# MISSOURI NEW MARKETS DEVELOPMENT PROGRAM: Associated Economic and Fiscal Impacts

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## Overview

In December 2000, the *Community Renewal Tax Relief Act* (P.L. 106-554) which authorized the federal New Markets Tax Credit Program ("NMTC") was signed into law. The intent was to encourage and support the development of new investments in low-income communities. The credit provides an incentive to private investors to make investments in distressed communities and to promote investment through successful businesses in the identified low-income communities. Investors are eligible to receive the credit through a competitive process and can claim the NMTC over a seven year period. The tax credit is 5% for the first three years and 6% for the final four years, 39% in total. The NMTC program enacted in 2000 was authorized to allocate $18.5 billion through the end of 2008. It was expanded by $5 billion in 2009 and in 2010 by another $7 billion for 2010-2011. Application demand has far exceeded the available allocation--$202.5 billion to $29.5 billion between 2003 and 2010.

Building on the federal model, in 2007 the state of Missouri enacted the New Markets Development Program ("MO NMDP") (RSMo, Section 135.680) to provide independent funding to supplement the federal New Markets Tax Credit Program. It became the third of ten states that have enacted a program modeled after the federal program (Florida, Illinois, Kentucky, Louisiana, Maine, Mississippi, Missouri, Ohio, Oklahoma and Oregon). The Missouri program originally enabled up to $187.5 million of capital investment in Missouri small businesses using the MO NMDP. The program is concentrated in low-income communities using a state tax credit modeled after the federal NMTC program. The tax credit is 0% for the first two "credit allowance dates" (the anniversary of the date the investment is actually made), 7% for the third credit allowance date, and 8% for the next four credit allowance dates, 39% in total. The maximum state tax credit for in any fiscal year initially was set at $15 million per year but was then increased to $25 million in 2009. In addition, the total amount available for the MO NMDP allocation was raised by $125 million from $187.5, providing a total of $312.5 million of directly incentivized private investment.

The analysis to follow will focus on the economic and fiscal impact associated with investments made using the MO NMDP. The economic portion of the study will focus on the impact of the program on jobs, income, and spending in Missouri. The fiscal portion will look at new tax revenues in the state generated by the new investments.

Specifically, the analysis will examine the economic and fiscal impact associated with investments in the 31 businesses. The characteristics of these businesses are summarized as follows:

| Characteristic | High Value | Low Value |
|---|---|---|
| • Follow-on capital from other sources | $21.2 million | $0 or NA |
| • Number of jobs | 195 | 3 |
| • Average salary for all employees | $112,000 | $17,127 |
| • Total payroll | $17.0 million | $111,868 |
| • Current adjusted gross revenue | $47.2 million | $0 or NA |

All 31 businesses examined in this analysis received federal NMTC investments. There was a total of $ 122.9 million of federal NMTC allocation that was expended in Missouri through these 31 state investments. The businesses studied represent 63.25% or $197.6 million out of $312.5 million of the total direct state investment available under the MO NMDP. This is a statistically significant sampling of the total program enabling certain projections of the impact of the full state program.

The companies were analyzed individually by examining complete financial statements detailing all expenditures and then compiling the outputs. The analysis to follow will trace the full impact of these investments which goes beyond (due to the multiplier effect, see the Appendix) the initial direct economic effects on jobs, income, and spending. The fiscal portion of the analysis will examine the new revenues for the state of Missouri that are generated by these investments. Local jurisdictional fiscal impacts are also estimated.

## The Economic Impact

The economic impact analysis looks at components for which reasonable quantitative estimates can be made. These are based on the ongoing annual spending associated with each development. This impact continues for as long as an activity continues. The estimates made here are based on the businesses having an ongoing status. They are for a single year.

### Format for Data Presentation:

The data containing the economic impact are shown in Tables 1 through 4 using the following format. They contain estimates for operations spending related to the new businesses in the state of Missouri.

**PRESENTATION FORMAT FOR**
**Tables 1-4**

**Geographical Area:** **State of Missouri**
**Economic Impact Component:** **ONGOING OPERATIONS**

| Type of Economic Outcome | ------Type of Impact*------ Direct | Indirect | Induced | Total |
|---|---|---|---|---|
| Output | ------**IMPACT IN DOLLARS**------ | | | |
| Employment | ------**IMPACT IN NUMBER OF JOBS**------ | | | |
| Income | ------**IMPACT IN DOLLARS**------ | | | |

*An explanation of each type of impact is provided in the Appendix.

In summary the economic impact analysis to follow contains the following elements:

- *Location* – the state of Missouri
- *Economic Impact Component*– ongoing operations
- *Economic Outcome*– output (spending), employment (jobs), income (household income)
- *Type of Impact* – direct, indirect, induced, total impact
- *Multiplier Impact* – the total impact divided by the direct impact

Table 1 shows the **direct** economic impact associated with the 31 businesses that are examined and supported with the Missouri New Markets Development Program. The total direct impact of spending by the new businesses is $191.4 million. The direct impact for jobs is 2,316; this includes full-time, part-time, and occasional workers. The total direct impact for labor income is $66.3 million. None of these numbers include the multiplier effect but, rather, represent just the initial infusion of new business activity.

**TABLE 1**

**THE *ECONOMIC* IMPACT OF THE MISSOURI NEW MARKETS DEVELOPMENT PROGRAM**
**FY 2010**

**Geographical Area:** **State of Missouri**
**Economic Impact Component:** **ONGOING OPERATIONS**
***DIRECT IMPACT***

| Type of Economic Impact | **Direct Impact** |
|---|---|
| Output | $191,408,000 |
| Employment (# of jobs) | 2,316 |
| Labor Income | $66,245,000 |

Source: Computed from financial reports of the individual companies provided by the Community Development Entities who made the investments.
Computations were done using the IMPLAN Professional economic model (IMPLAN, 2010).

Table 2 shows the first component of the "multiplier" as it supplements the initial direct spending. This is the additional amount added to the overall economic impact due to an expansion in the scope of operations of businesses that "supply" the direct operations (shown in Table 1). This may involve an expansion of an existing business or, if new direct spending is sufficient, the addition of a new business. The **indirect** spending amounts to $63.3 million. Along with this is an increase in employment of 597 and additional income of $22.6 million.

**TABLE 2**

**THE *ECONOMIC* IMPACT OF THE MISSOURI NEW MARKETS DEVELOPMENT PROGRAM**
**FY 2010**

**Geographical Area:** **State of Missouri**
**Economic Impact Component:** **ONGOING OPERATIONS**
***INDIRECT IMPACT***

| Type of Economic Impact | Indirect Impact |
|---|---|
| Output | $63,265,000 |
| Employment (# of jobs) | 597 |
| Labor Income | $22,576,000 |

Source: Computed from financial reports of the individual companies provided by the Community Development Entities who made the investments.
Computations were done using the IMPLAN Professional economic model (IMPLAN, 2010).

**TABLE 3**

**THE *ECONOMIC* IMPACT OF THE MISSOURI NEW MARKETS TAX CREDIT PROGRAM IN THE STATE OF MISSOURI**
**FY 2010**

**Geographical Area:** **State of Missouri**
**Economic Impact Component:** **ONGOING OPERATIONS**
***INDUCED IMPACT***

| Type of Economic Impact | Induced Impact |
|---|---|
| Output | $94,422,000 |
| Employment (# of jobs) | 875 |
| Labor Income | $30,006,000 |

Source: Source: Computed from financial reports of the individual companies provided by the Community Development Entities who made the investments.
Computations were done using the IMPLAN Professional economic model (IMPLAN, 2010).

The second component of the multiplier is the activity that is **induced** by the direct spending. In addition to new indirect business activity as shown in Table 2, there will also be an induced increase in household income. Associated with this will be new household spending which supplements the indirect component of the multiplier. The full multiplier effect is the sum of the indirect and induced impacts.

Table 3 shows the **induced** output to be $94.4 million with employment of 875 and income of $30.0 million.

The total impact associated with the 31 businesses examined is shown in Table 4. It is the total of the direct, indirect, and induced impacts shown in Tables 1-3. The overall output associated with these 31 businesses amounts to $349.1 million, employment of 3,786, and $118.8 million in income.

**TABLE 4**

**THE *ECONOMIC* IMPACT OF THE MISSOURI NEW MARKETS DEVELOPMENT PROGRAM**
**FY 2010**

**Geographical Area:** **State of Missouri**
**Economic Impact Component:** ONGOING OPERATIONS
***TOTAL IMPACT***

| Type of Economic Impact | Total Impact |
|---|---|
| Output | $349,094,000 |
| Employment (# of jobs) | 3,786 |
| Labor Income | $118,828,000 |

Source: Computed from financial reports of the individual companies provided by the Community Development Entities who made the investments.
Computations were done using the IMPLAN Professional economic model (IMPLAN, 2010).

It should be noted that there is an additional economic and fiscal impact associated with many of the 31 businesses. This is derived from follow-on capital associated with them. Follow-on capital on the 31 investments reported by the Community Development Entities was $140.4 million. The impacts of this follow-on capital have not been examined in this analysis.

## *The Fiscal Impact*

As noted earlier, there is a fiscal (revenue) impact derived from the new businesses activity associated with the MO NMDP that was shown in Tables 1-4.These impacts are associated with new revenues that accrue to all levels of governments -- federal, state, and local.

While the focus here is just on the state of Missouri and its local jurisdictions, let it be noted that there are other fiscal effects which impact the federal government. Table 5 shows the fiscal impact in Missouri associated with the ongoing operations of the 31 businesses examined. It shows both the state and the local fiscal effect.

While it is the state that supports the MO NMDP tax credits, it should be noted that the fiscal impact goes beyond the state to its localities. The program provides assistance to both levels of government and this should at least be noted since there is a relationship between what the state spends and what localities spend. Thus, revenues for both become intertwined and important.

As shown in Table 5 for the new ongoing operations spending associated with businesses supported by the MO NMDP there is $7.4 million in general sales taxes and $3.1 million in individual income taxes. There is also $354,617 in corporate taxes and $1.2 million in other taxes. This total revenue for the state of $12 million will be maintained on an annual basis for the state as long as the businesses are in operation.

**TABLE 5**
**THE *FISCAL* IMPACT OF THE MISSOURI NEW MARKETS DEVELOPMENT PROGRAM***
**FY 2010**

| Type of Revenue | Amount |
|---|---|
| ***STATE:*** | |
| General Sales Tax | $7,374,611 |
| Missouri State Individual Income Tax | $3,089,528 |
| Corporate Tax | $354,617 |
| Other Taxes | $1,176,771 |
| **Total State Taxes** | **$11,995,527** |
| ***LOCAL:*** | |
| General Sales Tax | $5,585,504 |
| Property Taxes (real and personal) | $6,940,773 |
| Other taxes, fees, and charges | # |
| **Total Local Taxes** | **$12,526,277** |
| **Total State and Local Taxes** | **$24,521,804** |

*This reflects the impact from the data for 31 companies which account for 63.25% of the total program. The impact for the full program is higher.

# There are many lesser taxes, fees, and charges for which there is no basis for making an estimate.

In addition to new state revenues there is also some $12.5 million derived by local jurisdictions--$5.6 million from general sales taxes and $6.9 million from property taxes. Thus, total new state and local revenues associated directly or indirectly with the businesses examined amount to $24.5 million--$12 million state, $12.5 million local.

The sample studied represents 63.25% of the total capital invested, not including follow-on capital, Table 6 presents the estimated full impact based on the sampling were it to account for 100% of the program.

**TABLE 6**
**THE *FISCAL* IMPACT OF THE MISSOURI NEW MARKETS DEVELOPMENT PROGRAM – SCALED***
**FY 2010**

| Type of Revenue | Amount |
|---|---|
| ***STATE:*** | |
| General Sales Tax | $11,65,885 |
| Missouri State Individual Income Tax | $4,881,454 |
| Corporate Tax | $560,294 |
| Other Taxes | $1,859,298 |
| **Total State Taxes** | **$18,952,931** |
| ***LOCAL:*** | |
| General Sales Tax | $8,825,096 |
| Property Taxes (real and personal) | $10,996,421 |
| Other taxes, fees, and charges | # |
| **Total Local Taxes** | **$19,821,517** |
| **Total State and Local Taxes** | **$38,774,448** |

* This reflects the impact from the data in the sampling scaled to 100% of the program.
# There are many lesser taxes, fees, and charges for which there is no basis for making an estimate.

## *The Impact of the New Markets Tax Credit Program*

### The State Return to the NMDC Program:

An area of interest for the MO NMDP is the return to the state from investing in such an endeavor. There are two components to be taken into account for such an analysis. First is the cost to the state in terms of tax credits provided through the program. Second are the benefits derived by the state from new revenues generated by the NMTC and MO NMDP supported business activities.

This study has compiled data on each of these components for a full cycle of tax credit allocations. Table 5 shows the revenues (benefits) to the state from the 31 companies included in the analysis. This is $12 million for the year examined from those 31 companies. The cost to the state comes in the form of tax credits allowed. This was $8.55 million in 2010, but grows to $15.8 million by 2014 before declining again due to stages in the overall programmatic cap. Putting these pieces together, and working through the nine year cycle of the full program, permits a full tax credit allocation cycle to be traced. It will run from 2008 to 2016. Table 7 shows this cycle by year and overall and calculates a ratio of revenue to tax credits. The components of Table 7 are as follows:

- **Year:** The year in the cycle.
- **Tax Credit Amount:** The amount of the tax credit for each year.
- **New State Revenues:** The new revenues for the state from the NMTC and MO NMDP supported business activities examined in this study (as shown in Table 5) by year.
- **Ratio of Revenues to Credit--no Growth:** The ratio of new state revenues (benefits) relative to the tax credits allowed (costs), by year.
- **Ratio of Revenues to Credit--with Growth:** This assumes a 3% growth in state revenues over the life of the cycle.

**Table 7**
**MO NMDP Return Ratio**

| Year | Tax Credit Amount | New State Revenues* | Ratio of Revenues to Credit/no growth | Ratio of Revenues to Credit/with 3% growth |
|---|---|---|---|---|
| 2008 | 0 | $11.99 mil. | ~ | ~ |
| 2009 | 0 | $11.99 | ~ | ~ |
| 2010 | $8.55 mil. | $11.99 | 1.40 | 1.44 |
| 2011 | $9.08 | $11.99 | 1.31 | 1.40 |
| 2012 | $15.12 | $11.99 | 0.78 | 0.86 |
| 2013 | $15.81 | $11.99 | 0.75 | 0.85 |
| 2014 | $15.81 | $11.99 | 0.75 | 0.87 |
| 2015 | $6.32 | $11.99 | 1.89 | 2.26 |
| 2016 | $6.32 | $11.99 | 1.89 | 2.33 |
| Overall | $77.09 mil. | $107.91 mil. | 1.40 | 1.53 |

***This does not include $4.8 million annually in local school taxes that may offset state appropriations.**

The findings shown in Table 7 indicate that the overall, full cycle, ratio of benefits to costs for the state of Missouri from the MO NMDP is 1.40 without growth in revenues and 1.53 with a 3% growth factor included.

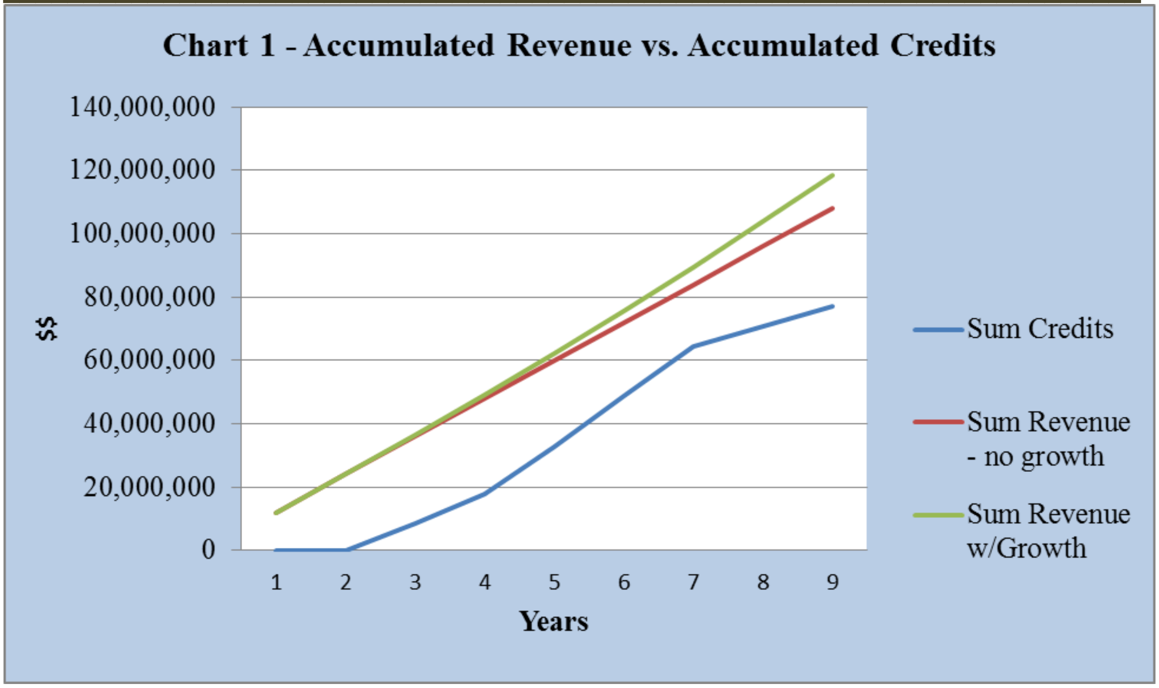


Chart 1 presents the revenue and tax credit data from Table 7 as a sum total for nine years. The chart enables an examination of the return on investment for the state at any time along the nine year timeline as a sum of revenue accumulated to that point juxtaposed with accumulated tax credits claimed as of the same date.

In addition to the state return, there are other factors to be considered in an evaluation of the MO NMDP. They are discussed below.

### State-Federal New Markets Tax Credit Program Link:

The presence of the combined federal and state NMTC programs (when combined referred to as "New Markets") have stimulated private investment that would not otherwise occur, or would not otherwise occur with the favorable terms that the combined programs make possible. The recipients of the investment capital are free to seek traditional funding sources like banks, but are not doing so, instead opting for the New Markets investment. From an examination of the financial records of the companies in this analysis it is evident that the New Markets derived capital is a significant, if not the sole, source of capital for the firms. Without the New Markets investments these firms would be faced with finding alternative capital sources or with severe financial constraint or insolvency.

The 31 state investments totaling $197.6 million attracted $122.8 million of federal NMTC allocation, for a ratio of $0.62 of attracted federal allocation for every $1 of state allocation. The sum of $122.8 million of federal allocation also meant $47.8 million in federal tax credits were attracted by these investments.

### Follow-On Capital:

The presence of funding by New Markets elicits follow-on capital to flow into the businesses examined in this report. While these capital flows are not examined here they do, undoubtedly, exert a positive influence specifically on these firms and in general on the overall state economy. As mentioned earlier, follow-on capital for the 31 investments reported by the Community Development Entities was $140.4 million

### The Impact of New Local Funds on State Spending:

Table 5 shows that there is also a considerable amount of new local funds produced by the activities of the 31 firms examined here. A question worthy of consideration in any deliberation of the MO NMDP is the impact of these funds on state operations. The one new source of local revenues that is most likely to affect state operations is the $6.9 million in property taxes. About 70% of these new property tax revenues go into local school districts, about $4.8 million per year. It seems reasonable to assume that these new local revenues take pressure off of the state government in supporting its funding for local school programs. Quantifying the extent of this is beyond the scope of this report but it does need to be taken into account.

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# APPENDIX

## AN OVERVIEW OF ECONOMIC IMPACT ANALYSIS

Economic impact analysis examines how an addition to the local economy or a change in an existing component of the economic base of an area affects its economic base. It then goes on to quantify the magnitude of this impact expressed in economically meaningful terms such as business spending (output), income, or jobs (employment). The geographical coverage of such analysis can encompass an entire nation (e.g., the impact of OPEC pricing or NAFTA on the United States) or more limited in geographical scope such as a city, a county, or a metropolitan area. As noted, the focus is usually on the major dimensions of economic outcomes, such as business volume, income, and employment, but it could also look at value added, proprietor's income, other property income, or indirect business taxes (these latter four are not reported on here).

The applications of economic impact analysis can range over a vast spectrum of possible events or activities. Conceptually this could be *any change* that may have economic implications (e.g., relocation of a corporate headquarters, creation of a new business, or expansion of existing business activity) or it may focus on the impact of an existing element of the economy (e.g., a sports/entertainment venue, tourism, or business expansion). The impacts are usually expressed in *quantitative* terms such as dollars or number of jobs. Occasionally, however, they may be expressed in *qualitative* term when numbers (e.g., dollars) cannot be assigned but there is an acknowledged impact (e.g., the quality of life).

Such an analysis can be applied to the purview of the public sector, for example, investment in new facilities or infrastructure such as a navigation project by the U.S.

Army Corps of Engineers, a transportation mode for a metropolitan area, a regional sports complex, a municipal stadium, or enhancement of local convention and tourism activity. It can also apply to private sector activity related to investments in a particular area such as relocation of corporate headquarters, building a new production facility, or enhancing a service base such as tourism. For this analysis, it looks at the economic impact associated with new businesses supported by the Missouri New Markets Tax Credit.

There are three types of economic impact to be taken into consideration. First, is the **direct impact** of the expenditures related to the activity being considered. With any activity there will be associated expenditures such as for maintenance spending, employee compensation, or operations. This direct spending is confined to local spending to the extent allowed by available data and other information. Second, there is the **indirect impact** created by new or existing direct spending. Local suppliers will expand the scope of their operations in order to meet the greater demand for goods and services due to the new direct spending. If the change is significant new businesses may be created to meet this added demand. This, in effect, starts a chain reaction of additional purchases that works its way through the area's economic base. It reinforces and adds to the direct impact economic enhancement. Third, there is an **induced impact** as the new income generated by additional jobs from the direct and indirect effects leads to increased expenditures by households who are the recipients of the new income. More income available to households leads to more spending, the additional spending to more income, and the cycle repeats itself. The **total economic impact** is the sum of the direct, indirect, and induced contributions to the economic base.

This repetitive income and spending linkage leads to what economists have named the **multiplier process**. In brief, more income leads to more spending; more spending produces more income which, in turn, causes more spending, etc., etc. This chain of spending and re-spending has a total overall impact on the affected area that is a multiple of the initial direct expenditures; thus the use of the word "multiplier."

Economic models used to estimate the total economic impact (direct, indirect, and induced) are available from a very limited number of sources. One widely used source is the IMPLAN (1999, as updated) input-output multiplier model. While this is a national model in scope of coverage, it has the internal capacity to estimate multipliers for any individual county in the United States or any defined group of counties such as a metropolitan area, a region or state. These multiplier values will vary depending upon the geographical scope of coverage selected and the industry types used. Thus is highlighted the importance of having access to data on areas as small as a county and on the specific industrial sectors that are affected. As noted, this study looks at the businesses supported state–wide by the Missouri New Markets Tax Credit Program. It also uses different industries, which are derived from the pattern of direct spending, to estimate the multipliers and thus the economic impacts.

The IMPLAN model estimates separate multipliers for business volume, income, and jobs. These multipliers are available for almost 500 industrial sectors (e.g., various services, retail spending, government, etc.); this enables the economic impact analysis to examine much more precisely the differential outcome of various types of direct spending. This is important since the size of the multiplier impact can differ considerably by type of industrial spending. In essence, the empirical analysis can be tailored to account for the specific type of industrial activity associated with different types of spending as well as for the geographical area that is affected.

Economic impact analysis applies economic theory and methodology to quantify the resulting outcome on business volume, income, and employment for an existing economic activity or a net new change in economic activity in some specified geographical area.

The fiscal impacts can be derived from the results of the economic impact analysis.

# AUTHOR BIOGRAPHICAL SKETCH

## *DONALD PHARES*

Donald Phares is Professor Emeritus of Economics and Public Policy at the University of Missouri-St. Louis.

Phares is the author or editor of the books *Who Pays State and Local Taxes?* and *State-Local Tax Equity: An Empirical Analysis of the Fifty States;* co-author of *Municipal Output and Performance in New York City;* and editor of *A Decent Home and Environment: Housing Urban America*, *Metropolitan Governance without Metropolitan Government* ?, and *Governing Metropolitan Regions in the Twenty–First Century*.

He also has written more than seventy articles and book chapters and scores of technical and government reports. He has consulted for and done research with, as examples (not exhaustive):

- *Federal*-- the Department of Housing and Urban Development, the U.S. Advisory Commission on Intergovernmental Relations;
- *State* -- Hawaii, Massachusetts, Missouri, New York, and Ohio;
- *Local* -- the City of St. Louis, Kansas City, the St. Louis Public Schools, the School District of Kansas City, and other municipal governments and school districts;
- *Research organizations*-- the National Conference of State Legislatures, the RAND Corporation, the Urban Institute;
- *Businesses*—Anheuser-Busch Companies, Standard and Poor's Corporation, Emerson Electric Co., Civic Progress (St. Louis), Archer Daniels Midland Co.;
- *Foundations*-- the Ford Foundation, the Alfred P. Sloan Foundation;
- *Universities*-- Syracuse University, Washington University, Michigan State University, the University of Illinois, Portland State University, Indiana University at Indianapolis.

Phares also has served as an expert witness in legal cases pertaining to State and local taxation; the projection of future income; and the analysis of social, demographic, fiscal, and economic trends. He has also done numerous economic and fiscal impact studies for both public and private organization.

His administrative experience includes; chairperson of a department of economics, director of a public policy research center, dean of a college of arts and sciences, and vice chancellor for a university campus.

He received his BA from Northeastern University and his MA and Ph.D. from Syracuse University.