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How New Markets Tax Credits are Contributing to Recovery and Community Development in New Orleans

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Abbreviations

AMI: Area Median Income
BNOB: Bring New Orleans Back
CBD: Central Business District
CDE: Community Development Entity
CDFI: Community Development Financial Institution
CDFI Fund: Community Development Financial Institution Fund
CED: Community Economic Development
CIIS: Community Investment Impact System
CRA: Community Reinvestment Act
GAO: Government Accountability Office
GO Zone: Gulf Opportunity Zone
GZTP: Gulf Opportunity Zone Targeted Population
ILR: Institution Level Report
LIC: Low-Income Community
LIHTC: Low-Income Housing Tax Credit
LITP: Low-Income Targeted Population
NMCMS: New Markets Compliance Monitoring System
NMTC: New Markets Tax Credit
NOAA: National Oceanic and Atmospheric Administration
QALICB: Qualified Active Low-Income Community Business
QEI: Qualified Equity Investment
QLICI: Qualified Low-Income Community Investment
RE: Real Estate
NRE: Non-Real Estate
TLR: Transaction Level Report
UNOP: Unified New Orleans Plan

Abstract

The New Markets Tax Credit (NMTC) program was created in 2000 to incentivize commercial investment in low-income communities that have traditionally lacked access to capital. In addition to its use to foster community development, after Hurricane Katrina it was put to use as a disaster recovery resource as part of the Gulf Opportunity Zone Act. The program has successfully attracted investors, but gauging the community impact of NMTC projects is difficult to assess because of the diversity of allowable project types and their wide dispersion across the country. New Orleans affords a unique opportunity to examine how NMTCs have contributed to a specific community because of its pre-disaster economic and post-disaster recovery needs, and because 40 businesses in the city have received NMTC financing through 2008. At present, a disproportionate share of projects and dollars invested have gone to the Central Business District and other lightly flooded or unflooded areas.

Keywords: New Markets Tax Credits, economic development, community development, New Orleans, disaster recovery

Introduction

In December 2000, on the final day of Congress's last session of the year, the New Markets Tax Credit (NMTC) Program was passed as part of the Community Renewal Tax Relief Act (Bar 2002). By 2010, $25 billion of NMTC authority has been allocated[1]. One of the last initiatives of the outgoing Clinton administration, the credit, worth 39 percent of every dollar of equity investments made in specially qualified Community Development Entities (CDE) was intended to reach the "places left behind" often cited by President Clinton in statements on the condition of the U.S. economy, where the generally robust 1990s economy had failed to benefit local businesses and residents (Office of Policy Development and Research 1995). Opinions varied widely about why some neighborhoods failed to flourish and what should be done about it, but a common theme that had emerged by the mid-1990s was that insufficient access to investment capital for commercial development, even after the abolition of redlining and the passage of the Community Reinvestment Act (CRA), was one critical component of America's inner cities' economic woes (Barr 2002). Governmental and philanthropic grants for social services and business assistance could only be of so much help in revitalizing distressed communities if the mainstream world of finance continued to pass them by; more needed to be done to "democratize" financial services, in the words of Michael Barr, former deputy assistant secretary of the Treasury and one of the most active advocates for a tax credit that would improve the flow of capital into low-income communities (Barr 2002, 21). In addition to targeting economically distressed communities, NMTCs have been employed in disaster relief efforts, with a special $1 billion allocation made specifically for use in the Gulf Opportunity

1 $25 billion of allocation authority amounts to nearly $10 billion in foregone tax revenue. The tax credit is worth 39 percent of the amount invested; the amount of tax credit authority allocated represents the total amount of investments an entity can accept in return for granting the investor tax credits worth 39 percent of that investment.

Zone (GO Zone) to help meet disaster zones' needs to attract private investment, supplementing grants and philanthropic aid.

The NMTC has proven popular with investors and with the CDEs that compete for annual tax credit authority allocations. Investors obtain tax credits by investing in a CDE, which in turn applies those investments by financing qualifying commercial projects in designated low-income census tracts (or serving designated "target populations"), providing technical assistance to qualifying businesses, or making loans to other CDEs. Reviewing how well the program has performed as an investment inducement is relatively easy, but how well the program has performed with respect to community development is harder to judge for several reasons. First, as with many other economic development strategies, there is no definitive "but for" test for researchers that can clearly indicate whether projects might have gone forward in the absence of the incentive (U.S. General Accountability Office 2010). Many CDEs develop their own methods to identify projects that would be unlikely to occur without NMTC assistance, but those methods vary, and may be difficult for a researcher to corroborate after the fact (U.S. General Accountability Office 2010). Second, the program is still fairly young. The first round of allocations to CDEs was not actually made until 2003. After receiving an allocation, a CDE has to first find investors, and then find qualifying projects in which to invest their funds. There are time limits for both stages, but even so, projects resulting from NMTCs are only recently starting to come to fruition, and how well they will live up to expectations of jobs created or services performed remains to be seen. Third, with around 39 percent of the U.S.'s census tracts qualifying (Marples 2008), projects are widely dispersed (Gurley-Calvez et al. 2009). Fourth, the wide variety of projects that can be financed with the help of NMTCs mean that different investments may have different types of community impact, making them difficult compare. For instance, a community center may create few new jobs, but provide services for many in its neighborhood. As more projects come to fruition, it may be possible to review the community impacts of similar types of businesses. Also, in areas like New Orleans that have seen a relatively high amount of NMTC transactions, it is beginning to be possible to examine how well NMTC investments are reaching areas of particular need. Questions and concerns raised in the literature about how well NMTC-financed transactions actually serve low-income communities and whether the types of investments made are skewed toward some sorts of projects more than others can begin to be addressed now, if not definitively answered.

This thesis will examine the data available to date on NMTC projects in New Orleans to see how they compare to some of the hopes, fears, and predictions raised in the literature. While a few case studies on individual projects scattered across the country have been conducted, case studies on all the investments made in a particular city are wanting (one review of three CDEs receiving allocations for use in Washington, D.C. was published in 2004, but at such an early stage there were few actual projects in progress (Jones)). New Orleans presents an interesting opportunity for a case study of NMTC investments because the devastation wrought by the 2005 hurricane season introduced disaster-related investment needs to the city's many preexisting "places left behind," making it possible to review NMTCs' performance in both respects.

I begin by describing the NMTC program itself, what its requirements are, and how it operates, and review the literature on the context from which the program evolved, and on the program in practice to date. Next, I delineate the research questions that arise from the literature and my research methodology, followed by results of my analysis of NMTC projects in New Orleans. The final section will describe my conclusions based on those results.

The New Markets Tax Credit Program

The New Markets Tax Credit (NMTC), part of a broader New Markets initiative developed by the Clinton administration, was passed as part of the Community Renewal Tax Relief Act in 2000. Although the NMTC had appeal among Republican "opportunity society" leaders including long-time Enterprise Zone proponent and former HUD Secretary, Jack Kamp (Roberts 2005; Rubin and Stankiewicz 2003), and although tax credits are considered politically easier to pass than direct expenditures (Rubin and Stankiewicz 2003), including NMTCs in the act required compromise. In exchange for the inclusion of the NMTC program, as well as expansion of the existing Empowerment Zone program, NMTC advocates had to secure the support of Speaker Dennis Hastert by including the Republicans' Renewal Communities program in the legislations, and ensuring the abolition of capital gains taxes (Draut, Callahan, and Hawkes 2002). The bill was signed at the end of Clinton's last term, meaning that the particulars of the design and implementation of the program were left to the incoming Bush administration (Rubin and Stankiewicz 2003).

The early stages of the NMTC program's development

The authorizing legislation created a 39 percent tax credit to be taken over seven years, which amounts to around 30 percent of the total NMTC investment in present value terms (Barr 2002; Lance and Kanji 2003; U.S. General Accountability Office 2002), for investments of business capital made in certain qualifying low-income communities. The original allocation authority given to the CDFI Fund, which is part of the U.S. Treasury, was $15 billion (amounting to $5,850,000 in foregone tax revenue). That allocation was to be spread out over the years 2001-2007 (Lance and Kanji 2003; Marples 2008). But as the Government Accountability Office (GAO) reported in its first mandated audit of the program for Congress, "the goals [were] not stated explicitly in the legislation that [authorized] the program. … It does not specify that the investment be new capital, that performance measures be established to show that investment leads to economic development, or that the investment be in high-risk areas within eligible communities" (2002, 1-2). Also up in the air in 2001 as the CDFI Fund began to craft the actual program were whether businesses should qualify by census tract or beneficiary, what amount would satisfy the requirement to invest "substantially all" of a Qualified Equity Investment (QEI) in Qualified Low-Income Community Investments (QLICI) within 12 months, and what should be done if a Qualified Active Low-Income Community Business (QALICB) were to cease to qualify or if the investment or if the investment were to be repaid in less than the seven years that the tax credits' recipients capital is required to remain invested (Pinsky 2001).

To some extent, the vagueness was intentional. Tax legislation does not usually state its social purpose, even though it may have significant social impact (Rubin and Stankiewicz 2003). In fact, recognition of the effect that tax policy and regulation of banks could have on the flow of capital into different sorts of communities was one of Treasury Secretary Bob Rubin's reasons for exploring the NMTC idea (Kellogg 2002). A relative paucity of specific goals or standards was intended to serve a second purpose, according to at least one of the active participants in drafting the program, Cliff Kellogg. Kellogg told attendees of an NMTC conference that "because private investors have their capital at risk, there should be fewer program reporting requirements, and the ultimate oversight on investment strategies should be in the hands of those investors. … We did not intend for the CDFI Fund to negotiate an involved Allocation Agreement, or impose burdensome reporting requirements. The goal was to put money on the street in poor communities" (Kellogg 2002, 10 – 11).

Vagueness in the legislation meant that the specifics of the actual program were developed under a somewhat ambivalent administration. Bush's newly appointed CDFI Fund director, Tony Brown, spoke well of NMTCs, which the administration considered primarily a jobs program (Roberts 2005). Bush's administration showed less support for NMTCs than Clinton's however (Rubn and Stankiewicz 2003), and tellingly, proposed a $68 million budget for the CDFI Fund for fiscal year 2002—reduced from $118 in 2001. Ultimately, their 2002 budget was $80 million (Barr 2002; Pinsky 2001), which limited the agency's ability to develop and manage the program early on (Rubin and Stankiewicz 2005). In 2004, the U.S. Treasury Department described the NMTC program as specifically "an initiative useful for stimulating overall U.S. economic growth," shifting its emphasis away from low-income community development (Rubin and Stankiewicz 2005). In 2002, though, Kellogg noted that he was pleased that it appeared that, despite the early support for New Markets coming mainly from Democrats, "the NMTC [looked] like it [would] survive the hand-off from a Democratic to a Republican Administration," and that the ideas underlying it could easily have originated "on the other side of the aisle" (Kellogg 2002, 4).

The CDFI Fund established its NMTC award process, and was able to make its first allocations in March 2003, when it awarded the allocations intended for both 2001 and 2002 (Jones 2004). The first competition for allocations had concluded in December 2002, but the actual tax credit authority had not been awarded yet to the winning CDEs (CDFI Fund 2008b). The process of awarding NMTC authority to CDEs is more or less the same today, with some adjustments to the scoring procedures.

CDEs and the NMTC allocation process

"Community Development Entities," or CDEs, are organizations certified by the CDFI Fund to be eligible to compete for a portion of each round's allocation of tax credit authority. In addition to annual allocations, there have been special one-time additional allocations as part of the GO Zone and American Recovery and Reinvestment Acts. The primary criteria for certification as a CDE are that the entity must:

- "Be a legally established entity and a domestic corporation or partnership for Federal tax purposes;
- "Have a primary mission of serving or providing investment capital to *LIC*s [Low-Income Communities] or *Low-Income Persons*; and
- "Establish accountability to *LICs* through representation on it's [*sic*] governing or advisory board" (CDFI Fund 2009c, 4).

To satisfy the requirement of having a primary mission of serving LICs, an applicant must demonstrate that at least 60 percent of its activities and 60 percent of its products are targeted to LICs and Low-Income Persons. Both for-profit and nonprofit entities can become CDEs, but a nonprofit CDE must control at least one for-profit subsidiary CDE, and transfer all of its allocation authority to that subsidiary. For-profit CDEs provide investors tax credits up to the amount they are awarded in exchange for stock or capital interest. CDEs must designate a primary service area, which can range from a single county to nationwide. To show that it maintains accountability to the LIC it serves, a CDE must demonstrate to the CDFI Fund that at least 20 percent of its governing or advisory board(s) is representative of the LICs in its service area. Qualities that indicate "representativeness" include residence in an LIC, small business ownership in the community, employment or board membership of a nonprofit or community organization active in the service area, or otherwise representing the interests of the LIC or LICs in question. CDEs that intend to serve a statewide area or larger must show that their LIC representatives make up a cross-section of the LICs in their service area, which may require multiple advisory boards (CDFI Fund 2009c). Organizations already certified as CDFIs or Specialized Small Business Investment Companies by the Small Business Administration automatically qualify as CDEs, and need only register with the CDFI Fund to be counted among CDEs eligible to apply for NMTC allocations. (CDFI Fund 2009a).

Once certified as a CDE, an organization can submit an application proposal for NMTC authority whenever a Notice of Allocation Availability is published in the Federal Register (CDFI Fund 2009c). In its proposal, the CDE must specify the dollar amount of tax credit authority it is seeking, and information related to the four primary categories by which applications are scored: Business Strategy, Community Impact, Management Capacity, and Capitalization Strategy. Applicants must also supply evidence of their track record of past activities and community impact, and describe their projected activities (CDFI Fund 2009b). Each of the four main categories is worth up to 25 points, with an additional ten points available in the second round of scoring for demonstrating a track record of serving LICs, or committing to make investments in projects owned by unrelated parties. Three readers, chosen for their knowledge of community and economic development finance as well as business and real estate finance, score each application independently. Applicants who receive a minimum aggregate score in the four primary categories go on to the second round, in which a CDFI Fund panel decides what size award the application warrants. The awards are made beginning with the highest-scoring applicant, and continue until that round's total allocation authority is expended.

The application process has been highly competitive since the program's beginning (Armistead 2005b; Garcia 2005; Roberts 2005). More than 1,950 CDEs were certified within four years (Garcia 2005), and the total amount of allocations requested by CDEs from 2002 to 2007 was eight times the available authority (CDFI Fund 2008b). The competitiveness has assuaged some fears that the vagueness of the program's goals and relatively low eligibility thresholds for LICs and QALICBs would lead to a preponderance of projects located in areas that are only nominally low income, and poorly serve low-income individuals' needs. To raise their application scores, many CDEs have been promising in their allocation agreements (based on their applications) to serve communities in greater need than the NMTC statue requires (Armistead 2005b; Garcia 2005; Roberts 2005). Awardees are held to the terms they have stipulated in their applications, even if other activities would technically satisfy NMTC requirements[2] (CDFI Fund 2009b). The CDFI Fund monitors compliance through data systems, and sometimes site visits. Institution Level Reports (ILR) and Transaction Level Reports (TLR) are required of CDEs, documenting how they have made their investments and data about specific projects. Combined, the ILR and TLR make up the Community Investment Impact System (CIIS), which went into effect May 2004. The New Markets Compliance Monitoring System (NMCMS) combines data from the CIIS and three other data tracking systems. The NMCMS went into effect in April 2005, just in time to examine the first round of allocatees' compliance[3] (U.S. General Accountability Office 2007).

Qualified investments

After being awarded an allocation of tax credit authority, CDEs seek investors to make QEIs in exchange for the credit against their income tax. In turn, the CDEs apply those funds to Qualified Low-Income Community Investments (QLICI). A QLICI can be an investment in a qualified business (QALICB), a commercial real estate improvement, financial counseling for qualified businesses, or the purchase of a loan from another CDE.

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2 For example, if a CDE indicates on its application that it intends to make its Qualified Low-Income Community Investments (QLICI) in census tracts with greater than 30 percent poverty, it cannot make investments in census tracts with lower poverty rates even if they are NMTC-eligible. Similarly, committing to offering below-market interest rates, making a minimum percentage of investments in non-metropolitan census tracts, investing in unrelated entities, and other promises to go beyond program requirements to benefit LICs can earn CDEs higher scores, but also preclude investments in projects that would otherwise be eligible.

3 As of January 2007, out of 179 CDEs that had received NMTC allocations, only nine had been identified by the CDFI Fund as being out of compliance with their allocation agreements, and one out of compliance with the "substantially all" requirement. Of those, one CDE had its allocation revoked and another returned its allocation voluntarily. The CDFI Fund worked with the rest to bring them back into compliance (U.S. General Accountability Office 2007).

To qualify for a QLICI, a business must either be located in a designated census tract, or in some cases, serve a specially designated "Targeted Population." To be considered a Low-Income Community eligible for NMTC investments, a census tract must have either a poverty rate of at least 20 percent, or a median family income below 80 percent of the metropolitan area median (in the case of non-metropolitan census tracts, median income must be below 80 percent of the statewide non-metropolitan median). In practice, because of the competitiveness of the application process, many CDEs have committed to exceeding the program's minimum LIC requirements. In a study covering NMTC project data from 2002 to 2007, the CDFI Fund found that "over 75 percent of NMTC-financed projects were located in census tracts that met one or more of the following distress criteria: 1) a poverty rate of at least 30 percent; 2) a median family income at or below 60 percent of the applicable area median income; or 3) an unemployment rate at least 1.5 times the national average" (CDFI Fund 2008b, I).

Until 2004, the Secretary of the Treasury could designate additional "Targeted Areas" that did not meet either of the above criteria, but had inadequate access to investment capital in a contiguous area that was not bound by a census tract. After 2004, Congress defined three new LIC categories: 1) high out-migration rural county census tracts, 2) low-population tracts that are within Empowerment Zone, and 3) "Targeted Populations" (CDFI Fund 2008a).

The Targeted Populations category permits investments in QALICBs that are not located within NMTC-eligible census tracts, as long as they meet one or more minimum requirements of serving, employing, or being owned by members of an eligible population[4]. Two Targeted

4 To satisfy the income requirement, at least 50 percent of a QALICB's gross income must come from transactions with members of the Targeted Population being served; to satisfy the employment condition, at least 40 percent of a QALICB's employees must be members of the Targeted Population; and to satisfy the ownership condition, at least 50 percent of the QALICB must be owned by Targeted Population members. In addition, some geographic restrictions remain. To serve the Low-Income Targeted Population (LITP), a business must be located in a census tract below 120 percent of AMI, and to serve the GO Zone Targeted Population (GZTP), a business must be within a census tract designated as flooded or damaged by FEMA and not exceed 200 percent AMI (CDFI FUND 2008a).

Populations have been designated: 1) the Low-Income Targeted Population (LITP), comprised of individuals whose family income is below 80 percent of the area median, and 2) the Gulf Opportunity Zone Targeted Population (GZTP), comprised of individuals whose principal residences or sources of employment were lost due to Hurricane Katrina. Service to the GZTP (for investments that would not qualify on any other basis) is limited to CDEs that received NMTCs from the special $1 billion of allocation authority established by the GO Zone act of 2005 dedicated to recovery and redevelopment of areas damaged by Hurricane Katrina (CDFI Fund 2008a). The Targeted Population category has been difficult to use in practice because it is poorly defined. If audited, a CDE must demonstrate that it had a "reasonable expectation" that a QALICB would continue to serve (or employ, or be owned by) members of the targeted population for the duration of the investment, but what sort of data satisfies the reasonableness test is not defined. Should the IRS determine that a QALICB did not meet the reasonable expectation requirement, the tax credits would be subject to recapture and penalties, making CDEs and their investors wary of the increased risk associated with QALICBs outside approved census tracts (Reaman and Hoopengardner 2009, U.S. General Accountability Office 2007). As of 2007, at the CDFI Fund had referred at least one CDE case to the IRS, but that case was for failing the "substantially all" test, and the CDE was able to correct the problem within the time allotted, preventing recapture (U.S. General Accountability Office 2007).

Apart from Targeted Populations, geography is the primary determinant of what constitutes a QALICB; minimum levels of service to, employment of, or ownership by low-income individuals is not required. The Internal Revenue Code 45D(d)(2)(A) defines a QALICB as one in which at least 50 percent of the total gross income is derived from active conduct within an LIC, a substantial portion of its tangible property is located in an LIC, and a substantial portion of its services take place in an LIC. The code also allows that rental of real property in an

LIC may be considered a qualifying business if it is not residential rental property, and there are substantial improvements to the property (residential rental property can only qualify if it makes up less than 80 percent of a mixed-use development's income). Several other types of businesses are prohibited as well, including golf courses, gambling facilities, liquor stores, country clubs, massage parlors, hot tub facilities, suntan facilities, and large farming operations (Jones 2004; Lance and Kanji 2003; Marples 2008).

NMTC investors

The NMTC has been popular with investors as well as CDEs. Former CDFI Fund Director Andrew Garcia reported higher than initially expected investor interest (Garcia 2005). At the end of 2007, approximately 94 percent of the first round of tax credits allocated had been claimed, 86 percent from the second round, and 75 percent of the first four rounds combined had already been claimed (CDFI Fund 2008b). By 2004, investors were paying between $0.70 and $0.80 per dollar of credit. By comparison, it took five years for Low Income Housing Tax Credits (LIHTC) to reach that level (Armistead 2005b). The price for NMTCs has declined since the housing market collapse and credit crisis beginning in 2008, however, with several CDE representatives reporting prices between $0.65 and $0.70 since then, and at least one CDE selling NMTCs for as low as $0.51 per dollar of credit (U.S. General Accountability Office 2010). Nevertheless, current program director Donna Gambrell has noted that between September 2008 and June 2009, close to $2 billion has been invested in CDEs, indicating that even in difficult economic times the NMTC program is still strong (2009).

Popularity with investors raises the question of how the incentive is affecting investor behavior, namely, to what extent is the NMTC program attracting new capital, shifting investment from higher-income to lower-income communities, or simply rewarding investors for choices they would have made anyway. Two recent studies of NMTC investor behavior determined that among individual investors, there were statistically significant differences in wealth and assets between NMTC investors and otherwise similar non-NMTC investors, suggesting that the NMTC induced new investments from reducing personal consumption, rather than simply shifting capital from other investments (Gurley-Calvez et al. 2009; U.S. General Accountability Office 2007). Individuals contribute a very small share of QEIs, however (no more than five percent of attributable investments through 2006); corporations make up a much larger proportion of QEIs (at least 60 percent through 2006) (Gurley-Calvez et al. 2009). There is no evidence to suggest that the NMTC has led corporations to increase their overall investments, but a GAO survey suggested that it is most likely that more corporate investment has been moved from higher-income to lower-income communities as a result of the program (Gurley-Calvez et al. 2009; U.S. General Accountability Office 2007). Even if the program has induced very little new investment, the GAO report notes that shifted investments could still be considered a program success, because they represent new capital available to LICs, even if not new capital altogether (2007). Eighty-eight percent of investors surveyed by the GAO said that they would not have made the same investment without the NMTC, and of those, 75 percent said they would not have made a similar investment in the same community. Sixty-four percent of investors reported that they increased their investments in low-income communities because of the NMTC (Gambrell 2009, U.S. General Accountability Office 2007). The GAO found, however, that two-thirds of investors had a track record of investing in low-income communities, and that government regulation compliance may be one of the primary motivations for some investors, as NMTC investments can satisfy Community Reinvestment Act (CRA) requirements (U.S. General Accountability Office 2007).

The CDFI Fund estimates that for every dollar of tax revenue forgone because of the NMTC, $14 of investments are induced in LICs (CDFI Fund 2008b). While there are strong indications of the program's success in attracting investors and channeling investments to CDEs, questions about how well the QLICIs being made actually serve LICs and their residents are still being raised in the literature on NMTCs.

Inspirations and origins of the NMTC

Early government attempts to promote access to capital

> One of the great innovations of the NMTC program is that it combines the features of a competitive grant program with the advantages of private sector investment and decision making. Most Federal tax credits are simply claimed by taxpayers rather than competitively allocated, and most community development programs of comparable size to the NMTC program are administered through formula-funding mechanisms (Gambrell 2009, 5).

The creation of a program to increase access to private capital in low-income communities, channeled neither through government agencies nor individual investors, but instead by financial institutions specializing in community development has several roots, some going back at least four decades. Significant factors that provide context for the genesis of the NMTC include: 1) changes in banking and financing; 2) desires to reduce government involvement in the direct provision of social services out of ideology, financial constraints, or both; and 3) growing recognition of the "new" markets for financial products and goods and services among minorities, women, and inner-city neighborhoods.

The Clinton administration announced in the 1995 that "'A rising tide lifts all boats' is a nice aphorism, but an insufficient urban policy" (Office of Policy Development and Research 1995, 29). It was not a new concept though, that not all communities shared equally in times of prosperity, nor that full inclusion in America's economy—encompassing access to financing as well as access to job, housing, and education—was a critical component of social justice and civil rights. A number of African-American-owned banks emerged in the 1880s to serve their own communities, and many of the credit unions that emerged in the 1930s and 1940s were located in the rural south with missions of serving African-Americans who had no access to credit elsewhere, to give just two examples (Benjamin, Rubin, and Zielenbach 2004). Federal policy had also attempted to address unequal access to capital before the 1990s. Michael Harrington's argument in *The Other America* that many citizens were structurally excluded from the mainstream economy had influenced President Kennedy to make access to economic resources part of his contribution to civil rights, for instance (Pinsky 2001). Federal programs following Kennedy's death that channeled resources through state and local governments typically failed to reach their targets (Pinsky 2001). In his influential "The Competitive Advantage of Inner Cities" (1995), Michael Porter disdained most of the federal government's attempts to bring more capital access to inner cities, like government loan pools and quasi-public lending organizations, accusing them of siphoning off money from more worthwhile uses due to their fragmentation, costly overhead, and bureaucratic nature.

The creation of the Office of Economic Opportunity in 1965 as part of the War on Poverty brought federal resources to chronically impoverished areas with workforce training and the Community Action Program for both economic and community development. Later, passage of the Equal Credit Opportunity Act in 1974, the Home Mortgage Disclosure Act in 1975, and the CRA in 1977 were important steps more specifically toward opening banking and financial service to all communities, but roadblocks to affordable financing for inner-city businesses persisted (Pinsky 2001). Two factors that especially hindered the CRA's effectiveness were the lack of meaningful enforcement prior to Clinton's election in 1992, and the rise of the Cash Management Account through the 1970s and 1980s. "In 1977, approximately two-thirds of America's long-term savings (including investments) were in banks and other insured institutions in accounts that were subject to CRA," but by 2001, only around one quarter of America's savings were in CRA-subject accounts (Pinsky 2001, 29). Pinsky's history of the growth of community development finance, including the growth of CDFIs in particular, tracks the responses to changes in banking and social policy alike that failed low-income communities. A handful of early community development corporations (CDCs) experimented with financing and saw some success, laying the foundation for community development finance. Early CDFIs often relied on religious institutions willing to put their capital at risk for the sake of social goals that their faiths supported. Although their efforts frequently failed, some of the religious denominations responded to failure by fostering better-skilled CDFIs, rather than declaring defeat. Pinsky also credits the campaign to divest from companies doing business with South Africa in protest of its Apartheid policy with adding impetus to the idea of aligning capital with social values.

Community Development Financial Institutions

CDFIs began to truly flourish in the 1990s. Changing CRA regulations to permit investments in CDFIs as qualifying activities was one reason (Pinsky 2001), and establishment of the CDFI Fund within the Department of the Treasury with the passage of the Riegle Community Development and Regulatory Improvement Act of 1994 was another (Gambrell 2009). By 2001, the CDFI Fund was the largest single source of funding for CDFIs. The Fund also raised the visibility and credibility of the industry. In 2000, when the NMTC legislation was passed, at least 550 CDFIs across the country were managing $6 billion in assets, and were all pre-qualified to register as CDEs if they chose (Pinsky 2001).

While a CDE must have a primary mission of serving LICs, its parent organization need not. NMTC legislation was deliberately crafted to not restrict participation in the program to organizations with a strictly community development mission because the drafters felt that the amount of capital potentially involved was too great to be handled exclusively by such organizations. They also hoped that increasing the involvement of more traditional financial service providers would lead to their greater involvement in distressed communities on an ongoing basis (Rubin and Stankiewicz 2003). The Clinton administration's NMTC crafters were not alone in their concert that existing, strictly mission-driven CDFIs would not have the capacity to manage the capital involved by themselves: "substantial flows [of capital] without commensurate, targeted development services to build the capacity of borrowers and strategic management to keep CDFIs on track have consistently produced negative results in these markets … Fortunately, capital attracts talent" (Pinsky 2001, 16). Even though successful CDFIs were one of several sources of inspiration for the NMTC program (Armistead 2005a; Kellogg 2002), one of its priorities was to attract the financial talents of the private sector. It was also intended to build relationships between more conventional capital providers and investors on the one hard, and nonprofit organizations service LICs on the other (Kellogg 2002). The boom in both CDFIs and CDCs as well—which have gone from around 200 in the 1970s to around 3,600 by 1997—meant that there were already many experienced community development organizations for conventional investors to partner with (Roberts 2005).

Market Failure

The notion that market failure was responsible for investors' neglect of inner cities and other economically distressed areas was gaining ascendancy in the 1990s. Although many of Michael Porter's suggestions to remedy both social problems and lack of capital in inner cities were controversial, he made a compelling case that purchasing power in America's central cities was vastly underestimated, as was their residents' capacity to make a good workforce (Porter 1995). The work of Shorebank in Chicago, Social Compact in Washington, D.C., and other market analyses reviewed by the NMTC program developers confirmed the purchasing capacity of inner cities (Kellogg 2002). Porter's ideas were a specific influence on the development of the NMTC (Kellogg 2002), and Porter had personal contact with both the President and Vice-

President during the development of the New Markets initiatives, even though he did not ultimately agree with all of the administration's prescriptions to bring capital to inner cities (Rubin and Stankiewicz 2003). "The NMTC was designed to overcome market failures resulting from investors' lack of market information," Kellogg wrote (2005, 53), as well as to overcome such disadvantages as "high cost of land assembly, redeveloping obsolete infrastructure, and developing in an urban environment rather than a greenfield" (53). "We aspired to make capital markets work more perfectly. … We did not want to subsidize QALICBs that were fundamentally uncompetitive" (Kellogg 2002, 7-8). The goal of alleviation of poverty was not dismissed, but economic justifications for intervention were being introduced.

Mere myopia on the part of mainstream institutions regarding opportunities in inner cities cannot be blamed alone for failure to make more investments in distressed areas, or investments with more affordable terms than the ones typically being offered. Market failure from other standpoints was an early justification for the creation of "Business Development Financial Institutions" (BDFI), as Caskey and Hollister (2001) have termed CDFI-type institutions that specialize in financing commercial activity, as opposed to focusing mainly on housing. An early assumption was that savvy BDFI directors would be able to identify the good deals that others could not see in communities that had been written off by most as unprofitable, and actually make a market return on their investments. "Across the country, there is now sufficient experience with BDFIs to refute this belief," Caskey and Hollister (2001, 5) determined. It may be the case that some banks mistakenly overlook inner-city potential, but BDFIs regularly earn below-market returns (Caskey and Hollister 2001). This finding conflicts somewhat with Pinsky's history of CDFI development. He found that by the late 1990s, banks that had one time financed or funded CDFIs were beginning to compete with them directly for some of the deals that once would have been strictly the provenance of CDFIs. Pinsky attributes this at least in part to the prime credit market saturation pushing banks to look further downstream. For the social goals of the CDFI movement, it is a success of sorts for conventional banks to take over projects that were once "untouchable," but it has kept CDFIs confined largely to below-market projects. Childcare centers and charter schools were two new areas "just outside the margins of banks" that CDFIs looked to as banks moved into their other territories (Pinsky 2001, 13-14).

Even though the argument that it was market failure from a financial standpoint for conventional lenders to overlook distressed areas has not proven very strong, market failure from an economic standpoint, incorporating hard-to-quantify benefits to society in addition to private financial returns, remains a plausible rationale for intervention (Caskey and Hollister 2001). Pinsky's assertion that one of the reasons that CDFIs emerge is to intermediate between "unconventional customers and markets" and the mainstream economy is that "the sources of capital have limited knowledge of the user market and/or the transaction costs are prohibitive" is still valid (Pinsky 2001, 5). One of the key concerns about the performance of NMTCs is that for-profit CDEs may invest differently—and less effectively from a community development standpoint—than nonprofit CDEs, because for-profit institutions lack knowledge of community needs and continue to serve a more mainstream "user market." Also, prohibitive transaction costs of doing business in inner cities is a well-documented impediment to improving capital access there. "Even in the best of circumstances, small-business lending is only marginally profitable to banks because transaction costs are high relative to loan amounts," Porter wrote (1995, 64), recommending tax exclusions for capital gains and dividends as one way to offset those costs to lenders and investors. Preference programs based on economic needs instead of on categories like race, ethnicity, or gender should offset the high costs of lending in inner cities, of acquiring land that is more expensive than suburban greenfields, of waiting through long permitting processes, and of other special impediments to inner-city business development. Kellogg identified some of the barriers to capital flow that the NMTC program developers considered especially important: 1) high underwriting costs, 2) difficulty assembling management teams, 3) high operating costs that reduce revenue prospects, 4) competition with greenfields with no need of environmental remediation, and 5) competition with suburban tax abatements and other incentives (Kellogg 2002). Ironically, one of the criticisms frequently levied against the NMTC program is that high transaction costs associated with NMTC compliance may limit the types of projects that can be financed.

"Third Way" innovations

Evidence that the private sector could partner successfully with government and nonprofits in complementary ways—when the right incentives could be found—helped inspire the NMTC program. Recourse to social policy that put a premium on public-private partnerships was also politically appealing to the Clinton administration. Clinton self-consciously distanced himself from Democratic social programs of the past, while also rejecting Republican retrenchment from social spending. His draft Urban Policy Report of 1995 stated that "the Community Empowerment Agenda charts a new course beyond the old way of big government and the new rage of no government" (Office of Policy Development and Research 1995, 7). The report notes that "[t]he experience of the 1980s demonstrates that a growing economy does not automatically raise all incomes" (2), and recommends targeting public investments to reconnect poor neighborhoods to the opportunities to be found in their more prosperous surroundings, and leveraging private investment to "ensure the availability of private capital to central city neighborhoods, where it is desperately needed to fuel business creation and growth" (5).

The primary economic development programs being touted by the Clinton administration in its Urban Policy Report of 1995 were its Empowerment Zones and Enterprise Communities. Spatially targeted and providing tax incentives to businesses that located in designated zones and employed zone residents, the two programs grew out of the dozens of state Enterprise Zone programs and similar policies formerly promoted mainly by Republicans. Unlike many Republican-sponsored Enterprise Zone-type programs, Empowerment Zones and Enterprise Communities added grants for community planning and social services.

State governments led the way with Enterprise Zones in the 1980s, when attempts to pass federal EZ legislation failed to bear fruit. State and local governments have often led the way on other innovations in economic development as well. In addition to Porter's "Competitive Advantage," two works that were specifically cited as influential by members of the NMTC development team are Peter Eisinger's 1988 *The Rise of the Entrepreneurial State* and David Osborne's 1990 *Laboratories of Democracy*. Eisinger chronicled the movement of many state governments from reliance on supply-side location incentives for economic development to diverse and inventive demand-side policies. Although in some respects the NMTC is a supply-side strategy, luring capital to designated areas, the name "New Markets" itself represents the recognition that the country was full of unmet demand. Ideally, low-income communities could simultaneously benefit from a supply- and demand-side approach. Bill Clinton's tenure as governor of Arkansas was the subject of one chapter of Osborne's *Laboratories*. Clinton's promotion of education is especially emphasized in the chapter, but his efforts to shift the state's industrial recruitment-oriented economic development policy to one with a greater emphasis on small business development and community development are also noted, as is Clinton's encouragement of investing public pension funds in Arkansas businesses. Interestingly, the eventual proponent of the Third Way proved too liberal for Arkansas' tastes in his first term as governor, and alienated the state's business interests.

A particularly important federal policy innovation that influenced the genesis of the New Markets approaches was the Low Income Housing Tax Credit (LIHTC), created under the Tax

Reform Act of 1986. The LIHTC's success at forging partnerships between a variety of private, public, and nonprofit actors in housing development was one factor that inspired a tax credit approach to catalyze other types of investment in low income areas (Armistead 2005b; Jones 2004; Roberts 2005). "An important legacy of [LIHTC] work was more than just the buildings it built; it was the highly sophisticated system of private investors, nonprofit and profit-motivated developers, and state and local governments, who had the experience and relationships that would be essential to a successful economic development effort" (Roberts 2005, 24). At the same time, however, the Tax Reform Act made real estate investment less lucrative for high-income professionals by restricting their uses as tax shelters.

The potential of tax credit programs to benefit communities while at the same time imposing market discipline on community development and ideally have a less-intrusive economic effect than other types of government assistance was a virtue for Third Way Democrats (Kellogg 2002; Roberts 2005). A previous CDC Tax Credit pilot program had also shown some promise, as had the Overseas Private Investment Corporation (Armistead 2005b; Roberts 2005). It did not hurt the NMTC concept, of course, that both private sector involvement and tax credit programs tend to have bi-partisan appeal (Jones 2004; Roberts 2005; Rubin and Stankiewicz 2003). "CED [Community Economic Development] scholars observe that tax credit programs tend to enjoy bi-partisan support and are more attractive to conservative legislators as they are tax cuts as opposed to tax and spend programs" (Jones 2004, 233).

From the left, important support came from Reverend Jesse Jackson, who was then promoting his Wall Street Project to encourage more private investment in inner-city and minority communities (Roberts 2005). Jackson joined President Clinton on his 1999 New Markets Tour of several impoverished urban and rural communities (Rubin and Stankiewicz 2003). Also on the left, over 100 community developers and organizers formed the Community

Development Tax Credit Coalition to advocate the program (Armistead 2005b; Roberts 2005; Rubin and Stankiewicz 2005).

Proponents on the left and right, and in the private, nonprofit, and public sectors, could agree that access to capital was one of low-income America's critical problems, and that a tax credit to improve rates of return on investments in businesses and nonprofits in areas where affordable financing terms were hard to obtain was a promising policy. Accepting the NMTC, however, did not end the debates about what the goals of the program ought to be—poverty alleviation, job creation, or place-based revitalization, for instance—and whether it has been achieving them.

Practical NMTC issues

The literature on the NMTC program in practice revolves around the questions of what its proper goals are or should be, and what its strengths and weaknesses are relative to those goals. Sometimes the same project can be the subject of a resounding success story in one article, and a case of abject failure in another. For instance, the conversion of an old armory in downtown Portland, Oregon into a performance venue, The Portland Center Stage Company, is praised as an excellent example of the potential of NMTCs for revitalization in Stevens and Schon (2005), but appears on the list of worst abuses of the NMTC for Groves[5] (2007).

Who benefits?

For most of the twentieth century and into the twenty-first, tension has existed in economic development programs between the pursuit of broad-based growth on the one hand, and targeted poverty alleviation strategies on the other. The NMTC program as it has been

5 Groves sees NMTC projects like performing arts centers as subsidizing gentrification, catering to the *wants* of middle- and upper-income individuals rather than to the *needs* of low-income communities. To Stevens and Schon, the armory's conversion represents a successful public-private partnership that reuses a long-vacant historic building, and stands to draw more visitors downtown.

implemented has been no exception (Rubin and Stankiewicz 2003). The notion that targeted poverty alleviation was a specific goal of NMTCs is supported by the Clinton administration's promotion of its New Markets initiatives on a "poverty tour," and its emphasis on combating "pockets of poverty." "The President, along with business leaders, toured a number of high-profile poor communities and the language of the speeches and media coverage focused on making capital available to businesses in poor communities. That led supporters of business lending and investing to have high hopes that the NMTC would be a tool for them" (Armistead 2005a). Clinton also argued, though, that the NMTC was a way to maintain America's economic growth overall without inflation, by tapping into the new markets the tax credit aimed to reach (Roberts 2005). Sill, "[m]any of the drafters of the New Markets Tax Credit legislation intended the program to focus on poverty alleviation, and hoped that the program would be designed in such a way as to maximize the developmental impact of the tax credits on low-income communities" (Rubin and Stankiewicz 2005, 4). The GAO's first report to Congress on the program acknowledges that "according to congressional supporters of the legislation, the program's goals are to direct new business capital to low-income communities, facilitate economic development in these communities, and encourage investment in high-risk areas," but that those goals are not stated in the authorizing legislation (U.S. Government Accountability Office 2002, 1). Without explicit expression of its intent, "it could be that Congress intended to benefit whoever desired to move into low-income areas, or rather the low-income residents and its existing businesses, or those equity investors who receive the tax credit. The answer could be all of the above" (Groves 2007, 220). Real estate developers, banks, and financiers are others who stand to benefit from the credit.

Regardless of intent, one of the four most persistent criticisms Armistead found of the NMTC program in his research was that "the program, which is targeted to low-income communities, defines low-income communities too broadly and so fails to concentrate investment in the neediest areas while also putting rural areas at a disadvantage (Armistead 2005a, 13). In fact, downtown business districts often qualify for QLICIs because their sparse residential population is largely impoverished. For example, prior to the 2000 Census, Wall Street would have been considered a low-income community for NMTC purposes (Rubin and Stankiewicz 2003).

Concern that LICs are defined too broadly may be mitigated somewhat by the competitiveness of the allocation rounds, which encourages CDEs to commit to limiting their investments to census tracts in higher distress than the program requires. Nevertheless, what sorts of projects CDEs choose to undertake in those tracts may or may not be what the local community would like to see. A commentator told Armistead, "The best thing about the credit is that you can use it for practically anything; the problem with the credit is that you can use it for practically anything" (Armistead 2005b, 10). Assuming the primary intent of the NMTC truly is poverty alleviation, Groves (2007) questions the numerous investments subsidizing "performing arts centers for opera, ballet, symphony orchestras, hotels, high priced condominiums, theaters, mixed use commercial developments, and even convention centers" (216). He dubs such investments "Problematic Purposed Projects," on the grounds that they primarily serve middle- and upper-income consumers who already have the access to capital that low-income individuals lack, and proposes that the NMTC legislation be amended to prohibit them, along with the "sin" businesses already ineligible (e.g. golf courses, gambling facilities, liquor stores, etc.). Groves goes further to propose that the list of acceptable NMTC projects in any given community be determined by that community—that the community compile a "Mall of Needs" for CDEs and developers to choose from (Groves gives examples like grocery stores, or health clinics that target illnesses prevalent in the community), as opposed to a "Mall of Wants," as he categorizes projects that tend to serve gentrifiers (2007, 236-7). Groves did not have a complete list of NMTC projects from the four rounds of allocations that had transpired when he did his research, but of those projects that he was able to identify, he found that "approximately $2 billion of tax credit subsidy [had] been allocated to projects that [appeared] to be designed primarily for those already with the very access to capital that the low-income residents lack" (2007, 226).

CDE parent organizations and investment priorities

One of Groves' concerns regarding the prevalence of "Mall of Wants" projects is that investors' interest in profits are not always being adequately balanced with communities' interests in their own benefits. All CDEs must take into account the financial viability of projects they invest in; as Kellogg emphasized, the program was not intended to subsidize "fundamentally uncompetitive" endeavors. Others have shared concerns like Groves' since the program's inception, and have specifically warned that the nature of a CDE's parent entity—for-profit, public, or nonprofit—could influence its decision-making, and that for-profit CDEs in particular may place financial returns over social benefit. Rubin and Stankiewicz (2005) found numerous studies comparing for-profit and nonprofit providers in other industries that consistently show that the for-profit entities studied base their decisions on their profit objective, regardless of the social consequences of that decision. As of 2005, there was not enough evidence to determine whether there were significant differences between the types of QALICBs chosen by for-profit, nonprofit, and public CDEs. At that time, Armistead (2005b) found anecdotal evidence that investment patterns were similar among for-profits and nonprofits[6], but additional transaction data since 2005 could demonstrate whether that has held true or not. As

6 Most of the discussion of the nature of CDEs' parent organizations revolves around for-profit and nonprofit, or for-profit and mission-driven organizations (CDFIs can be for- or nonprofit, but tend to be grouped with nonprofits as "mission-driven"), but public entities can for CDEs as well. According to data from all the allocation rounds through 2007, government-controlled entities made up 11.2% of NMTC applicants, and 11.4% of NMTC recipients (CDFI Fund 2008b).

Armistead argues, “the important question for advocates of community-based development is not who gets the allocation, but whether or not their constituents’ projects receive capital investment” (Armistead 2005a, 19). If it does prove true that for-profit CDEs put more emphasis on profitability than community interests relative to more mission-driven nonprofit or public CDEs, it raises questions about CDEs’ application scoring procedures, namely the relative weights given to the different strengths measured. Rubin and Stankiewicz (2005) found that for at least the first two rounds, the scoring system favored CDEs that were able to self-finance by virtue of for-profit parent entities providing their own capital in exchange for the credits, thus raising their CDEs’ Capitalization Strategy scores. A related problem that Rubin and Stankiewicz (2005) found was that the CDEs are permitted to demonstrate their ability to raise capital through non-binding letters of intent, raising the possibility that CDEs without substantial funding of their own would be induced to offer their potential investors more profit- than community-oriented deals to secure their commitment. To remedy the possibility that for-profit CDEs will sacrifice social concerns for profit, Rubin and Stankiewicz have recommended that all CDEs be required to be mission driven. That was also the recommendation of the Community Development Tax Credit Coalition (now renamed the NMTC Coalition) during the drafting of the NMTC legislation. At that time, the Coalition was primarily composed of mission-driven organizations, but now includes more investor members (Rubin and Stankiewicz 2005).

NMTC legislation has not been changed to require all mission-driven CDEs, or even a minimum set-asides for them, but the CDFI Fund has attempted to respond to criticisms of bias in the scoring system. In the third round, the Fund gave greater weight to both Business Strategy and Community Impact than it had previously. The additional points are applied in the second phase of the scoring process, though. Each of the four sections (Business Strategy, Community Impact, Management Capacity, and Capitalization Strategy) is still worth 25 points in the first phase, so a strong performance in the Capitalization Strategy section is still important to pass the first round. The additional weight for Community Impact is five points in the second round (Rubin and Stankiewicz 2003, 2005). Also in the third allocation round, the CDFI Fund added the question, "How will the economic benefits of the NMTC allocation be apportioned amongst: the investors, through economic returns; the Qualified Low-Income Community Investment (QLICI) investees/borrowers, through lower costs of capital; and the applicant, through fees or economic returns?" (Armistead 2005a, 15-16).

While the nature of an individual CDE's mission may be an important factor in the types of projects it selects, less attention has been given in the literature to the roles of investors and developers in project selection. CDEs may set investment priorities consistent with their mission, but investors have the ultimate say in whether a project moves ahead. Developers too, may play important roles in bringing projects to CDEs' attention, with their experience in the economics of different types of developments. CDEs have a relatively short time to apply their QEIs to QLICIs, making it difficult to use NMTCs to finance complex projects in areas that have traditionally posed challenges to rapid development, such as inner-city brownfield sites, without a strong development team bringing the project to a point where a CDE can make an investment.

CDE service areas

A concern related to the for-profit/mission-driven divide is whether CDEs with local service areas invest differently than CDEs with multi-state or national CDEs Local-service CDEs make up the largest share of applicants, but represent the smallest share of awardees (CDFI Fund 2008b). Whether that is good or bad for achieving the most community impact is unclear. Local-service CDEs may have better knowledge of their community and its most important needs than multi-state or national CDEs, but they may also lack the level of capacity of larger CDEs.

Emphasis on real estate

Overemphasis on real estate projects, as opposed to support for existing non-real estate QALICBs, is another frequent complaint about the NMTC program in practice (Armistead 2005a; Jones 2004; Kellogg 2005; Rubin and Stankiewicz 2003). Although at one time Kellogg, while President and CEO of Washington, D.C.'s CF Bank Corporation CDE, told a researcher that NMTC is based on the premise that all new investment in targeted urban areas is helpful, regardless of its nature (Jones 2004), he has also commented elsewhere that "NMTC capital is not yet flowing sufficiently to smaller projects and to non-real estate businesses, especially in the form of equity investments (Kellogg 2005, 54).

The CDFI Fund classifies all QALICBs as either real estate or non-real estate, defined as follows:

> A QALICB that is a real estate business is generally a single purpose entity formed to develop or lease a specific real estate transaction. A QALICB that is non-real estate is an operating business (e.g. with sales, revenue, customers) whose primary business is not real estate development, ownership, or management. If a non-real estate QALICB forms a single purpose entity for the purpose of leasing property to that operating business, and an allocatee finances the single purpose entity, the CDFI Fund permits the CDE to classify the single purpose entity as either a real estate or non-real estate QALICB (CDFI Fund 2008b, 19).

Analyzing transaction data through 2008, the GAO found that 65.3 percent of NMTC dollars invested had gone to real estate projects, 22.2 percent to business-related projects, and the remainder to mixed-purpose and "other" (2010, 12). The GAO also found a substantial difference between for-profit and nonprofit CDEs' choices regarding project types: for-profits made 72.3 percent of their investments in real estate projects, while nonprofits made 42.5 percent of theirs in real estate. Interestingly, partnerships between for-profit and nonprofit CDEs made only 9.9 percent of their NMTC investments in real estate (2010, 13).

The real estate tilt is discouraging to some supporters of the NMTC as a poverty alleviation tool because investments backed by real estate are already well collateralized, and it is those operating businesses without that advantage that are in most need of financing assistance. There is also concern that real estate investments are less likely to reach underrepresented groups of entrepreneurs, like minorities, women, and small locally-based business owners (Lambie-Hanson 2008).

The prevalence of real estate investments is also discouraging to those who would like to see more QEIs in operating businesses because it is a problem imposed by the structure of the program itself. Tax credit recapture provisions can be triggered if a QALICB relocates outside of a qualifying census tract and does not serve what the IRS considers to be an appropriate public purpose under the "Targeted Population" provisions. "The administrative and definitional complexities of determining whether this test is satisfied are quite extreme" (Armistead 2005b, 119). For even the most community-oriented CDE, real estate is frequently the safer choice for its investors, because it is bound to the census tract. One example of this limitation at work was LCD New Markets Fund's inability to invest in a nonprofit transitional housing service for low-income and mentally ill adults because the organization's headquarters were not located in an LIC census tract (Wells 2005). A recent ruling by the IRS to permit a clinic to open a new location directly across the street from a qualifying census tract using NMTC financing, and to accept grants, donations, and insurance payments made on behalf of low-income clients to count toward the clinic's requirement to earn at least 50 percent of its gross receipts from services to low-income individuals, may have opened a door to investing in more QALICBs as opposed to real estate projects, but it is still a higher-risk proposition for CDEs (Reaman and Hoopengardner 2009). Not everyone regards the real estate tilt as a drawback, however. Lambie-Hanson (2008) articulates some of the benefits of real estate investment. They stand to improve existing facilities in low-income communities and possibly catalyze improvements by reducing vacancies in the neighborhood, cleaning up brownfield sites, and attracting additional investments. Some

QEIs in operating businesses are actually for the purpose of real estate improvement or acquisition, sometimes assisting businesses in becoming owners of their own locations, reducing overhead costs, expanding operations, and/or freeing up other resources for other expenses. Lambie-Hanson also found that real estate projects appear to bring more jobs through construction and new and expanding businesses to LICs than do investments operating businesses, and at less expense in terms of dollars of project cost per job created (2008).

High transaction costs

Another reason that real estate deals tend to be favored over business and nonprofit assistance is that they tend to be larger investments. High transaction costs in the early days of the program made deals of less than \$3-5 million cost prohibitive to most CDEs (Armistead 2005a). A joke in the NMTC field is that it is "a full-employment program for accountants and lawyers" (Armistead 2005b, 26). As of 2005, at least three transactions completed by Clearinghouse CDFI had legal fees exceeding \$100,000 (Bystry 2005). Just applying for an allocation can be a daunting undertaking and expense: LCD New Markets Fund estimated that its first application would have taken almost 160 hours and cost \$100,000 in staff, consulting, and legal fees, had the CDE not had assistance from the City of San Jose and pro bono attorneys. Their second application was less costly though, because much of the work did not need to be repeated (Wells 2005).

There is some hope that with experience, and also with more certainty of what the IRS will consider compliance, transaction fees will come down. The LIHTC went through a similar process at its beginning (Armistead 2005b). There are also other strategies to accomplish the sorts of small investments likely to benefit a wider range of community-based businesses and nonprofits. Partnerships between larger and smaller CDEs, or between CDEs and non-CDE community organizations may make small transactions more manageable. For instance, small

CDEs could obtain project-level financing via larger CDEs without the smaller CDE having to undergo their own costly learning experiences or hire expensive consultants to underwrite individual transactions, while the larger CDE may benefit from the smaller organization's knowledge of local needs and assets (Armistead 2005b). Kellogg felt that as of 2005, there were still too many NMTC investors trying to underwrite transactions one by one, instead of delegating the task to experienced community developers who could presumably structure the deals at less expense (2005). ESIC Realty Partners' CDE has partnered with Enterprise Foundation to make loans as low as $300,000, the Community Reinvestment Fund was working in 2005 to develop a secondary smaller loans, and LISC was also working on a program to issues smaller loans (Armistead 2005a). New data through 2008 may show whether smaller investments are indeed becoming more feasible, or whether the bias in favor of seven-figure or higher deals still exists.

Loans vs. equity

Yet another challenge the structure of the NMTC program has posed to investing in community business is that loans are more prevalent than equity investment, due again to fear of recapture. The difficulty of obtaining equity investment in low-income community businesses was one of the primary concerns that led to the creation of the NMTC program, but it frustrates its own purpose with the requirement of maintaining a QEI for at least seven years. Equity investors who are accustomed to redeeming their investments in less than seven years must, if they choose to redeem a QEI, reinvest it within a year to avoid tax credit recapture (Armistead 2005b). This requirement makes NMTCs unworkable for community development venture capital firms (Armistead 2005b). Promising QLICIs can be difficult to identify in only one year, particularly for mission-driven CDES that hope to find opportunities to benefit the community as well as perform adequately financially (Bystry 2005; Rubin and Stankiewicz 2003). Through

2008, 85.1 percent of NMTC dollars invested in QALICBs were term loans (U.S. General Accountability Office 2010, 14).

"But for" test

A final issue frequently raised regarding the effectiveness of NMTCs is one that virtually every economic development incentive program faces: there is no adequate "but for" test to determine whether investments would have occurred anyway without the tax credit (Armistead 2005b). Interviews with 26 participants in the NMTC program and surveys of numerous others who have worked with NMTCs in some way—lawyers, accountants, lenders, investors, bureaucrats, and various sorts of consultants—returned overwhelming responses that NMTCs were almost always being directed at projects that could not have been done without them, and some CDE interviewees said they would not even consider projects they thought could be financed without NMTCs (Armistead 2005a). However sincerely felt though, a vested interest in seeing the program continue to be reauthorized may color the responses of people who work with NMTCs. The aggressive competition for allocations may indeed lead CDEs to promise projects in more distressed areas, and lending on more favorable than market terms, but Lance and Kanji point out that "NMTCs not only promise to incentivise non-residential real estate development in secondary markets and in primary markets in need of stimulus, but also may be a useful means to improve the financial returns from development projects already sufficiently justified economically in the same markets" (2003, 32).

The possibility of "double dipping," or combining multiple subsidies and incentives with NMTCs is treated somewhat ambiguously in the literature. It is not unusual for community-driven projects to combine support from various local, state, and federal programs to make them financially feasible (Taylor 2005). The only incentive program the NMTC cannot be combined with by law is the LIHTC (Rubin and Stankiewicz 2003). The use of historic tax credits along with NMTCs is relatively common; the National Trust launched its own CDE, one of the first to receive a signed allocation agreement, and one of the first to report a project underway (Jones 2004). The Trust estimates that 38 percent of all National Register Historic Districts and 58 percent of the buildings in those districts are located in census tracts with poverty levels of at least 20 percent (Rapoza 2003). Occasionally, however, combining subsidies amounts to “sweetening” a deal that would have been feasible with only one of the subsidies or none. Rubin and Stankiewicz raise objections to an egregious example: Advantage Capital received one of the first round NMTC allocations, with a service area of seven states. In four of those states, Advantage is also a “certified capital company” with agreements with the state government to receive 100 percent subsidies for making equity and debt investments, investments that could also be eligible for NMTC (2003).

Estimating the total economic costs and benefits of NMTC projects, the opportunity costs of shifted capital or the spillover effects in the surrounding community, for instance, poses similarly difficult questions as the “but for” test, but is just as important in evaluating the overall effectiveness of the program, especially if its intentions are truly poverty alleviation and community benefit (Gurley-Calvez et al. 2009; Marples 2008).

NMTCs and disaster recovery

The GO Zone allocation

With the passage of the Gulf Opportunity Zone act in 2005 and its inclusion of a $1 billion allocation of NMTCs to be spread over three years, the tax credit took on another category of “distress:” disaster-stricken areas, specifically “that portion of the Hurricane Katrina disaster area determined by the President to warrant individual or individual and public assistance from the Federal Government under the Robert T. Stafford Disaster Relief and

Emergency Act by reason of Hurricane Katrina" (Federal Register 2006, 12424). While similar in many respects to the regular NMTC program, the GO Zone NMTC allocations introduced some different requirements, making some census tracts and populations eligible that would not have been under normal circumstances, and also limiting GO Zone NMTCs' use to the GO Zone itself and to CDEs that could demonstrate a "significant mission of recovery and redevelopment of the GO Zone," and could also demonstrate having significant resources already in the GO Zone area and a track record of providing services in the region (Federal Register 2006, 12423). CDEs with GO Zone allocations could serve the new Targeted Population category specific to the GO Zone (the GZTP), which, as discussed previously, permits somewhat higher-income census tracts to be served than would normally be the case, but also requires that the population being served "must consist of individuals who lack access to loans or equity investments because they were displaced from their principal residence or lost their principal source of employment because of Hurricane Katrina" (GAO 2010, 11), and that QALICBs be located in census tracts that were designated by FEMA as having been flooded or sustained extensive damage as a result of the hurricane (CDFI Fund 2008a; GAO 2010). CDEs with allocations from non-GO Zone rounds could, of course, still make NMTC investments within the GO Zone if they were in the service area designated by their allocation agreements, but could only invest in QALICBs that would have already qualified under normal circumstances.

In New Orleans, pre-existing poverty and economic distress meant that most GO Zone-eligible census tracts were already NMTC-eligible: of 137 census tracts containing parcels of land flooded or severely damaged by Katrina according to FEMA, rendering them potentially qualified for GZTP NMTC investments, 34 (or approximately 25 percent) were only eligible for GZTP investments, the rest were existing LICs already eligible for NMTC investments. Media coverage of Katrina and the flooding that followed in New Orleans brought the city's existing poverty to international attention. Ironically, the day that New Orleans' levees breached and began to flood the city, the Census Bureau issued a report ranking Orleans Parish's poverty rate of 23.2 percent as the seventh highest of 290 large U.S. counties, and thirty-eight percent of New Orleans' poor lived in 47 neighborhoods where poverty was greater than 40 percent (Katz 2006).

New Orleans' recovery planning

The effects of Hurricane Katrina not only exacerbated existing poverty, it put the entire city in greater distress. With 80 percent of the city flooded, approximately three out of every four habitable housing units damaged or destroyed (and nearly all of the city's affordable housing inventory), basic infrastructure of all kinds crippled, and vital city services ground to a halt for days or weeks, no part of the city was unaffected (Unified New Orleans Plan 2007). It was clear that no single source of recovery aid—public, private, or philanthropic—would suffice alone, and it was also clear that a recovery plan or plans would be critical in order to prioritize where funds should be directed, and to access public recovery funds managed by the Louisiana Recovery Authority, which required a parishwide plan for release of funds (Horne and Nee 2006).

Planning was also viewed as critical to attract much-needed private investment, even if it could not be directed by public authorities. "Katrina imposed a significant competitive disadvantage to New Orleans" sounds like a gross understatement, appearing in the Economic Redevelopment Plan issued by Mayor Nagin's Bring New Orleans Back Commission (BNOB) in 2006, one of the first recovery plans to be put forth. But to retain existing business and attract new investment, New Orleans had to contend with high costs of doing business in the short term, and gave uncertainties about the city's future potential longer term. The continued existence of the city itself was in some question, with the possibility of another hurricane or even less dramatic storm or flooding event occurring before the levees and drainage systems could be repaired, let alone improved. Many existing businesses had been left unattended for days or months even if they had escaped flooding and storm damage, workers were scattered with scarce affordable housing options to return to, and public utilities and services were strained or unavailable altogether in some parts of the city. Furthermore, how much of New Orleans' population would return in the years to come and how they would be distributed were very much in question, leaving the future market and workforce business investors could expect deeply uncertain.

The question of how much of New Orleans' population *should* return and where they *should* live was also hotly debated throughout all the recovery planning processes. The BNOB Commission's planning process came to a premature end, before it could launch its neighborhood-by-neighborhood planning meetings, after an Urban Land Institute report commissioned by the BNOB recommended shrinking the city's footprint and converting some neighborhoods perceived to be especially flood-prone to greenspace (Horne and Nee 2006). A BNOB panel also suggested that a building permit moratorium be put in place while residents proved their neighborhood's "viability," which proved so unpopular than Mayor Nagin rejected the recommendation (Krupa 2006a), famously declaring that no neighborhood would be off-limits for rebuilding, and that the market would decide viability in the end (Russell 2006). Supporters of consolidating redevelopment cited the high cost of providing services to far-flung and sparsely repopulated areas, and fears of a "jack-o-lantern" effect of one or two houses reoccupied amidst blocks of blight. Opponents were concerned about the disproportionate effect the policy could have on African-Americans, who were more likely than whites to have lived in badly flooded areas, that the temporary displacement of evacuation would become permanent for many who would like to return to New Orleans, that the unique fabric of individual neighborhoods would be lost, and that declaring some neighborhoods unsustainable would create a self-fulfilling prophecy. Horne and Nee (2006) characterized the debate as "'Jack' vs. the 'Donalds,'" with "Jack" representing the threat of the jack-o-lantern effect, and the "Donalds" as Trump and Disney. Both "Donalds" exemplified fears that recovery would focus excessively on the downtown area and adjacent French Quarter and Garden District, both popular tourist destinations, with developers producing a new New Orleans that would be more affluent on the one hand, with lower-income residents unable to afford to return, and more "Disneyfied" on the other, serving up a caricature of historic New Orleans culture and architecture without the people and neighborhoods that have kept that culture alive and vibrant.

After public outcry halted the BNOB's neighborhood planning process, New Orleans' City Council launched its own "New Orleans Neighborhood Revitalization Plans" (better known as the "Lambert Plans," after one of the planners), exclusive to flooded neighborhoods. The distrust generated by the earlier planning efforts is evident in the Lambert Plans' Summary document:

> … what came up repeatedly in many lower income communities was a palpable fear that the word "improvement" was a euphemism for "displacement" or "gentrification." Some of this fear is the result of earlier post-Katrina redevelopment proposals that wanted to examine the wholesale redevelopment of neighborhoods in the city from the ground up. A good portion of the rest of the concern came from past experiences (Neighborhoods Rebuilding Plan 2006, 4).

Yet another planning process, the Unified New Orleans Plan (UNOP), followed the Lambert Plans, as the Louisiana Recovery Authority required a citywide plan before releasing recovery funds (Horne and Nee 2006). The UNOP process ultimately produced plans for each of the city's thirteen planning district, as well as a citywide plan. Elements from both the BNOB and Lambert Plans were taken into consideration in the course of UNOP, and tension between competing recovery strategies persisted. The proportion of resources that should be directed toward bolstering areas of relative strength, where more people had already returned, and toward the most devastated areas with the fewest resources to help themselves begin recovery on their own continued to be debated (Krupa 2006b, 2007).

The results of UNOP played a part in the selection of 17 targeted recovery zones throughout the city, reflecting the interest in deploying limited recovery resources in tightly clustered areas on the one hand, but distributing those clusters through different parts of the city with different needs on the other. There are three categories of zones:

- Re-Build: areas that have experienced severe destruction, and will require major rebuilding;
- Re-Develop: areas where there is already some recovery activity, and have a high potential to catalyze further redevelopment in the surrounding community; and
- Re-New: smaller, more specific projects that require only modest public intervention to bolster efforts already underway (City of New Orleans).

There are only two Re-Build zones, but then-recovery czar Ed Blakely slated $145 million in direct public investment for those two, compared to $161 for all fifteen Re-Develop and Re-New zones combined (there are six Re-Develop areas and nine Re-New zones) (Krupa and Russell 2007). Public spending on restoration of infrastructure and services throughout the city would continue at the same time, and no neighborhoods were to be officially declared off-limits for rebuilding, but "trigger" projects would be specially cultivated in the targeted zones, using programs like other GO Zone tax incentives besides the NMTC to encourage recovery in the zones, and possibly catalyze growth outside their borders (Guillet 2007). The zones were chosen because of their perceived potential to "[build] around public assets in business corridors in an effort to generate further private investment from developers" (City of New Orleans).

How well the city's targeted zones will fare over time, and whether they will produce better results at catalyzing private investment than other comparable business corridors that have not been singled out for special attention, remains to be seen. Although New Markets Tax Credits provide a relatively shallow incentive, unable to meet the deepest needs of some of the most devastated neighborhoods, they are well-suited to build on other recovery efforts, inside or outside of specially targeted zones. One feature that makes them particularly interesting in the context of recovery planning—whether recovery from a specific disaster, or planning neighborhood recovery from the distress brought on by social and economic changes over time—is that unlike many forms of community development assistance, like Community Development Block Grants or LIHTCs, they are not channeled through state or local government. Public agencies attempting to implement their own disaster recovery or community development plans may, of course, actively seek out CDEs and their assistance, or partner with them on particular projects by helping leverage NMTCs with grants or other incentives at the agencies' disposal. Ultimately, though, it is CDEs' decision whether investments are socially and financially worthwhile, and whether the priorities of public planners have merit.

NMTC investments in New Orleans

Several questions have been identified in the literature regarding how effective NMTC investments are likely to be at achieving the goal of the program as articulated by its original designers and supporters, to bring capital into "places left behind" and "pockets of poverty" to alleviate the social and economic distress found there. How NMTC investments made in New Orleans reflect the questions, concerns, and predictions made in the literature can begin to be determined from data accrued by the CDFI Fund over the last several years, if not be definitively answered on all counts.

New Orleans presents an interesting case study of NMTC projects at work in distressed communities for two related reasons. First, Louisiana has received the third-highest amount of NMTC dollars by state through fiscal year 2008, nearly $863 million. Louisiana was also the third-highest state on a per capita basis (U.S. General Accounting Office 2010, 9-10). By my analysis of data provided by the CDFI Fund on NMTC transactions reported in Orleans Parish (which is contiguous with the city of New Orleans) through 2008, $596 million has been invested in New Orleans in 41 distinct projects, 40 of which were in QALICBs (one was an investment in another CDE). New Orleans presents a relatively large number of projects and quantity of investments to examine. Louisiana's large share of NMTC dollars is due in large part to the second reason New Orleans presents an interesting case study: the special allocations of NMTC authority for use in the GO Zone for disaster recovery. Although recovering from disaster may set New Orleans' needs apart from other communities in some ways, in many respects the storm's and flood's devastation exacerbated existing distress and created new hardships, further limiting prospects for profitable private investment in an entire region whose future was left uncertain.

Research questions and methodology

My first question is what NMTC investments have occurred in New Orleans, and how are they distributed throughout the city in terms of numbers of projects, types, and amounts of investment? In which neighborhoods are they occurring, how severely flooded were those areas, and what are their poverty and median income levels, according to the 2000 U.S. Census? Using transaction data provided by the CDFI Fund, I have mapped the projects and located them within New Orleans' neighborhoods as defined by the City Planning Commission. I also used a National Oceanic and Atmospheric Administration (NOAA) map to estimate flood levels at project sites, and the City of New Orleans' online GIS Property Viewer to find whether projects were located in or near the city's 17 targeted recovery zones.

To review types of NMTC projects occurring in New Orleans, I have used both the classification of Real Estate (RE) or Non-Real Estate (NRE) QALICB as defined by the CDFI Fund, and the qualitative project descriptions reported by CDEs to the CDFI Fund. Although the CDFI Fund is not permitted to publish names, addresses, or other specific identifying information about recipients of NMTC investments, some CDEs and their clients choose to make their projects public. Where that has been the case, I have also used newspaper articles, press releases, and other published project information to determine the nature of the project's purposes.

While looking at the types of NMTC-funded projects and their distribution through the city can begin to provide a description of how they are shaping recovery and community development, there are some serious challenges to interpreting much of the NMTC data on New Orleans investments, especially where it concerns examining questions raised in the literature on the nature of different CDEs (e.g. for-profit or mission-driven, the extent of their service areas, or whether they are locally based). The first challenge is the extent to which Hurricane Katrina and its aftermath altered the city's demographics. Using 11-year old Census data on poverty and median income is even more flawed in New Orleans than it is in most other cities. Even if poverty and income have stayed roughly similar between 1999 and now in some area, the degree of disaster-related distress may skew some results. For instance, even if a neighborhood like Fillmore (where one large NMTC project occurred) has retained the higher than average median income and low poverty rates it had at the last census, percentages of poverty do not indicate whether or not those affluent individuals are the only residents to return to their block, surrounded by vacancies and blight. It would be worthwhile to revisit these projects when accurate post-Katrina demographic information is available at the census tract level.

Another caveat to interpreting the data on different CDE types is that, while New Orleans has received a relatively large share of NMTC investments through 2008—more, in dollar amounts, than some states received altogether in the same period, the number of CDEs and projects is small enough that when they are subdivided into different types, the cases are too few to test for statistical significance or distinguish possible outliers that may skew the data.

Interpreting project impacts in a community is also particularly challenging. The CDFI Fund's Transaction Level Reports do include many fields that could be useful to gauge various sorts of community impact, like projected jobs to be created, sizes of facilities, capacity of community facilities, and projected numbers of people served. Unfortunately, there are two obstacles to using that data. Many CDEs do not report on some or all of those fields (which are voluntary), and among those that do, some projects receive investments from more than one CDE, making the possibility of double-counting outcomes a risk. Around 18 percent of projects in the CIIS database as of 2008 were funded by more than one CDE (U.S. Government Accountability Office 2010). The GAO, in a recent report on NMTC projects nationwide, found that the limitations on the available data, along with the diverse range of projects with varying purposes, made isolating project impacts difficult (U.S. Government Accountability Office 2010). For instance, one of the projects the GAO selected for its individual case studies was an after-school program facility. Viewed from a standpoint of job creation, the 12 full-time jobs associated with the project appear to be contributing little to the low-income community, but from the standpoint of the counseling, physical education, and other benefits to at-risk children not found in their local public schools, the impact is much greater (U.S. Government Accountability Office 2010).

Despite the impediments to drawing conclusions about CDE behavior based on New Orleans data, describing the projects and transactions that took place through 2008 may be useful for identifying more questions worth asking either about transactions over a large enough region to provide enough data, or in New Orleans in the future, when more transactions have taken place and been reported. For this thesis, I compared CDEs based on the amounts of investments they made in flooded areas, census tracts with 2000 poverty levels greater than 30 percent, census tracts with 2000 median incomes below 60 percent of AMI (greater than 30 percent poverty and lower than 60 percent AMI are fields the CDFI Fund tracks to show investments occurring in areas of greater distress than required by the program, and also compared the ranges, averages, and medians of their transactions.

One of the significant questions in the literature is whether the nature of a CDE's parent organization, i.e. whether it is mission-driven (nonprofit or a CDFI), for-profit, or public, influences the nature of its investment choices, particularly the relative emphases it places on profit and community impact. The limitations of the New Orleans data were immediately apparent, as only one of the 18 CDEs was a nonprofit (there were no CDFIs or publicly created CDEs active in New Orleans through the period reported on).

Two more questions about the nature of CDEs are whether the location of their headquarters influences their investment decisions (New Orleans- or Louisiana-based, or out of state), and whether the extent of their service area influences their decisions. On the one hand, a small service area may contribute to a more intimate knowledge of that area's needs, while on the other hand, a CDE capable of serving nationwide may have greater capacity to handle many kinds of transactions efficiently. To examine the first question, I compared CDEs based in New Orleans, all CDEs based in Louisiana, and CDEs from outside the state. To examine the second, I divided CDEs into those with local-to-statewide service areas, those with multi-state service areas, and those with national service areas. For both questions, I compared the same measures as I did with mission-driven and for-profit CDEs. In addition to those measures, I compared the proportion and number of their investments in non-real estate QALICBs. Also, because of concerns of an overly broad definition of low-income community and the particular possibility that central business districts may qualify as LICs and receive a disproportionate share of investments relative to their amount of local community distress, I compared the number and proportion of their investments in New Orleans' Central Business District.

New Orleans projects overview

I identified 121 individual transactions that took place in New Orleans reported between fiscal years 2004 (the earliest year reported) and 2008. Those transactions were made in 41 distinct projects. 40 of those projects were investments in QALICBs, another was an investment in another CDE (117 transactions were made in QALICBs; there were four individual investments in the same CDE). The total dollars invested in QALICBs was $577,638,771, with another $18,115,528 invested in a CDE for hospital-related purposes.

Individual transactions in QALICBs ranged from $25,000 to $47,582,400, with an average investment size of $4,937,083, and a median of $2,775,000. Total amounts invested in individual QALICB projects ranged from $25,000 to $77,321,400, with an average project amount of $14,811,250, and a median of $6,650,000.

Limited transaction data through 2007, but not yet through 2008, is available from the CDFI Fund's website. Nationwide, the 2,495 NMTC transactions reported through 2007 ranged from $1,950 to $99,500,000, with an average transaction size of $3,590,752, and a median of $1,611,200.

Not surprisingly, transactions began slowly, with only 2 in 2004, the first year reported. The number of transactions and amount invested rose sharply in 2007 (Illustration 1, Table 1). Nationwide, transactions began in 2003, and rose steadily through 2007 (the most recent year available from publicly released data) (Illustration 2, Table 2). New Orleans' sharp rise in 2007 is no doubt related to the response to Hurricane Katrina, and probably funds from the first round of GO Zone allocations beginning to come to fruition.

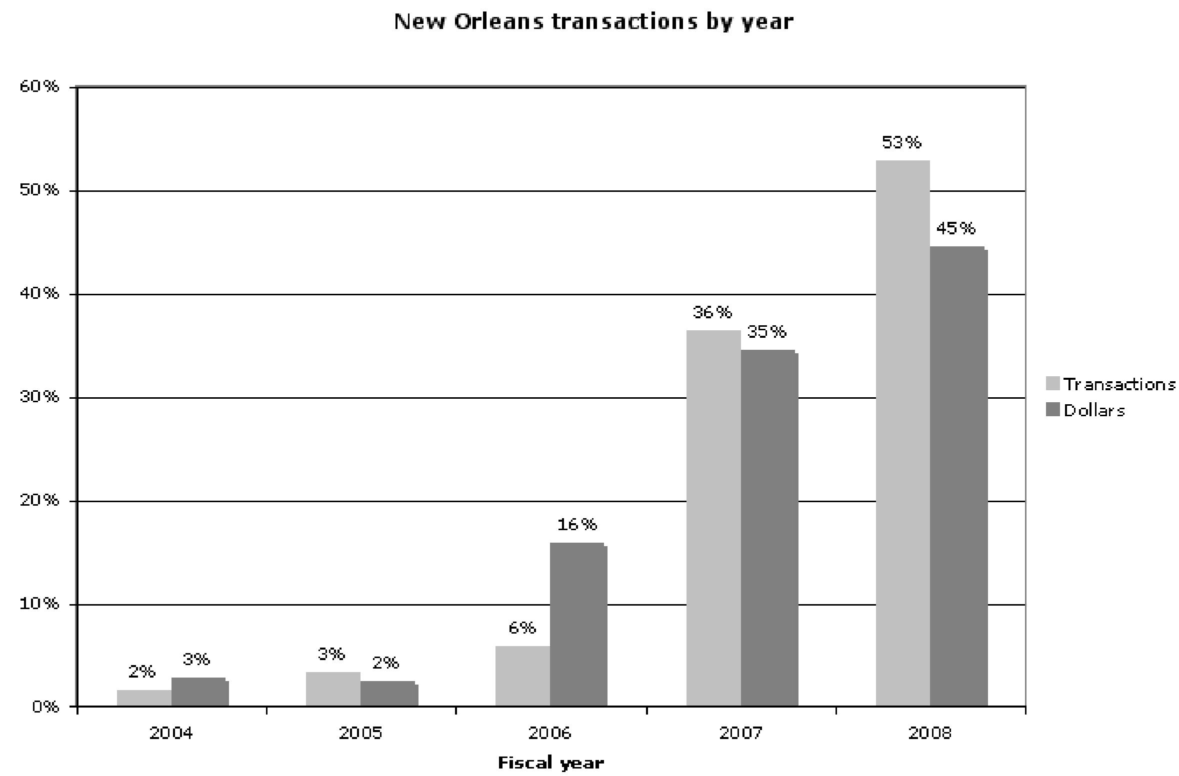

Illustration 1: New Orleans transactions by year

Fiscal year	Transactions	Dollars
2004	2	$16,400,000
2005	4	$14,200,000
2006	7	$94,145,000
2007	40	$187,745,950
2008	64	$265,147,821

Table 1: New Orleans transactions by year

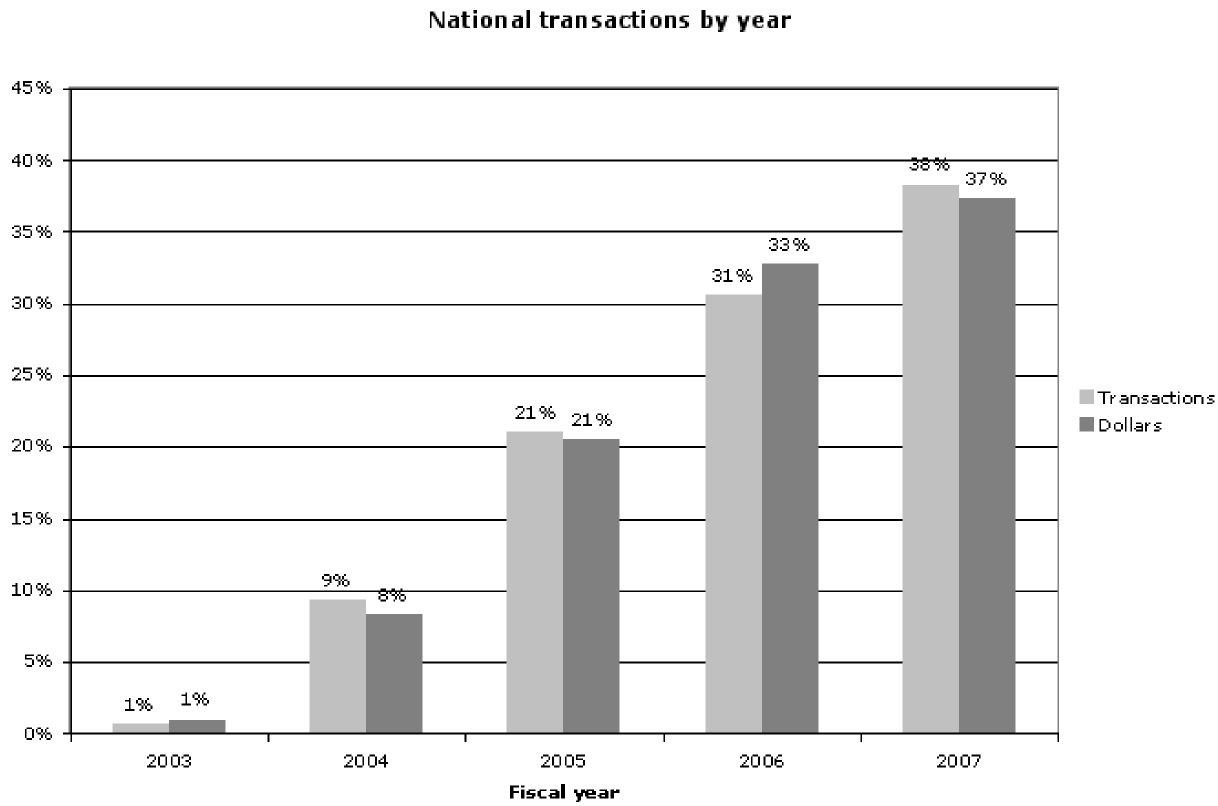

Illustration 2: National transactions by year

Fiscal year	Transactions	Dollars
2003	17	$88,997,064
2004	232	$749,880,698
2005	526	$1,844,709,256
2006	764	$2,932,397,189
2007	956	$3,342,943,067

Table 2: National transactions by year

Real estate or non-real estate

Only 22.5 percent (nine out of 40) of the QALICB projects were classified as "real estate," 70 percent (28 out of 40) were classified as "non-real estate" (or operating businesses whose primary purpose is not real estate ownership, development, or management), and 7.5 percent (three out of 40) projects received a combination of real estate and non-real estate investments. In terms of dollars invested however, real estate projects made up 36 percent of the total ($207,113,604), non-real estate 44 percent ($255,470,167), and the 3 combination projects received 20 percent of total investments ($115,055,000) (Illustration 3). Of the $115,055,000 invested in combination projects, 51 percent ($59,105,000) came from real estate transactions, and 49 percent ($55,950,000) from non-real estate transactions, making the total amount invested in real estate transactions in New Orleans to $266,218,604 or 46 percent, and the total amount invested in non-real estate QALICBs to $311,420,167, or 54 percent.

A 2008 analysis of nationwide transaction data through 2006 by the CDFI Fund found that at that time, 49 percent of all QALICB transactions and 32 percent of dollars invested were in non-real estate businesses, and 51 percent of QALICB transactions making up 68 percent of dollars invested were in real estate businesses. It is worth noting that a non-real estate QALICB may use an NMTC investment for real estate-related purposes, and also that if a non-real estate QALICB forms a single purpose entity for the purpose of leasing property to that QALICB, the CDFI Fund allows the CDE making the investment to choose whether to classify it as a real estate or non-real estate investment (CDFI Fund 2008b).

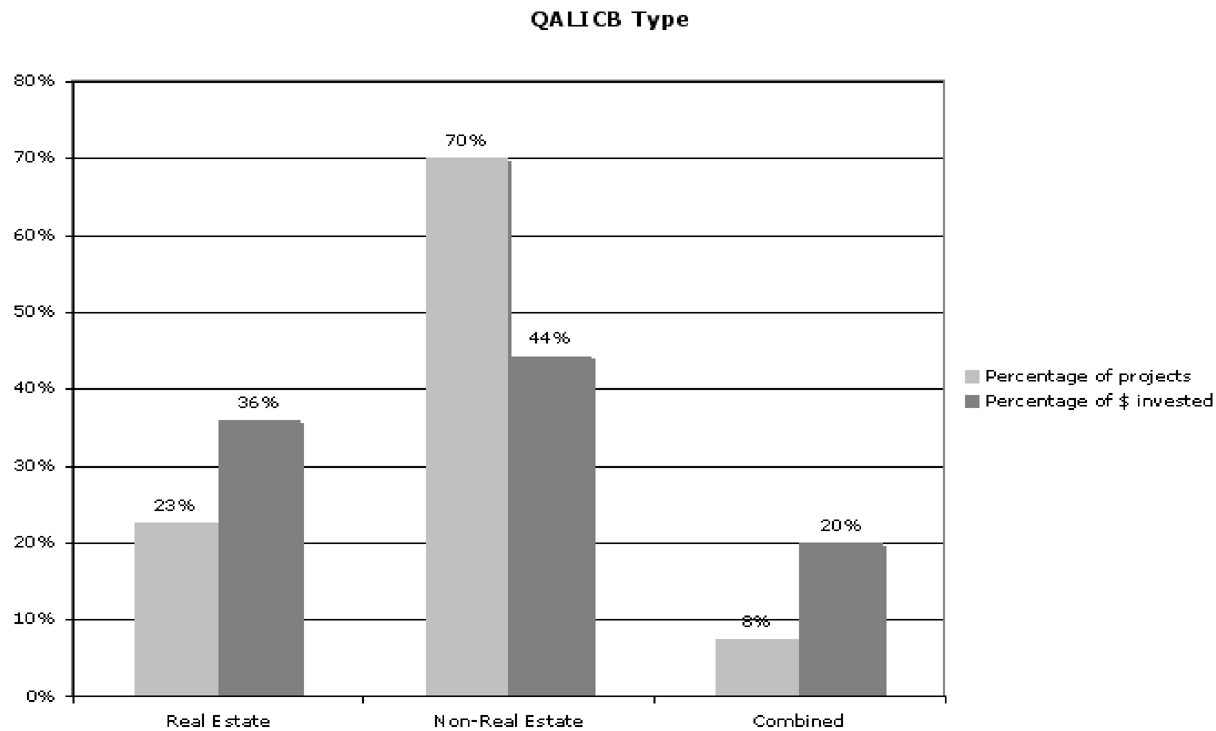

Illustration 3: Real estate and non-real estate QALICBs

Locations and business descriptions

Armistead (2005a) raises the concern that "LIC" was defined too broadly, and could lead projects occurring in census tracts that technically qualify, but are not truly among the neediest communities. Rubin and Stankiewicz (2003) echo that concern, and note that central business districts often qualify because their sparse residential populations may be impoverished, even if the district itself is hardly a low-income "community" and projects undertaken there are not necessarily for the residential community's benefit. In New Orleans, QALICB projects have occurred in 15 of the city's 72 neighborhoods as defined by the City Planning Commission

(Illustrations 4 and 5, Table 3), but 10 of those projects fell within the Central Business District (CBD), representing 51 percent of all NMTC dollars invested in New Orleans QALICBs[7].

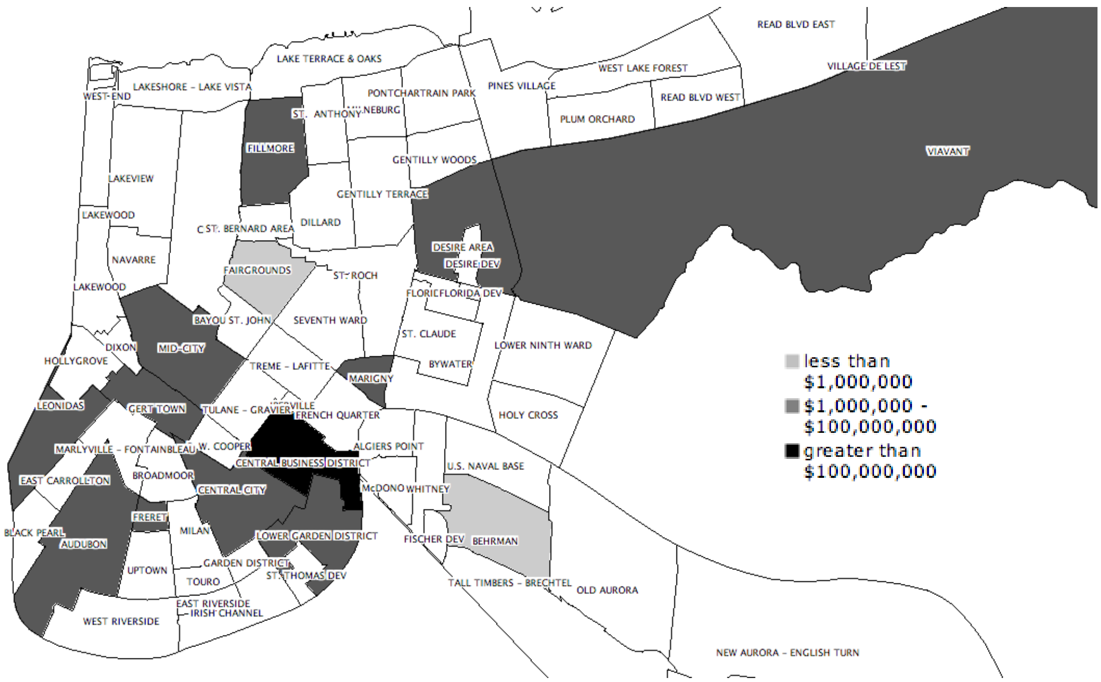

Illustration 4: Map of New Orleans neighborhoods with NMTC investments

7 Four QALICB projects reported different locations between the first year an investment was made in them and later years, in each case it was plausible that it was the same project, but the business had moved. In those cases, I have used the most recent address as the project's primary location.

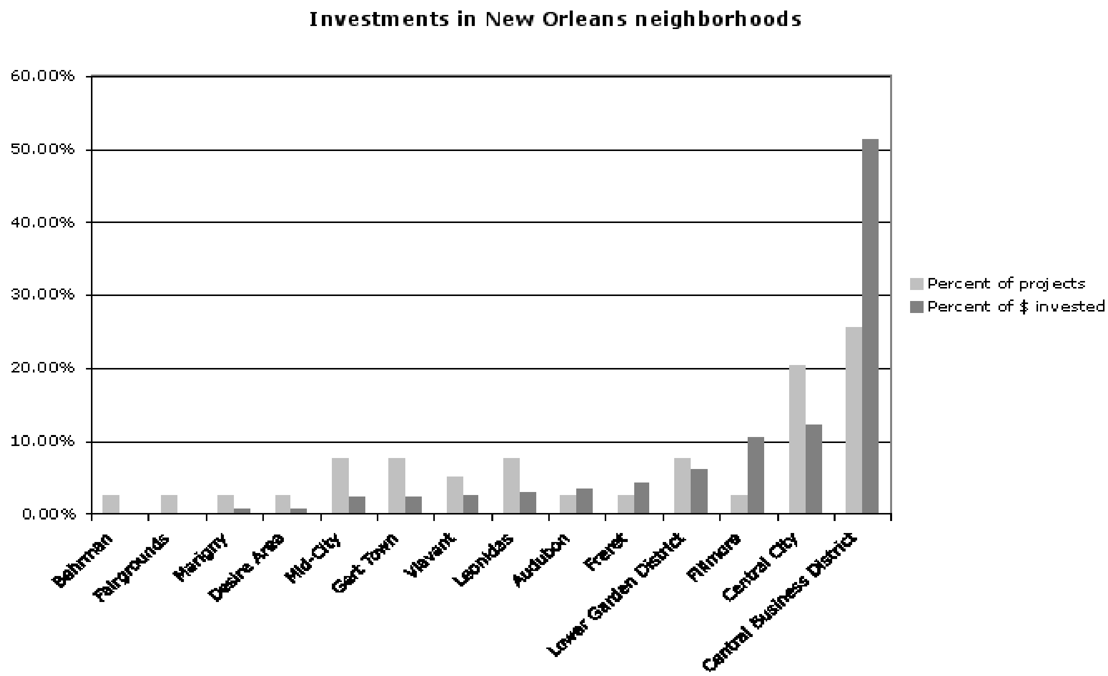

Illustration 5: NMTC projects by neighborhood

Neighborhood	Number of projects	Percent of projects	Dollars invested	Percent of $ invested	2000 Poverty[8]	2000 Average Household Income[9]
Behrman	1	2.56%	$25,000	0.00%	33.4%	$30,409
Fairgrounds	1	2.56%	$122,800	0.02%	16.9%	$39,012
Marigny	1	2.56%	$3,700,000	0.64%	24.1%	$35,764
Desire Area	1	2.56%	$4,650,000	0.81%	35.7%	$27,077
Mid-City	3	7.69%	$13,728,500	2.38%	32.1%	$31,442
Gert Town	3	7.69%	$14,356,987	2.49%	48.6%	$22,685
Viavant	2	5.13%	$15,000,000	2.60%	47.9%	$20,595
Leonidas	3	7.69%	$17,434,000	3.02%	31.5%	$32,016
Audubon	1	2.56%	$20,000,000	3.46%	17.9%	$108,964
Freret	1	2.56%	$25,000,000	4.33%	33.5%	$40,686
Lower Garden District	3	7.69%	$36,021,000	6.24%	28.5%	$56,981
Fillmore	1	2.56%	$60,709,000	10.51%	11.6%	$57,893
Central City	8	20.51%	$70,510,023	12.21%	49.8%	$23,237
Central Business District	10	25.64%	$296,381,461	51.31%	32.3%	$67,633

Table 3: Investments in New Orleans neighborhoods: percentages of projects and dollars invested

Promisingly for community impact both in the CBD and for the entire metro region, the largest investment in the CBD is a health care training facility. Louisiana's health statistics were some of the poorest in the nation before Hurricane Katrina, and the disaster had a severe impact on the region's health care system, particularly for low-income individuals. Five years after Katrina, the VA hospital and the primary public hospital have yet to reopen. Cultivation of a downtown medical and biotechnical district for economic development purposes has also been a high priority for the city. Less promisingly for community benefit, four of the ten CBD projects are hotels—making up ten percent of all QALICB projects in New Orleans, and 22 percent of

8 Neighborhood-level poverty rates and average income from the 2000 Census, calculated by the Greater New Orleans Community Data Center: www.gnocdc.org

9 The Greater New Orleans Community Data Center was unable to calculate median income at the neighborhood level, so average neighborhood income is given instead. Average income in 2000 for Orleans Parish was $43,176; average income for Louisiana was $44,833; and for the United States was $56,644.

NMTC dollars invested in the city. While New Orleans' tourism industry was set back considerably in the aftermath of Katrina and arguably in need of support, hotels are among the business types Groves (2007) has dubbed "Problematic Purposed Projects," with too little to offer LIC residents to justify tax credit-subsidized financing. The CBD is also home to one of New Orleans' highest-profile NMTC-supported projects, the expansion of the National World War II Museum (U.S. Department of the Treasury 2007), as well as to a clothing retailer, an architectural and construction management company, a technology company, and a mixed-use real estate project intended to include a nursing facility.

Nearby Central City follows the Central Business District, with eight projects making up 12 percent of NMTC dollars invested in New Orleans. Not all of the eight Central City projects have substantial descriptions, but they include a hospital, a Home Depot (Quillen 2009), day care services, and film production services. The last is another promising project for local economic development goals, as Louisiana has been cultivating itself as "Hollywood South" since introducing film tax credits in 2002, but has had some difficulty attracting post-production film business because of the scarcity of sound stages and editing facilities (Moran 2009). One of the hopes for the film industry in Louisiana is that it will produce more well-paying jobs with opportunities for advancement with increasing skills.

The flood-ravaged Fillmore neighborhood, better known in New Orleans as part of the Gentilly district, was the third-highest recipient of NMTC investments in dollars thanks to a single project, the private boy's school, Holy Cross (Office of the Comptroller of the Currency 2008). Holy Cross left its damaged campus in the Lower Ninth Ward after Katrina, and its choice of the Gentilly site over one in New Orleans' unflooded suburb, Kenner, was heralded as a major vote of confidence in the Gentilly area's recovery (Carr 2009). Holy Cross is the only project that would not have occurred without the GO Zone allocation and its admission of census tracts and targeted populations affected by disaster: its census tract had an eight percent poverty level, 2 percent unemployment level, and 159 percent of area median income according to 1999 U.S. Census data. It is located, however, in the most deeply flooded area of all the NMTC projects in this dataset. According to the NOAA's September 3, 2005 New Orleans flood level map, the Fillmore site that would become to Holy Cross was under approximately 7-8 feet of water at that time.

The Lower Garden District, adjacent to both the Central Business District and Central City, had the fourth-highest amount of NMTC dollars invested, in three projects altogether. Two of the three would probably qualify as "problematic" for Groves: a restaurant, and the New Orleans Convention Center's Marriott Hotel (DuBos2009), although the Convention Center and its surroundings were damaged both materially and in image after serving as a refuge of last resort for New Orleanians trapped in the city after Katrina. The third Lower Garden District project is Second Line Stages, a film studio that was awarded the Council of Development Finance Agencies' award for the nation's best tax credit financed project in 2009. Features of the project that stood out to the Council include its renovation of a historic warehouse, LEED Silver Certification, and cooperation with area community organizations to create educational programs for at-risk youth (Council of Development Finance Agencies 2009).

The Freret neighborhood had a single, relatively large NMTC-supported project: the Ochsner/Baptist medical center, which is credited with restoring over 1,350 jobs—a substantial impact (DuBos 2009), as well as restoring health care facilities that had been badly flooded. The area was under approximately 5-6 feet of water on September 3, 2005.

A Tulane University student center (LaRose 2007) was the sole recipient of NMTC funds in the Audubon neighborhood. Its census tract exemplifies the difficulty in defining a "low-income community": with a 40 percent poverty rate in 1999, the tract qualified for NMTC investments even without taking hurricane-related damage into account, but it also had a median income of 339 percent of AMI. The tract contains both Tulane and Loyola Universities, as well as a wealthy, private, gated street, Audubon Place, presenting a marked contrast between income levels. The use of NMTC funds for a private university's students also raises the question of how well the low-income community of the Audubon area, as opposed to the student community, is served by the project.

The NMTC project investment sizes get smaller in the remaining neighborhoods, which is not necessarily a bad sign, as it suggests that CDEs are finding ways to reduce transaction costs enough to make small investments feasible. With three percent of NMTC investment dollars, the Leonidas neighborhood received a grocery store and drug store in its flooded portion, and a travel service business on its "dry" side. Viavant was the only neighborhood in the New Orleans East district to receive NMTC dollars as of 2008, with two industrial projects. Gert Town was one of two neighborhoods to have NMTC investments in housing; NMTC funds were also invested in a drug and alcohol rehabilitation center, a recording studio, and a retail center. Mid-City's projects include a non-profit retailer, multi-family housing, and a restaurant.

Finally, four neighborhoods received less than one percent apiece of NMTC dollars invested in New Orleans. Projects in those neighborhoods include a performing arts company, a day care, a warehouse, and another film studio.

Target recovery zones

The City of New Orleans' online GIS Property Viewer includes an overlay showing the boundaries of each targeted recovery zone. I found only eight projects out of the 40 located within or immediately adjacent to either a Re-New or a Re-Develop zone, making up 20 percent of all projects, and 24 percent of dollars invested. As of 2008, NMTC investments do not appear to be closely following city-designated recovery priorities.

Re-New zones are defined by the city's current recovery plan as specific projects requiring only modest intervention to support work already underway by the private or nonprofit sector. Two projects apiece were located in or across the street from two of the nine Re-New zones: "Canal Street (Downtown)" and "Tulane Avenue at Jeff Davis (Comiskey Park)" (in the Mid-City area). Those four projects make up $103 million in NMTC investments, or 18 percent of the total dollars invested in New Orleans.

Each of the city's six Re-Develop zones is around one half mile in diameter, and requires somewhat more intervention than a Re-New zone. They had some recovery resources already present when they were designated, and are considered to have high potential for attracting additional investment in their surrounding communities. There were also two projects apiece in or adjacent to two Re-Develop zones: "Carrollton Avenue at I-10" and "South Claiborne Avenue at Toledano," comprising approximately $32 million in NMTC investments, or six percent of the total.

There were no NMTC projects in or around either of the city's two Re-Build zones, one half mile in diameter like the Re-Develop zones, but having experienced extensive physical destruction and social disruption, and requiring much more investment in order to recover.

Projects by flood depth, September 3, 2005

Hurricane Katrina and the subsequent levee failures devastated New Orleans in more ways than flooding alone; the storm itself damaged structures all over the city, and whether physically damaged by wind or flood, businesses all over the city were left out of operation, without basic city service, and were frequently unattended for days or weeks. That a neighborhood sustained little or no flooding does not mean it was not severely impacted, but extensive flooding certainly inflicted considerable physical damage to overcome, shared by entire neighborhoods, in addition to all the other setbacks New Orleans communities faced.

To put the extent to which NMTC investments reached Katrina-devastated areas into some perspective, I estimated each project location's approximate flood depth as of September 3, 2005 using a Google Earth image overlay of the NOAA's map of estimated flood depths on that date, produced by user "terrencemay" (2006; National Oceanic and Atmospheric Administration 2005). These estimates are not intended to represent actual maximum flood depths at each project site, nor maximum flood depths for the surrounding area, but are intended to give a relative idea of how NMTC investments were distributed with respect to flooding (Illustration 6, Table 4). Twenty-six projects out of 40, representing $429 million NMTC dollars invested (65 percent of all projects and 74 percent of NMTC dollars) were found in areas with approximately two or fewer feet of flooding on September 3. This raises questions about the efficacy of NMTCs for disaster relief. Although the Holy Cross project alone represented 10 percent of NMTC dollars invested and is located in one of the deeply flooded neighborhoods of the city, NMTCs have not otherwise done a good job of reaching the most disaster-stricken parts of the city. This may be influenced by high flood insurance costs, flood mitigation requirements, or lack of investor confidence in the redevelopment potential of flooded areas.

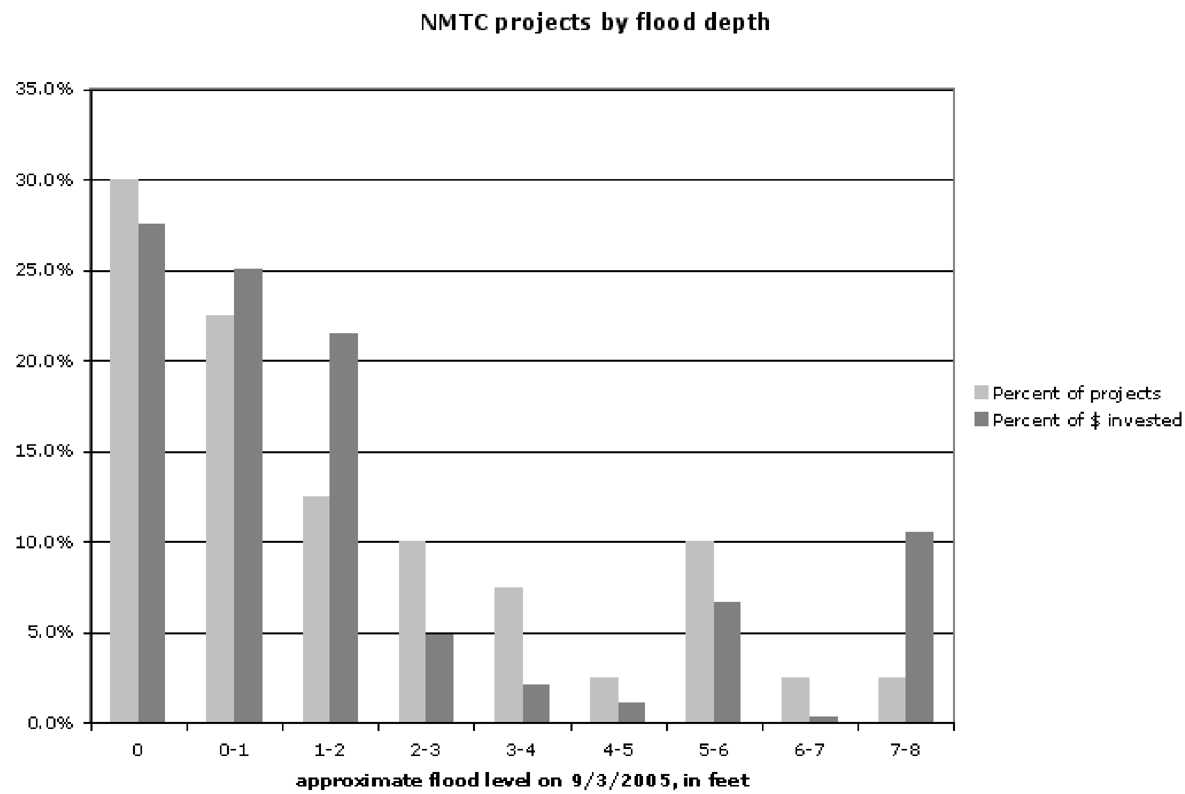

Illustration 6: Projects and dollars invested by depth of flooding 9/3/2005

9/3/2005 Flood depth	Number of projects	Dollars invested	Percent of $ invested
0	12	$159,331,023	27.6%
0-1	9	$145,160,061	25.1%
1-2	5	$124,494,200	21.6%
2-3	4	$28,185,000	4.9%
3-4	3	$12,255,987	2.1%
4-5	1	$6,650,000	1.2%
5-6	4	$38,728,500	6.7%
6-7	1	$2,125,000	0.4%
7-8	1	$60,709,000	10.50%

Table 4: Projects and dollars invested by depth of flooding 9/3/2005

Mission-driven and for-profit CDEs

Unfortunately, only one of the 18 CDEs that made NMTC investments in New Orleans QALICBs reported through 2008 is categorized by the CDFI Fund as a nonprofit, and none of the CDEs are a CDFI, either for- or nonprofit. This makes it especially difficult to make any inferences as to the role of mission-driven CDEs in New Orleans, as opposed to the particular actions of this one CDE, which may have more to do with its own specific mission, capacity, or knowledge of its service area's needs than with its mission-driven status in general (this CDE is not located in New Orleans, but serves a multi-state region that includes Louisiana). Nevertheless, it is worth noting that six of the ten lowest individual transactions in terms of dollars (and all five of the five lowest) were made by the nonprofit CDE. This suggests that it has developed strategies for making investments with lower transaction costs, and it may also suggest that it places a lower priority on potential profit than on community impact. Its transactions range from $25,000 to $3,500,00, with an average transaction of $606,413 and a median of $61,400. Seventy-eight percent of its dollars invested were in areas with flood depths of 2-3 feet or higher (77 percent of its dollars were invested in areas with flood depths of 5-6 feet, in just two projects). Seventy-nine percent of its dollars invested were in census tracts with poverty levels greater than 30 percent according to the 2000 Census, and 79 percent of its dollars invested were in census tracts with median incomes below 60 percent of AMI. None of the projects the nonprofit CDE invested in were located in the CBD. The types of projects the CDE chose were two day care services, a sound recording studio, a performing arts company, housing, a restaurant, and a religious organization (whose specific purpose for using the investment is not given).

By contrast, the individual transactions made by for-profit CDEs range from $92,000 to $47,582,400, with an average of $5,254,931 and a median of $2,940,000. Twenty-five percent of for-profit CDE dollars were invested in areas with flood depths of 2-3 feet or higher. Seventy-one percent of their dollars were invested in census tracts with 1999 poverty levels greater than

30 percent, and only 13 percent were invested in census tracts with median incomes below 60 percent of AMI (Table 5).

	Nonprofit	For-profit
Flood Depth > 2 feet	78%	25%
Poverty Level > 30%	79%	71%
Median Income < 60%	79%	13%
Lowest Transaction	$25,000	$92,000
Highest Transaction	$3,500,000	$47,582,400
Average Transaction	$606,413	$5,254,931
Median Transaction	$61,400	$2,940,000.00

Table 5: Nonprofit and for-profit CDEs

Locally-based CDEs

Six of the 18 CDEs are based in New Orleans, another CDE is based in Baton Rouge, Louisiana. The other 11 CDEs are based in other states. One New Orleans-based CDE indicated a national service area (apart from GO Zone allocations, which are necessarily restricted to the GO Zone region itself), and three indicated multi-state service areas, and therefore could have spent their allocations many places. The six New Orleans-based CDEs made 58 out of the 117 total individual transactions, and invested $292,622,617 out of $577,638,771 total QALICB investments (50 percent of transactions, and 51 percent of dollars invested). If all of the Louisiana-based CDEs are counted together (the six from New Orleans plus one from Baton Rouge), they made 62 transactions totaling $316,372,617 (53 percent of transactions, and 55 percent of dollars invested).

Differences between New Orleans-based, all of Louisiana-based, and out-of-state CDEs were not especially pronounced on the measures of flood depths of 2-3 feet or greater or poverty level, but where median income is concerned, CDEs from out of state invested only eight percent of their NMTC funds in areas below 60 percent of AMI, compared to 19 percent by New Orleans CDEs and 18 percent for Louisiana CDEs altogether. The dollar amounts of non-real estate transactions are another area where out-of-state CDEs diverge from state and local CDEs. The quantity of transactions are not that different: New Orleans CDEs made 40 non-real estate transactions, all Louisiana CDEs made 41, and out-of-state CDEs made 39, but the proportion of each type of CDE's total dollars invested were 44, 45, and 72 percent respectively. A third area of potential difference is in the proportion of dollars invested in the CBD: out-of-state CDEs invested 58 percent of their funds in CBD projects, as opposed to 44 percent by New Orleans CDEs and 45 percent by all Louisiana CDEs (Table 6).

The sample of CDEs is too small for the differences to be tested for statistical significance.

	New Orleans only	all Louisiana	Out-of-state
Number of CDEs	6	7	11
Flood Depth > 2 feet	23%	24%	28%
Poverty Level > 30%	69%	71%	72%
Median Income < 60%	19%	18%	8%
Lowest Transaction	$92,000	$92,000	$25,000
Highest Transaction	$47,582,400	$47,582,400	$39,750,000
Average Transaction	$5,045,218	$5,102,784	$4,750,294
Median Transaction	$2,383,000	$2,394,625	$2,940,000
NRE Transactions	$162,765,278	$172,046,528	$187,952,129
Number of NRE Transactions	40	41	39
Proportion of NRE Transactions ($)	56%	54%	72%
Transactions in CBD	$130,056,400	$143,806,400	$152,575,061
Number of CBD Transactions	18	21	22
Proportion of CBD Transactions ($)	44%	45%	58%
Total Transactions	$292,622,617	$316,372,617	$261,266,154
Number of Transactions	58	62	55

Table 6: Local and non-local CDEs

CDE service areas

CDEs can designate different service areas each time they apply for an allocation, and eight of the eighteen CDEs that invested in New Orleans through 2008 designated more than one service area over different allocation rounds. In several cases, this was probably because they were applying for the special GO Zone allocations, which can only be applied in states with GO Zone census tracts. In order to classify the CDEs' service areas, I used the CDFI Fund's online Searchable Award Database to find the organization profile for each CDE for each year that it was awarded an allocation of NMTCs. If a CDE's service areas were designated "national" for all the allocation rounds it received an award in except for those in which it indicated that its application was intended for use in the GO Zone, I classified it as a predominantly national service area CDE.

Only one CDE had an exclusively local (New Orleans metro area) service area, and one had a single allocation for statewide use in Louisiana. Two CDEs had a mix of service areas over different allocation years that included state and/or local levels, with multi-state as the largest service area. Three more CDEs were multi-state throughout their allocation years, and 11 had national service areas (although some of those also had GO Zone-specific allocations). I combined the CDEs with local and statewide service areas into a single “Louisiana” category of two CDEs, in order to compare them with multi-state (five CDEs) and national CDEs (11 CDEs).

There is more noticeable (but not necessarily statistically significant) variation between service area categories than there is between CDE headquarter locations. Multi-state CDEs made the most QALICB transactions, with 58 (50 percent of the total transactions), while national CDEs invested the most funds, with $260,212,367 (45 percent of all NMTC dollars invested). Multi-state CDEs invested in areas flooded with 2-3 feet of water or more to a greater extent than either state or national service area CDEs, with 46 percent of their dollars invested, as opposed to 15 and 13 percent, respectively. On the other hand, multi-state CDEs invested a much lower proportion of their dollars in census tracts with 1999 poverty levels greater than 30 percent, with 48 percent of their funds going to those areas, as opposed to 97 percent of state CDEs’ funds and 82 percent of national CDEs’ funds. Multi-state CDEs made a full 95 percent of their investments, dollarwise, in non-real estate businesses. State and national CDEs made 17 percent and 20 percent of their investments in non-real estate QALICBs, respectively. Multi-state CDEs also invested a lower proportion of their NMTC funds in the CBD than did the other categories, 21 percent, as opposed to 85 percent of state CDEs’ funds and 65 percent of national CDEs’ (Table 7).

	Louisiana	Multi-state	National
Number of CDEs	2	5	11
Flood Depth > 2 feet	15%	46%	13%
Poverty Level > 30%	97%	48%	82%
Median Income < 60%	7%	17%	13%
Lowest Transaction	$92,000	$25,000	$150,000
Highest Transaction	$47,582,400	$19,826,000	$39,750,000
Average Transaction	$6,908,695	$3,805,253	$5,782,497
Median Transaction	$1,371,361	$2,275,000	$3,247,454
NRE Transactions	$16,658,333	$210,230,684	$89,531,150
Number of NRE Transactions	9	51	20
Proportion of NRE Transactions ($)	17%	95%	34%
Transactions in CBD	$82,321,400	$46,185,000	$167,875,061
Number of CBD Transactions	5	13	25
Proportion of CBD Transactions ($)	85%	21%	65%
Total Transactions	$96,721,733	$220,704,671	$260,212,367
Number of Transactions	14	58	45

Table 7: CDEs by service area size

Research conclusions

Few conclusions can be drawn from the small amount of data New Orleans NMTC projects represent, and because demographic data for New Orleans are outdated. It would be worthwhile to revisit these projects when accurate post-Katrina demographic information is available at the census tract level. Also, the CDFI Fund is continuing to work on improving its data collection and manage double-counting dilemmas, which could make more measures of community impact available and useful from those CDEs that report on community impact measures (U.S. General Accounting Office 2010). Nevertheless, there are some lessons that can be learned from New Orleans, NMTC projects.

It is an encouraging sign for CDEs everywhere that transactions as low as $25,000 have been made, which demonstrates that strategies are developing to overcome the high transaction costs seen in the program's early years. That six of the ten lowest transactions made in New Orleans came from a mission-driven CDE may also support the contention that they are more likely to place community impact over profit than their for-profit counterparts, but it may also be a matter of that particular CDE's mission or level of capacity to be able to structure deals at low cost. Whether an argument can be made for set-asides for mission-driven organizations, or even restriction of the program to nonprofits and CDFIs, would have to be based on a broader review of mission-driven CDEs across the country. It is interesting to note that only one mission-driven CDE made NMTC investments in New Orleans through this period, even after Katrina, when nonprofits and philanthropy were highly active in the area. This particular CDE is located in the Gulf South region and serves a multi-state area, so perhaps it was better prepared than other mission-driven CDEs elsewhere in the country to understand New Orleans' needs and also to conduct business in New Orleans. The activity of the 17 for-profit CDEs in New Orleans in a wide variety of projects across the city—some "problematic," but others answering community needs like health care and reaching neighborhoods beyond downtown—suggests that even with a mixed record of community- and profit-oriented investments, for-profit CDEs' ability to bring capital to communities in need should not be entirely dismissed.

Less encouraging for community development prospects is the tilt towards the CBD, both in number of projects and amount invested. Although projects like health care training facilities stand to have city- or even region-wide impact in low-income communities despite being located in a central business district, the CBD is not a neighborhood where restricted access to capital relative to the rest of the city has been a particular problem.

The focus on the CBD and on other areas with little or no flooding is also somewhat discouraging for the NMTC as a disaster-recovery tool. In light of the post-Katrina debates over where recovery resources should be concentrated—in areas of strength where people and businesses began returning early on, or in the most devastated neighborhoods with the least ability to help themselves—the investment of 74 percent of New Orleans' NMTC dollars in unflooded or lightly flooded areas appears to follow the pattern of placing resources in areas of strength. Similarly, of the four city-designated targeted recovery zones where NMTC projects are occurring, none are in the highly distressed Re-Build category, and most of the dollars invested have gone to the least distressed Re-New category. That does not necessarily mean that most CDEs active in New Orleans espouse the belief that a smaller city with resources directed toward already strong areas is the best recovery strategy, however. It may be that, as a shallow incentive intended to fill financing gaps for "marginally do-able" deals, much of New Orleans has needed far more than marginal assistance. An area for further research would be to see whether NMTC investments reported in 2009 and beyond (especially if Congress continues to reauthorize the program) reach farther into the city's more damaged neighborhoods, or maintain a bias toward downtown. In either case, Louisiana's ranking as the third-highest recipient of NMTC dollars reported through 2008 shows that New Markets can and does bring investment to disaster areas, even if they are not necessarily evenly distributed or distributed in proportion to the level of distress. If NMTCs are used again as part of a disaster relief package, a lesson for public officials may be to work closely with CDEs to help identify and finance areas that are weakened but still potentially viable with some financing assistance, and steer the other public and private resources at their disposal to more devastated areas. Establishing zones targeted for mutually reinforcing public and private investment, as New Orleans has done, may be one way to attract NMTC investments. Eight out of 40 NMTC QALICB projects occurring in New Orleans' targeted recovery zones as of 2008 is encouraging, but that only four of the 17 zones received investments is less so. The zones were only established in 2007, though, so it may be that more time is necessary for CDEs to identify worthwhile projects and close deals in the zones—whether the city's targeting efforts will be successful in general, and with respect to NMTCs, remains to be seen.

While it is difficult to draw many conclusions about different types of CDEs based on New Orleans data because of the outdated demographic information and also the possibility that some projects may skew some of the outcomes (e.g. the large investments in Holy Cross, which make up a disproportionate amount of dollars invested in deeply flooded areas, and also affect calculations based on median income and poverty levels), the comparison of CDEs based on service areas levels raises some questions worth further testing with datasets large enough to determine whether the differences suggested by New Orleans' experience are statistically significant. In particular, multi-state CDEs have far higher investments in operating businesses than real estate businesses compared to state/local CDEs and national CDEs, a noticeably lower proportion of their dollars invested in the CBD, and a higher proportion of dollars invested in areas with 2-3 feet or more of flooding. Is it possible that multi-state CDEs combine the advantages of knowledge of community needs expected in state/local CDEs with the high capacity of national CDEs?

On the whole, I find the NMTC program to have been an advantage for New Orleans, even if at present it shows shortcomings in permitting investments in "problematic" projects that do not show much promise of benefitting low-income or disaster-displaced populations, and downtown businesses not at special geographic disadvantage for obtaining conventional financing. Especially encouraging is the almost $155 million invested in hospital and health care-related QALICBs, 27 percent of NMTC dollars invested in New Orleans QALICBs (before considering the additional $18 million invested in a health care-focused CDE). Better access to health care of all kinds is a critical need for the entire region, and is also a specific economic development goal for the city that stands to create jobs with good pay, benefits, and opportunities for advancement. The state has created a special economic development district in New Orleans for that specific purpose. Also encouraging is the attention to some of the city's designated targeted recovery zones, and almost $21 million invested in film production facilities, filling a need to support one of the state's economic goals, and one that ideally will create more jobs with opportunities to learn new skills and advance careers.

While larger data sets that permit testing quantitative data for statistical significance would be valuable for future research, another important area for further attention is qualitative case studies of CDEs and QALICBs. Given the wide variety of types of projects NMTCs can be applied to, as well as the wide variety of LIC wants and needs, some aspects of community impact can be better evaluated qualitatively than strictly quantitatively. A project like the Holy Cross school in New Orleans exemplifies the importance of considering local context in judging community impact—a private school in what was, before Katrina, a relatively affluent neighborhood might appear on the surface to be a poor investment choice in terms of alleviating poverty distress, but the devastating effects of flooding in the area and the enthusiastic support of residents attempting to rebuild the surrounding neighborhoods have made the project one of the district's most positive recovery stories.

Not only do CDEs have many diverse options for investments, they also have diverse parters who influence their decision making. How CDEs balance the needs of communities, investors, and developers is an important factor in their project selection. Prior to project selection, the only community accountability requirements for CDEs are to primarily serve LICs, and to have LIC representatives on their advisory boards: whether and how CDEs engage communities is an important consideration in gauging the success of NMTCs in addressing LIC needs. Being a highly investor-driven program, how CDEs work with their investors is another key issue. While the competitiveness of the allocation rounds may encourage CDEs to commit to census tracts with higher distress levels than the program requires, the bias seen in New Orleans towards the CBD and other lightly flooded or unflooded areas raises the question of whether some areas or some types of projects are deemed too risky by investors, regardless of the individual CDE's chosen focus or mission. The role played by developers in bring NMTC projects to fruition has received very little attention in the literature, but with the prevalence of real estate investments (whether in real estate or non-real estate QALICBs), how different CDEs work with developers is yet another critical issue that could begin to be elucidated with in-depth case studies.

As the NMTC program matures and there are more projects underway in New Orleans and across the country to analyze, as well as improved qualitative and quantitative data on community impact, it may be possible to hone the program to better define LICs and what best serves targeted populations, to recognize strengths and weaknesses of different types of CDEs and evaluate their allocation applications accordingly, and to balance the interests of investors, developers, and community residents. While the program appears to be bringing investment to businesses that might not have found adequate financing otherwise, New Orleans' cases demonstrate that more work still needs to be done to reach neighborhoods beyond downtown, and to promote the city's coordinated recovery efforts.

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