WHITE PAPER

Secure New Markets Tax Credit Allocations (and Lots of Them) for Your CDE

Charlotte, NC

IMPLAN

Use data. Secure allocations.

Each year, Community Development Entities (CDEs) across the country can use economic impact analysis to increase the value of their NMTC portfolio. Is yours?

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Intro

If your Community Development Entity (CDE) has never heard of economic impact analysis or has never included one in your New Markets Tax Credit (NMTC) application, then you're probably leaving a lot of allocations on the table.

Economic impact analysis is a type of study which allows an analyst to examine the effects of a specific event on a given economy. It typically estimates changes in activity throughout local economies in response to changes in production. It's commonly used to measure the economic ramifications of things like sporting events being hosted in an area, the relocation of large business headquarters to a region, or even to quantify the value of a local organization's projects and efforts. Plus, economies studied using this type of analysis can vary greatly in size: from as concentrated as a single town or city to as expansive as the entire globe.

That said, economic impact analyses are valuable on many levels and across all industries; especially with regards to applications for NMTC allocations.

economic impact analysis

noun / ek·ə-ˈnɑm·ɪk / ˈɪm·pækt / əˈnæl·ə·sɪs /

Definition: A type of study which allows an analyst to examine the effects of a specific event on a given economy.

Great Buildings. Great Places: The Economic Benefits of an NMTC-Funded Development Effort tells the story of how one CDE used impact data from IMPLAN to evaluate an NMTC-funded project in Portland, Oregon, to strengthen their portfolio, and to justify their use of allocations.

Read the study at implan.com/case-studies/great-buildings-great-places.

Why Your CDE Should Be Using Economic Impact Analysis

Too few CDEs out there are performing economic impact analyses. And of the few that are, they're usually only doing them after-the-fact as a means of "justifying" having been granted NMTC allocations at all.

That said, the groups that are capitalizing on this strategy in the beginning stages ("early on"), regularly gain a huge advantage when applying for NMTC allocations. Impact analysis is a tool that can benefit CDEs at multiple stages of the NMTC application process, not just at the end.

The reason economic impact analysis is such a "secret weapon" for CDEs during that time is because it gives them the power to lay out, in black and white, the potential economic benefits of their proposed projects ("allocation uses") to deciding parties. With impact analysis comes the ability to state outright, "These projects to have the potential to create or support ___ jobs and to stimulate $___ in local spending".

Rather than needing to simply trust that your CDE's projects or efforts would be a good use of allocated funds, Community Development Financial Institutions (CDFIs) can be provided economic impact analyses which deliver cold, hard metrics concerning the potential benefits of the very projects that are under review. Essentially, an impact analysis is a pre-packaged report which evaluates a project's benefits for a CDFI, removing any arduous assessment or contemplation over whether or not a project is worthy of allocations at all, let alone a hefty portion. In the presence of economic impact analyses, all that a CDFI needs to do is stamp the seal of approval on the efforts and answer the question, "How much should this CDE receive?" With quantifiable evidence of your project's value, it'll be hard for your application to be rejected, and even harder for your CDE to be shorted on allocations.

The fact that impact analysis offers an analyst

this power makes the benefits of it to CDEs obvious… Yet, few groups seem to be using it. Stop ignoring this valuable asset! It's easy to do and is extremely affordable.

Don't hire expensive consultants. Don't be overwhelmed.

It doesn't take an expert economist to model economic impacts. You can do it yourself; easily and at little cost to you. By doing so, your CDE can both improve its chances of receiving NMTC allocations and increase the amount it receives.

How Your CDE Can Do It

The number one reason groups neglect to use economic impact analysis is because they don't see the value in dishing out big bucks to hire consultants or contractors to perform the analyses for them.

While this is easy to understand, the truth is that groups can save money by performing impact analyses themselves. Furthermore, learning to perform analyses yourself is actually extremely easy; it doesn't take an expert economist—in fact, it doesn't take any economist—to perform high-quality analyses that deliver actionable information.

These days, tools for modeling impact analyses are easily and affordably available to the layperson across all industries and for a multitude of professional uses. But again, hardly anyone seems to be capitalizing on this remarkable opportunity.

So, what does it really take for a CDE to perform their own impact analysis?

First, let's talk about what makes up an impact analysis in the first place...

The Anatomy of an Impact Analysis

What does an economic impact analysis look like? How do I know if I have the necessary information? These are valid questions, and below are the few pieces of data your CDE will need in order to begin an economic impact analysis on the projects you're hoping to fund via NMTC allocations.

What the CDE provides:

The first piece of information your CDE will need to provide an impact analysis will be the geographic region the analysis will examine. Given that CDEs' projects must occur within recognized census tracts, your CDE's impact analysis will need to analyze a geography which encompasses that specific region-of-interest.

Census tracts are defined as geographic areas with changing, but stable, populations ranging from roughly 2,500 to 8,000 people: the approximate size of a neighborhood or locality. Generally, these are very granular geographies to examine. So, it's especially important to select an area of study which best captures the totality of that area's economic activity.

TIP: When determining the study area of an impact analysis, your CDE might consider selecting the county in which the census tract-of-interest is located, if not an even larger geography. While this is a larger area of study than where the projects will be directly concentrated, it will likely still be the best choice for a study. While an analyst's instincts might tell them to explicitly define their study's region-of-interest as only the recognized census tract, a geography so small cannot generally be considered a "functional economy". With such a granular isolation, the majority of economic activity observed would likely be lost due to imports and exports.

What the analysis does with it:

With a sufficient region-of-interest explicitly defined by the analyst, the study is able to capture a complete picture of the economic impact of a CDE's project. Because the impact analysis will be examining the effects of the CDE's project throughout the larger surrounding geography, it will be

able to reveal which industries might experience economic stimulation as a result of that CDE's project. Additionally, it will also have the ability to reveal which industries might experience changes in employment as a result of that CDE's project.

What can your CDE say with these results?

With information regarding how many (and which) industries throughout the local economy might experience economic stimulation attributable to your project, your CDE can highlight the importance of its efforts to investors, lenders, and other constituents. With these metrics, your CDE can make statements like, "This project has the potential to stimulate local spending across ___ industries." More specifically, you'll also have the ability to report which industries might experience those benefits. Furthermore, you'll have the ability to specify how many (and which) industries might experience a change in employment with statements like, "This project has the potential to generate or support jobs throughout ___ industries."

What the CDE provides:

The second piece of information that a CDE provides to an impact analysis is the spending (in dollars) that it hopes to examine in the analysis. For instance, if a CDE's project aims to create a mixed-use facility in a recognized census tract, it's important to provide the impact analysis

TIP: The most important thing to consider when providing this information is which portions of a funded project qualify for NMTC allocations versus which portions do not. For instance, a CDE might consider truncating (or altogether excluding) certain costs associated with residential portions of the development of a mixed-use facility because residential projects are only eligible for NMTC allocations in a limited capacity. If a CDE does include these costs without consideration, they run the risk of the final potential effects of their analysis being inflated! Additionally, it's important to recognize that many CDEs, and groups associated with a given project, are of the belief that their project would not happen without the aid of NMTC allocations. For this reason, they'll want to attribute all the economic benefits of the project to the allocations. While this is okay, it's crucial to both the accuracy and integrity of a study that such assumptions are stated clearly.

with only the dollars that will be spent on efforts which serve to complete that project, and none spent on peripheral or unrelated projects. CDEs help fund multiple projects every year, so it's important to provide your analysis with only the spending that's pertinent to the project you're intending to model the economic impact of.

What the analysis does with it:

With a project's cost, an impact analysis can actually quantify the effects of the money that the project is injecting into the economy. With this information, the analysis can tell the CDE, in dollars, how much economic activity its project has the potential to stimulate in other industries. In addition to quantifying the dollars of local spending that are stimulated throughout the community, the analysis will also use this information to quantify the exact the number of jobs that the project has the potential to generate or stimulate throughout the community.

What can your CDE say with these results?

With specific metrics regarding the quantifiable economic benefits of a CDE's project, CDEs can make statements like, "This project has the potential to generate $___ in local spending throughout the community." Impact analysis also allows an analyst to "itemized" those effects by industry. This means that a CDE would also be able to make statements like, "This project has the potential to stimulate $___ in [industry A], $___ in [industry B], and $___ in [industry C]."

What the CDE provides:

The third, and final, figures included on this list that a CDE will need to provide to an impact analysis in order for it to evaluate the economic impacts of its project, are truncated long-term and short-term spending figures. This is really just a continuation of what was described in the "NMTC-Eligible Expenses" section but refined even further in order to make the study's results as accurate as possible.

Regarding most development projects, especially those requiring any sort of construction phase, there are generally two broad categories into which any given effect can be classified: short-term and long-term. We typ-

ically refer to these two distinct groups of economic activity as being attributable to either "construction" or "operations". These two go hand-in-hand in most economic impact analyses because development projects, like the ones that CDEs fund with NMTC allocations, offer economic benefits both during the initial "construction" phase, but also continue contributing to the economy after their completion merely by virtue of their "operations". For this reason, in order for the results of a CDE's impact analysis to be as accurate as possible, it'll want to consider which of the project's (NMTC-eligible) expenses pertain to the construction phase and which pertain to the completed structure's operations.

What the analysis does with it:

By providing truncated spending figures which are parsed out specifically for construction and operations, an impact analysis is able to more precisely evaluate the potential economic effects of each stage of the development process. With these figures, an analysis can tell a CDE which quantifiable economic benefits it might reasonably expect to be temporary and those which it might expect to be sustained.

This is crucial because when interpreting and reporting the number of

TIP: The results of some analyses can easily be misinterpreted or misrepresented by an audience or by an analyst.

In a real-world construction scenario, the initial purchases of business-to-business expenditures might prompt a boost during the construction phase because large portions of material will need to be purchased in bulk for the construction effort. These inter-sectoral economic benefits might be considered temporary because after the construction phase is complete, the amount of material exchanged between these economic sectors would likely observed a reduction.

Likewise, many jobs are typically created temporarily in order to accommodate an increased need for workers to complete the construction. However, these jobs will likely leave the area after the construction is complete. Furthermore, if those jobs do leave the area after completion of the construction project, the continued added benefits of those employees' spending are also lost. For this reason, these figures should not be reported as being a long-term economic benefit of the project.

However, the likely continuous spending by the product of the construction project (a mixed-use facility, for instance) could be considered a long-term benefit because it would continue to be experienced over time. Furthermore, any staff who are hired as full-time personnel to carry out the standard operations of that facility might be reported as long-term jobs created. The added benefit of those employees spending their wages in the community (assuming it is spent within the community) might be reported as a potential long-term benefit of the project as well.

jobs and dollars of stimulated local spending attributable to a project, an analyst must consider which impacts of that project can reasonably be considered short-term or long-term benefits. One sum total of spending (adjusted for NMTC-eligibility) will likely reveal the economic impact of a given development project to be not only inflated, but also overstated. With a sum total spending figure, an impact analysis might suggest a huge rise in both stimulated spending and jobs in the community when the reality is that those large impacts might be merely temporary. While the completed structure will continue contributing to the economy after its completion, the long-term impacts will likely be more modest.

What can your CDE say with these results?

With this refined information regarding the quantifiable short-term and long-term economic benefits of a CDE's project, CDEs can make a larger volume of substantiated statements (and more accurate ones!) like, "This project has the potential to stimulate $___ in local spending throughout the community during the initial construction phase. Additionally, the project also has the potential to contribute an additional $___ to the local economy each year after its completion thanks to its continued operations in the region."

Refined results like these also allow a CDE to make statements about pockets of the workforce and particular sectors in the economy which might experience both short-term and long-term benefits. With this information CDEs can make statements like, "This project has the potential to create ___ jobs and stimulate $___ in local spending across ___ industries throughout the community during the initial construction phase. Additionally, the project has the potential to support ___ jobs and generate $___ in new local spending across ___ industries throughout the community each year after its completion by virtue of its continued operations."

Another benefit of the frequent use of economic impact analysis by CDEs is the ability to make statements about projects' impacts over time. While any single impact analysis should not be used to project economic benefits into the future, what a CDE can do is perform a new impact analysis each year using updated figures for all of the data points described thus far. Then, armed with several years worth of metrics concerning the same project, a CDE can compile the results of those respective studies in order to make claims about the sustained benefits a region has likely experienced. For instance, in the case of a mixed-use facility's funding, a CDE could model the impact of the initial construction effort (potential short-term stimulant), and then model the suspected benefits of that same facility's operations every single year over five to seven years (potential long-term stimulant). With that information, a CDE can make more powerful statements, with quantifiable evidence, about their track record of success over several years, and thus, strengthen their own position as a longstanding producer of projects which contribute to the long-term development of underserved areas.

How Can My CDE Benefit From Using Impact Analysis in This Way?

While economic impact analysis offers a variety of metrics and analytics, it's merely a tool. In the end, what one does with those outputs is still up to the analyst or their group. So, how can you and your CDE turn economic impact analysis results into actionable information that can benefit you in your professional endeavors? Great question.

Among the many uses of impact analysis results by CDEs, perhaps the number one benefit that your CDE can reap is more consistent allocations of NMTC funds by the Community Development Financial Institution (CDFI), and most of all, larger ones. By quantifying the economic benefits of your CDE's project during the NMTC application stages, you can nearly guarantee allocations…and likely, larger ones. By providing the CDFI with a pre-packaged, analyzed report of a project's worthiness of government funding, your CDE can remove any arduous task of assessment or evaluation by the deciding parties and thus, make their job easier.

Perhaps your CDE is applying for NMTC allocations before you've even decided which projects you'd like to fund with them? In this scenario, using economic impact analysis to quantify the economic benefits of your previous projects to increase the credibility of your portfolio makes the CDFI's job even easier. How can the CDFI refuse NMTC allocations to a CDE with a quantifiably proven track record of successful projects year in and year out?

The short answer is: they can't! And if yours is the CDE in question, then you'll be capitalizing on the benefits of your economic impact analyses almost immediately.

Take the first step now! To start your economic impact analysis today visit IMPLAN.com.

For more information about how economic impact analysis can benefit your organization or to inquire about IMPLAN's host of exciting products, give us a call at (800) 507-9426.

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