

# Oregon New Markets Tax Credit Program

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## Goal

To attract and encourage investment in Oregon and to create jobs by helping small businesses start and grow in low-income communities throughout the state.

## Proposal

Authorize a second round of allocation for Oregon’s Low Income Community Jobs Initiative. As with the initial allocation, the new allocation would create a tax credit of 39% spread out over the last five years of the seven years of the program’s investment cycle. Investors are not allowed to take any of the tax credit until the third year of their investment. The proposal would be to expand the initial round of the program to meet additional demonstrated need by capping the total general fund obligation to \$117 million over the life of the program, bringing in at least \$300 million in investments.

Table 1: Previous Program - \$200 million in investments

	2012	2013	2014	2015	2016	2017	2018
Tax Credit Percentage	0%	0%	7%	8%	8%	8%	8%
General Fund Impact	\$0	\$0	\$14MM	\$16MM	\$16MM	\$16MM	\$16MM

Note: Assumes full deployment of allocation in first year of program authorization.

Table 2: Proposed Program - \$300 million in investments

	2018	2019	2020	2021	2022	2023	2024
Tax Credit Percentage	0%	0%	7%	8%	8%	8%	8%
General Fund Impact	\$0	\$0	\$21MM	\$24MM	\$24MM	\$24MM	\$24MM

Note: Assumes full deployment of allocation in first year of program authorization.

## Background

### The Federal New Markets Tax Credit

The federal New Markets Tax Credit (NMTC) program was authorized in the Community Renewal Tax Relief Act of 2000 as part of a bi-partisan effort to stimulate investment and economic growth in low-income communities that lack access to the patient capital needed to support and grow businesses, create jobs, and sustain healthy local economies. The NMTC was developed to increase the flow of capital to low-income communities by providing private investors with a modest tax incentive for investments made in businesses or economic development projects located in some of the most distressed communities in the nation – census tracts where the individual poverty rate is at least 20% or where median family income does not exceed 80% of the area median.

Over the last 13 years, the NMTC has proven to be an effective, targeted and cost-efficient financing tool valued by businesses, communities and investors across the country. Since 2003, the NMTC Program has created or retained an estimated 197,585 jobs<sup>1</sup>. It has also supported the construction of 32.4 million square feet of manufacturing space, 74.8 million square feet of office space, and 57.5 million square feet of retail space<sup>2</sup>. In addition, as these communities develop, they become even more attractive to investors, catalyzing a ripple effect that spurs further investments and revitalization.

The Community Development Financial Institutions (CDFI) Fund, a department of the US Treasury, allocates NMTC authority to Community Development Entities (CDEs) through a tremendously competitive application process. CDEs are financial intermediaries through which private capital flows from an investor to a qualified business located in a low-income community. An NMTC investor receives a tax credit equal to 39% of the total Qualified Equity Investment (QEI) made in a CDE and the NMTC is realized over a seven-year period, 5% annually for the first three years and 6% in years four through seven. Using the capital from these QEIs, CDEs can make loans and investments to businesses operating in low-income communities on better rates and terms and more flexible features than the market.

### **The Oregon Low Income Community Jobs Initiative**

The NMTC Program is a federal program, and businesses in Oregon must compete on a national scale for this valuable funding source. While Oregon was successful in attracting some initial investments in the Portland area, Oregon's portion of federal NMTC credits dwindled as other states were more successful in attracting eligible investments. To counteract this trend, the state legislature enacted the Oregon Low Income Communities Jobs Initiative in 2011 which created a state tax credit to match the federal tax credit. Business Oregon is the entity that administers the program.

Oregon's NMTC program rules were largely based on the federal NMTC program so as to minimize the administrative burden on the state. In order to receive state allocation, the CDE must be certified for federal purposes with a service area including any portion of the state of Oregon, must have previously won federal NMTC allocation (making the CDE an "Allocatee"), and must have entered into an allocation agreement with the CDFI Fund. Setting these prerequisites eliminated the need for Oregon to create its own costly review process.

As with the federal program, state Allocatees must make their capital investments in businesses that are located within a low-income community or in businesses that serve, employ, or are owned by low-income individuals in Oregon. However, the Oregon NMTC program has restrictions that are narrower than the federal program. The investment must be in an operating business, though qualified projects can include owner-occupied real estate, whereas the federal NMTC program permits investments in real estate projects that lease to unrelated parties. Also, there is an \$8 million allocation (equivalent to \$3.1 million in tax credits) per project cap on the amount of project costs that are eligible for the Oregon tax credit, while the federal program has no maximum.

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<sup>1</sup> CDFI Fund. (2016). *NMTC Fact Sheet* [PDF Document]. Retrieved from [https://www.cdfifund.gov/Documents/NMTC%20Fact%20Sheet\\_Jan2016v2.pdf](https://www.cdfifund.gov/Documents/NMTC%20Fact%20Sheet_Jan2016v2.pdf)

<sup>2</sup> CDFI Fund. (2016). *NMTC Fact Sheet* [PDF Document]. Retrieved from [https://www.cdfifund.gov/Documents/NMTC%20Fact%20Sheet\\_Jan2016\\_v2.pdf](https://www.cdfifund.gov/Documents/NMTC%20Fact%20Sheet_Jan2016_v2.pdf)

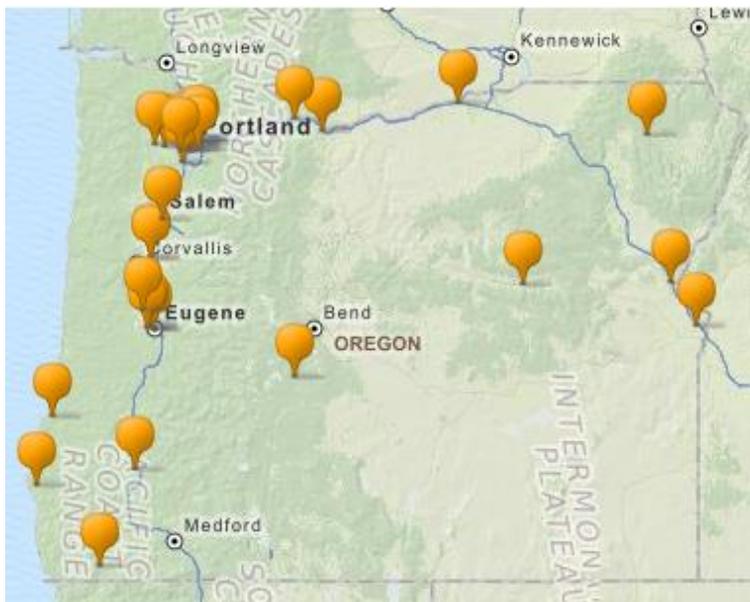
## Oregon's Experience with the First Round of State Allocation

Adopted in 2011, and adjusted in 2013 to better meet the needs of the small business community, Oregon's transparency website has data from closed transactions through June 30, 2015. In order to track the impact of the program, every investment was required to report on the number of full-time and part-time jobs created or retained (reported separately), the average salary of those jobs, and whether those positions included health benefits.

As of June 30, 2015, \$178 million of the initial \$200 million in allocation authority had been deployed into 34 Oregon projects<sup>3</sup>. Business Oregon has confirmed that all the remaining original allocation has been deployed since that date. The closed transactions as of June 30, 2015 are estimated to create 1,177 permanent full-time jobs paying an average wage of \$15.71 per hour<sup>4</sup>. Including retained jobs, the projects are estimated to generate 2,553 permanent full-time jobs<sup>5</sup>. Federal NMTC allocation of \$137 million was placed into these projects alongside the state NMTC allocation<sup>6</sup>, indicating a match level of 76.5%.

The state NMTC program has outperformed the federal program on providing capital to rural communities; 17.8% of projects have been in non-metropolitan areas under the federal program<sup>7</sup> compared to 41.2% in the state program.

Figure 1: Geographic Distribution of Oregon NMTC Projects through June 30, 2015



<sup>3</sup> 2015-Oregon New Markets Tax Credit (NMTC) Program: FY2015. Retrieved from <https://data.oregon.gov/Revenue-Expense/2015-Oregon-New-Markets-Tax-Credit-NMTC-Program-FY/2369-h86j>

<sup>4</sup> 2015-Oregon New Markets Tax Credit (NMTC) Program: FY2015. Retrieved from <https://data.oregon.gov/Revenue-Expense/2015-Oregon-New-Markets-Tax-Credit-NMTC-Program-FY/2369-h86j>

<sup>5</sup> 2015-Oregon New Markets Tax Credit (NMTC) Program: FY2015. Retrieved from <https://data.oregon.gov/Revenue-Expense/2015-Oregon-New-Markets-Tax-Credit-NMTC-Program-FY/2369-h86j>

<sup>6</sup> 2015-Oregon New Markets Tax Credit (NMTC) Program: FY2015. Retrieved from <https://data.oregon.gov/Revenue-Expense/2015-Oregon-New-Markets-Tax-Credit-NMTC-Program-FY/2369-h86j>

<sup>7</sup> CDFI Fund. (August 11, 2016). *New Markets Tax Credit Public Data Release: 2003-2014 Summary Report* [PDF Document]. Retrieved from [https://www.cdfifund.gov/Documents/New%20Markets%20Tax%20Credit%20Public%20Data%20Release\\_final%20081016.pdf](https://www.cdfifund.gov/Documents/New%20Markets%20Tax%20Credit%20Public%20Data%20Release_final%20081016.pdf)

The state NMTC program has also been successful in funding a diverse array of projects, as shown in Table 3.

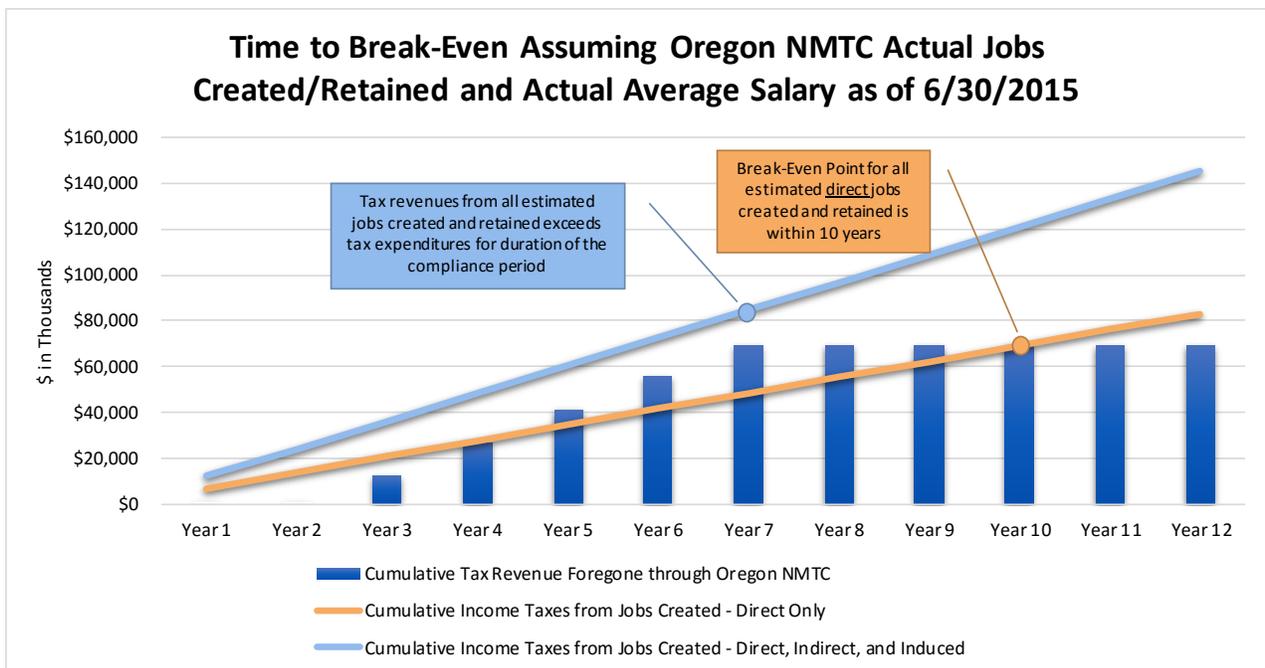
**Table 3: Number of Oregon NMTC Projects by Sector through June 30, 2015**

Project Type	Number of Projects
Manufacturing Businesses	12
Community Facility	9
Retail Businesses	5
Health Care	3
Education	3
Renewable Energy	2
<b>Total</b>	<b>34</b>

Source: <https://data.oregon.gov/Revenue-Expense/2015-Oregon-New-Markets-Tax-Credit-NMTC-Program-FY/2369-h86j>.

The Oregon NMTC Program has thus far proven the ability to break even on Oregon tax revenues foregone within the 7-year compliance timeframe using only payroll taxes on direct and indirect jobs created and retained. The analysis in Figure 2 ignores further economic upside from corporate income taxes, license fees, an increased property tax base, and any raises or incremental additional hiring exceeding initial projections during the time period. In evaluating the impact of this program on the state’s budget, it is important to note that increases in tax revenue from job creation and other economic activity start two years before any tax expenditures related to the program are required.

**Figure 2: Oregon NMTC Break-Even Analysis**



Source: <https://data.oregon.gov/Revenue-Expense/2015-Oregon-New-Markets-Tax-Credit-NMTC-Program-FY/2369-h86j>.

Note: Uses job counts, average salary, and state tax credits deployed as of 6/30/2015. Assumes all transactions are closed and all hires are made in Year 1. Assumes no wage raises.

## **The State NMTC Program Meets Needs of Oregon's Small Businesses**

The committee has heard from several clusters and specifically asked for input on what actions the legislature might take to benefit small business. They have heard that economic development agencies would like to have more tax incentives to offer in order to compete with other states, the bioscience industry needs more lab space, rural communities need more economic support for their industries, small businesses need access to capital, and all businesses need a trained and skilled workforce.

The Oregon NMTC program is a flexible means of supporting these needs. It is overseen by CDEs interested in being good stewards of the program. Specifically, an Oregon NMTC expansion and renewal meets all these needs because:

- The program is unique to Oregon in the region; none of its adjacent states have this program
- The program can be used to attract or retain industries by financing new or expanded facilities, including bioscience lab space
- The program has a track record of supporting rural community industries
  - Over 40% of the projects invested in to-date through the program have been in rural communities
- The program is designed to specifically address the need of small businesses to access capital
  - Under the program, loans are typically made on terms that are substantially below market
  - In addition, the program has attracted at least \$137 million of matching federal NMTC allocation to projects in the state
- The state NMTC program has previously funded projects with employee training opportunities, and there are several projects in the pipeline that focus on workforce development