# Economic Development



Equitable economic growth necessitates inclusive economic development policies—policies that expand opportunities for shared prosperity by focusing on low-income communities which have traditionally been underinvested and undervalued in their ability to contribute to regional economic growth. Research from the Urban Institute demonstrates that inclusion and economic health are strongly correlated across the nation. Investing in inclusive economic development initiatives ensures that low-income individuals and families are able to fully participate in the economic growth of the region and build wealth within their communities. In practice, this requires a multi-pronged approach that invests in the people, small businesses, and places that make our communities more equal, inclusive, and resilient.

# Community Development Programs

Investments in community resources help to spur broader economic growth. Federal investments often fill gaps in project financing and are at the core of funding that makes inclusive economic development initiatives possible on the local level. This cooperative effort joining federal investment and locally led programs expands the entire economic ecosystem by revitalizing neighborhoods, attracting businesses, creating jobs, and broadening access to opportunity for all residents. LISC supports robust investment in programs across federal agencies that promote comprehensive community development initiatives and facilitate cross-sector partnerships.

LISC supports:

## Improving and Enhancing the Community Development Block Grant Program

The Community Development Block Grant (CDBG) program is a critical source of community development funding that benefits low- to moderate-income (LMI) communities. Established in 1974, the block grant program allows grantees to meet locally identified needs within CDBG regulations' scope. Despite the proven impacts and bipartisan support of the program, CDBG has had its funding decreased by 80 percent from its peak in 1979. Meanwhile, many CDBG regulations remain the same as in 1974 and fail to address twenty-first-century needs. As a result, community development efforts are often hampered by limited funding, undue administrative burdens, lengthy processes, and exacting requirements.

When disaster strikes communities, the Community Development Block Grant–Disaster Recovery (CDBG-DR) program provides the resources needed to rebuild, expand resilience capabilities, and strengthen post-disaster opportunities. Timely and well-targeted federal assistance is critical to an inclusive recovery, particularly in low-income communities. But the current funding mechanism is cumbersome and inefficient, delaying the delivery of much-needed investments for aid and recovery and leaving disaster-stricken communities stuck in administrative limbo.

LISC recommends the following:

1. **Congress should restore Community Development Block Grant (CDBG) funding to $11 billion annually.** This figure represents the initial authorization level set forth by the Housing and Community Development Act of 1974, adjusted for inflation, and meet the needs of today.

2. **The U.S. Department of Housing and Urban Development (HUD) should conduct a comprehensive review of CDBG regulations to facilitate modernization and innovation.** This should include soliciting stakeholder feedback, with particular attention to the rules governing economic development activities, and developing a report for Congress on recommended legislative updates.

3. **Congress should permanently authorize disaster relief through CDBG-DR and annually appropriate a modest amount to a Declared Disaster Recovery Fund to allow for immediate assistance.** LISC joins the National Low Income Housing Coalition in calling for the Senate to pass the Reforming Disaster Recovery Act to make CDBG-DR permanent and provide much-needed reforms.

4. **Congress should create an independent statutory authority for disaster recovery.** This authority could use CDBG requirements as a foundation but should be updated to reflect the needs in disaster areas, such as allowing flexibility in meeting the "urgent need" national objective for CDBG-funded activities and setting realistic requirements for environmental review.

## Strengthening Economic Development Administration Initiatives

The U.S. Department of Commerce's Economic Development Administration (EDA) actively facilitates regional and local economic growth. EDA investments in planning, revolving loan funds, technical assistance, industry-driven workforce development, and infrastructure construction expand the community development capacity of communities. LISC supports President Biden's FY 2022 budget request for Congress to appropriate $384 million for the EDA, including increased funding for the Assistance to Coal Communities program to support workforce development and economic diversification in communities impacted by the declinining use of coal.

We also support efforts to increase the accessibility of the EDA's Revolving Loan Fund (RLF) Program by streamlining reporting and reducing associated regulatory burdens. RLFs promote broader access to capital for small businesses, at or below market rates, through local intermediary organizations. LISC is pleased that the Reinvigorating Lending for the Future Act of 2020 (S. 4075) was signed into law in October 2020. The bipartisan legislation reforms the RLF program by eliminating the program's burendsome "in perpetuity" reporting requirement. By removing this obligation, RFL administrators are now provided with the necessary flexability to meet local economic development needs.

The EDA can also do more to ensure that additional technical resources and funding are directed to support projects that benefit historically disinvested communities and workers. Current funding mechanisms rely too heavily on outdated metrics that focus solely on job creation, which minimizes the ability of community-based organizations to participate in implementing inclusive economic development initiatives that offer broader benefits. LISC recommends that the EDA target a significant portion of funding to projects that take a holistic view of community development within underserved communities, and that it offer financial commitments in the earlier stages of development.

LISC also encourages the EDA to utilize a larger portion of its regional planning funds to support equitable regional economic growth. Accomplishing equitable growth starts with explicitly focusing on promoting racial and geographical inclusion in the development of Comprehensive Economic Development Strategies (CEDS) across the nation. These efforts could be supported nationally by increasing funding for Technical Assistance and Innovation Demonstration grants to help build the organizational capacity of economic development agencies and implement innovative pilot programs that offer the promise of replication nationally.

## Funding Brownfield Revitalization

The Brownfields and Land Revitalization Program of the U.S. Environmental Protection Agency (EPA) offers communities critical technical-assistance, planning, and financing resources to address local environmental concerns while supporting neighborhood revitalization. LISC supports the provision of additional federal appropriations for the EPA to expand direct funding opportunities that support brownfields assessment, cleanup, revolving loans, environmental job training, technical assistance, training, and research.

The Brownfields Area-Wide Planning Program provides communities, particularly those with old and unused industrial areas, with planning and coordination resources that facilitate effective and safe redevelopment. Revolving Loan Fund (RLF) grants allow recipients to capitalize a revolving loan fund that provides funding for cleanup activities at brownfield sites. This program contributes to community redevelopment of brownfields, improves environmental conditions, and provides an ongoing source of capital within a community to address brownfield remediation needs. The EPA should leverage its authority provided under the Small Business Liability Relief and Brownfields Revitalization Act and dedicate additional funding as part of the annual appropriations for Brownfields RLF grants in order to capitalize new brownfields revolving loan funds and recapitalize depleted existing funds.

## Investing in Broadband Infrastructure

Increased investments in the deployment of broadband infrastructure can help ensure all of our communities have access to the technology necessary to drive economic growth in the twenty-first century. LISC joins the National Association of Counties in calling for expanded resources to support broadband infrastructure and accessibility across the nation, including pre-development and technical assistance funds to support broadband planning in rural communities. Congress can provide the critical resources needed to get America connected by passing the Rural Broadband Acceleration Act, a bipartisan proposal to immediately fund shovel-ready high-speed internet projects.

LISC also supports efforts to modernize the Federal Communications Commission's Universal Service Fund (USF) by formally expanding the definition of covered communications services to include broadband services, thus drawing contributions to the fund from broadband providers. Funds generated through the USF assist with broadband infrastructure construction and affordability and must be updated to reflect the needs of the twenty-first century. Congress can make these updates by passing the bipartisan Universal Broadband Act of 2020.

## Investing in Creative Placemaking

Creative placemaking fosters the development of arts-related business clusters and creates opportunities for neighborhood businesses to grow and create jobs by highlighting the unique culture of place. The National Endowment for the Arts supports creative placemaking through the Our Town grants program. Our Town provides project-based funding to integrate arts, culture, and design activities into community development efforts to sustain community-driven, comprehensive, and collaborative arts and culture strategies. Similarly, the National Endowment for the Humanities supports creative placemaking by increasing access to cultural and educational resources and funding public projects at cultural organizations and cultural heritage centers, among other sites.

Congress should leverage the creative economy to rebuild local economies by doubling funding for the National Endowment for the Arts and the National Endowment for the Humanities (indexing this funding at $1 per capita) and should increase funding for the Our Town program to address oversubscription.

Congress can also expand arts and culture opportunities in current and forthcoming legislation and regulations by including authorizing language that explicitly allows for the use of federal funds to support the creative economy. Community development is strengthened by place-based initiatives that harness creativity and distinctive local cultural assets to drive economic growth. Arts-based initiatives strengthen communities by leveraging the unique power of arts and culture to empower residents to build vibrant, resilient, and socially connected communities. LISC supports the Americans for the Arts policy platform to activate the creative economy in fostering community resilience.

## Improving the Community Facilities Relending Program

The U.S. Department of Agriculture (USDA) established the Community Facilities (CF) Relending Program in 2016 to better target direct loan funds to persistently poor communities by delivering them through community development financial institutions (CDFIs) and other relenders with deep local networks and capacity for technical assistance. Under the program, CF relenders are responsible for identifying eligible community facility projects, originating and underwriting eligible loans, and submitting them to USDA for approval. The USDA advances funds after approving loans and has made $401 million available to 27 relenders, with another $175 million in projects currently in the pipeline.

LISC is pleased that the CF Relending Program was extended for five years, so more community facilitiy projects can be financed in persistently poor, rural communities. We support efforts to work with USDA on streamlining the program to produce additional impacts.

## Funding the Community Economic Development Grant Program

The U.S. Department of Health and Human Services (HHS) provides critical resources to support community development efforts through its Office of Community Services, which houses the Community Economic Development (CED) grant program. CED grants are awarded to community development corporations (CDCs) to cover initiatives that provide funding for:

- startup or expansion of businesses, physical improvements, or commercial activities;
- capital expenditures such as the purchase of equipment or real property;
- allowable operating expenses; and
- loans or equity investments.

These grants promote economic mobility by creating new employment or business opportunities for low-income individuals.

The program regularly supports neighborhood and corridor revitalization by funding commercial construction projects with limited access to other subsidy due to their location in historically disinvested communities. Congress should build on the success of the Community Economic Development grant program by appropriating an annual amount of $21.6 million as outlined in President Biden's budget request.


## Public-Private Partnerships

While many federal programs help support local community development efforts through direct financing, some of the most effective programs are those that incentivize the private sector to make these investments. Building off the success of the Low-Income Housing Tax Credit of 1986, Congress has in the past 30 years enacted a number of place-based investment incentives in the tax code, including Enterprise Zones, Empowerment Zones, Renewal Communities, New Markets Tax Credits and, most recently, Opportunity Zones. These incentives have helped get the private sector more engaged in making community development investments and, alongside the Community Reinvestment Act (CRA), have been essential to encouraging regulated financial institutions to make significant investments in community development activities.

LISC supports:

### Enhancing the New Markets Tax Credit Program

The New Markets Tax Credit (NMTC) Program attracts investment capital to low-income neighborhoods that have been left behind by the traditional private marketplace. Under the program, investors receive a tax credit for making equity investments in certified Community Development Entities (CDEs), which in turn use the proceeds to make loans and investments in businesses, real estate projects, and community facilities located in low-income communities. To date, $57.5 billion has been invested in low-income communities through the NMTC, supporting a wide variety of activities including small businesses, manufacturing facilities, for-sale housing, charter schools, health care centers, child care centers, and shopping centers and grocery stores, to name but a few.

Through 2019, LISC has placed $1.04 billion in NMTC equity investments in 145 different projects in low-income communities throughout the country, supporting $2.9 billion in total development costs. LISC NMTC investments have created or retained more than 21,000 construction and permanent jobs, developed 11.3 million square feet of commercial and community space, and financed health care facilities serving more than 260,000 patients and educational facilities serving 25,000 students.

In order to ensure the continuing success of the NMTC Program, LISC supports:

1. **Making NMTCs permanent at no less than $5 billion per year.** NMTCs are scheduled to expire in 2020. Congress should support legislation in the House (H.R. 1321) and the Senate (S. 456) that would make the NMTC permanent, allocate no less than $5 billion in tax credit authority per year, index it to inflation, and permit it to be used to offset the alternative minimum tax (AMT).
2. **Diversifying the NMTC awardee pool.** The NMTC allocation process is incredibly competitive. While this helps ensure that the awardees selected are highly qualified and will be good stewards of the allocations, it also means that many qualified applicants are frozen out each year; and it is becoming increasingly difficult for "new" awardees to get an opportunity. Congress and the U.S. Department of the Treasury should consider options (e.g., priority points, set-asides) that would help ensure participation by a broader diversity of underserved CDEs, including most notably minority-owned CDEs and CDEs that are located in and serve underserved rural communities.

## Improving the Opportunity Zones Initiative

The Opportunity Zones initiative, enacted in 2017, encourages investors with realized capital gains taxes to reinvest those dollars in businesses and real estate projects located in Opportunity Zones (low-income communities designated by state agencies) by:

- allowing for a reduction and deferral of payment on those taxes for up to ten years, and
- eliminating taxes on any gains realized from investments in the Opportunity Zones.

The program has the potential to shift significant investment capital into low-income communities, and it is estimated that approximately $75 billion has been invested in Opportunity Zones through 2019.

As promising as the initiative is in its sheer scope, there are structural constraints that should be addressed through legislation or regulation. Specifically, the initiative lacks a requirement that the investments provide direct benefits to the residents of low-income communities in the form of enhanced services, high-quality jobs, affordable housing, etc., and has only minimal reporting requirements, which will make it difficult to ascertain over time whether or not the program is appropriately serving the communities and residents it was designed to serve.

LISC supports H.R.2593, bipartisan legislation to strengthen reporting and disclosure requirements, as well as other legislative efforts focusing on retiring certain less impactful Opportunity Zones from the program and creating a source of funding for states and localities to use to help finance more impactful Opportunity Zone projects.

## Strengthening the Community Reinvestment Act

The Community Reinvestment Act (CRA), enacted in 1977, requires banks to invest in the communities, including low-income communities, where they are taking deposits. CRA has proven to be a critical, if not the most critical, resource available to facilitate the flow of private capital into underinvested communities. It has been successful not only for the communities and community residents that have benefitted from these investments, but also for the banks—which have managed to find new and profitable investment opportunities that generally perform as well or better than other bank investments.

As successful as the CRA has been, its regulations have not been substantively updated since 1995. This is despite the fact that the banking industry has undergone significant changes in that period, most notably in the rise of interstate banking, internet banks, mergers of institutions, and mobile banking. A reexamination of the current CRA delivery system is therefore appropriate and, some might argue, even overdue.

In 2020, the Office of the Comptroller of the Currency (OCC) released its final regulations overhauling CRA. LISC and most other commenters, from both the community-development and banking sectors, expressed serious reservations about the approach ultimately adopted by the OCC in these final regulations. Among LISC's concerns was that the approach would devalue more impactful community development investments in favor of larger, more easily financeable deals. Notably, neither the Federal Deposit Insurance Corporation (FDIC) nor the Federal Reserve Board joined the OCC in promulgating these final regulations.

The OCC should withdraw this final rule and work with the other agencies to create a unified framework for securing a stronger and more impactful CRA.


## Investing in Community Development Financial Institutions

Community development financial institutions (CDFIs) provide capital, credit, and financial services in distressed communities and to underserved individuals throughout the country. There are over 1,100 certified CDFIs across the country, ranging from credit unions to small nonprofit loan funds to large national organizations. CDFIs serve borrowers and geographic areas that are not readily served by mainstream financial institutions, providing loans to first-time homebuyers, financing for affordable housing and community facilities, and small business financing. In many cases, CDFIs provide the gap financing that allows projects to secure traditional financing.

The CDFI industry has grown significantly over the last 20 years, and this growth would not have been possible without the support of the U.S. Department of the Treasury's CDFI Fund. The CDFI Fund certifies CDFIs, and administers several different awards programs to build the capacity and financial strength of CDFIs.

The federal government can continue to support CDFIs in a number of ways, including:

### Robustly Funding the CDFI Fund

In FY 2020, the CDFI Fund's top-line appropriations figure was $252 million, which is just a tiny fraction of the total assets of all certified CDFIs, currently estimated to be $222 billion. CDFI Fund programs need to be scaled to meet the growth and needs of the industry, with appropriations of no less than $1 billion annually.

## Reauthorizing the CDFI Fund

The CDFI Fund has not been reauthorized since its initial authorization in 1994, despite significant growth in the CDFI industry and in the number and scope of initiatives being administered by the CDFI Fund. LISC has made a number of recommendations for improvements and enhancements to the CDFI Fund's programs, including:

- expanding and funding a secondary market loan-purchase program for loans issued by CDFIs,
- creating and funding an initiative that would support CDFI investments in communities that have been targeted for redevelopment by other federal government initiatives (e.g., Opportunity Zones, Promise Zones, Choice Neighborhoods), and
- establishing a CDFI direct-loan product so that CDFIs can access loan capital from the Treasury Department outside of the annual award rounds.

## Providing CDFIs with Resources to Support Disaster Recovery Efforts

LISC supports the CDFI Crisis Fund Act (S. 4430), legislation introduced in the 116th Congress that would create a $2 billion fund so that CDFIs have the resources to address both natural and economic disasters.

## Creating a CDFI Investment Tax Credit

While there do exist tax incentives for investing in low-income communities that CDFIs have successfully administered on behalf of investors (e.g., New Markets Tax Credits, Opportunity Zones), these programs do not support direct investments in CDFIs. Congress should create a tax credit to incentivize direct investments in the form of equity and grants to CDFIs, so that they can grow their balance sheets and significantly increase their lending in low-income communities.

# Small Business Lending

An inclusive economic development framework requires equitable access to capital and technical assistance for small businesses. The provision of financing, resources, and technical support for entrepreneurs grows businesses, expands employment and asset-building opportunities, and strengthens local economies. Yet a pervasive gap in traditional financing regularly limits the growth of businesses in low- and moderate-income communities and of businesses owned by veterans, women, and minority entrepreneurs. Addressing these barriers to success requires advancing policies and increasing our investments in alternative financing and technical assistance that is affordable, culturally relevant, and linguistically accessible.

LISC supports:

## Strengthening Small Business Capital and Technical Assistance Programs

To close the financing gap, we must substantially increase our investments in programs administered by the Small Business Administration (SBA). Many SBA programs, including Community Advantage, 7(a), 504, and PRIME, have a demonstrated ability to expand capital flow to underserved entrepreneurs and communities. To increase equitable access, LISC urges the following actions:

1. **Congress should pass the Closing the Credit Gap Act to ensure that the Community Advantage pilot program is made permanent.** Community Advantage (CA), launched as a pilot in 2011, is a critical resource in closing the financing gap by providing loan capital of $20,000 to $250,000 to businesses in need. The program also provides entrepreneurs with technical assistance, focuses the majority of investments in underserved markets, and provides mission-based lenders access to 7(a) loan guarantees. Permanence will give certainty to existing CA lenders and those lenders in need of further assurances before committing the resources needed to secure CA designation and develop a product line.
2. **Congress should make permanent the expanded eligibility allowances for the 7(a) loan guarantee program provided under the Paycheck Protection Program as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.** This will allow loans not only to eligible businesses but also to 501(c)(3) nonprofit

organizations and 501(c)(19) veteran organizations with fewer than 500 employees. Congress should also consider expanding these provisions to include 501(c)(6) nonprofit organizations with fewer than 500 employees.

3. **Congress should increase funding for the Program for Investment in Micro-Entrepreneurs (PRIME).** PRIME provides community-based organizations with essential resources that assist low-income entrepreneurs. The program focuses on providing financial and technical assistance to disadvantaged micro-entrepreneurs, capacity building for micro-enterprise development organizations and programs, and increasing research and development in the field. Congress should increase appropriations for the program to $10 million to address oversubscription and ensure more communities are able to unlock its benefits.

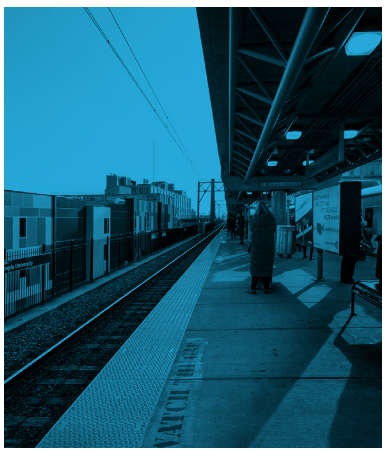
4. **Congress should pass the Unlocking Opportunities in Emerging Markets Act to establish an Office of Emerging Markets (OEM) within SBA's Office of Capital Access.** The office would ensure that SBA's access-to-capital initiatives address the needs of entrepreneurs in underserved markets, precisely and comprehensively. Similarly, the passage of the Minority Business Resiliency Act would codify the permanence of the Minority Business Development Agency (MBDA) and ensure minority entrepreneurs across the nation are equipped with the resources and tools needed to grow.

## Providing Flexible Resources to States and Localities to Support Small Business Lending

Small businesses thrive when they have access to capital and technical assistance. With this in mind, we support policies that increase the provision of capital to states, localities, and community-based organizations dedicated to fostering equitable access to capital and providing coaching for small businesses.

Congress should pass the Recharge and Empower Local Innovation and Entrepreneurs Fund for Main Street (RELIEF for Main Street) Act. This bipartisan legislation would create a $50 billion Small Business Local Relief Fund that provides direct assistance to cities, counties, and states to establish or scale relief funds for businesses with no more than 20 employees or companies with no more than 50 employees that are located in low-income neighborhoods. This is of critical importance to communities typically underserved by traditional lenders and SBA products, including micro-enterprises and businesses owned by immigrants, minorities, women, and low- to moderate-income entrepreneurs. Appropriating additional resources focused on local relief funds and partnership initiatives affords broader accessibility and fosters entrepreneurial success.

LISC also joins the Council of Development Finance Agencies in support of the State Small Business Credit Initiative (SSBCI), reauthorized as part of the American Rescue Plan Act of 2021. The $10 billion reauthorization of SSBCI will be critical to ensuring an inclusive recovery by promoting equitable access to affordable capital, and tehcnical assistance, particularly for businesses disproportionally impacted by the COVID-19 pandemic. LISC provided comments on how SSBCI can be leveraged to better serve the needs of socially and economically disadvantaged small businesses and looks forward to working with the Treasury Department to ensure a successful implementation.



# Transit-Oriented Development (TOD)

For too many years, transportation policy has not considered the full impact of transportation investments on lower-income and minority communities. From highways built through underserved neighborhoods that divide those neighborhoods from the larger community, to new or expanded mass-transit systems that displace existing residents and businesses, transportation investments have often isolated rather than connected communities. The consequences of these transportation policies are long lasting. Recent policy changes seek to address these inequities, giving broader consideration to the scope and impact of transportation investments; however, the effect of these initiatives has been limited because funding mechanisms for transit investments and nearby non-transit investments are largely unaligned.

LISC supports:

## Establishing a Federal Transit-Oriented Development Loan Fund for CDFIs

Equitable transit-oriented development (eTOD) projects support investments in transportation infrastructure by bringing complementary investments in nearby projects that meet the needs of low-income families, including affordable housing, small businesses, and community facilities. To support greater investment in eTOD projects by community development financial institutions (CDFIs), we support the establishment of a permanent financing program. This would help maximize investments in equitable developments located along transit hubs.

Congress has recognized the importance of these investments, and in the FAST Act of 2015 created opportunities to invest Transportation Infrastructure Finance and Innovation Act (TIFIA) debt capital into TOD projects through direct project loans.

This legislation also authorized the U.S. Department of Transportation to work with State Infrastructure Banks (SIBs) as intermediary lenders for surface transportation projects and related TOD investments. Despite these best efforts and intentions, no TIFIA assistance has been used for TOD projects or through the SIB's delegated lending authority.

We believe that Congress should build upon the FAST Act's authorities for TOD and pooled loan models by allowing certified CDFIs access to this capital. This would allow CDFIs to aggregate smaller TOD projects in a pooled loan model, facilitating the flow of capital into essential eTOD projects in both rural and low-income urban communities. LISC supports legislation that would modify the TIFIA program to further CDFI eTOD financing activities.

## Dedicating Federal Resources to Support Equitable TOD Planning and Projects

Local communities need technical and financial resources to help further their eTOD goals and to support affordable housing production and preservation near public transportation stops. LISC supports the following legislative proposals designed to assist communities with developing eTOD practices and provide resources to implement their plans:

1. **Congress should modify public transportation grant funding evaluation criteria through the Build Housing Near Transportation Act to encourage housing production.** This bipartisan legislation would change the rating standards for the New Starts public transportation program by requiring feasibility assessments to determine how and where housing could be built near transit stops.
2. **Congress should provide new eTOD financing resources and pass the Revitalizing Economies, Housing, And Businesses (REHAB) Act of 2020.** Communities need the full array of financing resources to support eTOD projects. The REHAB Act would create a new federal tax credit to support projects near public transportation, with incentives for affordable housing.
3. **Congress should provide technical and financial assistance for eTOD activities through the Promoting Equitable Transit-Oriented Development and Mobility Corridors Act.** This bill helps local communities develop equitable TOD planning practices through technical assistance grants and provides financial resources to support eTOD projects.