

# NEW MARKETS TAX CREDIT (NMTC) PROGRAM EVALUATION: ASSESSING COMMUNITY AND ECONOMIC DEVELOPMENT INVESTMENTS

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# What is the New Markets Tax Credit Program?

- Encourages private investment capital in low-income communities
- Administered by CDFI Fund and IRS
- Supported 3,060 projects nationwide with \$12.9 billion in tax credits from 2002 to 2010



# How Does the NMTC Incentive Work?

- Corporations and individuals take 39% tax reduction over 7 years in exchange for investments in mission-driven, for-profit intermediaries called Community Development Entities (CDEs)
- CDEs use funds generated from NMTCs to underwrite projects in distressed areas
- Projects include commercial and mixed-use developments, office buildings, arts centers, charter schools, medical clinics, and small business expansions.



# Key Players

- **CDEs.** Domestic corporations or partnerships serve as intermediaries for loans or investments to qualified low-income businesses (QALICBs)
- **Investors.** Primarily corporate entities, sometimes individuals, are eligible for NMTCs in return for making investments via CDEs
- **QALICBs.** Investment recipients, for-profit or nonprofit, carry out projects using CDE investments and, often, capital from other sources



# Underlying Concepts and Expectations

- Place-based: market failure and need for subsidy
- Public-private partnership
- Project diversity
- Evolving approach
- Should not expect every project to succeed or transform distressed places – given the challenges, risks, and relative scale
- Should expect a range of outcomes and relevant metrics – not a jobs program *per se*



# Evaluation Scope

- Focus on projects initiated *during the first four years* of the NMTC program – to allow sufficient time for outcomes
- Types of projects and location
- NMTC investment process
- Role of NMTCs in project financing
  - Substitution
  - Leveraging
- Project level outputs and outcomes
- Area-wide outcomes
- Presentation highlights only some of the key findings

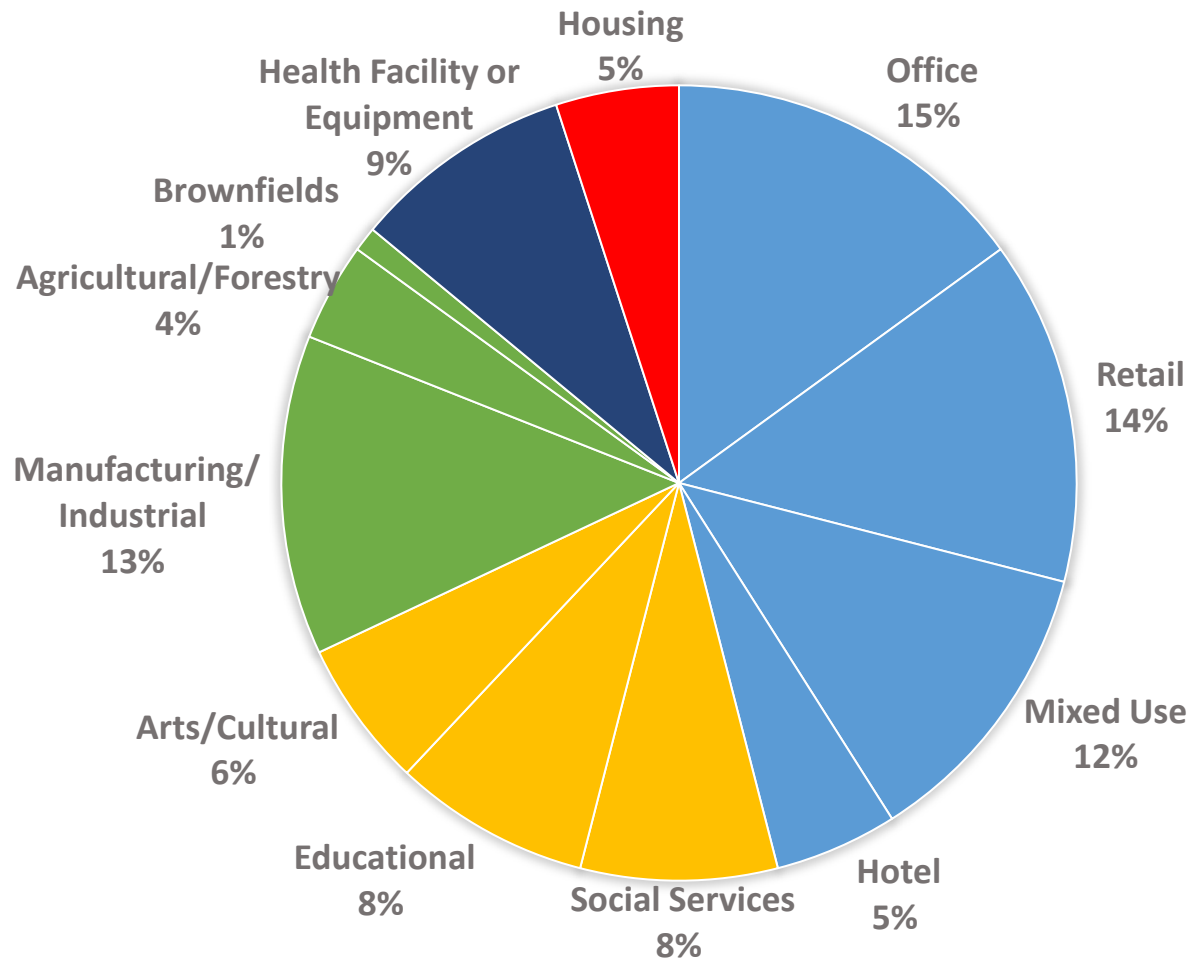


# Primary Data Sources

- In-depth telephone interviews with CDEs, QALICBs, investors, and/or other key parties for 70 projects
- Online survey of 176 QALICBs
- Online survey of 309 community and economic development specialists based in localities in with at least one NMTC project
- CDFI Fund administrative data, secondary data



# What types of projects did the NMTC program support?



Source: Urban Institute telephone interviews with project stakeholders and online survey of QALICBs

N =244





## Where were NMTC-supported projects located?

- Projects dispersed across over 1,000 of the more than 25,000 qualified census tracts
  - One NMTC project: 71% of tracts
  - Two projects: 17% of tracts
  - Three projects: 5% of tracts
  - Four or more projects: 7% of tracts
- 83 percent of projects located in metropolitan areas
- About four of every ten projects located in areas with a poverty rate of more than 30 percent, areas CDFI Fund defines as having “higher distress”



## How does the NMTC investment process work?

- Project initiation: mix of previous working relationships between QALICBs and CDEs, referrals, and cold contacts
- NMTCs rarely influenced the choice of project location
- Median size of early-year projects: \$3.7 million
- Nearly two-thirds of funds provided through NMTC structure were term loans
- CDEs used NMTC financing to provide better rates or terms to just over 90 percent of projects

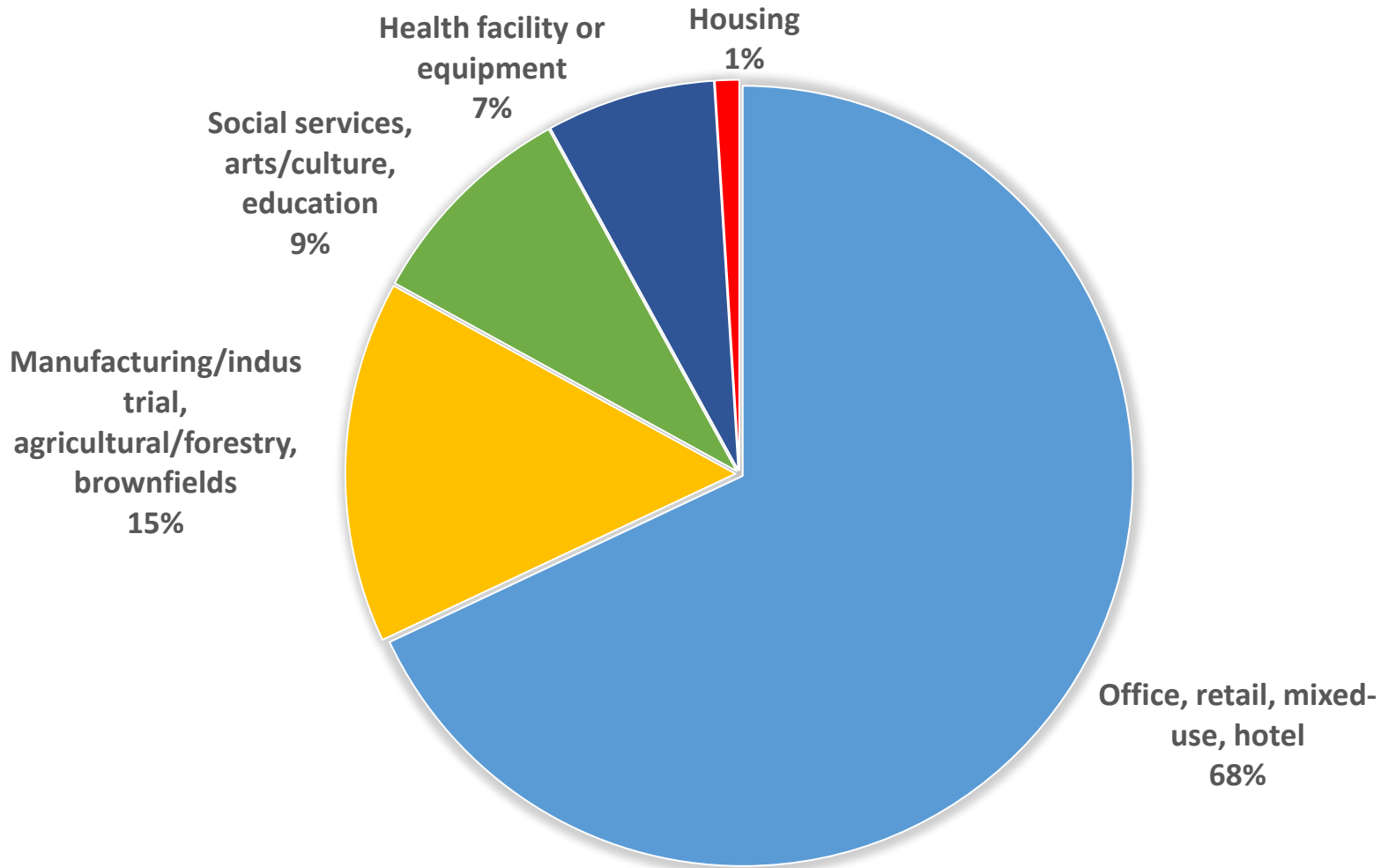


# What were the project-level results of NMTC investments?

- Created or retained approximately 136,000 permanent jobs and 151,000 construction jobs.
- NMTC investments per job generated for early-year projects are estimated to have been between \$32,658 and \$79,265, averaging \$53,162.
- About two-thirds of projects, accounting for about three-quarters of all project costs, supported construction or rehabilitation of commercial or residential real estate



# Share of Jobs, by Project Type



Source: Urban Institute case-style interviews; rounds 1-4.

Note: Represented are newly created and retained permanent jobs

N = 56



# What were the project-level results of NMTC investments?

- 10% of projects encouraged support for small businesses, start-ups and nonprofits
- 80% of projects enhanced the local tax base
- 88% of projects brought quality-of-life improvements to their communities—parks, playgrounds, shopping centers, health clinics, and other amenities



# Did NMTCs result in area-wide outcomes?

- Over one-third of projects part of larger-scale development
- 36% of projects in telephone interview sample had some area-wide spillover effects
- 3 in 10 projects resulted in no changes in surrounding area
- 7 in 10 projects resulted in positive changes in surrounding area
- Stakeholders for one-third of projects reported strong evidence that surrounding areas had experienced new business creation, improved property appearance, or increased local tax revenues as a result of NMTCs



# Research Implications

Evaluation concepts and lessons for the broader economic development field

- Multiple outcomes and metrics
- Investments are occurring in a dynamic environment— difficult, if not impossible, to show causality
- Longer evaluation timeframes needed to capture change



# Policy Considerations

- Challenges of public-private partnerships
  - Tradeoffs between incentives and control
  - Information access and proprietary concerns
- Complexity of financial incentives
  - Barriers to new and smaller organizations
  - Cost implications
- Managing expectations when addressing market failure and undertaking high risk or unconventional investments





# Forthcoming

## **NEW MARKETS TAX CREDIT (NMTC) PROGRAM EVALUATION**

### **FINAL REPORT**

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