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CDFI TAX CREDIT PROGRAM EVALUATION CRITERIA

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 annual tax credit allocation of \$10 million generating up to \$50 million of private investment in COIN-Certified CDFIs.

TAX CREDIT CRITERIA

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.

(a) Evaluation criteria

- (1) COIN will evaluate applications and the qualified investment information they contain to determine which taxpayers will receive tax credit certificates. In making these evaluations, COIN will apply the following criteria:
 - (A) COIN will determine the aggregate benefit of the investment to LMI areas and households. The greater the aggregate benefit, the higher the priority COIN will give to the application. This criterion will receive more weight than all other criteria combined;
 - (B) COIN will determine whether the investment benefits rural areas and households. The more the investment benefits rural areas and households, the higher the priority COIN will give to the application. This criterion will receive the second most weight of all the criteria;
 - (C) COIN will determine the benefit of the investment on job creation, retention, and training. The greater the benefit, the higher the priority COIN will give to the application. This criterion will receive the third most weight of all the criteria;
 - (D) COIN will determine whether the investment is a green investment. The more the investment creates a benefit as a green investment, the higher the priority COIN will give to the application. This criterion will receive the fourth most weight of all the criteria;
 - (E) COIN will determine whether the investor is an insurer. If the investor is an insurer, COIN will increase the priority;
 - (F) COIN will determine whether an investment would likely cause, directly or indirectly, an adverse impact on LMI households or areas, or an adverse impact on the COIN program. If it would, COIN will lower the priority given to the application according to the amount of the adverse impact; and
 - (G) In evaluating applications that fund housing, COIN will give higher priority to an application if it supports affordable rental housing, housing for veterans, mortgages for



community-based residential programs, and self-help housing, instead of single-family owned housing.

- (2) In evaluating an application and the qualified investment information it contains, COIN will:
- (A) Determine the weight to give each factor in subdivision (b)(2) of this section;
 - (B) Determine the credibility and reliability of all information provided in an application, including but not limited to the qualifications, bias, truthfulness, assumptions, analysis, and other considerations with respect to experts, expert testimony, and studies and reports supporting an application; and
 - (C) Determine whether the applicant and the taxpayer have provided satisfactory substantiation that the investment justifies an award of a tax credit based on the totality of evidence and explanations submitted.

(b) Evaluation factors

- (1) In evaluating each application and the qualified investment information it contains according to the criteria specified in subdivisions (a)(1)(A) – (C) of this section, COIN may consider each factor in subdivision (b)(2) of this section.
- (2) Factors:
- (A) The characteristics of the organizations that will provide benefits. Priority will be given to an application based on:
 - 1. The organization's proven history of delivering the same or similar benefits;
 - 2. The extent of the education and experience the organization's managers and directors possess that is relevant to delivering the benefits; and
 - 3. Any other relevant considerations with respect to the characteristics of the organization.
 - (B) The value of benefits delivered relative to the cost of delivering those benefits. Priority will be given to an application according to the degree to which the organization's administrative expense ratio is lower than the industry norm for that ratio for an organization delivering the same type of benefits;
 - (C) The characteristics of the households and areas that will receive benefits under the investment. Priority will be given to an application based on:
 - 1. The median income of the households or areas served; the lower the median income, the higher the priority COIN will assign;
 - 2. The unemployment rates of the areas served; the higher the unemployment rate, the higher the priority COIN will assign;
 - 3. Any other relevant considerations with respect to the households and areas that will receive benefits.
 - (D) The number of households and areas that will receive benefits. Priority will be given to an application in proportion to the number of households and/or areas that will receive benefits under the investment.
 - (E) When benefits will begin and end. Priority will be given to an application:
 - 1. In proportion to the length of duration of the benefits to be delivered; and
 - 2. In inverse proportion to the lead time that will ensue before benefits will begin to be delivered.



- (F) The type and quality of benefits. Priority will be given to an application to the degree to which the organization providing the benefits delivers demonstrably better benefits than other organizations delivering comparable benefits.
- (G) How many households need the benefits in the area served by the investment. Priority will be given to an application in proportion to the number of households in need of the benefits there are in the area or areas served.
- (H) How acutely and urgently the households need the benefits in the area served by the investment. Priority will be given to an application in proportion to the acuteness or urgency of the households' need for those benefits.
- (I) The quantity of benefits delivered to each beneficiary; the greater the quantity, the higher the priority COIN will assign.
- (J) The possible financial or other impediments to delivery of the benefits. Priority will be given to an application in inverse proportion to:
 1. The degree to which the delivery of benefits is contingent on obtaining additional funds from another source; and
 2. The degree to which delivery of benefits is contingent on obtaining contracts with or permission from other parties or government entities.
- (K) The extent to which any business financed by the investment would be owned or staffed by members of the community being served by the investment. Priority will be given to an application that involves financing a business:
 1. Whose owner lives in the community served by the business; and
 2. In proportion to the number of the business's employees who live in the area where the business will operate.
- (L) The extent to which those receiving benefits from the investment are the intended beneficiaries of the investment, as opposed to ancillary, unintended beneficiaries.
- (M) Whether the investment in the CDFI would have been less likely to occur if the tax credit were not available as an incentive. Priority will be given to an application to the degree to which it is unlikely it is that the investment would be made without the tax credit.
- (N) The availability of matching funds that will enable the CDFI to increase the overall benefit to LMI households and areas through leveraging; the higher the ratio of matching funds to funds to be provided by the investment, the higher the priority COIN will assign.
- (O) The credibility of the metrics and calculations provided by the applicant pursuant to Subdivision (b)(3)(C)5. of Section 2696.30. Priority will be given to an application commensurate with:
 1. The reasonableness of the metrics;
 2. The validity of the calculations; and
 3. The reliability of the underlying data.
- (P) The extent to which the investment will enhance the general welfare of low-to-moderate income areas or households, or rural areas or households.

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.

