

June 10, 2021

Joint Committee on Tax Expenditures
Oregon State Legislature
900 Court Street NE
Salem, OR 97301

Co-Chair Burdick, Co-Chair Nathanson, Co-Vice Chair Boquist, Co-Vice Chair Pham, Co-Vice Chair Reschke, and Members of the Committee:

Thank you for the opportunity to speak in support of HB 2551A. My name is Carlos David García, and I am the Executive Director of Neighborhood Partnerships. Neighborhood Partnerships (NP) is a statewide non-profit organization whose mission is to help create a better Oregon, one in which we all have access to opportunity, stability, and what we need to thrive. For us, this begins with the basic human needs of having a stable and secure place to call home and financial well-being. I am submitting this written testimony that will expand on my remarks during the public hearing this evening.

Individual Development Accounts

I want to provide an overview of the efficiency of the IDA tax credit as a funding mechanism, but for context I first wanted to reintroduce the policy briefly. Individual Development Accounts, or IDAs, are a state investment in building financial assets and supporting people living on low incomes to build hope, financial stability and the assets needed to thrive. The IDA Initiative is funded through a state tax credit, and provides matched savings accounts that boosts the power of a participant's own income and savings, by matching each dollar saved anywhere from 1:1 to 1:5. The program provides information about financial systems, and financial coaching that meets people where they are at and supports them reaching their financial goals.

As Neighborhood Partnerships, we don't do this work alone. The Initiative offers IDAs through community-based direct service providers statewide. All told, IDAs are offered at over 70 organizations across the State. Whether you live in Portland or Ashland, Oregon City or Baker City, Butte Falls or Klamath Falls, every IDA saver works with a non-profit IDA provider in their area to build a budget, receive coaching, and take several hours of financial education courses before they can access the match on their savings. Our partners work with interested participants in their geographic and cultural communities to determine eligibility, draft a Personal Development Plan, open a IDA account at a local financial institution, and then get started saving and working toward their financial goal. When savers reach their savings goal, the partner disburse the match savers earned to complete the asset purchase and they graduate from the program. The intention behind the program goes beyond giving savers the opportunity to save; IDA partner organizations also make sure to set clients up for success by building their financial capability and skills that they can use for the rest of their lives.

More than 15,000 Oregon residents have saved in IDAs. IDAs have been opened in 35 of Oregon's 36 counties. Collectively, Oregon IDA participants have saved more than \$28 million, and \$47 million in matching funds have been distributed to approximately 9,000 savers for asset investments. More than 3,300 people are currently saving in an Oregon IDA.

The Oregon IDA Initiative has demonstrated effectiveness in building assets and financial resilience among Oregonians with low incomes. Through an asset such as a reduced-debt education, appreciating

home, or thriving microenterprise, Oregonians can grow their financial resources, live out their highest potential, and participate in a vibrant Oregon economy. By strengthening relationships between savers, financial institutions, and community-based organizations, IDAs provide the access and resources that allow Oregon families to manage the next financial emergency and confidently plan for the future.

Tax Credit Funding Source

Since the program's creation in 1999, the Oregon IDA Initiative has been funded by a state income tax credit authorized in ORS 315.271. When taxpayers donate to the Initiative, they receive a state tax credit that can be used to offset their Oregon income tax liability. The tax credit mechanism has allowed us to leverage state resources effectively – with a high of 2018, when we sold \$7.5 million of tax credits for \$10.8 million. This was possible because at a 70% IDA tax credit rate we were able to raise \$1.44 of resources for the Initiative with each tax dollar foregone. Between 2012 and 2018 NP had no issue selling out of the IDA tax credit because donating to the IDA Initiative translated into a net financial benefit for donors who were able to claim both a state tax credit and a federal charitable deduction on the full amount of their donation. The tax credit mechanism has allowed us to leverage state resources effectively. When we successfully sell all \$7.5 million in tax credits that translates into \$8.3 million available for IDA Initiative under the current tax credit rate of 90 cents on the dollar.

Neighborhood Partnerships serves as the contract administrator of the IDA program and has the responsibility of raising funds and marketing the tax credit to donors. Between 2012 and 2018 we had no issue selling out of the tax credit because donating to the IDA Initiative translated into a net financial benefit for donors who were able to claim both a state tax credit and a federal charitable deduction. Federal tax law changes in 2017 limited incentives previously available to donors, and impacted the IDA Initiative.

After the 2017 federal Tax Cut and Jobs Act limited state and local tax deductions, several states issued new tax credits. In reaction, in August of 2018, an IRS regulation was issued which stated that money received in return for state tax credits could not be deducted as a charitable contribution on federal taxes. That rule, temporary on August 18, 2018 and made permanent in June 2019, and reduced the tax benefit donors received, thereby making our IDA tax credit less attractive and marketable to donors.

In anticipation of the impacts of these changes, advocates worked with the Legislature in 2019 to increase the tax credit cap from 70% to 90%, leaving the tax credit authority capped at \$7.5 million. We hoped that this would allow us to raise at least \$8.3 million for the Initiative. That represented a \$2.4 million reduction in funding for the Initiative due to these structural changes.

2019 was the first year the changes at the federal level impacted our State program and NP was unable to sell our full allocation of state tax credits for the time in over 7 years. We ended the year with \$2.1 million of tax credits unsold, in spite of aggressive marketing and impeccable customer service. This was due to the reduced tax benefit donors received caused by the changes at the federal level. Given these changes the IDA Initiative was facing significant funding shortfall of over \$4.5 million which was unprecedented. Our experiences in 2019 lead us to believe that the credit was not as viable an option when offered at 90 cents of state tax credit per dollar received.

In response to these federal tax law changes, we made changes to our marketing strategy, and sought out donations of appreciated stock, which still has a meaningful benefit to donors. The legislature also acted in 2019 by adjusting the tax credit rate for IDAs to ninety cents on the dollar. Through these changes, in

2020 NP was able to sell nearly all \$7.5 million in available tax credits and raised \$8.1 million for the IDA Initiative. Our changes in marketing strategies and successful sales year confirms that the tax credit continues to be the most viable source of funding for this important program, and we are asking for your support to renew the program's funding mechanism.

So far, 2020 is not looking like just a coincidence. Tax credit sales for 2021 are also ahead of schedule. We normally do not make many sales in the first half of the year as the majority of tax credits are sold in December, however to-date we have raised almost \$2 million out of the \$7.5 million available for this year, meaning that we're on track with earlier tax credit sales years when we had no issue selling out.

If you'd like to hear more about IDAs, I would invite you to review the 45+ individuals who have submitted written testimony in support of HB 2551, and the oral testimony given by IDA savers and providers in the Senate Housing, as well as the House Human Services and House Revenue Committees.

Once again, I appreciate the work that has gone in to helping the Initiative be successful, and ask for your support in renewing this credit. I am submitting written testimony which further details the history of the credit and program. I am happy to answer any questions you have.

In partnership,



Carlos David Garcia, Executive Director
Neighborhood Partnerships