COMMUNITY DEVELOPMENT FINANCE: A FIRESIDE CONVERSATION WITH US SENATOR MARK R. WARNER, VIRGINIA

Announcer 10:34

Please welcome US Senator Mark R. Warner in conversation with Senior Director of MI Finance at the Milken Institute, Dan Carol.

Dan Carol 10:56

Were you up late last night?

Mark R. Warner 10:57

I was up later than I wanted to be. That was a—

Dan Carol 11:01

Understood.

Mark R. Warner 11:01

That was a long, long, long—something. [Laughter]

Dan Carol 11:07

Well, we appreciate your getting up early in spite of that and coming over here. So, just to orient you, everyone in this room is very involved with community development, bottom-up innovation. We've got institutional and impact investors. We got state and local folks, et cetera, all of whom are strong believers that local economic development is key to building community wealth, an area that obviously you've been a leader on for years. The other obvious thing is that federal spending and community financing tools face a very unpredictable path at this point. Programs that are very bipartisan and non controversial and university supporter are, you know, on some sort of microscope at this point. And, you know—

Mark R. Warner 11:10

Really, I'm shocked. Shocked!

Dan Carol 11:14

I know, shocking, shocking. I occasionally read the paper, so I noticed a couple of things. Wanted to get your sense from what you think the future is and how folks should proceed around the community development, finance institution funds, CDFIs, new market tax credits, low income housing.

Mark R. Warner 12:14

Well, first of all, I'm really grateful, Dan, that Milken Institute is staying true to this cause. And for all of you in this room, I know it's, kind of, a choppy time, and very much appreciate you all's commitment. You know, this is—I mentioned Dan, my background in this field, having been a business guy longer than a politician—came when I was governor, and I was looking for new tools on, frankly, more rural redevelopment. And back in 2004-2005 time frame, we put $15 million state money into something called Virginia Community Capital that's evolved into a—it's change names, a $7 billion institution, over $7 billion for the lending over the years. So I've been a big, big advocate for these kind of efforts for north of 20 years. I actually think if we can make the right case to the new administration—and in many ways, as somebody who's been kind of the champion for CDFIs, you know, President Trump should get a lot of credit, because in the last of the Trump COVID bills, I built a pretty strong relationship with his Treasury Secretary, Steven Mnuchin. And we were able to get $12 billion for CDFIs, you know. And that came about because, I think, Steven understood that as well intentioned as PPP was, underserved communities, particularly Black, Brown, and women entrepreneurs—because they didn't have traditional banking relationships as much—were kind of left out. That $12 billion, $3 billion of which is in grants, and I know

I'm preaching to the choir—$9 billion in tier one capital—has been, I think, a critical part of taking CDFIs from, you know, 2014-2015 time frame to today, about an eightfold increase. It's still tiny relative the overall market, but really important. So I've been trying to make the case. And I'm hopeful on this. I got a lot of Democrats to vote for Scott Bessent as the new Treasury Secretary, and he did commit to CDFIs in his testimony. I think we've got his deputy coming up.

Dan Carol 14:28

The breadth of the financial industry, services industry, is what differentiates the US from the world and the addition of CDFIs that was exactly what—

Mark R. Warner 14:35

I'm making the pitch. Again, I think the legacy of what Trump did—I want to remind the new administration that this is a—could be claimed as the one, kind of, forward-leaning initiative for underserved communities that came out of the Trump administration. So, I'm optimistic. And if we just look at it from a bipartisan standpoint, our bipartisan CDFI caucus has actually grown to 26 senators, 13 Republicans, 13 Democrats. That's a pretty good number. And my co chair in all this is Mike Crapo. And him happening to be senate finance chair is not a bad thing for the area. So, I'm optimistic that it's a lot easier to make a presentation around access to capital issues than traditional anti poverty programs, and I value both. But in this—today's environment of fairness in terms of access to capital and more entrepreneurship is really important, and I'm going to keep making that case. I'll make it in the hearings, either today or tomorrow on the Deputy Secretary nomination. But I think we all have to recognize things that used to be a sign of strength, that we were serving underserved communities, particularly if they were based on racial, gender diversity. We may have to present in a different way. You know, I always try to make the case that in Virginia, for example, we're about 20% African American. We're roughly 10-11% Latino, and another eight or nine Asian. If you don't have the whole enterprise of Virginia or eight and a half million people, everybody getting the kind of fair shot that I got as somebody who failed miserably my first two businesses, my third one, I did fine with cell phones back in the 80s, so it was hard to not do fine—but I think I'm self aware enough to know that, you know, if I had not been a White guy with the appropriate education, I wouldn't have gotten three shots or two shots. At least we ought to make sure everybody gets a fair shot. And I think that notional idea of maximizing the value of your community, your state, your country, may be the way to go with some of these.

Dan Carol 16:49

Yep. Well, the theme of our conference is "building resilient communities." So, this issue of how to blend dollars, different sources, critical sources, some of the tax credits that we can get into a little bit more is really key. In terms of the community that wants to be supportive of smart programs that have great bang for the buck and others, what advice would you give? I mean, it seems like right now—kind of reminds me of that old movie, "Dave." There's a well meaning effort to find waste in government, and it's playing out. And I think what it's playing out on the ground is, like—a lot of things, you know, chainsaw rather than scalpel, if you will. And people are going to have to lift up the, "Hey, this is a good program." It will start perkling up from there, "Hey, this was a great program. You just—this rural CDFI was just cut, and projects that the community wants is going away." How do you—as we end it, move into regular order, and the budget process—tell us about the flu.

Mark R. Warner 17:52

When are we moving in? Why are we moving into regular order?

Dan Carol 17:52

Tell us about the flu—

Mark R. Warner 17:55

—I expected a flu. I didn't expect a tsunami. I've been hugely disappointed by Musk. I mean, 12, 14, years ago, I helped him a lot as he was trying to break up the space oligarchy. And SpaceX is a huge win. And obviously the irony of somebody who's, I think, gotten $38 billion of federal tax dollars now coming in and complaining about all these programs—and it is insane to have 22-year-old coders that don't know squat about government willy nilly firing FAA people. They exposed 200 folks at the CIA's identity. Those folks are burned in terms of being able to work abroad or taking on programs that 70 years of soft power historically destroyed in a couple of weeks. That's not a long-term good play. So, I don't—what does that mean for the folks in the room? I do think we will start to see more pushback, frankly. Probably not from my Republican friends in Congress, but starting at local elected officials, there's a lot of projects around Virginia where money has been promised, economic development projects that we've worked on for years, literally for years. And federal funds have been announced that are now kind of frozen. That will hurt communities that again disproportionately voted for Trump. We're seeing community health centers shut down in communities that were voted 75% for Trump. So, I think we need to push back on that. I do think some of the things Milken Institute is doing with organizations around the country on these issues is terribly important. An area that—I still have huge hopes on new market tax credits. I have huge hopes on a reform Opportunity Zones initiative. I'm trying to work with Tim Scott on that. Low income tax credit, rural historic tax credits. I think these pieces—we will get them through, but we're also going to need, I think, more innovation. One area that I think is a huge opportunity because we've got such a housing shortage in this country—is working with our religious institutions, churches, synagogues, mosques that have huge amounts of property that want to do more, particularly affordable housing, multifamily affordable housing on their land. Obviously, you get rid of a lot of the underlying costs of the land if you're in a church land area. I think, and this would tie in with some of the things that I think even the Democrats have acknowledged—we've put up so many regulatory barriers. We need broad based regulatory, sensible reform, and potentially making CDBG grants or other federal dollars give a carrot to plus those up, potentially. If you can make a quicker availability to get shovels in the ground on multifamily housing, could be a place where we could have, kind of, a broad meeting of the mind. And for people in this room who do this kind of financing, you know—you live firsthand, I'm sure, the horror stories you could tell me about great projects that have taken way too long dealing with local nimbyism. And that might be a spot again, where we could—I find common cause with this administration.

Dan Carol 21:25

Yeah, I was mentioning back to we're launching this new Pathways to Capital Initiative today. And we have something called the 10,000 Communities Initiative where local projects, free technical assistance, getting any source of catalytic capital, de-risking predevelopment dollars, the role of CDFIs. I mean, everyone here is trying to spin that up, and in many ways, where a lot of savings, certainly economic development, is going to happen at the local level and scale up as, you know, as a governor.

Mark R. Warner 21:53

One thing I've been, you know—this is not something I started so I can be an outside advocate, and I would love you guys to go kick the tires. There's a county in Virginia named Henrico County, outside of Richmond. You know, roughly 350,000 people. Great kind of demographic and economic mix. They've combined, I think, a very cool initiative where they've taken a controversial issue like data centers—and for better or worse, Virginia's capital of the data centers for the whole economy—and they've dedicated, for first five years, all the tax revenue from these data centers—that's $60 million a year. That's greater in a single county than the whole Commonwealth of Virginia. In terms of a Housing Trust Fund they dedicate that. They have a unique, both, Housing Trust Fund and land bank. And so they are buying the underlying land, which is not that new, but doing it at a scale—then offering, if you have enough affordable housing in your mix—they will waive sewer connect fees and all permitting fees, which brings down the cost of the unit about another roughly $50,000 and do the full permitting, they say, in nine days. And so you've taken something that was controversial and now given a path for funding for both rental and home ownership in a way that I think—it's really cool. And if you could build on—let me make my one pitch on another initiative I've got, which is, kind of, the LIFT Program that I think you guys have taken a favorable view on—which says, rather than simply down payment assistance, which drives demand, I think we need more supply side things. And I think the Henrico is an example of that. But if we're going to really deal with racial wealth gap in this country—the initiative I've got is called LIFT—would say—we'd start this as an experiment, but we'd try to give a subsidy, if you can, you know—first time, first generation home buyer—which by definition, ends up being two thirds folks of color. Within certain qualification bands, if you qualify for that first, you know, first home, the subsidy would go towards lowering—you'd pay the returns on a 30-year mortgage rate, but we'll will give you a 20-year mortgage rate. So at 10 years, you'd have double the equity in your home. And again—hasn't been tried a lot. Frankly, even originally, the civil rights community had a little pushback on that, but I think we've worked through that. So, I think there is—we desperately need in this space new ideas in terms of dealing with the administration, but also breaking some of the logjam.

Dan Carol 24:29

I know everyone in this room and the virtual community of 1,300 organizations that we work with would love to maybe compile stories that we can—

Mark R. Warner 24:38

—I'm wide open for business. And I'm on the Banking Housing Committee, on the Finance Committee, so let's do business.

Dan Carol 24:47

Awesome. So, I wanted to ask you about the Economic Opportunity Coalition. That's something that you were very involved in, getting going. Bipartisan, promoting the role of CDFIs. Tell us about that and your vision for how that kind of work can continue.

Mark R. Warner 25:07

After the successful investment that was made from the $12 billion, many CDFIs have got enough, or have dramatically improved their balance sheet in terms of tier one capital. What they need, though, is the patient capital, then in terms of deposits. And so what we've gone out and done, and Wally Adeyemo, who was the Deputy Secretary of Treasury under President Biden—and again, Mike Crapo and I have gone out and pitched not just banks, but large corporates, and say, first of all, don't send us to your charitable side. This is not a charity we're asking for. But can we get 12-, 18-, 24-month patient capital into these institutions as deposit? And then, you know, if you want to give a lot—and we've had institutions, banks—some of the banks have given us a couple 100 million bucks each—we will distribute that across CDFIs, so you've all got your FDIC insurance. And we've hit about $3 billion in deposits. We need to keep pushing that. And would again—for anybody in this room, you know—your chances are you might lose 25, 50 basis points on those deposits for a larger institution. But you're going to get a return. And if you've got—we've gotten some of the large tech folks to invest. We need more of that now. We're going to try to also couple with some additional legislation on this, where we give a tax credit for patient capital. And we're also trying to—we've got a bill that—it would least take—would even take some of the money left over from the CDFI investments from the Trump administration first time, and try to jumpstart the beginnings of a secondary market on CDFI debt. If we could take that leverage point out—I mean, a lot of this is bespoke, but there's, you know—there are ways to do that in a relatively cheap way that I think ought to be a goal as well. How do we get a secondary market in this debt?

Dan Carol 27:09

So, I hear there's some tax expenditures being debated this year in Congress. Beyond CDFIs, new market tax credits, low income tax credits—what's your take on their prospects? And I would—

Mark R. Warner 27:25

—I worry. I obviously should have mentioned [inaudible] very supportive there as well. The thing that I don't have the answer to yet is—we went through the $6 trillion roughly, that we put out during COVID under Biden and Trump, and we always said housing's next. Because, candidly, we did squat on housing through all of that. And did gave some rent relief, but we gave really no major housing initiative. My concern is, when you've got so many tax cuts, and this effort to, kind of— again, and I don't want to nerd out before 9:30—

Dan Carol 28:06

You're in a room of nerds.

Mark R. Warner 28:07

But like, you know, the whole current policy baseline versus legal baseline. I mean, if you're an accountant and tried that scam, you'd be in jail— where they're trying to hide the four-and-a-half trillion dollars of the tax cuts. I do worry you're trying to make the tax cuts permanent. The president is promising a series of new initiatives where there are no tax on tips—or last night, the no tax on car loans if you're American made. I really fear—and then making these permanent— that it's going to be untenable whether housing is going to, kind of, in a meaningful way, get into the what's called the reconciliation bill. My concern would be that even my friends might say, "Well, Mark we'll do housing after we do reconciliation." It's going to be hard to find your resources if you suddenly are taking—sweeping off all the pay fors in this mode, and particularly—as I think most of us in this room would agree—if you're going to hit any of these numbers, you can't do it without whacking Medicaid. And, that is an untenable trade off. People's basic health care versus a roof over their heads is not a trade off the greatest country in the world should be making. I think we can do both. But how we get some of these pieces into the reconciliation bill when it's not going to be done in any bipartisan way—I am desperately making the pitch to my 13 CDFI Republican friends that you need to not just be on the caucus, but you need to advocate for this as we sort through this reconciliation bill.

Dan Carol 29:59

And do you think—obviously you represent the state of Virginia, a lot of mayors, lot of counties, governor's office—what, just from that perspective—how is the dynamic working? Because again I think our sense of things is we have disruption. There's going to be—people are going to say, "Hey, this is good. It will bubble up." But what is that looking like so far in Virginia? Are there particular [inaudible]? Is your office getting a lot of calls, or particular community development projects that are—that stand out as something that—

Mark R. Warner 30:34

I gave you the Henrico example, and what's cool about that is it's all locally generated revenue. You don't need the state, you don't need the feds. Obviously, some of the federal taxes and programs—we need part of that. But it's pretty unique. We are definitely—we are ground zero for what is going on. To give you a metric. I do these tele town halls, sometimes. These are the outflowing calls that usually annoy you around dinner time. They say, you know, "Your senator is on the line. Do you want to listen for 45 minutes or an hour [inaudible] take questions?" We normally get 3000 to 5000. Sometimes I do them with Tim Kaine. Tim and I did one about two weeks ago. We had 71,000 people on the call. 60,000 stayed for the whole hour. We are—from economic development projects to community development projects. Everything is kind of, if not frozen, at least on pause until you get your word stand back to regular order, which I would love to see happen.

Dan Carol 31:43

The guy can dream.

Mark R. Warner 31:44

A guy can dream. And frankly, until we get a little better visibility on how far the Musk and the DOGE bros are going to go. Because again, it's firing somebody at Twitter, which you can then go replace with a like kind person from Google, or in the valley, you've got a huge amount of resources, personnel resources. You can't do that if your job is inspecting for bird flu, which leads to the higher price of eggs. Or you can't do that if you're a NSA cyber expert. You can't do that, frankly, even if you're a national park ranger. And that has—is going to cause huge disruption in Virginia and Maryland, DC. But it's also going to—I think the third biggest federal dependent spending state in the country is Alaska. So, they're just as frozen at this point. And in many cases, unfortunately, this whole effort is going to cost the taxpayer money more. I mentioned on the bird flu stuff, they're hiring people back. I'm mentioning they're hiring back some of the people on FAA. This uncertainty beyond the fact of what it's going to do to the ability to recruit anyone. I was at a new health center. We spent nine years putting on—in Fredericksburg, Virginia, it's a beautiful, phenomenal building for veterans. It's got a third of its staffing. Who's going to go work for the VA at this point, if you can be arbitrarily fired in the first two years? Meaning the people who are getting fired, they are some of the best. My guest for the State of the Union last night was a—incredibly—story. She a woman who was a cancer survivor, had been a teacher. Her dream had always been to become a park ranger. She spent four or five years in her late 30s, on every vacation, volunteering for the park service. She finally got into the park service. Took a $10,000 cut in her pay. Again, as a cancer survivor, has got high health care costs. She took lower health care—health insurance. She got glorious reviews, top, top, top. And on Valentine's Day, she got a note saying, you're fired. She's got no health care now, she's got no employment. And to rub salt in the wounds, because these firings are so against any kind of evaluative criteria, they're just across the board random—she's got to question whether she can get health insurance—I mean, I'm sorry, unemployment insurance. Because if you're suddenly supposedly fired for cause—because that's what some of these emails come where you don't even get the dignity of coming back into your office or getting a couple days of notice—and then just be told, "Well, you're fired for cause, even though all of your performance reviews have been superior." That's just—that is devastating in terms of the workforce. And I just tell you, if you live across the country, this is just a preview of what's coming to your state or community soon, until we can range some of this craziness back in it.

Dan Carol 35:03

It seems like a lot of this, in terms of creating momentum and making the case for CDFIs and other forms of community development and place based development—narrative is a big piece of this. So, you know, we have been working with a lot of communities around, you know, resilience, bang for the buck. You know, we're big champions of predevelopment funding. You look at like an EPA Brownfields Grant. You know, 16 to one payoff for every federal dollar, similar findings from economic development agencies— —is this an effort to, kind of, get me back on subject? No, no. [Laughter] You can go anywhere you want. You're up late, you know. But in terms of this community making very specific cases around, "Here's the project, here's the bang for the buck, here's the economic benefits." Because it does seem like, you know, we're in a moment where explaining the value of something with the right framing is probably—

Mark R. Warner 36:07

We need those stories. And then we need something like on Opportunity Zones. I was moved from being a huge supporter to being really questioning—because it felt like, where were we getting bang? And then I got more recent data that's actually said, "No, there's actually been a very great number of successes." I think we've done a crappy job of explaining kind of how well or not well Opportunity Zones have done. And then what do we need to do when we think about reauthorizing it? It's obviously a program that's got a lot of Republican support, but we need those. We need the data as well as we need the stories. I go back again to the idea of unaffordable housing, particularly multifamily. We've got to generate more supply. I absolutely believe this collaboration with religious institutions is one avenue. I think the Henrico idea of some local funding source that can help acquire the land is another tool we ought to use. I give a challenge to folks in this space. I've got a great political pitch. I'm not sure the substance works on it. But, you know, there's not a there's not a community in America, rural, suburban or urban, that doesn't have a dilapidated strip center, retail strip center. You know, could we give extra incentives on revitalizing those? This kind of goes beyond what some of the cities are doing in terms of office building conversions to residential. I think we need to continue to push that. That's—even with people back in the office—that still needs to be a space. Some of these newer areas that can maybe get people's excitement a little bit up. I think to be your point, Dan, is we got to build the narrative. I think people love to see these public-private collaborations. They love to see your nonprofits involved. So why supply [inaudible]—

Dan Carol 38:14

We think there is a deal to be done around, "Here are eligible projects, here are eligible places to support forgotten communities, underserved communities." We've got, you know, Opportunity Zones—with reforms, we think it's a very interesting chunk of equity risk capital that could be stopgap funding for projects that are stuck right now, we actually have an Opportunity Zones 2.0 panel later today. So, I want to give you one minute. It's kind of a final piece of wisdom for folks. And again, cannot, cannot thank you enough for coming today. And as we launch our Pathways to Capital program, I've got us—you know, I know you have a lot of pins you have to wear in Congress, but want to give you a capital pin.

Mark R. Warner 39:02

It will go right next to my Ukraine flag and America flag. [Applause]

Dan Carol 39:06

Excellent.

Mark R. Warner 39:06

The record on that has not been that—I do think—I want to reserve like about a minute [inaudible]. One quick thing that's not subject to hand. But we've got all these economic challenges—we've got. I don't really believe Canada is our enemy in terms of the tariffs. Maybe because my mom's family's from Ontario. But it is also us walking away from 70 years of soft power in terms of development dollars. I think it's going to bite us. I'm embarrassed that America is now voting in the UN with Russia, Iran, North Korea, Nicaragua on denying who invaded Ukraine. We walk away from democracies, which it feels like this administration is trying to do. These are relationships that once burned, can't say, "Well, we made a mistake. And, you know, trust us again." I think some of this again comes—trickles down if federal support becomes so undetermined, the ability for you all who want to do the right thing, to take the risk with any assurance that the federal initiatives will be there, you undermine that confidence. It takes a long time to get back into the market. But we got to hang in. The only way this is going to happen is through public-private. The day era of federal initiative alone is probably—is behind us, at least for the short term. And as much—I guess what I would say is—much as when the news comes on or politics comes on the TV, you want to throw a shoe at the TV, I feel the same way, and I'm sometimes inside the TV. [Laughter] We just can't give up. And now, more than ever, what you're doing is critically important. And please count on me as an ally. Please count on—if you can get to me stories, ideas. I am very open to, kind of, new ideas on how we get stuff done. And you know—this too shall pass. And so, we just got to stay at it.

Dan Carol 41:16

Onward with communities. Amen. Thanks, Dan.

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