



Economic Impact Group, LLC

Estimating the Economic Impact of REI's New Market Tax Credit Investments, 2003 – 2005

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Introduction

Economic Impact Group, LLC (EIG) has undertaken a study to estimate the impacts of the Federal New Markets Tax Credit program allocation to Rural Enterprises of Oklahoma Inc (REI). The study covers the specific allocations and subsequent investments of those allocations for the years 2003, 2004 and 2005. EIG is an economic consulting firm located in Oklahoma City, Ok and specializes in economic modeling, impact studies, and policy analysis.

Organized in the early 1980's as a Certified Development Company of the U.S. Small Business Association, REI has evolved from a small business lender to a multi-faceted economic development organization. REI currently administers a variety of lending programs designed to facilitate the creation and expansion of business ventures in the state of Oklahoma. In addition to their lending activities, REI also oversees a Women's Business Center, manages business incubators designed to help young businesses mature, offers affordable housing options through the administration of the Employer-Assisted Housing (EAH) incentive, and offers international trade assistance to Oklahoma businesses.

In April of 2002, REI New Markets Investment, LLC, a wholly-owned subsidiary of REI was formed. REI New Markets Investment, LLC was recognized by the Community Development Financial Institutions (CDFI) Fund of the U.S. Department of the Treasury as a Community Development Entity and authorized to attract capital to underserved areas by offering federal tax credits equal to 39% of the invested value. By the end of 2005 REI had secured almost \$65 million in investments for projects within the state of Oklahoma.

This report provides an estimate of the broader economic impacts of Federal New Markets Tax Credits investments by REI. This program is administered by REI New Markets Investment, LLC, a wholly owned subsidiary of REI. The scope of this report is limited to the activities of REI New Markets Investment, LLC through 2005 and does not reflect the impact of any other REI program, division or subsidiary. While REI also participates in state administered credits, the distribution of these credits is not included in this report. Additionally, the final report estimates only the impact of expenditures within the state of Oklahoma. All expenditures outside the state of Oklahoma do not directly impact the Oklahoma economy and are not considered in this report.

Summary of Results

REI New Markets Investments, LLC effectively facilitates the interaction of private investors and the organizations in which they choose to invest. Organizations, in turn, used the financial capital secured for a variety of projects including but not limited to construction of new facilities, expansion of existing facilities, inventory accumulation, and infrastructure investment. Because these activities require some measure of support from other productive sectors of the economy, the total impact on the economy often far exceeds the size of the initial project. Some of the insights and impacts realized from an analysis of the data include:

- The economic impact stemming from the projects financed with capital from REI New Markets Investments, LLC is estimated to be \$116,466,792 in increased economic activity.
- The increase in economic activity is estimated to have generated approximately 970 new jobs while increasing Oklahoma payrolls by \$36,143,708.
- REI secured funding for inherently local projects, with nearly 90% of all funds remaining in state.
- REI secured financial capital for firms in diverse industries such as, manufacturing, distribution, telecommunications, biotechnology, food and beverage, and air transportation. The unique make-up of supporting industries for each project suggests that REI's impact is spread rather broadly across the state.
- The impact of REI's NMTC program spans multiple industries with the top three affected industries being Construction (\$32,233,627), Manufacturing (\$24,676,165), and Professional/Scientific Services (\$10,227,489).

Data and Methodology

All data for this report were collected by REI and given “as is” to EIG personnel. The analysis is based on expenditure data by location for each investment project. This includes the quantity of funds secured for each investment project and a brief description of the uses of each investment allocation. EIG used the REI expenditure descriptions to classify each expenditure by North American Industry Classification System (NAICS) code.

REI allocated NMTC funds to a variety of industries in 2003, 2004, and 2005. Table 1 includes a list of some of the participant industries by year:¹

Table 1
Investment by Year

	2003	2004	2005
Linen Services	1,250,000		
Linen Services, Chemical Manufacturing, Miscellaneous Manufacturing, Professional Services, Communications and Real Estate Services		46,676,000	
Textiles, Healthcare and Fast Food Restaurants			16,589,476
Total	1,250,000	46,676,000	16,589,476

The impact of each investment was estimated using input-output multipliers provided by the Bureau of Economic Analysis². The multipliers were used to calculate estimates of the aggregate impacts of the individual projects on Oklahoma economic activity, earnings, and employment. The development of the multipliers by the BEA and hence the economic impact estimates themselves are predicated upon assumptions about the structure of the regional economy. This includes the perpetuation of industry linkages in production, patterns of spending and consumption, and fiscal conditions. Actual impacts may not adhere to these assumptions and may vary from the estimated impacts. BEA regional multipliers are used widely in applied impact studies of construction, health, manufacturing, transportation, tourism, and economic development projects. Government agencies, private consulting firms, academics, and others employ them, and they are found to be generally consistent with other methodologies utilized in impact studies.

All estimates are based on expenditure numbers only. Actual job and earnings data was not used to calculate output, earnings, or employment estimates. The estimates provided are based on the data provided by REI and the economic assumptions underlying the multipliers provided by the BEA. The report is intended solely to help REI New Markets Investments, LLC quantify its impact on the state and may not be used for any other purposes.

¹ For a more complete list, see http://www.ruralenterprises.com/e_newmarkets_success.php

² Regional Input-Output Modeling System (RIMS II), 2003 data, 1997 detailed industry structure

Detailed Economic Impacts

The Federal New Markets Tax Credit (NMTC) program was enacted as part of the Community Renewal Tax Relief Act of 2000 and is designed to facilitate the flow of financial capital into low-income communities. Investors make qualified equity investments in U.S. Department of Treasury designated Community Development Entities (CDEs) who in turn, use the funds to provide investments in qualified low-income communities. The program then permits the investor to receive a credit against Federal Income taxes equal to 39% of the original investment spread over 7 years.³ As a designated CDE, REI New Markets Investment, LLC effectively brokers flows of capital into underserved areas.

Each recipient of NMTC funds used the funds to undertake a variety of projects including construction of new facilities, expansion or upgrades of current facilities, real estate purchases, inventory expansion, communication services infrastructure expansion, landscaping, etc. Each of these projects represents a change in the final demand for goods and services from a specific industry (e.g. construction), which in turn requires increased production activity from all of its supporting industries. For example, an initial construction expenditure yields additional expenditures in materials, services, machinery, etc. A portion of this flow ultimately ends up as factor payments to households supplying labor to the original and supporting industries, and a portion of this flow is returned to the economy in increased consumption expenditures. The aggregate effect of the original project is often far greater than original project itself, and is known as the multiplier effect. Using data provided by REI and industry specific estimates of the multiplier effect purchased from the Bureau of Economic Analysis, an estimate of the aggregate impact of REI New Markets Investments, LLC is derived.

The data provided indicate that through 2005 REI had secured nearly \$65 million in investments through the NMTC program. A portion of these funds was used to purchase goods or services provided by firms located outside the state of Oklahoma and, as such, are omitted from the present analysis. Additionally, the use of funds for such purposes as real estate or land purchases represent a transfer of assets and involve very little in the way of increased final demand for Oklahoma produced goods and services. In such instances, a reasonable estimate of the fraction of the expenditure with a measurable impact on an industry's final demand is used in the analysis. For example, in the case of land purchases it is assumed that a fraction of the total expenditure was dedicated to the real estate and legal fees associated with the acquisition. Only this fraction of the total is included in the analysis. Table 2 below provides a breakdown of the total financial capital secured by industry classification as well as the effective amount used in the present study.

³ For a more detailed overview of the Federal NMTC program, consult to Department of the Treasury's Community Development Financial Institutions Fund web page at www.cdfifund.gov.

Table 2
Total and Effective Investment by Industry Classification

Industry Classification	Total REI Investment	Effective Investment
Real Estate	7,808,208	468,492
Federal Reserve banks, credit intermediation, and related services	964,286	57,857
Computer and electronic product manufacturing	1,625,000	1,625,000
Wholesale trade	1,421,576	1,421,576
Administrative and support services	1,680,111	1,680,111
Other transportation and equipment manufacturing	9,500,000	4,500,000
Miscellaneous manufacturing	2,000,000	2,000,000
Machinery manufacturing	1,710,000	1,710,000
Other services	301,020	301,020
Professional, scientific, and technical services	7,433,270	5,433,270
Food services and drinking places	29,822	29,822
Construction	30,042,182	30,042,182
Total	64,515,475	49,269,330

An overview of the data provided by REI reveals their success both in investing in inherently local projects and in financing projects that have significant and broader impacts on the economy. Of the \$64,515,475 invested by REI, over 75% of the total funds remain in state and finance projects that effectively change the final demand for goods and services produced in Oklahoma industries. The diversity of the projects funded, each with their unique make up of supporting industries, suggests that the economic impact is felt broadly across the state.

With the value of effective investment isolated and the initial change in final demand for goods and services categorized by industry class, estimation of aggregate impacts proceeds using industry specific multipliers provided by the U.S. Bureau of Economic Analysis (BEA). Using national input-output data that relate the linkages between industry in the production of economic output and BEA's regional economic accounts, region specific multipliers are derived. These multipliers estimate the aggregate effect on economic output, earnings, and employment resulting from a \$1 change in the final demand for any industry's output.

Table 3 provides a breakdown of REI activities by year, as well as aggregate output, employment, and earnings impacts. The multipliers developed by the BEA are based on a snapshot of economic conditions at a given point in time and are long run in nature. Therefore, the accuracy of the estimates depends on the continuation into the future of current economic linkages and that the aggregate impact may not be felt in the year of expenditure. In fact, past activities may continue to positively impact the economy.

Table 3
Total output, employment, and earnings impact, Current dollars

Year	Output	Employment	Earnings
2003	1,377,883	12	424,566
2004	81,428,104	667	25,045,335
2005	33,065,070	291	10,677,295
Total	116,471,057⁴	970	36,147,196

The aggregate impact of the projects funded through REI New Markets Investments, LLC is estimated to be over \$116 million in economic output, 970 new jobs, and over \$36 million in earnings. The average output multiplier for projects funded is 1.98, indicating that for every \$1 million invested by REI, \$980,000 in additional economic activity is generated in the local economy. On average, every \$1,000,000 invested by REI results in 21 additional jobs in the recipient and related industries with an average annual salary of \$26,166⁵.

Table 4 provides a sectoral breakdown of the impact on economic output, earnings, and employment. These sectoral categories, provided with their multipliers by the BEA, give a broader picture of the original investment impact beyond specific industries.

⁴ Totals differ due to rounding error. Use Table 4 totals in all citations.

⁵ Based on an average employment multiplier of 21.199 and an earnings multiplier of 0.5547

Table 4
Total expenditure impact by economic category, Current dollars

Category	Output Impact	Earnings Impact	Employment Impact
Agriculture, forestry, fishing, and hunting	921,045	111,990	6.42
Mining	1,046,783	211,339	2.83
Utilities	1,716,381	284,181	3.21
Construction	32,233,627	11,977,928	313.15
Manufacturing	24,676,165	4,819,017	82.85
Wholesale trade	5,304,373	1,675,392	33.36
Retail trade	6,077,755	2,042,823	82.38
Transportation and warehousing	3,160,673	982,429	21.48
Information	3,014,135	753,292	13.92
Finance and insurance	4,231,682	1,047,022	23.93
Real estate and rental and leasing	7,252,630	407,027	15.79
Professional, scientific, and technical services	10,227,489	4,734,107	98.20
Management of companies and enterprises	1,172,678	562,572	9.20
Administrative and waste management services	4,098,467	1,747,966	74.04
Educational services	804,210	326,111	13.70
Health care and social assistance	5,129,103	2,490,318	64.87
Arts, entertainment, and recreation	415,649	165,662	8.80
Accommodation and food services	2,149,823	828,518	58.30
Other services	2,834,117	913,865	37.45
Households	N/A	62,136	6.59
TOTAL⁶	116,466,792	36,143,705	970.47

Impact on the various economic categories is based on multipliers for the industry classification aggregators determined by the BEA. The industry-specific multipliers are themselves broken down by category to determine the wider impact dollars invested into certain industries have on the overall economy.

The diversity of the affected sectors suggests that the benefits accrue to a significant portion of the state. It also suggests a broad impact on labor skills across income distributions.

The reported impact represents the influence of the specific projects outlined above. It does not include the continuing impact of the recipient of each project.

⁶ Totals vary slightly from previous totals due to errors caused by rounding of the BEA category multipliers and of other data.

Conclusion

REI has been providing assistance to businesses in Oklahoma for more than 25 years. Their efforts include providing assistance to small businesses through business incubators, financing, equipment purchase, employee assistance, and other targeted programs. This report focuses on the impact of their New Markets Tax Credit allocations for the years 2003 to 2005 for the Oklahoma statewide economy. It excludes any non-Oklahoma impacts as they are not the target of REI's funding.

For the years 2003 to 2005, REI invested \$64,515,976 in prior year dollars. This investment yielded an aggregate impact of \$116,466,792 in current year dollars based on the use of the RIMS II final demand multipliers. Additionally, we estimate that the REI NMTC investments created 970 jobs and added \$36,143,705 in payroll.