THE ECONOMIC AND FISCAL IMPACT OF THE LOUISIANA NEW MARKETS TAX CREDIT PROGRAM

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SECTION I

EXECUTIVE SUMMARY

The Louisiana New Markets Tax Credit (NMTC) program began in 2006 as the *Louisiana New Markets Tax Credit*, and was extended in 2008. The program was modified and reauthorized in 2013 under the *Louisiana New Markets Jobs Act*. The 2006 legislation, including extensions, authorized $77.5M in total aggregate tax credits that could be taken against income or franchise tax. The 2013 legislation authorized an addition $24.75M in total aggregate tax credits that could be taken against insurance premium tax. Combined, the Louisiana NMTC has authorized $102.25M in tax credits.

This analysis utilizes a dataset of 35 companies that have received more than $120M in qualified investments and represent more than $35 million in Louisiana New Markets tax credits – just over one-third of the authorized amount. Table ES-1 shows the economic impact of these companies in terms of jobs, wages, value added, and total economic output since 2008. In the current year, more than 3,300 full and part-time jobs in Louisiana can be attributed to these particular investments under the Louisiana NMTC program representing more than $186M in personal income and nearly $500M in total economic output. Assuming similar investments were made with the rest of the authorized tax credits, the impacts for the total program would be roughly three times the results presented here.

It is estimated that this economic activity has resulted in more than $67M in new state tax revenue to date. The associated state credits total $32.9 million since the beginning of the program through 2015. This results in a tax credit return ration of 2.06, meaning that for every $1 in tax credit issued to date, the state received back just over $2 in tax revenue (Table ES-1). The bulk of this revenue comes in the form of sales taxes and personal income taxes. On a net present value (NPV) basis, adjusting for the timing of the credits and new state tax revenues, the credit ratio drops to 1.97 – still a significant return on the state investment.

Table ES-1: Economic and Fiscal Impacts Attributable to NMTC Investments[1]

Year	Total New or Retained Jobs	Total New Income[2]	Contribution to Louisiana GDP (Value Added)[2]	Total Economic Output[2]	Cumulative Return Ratio
2008	915	$34.5	$84.8	$144.7	**0.57**
2009	1,937	$89.4	$205.4	$486.4	**0.86**
2010	1,587	$64.5	$145.2	$297.8	**1.03**
2011	1,651	$68.5	$146.3	$308.7	**1.27**
2012	2,539	$131.4	$202.8	$422.0	**1.57**
2013	3,390	$181.1	$293.8	$623.2	**1.73**
2014	3,826	$208.2	$336.5	$706.2	**1.89**
2015	3,349	$186.2	$273.5	$498.4	**2.06**

[1] Investments represent one-third of the total authorized tax credits.

[2] All dollar amounts are in millions of dollars.

Source: Economic Impact Group, LLC. using a 2013 IMPLAN model for the State of Louisiana and data from the *Annual Survey of State and Local Government Finances*.

Section II

Introduction

The federal New Markets Tax Credit Program (NMTC Program) was created by Congress in December of 2000 as part of the *Community Renewal Tax Relief Act* to encourage private capital investment in economically distressed areas. The program encourages this investment by allowing individuals and/or corporate investors to receive credit against their Federal income tax liability in exchange for equity investments in specialized financial institutions called Community Development Entities (CDEs). The credit is claimed over a seven-year period – five percent for the first three years, and six percent for the final four years. As part of the *American Taxpayer Relief Act of 2012*, the NMTC Program was extended until January 2014. Since its inception, $40 billion in investment authority has been allocated.[1]

In an effort to encourage greater private capital investment in job-creating businesses in economically distressed rural and urban areas, fourteen states have enacted New Markets Tax Credit initiatives and several more are considering enacting the same.[2] The intent of New Markets is to encourage private capital investments in businesses in economically distressed areas in part by making tax credits available to private sector investors. With the proceeds from the tax credits, combined with other leveraged investments, CDEs provide access to capital to small businesses on terms favorable to those small businesses. The ultimate policy goal is achieved when small businesses generate jobs and other economic activities in economically distressed areas that they would not have been able to without access to this capital.

In Louisiana, the NMTC program began in 2006 as the *Louisiana New Markets Tax Credit*, and was extended in 2008. The program was modified and reauthorized in 2013 under the *Louisiana New Markets Jobs Act*. The 2006 legislation, including extensions, authorized $77.5M in total aggregate tax credits that could be taken against income or franchise tax. Qualified equity investments (QEI) made prior to mid-2007 could take credits over seven years: 1 percent in years 1 through 3; and 2 percent in years 4 through 7. Beginning in mid-2007, the

[1] http://cdfifund.gov/what_we_do/programs_id.asp?programID=5
[2] http://www.novoco.com/new_markets/nmtc/state_nmtc_programs.php

credits could be taken against tax liabilities over three years: 10 percent in year 1; 10 percent in year 2; and 5 percent in year 3.[3] The 2013 legislation authorized nearly $25M in total aggregate tax credits that could be taken against insurance premium tax. The credits under the 2013 legislation can be taken against tax liabilities over four years – 14 percent in years 1 and 2; and 8.5 percent in years 3 and 4.[4]

With nearly a decade of actual experience in Louisiana, this study will look at the economic and fiscal impacts of a significant number of companies in the program using their actual financial results. Section 3 will demonstrate the economic impact to the State of Louisiana of an actual portfolio of companies that have received investments as part of the program. The full economic impact of these investments goes far beyond the direct economic activity of each company due to the indirect and induced spending of the company and its employees. As such, this report models this additional economic activity using an impact model specific to the structure of the Louisiana economy. It is important to note that the economic impact results presented here represent just one-third of the tax credits authorized by the previously mentioned legislation. Assuming similar investments were made with the rest of the authorized tax credits, the impacts for the total program would be roughly three-times the results presented in Section 3. Section 4 will demonstrate the fiscal impact these same portfolio companies have had on the State of Louisiana, and will provide a credit return ratio for the Louisiana NMTC program to date. Finally Section 5 will provide a few specific case studies of small businesses that have benefited greatly from this program in Louisiana.

[3] https://www.novoco.com/new_markets/resource_files/state/state_nmtc_rules_and_regs/Louisiana/louisiana_code_1911_072514.pdf
[4] https://www.novoco.com/new_markets/resource_files/state/state_nmtc_rules_and_regs/Louisiana/louisiana_code_1912_032515.pdf

SECTION III

ECONOMIC IMPACTS OF THE LOUISIANA NMTC PROGRAM

The foundation of this type of analysis is economic base theory. Simply put, economic base theory states that economic growth occurs when there is an increase in the flow of money into an area through the export of goods and/or services. The "direct" impact of that economic activity is commonly measured in terms of the number of jobs and/or amount of income the activity represents, and can also be measured in terms of contribution to GDP ("value added") or total output. (See the definitions in Appendix A.)

However, the "direct" activity is just the beginning of the total economic impact. The money that flows into the region is used by companies to purchase goods and services. Some of these are purchased locally, while others are purchased outside the region. To the extent that goods and services are purchased locally, they represent an increase in local employment and income, and therefore, have additional economic impact beyond the "direct" impacts. To the extent that goods and services are purchased outside the region, they are said to have "leaked" out of the local economy and have no more local economic impact. The impacts that arise from the purchases of local businesses represent the "indirect" impact of the initial economic activity.

The third and final component of the economic impact is a result of the spending decisions of employees. Local employees spend some of their income within the region, and as mentioned before, some leaks out. Again, to the extent that their income is spent locally, it also generates an additional increase in local employment and income. These impacts represent the "induced" impact of the initial economic activity.

The total economic impact of any economic activity is the sum of the direct, indirect, and induced economic impacts. Obviously, an important aspect of economic impact analysis is the size of the regional economy under review. In a large region (e.g., a state) there would be more opportunity to make local purchases, which means that the new money has more opportunity to be spent locally. Conversely, a small region (e.g., a single county or a group of counties) would experience faster leakage, and consequently, a smaller economic impact.

The process described above is simulated using an input-output model of the economy under consideration, which in this case, is the State of Louisiana. Specifically, the economic impact analysis was conducted using the nationally recognized model, IMPLAN, developed by the Minnesota IMPLAN Group.[5] IMPLAN is an input-output model configurable for any multi-county region, state, or even a single county. For this analysis an IMPLAN model was built and customized for the State of Louisiana using 2013 data[6] on industry interactions within the state, as well as commuting patterns and other demographic information.

When looking at the economic impact that the Louisiana NMTC program, it is important to note that only ***new*** economic activity resulting from the investments should be considered. For example, an existing company with 10 employees that is able to add 5 more employees and double sales as a result of an NMTC investment already had some economic impact in the state. For purposes of estimating the economic impact of the NMTC investment, only the 5 ***additional*** jobs, and the ***additional*** sales should be considered. An exception to this would be if the company was at risk of going out of business without the investment. In that case, it is legitimate to include retained jobs and the new employees, as well as all of the sales and wages.

This look at the economic impact of the program utilizes a dataset of 35 companies that have received investments over the past 10 years of more than $120M and represent over one-third of the authorized credits. As such, it is a more than adequate statistically representative sample of the program. These companies have, since the time each received its investment, retained, added, or even lost jobs. The employment and wage data for each company was gathered and then aggregated for each calendar year by NAICS code.[7] In cases where the company had jobs outside the state, only jobs in Louisiana were considered. The data for each year was then run through the previously mentioned Louisiana impact model to estimate the indirect and induced economic impacts associated with these investments for that year. For only four companies in the portfolio were all jobs included as being retained – in other words, the company was at risk of going out of business. For all of the other companies, only the new

[5] Minnesota IMPLAN Group can be accessed at the following URL: www.implan.com

[6] The 2013 data is the most up-to-date dataset and utilizes the latest available information on inter-industry interactions.

[7] NAICS stands for North American Industrial Classification System and is the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to U.S. businesses.

jobs and related wages were included. Table 1 below shows the economic impact of these companies in terms of jobs and wages. Although investments were made earlier, the table begins in 2008 as that is the first year for which new jobs were identified. On average, the employment multiplier is slightly over 2.0 for these investments. In other words, for every job retained or added as a result of the program, another job is created elsewhere in the Louisiana economy. In the current year, more than 3,300 full and part-time jobs in Louisiana can be attributed to these particular investments under the Louisiana NMTC program. Again, it is important to note that the results here represent one-third of the total authorized credits available in the program. Assuming similar investments were made with the rest of the qualified investment, the impacts for the total program would be roughly three times the results presented here.

Table 1: Employment and Wage Impact Attributable to NMTC Investments[1]

Year	Retained or New Direct Jobs	New Indirect and Induced Jobs	Total Jobs	Employment Multiplier	Total New Income[2]	Average Wage[3]
2008	506	409	**915**	1.81	$34.5	$37,688
2009	860	1,077	**1,937**	2.25	$89.4	$46,160
2010	864	723	**1,587**	1.84	$64.5	$40,626
2011	902	749	**1,651**	1.83	$68.5	$41,495
2012	1,193	1,346	**2,539**	2.13	$131.4	$51,735
2013	1,569	1,821	**3,390**	2.16	$181.1	$53,424
2014	1,774	2,052	**3,826**	2.16	$208.2	$54,414
2015	1,580	1,769	**3,349**	2.12	$186.2	$55,594

[1] Investments represent one-third of the total authorized tax credits.
[2] Total new income is in millions of dollars.
[3] Average wage includes benefits.

Source: Economic Impact Group, LLC. using a 2013 IMPLAN model for the State of Louisiana

As mentioned above, in addition to jobs and income, economic impact can be measured in terms of contribution to GDP ("value added") or total output. Table 2 below shows the economic impact of these companies in these terms. In the current year, nearly $500M in total economic output in the State of Louisiana was attributable these particular investments under the Louisiana NMTC program. Again, the results here represent just approximately one-third of the total authorized credits available in the program. Assuming similar investments were made with the rest of the qualified investment, the impacts for the total program would be roughly $1.5B in total economic output.

Table 2: Value Added and Economic Output Attributable to NMTC Investments[1]

Year	Contribution to Louisiana GDP (Value Added)[2]	Value Added Multiplier	Total Economic Output[2]	Economic Output Multiplier
2008	$84.8	1.54	$144.7	1.53
2009	$205.4	1.80	$486.4	1.51
2010	$145.2	1.68	$297.8	1.54
2011	$146.3	1.67	$308.7	1.54
2012	$202.8	1.99	$422.0	1.82
2013	$293.8	1.99	$623.2	1.76
2014	$336.5	2.00	$706.2	1.78
2015	$273.5	1.97	$498.4	2.01

[1] Investments represent one-third of the total authorized tax credits.

[2] Value added and economic output are in millions of dollars.

Source: Economic Impact Group, LLC. using a 2013 IMPLAN model for the State of Louisiana

SECTION IV

FISCAL IMPACTS OF THE LOUISIANA NMTC PROGRAM

In addition to the economic impact of these businesses – e.g., the new jobs, income, and economic output – there are fiscal impacts in the form of new revenues that will accrue to the state and local governments in Louisiana. Unfortunately, the IMPLAN model does not separate state and local government tax revenues when reporting fiscal impact. However, using data from the *Annual Survey of State and Local Government Finances* (ASSLGF) published by the U.S. Bureau of the Census, the share of the modeled tax revenue impact that will accrue to the state versus local governments can be estimated.

As mentioned in the Section 2, the NMTC program in Louisiana began as the *Louisiana New Markets Tax Credit*, and was modified and reauthorized several years later under the *Louisiana New Markets Jobs Act*. The credits available under the initial legislation could be taken over seven years: 1 percent in years 1 through 3; and 2 percent in years 4 through 7. Beginning in mid-2007, the credits could be taken against tax liabilities over three years: 10 percent in year 1; 10 percent in year 2; and 5 percent in year 3.[8] The credits authorized under the 2013 legislation could be taken against tax liabilities over four years – 14 percent in years 1 and 2; and 8.5 percent in years 3 and 4.[9] Given the level and timing of the qualified equity investments made in the companies represented here, the associated state credits total $32.9 million since the beginning of the program to date. The timing of these credits is shown in Table 3 below.

To estimate new state revenues associated with these investments, the employment and wage data for each company was again run through the previously mentioned Louisiana impact model to estimate the fiscal impacts associated with the investments for that year. The ASSLGF data for that particular year was applied to the results to calculate the share of the state and local tax revenue that would accrue to the State of Louisiana. The result of this analysis is presented in Table 3. It is estimated that this particular portfolio of companies has generated more than $67M in tax revenue to the State of Louisiana through direct, indirect,

[8] https://www.novoco.com/new_markets/resource_files/state/state_nmtc_rules_and_regs/Louisiana/louisiana_code_1911_072514.pdf
[9] https://www.novoco.com/new_markets/resource_files/state/state_nmtc_rules_and_regs/Louisiana/louisiana_code_1912_032515.pdf

and induced economic activity. In other words, for every $1 in tax credit issued to date, the state generated just over $2 in tax revenue. The bulk of this revenue comes in the form of sales taxes and personal income taxes (Figure 1).

Table 3: Louisiana New Markets Tax Credit Return Ratio[1]

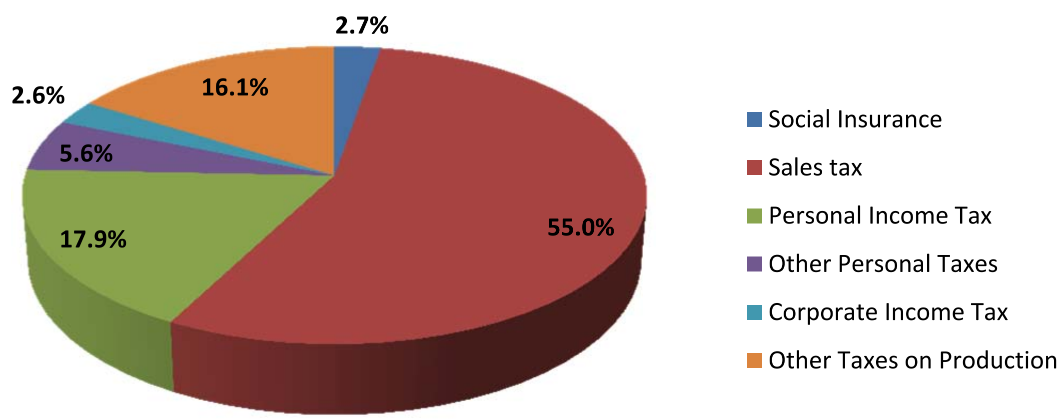
Year	Tax Credit Amount[2]	New State Revenues[2]	Annual Return Ratio	Cumulative Return Ratio
2006	$0.04	--	--	**--**
2007	$4.22	--	--	**--**
2008	$5.72	$5.65	0.99	**0.57**
2009	$7.12	$9.09	1.28	**0.86**
2010	$4.29	$7.30	1.70	**1.03**
2011	$1.81	$7.50	4.18	**1.27**
2012	$0.08	$7.08	88.47	**1.57**
2013	$3.68	$9.99	2.71	**1.73**
2014	$3.68	$11.34	3.08	**1.89**
2015	$2.24	$9.81	4.39	**2.06**
Total	**$32.88**	**$67.76**		**2.06**
NPV	***$28.60***	***$56.37***		***1.97***

[1] Investments represent one-third of the total authorized tax credits.
[2] Tax Credit and new state revenues are in millions of dollars. Totals may not add due to rounding.

Source: Economic Impact Group, LLC. using a 2013 IMPLAN model for the State of Louisiana and data from the *Annual Survey of State and Local Government Finances*.

Given that many of the credits were issued early in the program and many of the revenues have come later in the program, it is appropriate to consider the time value of money when looking at this ratio. In this case, the discount rate should represent the opportunity cost of capital to the State of Louisiana. A true opportunity cost of capital would be bracketed by the interest that could be earned in the appropriate investment funds market and the interest that must be paid on debt. At a minimum, the State of Louisiana could invest that money in a “risk free” investment such as a 10-year Treasury bond, and earn a little more than 2 percent. At the other end, given Louisiana’s Aa2 bond rating, they could expect to pay about 3.25 percent for long-term debt. Therefore, for this analysis, a discount rate between the two of 2.75 percent was used. After adjusting for the timing of the credits and new state tax revenues, the credit ratio drops to only 1.97 – still a significant return of nearly 2-to-1 on the state investment.

Figure 1: Louisiana NMTC State Tax Revenue Distribution



SECTION V

LOUISIANA NEW MARKETS PORTFOLIO CASE STUDIES

The analysis presented in the previous sections provides metrics and numbers for quantifying the Louisiana NMTC program. However, the stories behind many of these companies are compelling and are often lost in the cold, hard analytics. The following case studies are just five detailed examples of the real companies and real life examples of the type of results enabled by the Louisiana NMTC program. They are taken verbatim with permission from material provided by the communications group at Advantage Capital Partners.

TurboSquid

TurboSquid provides a global marketplace for innovative digital products, particularly 3D models, by enabling users to publish, promote, and sell their content to users around the world. Founded in 2000, TurboSquid has revolutionized the way digital assets are bought, sold, and delivered.

Over the course of a few short years, TurboSquid transformed from a small tech start-up into the largest three-dimensional library in the world. Unfortunately, despite the company's success, TurboSquid was unable to attract much needed capital. The recent devastation of Hurricane Katrina lowered investor confidence in New Orleans businesses and TurboSquid was far from the Silicon Valley and traditional sources of venture capital for technology companies.

The New Markets investment stimulated growth at TurboSquid enabling them to create 73 new jobs in an area that was struggling to recover from the devastation of Hurricane Katrina. TurboSquid has been nationally recognized for being at the forefront of the city's post-Katrina tech-focused economic development efforts. Now occupying space in the Receivables Exchange building, TurboSquid's move created a "cluster" effect, attracting additional small, high-tech businesses to the Central Business District (CBD). The company has also been involved in government efforts aimed at attracting more development technology companies to New Orleans.

Morehouse General Hospital

Morehouse General Hospital is a 60-bed, community-owned facility offering a wide range of both inpatient and outpatient care to northeast Louisiana and southeast Arkansas residents. Morehouse General is the only hospital in Morehouse Parish, and patients often drive long distances to receive care there because the neighboring parish hospitals do not offer the range of services that Morehouse offers. Morehouse General's services include surgical and intensive care, emergency care, radiology, cardiology, ophthalmology and pediatrics.

The New Markets funding came at a critical time, when Morehouse General was faced with closure. As such, this is one of the four investments analyzed in this report where the impact includes all the retained employees. Since the investment in 2008, the hospital has added 68 new jobs and now employs 316 people. Additionally, the funding also helped to bring desperately needed improvements to the emergency room and new, state-of-the-art equipment such as MRI and CT scans.

GAME Equipment

GAME Equipment is an agricultural machinery manufacturer and distributor located in rural Louisiana. In 2002 john Deere ceased production of pineapple, vegetable and henaf harvesting product lines. GAME was able to obtain rights to manufacture the discontinued machinery lines and fill the production gap. In 2007, GAME because na official John Deere dealer/distributor, which allows it to utilize Deere parts and suppliers while adding continuous sugar cane loaders to GAME's offerings. The company exports its locally made products internationally, most recently to a company in Nigeria.

At a time when GAME needed additional funding for equipment purchases, its traditional lender refused to extend their line of credit. The New Markets financing provided the refunding needed to maintain operations and retain 21 full-time employees. Since receiving the investment, GAME has hired an additional 19 employees.

Westport Linen Services

Founded in 2000, Westport Linen Services provides laundry services primarily to hospitals, clinics, surgical centers and nursing homes. The company also offers emergency linen services during disasters especially hurricanes. Its 48,000 square foot state-of-the-art facility processes 16 million pounds of healthcare linen each year, all of which are in compliance with the health and safety standards set by HLAC, The Joint Commission, and OSHA.

The New Markets funding enabled Westport Linen to expand its operations and grow significantly. Since moving to a 44,000 square foot facility that would meet the company's needs, Westport Linen utilized the funding to purchase equipment to make its new facility operations. It now has the capabilities to pric3ess 16 million pounds of laundry per year and has increased it staff from 50 to 160, while continuing to grow.

Moran Printing

Moran Printing has a 130-year history as a premier provider of commercial printing. Over the years, Moran has successfully transitioned its business form a 19th century print shop to a technologically driven 21st century company. Moran operates a large commercial and digital printing facility and warehousing and distribution center in Baton Rouge. The company's successful project implementation has garnished it many industry awards, such as Top Supplier for five consecutive years.

The New Markets funding enabled Moran Printing to purchase new equipment and expand its capabilities. Additionally, the financing helped to retain 135 jobs in a low-income area of Baton Rouge and has positioned Moran Printing for continued growth.

APPENDIX A

DEFINITIONS

Direct Impacts. The initial economic activity that results from changes in production or expenditures by producers and/or consumers.

Indirect Impacts. The economic activity that results from local industries buying goods and services from other local industries. This cycle of spending continues until all the money leaks out from the regional economy.

Induced Impacts. The economic activity that results from the spending of employees' labor income. This cycle of household spending continues until all the money leaks out from the regional economy.

Output. Final value of industry production. For manufacturing companies, output is sales plus/minus changes in inventory. For service sectors, output is equal to sales. For retail and wholesale trade companies, output equals gross margin, NOT gross sales.

Value Added. The difference between an industry's output and the cost of its intermediate inputs. This includes employee compensation, taxes on production, and gross operating surplus. This is the measure of the contribution to GDP made by the industry.

Wages/Income. All forms of employment income, including employee compensation and proprietor income. Employee compensation is the total payroll cost of the employee paid by the employer including wages and salary, all benefits (health, retirement, etc) and employer-paid payroll taxes (social security, unemployment, etc). Proprietor income consists of payments received by self-employed individuals and unincorporated business owners, and includes the capital consumption allowance.