The New Markets Tax Credit

Economic Impact Report 2003–2012

Measuring the Direct and Catalytic Impact of New Markets Tax Credit Investments in Low Income Communities

Prepared by Rapoza Associates on behalf of the
New Markets Tax Credit Coalition

Research and Data Analysis by Novogradac & Company LLP

December 2012

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This report was prepared by Rapoza Associates for the New Markets Tax Credit Coalition.

The New Markets Tax Credit (NMTC) Coalition is a national membership organization that advocates on behalf of the NMTC program. The Coalition is managed by Rapoza Associates, a public interest lobbying, policy analysis, and government relations firm located in Washington, DC that specializes in providing comprehensive legislative and support services to community development organizations, associations and public agencies.

Introduction

The New Markets Tax Credit (NMTC) was enacted in 2000 with a purpose of spurring private sector investment in economically distressed urban and rural areas often left out of the economic mainstream. The Credit was created to address a persistent problem in distressed areas: while there are many attractive business opportunities, the cost and scarcity of capital in these 'New Markets' is a substantial impediment to spurring economic growth. The NMTC helps to ease the flow of private sector investments into these communities by providing a modest federal subsidy. Businesses, entrepreneurs, and local community leaders put that capital to work, creating jobs, pursuing important revitalization projects, and jumpstarting local economies.

There is little doubt that the NMTC has succeeded in its chief goal, delivering capital to low income communities. Since the first NMTC investment in 2003, the NMTC has supplied over $20 billion in private capital to communities with high poverty rates, low incomes and high unemployment rates. This $20 billion has leveraged an additional $25 billion from other public and private sources, financing everything from urban health care centers to rural factories and small business loan funds.

While there is ample data on the NMTC's track record of delivering capital to our most challenged communities, there has been little research on the economic impact of the NMTC in terms of jobs created and tax revenue generated.

Rapoza Associates, on behalf of the New Markets Tax Credit Coalition, retained Novogradac & Company, a public accounting firm, to analyze data on NMTC projects between 2003 and 2010. Novogradac used the IMPLAN[1] software to measure the impact of over 2,900 NMTC projects and businesses in economically distressed urban rural communities using data from the administering agency for NMTC, the Community Development Financial Institutions (CDFI) Fund of the Department of Treasury.

This report is the first to measure the aggregate economic impact of NMTC investments over the course of the program. It also examines the extent to which the federal tax revenue generated by individuals and businesses benefiting from NMTC investing offsets the cost of the program to the federal government.

There are four key findings in this report:

- NMTC investments between 2003 and 2010 are responsible for creating over 500,000 jobs in economically distressed communities across America;
- These investments also generated over $5.3 billion in federal tax revenue and over $3 billion in state and local tax revenue between 2003 and 2010;
- The federal tax revenue generated by NMTC investments more than covers the cost of the program as measured in terms foregone federal tax revenue; and
- Through 2010, NMTC investments directly generated over 124,000 operational (permanent) jobs. In 2010 alone, NMTC investments in operational activities generated almost $1.1 billion, easily offsetting the estimated $720 million cost of the program for the federal government and providing a 50% return on the federal investment.

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1 IMPLAN is an economic impact assessment software system originally developed by the USDA Forest Service and now maintained by the Minnesota IMPLAN Group (MIG). It combines a set of extensive databases concerning location specific trade patterns and other economic multipliers and demographic statistics with a highly refined and detailed system of modeling software.

Findings:

Our findings show that the between 2003 and 2010, the New Markets Tax Credit (NMTC) created a significant number of jobs and expanded the tax base of state and local governments. Our research found a significant return on NMTC investment to the taxpayer.

As noted, over 2,900 NMTC projects were analyzed using IMPLAN. These projects and businesses received $20.3 billion in NMTC financing and $45 billion in total project costs. Commercial and industrial facilities accounted for more than 40% of the overall projects analyzed. See Table 1 for a full breakdown of projects by industry.

Table 1: Projects Analyzed By Industry

Industry	Number of Projects
Timberlands, Waste Management, Energy	63
Arts, Tourism, Recreational Facilities	210
Automotive	97
Community Services	250
Education	220
Commercial & Industrial (Real Estate, Retail, Manufacturing)	1110
Healthcare	227
Housing	122
Information Technology, Science	54
Service Sector	162
Transportation, Warehousing, Logistics	152
TOTAL	**2914**

Source: Analysis by Novogradac & Company LLP

The IMPLAN model provided impact data in two main categories: operational and construction. Operational activities of a business are its core daily activities of generating revenue, marketing its product and service offerings, administering payroll and maintaining its facilities. Our findings separate the jobs and taxes generated by operational activity from the jobs and taxes generated by construction activity. The construction category measures the impact of expenditures relating to building or renovating a property, including spending on labor and materials related to construction. Construction jobs–unlike operational jobs–are temporary. Construction jobs are reported in terms of "person–years" of labor. In other words, an employment impact of 10 jobs could be 20 people working 6 months or 2 people working 5 years.

Our findings show that the **NMTC has generated over 500,000 jobs in low income communities across the country**. IMPLAN also divides economic impacts in types of effects: direct effects, indirect effects, and induced effects. Almost 300,000 jobs were a *direct* result of NMTC investments. Over 96,000 were created as an *indirect* result of NMTC investments and some 140,000 were *induced* by the increased economic activity spurred by NMTC investments (See Table 2). Direct, indirect, and induced effects are defined in greater detail later in this paper.

Table 2: Jobs Generated

Category	Direct Jobs	Indirect Jobs	Induced Jobs	Total Jobs
Construction	171,804	65,822	97,711	335,337
Operational	124,773	31,058	44,706	200,537
Total	**296,577**	**96,880**	**142,417**	**535,874**

Source: Analysis by Novogradac & Company LLP

The jobs and tax revenue generated from construction activity cover the entire report period (2003-2010). Operational jobs reported also cover the entire period. However, due to limitations of the model, the tax revenue generated by operational jobs or businesses only covers calendar year 2010. This means that our findings vastly *underreport* the amount of tax revenue generated by operational activity.

Table 3: Tax Revenue Generated

Category	Federal Tax Revenue Generated	State and Local Tax Revenue Generated
Direct		
Construction	$1,703,359,453	$494,348,267
Operational	$1,056,312,183	$804,250,737
Total Direct	$2,759,671,636	$1,298,599,004
Indirect		
Construction	$805,059,250	$457,250,705
Operational	$329,713,628	$222,101,698
Total Indirect	$1,134,772,878	$679,352,403
Induced		
Construction	$1,027,450,259	$804,904,140
Operational	$464,912,792	$363,594,143
Total Induced	$1,492,363,051	$1,168,498,283
Grand Total	**$5,386,807,565**	**$3,146,449,690**

Note: Operational revenue totals include revenue generated in 2010 only, while construction revenue totals include revenue generated between 2003 and 2010.The model also provided extensive data on tax revenue generated at both the federal and state and local level (see Table 3). Most of this revenue (60%) represents taxes on wages that are generated when jobs are created. The remaining amount includes: corporate income taxes; taxes on dividends; and indirect business taxes, consisting primarily of excise and sales taxes paid by individuals to businesses. These taxes are collected during the normal operation of these businesses or during the purchase of supplies and materials during a construction project.

Source: Analysis by Novogradac & Company LLP

DIRECT ECONOMIC EFFECTS

Direct effects gauge the impact within the industry that is immediately affected by a NMTC investment. For example, direct jobs would include the construction workers hired to build a NMTC-financed timber mill as well as full-time jobs created within that new facility. The NMTC created 296,577 direct jobs, including 171,804 construction jobs and 124,773 operational jobs (see Table 4).

Table 4 – Direct Effects: Jobs Generated

Category	Jobs
Construction	171,804
Operational	124,773
Total Direct	**296,577**

Source: Analysis by Novogradac & Company LLP

The direct economic impact of NMTC investments accounts for the generation of nearly $2.8 billion in federal tax revenue and nearly $1.3 billion in state and local tax revenue (see Table 5).

Table 5 – Direct Effects: Tax Revenue Generated

Category	Federal Tax Revenue Generated	State and Local Tax Revenue Generated
Construction	$1,703,359,453	$494,348,267
Operational*	$1,056,312,183*	$804,250,737*
Total Induced	$2,759,671,636	$1,298,599,004

**2010 only*

Source: Analysis by Novogradac & Company LLP

INDIRECT ECONOMIC EFFECTS

Indirect effects concern intra-industry economic impact. NMTC investments create indirect effects in the local economy by increasing demand for goods and services up and down the supply chain. For example, a NMTC-financed timber mill might create business opportunities in the trucking industry and for wood suppliers and machinery shops, generating local jobs and spending on goods and services, along with the accompanying tax revenue.

Table 6 – Indirect Effects: Jobs Generated

Category	Jobs
Construction	65,822
Operational	31,058
Total Indirect	**96,880**

Source: Analysis by Novogradac & Company LLP

The NMTC indirectly generated 96,880 jobs, including 65,822 construction jobs and 31,058 operational jobs (see Table 6). Most of the indirect operational jobs were in the service sector, transportation, waste management, agriculture, real estate management, or information technology sectors (see Table 7).

Table 7: Indirect Operational Jobs by Sector

Industry	Jobs	Percent of total
Admin/waste services	5,415	17.4%
Service/retail industries	4,526	14.6%
Scientific, hi-tech/IT services	4,255	13.7%
Finance, insurance	3,926	12.6%
Real estate, rental	3,667	11.8%
Agriculture, Mining, Forestry	3,642	11.7%
Transportation, Warehousing, Wholesale Trade	2,423	7.8%
Contractors	796	2.6%
Manufacturing	734	2.4%
Management of companies	635	2.0%
Arts, entertainment, recreation	475	1.5%
Health, social services	214	0.7%
Utilities	197	0.6%
Education	153	0.5%

Source: Analysis by Novogradac & Company LLP

Our findings show that the NMTC indirectly generated $1.1 billion in federal tax revenue and nearly $680 million in state and local tax revenue (see Table 8).

Table 8 – Indirect Effects: Tax Revenue Generated

Category	Federal Tax Revenue Generated	State and Local Tax Revenue Generated
Construction	$805,059,250	$457,250,705
Operational*	$329,713,628*	$222,101,698*
Total Induced	**$1,134,772,878**	**$679,352,403**

**2010 only*

Source: Analysis by Novogradac & Company LLP

INDUCED ECONOMIC EFFECTS

Induced effects measure the economic impact of increases in household spending as a result of a NMTC investment. When workers are hired and local wages increase, this boosts local consumer spending. With more demand for goods and services, local businesses can expand, construct new facilities and/or, hire more employees, and spend more on products and services that generate tax revenue. For example, a grocery store might be built to support the additional consumer demand generated by 100 new jobs at a NMTC-financed steel processing facility.

Our findings indicate that the NMTC financing induced 142,417 jobs, including 97,711 in the construction sector and 44,706 operational jobs (see Table 9). Nearly half of the induced operational jobs were in the retail, restaurant, and healthcare sectors.

The NMTC's induced economic effects included the generation of nearly $1.5 billion in federal tax revenue and $1.2 billion state and local tax revenue (see Table 10).

Table 9 – Induced Effects: Jobs Generated

Category	Jobs
Construction	97,711
Operational	44,706
Total Induced	**142,417**

Source: Analysis by Novogradac & Company LLP

Table 10 – Induced Effects: Tax Revenue Generated

Category	Federal Tax Revenue Generated	State and Local Tax Revenue Generated
Construction	$1,027,450,259	$804,904,140
Operational*	$464,912,792	$363,594,143
Total Induced	**$1,492,363,051**	**$1,168,498,283**

**2010 only*

Source: Analysis by Novogradac & Company LLP

RETURN ON INVESTMENT

The NMTC provides the federal government with a significant return on investment. Our findings show that – even with the most conservative assumptions about federal tax revenue generated – the credit offsets its cost in terms of revenue lost. Our revenue assumptions are conservative because while tax revenue from construction activity covers the entire report period (2003-2010), our model only provided federal tax revenue from operational activity for the final year of the period (2010).

According to the Joint Committee on Taxation[2] for every dollar invested through the NMTC, there is a 26 cent cost to the federal treasury. Therefore, the cost to the federal government of the $20.3 billion in NMTC investments analyzed in this report (in terms of revenue lost) is $5.2 billion.

2 Joint Committee on Taxation, Estimated Revenue Effects of the Revenue Provisions Contained in the "Family and Business Tax Cut Certainty Act of 2012"

These NMTC investments generated *at least* $5.4 billion in federal revenue (see Table 11) between 2003 and 2010, including $3.5 billion in revenue generated by construction activity between 2003 and 2010 and $1.8 billion in revenue generated by operational activity in 2010 alone. This revenue fully offsets the cost of the program to the federal government. Furthermore, if the model were able to include annual federal tax revenue generated by operational activity in 2003, 2004, 2005, 2006, 2007, 2008, and 2009, the program would provide a significant return on investment well above and beyond the cost to the federal government. Either way, it's clear that the program more than pays for itself.

Table 11: Federal Return on Investment

Category	Amount
Federal Revenue from Operational Jobs (2010)	$3,535,868,962
Federal Revenue from Construction Jobs (2003-2010)	$1,850,938,603
Total Federal Revenue Reported	**$5,386,807,565**
Estimated Cost to Federal Government	**$5,273,856,987**

Source: Analysis by Novogradac & Company LLP

According to the Government Accountability Office[3], the cost to the federal government for NMTC activity in 2010 as measured in terms of revenue lost totaled $720 million. In that same year, the federal tax revenue directly generated by NMTC financed operational activity alone totaled $1.1 billion, providing nearly a 50% return on the federal investment.

3 U.S. Government Accountability Office. (2007). *Report to Congressional Committees, GAO-07-296, Tax Policy.*

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