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What Makes a Successful State NMTC Program?

Digging deeper into impact analysis proves decisive for measuring program success

SANDRA MOORE, ADVANTAGE CAPITAL

In the world of tax credits, spirited conversations are taking place around one of the newest incentives, opportunity zones, and the time-tested federal new markets tax credit (NMTC).

But what of state NMTC programs? Fourteen states currently have them. Other targeted investment programs borrow from the proven NMTC model, so there is growing state activity in the space. What have we learned as the state programs emerge? How can NMTC success be measured?

Though similar in program design, most state programs have state-specific goals and priorities. Nearly all have reporting requirements on outcomes. Look, for example, at Maine's New Markets Capital Investment Program (NMCIP), which was adopted to promote economic development through investment in qualified business in distressed areas, to preserve jobs and to make the state more competitive in the attraction of investment capital.

Measuring the success of a program like Maine's is relatively straightforward: program investments need to be tracked and outcomes measured and reported. But what happens when you add a more comprehensive framework around impact reporting? As our initial funds under the Maine program near the end of their seven-year planned investment cycle, we took a deeper look, vigorously analyzing the effect our portfolio investments had on the community. The impact was substantial.

Demonstrating breadth and depth of impact

The track record speaks for itself: $50 million in investments into four qualified businesses–animal health companies Putney (now Dechra) and Vets First Choice (now Covetrus), manufacturing firm JSI, and Quoddy footwear–that created or retained

continued on page 2

continued from page 1

324 direct jobs and attracted almost $1.6 billion in additional investment capital. But more and more states are looking for even more specific metrics to show that the program not only achieved its goals, but also paid for itself.

In Maine, our portfolio's return on investment was 1.73:1–that is, Maine received $1.73 in tax revenue for every $1 of tax credit given. We derived this figure by applying standard economic modeling to the actual results of the four companies in which we invested, using an input-output IMPLAN model that projects the new state and local tax revenues generated as a result of revenue growth and job creation and retention. Revenues are primarily driven by the 324 direct jobs supported at our portfolio companies, but also by the estimated 690 indirect and induced jobs that these investments helped spur throughout Maine's economy. Additionally, these results are only reflective of six years of activity, with impacts expected to continue to increase as these businesses grow and flourish.

The impacts went far beyond increased tax revenue. When analyzing the portfolio further, we found several broader themes, all of which demonstrate that the program successfully lifts up its targeted communities and their residents.

Jobs should be more than just a paycheck

The 324 jobs our investments support come with comprehensive benefits: health insurance, retirement savings programs, paid time off. Wages average nearly 125 percent of the state mean annual wages.

Such jobs provide the glue that hold households together and enable them to prosper. Block by block, neighborhood by neighborhood, good jobs with strong and growing wages mean stable, vibrant communities. For instance, in Portland, Maine, where Putney is located, the median income is only 62.8 percent of the state's median income, but jobs at Putney paid more than double the state average and more than three times the average wages in the local community.

Attracting follow-on investment

Early investments in NMTC-eligible businesses can have a twofold impact. They provide initial capital for startups and make existing businesses more robust and, as we found with several of our Maine investments, signal to other investors that Maine is an attractive place to invest. The numbers tell the story: the four Maine businesses in our portfolio have attracted nearly $1.6 billion in third-party capital following our initial NMTC investment.

The animal health industry is a growing force in the state's economy. In 2017, Vets First Choice required new capital for growth. Using the NMCIP program, we provided capital it needed. It has since received millions in follow-on capital, leveraging the impact of the initial Maine program investment, and is building a new headquarters facility in downtown Portland. Its growth warranted a strategic merger with another company and, now named Covetrus, it is now the largest publicly traded company in Maine. Over the next three years, it expects skyrocketing growth, with plans to hire more than 1,000 employees by 2021.

Clustered economic development and workforce expansion: Creating economic and social synergy

Maine now has the oldest population in the nation, out-aging even Florida. It must be hypercompetitive in growing businesses, jobs and workers, drawing more newcomers into the state and inspiring younger people to stay.

Clustered economic development illustrated by the success of Putney and Covetrus show what can occur when a state takes action to enable the attraction of new capital investment in a focused way. In this respect, the Maine program investment worked just as it was meant to: targeting a high-growth industry that

continued on page 3

continued from page 2

can grow good jobs and provide training for a stronger, more skilled labor force, as a means to drawing new and younger (less experienced but willing and able to be trained) workers to the state.

In the current tight labor market, with "Help Wanted" signs dotting the landscape, a successful NMTC program might also take into consideration additional tools designed to push deeper into the pool of potential employees–tools like increasing job accessibility by removing barriers that are not employment-defeating and increasing training for those with the will to work but needing additional skills. In the evolution of a successful program, and as we continue to experience record low unemployment, these tools, with the corresponding metrics to tract their use and effect, will likely rise in importance.

For example, Quoddy, boasting a distinguished heritage of handsewn, high-end footwear, reinforces the success NMTC businesses can achieve in workforce development efforts. Quoddy made a mark working with state programs to train workers and help them gain or regain a foothold in the job market. JSI offers accessible jobs for those with a high school degree or equivalent, helping to grow the local workforce. To strengthen the skill level of new tier of employees, JSI partnered with community organizations and local schools, implementing targeted hiring programs to guide those local residents completing high school to new, available career opportunities.

Looking forward

Famous for lobster and its quaint, rocky coast, Maine has grown into a hub for high-growth industries such as animal health, as well as up-and-coming startups. Forward-thinking businesses are creating good-paying jobs through innovative processes and ideas and are attracting fresh talent that give the state's economy new vitality. The Maine NMCIP has proven a success in attracting new investment in qualified businesses and developments in distressed areas to create jobs and attract yet greater investments. The most recent Maine state audit confirms positive outcomes. The impact is measurable and a proven boon to Maine.

In the wake of budget cuts and constant funding pressures, comprehensive impact reporting will likely become essential to demonstrating the breadth and depth of the success achieved like that shown with full analysis of the Maine NMCIP. The next programs are likely to be cast around these deeper metrics for success, with high transparency, performance reporting and accountability checks to reach social as well as economic impact goals. Workforce development, wages, benefits, wealth building–those things that make a difference for individuals and families–may hold even greater value in demonstrating how the program pays for itself and the real impact of that repayment to the state and its citizens.

As policy innovations continue, we will be ready.

Sandra Moore is the managing director and chief impact officer for Advantage Capital. She guides the design of Advantage Capital's investments and investment strategies to maximize community impact.

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continued on page 4

continued from page 3

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CONTACT

CORRESPONDENCE AND EDITORIAL SUBMISSIONS
Alex Ruiz
alex.ruiz@novoco.com
415.356.8088

ADVERTISING INQUIRIES
Christianna Cohen
christianna.cohen@novoco.com
925.949.4216

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