New Markets Tax Credit Coalition

TWO NEW REPORTS PAINT AN INCOMPLETE AND INACCURATE PICTURE OF THE NEW MARKETS TAX CREDIT

Posted by ***Paul Anderson*** *on Aug 11, 2014 in* ***Blog*****,** ***Latest News*** | ***0 comments***

WASHINGTON, D.C. –Two reports were released on the New Markets Tax Credit (NMTC), one by the Government Accountability Office (GAO) and another by Senator Tom Coburn (R-OK), respectively "Better Controls and Data are Needed to Ensure Effectiveness" and "Banking on the Poor." In both his press release and report, which was released concurrently with the GAO report that he commissioned, Senator Coburn offered his long-standing criticism of the NMTC, claiming that the projects result in the government choosing favorites.

"Washington doesn't pick the winners and losers when it comes to the NMTC. It is a market driven program based in a philosophy that communities know best, they just need access to capital," said Bob Rapoza, spokesperson for the NMTC Coalition. "Through public-private partnerships, the Credit brings community revitalization projects to fruition that likely would not have gone forward if not for NMTC financing."

The NMTC Coalition further substantiates this claim by pointing to a prior report in which the GAO found that 88 percent of investors would not have made their investments, but for the incentive of the Credit.

The Coburn report notes that the impetus for the New Markets Tax Credit is to help struggling communities. He contends it does not succeed in this, writing that "Most of the country, however, is considered a low-income community for purposes of the program." However, data from the U.S. Department of Treasury indicates that the NMTC has delivered more than $60 billion in capital to businesses and revitalization projects nationwide in some of the poorest communities; these investments have generated over 550,000 jobs and of the 74,134 census tracts in America, only 30,099 (41%) qualify. Moreover, according to the NMTC Coalition's survey of 2013 NMTC projects, 80 percent of investments went to severely distressed census tracts that far exceed the statutory requirements for investment.

The Senator's report profiled 19 projects to which it objected. Yet, analysis of the profiles of those communities indicate they are among the poorest in the country, with an average poverty rate of over 32 percent and an unemployment rate of 11.7 percent at the time the project was financed. In these high distress communities, the NMTC delivered $770 million in financing and created over 7,700 jobs.

"The hallmark of the credit is its flexibility, which allows for diversity in projects based on needs and opportunities identified by citizens and local leaders—the vast majority of which include child and health care facilities, grocery stores, and manufacturing facilities," said Rapoza.

Like the report from Senator Coburn, the GAO report ignores the challenges of investing in low-income communities and the success that the NMTC has in spurring revitalization in urban neighborhoods, small towns and farming communities. Furthermore, GAO does not provide an accurate analysis of the operations of the NMTC. In one such case, the GAO overestimated an investor return by 400 percent through faulty analysis. In this case, GAO authors used incomplete information based on one example in a second-party report that they could not independently verify. Consequently, GAO implies the financial structures used in NMTC transactions allow investors to receive an unduly large return on their investments, claiming a 24 percent annual return to the investor, when actual NMTC investor returns align with market rates of 6 to 7 percent annually.

“Unfortunately, some conclusions are based on misinterpreted data and flawed calculations. The Coburn report builds on those errors to cast a sensationalized and inaccurate portrayal of the NMTC,” Rapoza adds.