

# NEW MARKETS TAX CREDIT (NMTC) PROGRAM EVALUATION

## Executive Summary

The federal government's New Markets Tax Credit (NMTC) program encourages new or increased investment in low-income areas by permitting institutions or individuals to receive federal income tax credits for making equity investments in specialized financial institutions known as Community Development Entities (CDEs). CDEs, in turn, make debt or equity investments in primarily nonresidential operating businesses and real estate projects carried out by new or existing for-profit or nonprofit entities—referred to as Qualified Active Low-Income Community Businesses (QALICBs). The program was authorized by the Community Renewal Tax Relief Act of 2000 (Public Law 106-554) and is jointly administered by the U.S. Department of the Treasury's Community Development Financial Institutions (CDFI) Fund and the Internal Revenue Service (IRS).

It is important to understand that the NMTC program . . .

**... is a public-private partnership.**

The federal government, through the IRS, promulgates regulations for the program and, through the CDFI Fund, certifies CDEs, competitively allocates tax credits to them, and monitors their activities. CDEs, which are private entities, select projects/QALICBs in

which to invest, locate potential investors, work with QALICBs to structure their investments so they are consistent with the federal tax code and IRS program regulations, and report back to the CDFI Fund on their investments. The program is sufficiently complex that CDEs and QALICBs generally require the support of highly specialized legal and accounting resources to pull together projects.

**... was designed to be flexible.**

Recognizing that local needs vary, the NMTC program is flexible with respect to the nature of the projects in which investments are made. The projects can range widely to include commercial, industrial, retail, manufacturing, or mixed uses, as well as community

facilities such as those providing cultural enrichment (like museums), child care, health care, or educational services. Projects can be in metropolitan or nonmetropolitan areas as long as the census tracts in which they are sited meet the program's definition of low income.

**... has invested in many projects.**

Between 2002 and 2010, the CDFI Fund made 664 awards to 350 CDEs, allocating \$12.9 billion in tax credits in nine separate allocation rounds. These allocations are typically described by the CDFI Fund not in terms of tax credits, but as "allocation authority"

that over the same time frame totaled \$33 billion.<sup>1</sup> Through the end of the federal government's fiscal year 2010, the latest point for which administrative data on NMTC projects are available, 3,060 projects had received NMTC investments. For these projects, a total of \$2.2 billion in tax credits had been claimed by investors as of 2009, with the remaining credits eligible to be claimed in future years.

<sup>1</sup> "Allocation authority" or "tax credit authority" refers to the amount of investment on which investors can claim a federal income tax credit of 39 percent. Other federal tax credits, such as Low Income Housing Tax Credits (LIHTCs), are typically described in terms of the amount of tax credits provided. To avoid confusion, this report presents both figures, with the tax credit amount notable for being the potential cost of the program borne by the federal government.



## PROGRAM EVALUATION

The CDFI Fund contracted with the Urban Institute to conduct this first formal evaluation of the NMTC program. Intended to be national and program-wide in scope, it focuses on program design, execution, outputs, and outcomes for both accountability and program improvement purposes. The objectives are to provide policymakers with information needed to assess the program's performance; give program administrators and participants useful information for improving the program; and inform and educate the general public with respect to what the NMTC program is, how it works, and what it accomplishes.

## DATA SOURCES

The evaluation sought to identify and report on actual project outputs and outcomes as distinct from NMTC program participants' intentions, objectives, or projections when initiating projects. Information collection was limited to samples drawn from the universe of 2,031 projects that had commenced early in the program's history—those that used tax credits from the first four of nine allocation rounds (2002 through 2006) and that had been initiated as of December 2007. The emphasis on early-year projects was to allow sufficient time for them to have been completed and for actual outputs and outcomes to have become apparent. Existing administrative and secondary data relevant to the program were used, and extensive amounts of new data were collected through the following means:

### Project Interviews

In-depth telephone interviews were conducted with representatives of CDEs, QALICBs, investors, and/or other key parties to NMTC projects. A random sample of 80 early-year projects was drawn, and interviews were obtained for 70 of them—a project-level response rate of 88 percent. The interviews were used to obtain detailed information about each project from multiple perspectives. Projects were the units of analysis.

### QALICB Survey

An online survey was conducted with representatives of a separate random sample of 318 QALICBs that participated in early-year projects. A total of 176 questionnaires were completed—a response rate of 55 percent. Again, projects were the units of analysis.

### Local Officials Survey

An online survey was conducted of a random sample of 380 community and economic development specialists based in localities in which at least one NMTC project had been initiated, from any allocation round between 2002 and 2007. A total of 309 questionnaires were completed—a response rate of 81 percent.

## KEY FINDINGS

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. All but one of the seventy projects included in the telephone interview sample had been completed at the time of the interviews. Most were still operating as initially planned under their original ownership, but five had ceased operations.

As is generally the case with programs operating within dynamic community- and economic-development contexts, some outcomes are especially difficult to measure and assess, and some cannot be attributed directly or solely to the NMTC program. And, as would be expected with a then-new program and financing tool intended to encourage investment in low-income communities, NMTC projects varied with respect to the kinds of outputs and outcomes with which they were associated, the need for a public subsidy, and project viability.

**Project Types**

The NMTC program supports a wide range of project types, each of which reasonably can be expected to result in particular kinds of outputs and outcomes. For analytic purposes, therefore, projects were placed into categories according to their focus of activity: office, retail, mixed use, hotel, social services, educational, arts/cultural, manufacturing/industrial, agricultural/forestry, brownfields, health facility or equipment, and housing. Although no one project type predominated among early-year projects, the most prevalent were office, retail, manufacturing/industrial, and mixed-use.

Given the relatively small size of the evaluation’s project sample, project types were condensed into five clusters, as follows:

<b>Project-Type Clusters</b>	<b>Share of Projects (%)</b>
Office (15%), retail (14%), mixed use (12%), and hotel (5%)	46
Social services (8%), educational (8%), and arts/cultural (6%)	22
Manufacturing/industrial (13%), agricultural/forestry (4%), and brownfields (1%)	18
Health facility or equipment	9
Housing	5
<b>TOTAL</b>	<b>100</b>

**Project Location & Targeting**

NMTC projects are targeted toward low-income areas that are distressed. Distress is operationally defined in terms of census tract poverty levels or median incomes. Because CDEs have the discretion to choose where to direct their investments, the CDFI Fund has provided encouragement, through its application process for tax credit allocations, to invest in tracts with higher levels of distress than minimally required.

- Early-year NMTC projects were dispersed across more than 1,000 census tracts. The great majority (71 percent) of such tracts contained one NMTC project, 17 percent contained two projects, 5 percent contained three projects, and the remaining 7 percent contained four or more projects.



- Overall, 83 percent of projects were located in metropolitan areas and 17 percent were located in nonmetropolitan areas, with the proportion of metropolitan-area projects increasing over time during the early years.<sup>2</sup>
- About four out of every ten NMTC projects were located in areas with a poverty rate of more than 30 percent—that is, areas the CDFI Fund defines as having “higher distress.” However, eligible census tracts receiving NMTC investments roughly resembled eligible tracts without projects in poverty rates, median family incomes, and unemployment rates.

### Project Initiation

As with many community and economic development projects, the initiation of those financed with NMTCs in different localities reflected market conditions, community structures and assets, and existing professional and personal networks. While project trajectories and the roles of key players varied by project, location, and timing (among other considerations), three types of initiation scenarios were apparent: those in which there were preexisting relationships between CDEs and QALICBs; those in which QALICBs were referred to CDEs; and those in which QALICBs approached CDEs directly without any prior relationship or referral. Participants associated with the remaining projects reported varying other scenarios or did not know the circumstances of project initiation.

- Previous working relationships between QALICBs and CDEs existed in one-quarter of early-year projects. In most such cases, the previous relationships had not involved the NMTC program.
- Just under one-third of early-year NMTC projects involved referrals. The most frequently reported sources of referrals were local governments, other CDEs, and local banks. In some cases, QALICBs approached banks for funding and were then referred to CDEs when the banks recognized that the QALICBs were eligible for NMTC financing because they were located in low-income census tracts. Federal agencies, investors, community groups, and donors or board members of nonprofit organizations also referred QALICBs to CDEs.
- Just over one-third of early-year NMTC project QALICBs approached CDEs directly, with no prior relationship or referral. This usually occurred in cases where a community bank was also a CDE that had a NMTC allocation.

### Site Selection

NMTCs rarely influenced the choice of project location. For the majority of early-year projects, QALICBs had selected their sites before seeking financing. In some of these cases, site selection was not an issue because NMTC financing was used for business expansion or working capital, with no plans to rehabilitate or develop property.

Even where QALICBs built or renovated property, most did not consider alternative sites. The reasons varied: some QALICBs were developing previously purchased properties; adjacent

<sup>2</sup> The time period covered by this evaluation precedes legislative changes that increased the NMTC program’s focus on nonmetropolitan-area investment.



properties were developed to expand at existing locations; sites were selected for rehabilitation by local jurisdictions (with developers solicited through requests for proposals); and buildings or sites had been donated to nonprofit QALICBs or sold to QALICBs for nominal amounts.

With respect to the status and condition of sites before projects were started, most were either vacant lots or land, or empty or underused buildings. Where existing buildings were involved, about 60 percent were in some state of disrepair.

### Participant Attributes

Key participants in NMTC projects include (1) CDEs, (2) QALICBs, (3) investors and (4) community and local government stakeholders. Important attributes of these participants are noted below.

**1. CDEs.** For-profit nonfinancial institutions were awarded the highest share of NMTCs, followed by CDFIs, community banks and other mission-driven lending institutions, and for-profit financial institutions. Nonprofit nonfinancial institutions and government/quasi-government CDEs were awarded fewer and smaller NMTC allocations. These variations likely reflected differences in allocation requests as well as the capacities of the different types of CDEs—including the ability to attract investment dollars, initiate multiple projects, and undertake the typical sizes of projects (all factors that can affect a CDE's ability to deploy credits within the required time frame). Many CDEs that received allocations applied for subsequent allocations. By 2006, half of those that were awarded allocations had also received previous allocations.

**2. QALICBs.** For about 60 percent of early-year projects, QALICBs were for-profit corporations; and for almost 40 percent of projects, QALICBs were nonprofit organizations. QALICBs were tribal or other government organizations in about 2 percent of the projects. QALICBs in the combined sample of projects<sup>3</sup> ranged in size, as measured by annual gross revenues or operating budgets at the start of their NMTC projects, from zero for new start-ups to \$7 billion for a large for-profit parent entity in the natural resources business. The median size was \$740,000. Almost one-third of QALICBs were small (less than \$500,000), and fewer than 10 percent were very large (more than \$25 million).

**3. Investors.** Early-year projects involved a wide variety of investor types, including: large international banks or other regulated financial institutions, public entities, CDFIs, regional or community banks or other similar sized financial institutions, QALICBs, real estate developers or investment companies, venture funds, other types of corporate investors, and others (including individual investors).

- The highest proportion of investors consisted of large international banks or other regulated financial institutions—a group that also accounted for the largest amount of total financing provided to NMTC projects.
- The largest amount of financing per project was provided by other types of corporate investors, such as large retail companies that used NMTCs to build, expand, or rehabilitate stores in their chains that were located in low-income communities.

Although all of the projects sampled for the evaluation involved NMTCs, not all of the investors in those projects claimed tax credits: 63 percent of the investors made NMTC-eligible

<sup>3</sup> Included are the evaluation's telephone interviews with project participants and online survey of QALICBs.



investments—including all venture funds, most CDFIs, and most banks and regulated financial institutions. Some investors had other incentives for investing in NMTC projects, such as favorable loan-to-value ratios when debt was combined with investor equity. Banks can also claim Community Reinvestment Act (CRA) compliance credits. Investors claimed CRA credits for 76 percent of projects, and 21 percent of investors indicated that CRA credit was a substantial factor in their investment decision.

**4. Community and local government stakeholders.** Aside from the fact that local governments are responsible for zoning, issuing building and occupancy permits, and the like, the NMTC program does not necessarily involve local or community agencies as program participants. Community involvement and emphasis on producing community benefits was uneven across early-year NMTC projects. There was extensive community-level involvement in some instances and barely any in others. Information derived from the telephone interview sample indicated the following:

- Local public agencies were involved with fewer than half of the early-year projects before financing was arranged (excluding issuance of permits, etc.); in the remainder of cases, there was apparently no such involvement.
- In somewhat more than half of the projects, discussions were held with public development agencies, community development corporations (CDCs), or other community stakeholders at some point during project development. Early-stage public agency involvement in projects increased the likelihood of subsequent discussions with public or community entities.

Some local governments or agencies are also certified as CDEs and, therefore, directly involved in NMTC projects. Most, however, are not and work primarily with other community and economic development programs—such as those administered by the U.S. Department of Housing and Urban Development or the Economic Development Administration; this provides a basis for understanding the following findings derived from the online survey of community and economic development specialists:

- Although 72 percent of local community and economic development specialists were familiar with the NMTC program, only 26 percent claimed to be very familiar with it.
- While the national sample of local community and economic development specialists was exclusively drawn from places where at least one NMTC project had been initiated, only 45 percent of such specialists were aware of any NMTC project within their jurisdictions. This likely reflects not only the existence of multiple community and economic development programs but also variations in practitioner specialization.
- Among community and economic development specialists who were aware of local NMTC projects, 62 percent reported that their organizations or other such organizations had “definitely” been involved with them; an additional 13 percent reported “probably” having been involved. Where there was involvement, half of the specialists claimed that it was extensive. Involvement included encouraging and/or facilitating projects or activities, bringing together key parties, providing direct financial support, providing other types of support, providing referrals to other



agencies or organizations or offices, helping to initiate or design one or more projects, and engaging in eminent domain or condemnation proceedings.

### Project Financing

Information gathered about project financing pertains to total project size, types of investments and their performance, leveraging of other financing sources,<sup>4</sup> and fees and deal costs. The findings are as follows:

- According to CDFI Fund administrative data, the median size of early-year projects was \$3.7 million.
- Nearly two-thirds of funds provided through the NMTC structure were term loans.<sup>5</sup> Of the funds provided outside the NMTC structure, 37 percent took the form of term loans, and nearly half were equity investments.
- The median loan interest rate was 5.8 percent, and a majority of the loans provided under the NMTC program had a term of seven years.
- CDEs used NMTC financing to provide better rates or terms to just over 90 percent of projects/QALICBs. Most prevalent were lower-than-standard origination fees, below-market interest rates, and longer-than-standard periods of interest-only payments.
- Perhaps as a sign of the recently weakened macro-economy, more than one project in six had its loan restructured, 8 percent had been delinquent, 6 percent went into default, and just over 2 percent were foreclosed upon.
- Based on telephone interview data provided by project participants, three-quarters of CDEs charged fees and 22 percent charged no fees.<sup>6</sup> Front-end fees were the most common; they represented, on average, 2.4 percent of a project's total cost.

Especially for a program such as NMTCs that involves a public-private partnership, a key program evaluation issue is the extent to which program funds leveraged private financing. The evaluation considered program leveraging from several vantage points.

- Based on project-by-project calculations, NMTC structure financing was worth 82 percent of total project financing for the median project.
- Tax credits represented 36 percent of total project costs for the median project.
- Public funds provided 39 percent of total projects costs for the median project.<sup>7</sup>

<sup>4</sup> When public/program funds are used to attract private financing, the latter is generally regarded to have been leveraged by the former.

<sup>5</sup> "NMTC structure" refers to the project financing for which investors are eligible to claim a tax credit. See chapter 2 of the report for a more complete explanation.

<sup>6</sup> Information was unavailable for the remainder of projects.

<sup>7</sup> When summing across all projects, financing provided through the NMTC structure represented 53 percent of total project costs, NMTCs represented 22 percent of total costs, and public funds were 23 percent of total project costs.

**Role of NMTCs in Bringing Projects to Fruition**

While there are no explicit statutory or regulatory provisions prohibiting the use of NMTC investments in projects for which other financing is available, several program procedures and requirements (relating to competitive tax credit allocations, mandatory allocation agreements, use of distress criteria, and a system of CDE reporting to the CDFI Fund) suggest programmatic encouragement of use of NMTCs in projects that would not otherwise move forward. Indeed, the logic behind the program's statutory objective to increase capital investment in low-income areas is that tax credits are necessary to attract private investors. Consequently, an important program evaluation question involves the extent to which NMTCs were necessary to bring projects to fruition or, alternatively, substituted for other available financing.

Practitioners and researchers consider the substitution issue exceptionally difficult to address for both conceptual and empirical reasons. Nonetheless, a systematic review of a range of objective and subjective evidence regarding individual projects obtained for the evaluation from QALICBs, CDEs, investors, and other stakeholders has provided sensible indications as to whether they needed NMTCs. The information reviewed included project descriptions and histories, local market conditions, availability of alternate financing, whether QALICBs had applied for and/or received approval for conventional financing before NMTC investments, rationales for not applying for or not accepting offers of conventional financing, and rationales for using NMTCs.

Taking into account considerations of project timing and location,<sup>8</sup> the review resulted in each sampled project being categorized as either likely not to have come to fruition without NMTCs; to have come to fruition without NMTCs but at a later date or at a different location; or to have come to fruition without NMTCs at about the same time and/or in about the same location. A residual category, "inconclusive," consisted of projects for which relevant information was simply not available, insufficient, or too inconsistent to permit any of the above designations.

- Based on the evidentiary review, it can reasonably be concluded that between three and 4 of every 10 early-year projects would likely not have proceeded without NMTCs; about 1 of every 10 projects would likely have proceeded without NMTCs, but probably in a different location or on a delayed schedule. About 2 of every 10 projects did not show convincing evidence of needing NMTCs to come to fruition. Information was inconclusive for about 3 of every 10 projects.
- Only three of several project attributes that might be expected to explain variations in need for NMTCs did so: year of allocation; prior relationships between CDEs and QALICBs; and whether projects involved real estate development. Among early year projects, those based on later allocation rounds were more likely than those based on prior rounds to need NMTCs. CDEs and QALICBs having relationships with each other that preceded their NMTC projects were more likely than those without such relationships to need NMTCs. And projects involving construction or rehabilitation of

<sup>8</sup> Another possible consideration is whether project scale (or scope) would have been seriously affected had NMTCs not been used. This was taken into account in the review of projects involving the telephone interview sample, but not the online QALICB survey sample because of data limitations. In fact, for the former, project scale did not prove to be a substantial factor with respect to the role of NMTCs in bringing projects to fruition.



properties were more likely than those involving non-real estate (i.e., business) purposes to need NMTcs.

- Considered individually, other attributes—such as differences in project types, CDE types, QALICB types, whether projects utilized a CDE’s first allocation of tax credits, or the extent of area distress—do not help to explain variations in the need for NMTcs. This may reflect program diversity, as projects combine different financing structures, participant types, and situations in somewhat unique ways.<sup>9</sup>

There are no especially compelling industry benchmarks against which to assess these findings.<sup>10</sup> It would be unrealistic, however, to expect all projects in a program such as NMTcs to satisfy a stringent “but-for” test. The timing and unique circumstances surrounding the financing and implementation of some projects may present situations in which real-time decisions by QALICBs, CDEs, or investors are made without substitution considerations in mind. And, from a program development perspective, agencies must balance the risk of using a subsidy or an excessive subsidy when not needed against the risk of hampering desired outcomes by promulgating overly cumbersome or rigid but-for rules.

### Jobs Outcomes

The evaluation sought information on the actual job creation and retention experiences of NMTc projects. Created jobs were defined as permanent positions that would not have existed without NMTc investments; retained jobs were those that would have been lost without such investments. Preexisting jobs that were simply moved by a QALICB from one location to another were not considered to be new or retained. Also calculated were NMTc investment costs per job generated—defined as the ratio of all NMTcs eligible to be claimed for a project to the number of permanent jobs created and retained<sup>11</sup>—for a subsample of 149 projects for which both jobs and project cost data were available.

- Extrapolating from the project samples for which data were gathered to the universe of 2,031 early-year projects, it is estimated that the NMTc program created or retained 135,970 permanent jobs and 151,304 construction jobs.
- A small proportion of the projects accounted for one-third of all jobs created or retained. The largest jobs producers by project-type cluster were retail, mixed use, office, and hotels; the second largest cluster consisted of manufacturing/industrial, agricultural, forestry, and brownfields projects. The largest jobs-producing projects in the evaluation samples (over 500 jobs each) included two newly constructed shopping centers on the East Coast, a mixed-use project in the Midwest, and a food processing center in the South.

<sup>9</sup> A larger sample would be needed to allow examination of the interactions of these factors as they might affect a project’s need for NMTcs.

<sup>10</sup> See Martin D. Abravanel, Nancy M. Pindus and Brett Theodos, *Evaluating Community and Economic Development Programs: A Literature Review to Inform Evaluation of the New Markets Tax Credit Program*, Washington, DC: The Urban Institute, 2010 (<http://www.urban.org/publications/412271.html>).

<sup>11</sup> Creation or retention costs do not include, and are not synonymous with, the salaries paid to new or retained employees.



- For-profit CDEs were responsible for creating and retaining more jobs than nonprofit CDEs. Similarly, for-profit QALICBs accounted for about two-thirds of all the jobs created or retained during the early years of the NMTC program.
- Not surprisingly, large projects (as measured by total project costs) created and retained more jobs than smaller ones. More than half of all jobs created or retained were attributed to projects with a total cost of \$15 million and above.
- Jobs created or retained and attributable to the NMTC program were not concentrated at any particular job level. Some (such as large retail) projects created or retained primarily entry-level jobs, while others (such as a scientific research center) created or retained primarily management-level or professional-level jobs. Most projects included a mix of job levels, with a higher share in the entry- and midlevel ranges.
- Based on projects for which participants reported information on the characteristics of individuals who were newly hired or retained as a result of NMTC support, 27 percent of all created or retained permanent jobs went to minorities and 36 percent went to neighborhood residents.
- NMTC investments per job generated for early-year projects are estimated to have been between \$32,658 and \$79,265, averaging \$53,162.<sup>12</sup>

**Construction/Rehabilitation  
Outputs and Outcomes**

The evaluation tallied the square footage of real property brought to communities by early-year NMTC projects involving real estate. Projects were labeled “real estate” if they supported the construction or rehabilitation of residential or commercial properties (or both), including

those that were not sponsored by real estate developers, but instead, such entities as charter school organizations, social services agencies, professional services firms, or others that built or rehabilitated at least a single building for their own use. Also measured was the cost per unit (square foot) of real estate that was produced.

- The majority of early-year NMTC investments entailed commercial real estate development. About two-thirds of projects, accounting for about three-quarters of all project costs, consisted of construction or rehabilitation of commercial or residential real estate.
- Among real estate projects, a small portion was intended exclusively or partially as residential space, while the great majority consisted of commercial development.

<sup>12</sup> There are currently no universally accepted benchmarks against which to compare these findings. However, the findings are useful as benchmarks for subsequent evaluations of the NMTC program—that is, for considering whether the program becomes more cost efficient over time with respect to job production. In using this measure to evaluate the NMTC program as a whole, it should be noted that the program encourages and allows for a variety of project emphases and results, thereby affording a somewhat tenuous basis for cross-program cost comparisons with single-purpose programs intended to create jobs. The same logic applies to the cost per square foot measures for construction/rehabilitation outcomes, presented in the next section.



Among residential projects, more than one-third of the total units constructed or rehabilitated were set aside for low-income residents.<sup>13</sup>

- Early-year commercial properties, on average, added between 50,000 and 100,000 square feet of usable space to the communities in which they were located.
- Construction and renovation projects also helped to beautify their surrounding areas; some incorporated green building features. Almost all real estate projects resulted in major improvements to property appearance, the streetscape, or façade. About 1 in 10 early-year real estate projects (including office buildings, housing, mixed-use, and retail properties) was LEED<sup>14</sup> certified.
- The total project (public plus private) cost per square foot of property developed (i.e., built or rehabilitated) in early-year NMTC projects was between \$158 and \$322—averaging \$227. Since the NMTC program leverages other public, and especially private, capital, however, NMTC contributed only a fraction toward the total investment costs of building or rehabilitating real estate. Therefore, the NMTC investment cost per square foot of real estate developed was between \$28 and \$62, averaging \$43—or 19 percent of total per-square-foot costs.

### Other Project Outcomes

While job and real estate production tend to be among the most commonly measured outputs and outcomes of community and economic development programs, the broad mandate of NMTCs suggests that the following outcomes are also very relevant: (1) creation of amenities, services, and facilities; (2) support for small businesses and organizations; and (3) enhancement of local tax bases.

**1. Amenities, services, and facilities (“amenities”).** NMTC projects may add to or expand community amenities such as by increasing access to retail services, building human capital, enhancing quality of life, or improving access to public infrastructure. These outcomes, which community residents can consume, engage in, or enjoy, are grouped as follows:

- **Retail amenities.** This category contained the highest share of reported amenities, with shopping centers, restaurants and laundry facilities constituting the largest proportion—at 42 percent. Other retail amenities consisted of banking or financial services, grocery stores, and hotels. Most projects with a retail amenity were provided by for-profit QALICBs and CDEs.
- **Human capital amenities.** Health care facilities were the most frequently reported human capital amenity, at 23 percent. Sampled projects ranged from large-scale hospitals with more than 100 beds to small-scale neighborhood health clinics. Other human capital amenities involved employment training centers, child care centers, elementary or secondary schools, and postsecondary education facilities or opportunities. Nonprofit QALICBs were more likely than for-profit ones to provide

<sup>13</sup> Program rules permit financing an NMTC project that consists of 100 percent residential units for sale; if units are for rent, however, revenues from the units can represent no more than 80 percent of project revenues—meaning that the projects must be mixed use of some sort.

<sup>14</sup> Leadership in Energy and Environmental Design.



human capital amenities. Nonprofit CDEs were also more likely than for-profit and government CDEs to finance projects with human capital amenities.

- **Quality-of-life amenities.** Parks, open spaces, playgrounds, and recreation or community centers were the most frequently reported quality-of-life amenities, at 21 percent. Arts and cultural institutions or museums were the second most frequently reported, followed by public libraries. Nonprofit QALICBs were more likely than others to sponsor projects with quality-of-life amenities.
- **Infrastructure amenities.** Parking lots or garages were the most frequently reported infrastructure amenity, at 19 percent of projects, while public transportation and environmental cleanups were less common. For-profit QALICBs were more likely than others to sponsor projects with infrastructure amenities.

**2. Support for small businesses and organizations.** NMTCs have been used to support start-up enterprises as well as expansions of existing for-profit and nonprofit entities.

- **Investing in start-up enterprises.** Serving the capital needs of start-up enterprises has not been the primary focus of the NMTC program. And compared with other federal programs, early-year NMTC investments in start-up entities were modest. Nevertheless, for-profit firms and nonprofit firms represented a noteworthy part of the program. Just over 10 percent of early-year NMTC projects financed the start-up of a small for-profit or nonprofit entity. The NMTC program facilitated investments worth an estimated \$1.4 billion in start-up entities from 2003 to 2007.<sup>15</sup> Nearly two-thirds of NMTC-supported start-ups were organized as for-profit firms, with the remainder organized as nonprofit organizations.
- **Expanding existing for-profit and nonprofit entities.** Early-year NMTC projects sought financing for business expansion more frequently than for business creation. Nearly half of all QALICB participants had hoped to expand their enterprises as a result of NMTC financing. Given the national recession that covered a portion of the relevant time period, it is noteworthy that many were able to do so. In all, 76 percent of projects realized growth in their annual revenues or operating budgets of more than 5 percent between project initiation and 2011, when data for the evaluation were collected.

**3. Enhancement of local tax bases.** New tax revenues generated by NMTC projects include sales, payroll, and income taxes paid by individuals employed as a result of the projects, as well as corporate and property taxes paid by investment recipients as a result of property value appreciation or businesses improvements. Such project outcomes, which enhance a locality's tax base, are consistent with the NMTC program's objective of supporting the development of low-income communities.

- Eighty percent of all early-year projects reportedly contributed to some form of increased city or county tax revenues from QALICBs, their tenants, or their employees.

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<sup>15</sup> This amount includes all financing sources.



- Increased payroll taxes were the most common tax outcome, with participants from more than 70 percent of projects reporting an increase in payroll tax payments as a result of their projects.
- Participants in two-thirds of early-year projects reported increases in property taxes. Also, in more than half of the cases, QALICBs reportedly paid more sales taxes, and one-third paid more corporate taxes. Roughly 1 in 10 projects paid additional other taxes—including city employment taxes, school taxes, and/or hospitality taxes.
- For-profit businesses were much more likely than nonprofit organizations to pay additional property, sales, and corporate taxes. The most common additional tax paid by nonprofits and government or quasi-government QALICBs related to expanding their number of employees.

### Area-wide Outcomes

The likelihood of spillover from project sites to surrounding areas resulting in neighborhood- or community-level change depends on factors such as project characteristics, scale, or visibility. More than one-third of early-year NMTTC projects were undertaken in conjunction with, or integrated into, larger-scale development initiatives within their communities, according to project stakeholders. The stakeholders also indicated that a majority of the projects had high visibility within their communities. Taking into account the design, scale, or other attributes of each project, as well as the reported intentions of CDEs and QALICBs, approximately 36 percent of projects included in the telephone interview sample were considered to have had some area-wide spillover effects. The following results were reported:

- Based on comparisons of stakeholders' before-project and after-project assessments of the areas in which their projects were located, there appears to have been positive change in almost 7 of every 10 cases. In most instances, the change was thought to have been relatively small (i.e., one point on a five-point scale).
- For almost 3 of every 10 projects, no surrounding area changes were reported following project completion. While, in a few instances, neighborhood businesses were displaced or noise levels increased during project development, very little negative change was noted in surrounding areas.
- Stakeholders involved in one-third or more of early-year projects reported strong evidence that surrounding areas had experienced new business creation, improved property appearance, and/or increased local tax revenues as a result of NMTTCs. Additional changes identified by a small number of stakeholders included improved neighborhood safety, reduced crime, increased community pride and morale, or sustained improvement in inter-organizational relationships.

### Project Outcome Patterns

On a project-by-project basis, consideration was given to which, if any, of the following potential outputs or outcomes were associated with each early-year project: increased employment; developed real estate; improved environment; reduced neighborhood distress; increased community amenities, services, or facilities; new or expanded businesses; attraction of new investors; or provision of advantageous financing. Almost all early-year projects were associated with at least



one such output or outcome, and most were associated with more than one. The average project was associated with four such results.

- The most prevalent result consisted of provision of advantageous financing. The vast majority of QALICBs either could not otherwise have obtained financing or, by comparison with other available financing, received better rates and terms in conjunction with NMTCs.
- The second most prevalent result involved real estate development<sup>16</sup> 84 percent of projects constructed or rehabilitated either residential or commercial properties in low-income areas.
- The third most prevalent result consisted of additions to the local tax base: 77 percent of projects were associated with increased payroll, property, sales, corporate, or other taxes, to the benefit of the local community.
- The fourth most prevalent result involved employment: 71 percent of projects created or retained at least one new permanent job. Using a different employment metric, 60 percent of projects experienced an increase in employment levels of more than 33 percent, compared with pre-NMTC levels, due to jobs created or retained as a result of their respective NMTC projects.

Certain types of projects were more or less likely than others to have been associated with particular outputs or outcomes:

- Office, retail, mixed-use, and hotel projects were somewhat more likely to develop real estate than other project types.
- Manufacturing/industrial, agricultural/forestry, and brownfields cleanup projects were somewhat more likely than others to contribute to environmental improvement and less likely to result in an above-average increase in employment; development of real estate; or contribution to increased amenities, services, or facilities.
- Projects involving education, arts/culture, or social services were more likely than others to be associated with increased community amenities, services, or facilities, as well as reduced community distress, and less likely to provide increased local taxes.
- Although the number of projects in the sample is small, health facility and equipment projects were somewhat more likely than others to be associated with an above-average increase in employment and less likely to be associated with reduced neighborhood distress or to have received advantageous financing.

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<sup>16</sup> This figure differs from findings noted in the section titled “Construction/Rehabilitation Outputs and Outcomes,” above, because the latter includes data collected through the combination of telephone interviews with project participants and the online QALICB survey, while the former includes only data collected through telephone interviews.



### Future Research Needs

Given that this is the first formal evaluation of the NMTC program, there is still much to be learned about it. Potentially, therefore, the present effort is only the initial contribution to a larger research plan, yet to be implemented. In that context, the evaluation's findings

and limitations can help to guide future efforts.

To obtain a broad programmatic assessment for the initial evaluation, one trade-off made was to focus on outputs and outcomes for a relatively large number of projects, randomly selected to represent the full range of the program, rather than to conduct more intensive data collection and analyses for a smaller number. A second decision was to focus on early-year projects to ensure that sufficient time had elapsed for results to become apparent. However, the NMTC program has continued to evolve, market circumstances have changed, projects have matured, and new allocations and investments have been made—suggesting many areas in need of additional research. Among others, it would be useful to have the following:

- More detailed studies in localities or neighborhoods that have concentrations of NMTC projects and/or are part of larger redevelopment initiatives—taking advantage of on-site data collection as well as local market and investment data regarding interest rates, rates of return, and property values—to assess the nature and extent to which the projects have affected or transformed low-income communities.
- Studies that contribute to the development of industry benchmarks by project types—such as office buildings, shopping centers, or hotels.
- More detailed studies of jobs to refine and improve measures—including distinguishing between those that are merely moved from one location to another and those that are retained or newly created; developing and using indicators of job quality; and documenting employment of community residents. There is no generally accepted operational standard of job quality—an issue that has challenged researchers for years,<sup>17</sup> and measurement, benchmarking, and attribution present conceptual questions that can benefit from further research.
- Longer-term trend analyses over the full NMTC period since 2002 to better understand project evolution—especially with respect to targeting and substitution.
- Studies of area-wide and community outcomes to better define these outcomes and understand who benefits from community amenities, facilities, and services.
- Follow-up studies of longer-term project outcomes; capacity-building effects; and the role, extent, and consequences of community involvement in NMTC projects.
- Follow-up studies of the sustainability of NMTC investments—considering questions such as: What happens to NMTC projects' subsidized financing after the seven-year credit-claiming period? Does the subsidy end or do QALICBs obtain other subsidies (either through NMTCs or other programs)? How do QALICBs fare with conventional rates and terms? Do initial outcomes decrease or grow?

<sup>17</sup> See Andrew Isserman, *Socio-Economic Review of Appalachia: The Evolving Appalachian Economy*, Report to the Appalachian Regional Commission, 1996.



Noting that research to-date has not produced definitive results about the effectiveness of community and economic development tax expenditures (like NMTCs, Empowerment Zone tax incentives, or Historic Tax Credits), the GAO recently recommended that there be more crosscutting assessments involving multiple federal agencies and programs to help identify the data needed to evaluate tax expenditures' effects on community and economic development.<sup>18</sup> While more definitive cross-agency and -program assessment is certainly desirable, it is equally important to carry on with research that focuses on individual programs—that is, their design, implementation, and monitoring. Continued analyses of administrative data as well as pursuit of additional research questions by using a range of data sources and analytic methods are needed to inform program management and policy—with the objective of enhancing the effectiveness and relevance of initiatives like the NMTC program.

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<sup>18</sup> See *Community Development: Limited Information on the Use and Effectiveness of Tax Expenditures Could Be Mitigated through Congressional Attention* (GAO-12-262), Washington, DC: Government Accountability Office, 2012.