Projected Economic Impact of AB 32 (Speaker John A. Pérez, 2013)
California Organized Investment Network, a program of the California Department of Insurance
June 14, 2013

OVERVIEW

AB 32 would increase from $10 million to $50 million the cap on the annual aggregate amount of qualified investments made into California Organized Investment Network (COIN) Certified Community Development Financial Institutions (CDFIs) through the COIN CDFI Tax Credit program. Raising the qualified investment cap to $50 million could yield 3,128 jobs and an economic impact of $460.4 million for California [1].

Under this program, investors receive a tax credit worth 20% of their investment into a COIN certified CDFI. Every allocated tax credit dollar is matched with five dollars of private investment, for an investment ratio of one-to-five. Since the inception of the COIN CDFI Tax Credit program in 1997, $27 million in State tax credits have generated more than $135 million of private investments into COIN Certified CDFIs.

Investor demand for CDFI community investments through COIN far exceeds the program investment maximum of $10 million and the annual tax credit allocation of $2 million. COIN surveyed insurers and CDFIs during a brief period in December 2012 to assess potential demand for COIN CDFI tax credit investments. Insurers and CDFIs estimated they had a maximum combined capacity to make COIN CDFI tax credit investments of $490 million on $98 million of tax credits [2].

COIN AND THE CDFI TAX CREDIT PROGRAM

Established in 1996, COIN is a collaborative effort between the California Department of Insurance, the insurance industry, community affordable housing and economic development organizations, and community advocates. COIN was formed at the request of the insurance industry as an alternative to State legislation that would have required insurance companies to invest in underserved communities, similar to the federal Community Reinvestment Act that applies to the banking industry. This voluntary program facilitates insurance industry investments that provide solid returns to investors and economic and social benefits to California's underserved urban and rural communities. In 1997, the COIN CDFI Tax Credit program was created to attract and leverage private capital to fund investments into CDFIs that yield economic and social benefits for California's underserved markets, as well as investments that yield environmental benefits.

Commissioner Dave Jones made COIN a top priority upon assuming office in 2011. Recognizing the need for more community investment by insurers, the Commissioner sent a letter to the Chief Executive Officers of insurance companies in February 2011 and strongly encouraged them to invest in underserved communities through the COIN's CDFI Tax Credit program. Underutilized by insurance companies in previous years, this program allocates a 20% State tax credit to investors for qualified investments into COIN-certified CDFIs.

Also in February 2011, Speaker John A. Pérez introduced AB 624, which sought to extend the operation of the COIN CDFI Tax Credit program from its original sunset date of January 1, 2012 until January 1, 2017, and to require the Insurance Commissioner to establish the COIN Advisory Board. Commissioner Jones sponsored this bill, working in partnership with Speaker Pérez to garner support for the continuation of these tax credits.

In response to the Speaker's AB 624 and the Commissioner's request to insurers, COIN received a record amount of the COIN CDFI Tax Credit applications in 2011.

Quick Facts

CDFI TAX CREDIT PROGRAM

Established in 1997

Facilitates investment into CDFIs that benefit California's underserved markets

Investors receive a tax credit for 20% of their qualifying investment into a CDFI

$27 million in state tax credits issued to date generated $135 million in private investment

AB 32

Increases the cap on qualified investments from $10 million to $50 million per year

$460.4 million in total economic impact projected for AB32

3,128 projected jobs through AB32

Demand for community investments and tax credits were so great that COIN allocated unused tax credits from prior years. By July 2011, COIN had allocated $6.75 million in COIN CDFI Tax Credits ($2 million from 2011 and $4.75 million from previous years) to insurance companies and other private investors on $33.75 million of qualified community investment. The amount of community investment made by insurers since 2011 has continually increased under the leadership of Speaker Pérez and Commissioner Jones, despite severe limitations on access to capital in the financial markets. COIN has also grown in scope to include supplier diversity (AB 53, 2012), green investments (AB 1011, 2010), community investment policy statements (AB 41, 2010), and an advisory board (AB 624, 2011).

How the COIN CDFI Tax Credit Program Works

Currently, COIN allocates the CDFI Tax Credit of 20% on qualified investments of $50,000 or more. Every $1 of tax credit yields $5 of private investment, with the total tax credit allocation of $2 million generating up to $10 million of private investment into COIN Certified CDFIs. Private investments have a minimum term of 60 months, and the tax credit is allocated in year one of the five-year investment period (see Appendix 1 for more detail). CDFIs leverage tax credit investments to secure additional sources of matching funds and other capital, sometimes several times over, to finance programs and projects that create jobs in areas of high unemployment, to construct affordable housing, and to extend health clinic services to the uninsured.

PROJECTED ECONOMIC IMPACT OF AB 32

AB 32 would increase from $10 million to $50 million the cap on the annual aggregate amount of qualified investments made into CDFIs, which would in turn increase the annual amount of the COIN CDFI tax credits available from $2 million to $10 million. Increasing the annual amount of available COIN CDFI Tax Credit investment from $10 million to $50 million would raise the annual economic impact of this program from $23 million to $115.1 million, for a total impact of $460.4 million between 2013 and 2016.

$10 million	= **The amount of COIN CDFI Tax Credits available annually under AB 32**
$50 million	= **Expected Investment into the COIN-Certified CDFIs**
$460.4 million	**= Total Projected Economic Impact of AB 32**[3]
3,128	**= Jobs Potentially Created by AB 32**

AB 32 seeks to increase community development investment in California's underserved communities. Insufficient investment in California's low income communities impairs economic vitality, and has led to the loss of jobs, underperforming schools and substandard housing. Since the inception of the COIN CDFI Tax Credit program in 1997, $27 million in State tax credits have generated more than $135 million of private investments into COIN Certified CDFIs.

Job Creation

COIN estimates that AB 32 could create a total of 3,128 jobs between 2013 and 2016. The 20% COIN CDFI Tax Credit has an investment ratio of one-to-five, with one dollar of tax credit matched by five dollars of investment. Across industries, one job would be created for every $12,787 in COIN CDFI Tax Credits.

1 job

= $12,787 in COIN CDFI Tax Credits

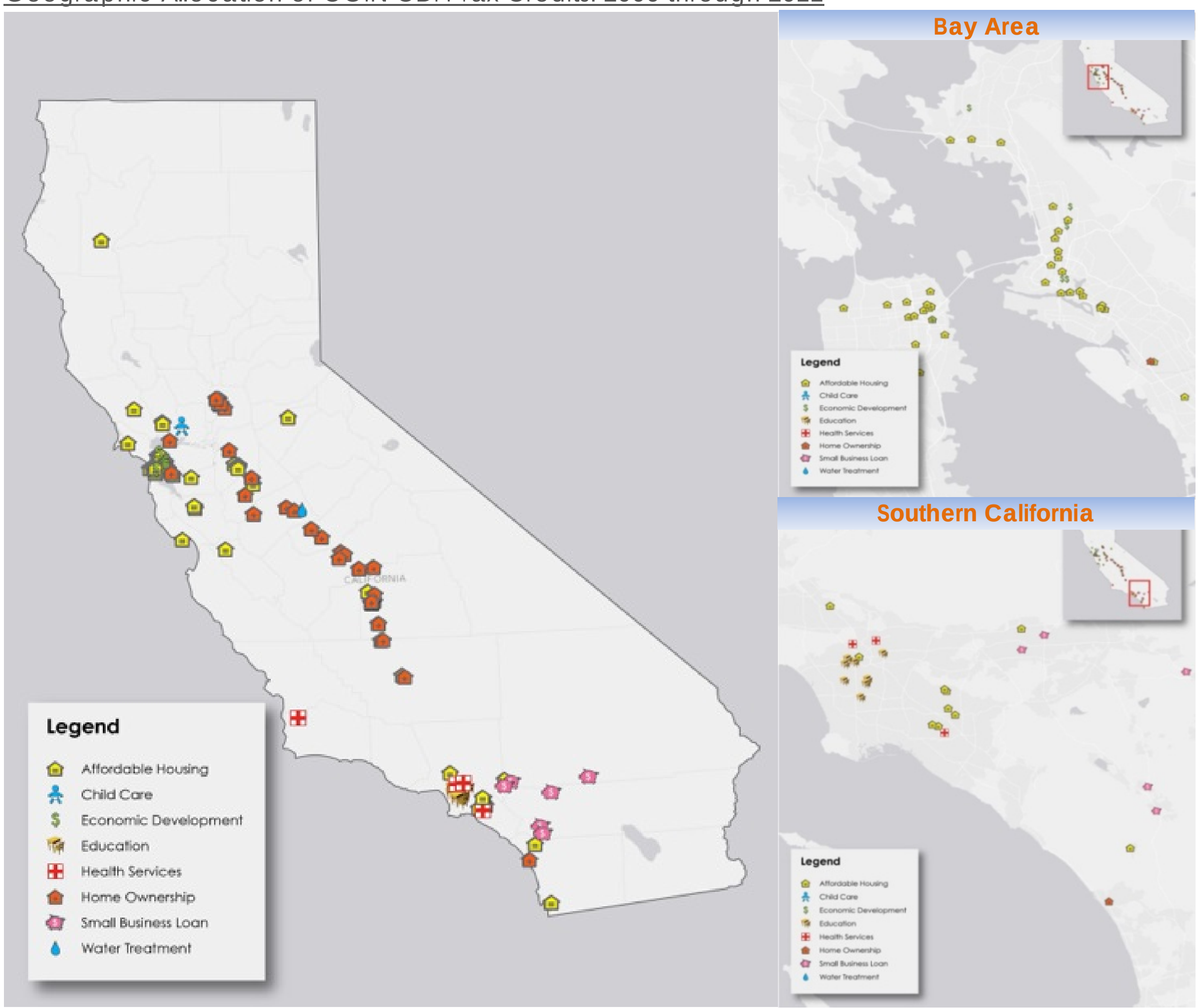
= $63,935 of community development investment

Potential Allocation of COIN CDFI Tax Credits Under AB 32

AB 32 would increase community development investment in rural and underserved areas, which could benefit a wide variety of projects and services, including those listed below.

- Affordable housing
- Healthy foods
- Small business loans
- Financial services
- Water treatment/ efficiency for households
- Community facilities
- Care services
- Green financing
- Health Services
- Education facilities
- Transit oriented development

Geographic Allocation of COIN CDFI Tax Credits: 2006 through 2011



REINVESTMENT: THE ADDITIONAL ECONOMIC VALUE OF COIN CDFI TAX CREDITS

To be conservative in its estimate of the economic impact and job creation potential of AB 32, COIN calculated economic impact as a one-time, initial and discrete impact, although qualified investments are “recycled” an average of 2.6 times during the 60-month investment term. Unlike other tax credit programs (i.e. New Markets Tax Credit and the Low Income Housing Tax Credit), the COIN CDFI Tax Credit Program includes a clawback provision that requires the COIN CDFI Tax Credit to be repaid by the investor if the qualified investment is not held at the COIN Certified CDFI for the entirety of the 60 month term[5]. Community development investments made by CDFIs may vary in duration from a term of 30 days for a low-interest rate personal loan (reinvestment rate >50) to an average term of 21 months for an affordable housing investment (reinvestment rate of 2.8).

In May 2013, COIN collected reinvestment data from COIN certified CDFIs that participated in the COIN CDFI Tax Credit Program from 2006 through 2011. COIN averaged these results by investment type, and then calculated an average reinvestment percent, term and rate. Based on these calculations, COIN estimates the reinvestment value of the historical period of 2006 through 2011 to have been $73.6 million, and that the projected reinvestment value of AB 32 for years 2013 through 2016 is $245.6 million.

Methodology

The projected economic impact of AB 32 was estimated using data from years 2006 through 2011 of the CDFI Tax Credit program. COIN found that the $12 million of COIN CDFI Tax Credits allocated between 2006 and 2011 generated $134.7 million in economic impact for the State[6].

37%	or	$4.43 million	= Affordable Housing
21%	or	$2.5 million	= CDFI loans to loans in low-to-moderate income communities
18%	or	$2.1 million	= Small business loans
15%	or	$1.8 million	= Education desks
8%	or	$1.0 million	= Health service visits
1%	or	$128,000	= Water treatment and efficiency for households
100%	or	$12 million	= Total allocation of the COIN CDFI Tax Credits, 2006-2011

COIN’S OTHER PROGRAMS

Since COIN’s inception, insurers have invested more than $20 billion in community development. **Eliminating the COIN sunset and adding program capacity would increase community investment.**

1. Community Investment Data Call - Sunsets 1/1/2015: AB 925 (Ridley-Thomas, 2006) authorized mandatory Data Calls to capture COIN qualifying investments. The 2014 Data Call will capture 2009 through 2012 investments. Without extending or eliminating the sunset, insurers may decrease their community investments to pre-COIN levels.

2. High Impact COIN Bulletins: AB 925 (Ridley-Thomas, 2006) and AB 41(Solorio, 2010) provide high impact and/or green investments. Bulletins are High Impact investments that are innovative, responsive to community needs, not routinely made by insurers, may be a green investment, or have a high degree of positive impact on the economic welfare of low-to-moderate income individuals and families. COIN directly markets these High Impact investment opportunities to the insurance industry.

3. Guided Investments: COIN advises insurers on sourcing, structuring, evaluating, and funding investments in California communities.

4. The COIN CDFI Certification- Sunsets 1/1/2017: COIN certifies CDFIs and qualifies them to receive the COIN CDFI Tax Credit investments.

5. The COIN Advisory Board- Sunsets 12/1/2015: AB 624 (Pérez, 2011) authorized the Insurance Commissioner to establish the COIN Advisory Board to advise the COIN staff on best methods to increase insurance investments that provide fair returns and social benefits to underserved communities.

6. Insurer Community Investment Policy Statements- Sunsets 1/1/2015: AB 41(Solorio, 2010) requires each insurer that collects more than $100 million in premiums from Californians to file a biennial policy statement detailing that company's community development and infrastructure goals.

7. Insurer Supplier Diversity Reports- Sunsets 1/1/2019: AB 53 (Solorio, 2012) requires California’s top 200 insurance companies to report on their efforts to procure goods and services from minority-, women-, and disabled veteran-owned business enterprises. Commissioner Dave Jones formed the Insurance Diversity Task Force to consider and make recommendations about diversity in the insurance industry.

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Endnotes

1) Using BEA RIMS II Multipliers, Table II multipliers and historical data provided by CDFIs, COIN estimates that $10 million in COIN CDFI Tax Credits leveraging $50 million in community investment will yield $460.4 million in economic impact to the State through AB32, ceteris paribus. This amount excludes reinvestment (see reinvestment section for more details). The economic impact of a community investment may be enhanced by additional leverage gained through the Low Income Housing Tax Credit, New Markets Tax Credit, or other community investment incentives.
2) Based on peak demand level for 2013 tax credits of $98 million and a $490 million investment amount.
3) Using BEA RIMS II Multipliers, Table II multipliers and historical data provided by CDFIs, COIN estimates that $10 million in COIN CDFI Tax Credits leveraging $50 million in community investment will yield $460.4 million in economic impact to the State through AB32, ceteris paribus. This amount excludes reinvestment (see reinvestment section for more details). The economic impact of a community investment may be enhanced by additional leverage gained through the Low Income Housing Tax Credit, New Markets Tax Credit, or other community investment incentives.
4) May leverage Low Income Housing Tax Credits (LIHTC) or New Market Tax Credits (NMTC).
5) Tax and Revenue Code §17053.57(h)(1): If a qualified investment is withdrawn before the end of the 60th month and not reinvested in another community development financial institution within 60 days, there shall be added to the "net tax," as defined in Section 17039, for the taxable year in which the withdrawal occurs, the entire amount of any credit previously allowed under this section.
6) Using BEA RIMS II Multipliers, Table II multipliers and historical data provided by CDFIs, COIN estimates that between 2006 and 2011, $12 million in COIN CDFI Tax Credits leveraged $60 million in community investments to yield $134.7 million in economic impact to the State, ceteris paribus. This amount excludes reinvestment (see reinvestment section for more details). The economic impact of a community investment may be enhanced by additional leverage gained through the Low Income Housing Tax Credit, New Markets Tax Credit, or other community investment incentives.

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COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION (CDFI) TAX CREDIT PROGRAM

The CDFI Tax Credit Program attracts and leverages private capital to fund investments that yield economic and social benefits for California's underserved markets, as well as investments that yield environmental benefits. Established in 1997, the CDFI Tax Credit Program is administered by COIN for the purpose of increasing the amount of private capital available to CDFIs for community development. COIN allocates a state tax credit of 20% on qualified investments of $50,000 or more. Every $1 of tax credit yields $5 of private investment, with the total tax credit allocation of $2 million generating up to $10 million of private investment in COIN-Certified CDFIs.

TAX CREDIT CERTIFICATION PROCESS

Each year, up to $2 million in tax credits can be awarded by COIN for investment in certain Qualified Investments.

A "Qualified Investment" means:

1) A deposit or loan that does not earn interest;
2) an equity investment; or
3) an equity-like debt instrument.

In 2011, AB 624 (Pérez) extended the COIN CDFI tax credit program and modified its certification process. Prior to the passage of this bill, investments certified only on a first-come-first-served basis. Under AB 624, if the Commissioner determines that demand will outstrip the supply of tax credits, COIN shall grant priority to certain applications as follows:

1. <u>Direct Benefit to Low-Income Persons</u>

A primary intent of the COIN CDFI Tax Credit program is to benefit economically disadvantaged communities and low-income people in California. Therefore, investments that will benefit this demographic in a tangible, immediate manner will receive priority.

2. <u>Investments Made by Insurance Companies</u>

Through the COIN program, insurers make prudent investments that yield social and/or environmental benefits. As part of the COIN program, the CDFI Tax Credit encourages insurers to invest in community development. To that end, investments made by insurers will receive priority over investors from other fields, in order to give the intended recipients first consideration.

Applications that satisfy both of the above criteria will receive a higher priority.

(continued)

APPENDIX 1 (Continued)

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION (CDFI)
TAX CREDIT PROGRAM

3. Housing

Of those applications that involve housing-related projects, COIN must prioritize rental housing, mortgages for community-based residential programs, and self-help housing ahead of single family housing.

Note that this statute does not establish a specific priority for housing, but only a comparative ranking for housing applications.

INVESTMENT STRUCTURE

To qualify for the 20% tax credit, all Qualified Investments must equal or exceed $50,000 in amount and must be invested for no fewer than 60 consecutive months. The total tax credit amount available through the program annually is $2 million, on a total investment maximum of $10 million.

EARLY WITHDRAWAL PROVISION

If a Qualified Investment is withdrawn before the end of the 60th month and not re-deposited or reinvested in another CDFI within 60 days, there shall be added to the "net tax" or "tax" (as defined in Revenue and Tax Code Section 17039, Section 23036, or Section 28 of Article XIII of the California Constitution) for the taxable or income year in which the withdrawal occurs, the entire amount of any credit previously allowed under Revenue and Tax Code Sections 17053.57 or 23657, and Section 12209. Additionally, under Section 17053.57, the CDFI is required to notify COIN and the Franchise Tax Board; and under, 12209, the CDFI is required to notify COIN and the Board of Equalization.

If a Qualified Investment is reduced before the end of the 60th month, but not below fifty thousand dollars ($50,000), there shall be added to the "net tax" as defined in Revenue and Tax Code Section 17039, Section 23036, or in Section 28 of Article XIII of the California Constitution, for the taxable or income year in which the reduction occurs, an amount equal to 20 percent of the total reduction for the taxable or income year. Sections 17053.57 and 23657 require the CDFI to notify COIN and the Franchise Tax Board of the reduction; and Section 12209 requires the CDFI to notify COIN and the Board of Equalization.

APPLICATION CYCLE

Based upon the number of inquiries received to date, the Insurance Commissioner has determined that total Qualified Investments for 2013 will exceed the total amount of tax credits available.

Applications will be received and evaluated throughout the year, in semi-annual cycles, in order to enable both required and continuous processing and prioritization.

- Applications are due by March 31st for the first semi-annual cycle and by September 30th for the second semi-annual cycle.
- COIN will notify applicants of their certification status in the last month of each semi-annual cycle (either June or December of the six month cycle).
- Applications that meet the minimum qualifications, but were not certified for a tax credit, may reapply. Reapplications within a calendar year are required to submit only that information which has changed since prior application was submitted.

Note*: The Insurance Commissioner reserves the right to issue certificates to taxpayers in the total amount of $2 million during the first semi-annual cycle if sufficient qualified applications are received.*