New Markets Development Program

Federal and State Investment in Small Businesses Located in Low Income Communities

The highly successful federal New Markets Tax Credit (NMTC) program, established by Congress in 2000 and administered by the U.S. Department of the Treasury, has facilitated $26 billion of private-sector investment in economically distressed communities nationwide.

> The federal NMTC permits individuals and corporate taxpayers to receive a credit against federal income taxes for making qualified equity investments in investment vehicles known as Community Development Entities (CDEs).

> Advantage Capital has participated in the federal New Markets program since 2003, receiving a total of $388 million in six of the seven highly competitive allocation rounds.

About the Missouri New Markets Development Program

In late 2007, the state of Missouri passed a $187.5 million New Markets Development program, making it one of eight state programs (Florida, Illinois, Kentucky, Louisiana, Mississippi, Missouri, and Ohio and Oklahoma) modeled after the successful federal New Markets Tax Credit (NMTC) program.

In 2009, the state of Missouri renewed the program, allocating an additional $125 million. The goal of the program is to attract large, long-term investors to the state's low-income communities, promoting new expansion, creating new job opportunities and building on existing growth in Missouri.

> Advantage Capital Partners has invested more than **$245 million in 40 Missouri businesses** in connection with the federal New Markets Tax Credit program and Missouri New Markets Development program.

> Investments have created and retained more than 2,000 jobs with an average salary of $48,000.

> Follow-on capital investment from other sources into these Missouri businesses totals $392.7 million.

> Advantage Capital investments in rural and urban Missouri span a range of sectors, including manufacturing, healthcare, cleantech, hospitality and information technology.

State New Markets Development Programs make states more attractive to highly qualified federal New Markets Tax Credit program investors.

> The program investment capital into small businesses in the state, which will remain in place for years to come.

> The investments can only be made in businesses that are ineligible for traditional financing.

Missouri New Markets Development Program ("NMDP")

June 2010 Update

- More than 45 small businesses have been funded—at least nine new Missouri businesses
- Over 2100 jobs created/retained
- Average wage: $48k
- Over $300M of direct state NMTC investment
- Over $400M of follow-on capital from other sources
- State tax credit leverage: 4.6:1
- State tax credit <u>cost to date: $0 (~$10M in 2010 tax year – Mostly FY 2011)</u>
- Estimated state <u>General Revenue to date: $65M+</u> (UMSL study based on Program One enacted in 2007 providing for $15M TCs after two-year delay)
- Average jobs per company: 45
- Total annual payroll exceeds $110M
- State NMTC has made MO seventh in the country at receiving Federal NMTC
- MO gets 3X the national average of NMTC dollars invested in small business since 2007 enactment
- Every NMTC private dollar currently invested is expected to be invested at least one more time over the seven-year life with no new tax credits earned – GAO reports 13:1 leverage of private dollars compared to state investment once the program has run for seven years
- Average small business loan through NMTC is more than 50% below market average
- Investments in rural and urban Missouri represent manufacturing, healthcare, cleantech, hospitality and information technology
- Breakdown of average investment:

  $5.9M investment per Small Business of which:

  - $1.6M = State tax credits (2 yr @ $0, then 5 yrs @ $320k per yr)
  - $600K = Federal tax credits drawn down
  - $3.7M = Private Capital

Missouri New Markets Development Program ("NMDP")

Qualifications for Businesses Receiving Investment

Federal NMTC Qualifications

Generally speaking, a business will be qualified for NMTC if it meets the following criteria:

- The company is located within a low-income census tract.
- At least 40% of the services performed by the company's employees are performed in low-income census tracts.
- At least 40% of the company's tangible property is utilized in low-income census tracts.
- At least 50% of the company's gross income is derived from the active conduct of the business within low-income census tracts (this test is deemed to be met if either the services test or the tangible property test exceeds 50%).
- The company is not engaged in excluded businesses, which include: massage parlors, hot tub facilities, suntan facilities, country clubs, racetracks or other gambling facilities, sale of alcohol for consumption off premises, development or holding of intangibles for sale, private or commercial golf course, and farming.
- The company is not a bank, credit union or other financial institution.
- The company derives less than 80% of its revenue from the rental of residential property.
- Less than 5% of the company's assets constitute collectibles (for example, rare coins).
- Less than 5% of the company's assets constitute nonqualified financial property.
- The company has revenue or expects to have revenue within three years.
- The company has no plans to change the operations or characteristics of the business such that it would fail to meet any of the above criteria.

Proposed State NMDP Additional Qualifications

To qualify for the additional state incentive, the business must also meet the following criteria:

- Business must be located in Missouri in a low-income census tract.
- No more than 15% of income of the business can come from real-estate investment.
- The business cannot receive more than $10m in New Markets investment from all sources.
- State requirements for qualification include all federal qualifications.

Top 10 New Markets Development Program Attributes

(i.e. what makes it unique)

1. **Two year delay between earning credits and claiming credits**

2. **Short Sunset – 3 years**

3. **Independent program review/reauthorization mechanism already codified**

4. **Credits are only transferrable to taxpayers who hold an investment (not on the open market)**

5. **Recapture of credits for up to 7 years for a violation**

6. **Federal credits enhance impact & federal oversight and auditing enhance taxpayer protection**

7. **Federal application process is highly competitive with objective scoring and peer review**

8. **Accountability to communities through local advisory boards**

9. **Awarded as one of the top 50 Innovations in Government from Harvard's Ash Institute**

10. **Provides affordable capital for small businesses**

Missouri New Markets Development Program Investments

Animal House Veterinary Hospital
St. Louis

BUTLER'S PANTRY
St. Louis

CMC
CARBOLYTIC MATERIALS COMPANY
Maryville

XO
St. Louis

T3
St. Louis

LAWRENCE GROUP
St. Louis

veran medical technologies
St. Louis

Environmental Operations, Inc.
St. Louis

Waste Remedies
Good for the environment and your bottom line.
St. Louis

INDEECO
Cuba

HOTEL indigo
St. Louis

Hilton Garden Inn
St. Louis

TRIAD
St. Louis

SUNFLOWER Food & Spice Company, Ltd.
Kansas City

VOXITAS® true voice
St. Louis

LIFT FOR LIFE ACADEMY
St. Louis

Producers' Choice Soy Energy LLC
Moberly

KEREOS
St. Louis

Jafiabow
Owensville

Success Stories

Mid America Brick
Mexico, Missouri

MAB Mid America Brick

COMPANY PROFILE

In 2010, Advantage Capital Partners provided $9.75 million of a $21.9 million total project financing for the much anticipated effort to re-open a brick manufacturing plant in Mexico, Missouri. Mid America Brick & Structural Clay Products, L.L.C. will use the funding from Advantage Capital, Rand Capital, Environmental Liability Transfer and other investors to acquire, re-commission and operate the former A.P. Green plant as a face brick manufacturing facility. The plant will provide approximately 80 new jobs once it is fully operational in 2011.

The A.P. Green plant, which closed in 2002, was at one time one of the largest refractory brick manufacturers in the United States. Mid America Brick will use the facility to make face brick for residential and commercial/industrial construction. The process for manufacturing refractory bricks and face bricks is similar; therefore, the re-commissioning and conversion costs of the A.P. Green plant will be minimized.

Mid America Brick's central location is expected to give the manufacturer a competitive advantage, due to the expected lower transportation costs associated with shipping bricks to various locations throughout the Midwest. In addition, all indicators are pointing to more demand for face brick due to the extremely low inventories of brick as a result of a slowdown in the building industry. When the plant is fully operational, it is expected to produce nearly 60 million bricks annually.

ADVANTAGE CAPITAL PARTNERS

www.advantagecap.com

ADVANTAGE CAPITAL INVESTMENT

Advantage Capital's $9.75 million investment will utilize both federal and Missouri New Markets tax credits, designed to stimulate private capital for economic growth in low-income communities, to help finance the project.

Additional investors in the project include Rand Capital (NASDAQ: RAND), real estate investment group Environmental Liability Transfer and a group of individual investors, many of whom reside in Mexico, Mo. Community South Bank, based in Knoxville, Tenn., underwrote the senior debt facility through a USDA-guaranteed loan. Mid America Brick has also obtained funding from a number of state and local financing programs including Neighborhood Improvement District bonds, a Missouri Department of Economic Development loan, Brownfield tax credits, a Community Development Block Grant and many other training and enterprise enhancement incentives.

The Mid America Brick project received strong support at the local, state and federal levels of government, including the Mexico City Council, Missouri State Representative Steve Hobbs (R-21), Missouri State Senator Wes Shoemyer (D-18), U.S. Representative Blaine Luetkemeyer (R-9) and U.S. Senator Kit Bond (R-Missouri).

HIGHLIGHTS

- $9.75M New Markets investment supports reopening of Mexico, MO. brick factory
- The plant will provide approximately 80 new jobs once it is fully operational in 2011
- 30+ jobs will be created for trucking of materials and product and preparation of samples; sample creation will involve employment of disabled persons

VERAN MEDICAL TECHNOLOGIES

Advantage Capital Partners – New Markets Case Study

veran
medical technologies

- $1 million Advantage Capital investment serves as catalyst for $3.75 million subsequent funding
- Financing lures life-saving medical device company to St. Louis, bringing seven jobs with more to follow
- Company augments regional life sciences cluster strategy

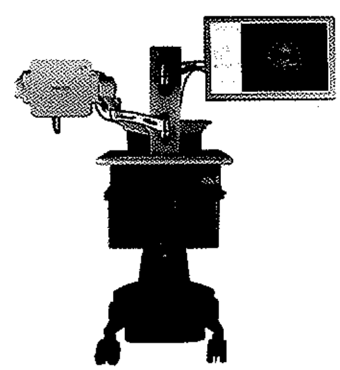
Veran Medical Technologies, Inc. is a privately-held medical device start-up company. The company is focused on developing tools for minimally invasive delivery of interventional oncology therapies. The greatest hurdle in cancer treatment is safe, efficient and economical early detection; the Veran IG4 system and instruments enable accurate targeting of very small lesions, allowing cancer treatment earlier in the disease cycle and improving survival rates.

The company relocated its headquarters from Nashville, Tennessee to St. Louis, Missouri, in conjunction with this financing, bringing seven employees, with plans to expand the workforce immediately by hiring sales and marketing staff. Veran will also contribute to the efforts to create a life sciences hub in a highly distressed area of the city.

In 2008, Advantage Capital invested $1 million out of a financing round totaling $4.75 million. Funds will be used primarily for clinical studies, sales and marketing, and research and development purposes. Advantage Capital's portion of the funding was raised in connection with the federal New Markets Tax Credit program and Missouri's New Markets Development program. Both programs are designed to stimulate economic growth in communities that historically have been underserved by traditional sources of capital.

Prior to partnering with Advantage Capital and the other investors, Veran met with 40 different venture capital firms from all over the country in search of adequate financing. Among the challenges the company faced was that it was too small and that the funding request was below the threshold of investment for some of the firms.

> "Veran Medical Technologies Inc, a young company with a device for diagnosing and treating lung cancer, is moving to St. Louis—lured here by a trusted adviser and venture capital funds....The Missouri New Markets Development Program, created by state law last year, also is a factor."
>
> --Rachel Melcer, "Venture Capital Firms Lure Medical Device Maker to St. Louis," St. Louis Post-Dispatch, May 10, 2008



Fused CT/PET navigation with the Veran IG4 Delivery System will revolutionize thermal ablation therapy.

CARBOLYTIC MATERIALS COMPANY

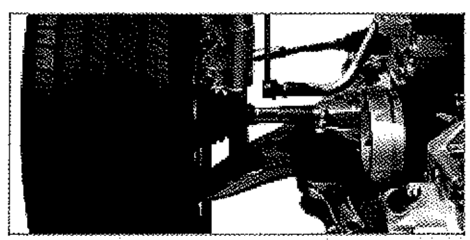
Advantage Capital Partners - New Markets Case Study

CARBOLYTIC MATERIALS COMPANY

- $12.4 million Advantage Capital investment unlocks an additional $5 million of subsequent funding at no cost to the state
- 21 new, permanent jobs with salaries that are above county average; 25 additional construction jobs in rural Missouri
- "Green" manufacturing plant produces carbon black alternative that reduces landfill use of tires, dependency on foreign oil, and CO2 emissions

Carbolytic Materials Co. is the first company to successfully recover a carbon black alternative suitable for commercial use from scrap tires. The company uses its licensed technology to create ApexCM™, a lower cost, environmentally friendly alternative to carbon black that is extracted from existing rubber products.

Advantage Capital provided $12.4 million in financing to Carbolytic Materials in November 2008. The financing was raised in connection with the federal New Markets Tax Credit program and the Missouri New Markets Development program; both programs are designed to stimulate economic growth in communities that historically have been underserved by traditional sources of capital.



Carbolytic Materials will use the funds to build a manufacturing facility in the rural community of Maryville, Mo. where it will process more than 15,000 tons of used tires annually to create ApexCM, which can be used for hoses, gaskets, belts, roofing material, plastic piping and more.

Despite the startup, project-finance nature of the company, Advantage Capital was able to provide a very high percentage of the total funding needed, including not only senior loans but also a deeply subordinated loan which filled a financing gap and enabled the project to move forward. This level of financing would not have been possible without the Missouri New Markets Development program.

Waste Remedies

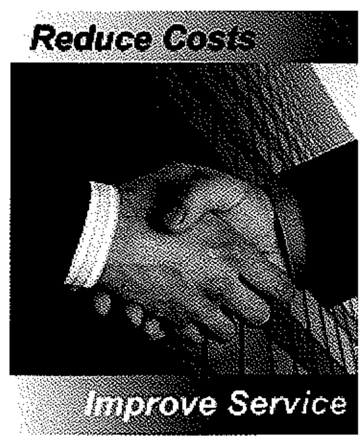
Advantage Capital Partners - New Markets Case Study

Waste Remedies
Good for the environment and your bottom line.

- $7.25 million Advantage Capital investment serves as catalyst for $1 million in additional follow-on capital at no cost to the state
- Investment capital prompts company to relocate to Missouri
- Environmentally friendly waste removal and recycling business
- Nine jobs with an average salary of $58,892 & full employee benefits

From its offices in St. Louis, Waste Remedies provides consulting, management and brokerage services for waste removal. Teaming with property managers, manufacturers, retailers and restaurants, the company arranges waste removal and recycling at considerably lower cost, often producing savings of as much as 50 percent. Today, Waste Remedies is known as one of the major "environmentally friendly" investments in St. Louis.

Advantage Capital invested $7,250,000 in Waste Remedies in 2008 with funds raised in connection with the federal New Markets Tax Credit program and the Missouri New Markets Development program. Both programs are designed to stimulate economic growth in communities that historically have been underserved by traditional sources of capital. An earlier investment prompted the company to move its headquarters from Chicago to St. Louis.



When the company first sought financing, several banks either turned the investment opportunity down outright or were unable to provide sufficient capital to enable the transaction. Advantage Capital offered deeply subordinated capital, with reduced cash payment requirements. This structure allowed one of the firm's trusted partner banks to stretch and provide the remaining senior financing required for the investment. Advantage Capital has continued to provide additional capital, subordination and flexible repayment terms as Waste Remedies has grown and evolved under new ownership – even through an extreme tightening in the credit markets.

To date, Waste Remedies has attracted more than $1 million in follow-on capital, and the company currently employs nine people, with additional job growth expected.

Rev.11.21.08

ENERGY

Boston Business Journal

PHILADELPHIA BUSINESS JOURNAL

Forbes.com

ATLANTA BUSINESS CHRONICLE

St. Louis Business Journal

Missouri New Markets Program Creates 'Green' Jobs at Two Companies in Rural Missouri

ST. LOUIS, Nov. 24 /PRNewswire/ -- The Missouri New Markets Development program is responsible for a new round of financing for two "green" businesses in rural Missouri. Carbolytic Materials Co. in Maryville and Producers' Choice Soy Energy, LLC in Moberly have received a total of $21.9 million in financing from Advantage Capital Partners. The funding was made possible through state and federal tax programs designed to stimulate growth in underserved communities.

Carbolytic Materials Co., the first company to successfully commercialize a carbon black alternative suitable for industrial use from scrap tires, has received $12.4 million of state and federal New Markets funding, as part of a total $17.5 million project financing. The company uses its licensed technology to create ApexCM(TM), a lower cost, environmentally friendly alternative to carbon black that is extracted from existing rubber products.

"In these tough economic times, it is critical that we have the tools like Missouri New Markets to support small business development and job creation," said Lee Langerock, executive director for Nodaway County Economic Development. "The Missouri New Markets initiative prioritized by the Missouri General Assembly is creating a positive impact in rural areas as well as the state's major cities. We're especially pleased to have this investment in the Maryville community."

"Despite the startup, project-finance nature of the company, Advantage Capital was able to provide a very high percentage of the total funding needed, which filled a financing gap and enabled the project to move forward," said Jeremy Degenhart, senior vice president at Advantage Capital. "This level of financing simply would not have been possible, for any lender, without the benefit of the Missouri New Markets Development Program."

In another direction towards "green" jobs, Missouri's New Markets Development program was instrumental in providing a $9.5 million construction loan to Producers' Choice Soy Energy, LLC as part of a $17 million total alternative energy project. The funding from Advantage Capital will be used to support the construction and operational needs of a soybean processing plant and a biodiesel production facility in Moberly, Mo.

"I'm proud to have supported the New Markets program because it is helping to create jobs and economic growth in our community," said Rep. Therese Sander, who represents the Moberly area.

"The demand for biodiesel is growing as it is a renewable fuel that will have a substantial impact on our nation's energy independence," Louis Dubuque, managing director at Advantage Capital added. "This investment will stimulate economic growth in rural Missouri with new state-of-the-art facilities."

Full Text: http://www.advantagecap.com/generalnews_item.cfm?news_id=279

in today's ›› St. Petersburg Times

Los Angeles Business from bizjournals

Kansas City infoZine®

New Markets Tax Credit Program Funds Three Projects in Kansas City

Posted Saturday, February 27, 2010 :: Staff infoZine

Reeves Wiedeman Company, the Greater Kansas City Boys and Girls Clubs and Posty Cards Inc.

Kansas City, MO - infoZine - The City of Kansas City, Mo., Community Development Entity has completed funding of three New Markets Tax Credit projects. The three transactions involving Reeves Wiedeman Company, the Greater Kansas City Boys and Girls Clubs and Posty Cards Inc., represent the first New Markets Tax Credit projects funded by the Kansas City, Mo., Community Development Entity, which has been awarded $75 million in New Market Tax Credit allocation authority during the past two years.

"I am happy to see the City leveraging resources to help businesses continue to invest in our communities, especially the 3rd District," said Councilwoman Melba Curls, 3rd District at large.

The Kansas City Community Development Entity used $5 million in New Markets Tax Credit allocation authority for each of the Reeves Wiedeman Company and the Greater Kansas City Boys and Girls Clubs projects, and $6 million in allocation authority for the Posty Cards project. The Posty Cards project also benefited from a New Markets Tax Credit allocation from the State of Missouri, which the Kansas City Community Development Entity secured by submitting an application to the Missouri State Department of Economic Development. Posty Cards is the first project in Kansas City, Mo., to benefit from the State of Missouri's New Markets Tax Credit Program. US Bank was the tax credit investor for all three transactions as well as the lender in the Posty Cards project.

"Both the Posty Cards and the Greater Kansas City Boys and Girls Clubs projects will deliver critical jobs and services to 3rd District residents," said Councilwoman Sharon Sanders Brooks, 3rd District, whose district is home to both projects. "The New Markets Tax Credit Program demonstrates that the City can play an effective role in promoting community and economic development in our most underserved communities."

All three projects confirmed both a need for New Markets Tax Credit financing, as well as an ability to achieve specific outcomes that the Kansas City Community Development Entity has prioritized in its consideration of eligible businesses and development projects, which include either providing or supporting vital goods and services to low-income communities; providing living-wage jobs and workforce development; Disadvantaged, Minority and Women Business Enterprise utilization; environmental/brownfields remediation; "Green" building practices; and others.

The Greater Kansas City Boys and Girls Clubs project includes the renovation of the former Minute Circle Friendly House building located at 2405 Elmwood Ave., as well as new construction to create the JD Wagner Unit Community Center that will house a gym, indoor pool, computer lab, art room, multi-purpose space and classrooms.

Posty Cards Inc., which designs, manufactures, and sells personalized "all occasion" and holiday greeting cards and calendars for companies nationwide, will be expanding the company's existing card fabrication facility, located at 1600 Olive St., including adding more than 20,000 square feet of production space. The new fabrication facility will be the first industrial building in Kansas City, Mo., to achieve the Leadership in Energy and Environmental Design Gold Certification designation.

Reeves Wiedeman Company, a local plumbing supply company established in 1887, is renovating the historic O.H. Dean building located at 3536 Main St., and converting it into office and retail space. Reeves Wiedeman Company will be moving its corporate headquarters operations from Lenexa, Kan., to the renovated building.

"Three years ago there was not one New Markets Tax Credit project in Kansas City, Mo. Now we can point to these projects located in some of our most underserved areas that have benefited from the program," said Ruben Alonso III, manager of the New Markets Tax Credit Program for the City of Kansas City, Mo. "The New Markets Tax Credit Program is truly elevating the way economic development is done in our communities."

Article link: http://www.infozine.com/news/stories/op/storiesView/sid/40162/

THE ECONOMIC AND FISCAL IMPACT ASSOCIATED WITH PROJECTS FUNDED USING THE MISSOURI NEW MARKETS DEVELOPMENT PROGRAM

PREPARED FOR

ADVANTAGE CAPITAL PARTNERS
(February 2009)

Don Phares
***E*conomic *R*esearch**
St. Louis, MO

Overview

In 2000 Congress created the New Markets Tax Credit Program as a part of the Community Renewal Tax Relief Act. The intent was to encourage and support the development of new investments in low-income communities. It provides tax incentives to investors who make investments in distressed communities and promote investment through successful businesses in the low-income communities. Eligible investors receiving the credit, through a competitive process, can claim the NMTC over a seven year period. The tax credit is 5% for the first three years and 6% for the final four years, 39% in total. The NMTC program enacted in 2000 was authorized to allocate $18.5 billion through the end of 2008. It was expanded by $3.5 billion in 2009.

In 2007 the state of Missouri enacted legislation (RSMo, Section 135.680) to supplement funding from the federal New Markets Tax Credit Program. The program enables up to $186 million of capital investment in Missouri small businesses. The program is concentrated in low-income communities using a state tax credit modeled after the federal New Markets Tax Credit program. The tax credit is 0% for the first two "credit allowance dates" (the date the investment is actually made), 7% for the third credit allowance date, and 8% for the next four credit allowance dates, 39% in total. The maximum state tax credit for any fiscal year has been set at $15 million.

This analysis will focus on the economic and fiscal impact of investments made using the Missouri New Markets Tax Credit Program. The economic portion of the study will focus on the impact of the program on jobs, income, and spending in Missouri. The fiscal portion will look at revenues for the state generated by the new investments.

Specifically, the analysis will examine the economic and fiscal impact associated with investments in 24 businesses. The total amount of the direct investment is $110.4 million ranging in size from $136,225 to $10 million. Associated with these new businesses are 1,816 jobs in ongoing operations and 180 in construction. The analysis to follow will trace the full impact of these investments which goes beyond (due to the multiplier effect) the initial direct economic effects on jobs, income, and spending. The fiscal portion of the analysis will examine the new revenues for the state of Missouri that are generated by these investments.

The Economic Impact

The economic impact analysis looks at components for which reasonable quantitative estimates can be made. Each of these will be discussed in turn. There are two elements to be considered. First, is the ongoing, annual spending impact associated with each development. This impact continues for as long as the activity continues. Second, is the impact from construction activity associated with the new businesses such as new physical facilities, site and infrastructure improvements, etc. The important point to note here is that this impact is terminated when the construction ends.

The estimates made here are based on the businesses being fully operational. They are for a single year.

Format for Data Presentation

The data containing the economic impact are shown in Tables 1 and 2 using the following format. They contain estimates for operations spending and construction spending related to the new businesses for the state of Missouri.

PRESENTATION FORMAT
FOR Tables 1-2

Geographical Area: **STATE OF MISSOURI**
Economic Impact Component: ***SEPARATE COMPONENTS***

Type of Economic Outcome	---------Type of Impact * ---------			
	Direct	Indirect	Induced	Total
Output	---------IMPACT IN DOLLARS---------			
Employment	--------IMPACT IN NUMBER OF JOBS--------			
Income	--------IMPACT IN DOLLARS--------			

* An explanation of each type of impact is given in the Appendix.

In summary the economic impact analysis to follow contains the following elements:

- *Location* – the state of Missouri
- *Economic Impact Component–* ongoing operations and construction
- *Economic Outcome–* output (spending), employment (jobs), income (household income)
- *Type of Impact* – direct, indirect, induced, total impact
- *Multiplier Impact* – the total impact divided by the direct impact

Table 1 shows the economic impact associated with the businesses supported with the Missouri New Markets Tax Credit Program. 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.

TABLE 1

THE *ECONOMIC* IMPACT OF THE MISSOURI NEW MARKETS TAX CREDIT PROGRAM ON THE STATE OF MISSOURI
2009

Geographical Area: STATE OF MISSOURI
Economic Impact Component: ONGOING OPERATIONS SPENDING

Type of Economic Impact	Direct Impact	Indirect Impact	Induced Impact	Total Impact
Output ('000)	$272,162	$113,008	$126,510	$511,680
Employment (# of jobs)	1,816	891	1,193	3,900
Labor Income ('000)	$80,229	$38,778	$40,204	$159,211

Source: Computed from data provided by Advantage Capital Partners. Computations were done using the IMPLAN Professional economic model (IMPLAN, 1999, as updated).

Table 2 shows the economic impact associated with construction for the new businesses. The total impact for spending is $33.8 million. For jobs the total impact is 332; this is 1.84 times the direct construction employment of 180. For labor income the impact is $13.7 million. These impacts, however, will exist only for the life of the construction activity. Once construction is completed they come to an end.

TABLE 2

THE *ECONOMIC* IMPACT OF THE MISSOURI NEW MARKETS TAX CREDIT PROGRAM ON THE STATE OF MISSOURI
2009

Geographical Area: STATE OF MISSOURI
Economic Impact Component: CONSTRUCTION SPENDING

Type of Economic Impact	Direct Impact	Indirect Impact	Induced Impact	**Total Impact**
Output ('000)	$17,207	$5,708	$10,904	$33,818
Employment (# of jobs)	180	49	103	332
Labor Income ('000)	$8,114	$2,143	$3,465	$13,722

Source: Computed from data provided by Advantage Capital Partners. Computations were done using the IMPLAN Professional economic model (IMPLAN, 1999, as updated).

The Fiscal Impact

As noted above there is a fiscal impact derived from the new businesses supported by the Missouri New Markets Tax Credit Program. These impacts are associated with new revenues that accrue to governments – federal, state, and local.

The focus here is just on the state of Missouri since it is the jurisdiction providing the tax credit. Let it be noted, however, that there are other fiscal effects that impact the federal government and local jurisdictions within the state of Missouri. Tables 3 and 4 show the fiscal impact on Missouri for ongoing operations and for construction.

As shown in Table 3 for 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.

TABLE 3
THE *FISCAL* IMPACT OF THE MISSOURI NEW MARKETS TAX CREDIT PROGRAM ON THE STATE OF MISSOURI

ONGOING OPERATION SPENDING
2009

Type of Revenue	Amount
General Sales Tax	
state Portion	$10,809,000
Missouri State	
individual income tax	$3,628,000
corporate income tax	*
Other Taxes	#

This includes the fiscal impact of major state taxes (sales and income). There are many minor ones for which there is no basis for making an estimate.
* No basis for making an estimate.

Table 4 shows the same elements but for the construction associated activity with the new businesses. It is $714,000 for the general sales tax and $313,000 for the individual income tax. This revenue ends once construction is completed for a business.

TABLE 4

THE *FISCAL* IMPACT OF THE MISSOURI NEW MARKETS TAX CREDIT PROGRAM ON THE STATE OF MISSOURI

CONSTRUCTION SPENDING
2009

Type of Revenue	Amount
General Sales Tax:	
state portion	$714,000
Missouri State	
individual income tax	$313,000
corporate income tax	*
Other Taxes	#

This includes the fiscal impact of major state taxes (sales and income). There are many minor ones for which there is no basis for making an estimate.
* No basis for making an estimate.

The Impact of a Fully Utilized Missouri New Markets Tax Credit Program

At present direct investment in the Missouri New Markets Tax Credit Program is $110.4 million. When fully utilized the $15 million allocation of tax credits will support $187.5 million in new direct investment that qualifies for the tax credit. The credit will be redeemed in years three through seven at 7% of the amount invested in year three and 8% in years four through seven. Thus, there is an additional $77.1 million in direct investment that has been allocated to community development entities but not yet invested at the time of this study..

Using the numbers generated for the present level of direct investment ($110.4 million) it is possible to estimate what the economic and fiscal impacts will be when all of the $15 million in tax credits have been put to use. This makes the assumption that the distribution of additional businesses by type will be about the same as the existing one. That is that the additional $77.1 million will mirror what presently exists. This produces the following economic and fiscal impact for the fully utilized $15 million tax credit which applies to the $187.5 million in direct investment possible.

	Ongoing Annual Activity	**One Time Construction Activity**
Economic Impact:		
• Output/Spending ('000)	$864,739	$57,152
• Employment	6,591	561
• Income ('000)	$269,067	$23,190
Fiscal Impact		
• State General Sales Tax '(000)	$18,267	$1,207
• State Individual Income tax '('000)	6,131	529
• ***Total Fiscal Impact ('000)***	***$24,398***	***$1,736***

APPENDIX

AN OVERVIEW OF ECONOMIC IMPACT ANALYSIS

Economic impact analysis examines how an addition to the local economy or a change in an existing component of the economic base of an area affects its economic base. It then goes on to quantify the magnitude of this impact expressed in economically meaningful terms such as business spending (output), income, or jobs (employment). The geographical coverage of such analysis can encompass an entire nation (e.g., the impact of OPEC pricing or NAFTA on the United States) or more limited in geographical scope such as a city, a county, or a metropolitan area. As noted, the focus is usually on the major dimensions of economic outcomes, such as business volume, income, and employment, but it could also look at value added, proprietor's income, other property income, or indirect business taxes (these latter four are not reported on here).

The applications of economic impact analysis can range over a vast spectrum of possible events or activities. Conceptually this could be *any change* that may have economic implications (e.g., relocation of a corporate headquarters, creation of a new business, or expansion of existing business activity) or it may focus on the impact of an existing element of the economy (e.g., a sports/entertainment venue, tourism, or business expansion). The impacts are usually expressed in *quantitative* terms such as dollars or number of jobs. Occasionally, however, they may be expressed in *qualitative* term when numbers (e.g., dollars) cannot be assigned but there is an acknowledged impact (e.g., the quality of life).

Such an analysis can be applied to the purview of the public sector, for example, investment in new facilities or infrastructure such as a navigation project by the U.S.

Army Corps of Engineers, a transportation mode for a metropolitan area, a regional sports complex, a municipal stadium, or enhancement of local convention and tourism activity. It can also apply to private sector activity related to investments in a particular area such as relocation of corporate headquarters, building a new production facility, or enhancing a service base such as tourism. For this analysis, it looks at the economic impact associated with new businesses supported by the Missouri New Markets Tax Credit.

There are three types of economic impact to be taken into consideration. First, is the **direct impact** of the expenditures related to the activity being considered. With any activity there will be associated expenditures such as for maintenance spending, employee compensation, or operations. This direct spending is confined to local spending to the extent allowed by available data and other information. Second, there is the **indirect impact** created by new or existing direct spending. Local suppliers will expand the scope of their operations in order to meet the greater demand for goods and services due to the new direct spending. If the change is significant new businesses may be created to meet this added demand. This, in effect, starts a chain reaction of additional purchases that works its way through the area's economic base. It reinforces and adds to the direct impact economic enhancement. Third, there is an **induced impact** as the new income generated by additional jobs from the direct and indirect effects leads to increased expenditures by households who are the recipients of the new income. More income available to households leads to more spending, the additional spending to more income, and the cycle repeats itself. The **total economic impact** is the sum of the direct, indirect, and induced contributions to the economic base.

This repetitive income and spending linkage leads to what economists have named the **multiplier process**. In brief, more income leads to more spending; more spending produces more income which, in turn, causes more spending, etc., etc. This chain of spending and re-spending has a total overall impact on the affected area that is a multiple of the initial direct expenditures; thus the use of the word "multiplier."

Economic models used to estimate the total economic impact (direct, indirect, and induced) are available from a very limited number of sources. One widely used source is the IMPLAN (1999, as updated) input-output multiplier model. While this is a national model in scope of coverage, it has the internal capacity to estimate multipliers for any individual county in the United States or any defined group of counties such as a metropolitan area, a region or state. These multiplier values will vary depending upon the geographical scope of coverage selected and the industry types used. Thus is highlighted the importance of having access to data on areas as small as a county and on the specific industrial sectors that are affected. As noted, this study looks at the businesses supported state–wide by the Missouri New Markets Tax Credit Program. It also uses different industries, which are derived from the pattern of direct spending, to estimate the multipliers and thus the economic impacts.

The IMPLAN model estimates separate multipliers for business volume, income, and jobs. These multipliers are available for more than 500 industrial sectors (e.g., various services, retail spending, government, etc.); this enables the economic impact analysis to examine much more precisely the differential outcome of various types of direct spending. This is important since the size of the multiplier impact can differ considerably by type of industrial spending. In essence, the empirical analysis can be tailored to account for the specific type of industrial activity associated with different types of spending as well as for the geographical area that is affected.

Economic impact analysis applies economic theory and methodology to quantify the resulting outcome on business volume, income, and employment for an existing economic activity or a net new change in economic activity in some specified geographical area.

The fiscal impacts can be derived from the results of the economic impact analysis.

DONALD PHARES

BIOGRAPHICAL SKETCH

Donald Phares is Professor Emeritus of Economics and Public Policy at the University of Missouri-St. Louis.

Phares is the author or editor of the books *Who Pays State and Local Taxes?* and *State-Local Tax Equity: An Empirical Analysis of the Fifty States;* co-author of *Municipal Output and Performance in New York City;* and editor of *A Decent Home and Environment: Housing Urban America, Metropolitan Governance without Metropolitan Government* ?, and *Governing Metropolitan Regions in the Twenty–First Century.*

He also has written more than seventy articles and book chapters and scores of technical and government reports. He has consulted for and done research with, as examples (not exhaustive):

- *Federal*-- the Department of Housing and Urban Development, the U.S. Advisory Commission on Intergovernmental Relations;
- *State* -- Hawaii, Massachusetts, Missouri, New York, and Ohio;
- *Local* -- the City of St. Louis, Kansas City, the St. Louis Public Schools, the School District of Kansas City, and other municipal governments and school districts;
- *Research organizations*-- the National Conference of State Legislatures, the RAND Corporation, the Urban Institute;
- *Businesses*—Anheuser-Busch Companies, Standard and Poor's Corporation, Emerson Electric Co., Civic Progress (St. Louis), Archer Daniels Midland Co.;
- *Foundations*-- the Ford Foundation, the Alfred P. Sloan Foundation;
- *Universities*-- Syracuse University, Washington University, Michigan State University, the University of Illinois, Portland State University, Indiana University at Indianapolis.

Phares also has served as an expert witness in legal cases pertaining to State and local taxation; the projection of future income; and the analysis of social, demographic, fiscal, and economic trends. He has also done numerous economic and fiscal impact studies for both public and private organization.

His administrative experience includes; chairperson of a department of economics, director of a public policy research center, dean of a college of arts and sciences, and vice chancellor for a university campus.

He received his BA from Northeastern University and his MA and Ph.D. from Syracuse University.