

SB 817

A Proposal to Harness the Power of the Private Sector by Utilizing Tax Credits to attract \$200 million in new investments for Oregon small business in low income areas

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MEASURE: SB 817

EXHIBIT: H

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SUBMITTED BY: Kevin Campbell

Oregon Low Income Community Jobs Initiative—SB 817



Goal: To create Jobs in low income communities throughout the state by attracting new investors to Oregon.

The proposal: Encourage entities that are eligible for the Federal New Markets Tax Credit (NMTC) to invest in Oregon instead of other states. This is accomplished by creating a matching state tax credit to the Federal New Markets Program that begins in the third year of the investment.

Background: The New Markets Tax Credit (NMTC) was created by Congress to encourage investment in businesses located in areas that the US Treasury has identified as low income based on the US Census. Investors wishing to take advantage of the federal tax credit must complete an arduous application process to ensure they meet the high standards of the program and are capable of making and managing strategic investments. Entities that are selected by the US Treasury to invest the credits (Allocatees) are authorized to take the federal tax credit of 39% on an amount of capital the US Treasury allocates to them. This 39% is spread over a period of seven years.

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Key Elements of SB 817:

- 7-year credit totaling 39% with a 2-year delay between investing capital and claiming first credits.
- Investments limited to businesses located in a low income census track as established by the US Treasury based on the Census.
- Entities designated by the US Treasury as an NMTC Allocatee are authorized to utilize the state credit.
- Recipients of the capital investment must have been turned down for a traditional bank loan in whole or part in order to qualify for the program.
- Includes a "Claw Back Provision" that allows the state to recapture the credit from the investor if the business moves out of the low income census track or repays the investor within the 7 year period.
- Prohibits sale of the credits outside of the investment and prohibits "stacking" of the credits.

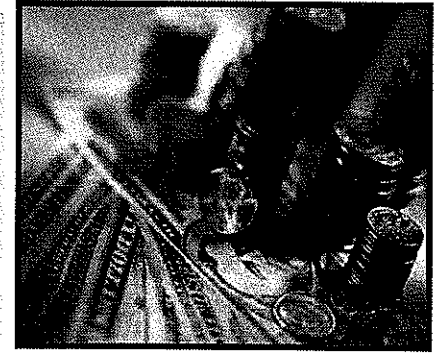
SB 817 Program Description

The program authorizes up to \$200 million of investments and limits any single investment to a cap of \$3 million. Investors are not eligible to redeem the tax credit until the third year of the investment. If, at any time over the seven years that the investment is eligible for the credit, any portion of the principle is paid back to the investor or the business moves out of the low income track, the investor must return the entirety of tax credits received under the program for that investment as part of a claw back provision.

In order to maximize the job creation effect of the bill while minimizing the fiscal impact on the biennium, the Oregon Low Income Community Jobs Initiative will have an effective date of July 1st. This opens up 18 months during the 2012-2013 biennium for investors to invest in Oregon businesses thereby creating jobs and generating revenue to spur the economy.

SB 817 Benefit Cost Analysis

The Oregon Low Income Community Jobs Initiative provides a tax credit against a cap of \$200,000,000. The total fiscal impact on the state is spread over the last five years of the seven year program. No credit can be claimed during the first two years of investment. After the first 2 years, the investor may take a tax credit of 7% in the third year and 8% in years four through seven.



Oregon Low Income Community Jobs Initiative					
Year Impacted	2014	2015	2016	2017	2018
Tax Credit %	7.00%	7.00%	8.00%	8.00%	8.00%
Tax Credit Impact	\$ 14,000,000	\$ 16,000,000	\$ 16,000,000	\$ 16,000,000	\$ 16,000,000

Anticipated Revenue Impact of ONMDP							
Year Impacted	2012	2013	2014	2015	2016	2017	2018
New Tax Income	\$7.5 mil	\$14 mil	\$20 mil	\$20 mil	\$20 mil	\$20 mil	\$20 mil
Cost of Tax Credit		\$15 mil	\$15 mil	\$16 mil	\$16 mil	\$16 mil	
Annual Net General Fund Benefit	\$7.5 mil	-\$1 mil	\$5 mil	\$4 mil	\$4 mil	\$4 mil	\$20 mil

Missouri's Experience and Oregon's Expectations

We have a living example of the success of what is being proposed with the Oregon Low Income Community Jobs Initiative. Missouri implemented an almost identical program to that being proposed in Oregon. In Missouri, which capped its credit investment amount at \$186 million instead of the \$200 million we are proposing in Oregon, all \$186 million was allocated to investors within 10 months of the start of the program. The program generated \$110 million in direct capital investment within the first 18 months. The New Markets Tax Credit investments attracted an additional \$59 million in follow-on capital investment which is not eligible for the tax credit, but creates jobs and tax revenues. We expect a similar level of investment activity in Oregon especially due to the limited availability of bank credit for business expansion in the market.

By comparison, the tax credit in Oregon is anticipated to generate or retain 3089 jobs through direct investment and a total of 6061 jobs when indirect and induced impacts are considered.

Missouri Economic Impact:

- Jobs created or retained: 1900+
- Private Investment Leveraged: \$760 Million
- Average salary: \$50,000
- \$31 million new revenue to the state general fund in the first 12 months
- \$26 million new local revenue through local taxes in the first 12 months

Oregonians need the hope of new jobs and a turn around in the economy. The Oregon Low Income Community Jobs Initiative pairs the resources of the State with the Federal New Markets Tax Credit Program and the investment capital of the private sector to create over 6000 jobs when Oregon Needs them most!