MEASURE: SB 817
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SUBMITTED BY: Ryan Brennan

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Oregon SB 817 creates the Oregon Low Income Community Jobs Initiative. This initiative would provide an income and corporate excise tax credit for qualified equity investments in businesses located in low-income communities. The tax credit equals 39 percent of the qualified equity investment taken over seven years and no credit is allowed in the first two years after the initial investment.

Responses to Questions for Policy Committees

OREGON LOW INCOME COMMUNITY JOBS INITIATIVE: A proven economic development tool that will attract hundreds of millions of dollars in private capital to the state's low-income communities, fostering small business growth and job creation.

- **What is the public policy purpose of this credit? Is there an expected timeline for achieving this goal?**

    - Provides operating and growth capital to small businesses located in low-income communities.
    - Provides flexible capital and low interest loans to small businesses; enabling economic growth and job creation
    - Allows Oregon to more ably compete with other states for federal funds
    - Leverages federal dollars as it attracts hundreds of millions in federal New Markets investments

    Timeline:

    - Investments will be made within the first year of program kick off and credits are delayed to allow for economic impact to accrue
    - Seven-year timeline: the tax credit equals 39% of qualified equity investment taken over seven years; no credit is allowed in the first two years after the initial investment, allowing time for these investments to generate jobs and state tax revenue before the credit takes effect. Year 3=7%, Years 4 through 7=8%.

- **Who (groups of individuals, types of organizations or businesses) directly benefits from this credit?**

    - State of Oregon gains a larger share of federal New Markets Tax Credit investments, as well as increased tax revenue collected from growing companies
    - Small businesses in low income communities benefit from investment dollars, allowing business expansion, employee retention, and new hiring
    - Local employees benefit from job creation

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- Banks making loans to these companies benefit from a decreased risk profile for the small businesses
- Applicants (investment funds) benefit from potential interest income at the end of the loan if successful
- Neighborhoods benefit from the expansion of goods and services offered in low income communities

- **What is expected to happen if this credit fully sunsets? Could adequate results be achieved with a scaled down version of the credit? What would be the effect of reducing the credit by 50%?**

  - The program has a built in sunset, there is only one round of credits available for allocation and no renewal provision
  - Regarding reduction in credit, this would risk the credit not being meaningful enough to alter behavior and only reward activity that was already planned. Seven states are at 39% or higher or are at 25% front loaded. One state is considering a 100% match.

- **What background information on the effectiveness of this type of credit is available from other states?**
  - There is a volume of information showing that this type of program constitutes best practices and lures additional federal money.
  - Seven states (OH, MO, FL, KY, OK, MS, LA) have adopted this model to incentivize private capital investment in their jurisdictions, recognizing the need for more economic development, more access to capital for businesses and community-improving developments, and more investment capital flowing into their states. A number of others are currently actively considering this program (CA, NY, WI, IN, ME)
  - Studies show the effectiveness and popularity of these programs:

1) IMPLAN study by Dr. Don Phares, "Economic and Fiscal Impact Associated with Projects Funded Using the Missouri New Markets Development Program" (2009): The total impact of the new businesses, including the multiplier effect, is $511.7 million. The total impact for jobs is 3,900. This is 2.14 times the number of direct jobs of 1,816. The total impact for labor income is $159.2 million, again including the multiplier effect. Based on ongoing operations spending by the new businesses supported by the Missouri New Markets Tax Credit Program, there is $10.8 million in general sales taxes and $3.6 million in individual income taxes. This new revenue will continue annually for the state as long as the businesses are in operation.
2) Highly popular program: A report by the New Markets Tax Credit Coalition (December 2010) notes that demand for NMTC credits far exceeds availability. To date, CDEs have requested a total of $202 billion in allocation authority since 2003, a demand of more than 7 times credit availability.

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3) Highly effective at job creation: NMTC Coalition report estimates that NMTC-funded projects have created or retained up to 500,000 jobs, at a cost to the federal government of less than $12,000 per job
4) Bi-partisan solution: support for these programs comes from both sides of the aisle because it is effective.

- **Is the use of a tax credit an effective and efficient way to achieve this policy goal?**
    - This type of credit has been shown to be a highly effective means of driving private investment dollars into underserved communities and achieving the policy goals outlined above
    - The federal New Markets program was enacted ten years ago through bipartisan legislation. NMTC has an excellent track record of successfully encouraging private capital investment into businesses in need of capital to create, grow and preserve jobs, and improve communities.
    - The federal government estimates that the New Markets program has encouraged private capital investment that has created or preserved 500,000 jobs during the last decade.
    - Oversight: Credits are only available to those entities that have secured federal credits through a thorough vetting process administered by the U.S. Treasury; the state benefits from federal regulation and auditing of the program
    - Program includes mandated annual reporting requirement of jobs created, salaries and benefits offered to Oregon employees

- **What other incentives (including state or local subsidies, federal tax expenditures or subsidies) are available that attempt to achieve a similar policy goal?**
    - This program is modeled after the award-winning federal NMTC program, which works in tandem with state program to enhance and intensify the beneficial impacts. Currently there is no similar incentive at the state level, which means Oregon is losing out on millions of dollars of private investment.

- **Could this credit be modified to make it more effective and/or efficient? If so, how?**
    - This bill represents best practices of the states currently using the model and benefits from their 6 years of experience.

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- **In the case of multiple credit extension bills assigned to your committee, how do they rank in terms of effectiveness and efficiency? Why? Is it more effective to maintain one credit at its current level and eliminate others or proportionately reduce more than one credit?**
    - As noted, state-level New Markets Development programs have been shown to be highly effective and efficient in the jurisdictions where they operate. These programs drive additional private capital into states and allow them to receive a larger than proportional share of federal credits.

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