

**An Economic and Fiscal Analysis of CDV's Portfolio of
Firms on the Maryland Economy**

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Impact of CDV's Portfolio of Firms on the Maryland Economy

1.0 Executive Summary

Several years ago, the principals of Meridian Management Group, Inc. developed a strategy to capitalize on the many years of experience they had in supporting small and minority businesses in the State of Maryland. Their strategy resulted in the formation of Community Development Ventures, Inc. CDV is a 501 C (3) non-profit corporation formed in 1997. The fund is managed by Meridian Management Group, Inc. (MMG). Operations commenced in June of 1998. Initial funding was received in August of 1998 and CDV was certified in November of 1998 as a Community Development Financial Institution ("CDFI") by the U.S. Dept. of Treasury.

CDV's initial mission was to provide "patient capital" to businesses located within Baltimore's Empowerment Zones and Enterprise Zones. This program was known as the "Baltimore Emerging Business Initiative".

In 2001, CDV received \$4 million in new capital from the State of Maryland and the Community Development Financial Institutions Fund to expand CDV's target market to include distressed communities throughout the State of Maryland. The expanded scope of CDV's activity was titled the "Maryland Emerging Business Initiative".

MMG has requested that RESI conduct an economic impact analysis to assess the economic and fiscal impacts of its CDV Capital Fund on Maryland's economy over the period 2001 through 2005. The projections are based on historical data provided by MMG and include the cumulative operations and change in operating performance over the five-year period. The economic and fiscal impacts of the CDV portfolio are based on sales, income, and employment of annual operations in Maryland. This report does not consider other revenue or expenses that CDV incurred as a result of its own operations. In addition, this report does not present any information on the performance of the loans that CDV provided to companies. Thus, the economic and fiscal impacts focus solely on the contribution of CDV's client firms to the Maryland economy.

Gross Cumulative Economic and Fiscal Impacts

Estimates of the economic and fiscal impacts resulting from the cumulative annual operations of the CDV firms--based on the sum of sales and income for the period 2001-2005 are included in this report. These estimates capture the overall contribution to the Maryland economy over the 5-year period of analysis. In particular, the direct impact of the cumulative operations includes \$103.3 million in sales, \$39.5 million in income and 333 full-time equivalent jobs. The secondary impact shows \$74.5 million in sales, \$23.0 million in income and 211 full-time equivalent jobs. Together, the total cumulative impact of the client companies is an estimated \$177.8 million in sales, \$62.5 million in

income and 544 full-time equivalent jobs. The direct tax revenues resulting from the employees of the client companies consist of selected state tax receipts of \$3.5 million, which includes \$1.7 million in state retail sales tax and \$1.8 million in state personal income tax, and local personal income surtax receipts of \$1.1 million. The sum of the direct and secondary tax revenues generated by the employees of the client companies and their suppliers are estimated to be \$5.9 million in selected state tax receipts, consisting of \$2.9 million in state retail sales tax and \$2.9 million in state personal income tax, and \$1.8 million in local personal income surtax receipts.

Net Economic and Fiscal Impacts

The CDV portfolio of businesses has also changed over the 2001-2005 period. In particular, total sales have increased by about \$20.1 million, income rose by \$8.2 million, and employment climbed by 173 jobs. This change in the economic activity of CDV firms translates into the net direct impact on the Maryland economy. That is, the net direct impact includes \$20.1 million in additional sales, \$8.2 million in additional income and 173 additional full-time equivalent jobs. The secondary impact that arises from this expansion includes \$14.5 million in sales, \$4.8 million in income and 110 full-time equivalent jobs. Taken together, the total net impact from the CDV portfolio of businesses amounts to \$34.6 million in sales, \$13.0 million in income and 283 full-time equivalent jobs. The fiscal impact associated with the net additional income and employment accounts for direct and indirect tax receipts have changed as well over the 2001-2005 period. The net direct tax revenue consists of selected state tax receipts of \$1.5 million, which includes \$1.1 million in state retail sales tax and \$0.39 million in state personal income tax, and local personal income surtax receipts of \$0.24 million. The indirect tax revenue shows \$1.0 million in selected state tax receipts, with \$0.83 million in state retail sales tax and \$0.22 million in state personal income tax, and \$0.14 million in local personal income surtax receipts. The combined direct and secondary fiscal estimates yield \$2.6 million in selected state tax receipts, consisting of \$1.9 million in state retail sales tax and \$0.62 million in state personal income tax, and \$0.39 million in local personal income surtax receipts.

2.0 Introduction

This study estimates the economic and fiscal impacts of the Community Development Ventures (CDV), Inc. portfolio of companies on the economy of Maryland. The economic impact estimates are obtained using the Maryland Economic Impact Model, based on the nationally known IMPLAN Input-Output Modeling System of the University of Minnesota IMPLAN Group. This input-output model accounts for the inter-industry flow of goods and services within Maryland and with the external economy. The contribution of the CDV businesses on the economy of Maryland can be measured by the sum of direct, indirect, and induced economic effects that arise from the operation of the companies. The direct impact refers to the initial first round spending associated with the output of the companies in the CDV portfolio. The indirect effects arise as local vendors increase their spending on materials, goods and services, and employees, in order to meet their higher demand for output brought about by the operation of the CDV firms. Induced expenditures result from the increase in consumer spending by local resident employees of the companies in the CDV portfolio and the local businesses supplying goods and services in Maryland. These secondary benefits arising from the indirect and induced impacts indicate the degree to which the client companies and their employees transact with local business establishments in Maryland. The fiscal impacts account for selected tax revenues generated from the employees of the client companies and the employees of their suppliers. These tax revenues include state retail sales and personal income tax receipts at the state and local levels. Estimates of business tax liabilities are not included because these transactions occur across a variety of industries and can vary significantly among industries, as well as among firms within an industry. This makes it difficult to estimate an average tax rate for business enterprises.

2.1 Characteristics of the CDV Companies

The CDV portfolio can be summarized in terms of the cumulative operating measures of the various businesses. Table 1 describes the portfolio in terms of the cumulative annual sales, cumulative annual income, and average employment for the 5-year period from 2001 to 2005, using the North American Industry Classification System (NAICS) at the 2-digit level of detail. The CDV companies generated \$103.3 million in sales, \$39.5 million in income and 333 jobs¹. While the cumulative measure captures the gross impact of the client businesses, it is useful to consider how CDV's portfolio has changed over time. That is, the significance of CDV's client companies can also be characterized in terms of the difference in sales, income, and employment between 2001 and 2005 (Table 2). In particular, for the 2001-2005 period, total sales for all businesses increased by about \$20.1 million, income rose by \$8.2 million, and employment climbed by 173 jobs.

¹ The employment figure is based on the average number of jobs that a company maintained during its period of operation. The average number of employees per company is then summed up to yield the industry average.

These changes take into account the entry and exit of companies in the CDV portfolio. The expansion in sales, income, and employment since 2001 has also been accompanied by changes in the allocation of the CDV portfolio, as measured by sales, income, and employment. Tables 3-5 illustrate the share of sales, income, and employment by 2-digit NAICS codes. In 2001, the CDV portfolio was relatively concentrated, with 34.9 percent of sales, 32.6 percent of income and 50.4 percent of employment being generated by the professional, scientific and technical services sector. Construction also held a large part of the portfolio in 2001 with 31.8 percent of sales, 16.8 percent of income and 17.5 percent of employment being generated by this sector. By 2005, the portfolio exhibited somewhat less concentration, with the Professional, Scientific and Technical Services sector now accounting for 28.4 percent of sales, 47.3 percent of income and 34.3 percent of employment being generated in this sector and with the information and construction sectors increasing moderately.

2.2 Economic and Fiscal Impacts

2.2.1 Gross Cumulative Sales and Income, and Average Employment

We provide estimates of the economic and fiscal impacts resulting from the cumulative annual operations of the CDV firms based on sales, income, and average employment over the 5-year period, 2001-2005. Table 6 depicts the direct impact of the portfolio of CDV firms, which includes \$103.3 million in sales, \$39.5 million in income and 333 full-time equivalent jobs. The secondary impact shows \$74.5 million in sales, \$23.0 million in income and 211 full-time equivalent jobs. Together, the total impact from the portfolio of companies produces \$177.9 million in sales, \$62.6 million in income and 544 full-time equivalent jobs. The fiscal impact associated with the operations of the CDV companies is also shown in Table 6. The direct tax revenue consists of selected state tax receipts of \$3.5 million, including \$1.7 million in state retail sales tax and \$1.8 million in state personal income tax², with local personal income surtax receipts of \$1.1 million³. The indirect tax revenue yields \$2.3 million in selected state tax receipts, with \$1.2 in state retail sales tax and \$1.0 million in state personal income tax, and \$0.68 million in local personal income surtax receipts. The sum of the direct and secondary fiscal estimates generates \$5.9 million in selected state tax receipts, consisting of \$2.9 million in state retail sales tax and \$2.9 million in state personal income tax, with \$1.8 million in local personal income surtax receipts.

² The State of Maryland personal income tax revenues were calculated using the Maryland personal income tax rate of 4.75%. RESI applied this tax rate to the labor income generated in Maryland to estimate the total Maryland personal income tax revenues the state would receive.

³ The local personal income tax revenues were calculated by first calculating the weighted average of all 24 jurisdictional income tax rates in order to achieve one weighted local income tax rate. This weighted local income tax rate of 2.98% was then applied to the labor income generated throughout the state of Maryland to estimate the total personal income tax revenues that would be collected on the local level.

2.2.2 Net Additional Sales, Income, and Employment

An estimate of the net economic and fiscal impacts resulting from the additional sales, income, and employment generated by the CDV portfolio of companies for the 2001-2005 period was also made. The contribution of the businesses was assessed by examining the change in each component. This change in the economic activity of CDV client businesses translates into the net direct impact on the Maryland economy over the 5-year period. According to data obtained from CDV, the net direct impact of CDV firms includes \$20.1 million in additional sales, \$8.2 million in additional income and 173 additional full-time equivalent jobs (Table 7). The secondary impact includes \$14.5 million in sales, \$4.8 million in income and 110 full-time equivalent jobs. Taken together, the total impact from the CDV portfolio of firms amounts to \$34.6 million in sales, \$13.1 million in income and 282 full-time equivalent jobs. The fiscal impacts associated with the additional income and employment accounts for the direct and indirect tax receipts reported in Table 7. The net direct tax revenue consists of selected state tax receipts of \$1.5 million, which includes \$1.1 million in state retail sales tax and \$0.39 million in state personal income tax, and local personal income surtax receipts of \$0.24 million. The indirect tax revenue shows \$1.0 million in selected state tax receipts, with \$0.83 million in state retail sales tax and \$0.22 million in state personal income tax, and \$0.14 million in local personal income surtax receipts. The combined direct and secondary fiscal estimates yield \$2.6 million in selected state tax receipts, consisting of \$1.9 million in state retail sales tax and \$0.62 million in state personal income tax, and \$0.39 million in local personal income surtax receipts.

3.0 Appendix A: Detailed Impacts

**Table 1: Gross Cumulative Sales, Cumulative Income, and Average Jobs
2001 to 2005
(2005 Dollars)**

Industry	Sales	Income	Jobs⁴
Agriculture	\$ -	\$ -	0
Mining	\$ -	\$ -	0
Utilities	\$ -	\$ -	0
Construction	\$ 43,347,957	\$ 12,111,025	62
Manufacturing	\$ 5,947,491	\$ 2,848,571	16
Wholesale Trade	\$ 1,923,707	\$ 862,774	7
Transportation & Warehousing	\$ 2,346,399	\$ 944,560	16
Retail Trade	\$ -	\$ -	0
Information	\$ 14,665,900	\$ 1,630,068	9
Finance & Insurance	\$ 153,949	\$ 64,984	1
Real Estate & Rental & Leasing	\$ -	\$ -	0
Professional, Scientific & Technical Services	\$ 24,288,241	\$14,290,155	74
Mgmt. of Companies & Enterprises	\$ -	\$ -	0
Admin. & Support & Waste Mgmt. & Remediation Svcs.	\$ 10,635,896	\$ 6,818,484	147
Educational Services	\$ -	\$ -	0
Health Care & Social Services	\$ -	\$ -	0
Arts, Entertainment & Recreation	\$ -	\$ -	0
Accommodation & Food Services	\$ -	\$ -	0
Other Services	\$ -	\$ -	0
Government	\$ -	\$ -	0
<i>Total</i>	<i>\$103,309,540</i>	<i>\$39,570,620</i>	<i>333</i>

Source: Meridian Management Group, Inc.

⁴ The employment figures are averaged over the years a company was in operation during the 2001-2005 period. The average number of employees per company is then summed up to compute the industry average.

**Table 2: Change in Sales, Income and Jobs
2001 to 2005
(2005 Dollars)**

Industry	Sales	Income	Jobs
Agriculture	\$ -	\$ -	0
Mining	\$ -	\$ -	0
Utilities	\$ -	\$ -	0
Construction	\$ 9,995,221	\$ 3,464,925	73
Manufacturing	\$ (255,141)	\$ (198,121)	2
Wholesale Trade	\$ (788,893)	\$ -	0
Transportation & Warehousing	\$ 1,004,000	\$ 335,913	17
Retail Trade	\$ -	\$ -	0
Information	\$ 4,417,273	\$ 314,796	11
Finance & Insurance	\$ 35,331	\$ 36,644	3
Real Estate & Rental & Leasing	\$ -	\$ -	0
Professional, Scientific & Technical Services	\$ 5,310,648	\$ 4,111,416	52
Mgmt. of Companies & Enterprises	\$ -	\$ -	0
Admin.& Support & Waste Mgmt. & Remediation Svcs.	\$ 410,672	\$ 215,226	15
Educational Services	\$ -	\$ -	0
Health Care & Social Services	\$ -	\$ -	0
Arts, Entertainment & Recreation	\$ -	\$ -	0
Accommodation & Food Services	\$ -	\$ -	0
Other Services	\$ -	\$ -	0
Government	\$ -	\$ -	0
<i>Total</i>	<i>\$20,129,111</i>	<i>\$8,280,799</i>	<i>173</i>

**Table 3: Distribution of Sales by Industry (Percent)
2001-2005**

Industry	2001	2005
Agriculture	0.00%	0.00%
Mining	0.00%	0.00%
Utilities	0.00%	0.00%
Construction	31.81%	45.33%
Manufacturing	21.00%	4.13%
Wholesale Trade	12.26%	0.00%
Transportation & Warehousing	0.00%	3.78%
Retail Trade	0.00%	0.00%
Information	0.00%	16.63%
Finance & Insurance	0.00%	0.13%
Real Estate & Rental & Leasing	0.00%	0.00%
Professional, Scientific & Technical Services	34.92%	28.45%
Mgmt. of Companies & Enterprises	0.00%	0.00%
Admin.& Support & Waste Mgmt. & Remediation Svcs.	0.00%	1.55%
Educational Services	0.00%	0.00%
Health Care & Social Services	0.00%	0.00%
Arts, Entertainment & Recreation	0.00%	0.00%
Accommodation & Food Services	0.00%	0.00%
Other Services	0.00%	0.00%
Government	0.00%	0.00%
<i>Total</i>	<i>100.0%</i>	<i>100.0%</i>

**Table 4: Distribution of Income by Industry (Percent)
2001-2005**

Industry	2001	2005
Agriculture	0.00%	0.00%
Mining	0.00%	0.00%
Utilities	0.00%	0.00%
Construction	16.82%	38.36%
Manufacturing	50.51%	4.97%
Wholesale Trade	0.00%	0.00%
Transportation & Warehousing	0.00%	3.49%
Retail Trade	0.00%	0.00%
Information	0.00%	3.27%
Finance & Insurance	0.00%	0.38%
Real Estate & Rental & Leasing	0.00%	0.00%
Professional, Scientific & Technical Services	32.68%	47.29%
Mgmt. of Companies & Enterprises	0.00%	0.00%
Admin.& Support & Waste Mgmt. & Remediation Svcs.	0.00%	2.24%
Educational Services	0.00%	0.00%
Health Care & Social Services	0.00%	0.00%
Arts, Entertainment & Recreation	0.00%	0.00%
Accommodation & Food Services	0.00%	0.00%
Other Services	0.00%	0.00%
Government	0.00%	0.00%
<i>Total</i>	<i>100.0%</i>	<i>100.0%</i>

**Table 5: Distribution of Employment by Industry (Percent)
2001-2005**

Industry	2001	2005
Agriculture	0.00%	0.00%
Mining	0.00%	0.00%
Utilities	0.00%	0.00%
Construction	17.53%	37.17%
Manufacturing	32.07%	7.42%
Wholesale Trade	0.00%	0.00%
Transportation & Warehousing	0.00%	7.89%
Retail Trade	0.00%	0.00%
Information	0.00%	5.19%
Finance & Insurance	0.00%	1.16%
Real Estate & Rental & Leasing	0.00%	0.00%
Professional, Scientific & Technical Services	50.40%	34.34%
Mgmt. of Companies & Enterprises	0.00%	0.00%
Admin.& Support & Waste Mgmt. & Remediation Svcs.	0.00%	6.83%
Educational Services	0.00%	0.00%
Health Care & Social Services	0.00%	0.00%
Arts, Entertainment & Recreation	0.00%	0.00%
Accommodation & Food Services	0.00%	0.00%
Other Services	0.00%	0.00%
Government	0.00%	0.00%
<i>Total</i>	<i>100.0%</i>	<i>100.0%</i>

**Table 6: Economic and Fiscal Impact - Gross Cumulative Sales, Cumulative Income and Average Employment
(2005 Dollars)**

Category	Direct Impact	Secondary Impact	Total Impact
Gross Sales	\$103,309,540	\$74,593,470	\$177,903,010
Income	\$39,570,620	\$23,054,992	\$62,625,613
Employment (Full-time Equivalent Jobs)	333	211	544
State Tax Receipts	\$3,581,085	\$2,330,030	\$5,911,115
State Retail Sales Tax	\$1,701,480	\$1,234,918	\$2,936,398
State Personal Income Tax	\$1,879,604	\$1,095,112	\$2,974,717
Local Personal Income Surtax Receipts	\$1,177,944	\$686,305	\$1,864,249

**Table 7: Economic and Fiscal Impact - Net Additional Sales, Income and Employment
(2005 Dollars)**

Category	Direct Impact	Secondary Impact	Total Impact
Gross Sales	\$20,129,111	\$14,533,994	\$34,663,105
Income	\$8,280,799	\$4,824,634	\$13,105,432
Employment (Full-time Equivalent Jobs)	173	110	282
State Tax Receipts	\$1,549,540	\$1,068,331	\$2,617,871
State Retail Sales Tax	\$1,156,203	\$839,161	\$1,995,363
State Personal Income Tax	\$393,338	\$229,170	\$622,508
Local Personal Income Surtax Receipts	\$246,504	\$143,620	\$390,125