PROGRESSREPORT

2014

An annual report by
the New Markets Tax Credit Coaliton

FEATURING:
A Special Report on Rural Investments

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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.

NMTC COALITION BOARD

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Thank you to Kimberly Wolff for many of the photos in this report.

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By the Numbers

Every year, the NMTC Coalition sends a survey to all CDEs that have received a NMTC allocation. The survey requests information on each CDE's NMTC activity in the previous calendar year. The Coalition's most recent survey of CDEs covered NMTC activity in 2013. The following survey findings bolster the case that the NMTC continues to serve effectively drive capital to areas of economic distress, creating jobs and economic opportunity.

* * * * *

Sixty-four CDEs representing $17.1 billion in total allocation (2003-2013) responded to the survey reporting on their NMTC activity in calendar year 2013. Those respondents reported:

- $2.1 billion in Qualified Equity Investments;
- $2.0 billion in Qualified Low Income Community Investments;
- $4.9 billion in total project financing;
- 280 businesses receiving NMTC financing;
- 100% of NMTC investments were made in qualified low income communities;
- 79% of NMTC investments were made in severely distressed communities;
- 56% of NMTC investments were made in communities with unemployment rates at least 1.5 times the national average;
- 54,643 jobs were created by projects closing in 2013, including:
  - 25,268 full-time jobs; and
  - 29,375 construction jobs.
- $2.7 billion in NMTC-qualified projects or businesses in the pipeline for 2014

ALL THIS ADDS UP TO...

...an unprecedented level of investment in communities that have been left out of the economic mainstream. For many rural and urban communities, the NMTC is the principal source of financing for credit starved small and medium sized businesses or revitalization projects and is responsible for the creation of thousands of jobs in areas of high unemployment and poverty.

Introduction

The 2014 NMTC Progress Report was prepared by the New Markets Tax Credit Coalition ("The Coalition"), a national membership organization of Community Development Entities (CDEs), investors, and other community development professionals organized to advocate on behalf of the New Markets Tax Credit (NMTC). The report highlights findings from the Coalition's most recent survey of CDEs with NMTC allocations. The survey collected data from CDEs on their progress raising capital and making loans and investments in calendar year 2013 with the NMTC.

This, the Coalition's tenth annual *NMTC Progress Report*, is designed to inform policymakers and practitioners on how the NMTC works and to document the latest successes of the NMTC in contributing to the recovery of urban and rural communities across America.

Our findings show that the NMTC continues to serve as an effective incentive for community revitalization. Reported jobs numbers reinforce recent job creation analysis by CDFI Fund as well as the conclusions of the Coalition's 2012 Economic Impact Report. Survey respondents reported job creation on a project by project basis. In total, CDE survey respondents created 54,000 jobs in 2013, which represents a significant share (2%) of the 2.3 million jobs created in America in 2013.

As the Urban Institute put it in their extensive 2013 evaluation of the NMTC Program:

> In its early years, the NMTC program operated as intended—encouraging investments in low-income areas for a diverse range of community- and economic-development projects associated with varying results. The most prevalent results were provision of advantageous financing, real estate development in low-income areas, additions to local tax bases, and job creation or retention. NMTC projects also added to or expanded community amenities, services, and facilities and supported small businesses and organizations.

The NMTC financed new equipment at an industrial facility in Erie, PA

The exterior of INDUSTRY Denver, financed by the NMTC and completed April of 2014. Photo by Kimberly Wolff.

About the New Markets Tax Credit

HISTORY

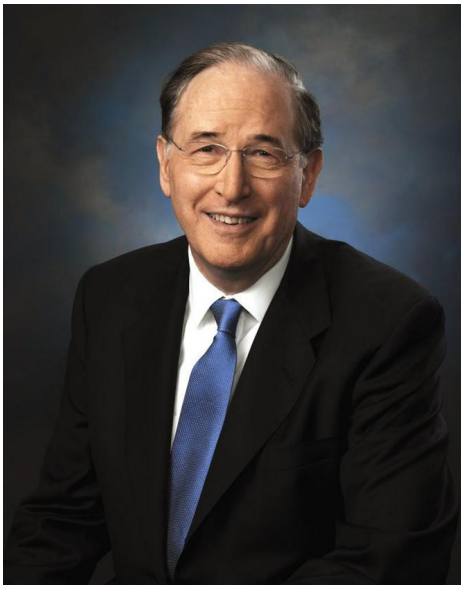
In December 2000, the Community Renewal Tax Relief Act (P.L. 106-554) was signed into law. This legislation authorized the New Markets Tax Credit (NMTC) Program, which was designed to provide a modest tax incentive in order to increase the flow of private sector capital to communities long overlooked by market forces. While today's economy differs significantly from the 2000 economy, the challenge of attracting investment capital to underserved areas persists and has intensified over the last few years as banks have tightened lending.

Then – as now – the basis for the NMTC is that business success depends on access to capital. There is substantial evidence that low and moderate income areas continue to be underserved by private sector capital. This lack of capital stifles entrepreneurs and impedes business growth leading to urban decay and economic stagnation in small towns and rural communities, despite opportunities for investment and business expansion.

Between 2003 and 2012, the total investment in NMTC financed businesses totaled over $60 billion, of which nearly $32 billion was NMTC capital, with the balance coming from other sources. Those businesses directly generated some 561,782 jobs, including 207,550 full-time jobs and 354,323 construction jobs. NMTC financing cost the federal government $8 billion in revenue lost, resulting in a cost per job of less than $20,000.

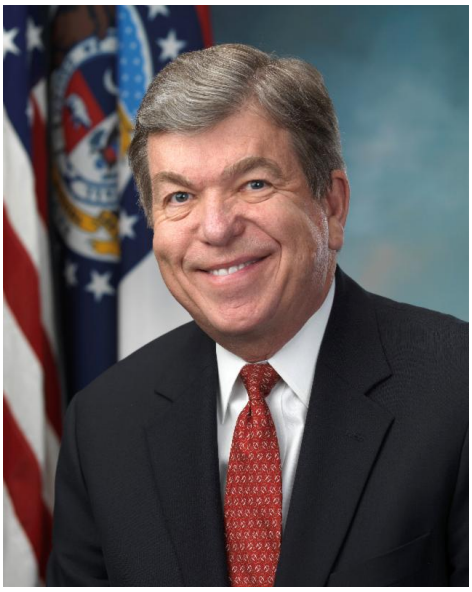
The NMTC is not a permanent part of the internal revenue code. The program has been extended four times (2007, 2009, 2011, and 2012). The most recent NMTC extension expired on December 31, 2013, and as this report goes to press, Congress is in the process of debating another extension of the NMTC and other expired corporate tax provisions. In March, the Senate Finance Committee favorably reported the EXPIRE Act (S 2260), which includes a two-year extension of the NMTC. That legislation awaits consideration on the Senate floor. In the House, a bipartisan effort is underway to extend the NMTC. Representatives Gerlach (R-PA) and Neal (D-MA) introduced extension legislation (H.R. 4365) in March of 2014 and as this report goes to press, Gerlach and Neal's bill has been cosponsored by more than fifty members of the House of Representatives.

Leaders of the Senate NMTC Extension Legislation (S 1133)



"A New Markets Tax Credit investment in Wheeling, West Virginia helped bring the Wheeling Stamping Building back to life. The building was once a bustling hub of the metal stamping industry. After deteriorating and sitting dormant for decades, the New Markets Tax Credit helped finance the restoration of the building that created 300 construction jobs. Now the building houses 350 full-time employees in a community that needs good jobs."

-Senator Jay Rockefeller (D-WV)



"The New Markets Tax Credit Program has already had a positive impact in Missouri, leading to more than $2 billion in investments and thousands of jobs. I'm glad to support this bipartisan bill to make this tax credit permanent so that we can continue to encourage investment, growth, and job creation in low-income communities nationwide."

-Senator Roy Blunt (R-MO)

Golden Belt Complex in Durham, NC.

How It Works

The New Markets Tax Credit is a placed-based anti-poverty and community revitalization tool. Unlike some programs that subsidize a specific economic activity or business sector (such as the creation of affordable housing), the NMTC is designed to target a narrowly defined geographic location: census tracts that meet specific criteria of economic distress in terms of poverty or median income.

In order to deliver capital to these underserved "new markets," the NMTC authorizing statute created a new category of investment intermediary, Community Development Entities (CDEs).

COMMUNITY DEVELOPMENT ENTITIES

CDEs are the investment vehicle for the NMTC. An organization must be certified as a CDE by the Community Development Financial Institutions (CDFI) Fund within the Treasury Department before it can apply for an allocation of NMTCs. To qualify as a CDE, an organization must:

- be a domestic corporation or partnership at the time of the certification application;
- demonstrate a primary a mission of serving, or providing investment capital for, low-income communities or low-income persons; and
- maintain accountability to residents of low-income communities through representation on a governing board of or advisory board to the entity.

Most CDEs are affiliates of mission-driven nonprofit organizations, for-profit entities, government entities, or private financial institutions.

APPLYING FOR AN ALLOCATION OF NMTCS

Once certified, a CDE can apply to the CDFI Fund for an allocation of NMTCs. The CDFI Fund issues an allocation application on an annual basis. As this publication went to print, there had been 10 allocations from the CDFI Fund totaling over $36 billion in allocation authority. Competition for NMTC allocations is steep and CDE applications are scored in four areas:

- Community Impact – the extent to which a CDE targets economically distressed communities, has the active participation of community representatives and can demonstrate programmatic impacts;
- Business Strategy – A CDEs must describe and quantify the level of economic distress in the target area and demonstrate how the CDE plans to provide financial products and services that address the needs of the community;
- Capitalization Strategy – A CDE must demonstrate that they have investors committed to investing in the CDE or a strategy for securing investments; and
- Management Capacity – A CDE must demonstrate that they have the experience and the staff and partners to execute an effective NMTC strategy

The CDFI Fund historically has received enough highly rated applications that in order to be successful, CDE applicants must exceed the standard set for raising and deploying capital, and for serving areas of high economic distress, as established by law and regulation. The CDFI Fund has established a set of higher benchmarks which have helped drive NMTC investment into areas of greater need, as the NMTC Coalition's survey data demonstrates year after year.

If a CDE is awarded an allocation of Credits it must sign an allocation agreement with the CDFI Fund, giving it the authority to market the NMTC to investors and implement the New Markets Tax Credit business strategy proposed in the CDE's allocation application.

SECURING PRIVATE INVESTORS

Once a CDE receives an allocation and signs its allocation agreement, a CDE can secure investors to make Qualified Equity Investments (QEIs) in the CDE in exchange for the Credit.

In exchange for the NMTC, a taxpayer makes a QEI in the CDE. The investor claims a 39 percent tax credit over seven years, five percent annually for the first three years and six percent in years four to seven, and the seven-year clock starts once the QEI is made in the CDE. Investors may not redeem or otherwise cash out their investments in the CDEs prior to the conclusion of the seven-year credit period.

The CDEs must use substantially all (defined as 85%) of the proceeds from the QEIs to make Qualified Low-Income Community Investments (QLICIs) within one year.

A QLICI can be any of the following:

1. Any capital or equity investment in, or loan to, any qualified active low-income community business.
2. A loan purchased by a CDE from another CDE which is a QLICI.
3. Financial counseling and other services to any qualified active low-income community business, or to any residents of a low-income community.
4. Any equity investment in, or loan to, other CDEs .

The NMTC statute defines low income communities as census tracts where the individual poverty rate is at or above 20% or the median family income is at or below 80% of the area median income. In addition to the placed-based requirement, NMTC projects can meet the eligiblility requirements if they target underserved populations, (see page 27 for more details). Data and maps showing the location of eligible census tracts is available on the CDFI Fund website (cdfi.gov).

According to the Urban Institute's New Markets Tax Credit Program Evaluation (2013), data from the CDFI Fund indicates that a large portion of all QEI dollars were invested as QLICIs. In fact, the Urban Institute found that 97% of QEIs were invested as QLICIs into low income communuty businesses with the balance (3%) going to fees, expenses, compliance and administrative costs.

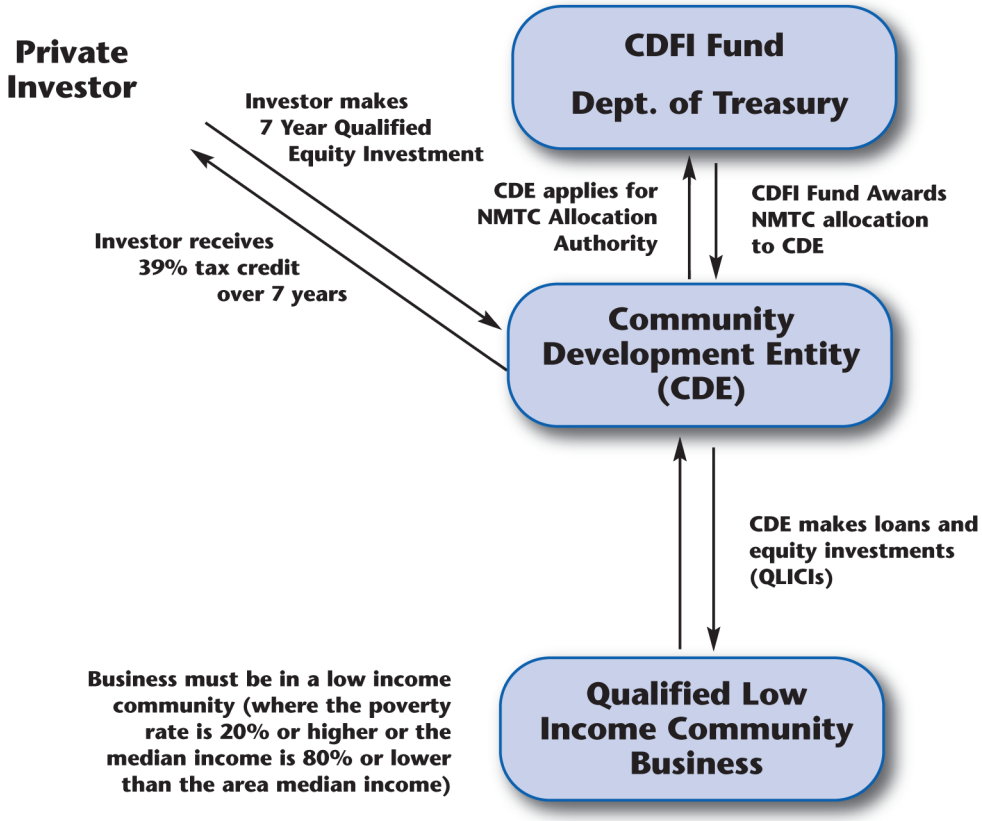
USES OF NMTC INVESTMENTS

QLICIs most typically involve loans or investments in qualified businesses. A CDE can invest in or loan to other CDEs, purchase qualified loans from other CDEs, or provide financial counseling to qualified businesses or community resident. While "substantially all" of a CDE's investments must be targeted to the low income service area identified by the CDE, there is significant flexibility in the types of businesses and development activities that NMTC investments support – including community facilities such as child care or health care facilities and charter schools, manufacturing facilities, for-profit and non-profit businesses, and homeownership projects. Specific examples of businesses financed through New Markets include a peanut manufacturer in North Carolina, a manufacturer of biofuels in New Hampshire, community health center in Oregon, high-tech business incubator in Colorado, daycare center in Illinois, grocery store in Ohio, and worker training facility in Michigan. More examples of NMTC projects can be found on the NMTC Coalition's project map on the Coalition website at nmtccoalition.org/map.

FEDERAL OVERSIGHT OF THE NMTC

The CDFI Fund (within the Treasury Department) administers the NMTC. This includes CDE certification, the allocation of NMTCs, and monitors CDE compliance once Credits are awarded. The CDFI Fund tracks NMTC investment data - including jobs, investment amounts, and locations - through its Community Investment Impact System. The Internal Revenue Service (IRS), also under the Treasury Department, is responsible for issuing guidance on NMTC investments and monitoring taxpayer compliance.

Figure 1: How the New Markets Tax Credit Works



NMTC DEMAND

CDE demand for NMTC allocations continues to far outstrip the availability of Credits. CDEs requested $281 billion in allocation authority between 2003 and 2013 while the CDFI Fund has awarded NMTC allocation authority totaling $36.6 billion. Allocation demand has averaged more than 7 times availability of Credits, as Table 1 shows.

Table 1:
NMTC Allocation Authority and CDE Demand by Year

Year	Demand	Available Allocation Authority	Number of Awards
2003	$26,000,000,000	$2,500,000,000	66
2004	$30,000,000,000	$3,500,000,000	63
2005	$23,000,000,000	$2,000,000,000	41
2006	$28,300,000,000	$4,100,000,000	63
2007	$28,300,000,000	$3,900,000,000	61
2008	$27,900,000,000	$5,000,000,000	102
2009	$21,300,000,000	$5,000,000,000	99
2010	$22,500,000,000	$3,500,000,000	99
2011	$26,700,000,000	$3,600,000,000	70
2012	$21,900,000,000	$3,500,000,000	85
2013	$25,800,000,000	$3,500,000,000	TBD
TOTAL	$281,700,000,000	$36,600,000,000	749

Source: CDFI Fund

The 2013 CDE Survey: An Annual Snapshot of NMTC Activity

Since 2005, the Coalition has conducted an annual survey of CDEs that have received at least one NMTC allocation. The survey requests information on CDEs' NMTC activity in previous calendar year. The survey data collected provides an annual snapshot of NMTC activity, and it provides up to date information on impacts and trends to policymakers and practitioners.

The Coalition's most recent survey of CDEs collected data on NMTC activity in the 2013 calendar year. Survey findings continue to indicate that the NMTC is an effective tool for driving capital to areas of economic distress, creating jobs, and revitalizing both urban and rural communities.

A total of 64 CDEs responded to this year's survey. AS of May 2014, these survey respondents had received a total of $17.1 billion in NMTC allocations throughout the course of the program, or nearly 50% of total allocation awarded as of February of 2014. In 2013, these CDEs raised more than $2.1 billion in QEIs and deployed $2 billion in financing to 280 businesses in 47 states and the District of Columbia. In 2013, CDEs nationwide deployed about $3.9 billion in QEIs. As such, these CDEs represent a substantial share of the activity in the program (see Table 2).

CDE Survey of 2013 NMTC Activity
Table 2: By Service Area, Allocation History, QEIs and QLICIs in 2013

Service Area	Number of CDEs	Total Allocation (2003-2012)	QLICIs	QEI
Local	9	$881,000,000	$115,213,623	$135,782,264
Multi-state	13	$2,626,000,000	$402,850,730	$468,606,561
Statewide	11	$1,484,000,000	$206,431,500	$260,069,167
National	31	$12,169,000,000	$1,262,858,813	$1,209,263,057
Total	64	$17,160,000,000	$1,987,354,666	$2,073,721,049

Source: New Markets Tax Credit Coalition, survey of NMTC allocatee activity January 1, 2003 – December 31, 2013

When applying for an allocation, CDEs must identify their target market as local, statewide, multi-state, or national. National CDEs comprised nearly 50% of survey respondents. These organizations constituted nearly three-fourths of the total Credit authority represented in the survey, the largest share of capital raised ($1.2 billion out of $2.1 billion), and well over half of the financing dollars (QLICIs) (see Charts 2 and 3).

NMTC: CATALYST FOR EFFECTIVE PUBLIC-PRIVATE PARTNERSHIPS

There are four key factors to consider when looking at the NMTC investment environment.

1. The New Markets Tax Credit provides a modest subsidy as compared to some other targeted federal tax credits. As noted previously, a NMTC investor receives a federal tax credit equal to 39% of the total Qualified Equity Investment in a CDE and the Credit is realized over a seven-year period. Therefore, taxpayers investing in the NMTC look for solid business deals that will yield economic return beyond the tax subsidy;
2. Since the inception of the NMTC, regulated financial institutions have constituted the principal source of investment capital for the Credit. The 2014 *Progress Report* indicates this trend continues with CDEs reporting that 50.9% of the QEI investment dollars secured in 2013 came from regulated financial institutions (see Table 3);
3. NMTC investments are not exempt from the Alternative Minimum Tax (AMT), which restricts the size of the investor market and puts NMTC at a competitive disadvantage with other similar federal tax credits that are exempt from AMT. There is anecdotal evidence that the AMT requirement is an impediment to participation of regional and community banks, as well as other individual and corporate investors with an interest in the Credit; and
4. As a federal tax credit the NMTC is only attractive to investors with a federal income tax liability that they can offset. For this reason, the NMTC is not attractive to financial interests or potential investors without federal tax liability such as local and state government agencies, non-profit pension funds, or private foundations, all of whom do not pay federal income taxes.

CDE Survey of 2013 NMTC Activity
Table 3: Sources of QEI Investment Dollars (both debt and equity)

Source	Total
Regulated financial Institution	50.9%
Other private entity	20.1%
Other	13.6%
Private foundation	5.7%
Unregulated financial institution (e.g., GE Capital)	4.6%
Debt from the equity investor	3.6%
Insurance company	1.0%
Venture capital fund	0.5%

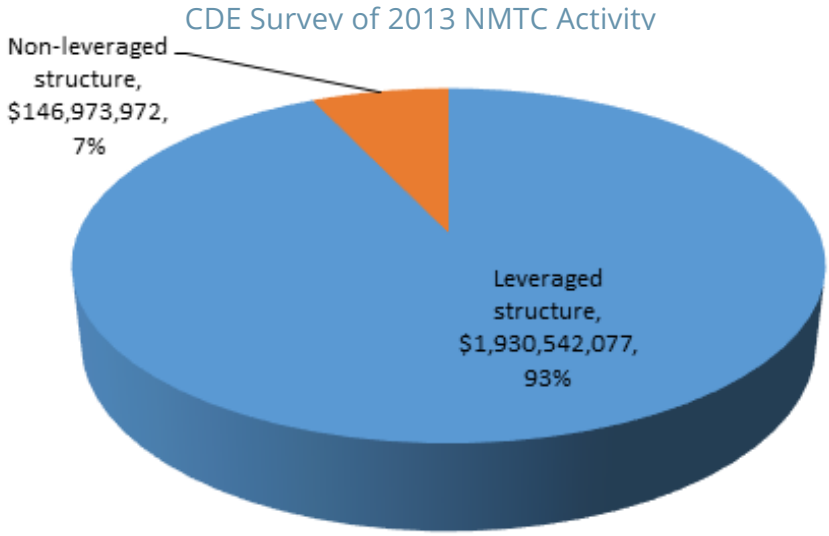
Source: New Markets Tax Credit Coalition, survey of NMTC allocatee activity January 1 – December 31, 2013

'LEVERAGE' INVESTMENT STRUCTURE

To improve and diversify the investor market and provide CDEs with additional tools to attract capital investment to distressed communities, in 2003, the Internal Revenue Service (IRS) issued a ruling related to investing equity in a CDE in exchange for the NMTC. IRS Ruling 2003-20 clarified how an investment structure could be set up, as an intermediary entity between the NMTC investor and the CDE, to secure Qualified Equity Investments (QEIs). The intermediary entity, structured as an LLC or partnership, can receive equity investments from NMTC investors as well as debt from other sources, and all of the LLC's

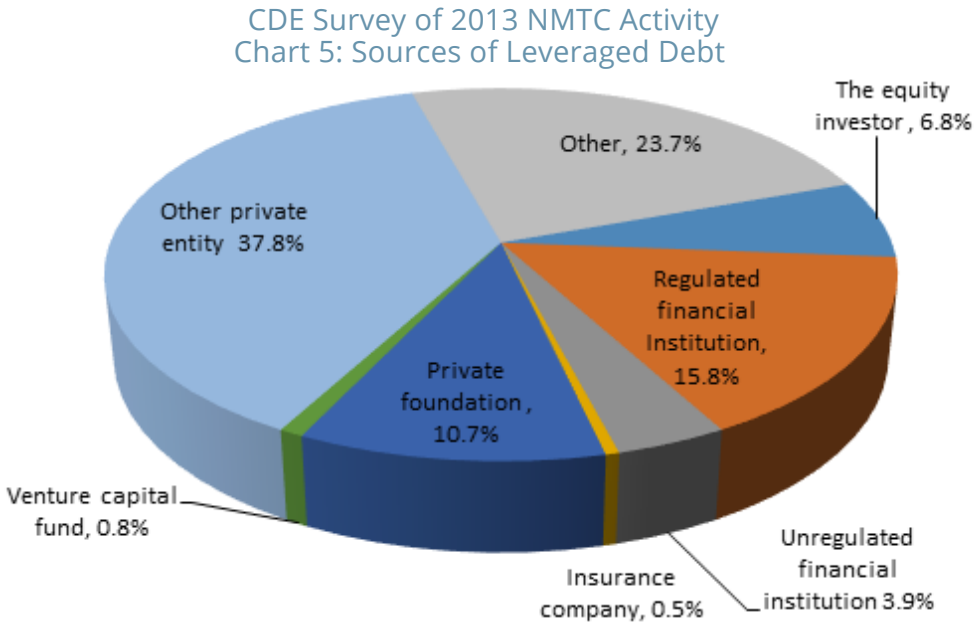
funding (debt and equity) is then invested as a QEI into the CDE. The CDE can then pass the federal tax credits to the LLC (its QEI investor), which, as a flow-through entity can pass the entire tax credit up the chain to its equity investor. The IRS ruling endorsed this investment structure now commonly referred to as 'leverage'.

The leverage structure, which is widely used (see below), enables CDEs to raise equity alongside debt from entities, including those without federal tax liability such as public and private nonprofit entities, pension funds, and state and local governments, thereby increasing the sources of capital available for NMTC investments. In 2013, 93% of qualified equity investments reported by survey respondents utilized the leverage structure (see Chart 4).



Source: New Markets Tax Credit Coalition, survey of NMTC allocatee activity January 1 – December 31, 2013

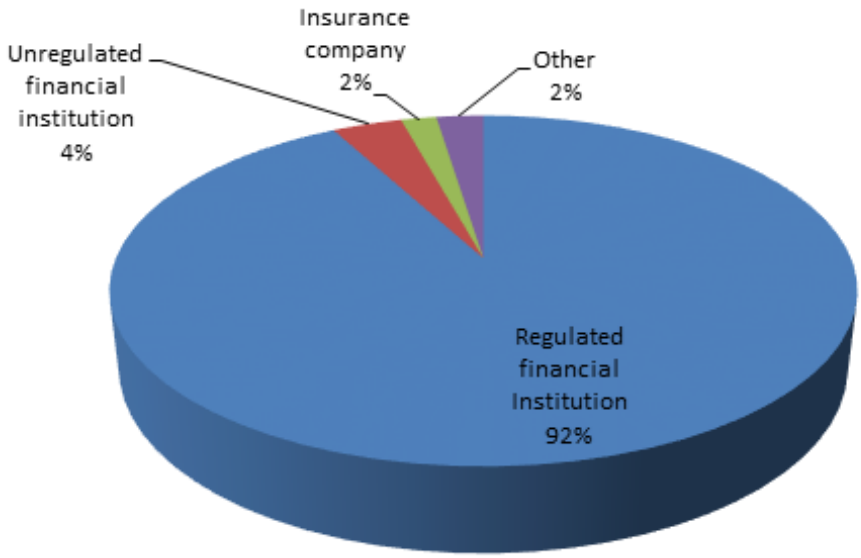
The survey found that CDEs using the leveraged structure are looking to a variety of sources for their leveraged debt - including the NMTC equity investor, a financial institution other than the equity investor, a charitable donor, the project sponsor or another private entity (see Chart 5).



Source: New Markets Tax Credit Coalition, survey of NMTC allocatee activity January 1 – December 31, 2013

Equity investments made through the leveraged structure came almost exclusively (92%) from regulated financial institutions (see Chart 6).

CDE Survey of 2013 NMTC Activity
Chart 6: Sources of Equity Through the Leveraged Structure



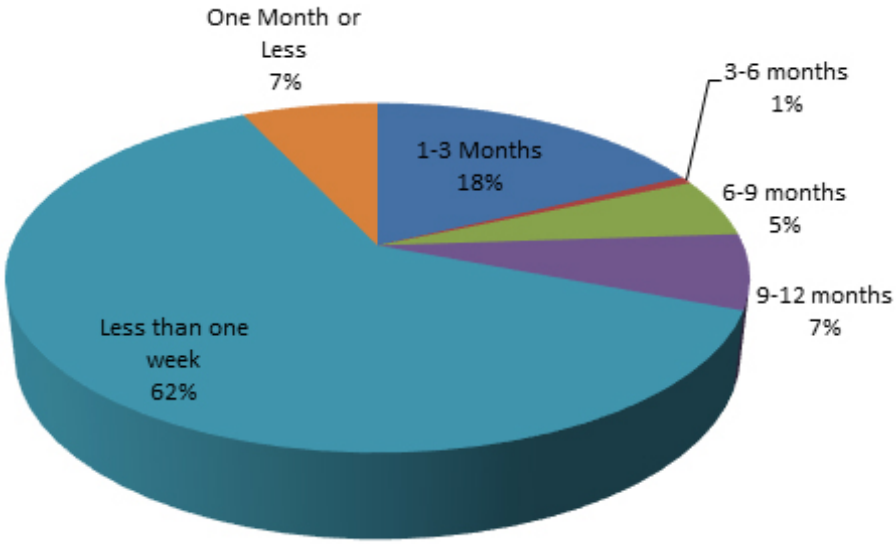
Source: New Markets Tax Credit Coalition, survey of NMTC allocatee activity January 1, 2003 – December 31, 2013

DEPLOYING INVESTMENTS

As noted, the law requires CDEs to have "substantially all" (at least 85%) of their QEIs deployed in Qualified Low Income Community Investments (QLICIs) within one year of issuing a QEI. Again, the CDFI Fund sets a higher bar in its application process by requiring applicants to show that they can close 100% of its QLICI activities within three years.

As in past years, CDEs responding to the survey deploy their QEIs at a faster rate than required by law and the standard set by the CDFI Fund. According to the CDEs responding to the survey, in 2013, 62% of the capital raised through QEIs was deployed in less than one week and 69% was deployed in a month or less (see Chart 7).

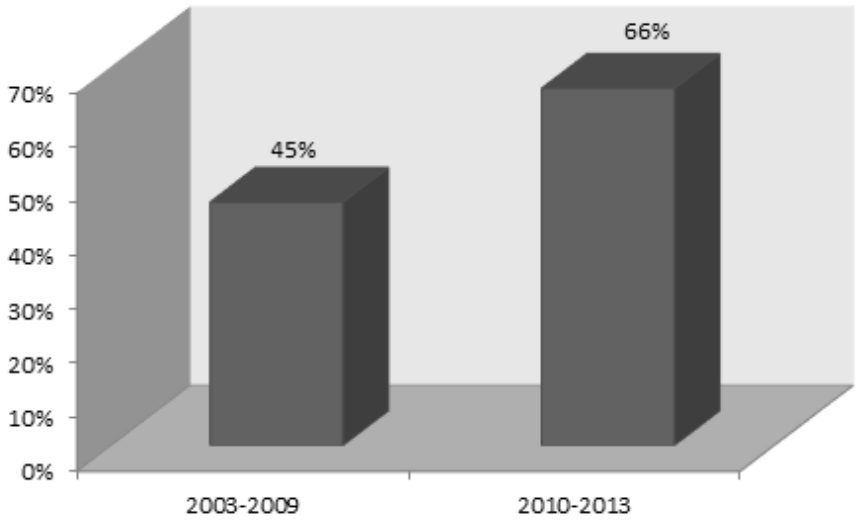
CDE Survey of 2013 NMTC Activity
Chart 7: Time Frame for Deploying NMTC Capital by Percent of CDEs



Source: New Markets Tax Credit Coalition, survey of NMTC allocatee activity January 1, 2003 – December 31, 2013

Over the course of the program, CDEs have achieved significant efficiencies and increased the pace with which they deploy capital into low income communities. Between 2003 and 2009, 47% of reported that it took less than one week to deploy capital. Between 2010 and 2013, CDEs deployed 66% of their capital in less than one week (see Chart 8).

Historic Trends
Chart 8: Time Frame for Deploying NMTC Capital by Percent of CDEs
Percent of CDEs reporting "less than one week" to deploy capital



Source: New Markets Tax Credit Coalition, survey of NMTC allocatee activity January 1, 2003 – December 31, 2013

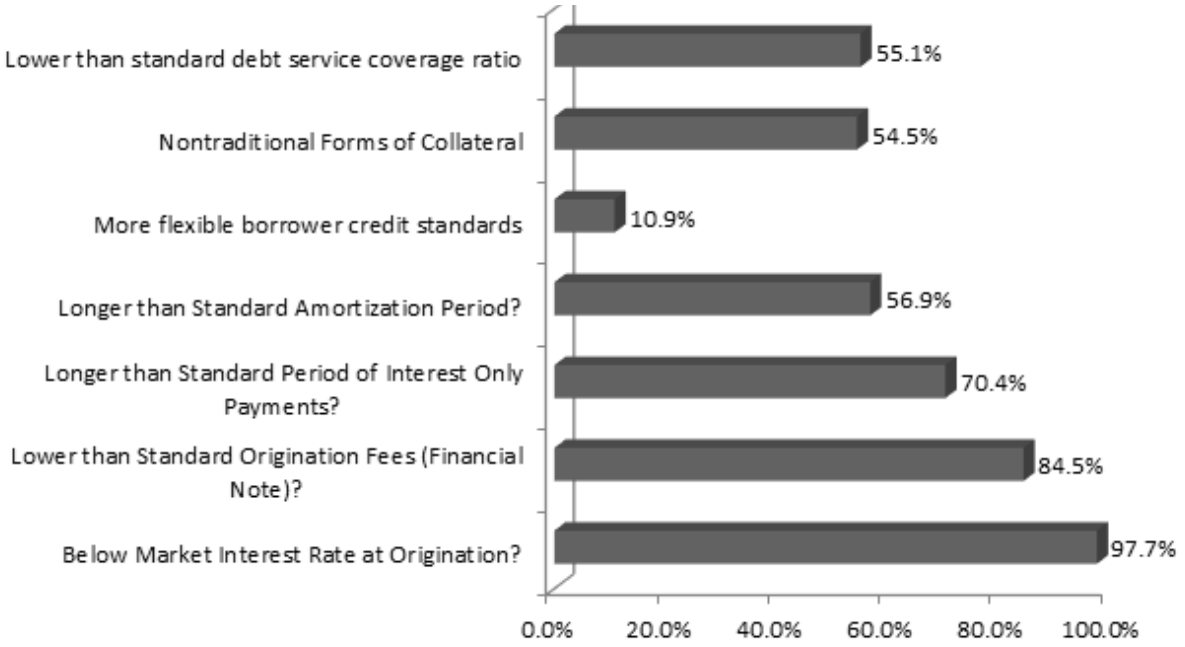
CDEs were asked to look forward to 2014 and report on their expected activity. In 2014, survey respondents anticipate making 394 investments totaling well over $2.7 billion.

LENDING AND INVESTMENT

Survey respondents were asked to report on the financial products they made available through NMTC. As noted, CDEs make financing available to businesses through Qualified Low Income Community Investments (QLICIs), which are principally loans and investments in businesses located in low income communities. In 2013, the survey respondents made 633 QLICIs, providing nearly $2 billion in financing to 329 qualified businesses (some businesses receive two or more separate QLICIs) in low income communities. Of that number, 94% of QLICIs were in the form of a loan to a business.

Respondents' loans included a variety of below market and/or nontraditional features. Chart 9 highlights the range of below market and non-traditional features associated with NMTC debt products. Financing debt with below market interest rates, longer than standard terms, lower than standard origination fees, and longer than standard interest only payments were the most common features of debt products.

CDE Survey of 2013 NMTC Activity
Chart 9: Features of NMTC Financial Products Offered by CDEs
Percent of 2013 Projects (out of 273 total projects)



Source: New Markets Tax Credit Coalition, survey of NMTC allocatee activity January 1, 2013 – December 31, 2013

Types of Businesses Financed

All businesses eligible to receive financing under the NMTC are called Qualified Active Low Income Community Businesses (QALICBs). To qualify as a QALICB, a business must be located in a low income community, and conduct business and derive at least 50% of its income in a low income community.

Survey respondents were asked to provide a description of the types of businesses financed, choosing from one of 33 categories. More than half (53.5%) of NMTC projects involve fall into one of three categories: manufacturing or industrial, mixed-use, or health care facility (see Table 4). Chart 10 also notes the types of businesses financed with the Credit in 2013 as a percentage of dollars going to each business type. Businesses categorized as "other" typically include service providers, loan funds, and operational businesses that do not fit the below categories.

Leaders of the House NMTC Extension Legislation (HR 4365)

"The New Markets Tax Credit is putting people to work and helping transform communities here in southeastern Pennsylvania."

-Congressman Jim Gerlach (R-PA)

"Holyoke has benefited greatly from New Markets, with financing also going toward the Massachusetts Green High Performance Computing Center and the Holyoke Health Center."

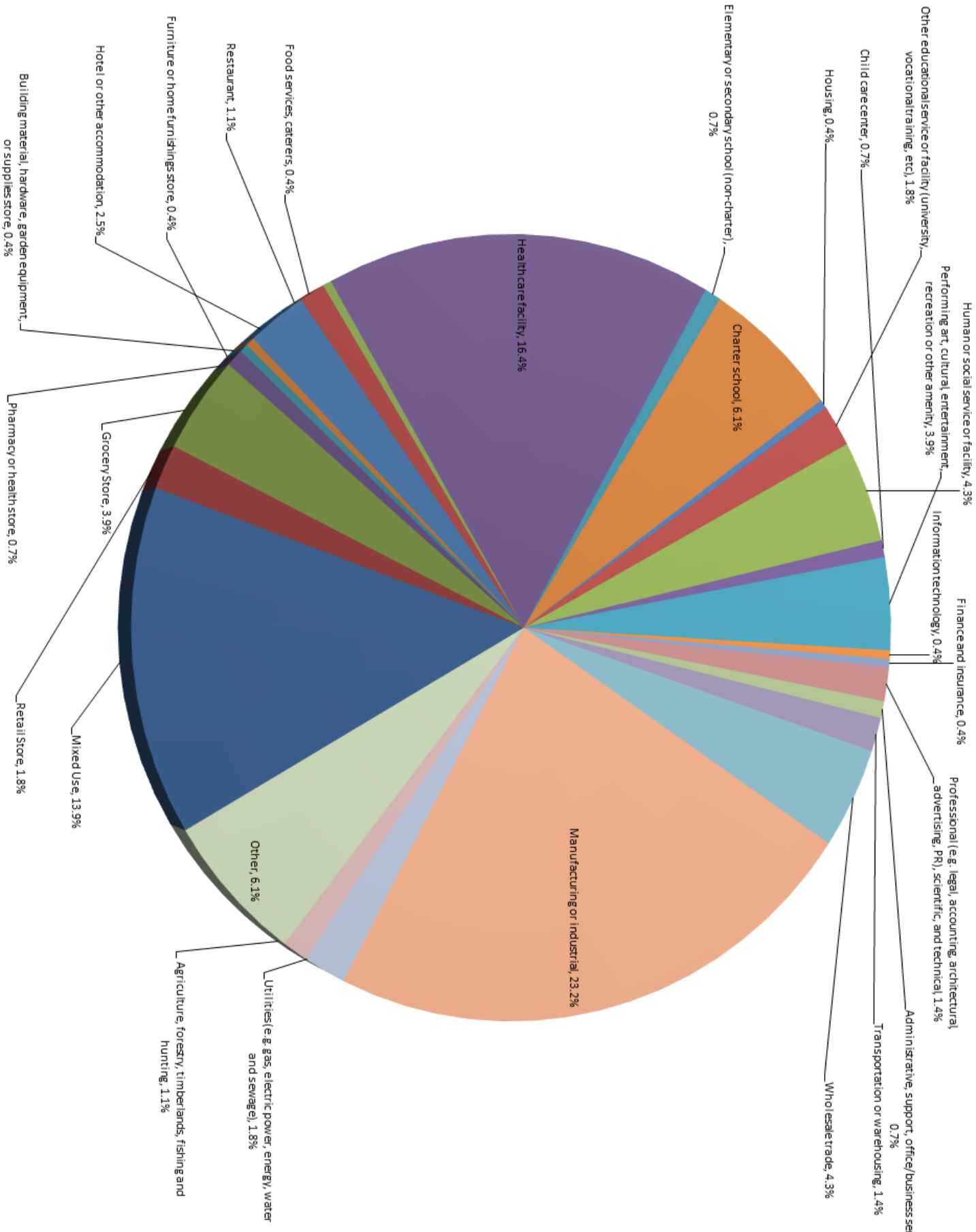
-Congressman Richard Neal (D-MA)

CDE Survey of 2013 NMTC Activity

Table 4: Types of Businesses Financed, Jobs Created, and Total Project Costs

Business description	Businesses	Percent	Total project cost	FTE jobs	Construction jobs
Mixed Use	39	13.9%	$1,053,031,851	3981	5590
Retail Store	5	1.8%	$333,915,039	2121	8674
Grocery Store	11	3.9%	$177,358,886	1042	1147
Pharmacy or health store	2	0.7%	$10,964,000	20	
Furniture or home furnishings store	1	0.4%	$2,500,000	2	
Building material, hardware, garden equipment, or supplies store	1	0.4%	$120,000	3	0
Hotel or other accommodation	7	2.5%	$156,174,073	398	713
Restaurant	3	1.1%	$772,900	18	25
Food services, caterers	1	0.4%	$13,987,500	94	94
Health care facility	46	16.4%	$726,580,104	6716	3834
Elementary or secondary school (non-charter)	2	0.7%	$20,095,721	61	150
Charter school	17	6.1%	$384,643,345	686	1645
Housing	1	0.4%	$10,486,032	5	75
Other educational service or facility (university, vocational training, etc)	5	1.8%	$113,047,387	260	461
Human or social service or facility	12	4.3%	$153,591,189	373	969
Child care center	2	0.7%	$27,683,420	89	162
Performing art, cultural, entertainment, recreation or other amenity	11	3.9%	$167,843,016	370	1796
Information technology	1	0.4%	$47,164,916	364	270
Finance and insurance	1	0.4%	$150,000	5	0
Professional (e.g. legal, accounting, architectural, advertising, PR), scientific, and technical	4	1.4%	$54,570,176	678	290
Administrative, support, office/business services	2	0.7%	$6,038,799	20	59
Transportation or warehousing	4	1.4%	$54,182,367	163	208
Wholesale trade	12	4.3%	$79,730,731	212	225
Manufacturing or industrial	65	23.2%	$1,008,551,275	5082	1611
Utilities (e.g. gas, electric power, energy, water and sewage)	5	1.8%	$77,919,826	297	46
Agriculture, forestry, timberlands, fishing and hunting	3	1.1%	$19,559,029	976	6
Other	17	6.1%	$217,839,282	1233	1325
Grand Total	**280**	**100.0%**	**$4,918,500,864**	**25,268**	**29,375**

CDE Survey of 2013 NMTC Activity
Chart 10: Types of Businesses Financed by Dollar Amount of Investments (QLICIs)



Impact of NMTC:

Jobs, Investment and Amenities in Distressed Communities

The primary purpose of the NMTC is to provide communities with the patient flexible capital they need to create jobs and improve communities. Because of the NMTC's flexibility, community impacts are diverse and wide ranging.

For the second consecutive year, CDE survey respondents were asked to report on the impact of project-level investment activities during calendar year 2013. CDEs detailed the impact of each project, the amount of investment, and the characteristics of the surrounding community.

Survey findings reinforce the impact data collected 2003-2012 by the CDFI Fund, data modeled by the NMTC Coalition's NMTC Economic Impact Report (December 2012), and the Urban Institute's recent report on the NMTC. The findings show that the NMTC continues to serve as an effective tool for job creation and revitalization in some of our nation's most economically challenged communities.

JOBS IMPACT

Survey respondents reported on full-time jobs (permanent jobs contributing the operation of a business) and construction jobs

CDE Survey of 2013 NMTC Activity
Table 5: Jobs Created by NMTC Projects Closing in 2013

Type of Jobs	Number of jobs
Full time Jobs	25,268
Construction Jobs	29,375
Total Jobs	**54,643**

(jobs serving the construction or renovation of real estate). Respondents reported creating 20,251 full-time jobs and 27,570 construction jobs in 2013, for a total of 47,821 jobs (see Table 5).

Of the 25,268 full-time jobs created, more than half (15,779) were created in three sectors: industrial or manufacturing, healthcare, and mixed-use. More than 75% of the construction jobs (18,098) were generated by real estate projects involving the construction or rennovation of mixed-use developments, healthcare facilities, and retail space.

COMMUNITY AMENITIES

The NMTC was not only designed to help businesses secure the resources they need to create jobs, but also to enhance community revitalization efforts by financing community facilities and other important amenities.

Because of a dearth of available capital, residents of low income communities often lack adequate access to healthy food, adequate healthcare facilities, or cultural amenities that more affluent communities take for granted. Nonprofit service providers in underserved communities face tremendous difficulties in securing the capital needed to secure affordable office space or expand their facilities to serve more residents.

Nearly 40% of projects reported by survey respondents involved community facilities such as schools, healthcare centers, or retail facilities. This data tracks closely with an analysis of CDFI Fund data from 2003 to 2011 showing that more than one-third of NMTC project funding – or nearly $2 billion annually – goes toward the construction or rehabilitation of community facilities.

Community Amenities Reported in the 2013 Survey of CDEs

- 2,469 Housing Units
- 11 supermarkets
- 46 healthcare facilities
- 2 childcare centers
- 11 performing arts centers or cultural amenities
- 12 human or social service or facilities
- 17 charter schools
- 2 elementary or secondary schools (non-charter)
- 5 educational facilities (university or vocational training)

Source: New Markets Tax Credit Coalition, survey of NMTC allocatee activity January 1, 2013 – December 31, 2013

COMMUNITY BENEFIT AGREEMENTS

In addition to providing direct funding for community facilities, many NMTC projects involve formal or informal community benefits agreements (CBAs) between CDEs and businesses benefiting from the NMTC financing. Nearly two-thirds of projects reported by CDE survey respondents involved some community benefits agreement.

These agreements vary widely. Examples of benefits that businesses agreed to deliver:

- Creating a minimum number of jobs with quality wages and benefits for local residents;
- Supporting community college and high school partnerships or investing in the community through apprenticeship, training programs, and internships;
- Holding 20% of newly renovated real estate space at below market rent for the use of local non-profits; and
- Making streetscape and landscape improvements.

CHARACTERISTICS OF COMMUNITIES RECEIVING INVESTMENTS

One hundred percent of financing under New Markets must go to census tracts with high rates of poverty (at or above 20%) or low median incomes (below 80% of the area median income). By definition, all NMTC projects are in low income communities. This survey confirms that CDEs continue to make investments in more highly distressed communities than the law requires.

While median incomes are based on area or statewide data, the incidence of poverty and the unemployment rate are national numbers and using this measure is a way to understand the profile of the communities receiving NMTC financing (see Figure 3).

Figure 3: Poverty and Unemployment in America

In the summer of 2013 the Census Bureau reported that for 2012, 46 million people in the United States were living below the poverty line. According to the Department of Labor and the Bureau of Labor Statistics the unemployment rate averaged 7.35% in 2013.

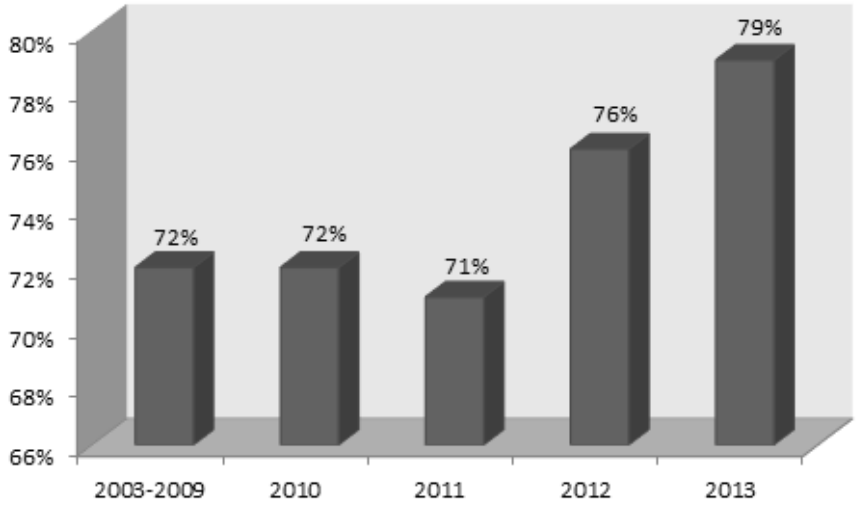
The survey data shows that CDEs are making investments in communities that far exceed the poverty or income thresholds for NMTC investments (see Table 7). For example, 55.3% of NMTC investments reported were located in communities where the poverty rate exceeded 30%, 55.8% were in communities with unemployment rates 1.5 times the national average, and 61.1% of investments were in communities where the median income is 60% of the area median income (see Table 7).

CDE Survey of 2013 NMTC Activity
Table 7: Investments in Areas of Higher Distress

Community Characteristic	Percent of QLICI $s
Poverty Rates Greater than 30%?	55.3%
Median Income Less than 60% of Area Median Income	61.1%
Unemployment at Least 1.5 Times the National Average?	55.8%
Severe distress (one or more of the above characteristics)	79.8%

2013 survey respondents reported an increase in their targeting of high distress communities (See Chart 12), up to 79% from 76% in 2012.

CDE Survey of 2003-2013 NMTC Activity
Chart 12: Investments in Areas of Higher Distress



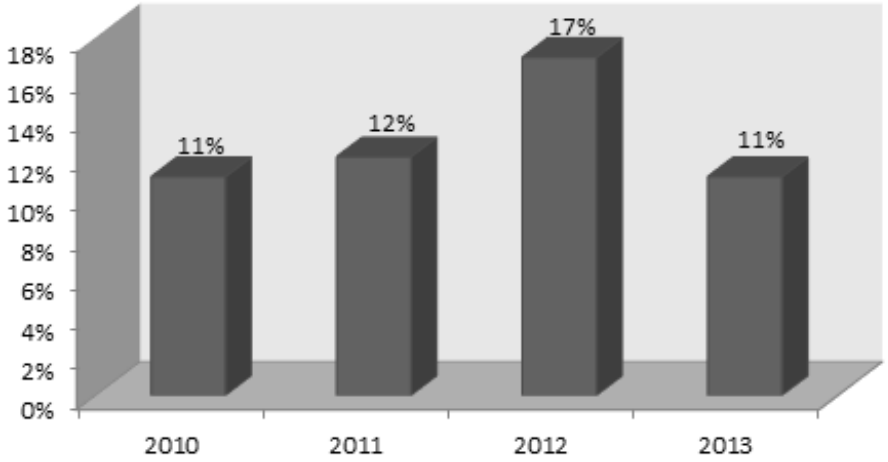
CDEs were particularly adept at creating jobs in communities experiencing an unemployment crisis (with unemployment rates 1.5 times the national average), creating 26,551 of the 54,643 total jobs (nearly 50%) in those communities.

USE OF TARGETED POPULATIONS

The American Jobs Creation Act of 2004 (PL 108-357) included a provision expanding the definition of a NMTC qualified low income community to include Targeted Populations, defined as "certain individuals, or an identifiable group of individuals, including an Indian tribe, who (A) are low-income persons; or (B) otherwise lack adequate access to loans or equity investments." This change was particularly important for community development entities (CDEs) working in rural communities where pockets of poverty are not apparent when looking strictly at the poverty rate or area median gross income of a census tract. The strict census tract targeting also created a challenge for CDEs in urban areas where a business may be located just outside of a qualified low- income census tract even through the business activity clearly benefits a low-income population through employment and/or services.

The Coalition's last four surveys show that, more than 10% of projects have used targeted projects as an eligibility factor (See Chart 13).

CDE Survey of 2010-2013 NMTC Activity
Chart 13: Projects Utilizing Targeted Populations



When compared to the greater universe of NMTC projects, Target Populations projects are more likely to involve mixed-use developments. In fact, two-thirds of Targeted Populations projects reported in the 2013 survey involved a mixed-use development.

"Freeport Press (above) is an excellent example of the impact smart investments can have in rural communities," said Senator Sherrod Brown (D-OH).

SPECIAL REPORT

Creating Economic Opportunity in Rural America

Rural economies present many 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 Coalition's 2006 NMTC Progress Report, we asked "What about Rural?" and described the initial concerns surrounding the NMTC's ability to deliver capital to eligible rural communities. Since we first posed the question in 2006, there is evidence that the New Markets Tax Credit has a unique capacity to overcome these barriers and deliver capital to some of America's most distressed rural communities. The program 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 order to ensure that non-metropolitan communities were allocated a proportional share of QLICIs through the New Markets Tax Credit Program, in 2006 Congress passed The Tax Relief and Health Care Act (P.L. 109-432). 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 statutory change started a trend toward more investment in rural communities, as investment in non-metro communities has picked up in recent years, averaging 22 percent between 2010 and 2013 after averaging 17 percent between 2003 and 2009 (see Chart). This

percentage is roughly proportional to the overall rural share of the U.S. population which is about 20%.

ECONOMIC IMPACT IN RURAL COMMUNITIES

Over the course of the program, the impact in rural communities has been significant. Between 2003 and 2011, 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 to over 600 businesses. These NMTC investments created more than 67,736 jobs, including 46,922 full-time jobs and 20,814 construction jobs. In fact, despite only 20% of investments going to rural communities, more than 30% of the full-time jobs created by the NMTC were located in rural communities.

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

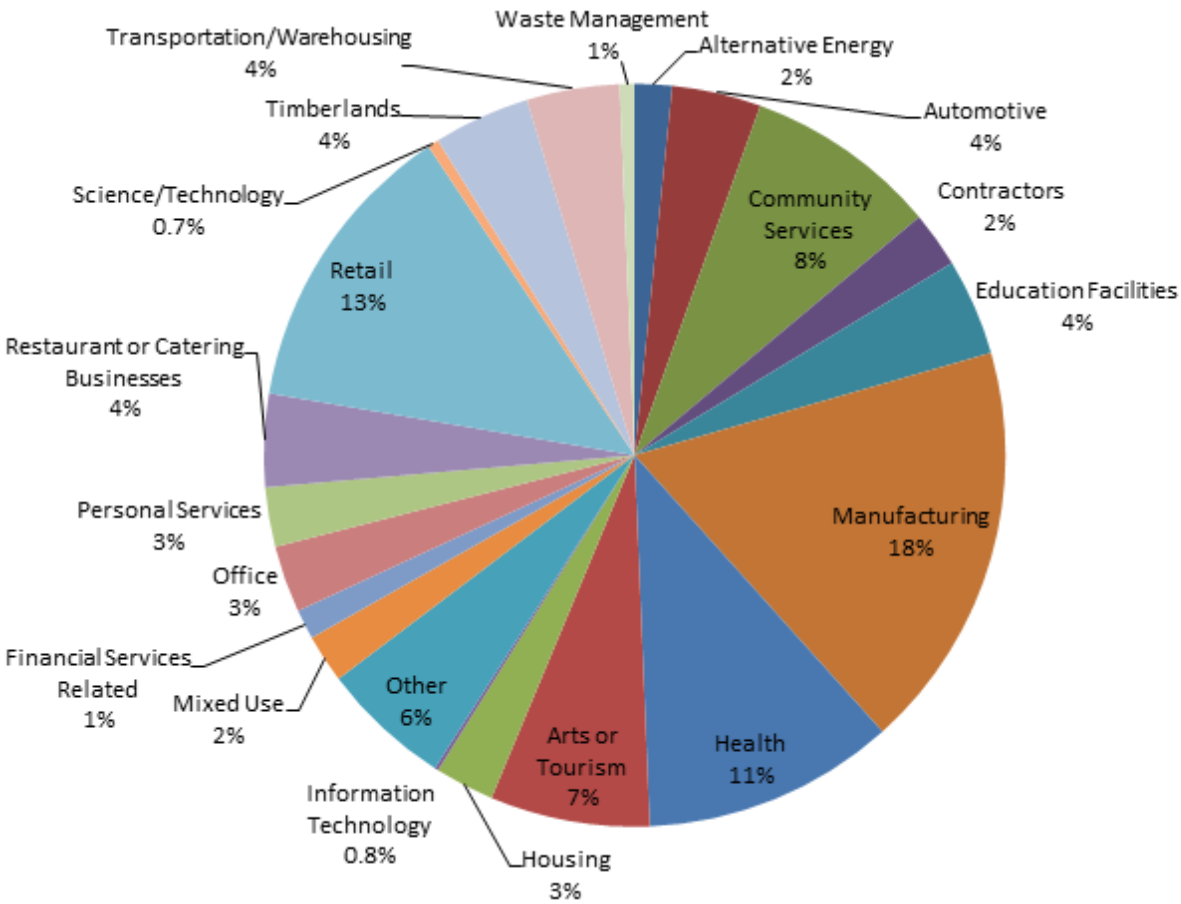
NMTC job creation (2003-2011), metro vs non-metro census tracts:

Metro or Non-Metro?	FTE jobs	Construction jobs	Total jobs
Metro	109,695	284,219	**393,915**
Non-Metro	46,922	20,814	**67,736**
Both*	1,608	1,950	**3,558**

*some projects span metro and non-metro census tracts

In addition to economic development, the NMTC helped rural communities address two persistent challenges: the lack of healthcare access and the loss of manufacturing jobs. In fact, between 2003 and 2011, the two of the top three types of NMTC projects in rural communities were investments in manufacturing businesses and financing for healthcare facilities.

NMTC Financed Businesses in Non-Metro Communities by Industry (2003-2011)



Source: New Markets Tax Credit Coalition, survey of NMTC allocatee activity January 1 – December 31, 2013

FINANCING RURAL MANUFACTURING BUSINESSES

Over the last two decades, the figures are bleak for rural manufacturing employment. Nationwide, rural communities have lost hundreds of thousands of manufacturing jobs. For example, according to a study by the University of Arkansas, between 2000 and 2010, rural areas of Arkansas lost more than 53,000 manufacturing jobs.

The NMTC has helped many communities create or retain manufacturing jobs by providing financing to rural manufacturers that was used 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 including a butter manufacturer in New Ulm, Minnesota, a designer and manufacturer of electric heating equipment and controls in Cuba, Missouri, and a manufacturer of TV parts that created 270 jobs and retained an additional 200 jobs in rural Iowa. Eighteen percent of all NMTC projects in rural communities involved manufacturing.

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, even though rural communities contain about 20% of America's population, less than 10% of physicians practice in these communities.

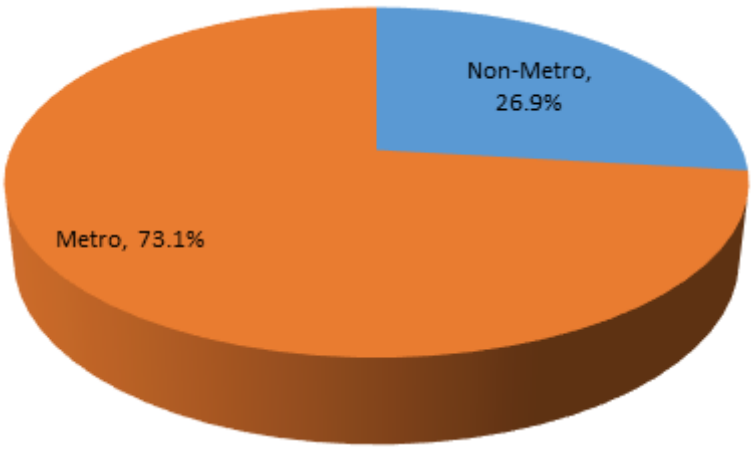
The NMTC has helped rural communities increase healthcare access, financing 68 rural healthcare facilities or clinics totaling $536 million in project costs between 2003 and 2011. Examples include the Speare Memorial Hospital in the medically underserved community of Plymouth, NH, and the Delta Memorial Hospital in Dumas, AR. Eleven percent of rural NMTC projects involved healthcare facilities.

The NMTC helped financed the construction and upgrade of the Delta Memorial Hospital

2013 SURVEY RESULTS

In 2013, 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 totaled $1.055 billion in total project costs.

CDE Survey of 2013 NMTC Activity
Chart 14: Dollar Amount in QLICIs by Metro and Non-Metro Area (in millions)



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, including 4,173 full-time jobs and 3,411 construction jobs.

CASE STUDIES

New Markets Tax Credit Success Stories from Colorado, Michigan, New York, and South Carolina