

Florida New Markets Development Program

HB 5601

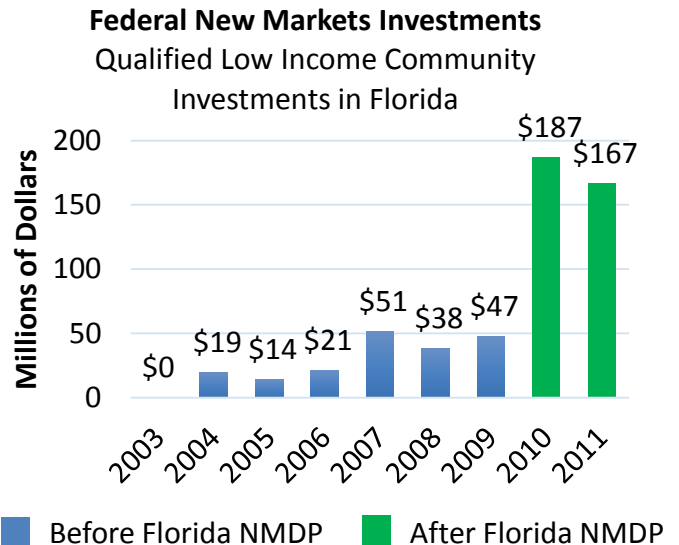
Senate Finance and Tax Committee – April 9, 2014

The Florida New Markets Development Program (NMDP) has helped entrepreneurs in targeted small businesses, located in low-income communities, create jobs and expand their businesses by providing them with much needed growth capital. This program is unique in that a state investment is not made unless private sector dollars are deployed in low-income communities. Furthermore, Florida’s program has had the added benefit of attracting significant federal New Markets investment.

The Washington Economics Group, Inc. (WEG) recently conducted an independent analysis, using DEO data, of the economic and fiscal impact of Florida’s New Markets Development Program, which shows that the program exceeds Florida’s ROI threshold and surpasses the benchmark for sufficient justification to continue the investment in the program.

This **positive ROI** “demonstrates that the value of economic benefits to the State far exceed the amount of the annual state revenue foregone through tax credits. The program’s success results from market-based evaluations of qualified businesses seeking NMDP investments and from the ability to leverage this funding source with Federal New Markets Tax Credits and private-sector investments.” - WEG Analysis

NMDP Highlights ²
<ul style="list-style-type: none"> • First implemented in 2009 and reauthorized in 2012 and 2013
<ul style="list-style-type: none"> • 84 businesses in low-income communities have received NMDP investment
<ul style="list-style-type: none"> • 7,094 total jobs created or retained thru 2012
<ul style="list-style-type: none"> • \$49,600 average salary of jobs supported in Low Income Communities
<ul style="list-style-type: none"> • \$165M of additional state and local revenue from NMDP activity



Projected Impact of a 2014 Florida NMDP allocation as envisioned in HB 5601

2014 Projected Impact	Source	Jobs	Labor Income	Gross State Produce	Gross Business Revenues	State and Local Govt. Revenues
Projected Economic Impacts in 2018 from Net Growth in NMDP Businesses and New Investments from a Fourth Round of NMDP Tax Credits: \$50M		Jobs	(Millions)	(Millions)	(Millions)	(Millions)
	Direct	7,068	\$373.9	\$665.1	\$1,552.8	\$52.8
	Indirect	4,872	\$269.2	\$441.1	\$758.2	\$25.8
	Induced	5,711	\$239.1	\$437.8	\$698.7	\$23.8
Total		17,651	\$882.2	\$1,544.0	\$3,009.7	\$102.4

NMDP Return On Investment

The Florida New Markets Development Program, for the period from 2010 – 2013, returned \$1.81 in new revenue for every \$1 of New Markets tax credits.

Furthermore, if the additional revenues generated for the local government and school boards are included, each \$1 of New Markets tax credits returned \$2.86 back to state and local governments.

For context on the importance of the ROI number, the report recently released by the Florida Office of Economic and Demographic Research states that **“Ultimately, a program with a ROI above 1 has sufficient justification from a financial perspective to continue the investment in the program.”**

Florida New Markets Development Program Q&A

1. Have other states had success with similar programs?

- 14 states have passed similar programs and six states have reauthorized the program
- Successful federal program has seen over 3,500 investments made since 2003

2. How much private investment will the Florida program round four incentivize?

- \$128 million of qualified investment in small businesses
- Credits are back-end loaded with a two-year delay to ensure revenue neutrality
- Credits can be redeemed in years 3-7 at the rate of 0%, 0%, 7%, 8%, 8%, 8%, 8% if performance deemed compliant with statute

3. What state tax payer protections exist?

- Qualified investors must be federally certified CDEs with a New Markets allocation
- U.S. Treasury regulation and IRS oversight
- Draconian recapture of credits in the event of program abuse
- Post-performance tax credit

4. What are the programmatic transparency regulations?

- Annual reporting of all activity by all CDEs
- Program mechanics are understood and publicly visible

5. Do all parties bear equal risk and are long-term interests aligned?

- Small businesses are given a hand up and not a hand out, no grants or giveaways
- CDEs, investors and small businesses all have skin in the game

6. What new private investment behaviors are driven?

- Qualified and existing businesses in underserved areas are targeted
- Flexible types of debt and equity are provided
- Deals that wouldn't happen in the typical market place are now possible, a Government Accountability Office (GAO) report found that 88% of all New Markets investments wouldn't have happened “but for” New Markets

7. What types of businesses receive investment?

- Small businesses with typically less than \$20M in annual revenue and less than 500 employees
- Most industries are included like manufacturing, agriculture, technology, defense and energy
- Businesses must be located in qualified low-income areas

8. How do small businesses benefit?

- Businesses receive flexible and patient, low-cost loans or equity investments
- CDEs provide invaluable business experience and mentorship to help the company succeed