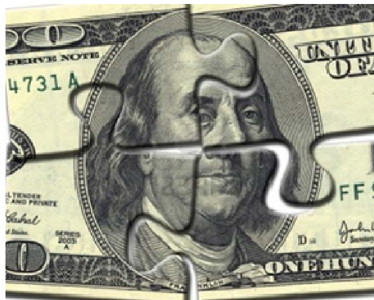
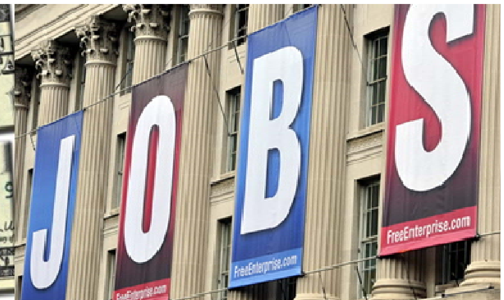
Economic and Fiscal Impact of the Proposed Arizona New Markets Jobs Growth Investment Initiative





Prepared for:

Arizona Chamber Foundation

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Prepared by:

Elliott D. Pollack & Company
7505 East 6th Avenue, Suite 100
Scottsdale, Arizona 85251

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Purpose of This Study

The New Markets Job Growth Investment Initiative is a capital investment and job growth tool that has been successfully employed at the federal level over the past decade and has been adopted by nine other states. The Arizona Chamber Foundation commissioned this study to determine the economic and fiscal outcomes policy makers can reasonably expect from the Arizona New Markets Jobs Growth Investment Initiative. This analysis quantifies the impacts from the projected investment encouraged by the State program.

Background

The federal New Markets tool grew out of Jack Kemp's "opportunity society" vision and his efforts to renew economically distressed communities by providing a hand up rather than a handout. In 2000, to encourage private sector capital investment and job creation in areas in need of economic development, the Republican-controlled Congress enacted bipartisan legislation creating the New Markets Tax Credit program. The program was implemented by President George W. Bush's administration and was expanded by Congress in 2006 to assist the Gulf Coast's economic recovery from Hurricane Katrina. Harvard has repeatedly recognized New Markets as one of the nation's most innovative tools for inducing private-sector, market-driven investment in businesses located in economically distressed communities.[1]

The New Markets structure is designed to attract private sector capital investment in areas in need of economic development and make it available to job-creating businesses. The structure provides investors credits to be claimed over a seven-year period in return for making capital available to the job-creating businesses up-front. The federal program provides investors with a five percent tax credit in the first through third years after investment and a six percent tax credit in the fourth through seventh years after investment. The value generated from the up-front monetization of the credits is typically combined with a conventional loan, such as from a bank, to provide job-creating businesses with the capital they need and would be unavailable but for New Markets.

At the federal level, Community Development Entities (CDEs) apply to the Treasury Department. Treasury employs a rigorous, merit-based, non-political, and highly-competitive process to select allocatees based on track record and ability to raise and invest capital in job-creating businesses in economically distressed areas. Only one in five applicants is selected. Allocatees, without influence from the government, evaluate job-creating businesses; make market-based, market-disciplined investment decisions; and use private-sector principles to structure, manage, and monitor investments.

Success Has Led Many States to Follow

Based on the federal program's success, since 2007 nine states (Florida, Illinois, Kentucky, Louisiana, Maine, Mississippi, Missouri, Ohio, and Oregon) have enacted state-level New

[1] Harvard Kennedy School ASH Center for Democratic Governance and Innovation, Top 25 Innovations in Government Announced, http://www.ash.harvard.edu/Home/News-Events/Press-Releases2/Top-25-Innovations-in-Government-Announced, (May 2011).

Markets initiatives to encourage private capital investment in job-creating businesses and to attract more of the federal New Markets investment that can be deployed anywhere in the nation.

Many CDEs that receive federal allocation have the ability to deploy investment to any state in the nation. Data shows that states enacting state-level New Markets initiatives experience a dramatic increase in the amount of federal New Markets investment in their borders (see table below). It is reasonable to expect Arizona will experience the same positive outcome.

	Average of Years Prior to State New Markets Initiative	Average of Years After State New Markets Initiative	Multiples (before/after)
Florida	27,549,311	112,309,790	4.08
Illinois	40,458,006	159,809,443	3.95
Louisiana*	50,885,049	377,078,042	7.41
Mississippi*	22,272,623	115,035,235	5.16
Missouri	60,692,590	187,360,642	3.09
Ohio	110,551,103	233,454,038	2.11

Kentucky, Maine, and Oregon are not included because of how recently those states enacted their state NMTC programs.

* Louisiana and Mississippi figures are impacted by special federal allocation to help with economic development recovery from Hurricane Katrina.

A 2011 study of the financial records of job-creating businesses that accessed capital through Missouri's state-level New Markets initiative, which is the most proven and largest of the state initiatives, demonstrates that Missouri's initiative has an impact on nearly 6,000 jobs, and that the state earns $1.54 in new tax revenue for every $1 of foregone tax revenue.

Key Differences Between State and Federal Initiatives

There are several key differences between the state and federal New Markets initiatives.

First, states typically require two years of investment prior to allowing investors to begin claiming credits. This allows the investment to create two years worth of new economic output before the state's participation begins. Typically, states provide no credits during the first and second years after investment, a seven percent credit in the third year, and an eight percent credit in the fourth through seventh years. While the cumulative credit is the same at the federal and state levels, the two year delay improves budgetary impact at the state level.

Second, states typically focus their New Markets initiatives on operating companies, and businesses wishing to expand or improve their facilities may do so.

Third, states leverage off of the federal government's significant investment of time and resources put into administering the program and annually selecting the most qualified CDEs to receive federal allocation. This alleviates states of bureaucratic burden and allows them to efficiently implement the initiative. As mentioned above, Treasury employs a rigorous, merit-based, non-political, and highly-competitive process to select allocatees based on track record and ability to raise and invest capital in job-creating businesses in economically distressed areas, and only one in five applicants is selected. States take advantage of the federal resources by making their New Markets initiatives eligible to CDEs that have federal allocation and have the given state in their service area. Regardless of whether a CDE has a local, state, or national service area, if the given state is in the CDE's service area, it is eligible to apply. Since Treasury's non-political, merit-driven application process already screens for the highest qualified CDEs, states have successfully employed a first come, first serve model for federal allocatees for their allocation award process.

Arizona's Opportunity

The Arizona New Markets Jobs Growth Investment Initiative proposes to encourage $250 million of qualified investment in Arizona job-creating businesses by using the standard state tax credit redemption schedule to the right, combined with a $20 million annual tax credit redemption cap. The General Fund expenditure for Arizona's New Markets Jobs Growth Investment Initiative would be no more $17.5 million in the third year after investment and no more than $20 million in the fourth through seventh years after investment. There would be no General Fund expenditure after the seventh year, yet the positive economic and fiscal benefits would continue well into the future. Of the $250 million of qualified investment, 75% of capital investment is projected to be allocated to operating businesses, and 25% is projected to be one-time construction impacts for facilities to be used by those operating businesses. The figures have been run through the Implan Model (see Economic Impact Methodology in 2.2) to project the potential economic impact of the proposed Arizona's New Markets Jobs Growth Investment Initiative. The ratio of employment by industry sector is based on the assumptions provided in prior reports.

Tax Credit Redemption Schedule	
Year 1	0%
Year 2	0%
Year 3	7%
Year 4	8%
Year 5	8%
Year 6	8%
Year 7	8%

At stabilization, the program is projected to generate 1,666 construction related jobs and 6,370 ongoing annual jobs. The annual economic activity generated during the construction process is projected to total $201.9 million as well as create $595.1 million in annual ongoing activity.

Primary and secondary revenues generated will total $14.7 million during construction and reach $34.8 million annually during stabilized operations. Revenues can be considered conservative as they exclude corporate net income taxes.

Summary of Impacts
Arizona New Markets Jobs Investment Initiative
(2012 Dollars)

Economic Impact

	One-time Construction	Ongoing Operations
Jobs	1,666	6,370
Wages	$81,370,000	$228,818,000
Economic Output	**$201,885,000**	**$595,125,000**

Fiscal Impact

	One-time Construction	Ongoing Operations
State Revenues	$8,346,600	$18,813,200
County Revenues	$2,364,600	$7,211,000
City Revenues	$3,956,400	$8,791,700
Total Revenues	**$14,667,600**	**$34,815,900**

1/ The total may not equal the sum of the impacts due to rounding. All dollar figures are in constant dollars. Inflation has not been included in these figures.

Source: Elliott D. Pollack & Company; IMPLAN; ADOR; ATRA; Stonehenge Capital

Experience with the federal program, as well as in other states that have enacted the New Markets program suggests that the application demand far exceeds the allocation allowed. Thus, it is projected that all of the $250 million will be invested within two years of enactment. However, the projected impacts will continue as the businesses continue to operate. This analysis includes the impact over ten years to illustrate the ongoing positive effects of the program in the years beyond when tax credits can be redeemed.

The State, counties and local governments will benefit from fiscal revenues generated each year from construction and operations. In total, the State will collect over $195.4 million over ten years from primary and secondary revenue sources of new businesses. Counties and cities will collect an additional $74.0 million and $91.3 million, respectively. In total, the Arizona New Markets Jobs Growth Investment Initiative will generate $360.7 million in tax collections over ten years. This far exceeds the projected foregone revenues from tax credit redemption. In addition, the figures presented in this report exclude any projected corporate income taxes net of tax credits and, thus can be considered conservative.

1.0 Introduction

Elliott D. Pollack and Company has been retained by Arizona Chamber Foundation to perform an economic and fiscal impact study of the proposed Arizona New Markets Jobs Growth Investment Initiative.

The New Markets Tax Credit (NMTC) Program is a federal economic development program established in 2000 that encourages investment in communities in need of economic development by providing incentives in the form of credit against taxes owed. The concept grew out of Jack Kemp's empowerment agenda, the program was enacted by the Republican-controlled Congress in 2000, and implemented and supported by President George W. Bush's administration. Investors participating in the program are eligible to receive credits that can be claimed over a seven period. The federal tax credit is 5% for the first three years and 6% for the next four years, or 39% in total. Since 2000, the application demand has far exceeded the available allocation.

Arizona has the opportunity to become the tenth state to leverage the resources that the U.S. government has spent and continues to spend by building on the federal model to provide independent funding to supplement the federal New Markets program. As had been proven by other states, the Arizona New Markets Jobs Growth Investment Initiative would strengthen Arizona's ability to attract more federal New Market investment. The program would be concentrated in areas in need of economic development and use a state tax credit modeled after the federal NMTC program. The tax credit would be for 0% for the first two years, 7% for the third year and 8% for years four through seven, or 39% in total. The maximum amount of state credit that could be claimed in any year would be $20 million.

This analysis focuses on the economic and fiscal impact of investments made using the proposed Arizona New Markets Jobs Growth Investment Initiative. Economic impact analysis examines the regional implications of an activity in terms of three basic measures: output, earnings, and job creation. Fiscal impact analysis evaluates the public revenues and costs created by a particular activity. In fiscal impact analysis, the primary revenue sources of a city, county, or state government are analyzed to determine how the activity may financially affect them.

Specifically, the analysis examines the economic and fiscal impact associated with $250 million projected investment in Arizona. The study focuses on the economic and fiscal impacts of the following:

1. Projected construction stimulated by the program.
2. Ongoing annual operations of the projected businesses that will invest in Arizona.

This study prepared by Elliott D. Pollack & Company is subject to the following considerations and limiting conditions.

- It is our understanding this study is for the client's due diligence and other planning purposes. Neither our report, nor its contents, nor any of our work were intended to be included and, therefore, may not be referred to or quoted in whole or in part, in any registration Statement, prospectus, public filing, private offering memorandum, or loan agreement without our prior written approval.

- The reported economic and fiscal impact findings outlined in this report represent the considered judgment of Elliott D. Pollack and Company based on the assumptions, analyses, and methodologies described in the report.

- Except as specifically stated to the contrary, this study will not give consideration to the following matters to the extent they exist: (i) matters of a legal nature, including issues of legal title and compliance with federal, State and local laws and ordinances; and (ii) environmental and engineering issues, and the costs associated with their correction. The user of this study will be responsible for making his/her own determination about the impact, if any, of these matters.

- This study is intended to be read and used as a whole and not in parts.

- This economic and fiscal impact study evaluates the potential "gross impacts" of construction and operations on various governmental jurisdictions. The term "gross impacts" as used in this study refers to the total revenue, jobs and economic output that will be generated by the project.

- This analysis does not consider the costs associated with providing services to the proposed businesses. Such analysis is beyond the scope of this study.

- The analysis is based on the current tax structure and rates imposed by the affected governing jurisdictions. Changes in those rates would alter the findings of this study.

- All dollar amounts are stated in constant 2011 dollars and, unless indicated, do not take into account the effects of inflation.

- The analysis outlined in this study is based on currently available information and estimates and assumptions about long-term future trends. Such estimates and assumptions are subject to uncertainty and variation. Accordingly, we do not represent them as results that will be achieved. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved may vary materially from the forecasted results. The assumptions disclosed in this analysis are those that are believed to be significant to the projections of future results.

The following section will describe the assumptions and methodologies used to estimate the economic and fiscal impact of the construction and operations of the businesses. Sections 3.0 and 4.0 will outline the effect of new construction and new investment on the State of Arizona, its counties and local governments. Section 5.0 will summarize the results as well provide a 10-year economic and fiscal impact.

2.0 Methodology & Assumptions

The Arizona New Markets Jobs Growth Investment Initiative proposes a lagging tax credit redemption schedule and a $20 million annual tax credit redemption cap that would generate $250 million of qualified investment in Arizona operating businesses in need of access to capital. The General Fund Expenditure for the Arizona New Markets Jobs Growth Investment Initiative would be no more than $97.5 million. In additional, the New Markets financing often enables businesses to subsequently attract additional financing. That additional capital investment allows for additional economic and fiscal activity. The follow-on capital would not be possible without the New Markets financing having first occurred.

Tax Credit Redemption Schedule	
Year 1	0%
Year 2	0%
Year 3	7%
Year 4	8%
Year 5	8%
Year 6	8%
Year 7	8%

2.1 Analysis Assumptions

The assumptions used to estimate the economic and fiscal impacts of the projected $250 million of investment have been developed from a variety of sources. Prior studies conducted in the states of Florida, Maine, and Missouri, including the post implementation study of 32 businesses in the State of Missouri, were reviewed and considered. The following table outlines the assumptions used in estimating impacts of the Arizona New Markets Jobs Growth Investment Initiative program.

Assumptions
Arizona New Markets Jobs Investment Initiative

Investment Assumptions	
Total investment	**$425,000,000**
Value of operations investment	$318,750,000
Value of construction	$106,250,000
Investment Sector	
Business Services	20%
Manufacturing	20%
Services	20%
Retail	15%
Hospitality	10%
Restaurant & Bar	10%
Education / Health	5%
Operating Assumptions	
Avg square feet of facility per job	375
Avg value of building per sf	$125
Retail and resturant & bar sales per square foot	$250
Square feet per hotel room	500
Percent lease	25%
Percent of furniture, fixtures & equipment subject to use tax	80%

1/ Figures at stabilized operating levels, including follow-on capital.
Sources: Elliott D. Pollack & Co., Stonehenge Capital; Various existing reports

Of the total initial investment, 75% of capital investment is allocated to operating businesses, and 25% is projected to be one-time construction impacts for owner-utilized facilities. The figures are run through the Implan Model to project the potential economic impact of the proposed Arizona New Markets Jobs Growth Investment Initiative. The ratio of employment by industry sector is based on the assumptions provided in prior reports.

Additional assumptions include the value of occupied buildings (for property tax estimates), sales per square foot (for sales tax estimates), hotel room rates (for bed tax collections), rent per square foot (for lease tax collections) and the percent of furniture, fixtures and equipment that is subject to use tax. These assumptions are used to calculate the direct fiscal impact of the companies operating in Arizona.

2.2 Economic Impact Methodology

Economic impact analysis examines the economic implications of an activity in terms of output, earnings, and employment. For this study, the analysis focuses on the investment and corresponding jobs and wages that are created by the construction and ongoing stabilized operations of each of the new businesses, aggregated to a total impact.

The different types of economic impacts are known as **direct**, **indirect**, and **induced**, according to the manner in which the impacts are generated. For instance, **direct** employment consists of permanent jobs held by employees. **Indirect** employment is created by businesses that provide goods and services essential to operations or construction of a project. These businesses range from manufacturers (who make goods) to wholesalers (who deliver goods) to janitorial firms (who clean the buildings). Finally, the spending of wages and salaries of **direct** and **indirect** employees on items such as food, housing, transportation and medical services creates **induced** employment in all sectors of the economy, throughout the region. These secondary effects were captured in the analysis conducted in this study.

Multipliers have been developed to estimate the indirect and induced impacts of various direct economic activities. The IMPLAN Group developed the multipliers used in this study. The economic impact is categorized into three types of impacts:

(1) Employment Impact – the total wage, salary and self employed jobs in a region. Jobs include both part time and full time workers.

(2) Earnings Impact – the personal income, earnings or wages, of the direct, indirect and induced employees. Earnings include total wage and salary payments as well as benefits of health and life insurance, retirement payments and any other non-cash compensation.

(3) Economic Output – the economic output, also referred to as economic activity, relates to the gross receipts for goods or services generated by a business's operations.

Economic impacts are by their nature regional in character. All dollar figures, unless otherwise stated, are expressed in current dollars.

2.3 Fiscal Impact Methodology

Fiscal impact analysis studies the public revenues associated with a particular economic activity. The primary revenue sources of local, county, and state governments (i.e. taxes) are analyzed to determine how an activity may affect the various jurisdictions. The fiscal impact sections will evaluate the impact of the proposed businesses on the State of Arizona, counties and local governments.

The fiscal impact figures cited in this report have been generated from information provided by a variety of sources including the U.S. Bureau of the Census, the U.S. Department of Labor, the Internal Revenue Service, the State of Arizona, the Arizona Tax Research Association, and the U.S. Consumer Expenditure Survey.

Fiscal impacts are categorized by type in this study, similar to economic impact analysis. The major sources of revenue generation for governmental entities are related to the ongoing impact from operations as well as the one-time construction stimulated by the investments.

Construction impacts relate to the revenues generated from an estimated $62.5 million in construction spending and include the State and local sales taxes levied on construction materials. In addition, the State, counties and local governments would benefit from the spending of construction workers.

The following is a description of applicable revenue sources that will be considered for this analysis.

- <u>Construction Sales Tax</u>
  The State as well as counties and cities in Arizona levy a sales tax on materials used in the construction of buildings or development of land improvements. That tax is calculated by State law under the assumption that 65% of the construction cost of a project and its land improvements are related to construction materials with the remaining 35% devoted to labor. The sales tax rate is applied to the 65% materials figure. The sales tax on construction materials is a one-time collection by the governmental entity. Construction sales tax is generated during any new building construction as well as from improvements.

  The tax rate for the State is 6.6%, and a portion is shared with counties, cities and towns through revenue sharing formulas. The weighted average tax rate for Arizona counties is 0.65% and the rate for Arizona cities is 2.65%.

- <u>Sales Tax/TPT</u>
  Known officially as the transaction privilege tax (TPT), the State, counties, and local municipalities may charge sales tax on retail goods and services. These tax rates are applied to estimated taxable commercial sales. This includes a tax on utilities. In addition to direct sales taxes paid, taxes are also collected on purchases made by employees. The sales tax rate for the State is 6.6%, and the weighted averages are 0.6% for Arizona counties and 2.2% for Arizona cities.

- <u>Property Taxes</u>
  Taxes on real and personal property would be levied on the businesses' real estate and related equipment. The commercial assessment ratio is currently 20% of full cash value and is being phased down to 18% over the next four years. Direct, indirect and induced employees supported by the project would also pay county and other property taxes on homes they occupy. In order to estimate property taxes, the assessed value of an average housing unit within the State has been calculated utilizing estimates of housing units from the U.S. Census and valuation records compiled by the Arizona Department of Revenue. The assessment ratio for residential property in the State is 10%.

  The property tax rates in counties currently average $4.1343 for every $100 of net assessed property value. Cities in Arizona have a weighted average property tax rate of $0.9807 per $100 assessed value.

- <u>State Unemployment Tax</u>
  Unemployment insurance tax for employees is 2.7% on the first $7,000 of earned income. This factor is applied to the projected wages and earnings of direct, indirect, and induced employees.

- <u>State Shared Revenues</u>
  Each county, city and town in Arizona receives a portion of State revenues from three different sources - State sales tax (see previous explanation), vehicle license tax and highway user tax. Cities also share in the income tax collected by the State. The formulas for allocating these revenues are primarily based on population. These figures are utilized to estimate the fiscal benefit of the projected new businesses and their employees.

  - <u>State Income Tax</u>
    The State of Arizona collects taxes on personal and corporate income. The tax rate used in the analysis averages about 1.6% for personal earnings. This percentage is based on the most recently available income tax data from the State and the projected wage levels of jobs created by the construction and operations impact. The personal income tax is applied to the wages and earnings of direct, indirect and induced employment. Counties do not receive any of this distribution. Corporate income tax is not included in this analysis.

  - <u>HURF Taxes</u>
    The State of Arizona collects specific taxes for the Highway User Revenue Fund (HURF). Both the registration fees and the motor vehicle fuel tax (gas tax) are considered in this analysis. The motor vehicle fuel tax is $0.18 per gallon and is calculated based on a vehicle traveling 12,000 miles per year at 20 miles per gallon. Registration fees average $66 per employee in the State of Arizona. These factors are applied to the projected direct, indirect and induced employee count. Portions of these taxes are distributed to cities and counties throughout Arizona based on a formula that includes population and the origin of gasoline sales.

- Vehicle License Tax
  The vehicle license tax is a personal property tax placed on vehicles at the time of annual registration. This factor is applied to the projected direct, indirect and induced employee count. The average tax used in this analysis is $325 and portions of the total collections are distributed to the Highway User Revenue Fund.

The above tax categories represent the largest sources of revenue generated to city, county and state governments. This analysis considers gross tax collections and does not differentiate among dedicated purposes or uses of such gross tax collections. All dollar figures, unless otherwise stated, are in constant dollars and do not take into account the effects of inflation.

3.0 Economic Impacts

This section of the report outlines the economic impact (jobs, wages, economic activity) of the projected construction and ongoing operations of new business stimulated by the Arizona New Markets Jobs Growth Investment Initiative. Construction phase impacts are generally short-term effects related to onsite and offsite construction employment and other supporting industries. The long-term consequences are the operational phase impacts.

3.1 Economic Impact of Construction

The total value of construction is estimated to be $106.3 million based on the total investments of $250 million and additional follow-on capital. In terms of the economic impact from construction, this dollar value of investment would generate 931 direct person years of employment during the construction phase. Person years of employment are the aggregate of each construction job that is recreated year after year throughout the construction time period. To derive the respective annual averages, employment, wages, and economic output can be divided by the expected number of years it may take to complete the development. For perspective, most commercial projects take 1 to 2 years to complete once the permitting process is complete.

About $47.7 million in direct wages would be generated based on total construction activity. Another 735 indirect and induced person years of employment would be created in the regional economy, which would also produce wages and economic activity. Altogether, the project would create approximately 1,666 person years of employment during the construction timeframe and would generate $81.4 million in wages and $201.9 million in economic activity. These impacts would cease as soon as construction is completed.

3.2 Economic Impact of Operations

In addition to the construction employment that is generated by the initiative, operation of the businesses will also create employment. The operations impact in this analysis is based on the total dollar investment of $187.5 million. The operations are considered ongoing and once the business reaches a stabilized operating year, they each would produce jobs for the State as well as counties, cities and towns throughout the State on an annual basis.

The following table displays the ongoing economic impact of these businesses operating at stabilized levels. Stabilized operations would create approximately 4,138 direct jobs making aggregated annual wages of $134.1 million. This results in over $595.1 million in annual economic activity in the region. In total, approximately 6,370 direct, indirect, and induced jobs would be created throughout the State as a result of business operations. That equates to $228.8 million in wages paid out each year. Again, the operational impacts have been expressed as a regional benefit due to the lack of certainty as to where employees would ultimately reside.

Economic Impact
Arizona New Markets Jobs Investment Initiative
State of Arizona
(2012 Dollars)

Impact during construction

Impact Type	Jobs	Wages	Economic Output
Direct	931	$47,738,000	$106,250,000
Indirect	249	$13,592,000	$36,204,000
Induced	486	$20,040,000	$59,431,000
Total	**1,666**	**$81,370,000**	**$201,885,000**

Ongoing Operations (Annually)

Impact Type	Jobs	Wages	Economic Output
Direct	4,138	$134,127,000	$318,750,000
Indirect	871	$38,475,000	$109,681,000
Induced	1,361	$56,216,000	$166,694,000
Total	**6,370**	**$228,818,000**	**$595,125,000**

1/ The total may not equal the sum of the impacts due to rounding. All dollar figures are in constant dollars. Inflation has not been included in these figures.

Source: Elliott D. Pollack & Company; IMPLAN

Again, the projected construction impact is considered a one-time short-term impact, but still a significant impact on the local and state economies. The operations of the businesses are ongoing long-term impacts that will continue to have an impact on the State for years to come.

4.0 Fiscal Impact

The following sections of the report outline the fiscal revenues that will be generated from the construction and operations of new business stimulated by the Arizona New Markets Jobs Growth Investment Initiative.

Revenues have been defined in this analysis as either primary or secondary, depending on their source and how the dollars flow through the economy into government tax accounts. For instance, some revenues such as construction sales taxes are straightforward calculations based on the cost of construction. These revenues are described in this study as primary revenues. Secondary revenues, on the other hand, flow from the wages of those direct, indirect and induced employees who are supported by the project as well as revenues that the State shares with counties and municipalities using a per capita formula. Revenue projections are based on typical wages of the employees working in the project, their spending patterns, and projections of where they might live.

4.1 Fiscal Impact of Construction

The $106.3 million in projected construction activity by new business stimulated by the program will generate one-time tax collections by the State of Arizona and its local governments. Primary revenues including construction sales tax and use tax paid in purchases made on equipment imported into the state are projected to total $5.7 million for the State of Arizona, $613,800 for counties and $2.5 million for local governments, or a total of $8.8 million in total primary tax collections.

Secondary tax collections are the taxes generated by employees such as sales taxes, income taxes and property taxes. During construction, the State is projected to collect $2.7 million in secondary revenues while counties and cities will collect $1.8 million and $1.4 million, respectively.

In total, the State, counties and cities will collect over $14.7 million in revenues generated during construction of the projected $106.3 million of capital investment stimulated by the Arizona New Markets Jobs Growth Investment Initiative.

Total Fiscal Impact from New Construction
Arizona New Markets Jobs Investment Initiative
(2012 Dollars)

State of Arizona

	Primary Revenues		Secondary Revenues from Employment					
Impact Type	Construction Sales Tax	Use Tax	Employees Spending Sales Tax	Income Tax	Vehicle License Tax	Unemp. Tax	HURF Tax	**Total Revenues**
Direct	$4,105,700	$1,566,100	$615,500	$618,800	$60,200	$176,000	$86,300	**$7,228,600**
Indirect	N/A	N/A	$171,800	$176,200	$16,100	$47,000	$23,100	**$434,200**
Induced	N/A	N/A	$278,600	$237,000	$31,400	$91,800	$45,000	**$683,800**
Total Revenues 1/	**$4,105,700**	**$1,566,100**	**$1,065,900**	**$1,032,000**	**$107,700**	**$314,800**	**$154,400**	**$8,346,600**

Counties

	Primary Revenues	Primary Revenues	Secondary Revenues from Employment			
Type	Construction Sales Tax	Use Tax	Employees Sales Tax	Residents Property Tax	State Shared Revenues	**Total Revenues**
Direct	$444,300	$169,500	$86,700	$323,800	$824,500	**$1,848,800**
Indirect	N/A	N/A	$24,200	$86,500	$71,900	**$182,600**
Induced	N/A	N/A	$32,700	$168,800	$131,700	**$333,200**
Total Revenues 1/	**$444,300**	**$169,500**	**$143,600**	**$579,100**	**$1,028,100**	**$2,364,600**

Local governments

	Primary Revenues	Primary Revenues	Secondary Revenues from Employment			
Impact Type	Construction Sales Tax	Use Tax	Employees Spending Sales Tax	Residents Property Tax	State Shared Revenues	**Total Revenues**
Direct	$1,828,200	$697,300	$308,200	$80,677	$505,850	**$3,420,227**
Indirect	N/A	N/A	$85,800	$21,545	$91,610	**$198,955**
Induced	N/A	N/A	$140,500	$42,067	$154,610	**$337,177**
Total Revenues 1/	**$1,828,200**	**$697,300**	**$534,500**	**$144,289**	**$752,070**	**$3,956,400**

Total Revenues all sources: $14,667,600

1/ The figures are intended only as a general guideline as to how the State and local governments could be impacted by the project. The above figures are based on the current economic structure and tax rates of the state of Arizona and local governments.

Source: Elliott D. Pollack & Company; IMPLAN; Arizona Department of Revenue; Arizona Tax Research Association

4.2 Fiscal Impact of Operations

The State of Arizona and its counties and local governments will benefit from the Arizona New Markets Jobs Investment Initiative well beyond the seven years of the program. Arizona businesses accessing capital through the program will continue to operate and have a positive impact on the State and local governments.

The State of Arizona is projected to collect $18.8 million annually from the businesses that access capital through the Arizona New Markets Jobs Growth Initiative. This figure can be considered conservative, as it does not include the corporate income taxes generated by those businesses. Primary revenues such as direct sales taxes, bed taxes, local taxable purchases and direct utility tax total $10.9 million annually. Employees working for these businesses will generate another $7.9 million in tax collections for the state annually.

Counties would collect a total of over $7.2 million each year from the operations of the proposed businesses. Nearly half of this would be collected from direct (primary) taxes such as property generated by the value of the buildings, direct sales taxes and bed taxes. The remaining portion of annual revenues would be generated from sales taxes from employee spending, property taxes on employees' homes as well as from State shared revenues.

In total, $8.8 million would be collected each year by local governments. This includes $4.9 million in direct sales tax by retail and restaurant and bar establishments along with additional bed taxes and other primary tax collections. Secondary revenues generated by employed is projected to be $3.9 million annually.

Annual Fiscal Impact from Operations[1/]
Arizona New Markets Jobs Investment Initiative
(2012 Dollars)

State of Arizona

Impact Type	Primary Revenues				Secondary Revenues from Employment					
	Direct Sales Tax	Bed Tax	Local Purchases Sales Tax	Direct Utility Tax	Employees Sales Tax	Income Tax	Vehicle License Tax	Unemp. Tax	HURF Tax	**Total Annual Revenues**
Direct	$10,313,400	$218,900	$218,900	$147,400	$2,053,400	$1,360,500	$267,300	$782,100	$383,600	**$15,745,500**
Indirect	N/A	N/A	N/A	N/A	$521,800	$455,100	$6,400	$164,700	$80,800	**$1,228,800**
Induced	N/A	N/A	N/A	N/A	$781,100	$664,900	$9,500	$257,200	$126,200	**$1,838,900**
Total[1/]	**$10,313,400**	**$218,900**	**$218,900**	**$147,400**	**$3,356,300**	**$2,480,500**	**$283,200**	**$1,204,000**	**$590,600**	**$18,813,200**

Counties

	Primary Revenues						Secondary Revenues from Employees			
	Direct Sales Tax	Bed Tax	Local Purchased Supplies Sales Tax	Utilities Sales Tax	Personal Property Tax	Real Property Tax	Employees Sales Tax	Residential Property Tax	State Shared Revenues	**Total Revenues**
Direct	$1,210,500	$27,500	$25,700	$15,400	$71,400	$1,441,500	$294,300	$1,438,700	$1,116,400	**$5,641,400**
Indirect	N/A	N/A	N/A	N/A	N/A	N/A	$73,900	$302,900	$239,600	**$616,400**
Induced	N/A	N/A	N/A	N/A	N/A	N/A	$110,900	$473,200	$369,100	**$953,200**
Total[1/]	**$1,210,500**	**$27,500**	**$25,700**	**$15,400**	**$71,400**	**$1,441,500**	**$479,100**	**$2,214,800**	**$1,725,100**	**$7,211,000**

Local governments

	Primary Revenues						Secondary Revenues from Employees			
	Direct Sales Tax	Bed Tax	Local Purchased Supplies Sales Tax	Utilities Sales Tax	Personal Property Tax	Real Property Tax	Employees Sales Tax	Residential Property Tax	State Shared Revenues	**Total Annual Revenues**
Direct	$4,300,500	$97,700	$91,300	$56,600	$16,900	$341,900	$1,045,600	$358,457	$1,004,310	**$7,313,300**
Indirect	N/A	N/A	N/A	N/A	N/A	N/A	$262,600	$75,478	$249,670	**$587,700**
Induced	N/A	N/A	N/A	N/A	N/A	N/A	$394,100	$117,906	$378,700	**$890,700**
Total[1/]	**$4,300,500**	**$97,700**	**$91,300**	**$56,600**	**$16,900**	**$341,900**	**$1,702,300**	**$551,840**	**$1,632,680**	**$8,791,700**

1/ Total may not equal sum of impacts due to rounding. All dollar figures are in constant dollars. Inflation has not been included in these figures. All of the above figures are representative of major revenue sources for the state of Arizona, counties and local governments. Figures are intended only as a general guideline as to how the state and local governments could be impacted by the project. The above figures are based on current economic structure and tax rates of the state of Arizona and local governments.

Source: Elliott D. Pollack & Company; IMPLAN; Arizona Department of Revenue; Arizona Tax Research Association; Stonehenge Capital; Various NMTC Studies

5.0 Summary of Impacts

The federal New Market Tax Credit program has a proven track record for stimulating investment and, therefore, economic development and job creation in communities in need of economic development. Indeed, the application demand has far exceeded available allocation. So far, nine states have piggy-backed upon the federal program and offered State incentives in the form of tax credits have benefitted from doing so.

5.1 Total Construction and Annual Operations Impacts

Arizona stands to gain from passing the Arizona New Markets Jobs Growth Initiative. Overall, the program is projected to generate 1,666 construction related jobs and 6,370 ongoing annual jobs. The economic activity generated during the construction process is projected to total $201.9 million and annual ongoing activity $595.1 million.

Primary and secondary revenues generated will total $14.7 million during construction and reach $34.8 million annually during stabilized operations.

Summary of Impacts
Arizona New Markets Jobs Investment Initiative
(2012 Dollars)

Economic Impact

	One-time Construction	Ongoing Operations
Jobs	1,666	6,370
Wages	$81,370,000	$228,818,000
Economic Output	**$201,885,000**	**$595,125,000**

Fiscal Impact

	One-time Construction	Ongoing Operations
State Revenues	$8,346,600	$18,813,200
County Revenues	$2,364,600	$7,211,000
City Revenues	$3,956,400	$8,791,700
Total Revenues	**$14,667,600**	**$34,815,900**

1/ The total may not equal the sum of the impacts due to rounding. All dollar figures are in constant dollars. Inflation has not been included in these figures.

Source: Elliott D. Pollack & Company; IMPLAN; ADOR; ATRA; Stonehenge Capital

5.2 Ten Year Impact

Arizona New Markets Jobs Growth Initiative proposes to use a lagging tax credit redemption schedule using a $20 million annual tax credit redemption cap. This equates to zero cost for the first two years after investment, $17.5 million in foregone revenue in the third year after investment and $20 million in foregone revenue in the fourth through seventh years after investment. After the seventh year, there are no more years in which credits can be claimed. The legislation will require that the full amount of allocation to be invested within approximately 12 months after the program beings operations.

Tax Credit Redemption Schedule	
Year 1	0%
Year 2	0%
Year 3	7%
Year 4	8%
Year 5	8%
Year 6	8%
Year 7	8%

Experience with the federal program, as well as in other states that have enacted the New Market programs suggests that the application demand far exceeds the allocation allowed. Thus, it is projected that all of the $250 million will be invested with the first two years of enactment.

The table on the following page provides the projected impacts over ten years to illustrate the ongoing positive effects of the program in the years beyond when tax credit can be redeemed. Overall, the Arizona New Markets Jobs Growth Initiative will generate 833 construction jobs each year for two years and 6,370 jobs annually at stabilization of operations. Total wages over the ten years total $2.4 billion while economic activity will total over $6.1 billion over that time period.

The State, counties and local governments will benefit from fiscal revenues generated each year from construction and operations. In total, the State will collect over $195.4 million over ten years from the primary and secondary revenue sources of new businesses. Counties and cities will collect an additional $74.0 million and $91.3 million, respectively. In total, the Arizona New Markets Jobs Growth Initiative will stimulate $360.7 million in tax collections over ten years. This far exceeds the projected foregone revenues from tax credit redemption. In addition, the figures presented in this report exclude any projected corporate income taxes net of tax credits and thus, can be considered conservative.

Ten-Year Impact Summary[1/]
Arizona New Markets Jobs Investment Initiative

Economic Impact	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
Construction-related jobs	833	833	--	--	--	--	--	--	--	--	**Annual**
Operating jobs	1,593	3,185	4,778	6,370	6,370	6,370	6,370	6,370	6,370	6,370	**Average**
Total jobs	**2,425**	**4,018**	**4,778**	**6,370**	**6,370**	**6,370**	**6,370**	**6,370**	**6,370**	**6,370**	**5,581**
Construction-related wages ($ mil)	$40.7	$41.9	--	--	--	--	--	--	--	--	
Operating wages ($ mil)	$57.2	$117.8	$182.1	$250.0	$257.5	$265.3	$273.2	$281.4	$289.9	$298.6	**Total**
Total wages ($ mil)	**$97.9**	**$159.7**	**$182.1**	**$250.0**	**$257.5**	**$265.3**	**$273.2**	**$281.4**	**$289.9**	**$298.6**	**$2,355.6**
Construction-related output ($ mil)	$100.9	$104.0	--	--	--	--	--	--	--	--	
Operating economic output ($ mil)	$148.8	$306.5	$473.5	$650.3	$669.8	$689.9	$710.6	$731.9	$753.9	$776.5	**Total**
Total wages ($ mil)	**$249.7**	**$410.5**	**$473.5**	**$650.3**	**$669.8**	**$689.9**	**$710.6**	**$731.9**	**$753.9**	**$776.5**	**$6,116.7**

Fiscal Impact	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	**Total**
State of Arizona ($ mil)	$8.9	$14.0	$15.0	$20.6	$21.2	$21.8	$22.5	$23.1	$23.8	$24.5	**$195.4**
Counties ($ mil)	$3.0	$4.9	$5.7	$7.9	$8.1	$8.4	$8.6	$8.9	$9.1	$9.4	**$74.0**
Local Governments ($ mil)	$4.2	$6.6	$7.0	$9.6	$9.9	$10.2	$10.5	$10.8	$11.1	$11.5	**$91.3**
Total revenues ($ mil)	**$16.0**	**$25.5**	**$27.7**	**$38.0**	**$39.2**	**$40.4**	**$41.6**	**$42.8**	**$44.1**	**$45.4**	**$360.7**

1/ Total may not equal sum of impacts due to rounding. Annual inflation is projected to be 3%. All of the above figures are representative of major revenue sources for the state of Arizona, counties and local governments. Figures are intended only as a general guideline as to how the state and local governments could be impacted by the project. The above figures are based on current economic structure and tax rates of the state of Arizona and local governments.

Source: Elliott D. Pollack & Company; IMPLAN; Arizona Department of Revenue; Arizona Tax Research Association; Stonehenge Capital; Various NMTC Studies