SPECIAL REPORT

New Markets Tax Credit:

Creating Economic Opportunity in Rural America

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Rapoza Associates prepared this report 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. This report was prepared by Rapoza Associates. Paul Anderson was the principal author. The report was released on July 14, 2014.

Cover photo provided by the Finance Fund.

INTRODUCTION

The New Markets Tax Credit (NMTC) was designed to increase the flow of capital to businesses and low income communities by providing a modest tax incentive to private investors. Over the last ten years, the NMTC has proven to be an effective, targeted and cost-efficient financing tool valued by businesses, communities and investors across the country – both rural and urban.

Rural economies in particular present unique obstacles to revitalization, including a lack of economic diversity and investors, the limited availability of credit, the seasonal nature of employment, and geographic isolation. In the New Markets Tax Credit Coalition's 2006 *NMTC Progress Report*, we asked "What about Rural?" and described the initial concerns surrounding the New Markets Tax Credit (NMTC)'s ability to deliver capital to eligible rural communities. Since we first posed the question in 2006, there is evidence that the NMTC has a unique capacity to overcome these barriers and deliver capital to some of the country's most distressed rural communities. The Credit has made a significant impact in rural America, creating tens of thousands of jobs, financing over 600 businesses and facilities, and boosting local economies. In 2006, Congress enacted The Tax Relief and Health Care Act of 2006 (P.L. 109-432), which amended the NMTC statute to ensure that non-metropolitan communities were allocated a proportional share of QLICIs. The CDFI Fund defined "non-metropolitan counties" as those counties that are not contained within a Metropolitan Statistical Area, according to the most recent census. There is evidence that the 2006 provision started a trend toward more investment in rural communities, as investment in non-metro counties has picked up in recent years, averaging 22 percent between 2010 and 2013 after averaging 17 percent between 2003 and 2009. This percentage is roughly proportional to the overall rural share of the population, which is about 20 percent.

ECONOMIC IMPACT IN RURAL COMMUNITIES (2003-2011)

The impact of NMTC investments in rural communities has been significant. An analysis of CDFI Fund data between 2003 and 2011 shows that the NMTC delivered $3.5 billion in capital to non-metro census tracts, leveraging an additional $3.5 billion from other sources for a total of $7 billion in capital investment to over 600 rural businesses. These NMTC investments created more than 67,000 jobs, including nearly 47,000 full-time jobs and over 20,000 construction jobs. In fact, despite the fact that only 20 percent of NMTC investments go to rural communities, more than 30 percent of the full-time jobs created by the NMTC are in rural communities.

NMTC IN SMALL TOWN AMERICA

The NMTC has created jobs in some of America's smallest communities where a sizeable investment in a new plant or facility creates a disproportionate economic impact. Between 2003 and 2011, the NMTC generated a total of 18,539 jobs in towns with 5,000 or fewer residents. For example, the NMTC created 100 permanent jobs and 20 construction jobs at the Maniilaq Nursing Home in Kotzebue, Alaska, population 3,332.

NMTC job creation (2003-2011), metro vs non-metro census tracts:

Metro or Non-Metro?	FTE jobs	Construction jobs	Total jobs
Metro	109,695	284,219	393,914
Non-Metro	46,922	20,814	67,736
Both*	1,608	1,950	3,558

**some projects span metro and non-metro census tracts Source: NMTC Coalition analysis of 2003-2011 CDFI Fund NMTC Transaction Data*

In addition to economic development, the NMTC helped rural communities address two persistent challenges: the access to healthcare and the loss of manufacturing jobs. In fact, between 2003 and 2011, manufacturing businesses and healthcare facilities were two of the most popular industries for rural NMTC investments.

FINANCING RURAL HEALTHCARE FACILITIES

Rural residents have higher rates of age-adjusted mortality, disability, and chronic disease than their urban counterparts, and they also have less access to doctors and healthcare providers. According to research by the Stanford University, despite rural communities accounting for about 20 percent of America's population, less than 10 percent of physicians practice in these communities. The NMTC has helped rural communities increase healthcare access, financing 68 rural healthcare facilities or clinics, totaling $536 million in project costs between 2003 and 2011. Examples of these projects include the Speare Memorial Hospital in the medically underserved community of Plymouth, New Hampshire, and the Delta Memorial Hospital in Dumas, Arkansas. Eleven percent of rural NMTC projects involved healthcare facilities.

The NMTC helped finance the construction and upgrade of the Delta Memorial Hospital. Photo from the NMTC Coalition's "NMTC At Work" report (Dec. 2012).

FINANCING RURAL MANUFACTURING BUSINESSES

Over the last two decades, the statistics are bleak for rural manufacturing employment. Nationwide, rural communities have lost hundreds of thousands of manufacturing jobs. For example, a study by the University of Arkansas indicated that between 2000 and 2010, rural areas of Arkansas lost more than 53,000 manufacturing jobs. The NMTC has helped many rural communities create or retain manufacturing jobs by providing financing to manufacturers for new facilities and equipment. Between 2003 and 2011, the Credit delivered over $1.4 billion in total project financing to 110 rural manufacturing projects. Eighteen percent of NMTC projects in rural communities involved manufacturing.

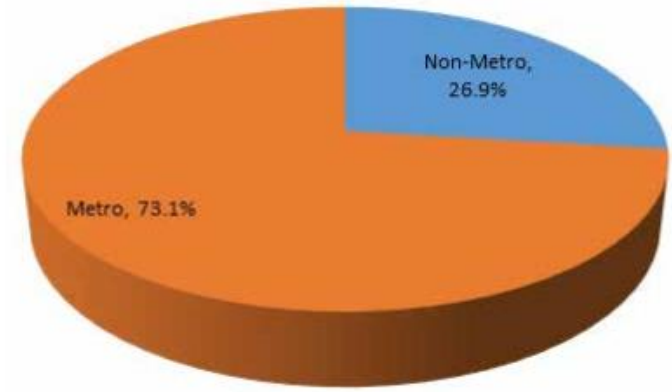
One such project is Viracon, a rural, Minnesota-based manufacturer of attractive, energy-efficient specialty glass for skyscrapers, which are sold across the world. Midwest Minnesota Community Development Corporation (MMCDC), a Community Development Entity and board member of the NMTC Coalition, provided a low-cost $14.4 million financing package for Viracon's new 650 production line at their plant in Owatonna, Minnesota. As a result, company was able to preserve its global competitiveness and the 800 living-wage jobs it provides for U.S. workers.

TCF Bank Stadium, University of Minnesota, Minneapolis, MN, Viracon energy-efficient glass, Copyright Viracon, Tom Heidrick

2013 SURVEY RESULTS

In the NMTC Coalition's Survey of 2013 CDE activity, survey respondents reported a total of $809 million (26.9 percent) of the NMTC financing went businesses in located in non-metro areas (see Chart 14), and these projects accounted for $1.1 billion in total project costs.

CDE Survey of 2013 NMTC Activity
Dollar Amount in QLICIs by Metro and Non-Metro Area (in millions)



Source: New Markets Tax Credit Coalition analysis of CDFI Fund NMTC Transaction data, 2003-2011

Source: New Markets Tax Credit Coalition, survey of NMTC allocatee activity January 1 – December 31, 2013 Survey respondents reported 7,584 jobs created in non-metro census tracts in 2013, including 4,173 full-time jobs and 3,411 construction jobs.