

The CDFI Fund's New Markets Tax Credit Program Native Initiative Waianae Economic Development Council Webinar



Hosted by



Questions to Consider

- How does the fact that many potential projects will be located on Hawaiian Homelands and within Hawaiian homesteads change the complexity of putting together deals and implementing projects? How do you navigate that?
- What are some examples of the uniqueness of potential projects in Hawaii (i.e., how are they different from the mainland in terms of the project activities, potential partners, connection to culture, needs addressed, etc.)?
- Which aspects of the NMTC program seem to create opportunities for project sponsors in Hawaii and which seem to present additional challenges?
- How do you envision Hawaiian nonprofits, Native CDFIs, homestead associations, and other Native Hawaiian organizations strengthening their relationships with Native and non-Native lenders, investors and other sources of capital? Is there a logical path or structure that you think would work well?

CDFI Fund NMTC Native Initiative

- New Markets Tax Credit Program Native Initiative (NMTC Native Initiative) explores opportunities to increase Native participation in the NMTC Program and expand Native communities' access to capital via the tax incentives allocated through the NMTC Program.
- Funded by the Community Development Financial Institutions (CDFI) Fund.

The Initiative includes several components:

- An **analysis of CDFI Fund data** describing the participation of tribes and Native organizations in the NMTC program;
- Two **technical assistance workshops** informing Native organizations about the purposes and mechanics of the NMTC program;
- A **case study report** exploring past NMTC projects in Native Areas that may provide replicable models for future projects;
- A **self-assessment guide** to help tribal entities understand the various roles and capacities needed to participate in NMTC projects; and
- A **market research report**, the subject of this presentation.

What are Tax Credits?

Tax Credits are used by a taxpayer to offset the amount of tax liability the taxpayer has.

They are not deductions, but are actual cash value the taxpayer uses instead of paying money to the IRS for taxes owed.

Tax credits are provided when the federal (or state) government decides to forego tax revenue in order to subsidize activities that implement government policy.

What are Tax Credits?

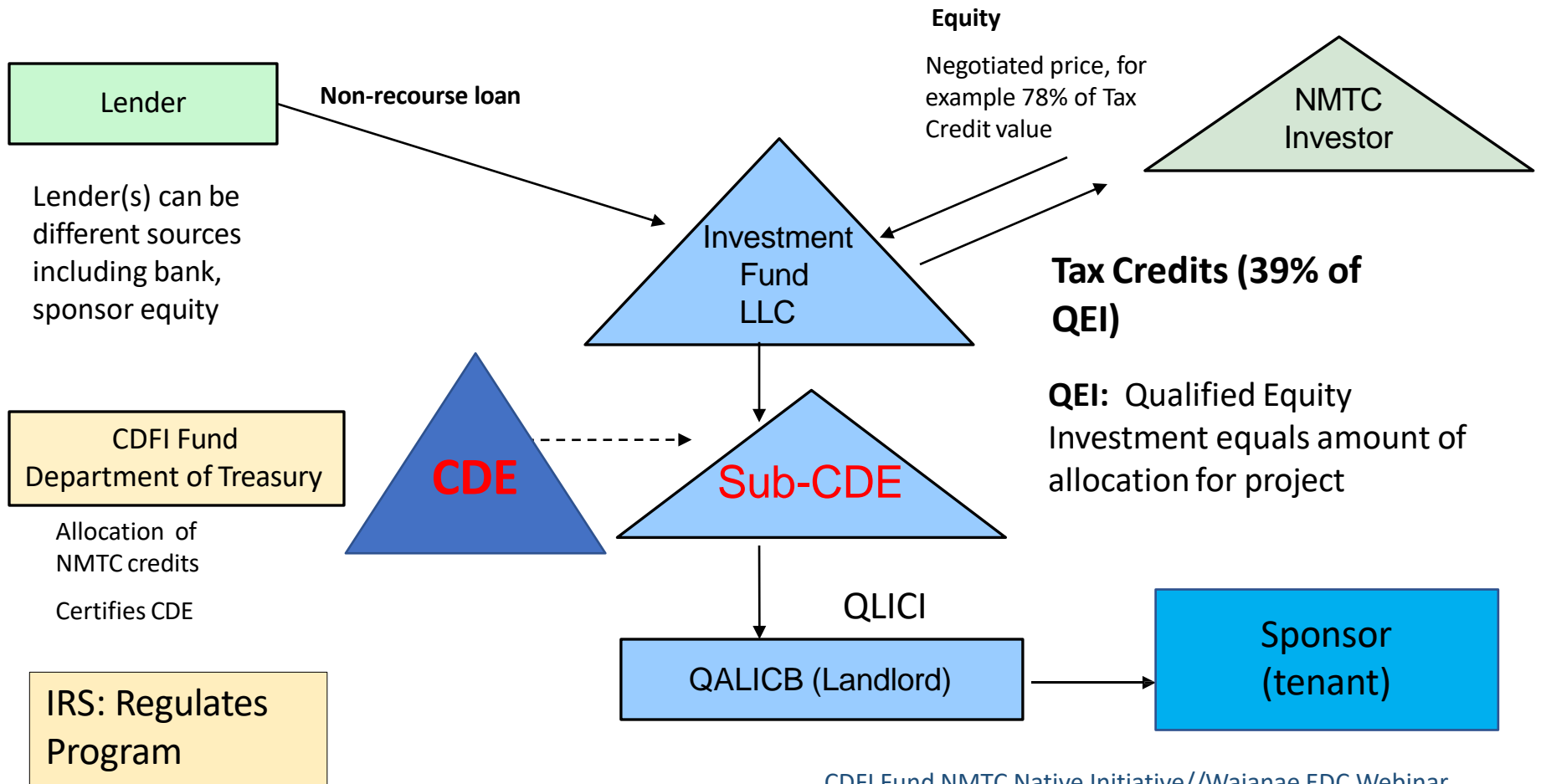
To access the tax credits, a certified Community Development Entity applies for authority to deploy the tax credits.

This entity selects projects and structures transactions that include a tax credit investor.

The investor provides capital and receives its economic benefit from tax credits, not capital repayment. This results in a subsidy for the project.

Revenue Ruling 2003-20

Leveraged Financing Structure — Most Common Method



Summary of NMTC Investments in Native Areas

Investments on American Indian, Alaska Native, and Native Hawaiian (AIANNH) lands between 2003 and 2020:

- 225 Qualified Low-Income Community Investments (QLICs)
- Within 149 unique projects
- Involving 51 CDEs
- NMTC investments across these projects totaled \$1.8 billion (in 2021 USD)

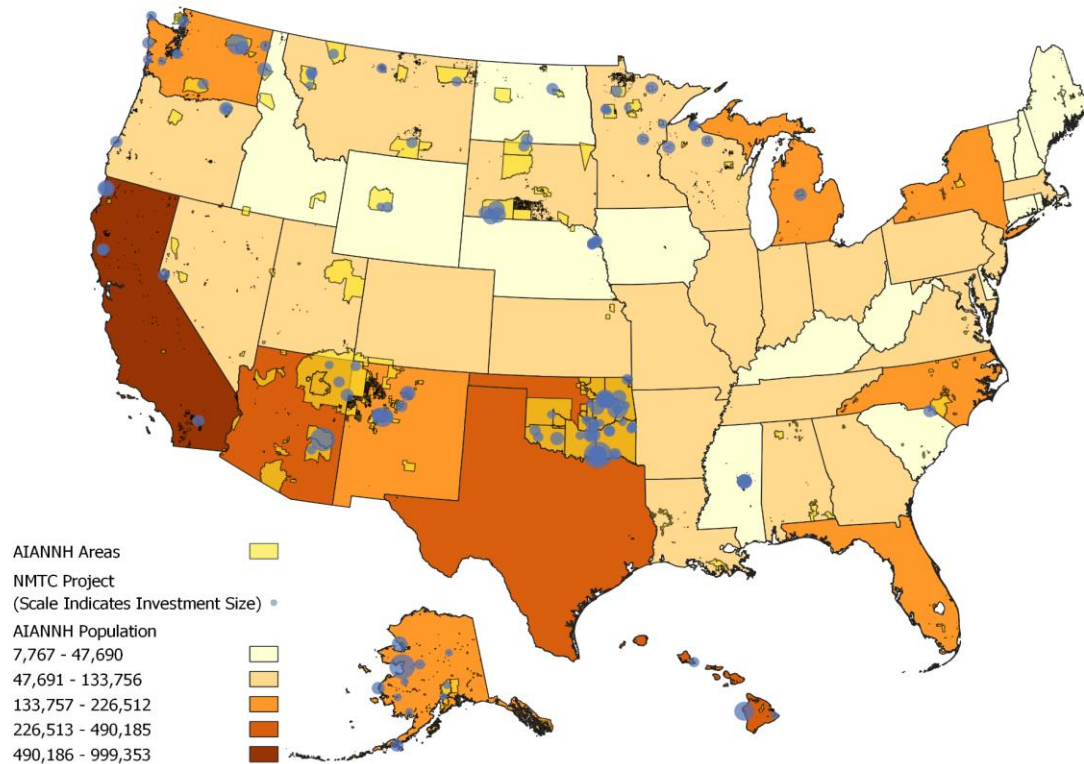
Summary of NMTC Investments in Native Areas

Investments on AIANNH lands between 2003 and 2020 (*in 2021 USD*):

- Median QLICI investment: \$6.9 million
- Median NMTC investment per project: \$10.2 million
- Median total project cost: \$12.8 million
- NMTC investments on AIANNH lands made up 2.6% of all NMTC investments
- Total project costs on AIANNH lands made up 2.4% of the total project costs for all NMTC projects

Summary of NMTC Investments in Native Areas

NMTC Projects, AIANNH Lands, and AIANNH Population by State



Summary of NMTC Investments in Native Areas

Qualified Active Low-Income Community Business (QALICB) types for projects on AIANNH lands between 2003 and 2020:

- For-profit: 49%
- Nonprofit: 29%
- Tribal: 15%
- Majority women-owned/controlled: 8%
- Majority racial/ethnic minority-owned/controlled: 40%
- Native owner/director: 35%

Purpose of Market Research Report

- **Identify and review existing research and data** on the unique history, challenges, industries, actors, and available funding and capital sources that shape community economic development in Native communities.
- **Identify community economic development strategies** that have attracted capital to Native Areas in the last 10–20 years.
- **Serve as a resource** to tribal and Native leaders; economic development entities operating within Native lands; government agencies and others involved in economic development promotion or regulation; and others who wish to better understand economic development in Native land.

Emergence and Current Status of Community Economic Development in Native Areas

Reemerging self-determination and renewed economic independence of tribes and Native communities since the 1970s has led many tribes to:

- expand assumption of traditional government functions, including oversight over health care, housing, roads, courts, and education;
- strengthen capacity and governance practices;
- establish economic goals and develop economic development plans and strategies;
- create chartered development arms or entities to guide economic and enterprise development on behalf of the tribe; and
- achieve or work to achieve socio-economic parity with neighboring non-Native communities.

The gaming and natural resources industries have allowed many tribes and Native communities to develop financial resources, business acumen, and relationships with external business partners.

Essential Components of Community Economic Development in Native communities

- Governance and legal authority
- Suitable and available land
- Skilled and ready workforce
- Business development and digital capacity
- Capital formation

Tribes and Native communities **vary tremendously** in terms of their governance history and structure, state or federal recognition, land ownership scale and status, and capacity to take on certain roles and authority.

Economic development for many communities on or near tribal and Native lands is **complicated** by their rural location, low population density, limited educational opportunities, lower income levels, and inadequate infrastructure.

Native Actors Promoting Community Economic Development in Native Areas

Native actors are varied entities that include:

- Tribal enterprises and Native-owned businesses
- Tribal departments and chartered tribal entities
- Native credit unions and banks
- State-licensed Community Development Corporations (CDCs)
- CDFI Fund-certified Native Community Development Financial Institutions (CDFIs)
- Community Development Entities (CDEs) that are Native-owned or –controlled

Native Actors Promoting Community Economic Development in Native Areas

Recent growth in the scale and range of community economic development activities is largely a product of these actors capitalizing on:

- favorable federal contracting provisions;
- opportunities for partnering with Native and non-Native entities to serve regional markets;
- newly available capital; and
- an array of sector-specific grants and tax incentives targeting underserved and disadvantaged areas

Sources of Funding and Capital for Community Economic Development

- Native organizations access an **expanding array of funding sources**, including state and federal loans and grants, available private and tribal capital, and tax incentives.
- The **use and combination of different funding and financing** sources depends on the scale and purpose of the project, the capacity of the tribal or Native entity to apply for funding or comply with requirements, and the entity's ability to leverage capital.
- Increasingly, many Native-owned businesses, tribal enterprises, and financial institutions **work in coordination** to attract new sources of capital to support ventures.
- Tribal and Native organizations are becoming more adept at **stacking multiple sources** to fund projects at various cost levels.

Examples of Various Funding Sources for Native Projects

Project Example	Funding Source	Actor	Type of Project
Sky Bear Media (Olympia, WA)	SBA 7(a) Loan Guarantee Program	Native-owned small business	Purchase of real estate to house video production company
Tuba City Laundry (Tuba City, AZ)	BIA Indian Loan Guarantee and Insurance Program	Native-owned small business (loan facilitated by Native-led financial institution)	Laundry facility
Santee Sioux Tribe of Nebraska	IRS Tribal Economic Development Bonds (TED Bonds)	Tribal government	Health facility

Examples of Various Funding Sources for Native Projects

Project Example	Funding Source	Actor	Type of Project
Pine Ridge Reservation Broadband	NTIA Tribal Broadband Connectivity Program (Department of Commerce)	Oglala Sioux Tribe	Develop, expand, and operate tribal broadband services
Chippewa Cree Tribe	EDA grant (American Rescue Plan); local matching funds	Tribal government	Tribal health center on Rocky Boy's Reservation in Montana
AU-Aleutians Fiber Project	CDFI Fund New Markets Tax Credit Program	Several community development entities and GCI (telecom company)	Provide broadband in Alaska Native villages, including remote communities

Examples of Various Funding Sources for Native Projects

Project Example	Funding Source	Actor	Type of Project
Confederated Tribes of Warm Springs Reservation of Oregon school	Low-interest loan from USDA Community Facilities Program; funding from the tribal government and Jefferson County School District	Confederated Tribes of Warm Springs Reservation of Oregon	Construct a new K-8 school complex
Nesika Illahee, Portland, OR (Siletz)	Partnership of federal, tribal, state, and local resources, including HUD IHBG funding	Confederated Tribes of Siletz Indians, with a community development organization and local nonprofits	Develop affordable housing and social services in an urban area

Sectors of Community Economic Development

Community economic development in Native areas covers a spectrum of industry sectors:

- Natural resources processing
- Manufacturing
- Construction
- Utilities
- Casinos, hospitality, tourism, and recreation
- Business services
- Public sector, government, and community services

NMTC example: West Hawaii Community Health Center

Project context: Development of three health clinics

- Provides health services to 4,300 mostly low-income Hawaiians annually
- Created 35 permanent positions

Using NMTC:

- QLICs total \$21,807,500
- Three CDEs provided allocations
- On Hawaiian Home Lands property with unique regulations



Source: NMTC Coalition

NMTC example: Nanakuli Commercial Center

Project context: Construction of a 14,275 sq. ft. full-scale, multi-disciplinary health clinic

- Developed by Waianae Coast Comprehensive Health Center, a 501(c)(3) non-profit community owned and -operated healthcare organization located on the island of O'ahu, Hawaii.
- Waianae Coast Comprehensive Health Center is a designated Federally Qualified Health Center.

Using NMTC:

- \$10.515MM in QEI; \$3.3MM in NMTC equity
- CDE: Punawai 'O Pu'uhonua, LLC
- Closed in August 2018



Source: Google Images

NMTC example: GCI Aleutians

Project context: 860 miles of subsea broadband fiber serving 4 LICs and 6 ANVSAs along Alaska's Aleutian region (Unalaska, Akutan, King Cove, Sand Point, Chignik, Larsen Bay)

- Broadband internet to 8,729+ permanent and seasonal residents as well as businesses, governments and non-profit entities
- Rates similar to those paid by Anchorage residents

Using NMTC:

- QLICI total: \$18.2 million
 - Alaska Growth Capital -\$10 million
 - Ecotrust - \$8.2 million
- Investor: USBank
- Total Project Cost: \$60 million



NMTC example: Navajo Tribal Utility Authority (NTUA)

Project context: Renovation and construction of deteriorating NTUA buildings

- Provides communication utilities to 40,000 Navajo people in New Mexico and Arizona
- Many customers pay in person due to lack of online banking and internet; renovations made offices more accessible

Using NMTC:

- QLICs total \$9,500,000
- Couldn't get a leasehold mortgage, pledged project revenues as security
- Limited waiver of sovereign immunity

NMTC example: Wa She Shu Travel Plaza

Project context: Fuel station, convenience store, dining options, and overnight parking for trucks and RVs adjacent to the western Nevada-based Washoe Tribe's Wa She Shu Casino

- Created 27 new full-time jobs
- Brings in over \$1 million annually in revenue for the tribe
- Serves 1,550 tribal members annually

Using NMTC:

- QLICs total \$10,500,000
- Combined federal and Nevada state NMTC allocations
- Collateralized leverage loan with lien against future revenues the Washoe were due from the Reserve Sharing Trust Fund, a California program that uses some of the earnings from gaming tribes to subsidize tribes not involved in the gaming industry

Best Practices

- Parallel, orchestrated efforts of **multiple entities working in concert** can maximize funding opportunities for small, medium, and large-scale projects in various sectors.
- Growth in regional and national Native economic development-focused organizations that promote **information sharing and collective advocacy** can elevate the profile of tribal businesses and economic development entities throughout the country.
- Enhanced coordination with other tribes and Native organizations, nearby non-Native communities, and state and regional entities can allow tribal communities of all sizes to **develop economies of scale and the technical and financial resources** to develop mutually beneficial projects.

What investors, CDFIs and other potential partners need to know

- New federal funding, increased tribal and Native capacity to plan projects, and the growing sophistication of Native CDFIs and other Native actors accessing capital have enhanced opportunities for community economic development in Native areas.
- Native communities have **developable projects in various stages of planning, approvals, and obtaining funding**. Opportunities lie in the sectors of natural resources extraction, manufacturing, construction, hospitality, and public sector projects such as health facilities and community centers.
- Native CDFIs and other financial entities serving Native communities are searching for ways to meet **growing demand for credit and capital, demand that will continue to increase** as Native economies and tribal capacities grow.
- To best support the community economic development aims of Native communities, it is **essential to be aware of the historic and current challenges** that have prevented them from accessing capital.

What investors, CDFIs and other potential partners need to know: data

The need for more and better data underlies many limitations to community economic development in Native communities.

- There are **glaring gaps in the available data** needed for community economic development in Native communities; a lack of relevant or accurate data being collected AND restricted access to existing data.
- Data describing Native communities are necessary for lenders and investors to assess the opportunities and risks of bringing their capital to these areas. The **lack of such data hinders the attraction of capital** to Native communities.
- Non-Native entities should incorporate the principles of **data sovereignty**—the right of indigenous people to govern the collection, ownership, and application of their own data—into their processes.
- Tribes and Native communities seeking to promote economic development using private sector capital must **balance their interest** in solely owning tribal financial and other data with the need to provide investors with the information necessary to make investment-related decisions.

What investors, CDFIs and other potential partners need to know: data improvement

Several tribes, Native organizations, and local, state, and federal agencies are actively working to improve existing data sources and create new ones.

- Native communities are more **actively participating in the design and monitoring stages of data collection** projects within their lands.
- Native communities and organizations are **developing partnerships with other Native and non-Native organizations at state, regional, and national levels**, including the Washington State Department of Health's Data Sharing Agreement, University of Arizona's Native Nations Institute, National Institute of Justice's Tribal Researcher Capacity Building Program, and Economic Development Administration's University Center program.
- The **Center for Indian Country Development (CICD)** launched an effort to **expand the evaluation, analysis, and visualization of existing data** to more appropriately capture the employment and labor force participation rates of individuals who self-identify as AIAN.

What investors, CDFIs and other potential partners need to know: cultural values and history

- Understanding and respecting cultural values is essential for community economic development in Native communities.
- While tribal governments and Native communities work towards economic growth, they are also focused on **preserving tribal culture, identity, sovereignty, population, and land**, creating a unique balance of priorities that is distinct from other rural communities.
- This cultural lens can explain some of the economic decisions made by tribal governments and Native communities.
 - For example, **many tribes and Native communities might make an active choice to avoid developing or exploiting their natural resources** (e.g., minerals, water, or forests) for economic gain if the land or resources hold cultural or spiritual significance.

What investors, CDFIs and other potential partners can do

- When surveyed, Native nonprofit leaders want funders and foundations to **conduct background research** before establishing relationships, so that connections are cultivated based on an understanding of the specific community.
- Outreach to tribes and Native communities needs to be consistent and thorough while acknowledging the **wide range of perspectives, unique experiences, and complexities** of each tribe and community.
- Pursuing cultural understanding and respect will **facilitate successful investment opportunities** and new partnerships that build and strengthen economically sustainable communities.

What investors, CDFIs and other potential partners need to know: leveling the playing field

- Many Native organizations argue that the issue of community economic development in Native lands is now **less dependent on capacity-building than on adequate and equitable access to capital**.
- These organizations advocate for leveling the playing field by:
 - developing grant and financing **guidelines that incorporate the unique circumstances of Native communities** into selection criteria;
 - establishing **tribal and Native set-asides** to ensure tribal and Native participation in certain federal programs; and
 - providing **greater access to capital for local lenders, including Native CDFIs**, that can tailor lending practices to meet the specific needs and opportunities within tribal communities.

Technical Workshops and Individual Training Sessions/Technical Assistance

Direct technical assistance was provided to 6 Native organizations interested in utilizing NMTCs (equal division between CDE and sponsor/QALICB roles).

Two technical workshops were also provided to representatives of Native organizations interested in learning more about the NMTC Program.

Technical Workshop 1 (Sep 2022): Introduction to the NMTC Program

- Topics included types of projects that are eligible for NMTC financing, how NMTC financing is structured, the roles of the various participants in an NMTC transaction, and ways the NMTC program can be used to invest in NMTC Native Areas

Technical Workshop 2 (Feb 2023): How to Access and Use NMTCs for Community and Economic Development

- Topics included the NMTC application process, the development of an NMTC business plan, technical information necessary to be competitive, and the compliance-related responsibilities associated with receiving an NMTC Allocation

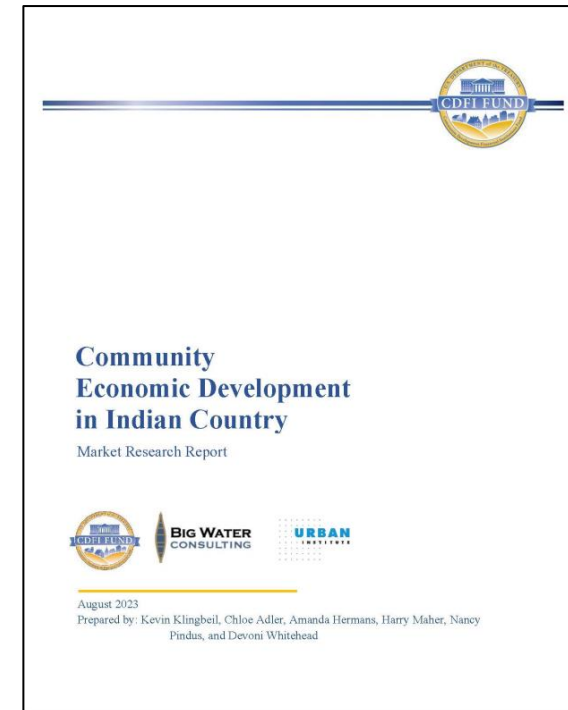
Self-Assessment Guide

- Created to help Native entities determine how they can best take advantage of the NMTC program (e.g., to determine which role, if any, may be appropriate for them)
- Provides overview of NMTC program roles
- Outlines NMTC application/allocation process
- Includes questions designed to help Native organizations assess their capacity to apply for an allocation

NMTC Program Native Initiative Reports and Other Materials

Available Project Materials:

1. Community Economic Development in Indian Country: Market Research Report
2. NMTC Technical Workshop Training Materials
3. Self-Assessment Guide for Native Organizations
4. New Markets Tax Credits in Native Areas: Selected Case Studies and Best Practices



Visit the following CDFI Fund web page to download the published materials:

<https://www.cdfifund.gov/programs-training/training-ta/nmtc-program-native-initiative>

The CDFI Fund's New Markets Tax Credit Program Native Initiative Waianae Economic Development Council Webinar



Hosted by



New Markets Tax Credits

New Markets Tax Credits (NMTC) is a federal program that provides tax credits to investors who place capital in Community Development Entities, when that capital is invested in qualifying active low-income community businesses.

The NMTC Program was authorized under the Community Renewal and Tax Relief Act of 2000. Most recently, the Taxpayer Certainty and Disaster Tax Relief Act of 2020 provided \$5 billion in NMTC allocation authority for calendar years 2021 through 2025.

- In the 18 application rounds to date, the CDFI Fund has made 1,456 allocation awards totaling \$71 billion in tax credit authority.

NMTC Activity in Native Areas

This Native Initiative is part of the CDFI Fund's strategy to improve access to capital in NMTC Native Areas:

- Federal Reservations
- Off-Reservation Trust Lands
- Hawaiian Home Lands
- Alaska Native Village Statistical Areas

Since inception, the NMTC program has generated more than \$66 billion of investments in low-income communities.

Totals and Trends

- Since 2017, there have been an average of 12 projects a year and \$144 million in NMTC investment each year in AIANNH lands.
- NMTC investment by year follows a similar pattern, peaking in 2011 at \$267.9 million.

This peak was not driven by a few outsized projects, but rather reflects an increase in both the amount of allocation deployed and the number of projects financed using NMTCs.

Goals of CDFI Fund NMTC Native Initiative

- Goals of the NMTC Native Initiative include:
 - Improving delivery of NMTC capital to Native Areas
 - Increasing participation of Native-owned/managed organizations in the NMTC program, through workshops and technical assistance
 - Sharing findings, recommendations, and best practices with NMTC industry participants, Native-serving organizations, and other stakeholders

Findings, best practices, and recommendations on NMTC Investments in Native Areas

- These were derived from

An online survey and interviews with participants in past NMTC investments in NMTC Native Areas,

Comments in workshops, and

Discussions in individual technical assistance meetings.

Methodology

- The research team developed a list of NMTC projects that would illustrate varied, successful, and replicable approaches with specific, on-the-ground examples.
- We worked closely with the CDFI Fund to curate a list of nine representative projects. The team conducted interviews with one Community Development Entity (CDE) for each project, and with Qualified Active Low-Income Community Businesses (QALICBs) for several projects.
- Surveys were a precursor to the interview.

Survey Findings

Findings include:

- Two-thirds (66%) of responding CDEs had over 10 years of experience lending/investing in Native areas prior to the transaction.
- More than half (56%) of these CDEs stated that they encountered tribal cultural or legal matters that had to be addressed as part of the project process.
- About one fifth (22%) of CDEs had a pre-existing relationship with the tribe or project sponsor involved in the case project.
- Two-thirds (66%) of responding CDEs would request future allocations to finance other NMTC projects in Native Areas based on their experience with the case project.

Recommendations and Best Practices for NMTC Investments in Native Areas

Recommendations

Policy or Programmatic Approaches for:

- Congress
- CDFI Fund
- Tribes and Native Governing Organizations
- Native CDFIs, CDEs, and potential CDEs
- Native-serving Funders
- Non-Native Tax Credit Investors and Lenders

Best Practices

Specific Actions Targeted to Improve Access to and Delivery of NMTC Investments, by:

- Tribes and Native Governing Organizations
- Native CDFIs and CDEs
- Native-Serving Funders
- Non-Native Tax Credit Investors and Lenders
- Sponsors and owners of Native-serving projects or businesses

Recommendations for Congress and IRS

Finding: Several industry participants and Native organizations suggested program improvements for NMTC and other programs, whose implementation would require congressional action to change existing statutes and/or changes to IRS regulations or tax policy:

Clarify that Native-chartered and Tribally-owned businesses, including portions-of-the-business of a tribal government, are eligible NMTC borrowers (QALICBs)

Consider whether tribally owned businesses should be excluded as a related party when a CDE is controlled by the same tribe

Recommendations for Congress and IRS

Finding: Several industry participants and Native organizations suggested program improvements for NMTC and other programs, whose implementation would require congressional action to change existing statutes and/or changes to IRS regulations or tax policy:

(Continued:)

If necessary under the statute, allow BIA-insured loan proceeds and other insured and loaned funds from federal programs to be used as NMTC leverage loans, so long as proceeds are ultimately delivered to an eligible Native borrower or an eligible activity on Native land

Some participants requested that Congress consider dedicating some NMTC allocation authority to be set aside for Native Areas, CDEs, businesses, or projects. This is not within the report authors' scope to recommend for or against.

Recommendations for the CDFI Fund

Finding: There is a perception that the conditions, challenges, and benefits of NMTC financing in Native Areas are generally not well understood, including by NMTC Allocation Application reviewers

Include persons with Native Area lending experience in the pool of NMTC Allocation Application reviewers

Provide training to reviewers specifically addressing Native Areas

Consider qualitative and catalytic effects, such as development made possible by an infrastructure project, and cultural benefits such as those that result from museums or preservation of sacred sites, as community outcomes for Native Areas and Native-serving projects in NMTC Allocation Application scoring

Recommendations for the CDFI Fund (cont'd)

Finding: Sources of capital unique to Native Areas are frequently governmental. Differences in program regulations and the incompatibility of some sources with NMTCs might be overcome by greater collaboration among agencies.

Initiate more Native-focused collaboration with other federal funding and guarantee agencies to improve program compatibility and unify regulatory requirements

Fund and/or participate in more training for tribes and Native organizations about economic and community development planning, funding, and implementation. For Native organizations that do not have this expertise or formal economic and community development plans, NMTCs are more difficult to access.

Recommendations for Native Governing Bodies

The Market Research Report identified that historical lack of access to private entrepreneurial capital has, for some tribes and Native communities, resulted in governance structures and policies that present challenges for non-Native lenders and investors, including tax credit investors as well as non-Native enterprises (e.g., manufacturers, retailers, and other private employers).

Recommendations for Native Governing Bodies

Steps taken by some tribes to address this include:

Establishing a strategic plan for economic and community development that includes key priorities and reflects/fosters political agreement about policies related to

- limited waivers of sovereign immunity for third-party debt,
 - tribal employment, and
 - access to land through leases and financing through leasehold mortgages.
- Creating an economic development entity able to implement long-term strategies, even when political changes occur in tribal governments.
 - Using HEARTH Act authorization for locally-approved leases that may be encumbered by leasehold mortgages.

Recommendations for Native Governing Bodies

Finding: Economic development depends on available land and infrastructure suitable for the proposed use, capital, and a ready and trained workforce. Many Native Areas have insufficient infrastructure to attract desired employers.

- Infrastructure - Develop policies regarding necessary infrastructure investments, including how they will be paid for (e.g., by tribal investments or employer investments that can be reimbursed by systems development charges on future developments).
- Workforce -- Create collaborative relationships between workforce training and economic development partners to ensure local residents are able to access jobs created through the strategic plan.

Recommendations for Native Governing Bodies

Finding: Some tribes describe general alignment with the strategic plan as important to success. Government elements include spending, land availability through leasing, workforce, and other planning or regulatory elements of government.

To do this, they create and implement clear laws or regulations to provide all new businesses with roadmaps, standards, and timelines for approvals of access to land, building permits, funding, and other development tools.

Recommendations for Non-Native Lenders and Investors

Finding: Investors and lenders should build cultural competency and relationships in each tribe or Native community. Each Native government or community is an individual cultural and political entity. Tribes are sovereign nations embedded in the United States, each with its own law and governance. While some issues are common to most Native Areas, others are certainly not homogenous.

- Develop institutional cultural competency with Native experts in your institution and in the outside counsel you engage
- Develop reasonable and respectful expectations regarding tribal approval of projects and non-Native involvement, leasing of land via BIA approval or tribal HEARTH Act authority, and sovereignty issues such as limited waivers of sovereign immunity.

Recommendations for Non-Native Lenders and Investors

Finding: Investors and lenders should build cultural competency and relationships in each tribe or Native community. Each Native government or community is an individual cultural and political entity. Tribes are sovereign nations embedded in the United States, each with its own law and governance. While some issues are common to most Native Areas, others are certainly not homogenous.

- Investor or lender representatives should be knowledgeable about and aware of institutionalized practices that can be discussed early in a relationship.
- Be clear about investor and lender needs and expectations while recognizing that Native counterparties may have different motivations and constraints than non-Native parties.

Recommendations for Native CDEs or CDFIs Seeking to Participate in NMTC

Finding: Most Native-controlled CDFIs and CDEs lend relatively small amounts and have relatively smaller portfolios, compared to successful NMTC applicants.

NMTC transactions are generally \$5 million or more because smaller transactions are generally not cost-effective. To be competitive, an allocation applicant must have a track record demonstrating the ability to deploy at least \$15 million in financing in 1 – 5 years.

Scale is a challenge for many Native-controlled CDFIs/CDEs seeking an allocation.

Recommendations for Native CDEs or CDFIs Seeking to Participate in NMTC

A solution is to use an incremental approach to building scale, through several different roles and strategies:

- Secondary CDE
- Direct, source, or leverage Lender
- Participation in the loan of another lender
- Native expert assistance for non-Native CDEs and lenders/investors

Recommendations for Native CDEs or CDFIs Seeking to Participate in NMTC (Continued)

The Secondary CDE Role

A Secondary CDE is a CDE that does not have its own allocation.

It receives a capital deployment from an Allocatee CDE and redeploys that capital to a NMTC qualified borrower through a qualified transaction.

Deploying an NMTC investment builds the Secondary CDE's track record and experience, while providing Native competency for the Allocatee CDE.

Fees are negotiated between the two CDEs.

Recommendations for Native CDEs or CDFIs Seeking to Participate in NMTC (Continued)

Best Practices, Secondary CDE: The Non-Native CDE

Non-Native and Native CDEs with allocation should consider committing to a percentage of your award being deployed through Native Secondary CDEs. This innovative activity will not add points, but it may increase your award. The local Native Secondary CDE may also provide local, technical, or cultural knowledge that the allocatee CDE may not have.

Seek out Native CDEs affiliated with Native Area projects in your pipeline.

Negotiate this potential relationship and do any necessary underwriting of the CDE in advance. Discuss this goal with your investors.

Recommendations for Native CDEs or CDFIs Seeking to Participate in NMTC (Continued)

Best Practices, Secondary CDE: The Native CDE

Seek out CDEs that invest in Native Areas, ask to be considered as a Secondary CDE.

Introduce yourself to investors and make the same request.

Identify Native Area projects in your Service Area and ask the Native sponsors to request that you be used as a Secondary CDE when they are identifying CDE partners.

Recommendations for Native CDEs or CDFIs Seeking to Participate in NMTC (Continued)

Leverage Lender

Makes a loan to Investment Fund, has a pledge of its partnership interest in CDE as security, no direct property security, subject to 7-year standstill.

Source Lender

Makes a loan to Sponsor; Sponsor uses proceeds to make Leverage Loan; receives an assignment of Sponsor's loan documents; may receive other security or guarantees.

Direct Lender

Makes a loan to Sponsor secured by trust deed or leasehold mortgage on the property or other assets. Sponsor uses proceeds to make Leverage Loan.

Recommendations for Native CDEs or CDFIs Seeking to Participate in NMTC (Continued)

Participating Lender

A CDFI, CDE, or potential CDE desiring to build track record and experience but that does not have large enough lending limits to be a sole leverage, source, or direct lender may *participate* in the loan made by another lender or join as a member of a lender group.

Recommendations and Best Practices Summary

All participants should work together to standardize lending practices for Native Areas, while recognizing that each Native government's sovereignty and culture will mean some differences will exist.

Standardization of the following will help streamline access to capital:

- NMTC provisions in leases including leasehold mortgage provisions,
- use of HEARTH Act leasing authority when appropriate for a particular tribe,
- established practices for project approval and use of limited waivers of sovereign immunity

Recommendations and Best Practices Summary (Cont'd)

Cultural and legal competency are prerequisites to successful non-Native lending and investment in Native Areas.

CDEs, Lenders, and Investors desiring to bring capital to Native Areas should:

- work with knowledgeable partners to institutionalize expectations, standards, and requirements, while recognizing that some requirements will be negotiated with individual tribes whose specific governance practices must be respected
- use competent outside counsel to manage Indian Law issues.
- include internal Native Area lending expertise that can be called upon by any lender or investor representative working with Native sponsors.

Recommendations and Best Practices Summary (Cont'd)

Lack of standardization and common understanding of NMTC funding structures among various federal funding agencies is a significant challenge that limits tribal and Native entities' optimization of applicable funding.

- Best practices include initiatives for regulatory standardization, cross-training, and listening sessions to identify opportunities for streamlining.
- The CDFI Fund has opportunities to make the allocation application process more relevant to the conditions frequently found in Native Areas. Making more capacity-building and skills training available would improve Native access to NMTCs.

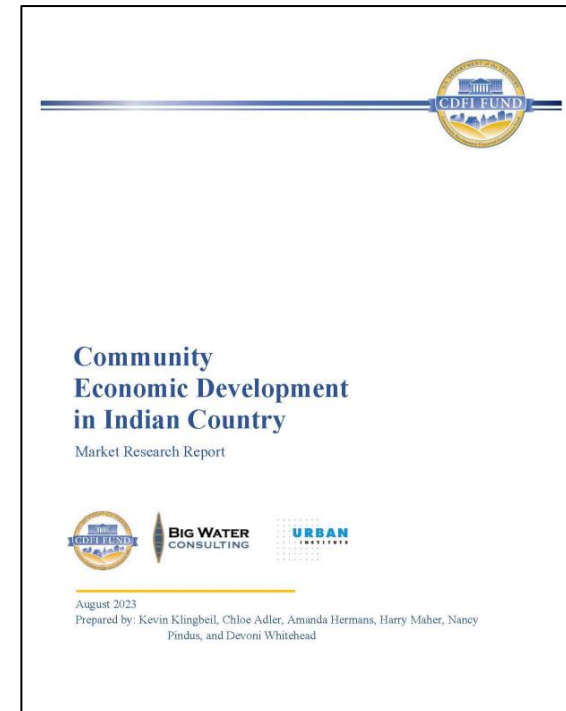
Questions to Consider

- How does the fact that many potential projects will be located on Hawaiian Homelands and within Hawaiian homesteads change the complexity of putting together deals and implementing projects? How do you navigate that?
- What are some examples of the uniqueness of potential projects in Hawaii (i.e., how are they different from the mainland in terms of the project activities, potential partners, connection to culture, needs addressed, etc.)?
- Which aspects of the NMTC program seem to create opportunities for project sponsors in Hawaii and which seem to present additional challenges?
- How do you envision Hawaiian nonprofits, Native CDFIs, homestead associations, and other Native Hawaiian organizations strengthening their relationships with Native and non-Native lenders, investors and other sources of capital? Is there a logical path or structure that you think would work well?

NMTC Program Native Initiative Reports and Other Materials

Available Project Materials:

1. Community Economic Development in Indian Country: Market Research Report
2. NMTC Technical Workshop Training Materials
3. Self-Assessment Guide for Native Organizations
4. New Markets Tax Credits in Native Areas: Selected Case Studies and Best Practices



Visit the following CDFI Fund web page to download the published materials:

<https://www.cdfifund.gov/programs-training/training-ta/nmtc-program-native-initiative>