increase program efficiencies.
- **Increase the annual allocation authority.** We recommend increasing the annual allocation from $3.5 billion to $10 billion and adjusting this amount for inflation in future years. The CDFI Fund routinely receives requests in excess of $20 billion annually, and this demand is likely to grow once the program is made permanent.
- **Allow the credit to offset the alternative minimum tax (AMT)**. Currently, taxpayers subject to the AMT cannot take advantage of NMTCs. In contrast, most other investment tax credits do offset the AMT. Enabling the credit to offset the AMT will increase the pool of investors who can take advantage of the credit.
- **Eliminate the basis reduction.** NMTC investors are currently required to pay taxes not only on their economic returns, but also on their NMTC returns. This requirement drives down the amount investors are willing to pay for NMTCs. Eliminating the basis reduction will result in significantly more investor equity at the project level.
- **Pursue other program improvements**. The New Markets Tax Credit Coalition recommends a host of other improvements that will make the program more efficient and effective.

New Markets Tax Credits: Kansas City, Kansas

The Children's Campus of Kansas City Inc. (CCKC) used NMTC financing to close a significant financing gap on a 72,000-square-foot community facility. Three agencies representing the fields of early childhood education, parenting education, family support, health, and research have collocated on the campus and collectively offer a system of services that addresses the needs of young children and their families.

For more information on this proposal, please contact Matt Josephs at mjosephs@lisc.org.

LISC

US Department of the Treasury

Promise Zone Tax Credit

Summary

A growing body of research indicates how much place matters. The research confirms that where people live affects their health, education, and economic opportunities. The federal government has supported programs targeting specific communities in the past, but many of these programs focused on a discrete (as opposed to comprehensive) set of issues. These programs did not necessarily encourage partnerships with local stakeholders and collaboration between federal agencies. A more collaborative and diverse approach to targeting resources to communities is the basis for the **Promise Zone Initiative**. This initiative provides federal support for local leaders in high-poverty communities to pursue solutions to an array of economic and social challenges. Federal support is crucial, but the private sector also needs incentives to invest in communities that have been characterized by decades of disinvestment. Providing such incentives is the goal of the Promise Zone Tax Credit.

Background

Promise Zones were established in 2013 to designate communities where the federal government will work strategically with local leaders. Goals include boosting economic activity and job growth, developing affordable housing, improving educational opportunities, reducing crime, and leveraging private investment to improve the quality of life. Promise Zones are competitively selected low-income communities that have demonstrated a consensus vision for their community, capacity to carry out the plan, and a willingness to pursue specific, measurable results.

Promise Zone Incentives

What is included:

- Up to **five** AmeriCorps VISTA members
- **One** federal liaison to help navigate federal programs
- Funding preference for some federal programs

What is not included:

- Designated federal funding
- Tax incentives

In contrast to many other federal initiatives that have identified specific communities for interventions (e.g., Empowerment Zones, Renewal Communities, and HUD Choice Neighborhoods), no federal resources or tax incentives accompany Promise Zone designations. Promise Zones were created as a presidential initiative and offer only assistance and preference in applying for existing federal programs. The designation and increased collaboration between federal and local stakeholders was intended to attract private investment, but the uncertain future of the program and lack of financial incentives have meant slow rates of private investment. The Promise Zone Tax Credit would provide tax incentives that would **spur private investment in disinvested communities**.

Proposal: Codify the Promise Zone Tax Credit

We propose making the Promise Zone Initiative permanent and creating tax incentives to attract private capital and jobs to high-poverty neighborhoods.

- The Promise Zone program would be codified in the Internal Revenue Code, with regulations outlining the eligibility requirements, competitive selection criteria, maximum number of designations per year, and key monitoring and reporting requirements for selected jurisdictions.
- To stimulate job creation and opportunities for Promise Zone residents, an **employment tax credit** would be established for employers within the Promise Zone and qualified low-income community businesses outside the Promise Zone that hire Promise Zone residents after the designation.
- The credit would apply to 20 percent of the first $15,000 of wages for any Promise Zone resident employed within the zone and 10 percent of the first $15,000 of wages for any Promise Zone resident employed outside the zone.
- **Bonus depreciation** would be permitted for investments placed in service during the 10-year designation period. Qualified property placed in the zone would be eligible for additional first-year depreciation of 100 percent of the adjusted basis of the property. Bonus depreciation would apply to tangible property with a recovery period of 20 years or less, as well as to certain computer software and qualified leasehold improvement property.
- Investments in designated Promise Zones would be eligible to receive these tax incentives for 10 years following selection.

Investing in Promise Zones: Indianapolis, IN

In 2015, the IndyEast neighborhood in Indianapolis was designated as a Promise Zone. The designation recognizes more than a decade of work by community groups, including lead agency LISC partner John Boner Neighborhood Center, in creating a quality-of-life plan and working to reinvest in the neighborhood. Since the designation, IndyEast has attracted **14 federal grants** worth more than $10 million, including a brownfields assessment grant, funding for a youth jobs initiative and a healthy food financing grant. IndyEast has added **110** new permanent jobs and another **200** temporary jobs in the past year.

Although preference in federal funding has brought significant resources to IndyEast in the short term, long-term success will require private investment in addition to the robust community engagement and funding preferences already at work.

For more information on this proposal, please contact Matt Josephs at mjosephs@lisc.org.

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