Effects of the elimination of the COIN Community Development Financial Institutions Tax Credit Program

CALIFORNIA ORGANIZED
INVESTMENT NETWORK
Insurers investing in a better California

History and Background

From 1997 until 2016, COIN administered a tax credit for qualified investments made into COIN-certified Community Development Financial Institutions (CDFI).

The COIN CDFI Tax Credit program provided a 20% tax credit on qualified investments with a minimum of $50,000, capped at $50 million or $10 million annually in state tax credits for a five-year term.

COIN awarded the tax credits based on the anticipated positive economic impact of the proposed projects in low-to-moderate income (LMI) and/or rural communities. These investments provided CDFIs low- to no-cost capital to fund projects such as affordable housing, small business loans, and/or projects that provide an environmental benefit. The COIN CDFI Tax Credit Program expired in 2017 and subsequent attempts to revive it were vetoed due to the inability to secure funding within the state's budget process.

In 2019, Assembly Bill 1099 (Chapter 186, Statutes of 2019, Calderon) required the department to analyze the impact of the expiration of the CDFI Tax Credit Program and to post this information on the department's internet website regarding whether the elimination of the COIN tax credit materially affected the level of community development and green investments made by insurers in California.

Effects of Eliminating the Tax Credit Program

Larger CDFIs Continue to Raise Capital

Since the sunset of the COIN CDFI Tax Credit program, some insurers have continued to invest in larger CDFIs that were able to take sizable investments of $15 million or more.

Four large CDFIs have received investments of $100, $50, $25, and $15 million. The proceeds of these investments were spread into projects throughout the United States. Through the COIN Tax Credit Program there were roughly 20 investments made per year into projects located in California. While all four CDFIs do tremendous work, more investments are needed into smaller CDFIs that are headquartered or have offices within the State of California.

Loss of Funding into Smaller CDFIs

The loss of the COIN CDFI Tax Credit program has significantly impacted smaller CDFIs that were generating substantial positive impact in low-to-moderate income and rural communities throughout the State of California.

The smaller, more regional CDFIs have not received any of the capital they previously raised through the Tax Credit program. When COIN lost the tax credit, we lost the ability to bridge the gap that helped insurance companies invest with smaller CDFIs. Under the COIN Tax Credit Program, insurance companies were able to lend to CDFIs at 0% interest rates in exchange for the tax credit. The smaller CDFIs received zero -cost loans and made their profits from the interest rate spread generated by reinvesting the proceeds of the capital raised. Insurance companies can't invest without the tax credit because of the unattractive NAIC treatment of smaller unrated CDFIs. When insurance companies' factor in Risk-Based Capital charges associated with the NAIC treatment, the return diminishes to a zero or possibly a negative yield investment.

Sample Projects from Smaller California-Based CDFIs

Coolhaus Ice Cream – Women/LGBTQ-owned ice cream company launched in Los Angeles with the help of a $25,000 small business loan. The company started selling their gourmet ice cream sandwiches out of an ice cream truck but has now expanded their products into over 6,000 grocery stores across the country.

Embark Apartments – Embark Apartments in Downtown Oakland is an affordable rental housing project that provides 65 apartments for veterans. Embark is located near the Veterans' Affairs Outpatient Clinic and was awarded Veterans Housing and Homelessness Prevention status in 2015.

Mendocino County Wastewater Treatment Plant Improvement Project – A bridge financing loan was provided to construct sewer treatment upgrades for a rural Mendocino County community including the Round Valley Indian Reservation. This project allowed the community to correct sewer problems that caused discharge into the local river and put them in violation of Regional Water Quality Control Board standards.

Atmosphere affordable rental housing – Atmosphere is a affordable rental housing community in downtown San Diego. This project provided 205 total units of housing, of which 41 units include mental health services for special needs residents. This project has revitalized a vacant partial city block with a vibrant new housing community to meet the vital need for affordable family housing in the area. The target demographics are individuals and families considered low to very low income.

Possible Solutions

OPTION ONE:

Work directly with the NAIC Securities Evaluations Office to reduce or eliminate RBC charges for COIN-certified CDFIs.

OPTION TWO:

Create one large COIN commingled debt offering for a group of 10-20 smaller CDFIs who would all receive a portion of the capital raised. Smaller CDFIs have historically been unable to raise funding through public market offerings due to the lack of investor interest in smaller deals.

OPTION THREE:

Renew the COIN CDFI Tax Credit program in some capacity. If we are unable to secure the full $10 million we can reduce the credit from 20% to 10% or $5 million. This would lower the investment yield generated from the tax credit from the previous 4.53% to 2.27%, which is still higher than the current 5-year U.S. treasury yield of 1.21% (as of December 2, 2021).

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