



## The Urban Institute's New Markets Tax Credit Program Evaluation: Key Findings and Lessons for Future Evaluations

The CDFI Fund commissioned the Urban Institute to conduct the first independent evaluation of the New Markets Tax Credit Program (NMTC Program). The evaluation examined the first four years of the program (2002-2006), and found clear evidence that the NMTC Program operated as intended, accomplishing the program's legislative objective of attracting private investments to low-income communities in both metropolitan and non-metro areas. The evaluation also found that the program has been used to finance a diverse range of community and economic development projects, add to local tax bases, create and retain jobs in low-income areas, and support small businesses.

### Key Findings

**Project Flexibility:** The evaluation finds that the NMTC Program provided communities flexibility in developing a wide variety of types of projects. NMTC facilitated advantageous financing for a wide variety of projects in low-income areas involving real estate development or rehabilitation, small businesses, and non-profit organizations.

**Recipient Diversity:** The evaluation found that of the tax credit authority allocations studied, for-profit institutions received half of the total number allocations; CDFIs and mission-driven financial institutions received about one-third; and the remainder went to quasi-government entities.

**Proportional Urban-Rural Split:** 83 percent of projects were located in metropolitan areas and 17 percent were located in nonmetropolitan areas, closely mirroring the United States population distribution.

**Role of NMTC Financing in Projects:** The survey of NMTC investors found that 69 percent of investors said they would not have made their investments were it not for NMTCs. An additional 28 percent said that without NMTCs they most likely would have made their investments on different rates and terms or with a different project scope. The remaining three percent did not make a determination. NMTC investor equity also helped to attract other project financing, particularly from banks.

**Job Creation and Retention:** While job creation is just one of many program objectives, in the first four years of the NMTC Program (2002-2006), the Urban Institute estimates that the program created or retained 135,970 permanent jobs in low-income areas. In addition, the NMTC Program supported about 151,304 construction jobs in this period. The evaluation did not measure indirect or induced jobs, or job shifts to low-income areas.



## **Improving Future NMTC Evaluations**

While this first-ever NMTC impact evaluation found that the NMTC Program worked as intended by Congress, various analytical methods could be improved to better measure the program impact in the future.

**NMTC Substitution Measures:** Perhaps the most challenging question to answer using the Urban Institute’s methods was the number of projects that would not have occurred or would have been delayed, changed or forced to accept less favorable terms without the NMTC. Because there is no ready counterfactual comparison for answering these questions, the Urban Institute devised a series of survey questions to categorize the projects into four groups:

- No substitution: a NMTC project could not have come to fruition without NMTC financing.
- Partial substitution: a NMTC project could have come to fruition without NMTC financing but with a delay, on a reduced scale, or in a less distressed community.
- Full substitution: other non-NMTC financing could have been used to produce a project.
- Inconclusive: evidence was insufficient.

The results of Urban Institute’s substitution method found that in over two-thirds of the sample projects where there was conclusive data, the projects were found to have “no substitution” or “partial substitution” effects, indicating that the NMTC played an important role in financing these projects. With respect to the one-third of projects that the method identified as instances of “full substitution,” the CDFI Fund suggested that the Urban Institute further analyze these results to see if non-survey data on the socioeconomic characteristics of project locations and credit scores could validate or shed light on these results.

For example, one might expect greater clustering of “full-substitution projects” in qualified but gentrifying census tracts, since they would be viewed by developers as more attractive. In addition, analysis of credit scores of households and businesses could be used to ascertain if there was significant correlation between the substitution categories and credit availability in the communities where NMTC projects were located. This latter exercise would have been an important validation and research step. Contract timing and scope prevented further analysis of these issues.

Further, the substitution analysis by the Urban Institute contrasts with the survey responses from NMTC investors showing that 69 percent of them maintained that they would not have made their investments were it not for NMTCs, and 28 percent of them indicated that the project’s rates and terms and/or scope would have been changed.

It is also noteworthy that the rigorous anonymity imposed on the project sample prevented the CDFI Fund from conducting its own analysis of these issues. Thus, the Urban Institute’s substitution analysis represents only an initial foray into assessing the role of the NMTC in bringing such projects to low-income communities.



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**Leverage Analysis:** The evaluation presents an analysis of three types of leverage based on the survey project sample. While these estimates may be accurate for the sample, the anonymity of the project sample precludes a comparison with the CDFI Fund’s project-level and program-wide data.

**Improving Estimates of Investment Costs of Job Generation:** With respect to the study’s analysis of the investment cost of generating jobs, the study points out that there are no reliable benchmarks against which to compare their results. One potential partner suggested by the CDFI Fund to develop benchmarks is the Center for Economic Studies (CES) at the Census Bureau which may be able to use its Longitudinal Research Database to develop such benchmarks.

### **Conclusion**

The Urban Institute evaluation provides an important first look at how the New Markets Tax Credit program is working to revitalize both urban and rural low-income areas. The study found that the NMTC Program brought economic opportunity and new amenities to America’s underserved communities, just as Congress intended. This study contributes to an understanding of the benefits and effectiveness of the NMTC Program, while also highlighting areas where further analysis is needed, including the use of secondary data on the socioeconomic characteristics of project locations, benchmarking the investment cost of job generation, the pricing of tax credits, and how the time value of money influences the tax credit. The CDFI Fund agrees with the authors of the study when they suggest there is a need for further analysis of administrative data, as well as additional research and evaluation to inform program management and policy—thereby enhancing the effectiveness and benefits of the NMTC Program.