



Native Initiative Training and Technical Assistance Day 1:

The CDE

CDFI Fund NMTC Native Initiative

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Key Terms

- Low-Income Community (LIC)
- Community Development Entity (CDE)
- Community Development Financial Institution (CDFI)
- Controlling Entity (CE)
- Disadvantaged Businesses and Communities (DBC)s
- Financial Counseling and Other Services (FCOS)
- Government-Controlled Entity*

Key Terms

- Minority-Owned or -Controlled Business
 - Native American, Native American-Owned or -Controlled Business
 - Qualified Equity Investment (QEI)
 - Qualified Low-Income Community Investment (QLICI)
 - Qualified Active Low-Income Community Business (QALICB)
 - Sponsor or Project Sponsor
- *The CDFI Fund defines terms in the Glossary to the NMTC application

Key Terms - Native American and Alaska Native Village Statistical Areas

Native American

For the purpose of the NMTC Program this term shall include, members of Tribal entities recognized by the U.S. Department of the Interior, Bureau of Indian Affairs (BIA); and individuals having origins in any of the original peoples of Hawaii.

Alaska Native Village Statistical Areas

Areas that represent the more densely settled portion of Alaska Native Villages (ANVs). The ANVs constitute associations, bands, clans, communities, groups, tribes, or villages recognized pursuant to the Alaska Native Claims Settlement Act of 1971 (Public Law 92- 203).

Key Terms - Native-Owned or -Controlled

For-Profit Entity

A for-profit entity has at least 51 percent of its equity ownership interest (or the equivalent in limited liability companies) being owned by individuals who are Native American

Not-For-Profit Entity

A not-for-profit entity has at least 51 percent of its Board of Directors (i.e., Governing Board) comprised of individuals who are Native American

The CDE

Goal: Discuss the business plan of a successful CDE

- Corporate structure,
- Mission,
- Advisory Board (LIC Representative) recruitment,
- Community engagement,
- Resource planning,
- Financial products,
- Pipeline,
- Financial and community outcomes,
- Due diligence,
- Underwriting,
- Compliance management, and
- Outcomes tracking.

What CDEs are, what they do

- A financing entity (CDFI, bank, government-controlled entity, investment fund) can apply for a CDE certification
- A CDE can:
 - Apply for a NMTC allocation;
 - Receive a loan or investment from another CDE with a NMTC allocation authority;
 - Sell QLICI loans to another CDE;
 - Deliver Financial Counseling and Other Services (FCOS)

CDE Certification

- A Community Development Entity (CDE) is a domestic corporation or partnership that is an intermediary vehicle for the provision of loans, investments, or counseling in LICs
- An organization must apply for CDE certification from the CDFI Fund. The organization must demonstrate:
 - a primary mission of serving or providing investment capital for LICs or people; and
 - accountability to LICs

CDE Certification

- Organizations certified as CDFIs or designated as a Specialized Small Business Investment Company (SSBIC) by the Small Business Administration automatically qualify as CDEs, but must submit an application in AMIS to be certified as a CDE
- Organizations with a pending CDE certification application filed before the deadline in the Notice of Allocation Availability are eligible to apply for a NMTC allocation
- CDE application is rolling, can be made any time

CDE Certification

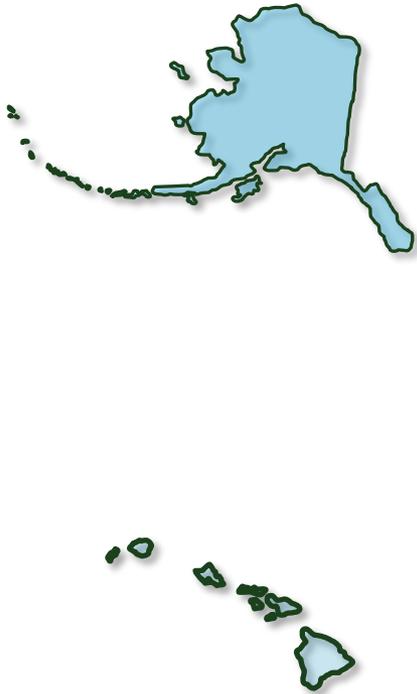
- CDFIs must renew re-certification with the CDFI Fund to maintain active status of their CDE
- Updating corporate forms
- Annual reporting to investors
- Meeting performance requirements of all CDFI Fund programs
- If awarded a NMTC allocation, CDE must issue QEIs and make QLICs based on milestone thresholds
- QLICs must be “substantially all” of the QEI, deployed timely and for permissible uses.

CDE Mission, Service Area, Accountability

CDE's *Mission* as provider of capital for LIC businesses should be prioritized:

- What LIC needs is the CDE serving?
- Are the LIC needs evidenced by research, market studies, local economic development plans, or 3rd party data?
- Is there sufficient need and demand for NMTC in the designated service area?
- What do LIC customers expect from the CDE (capital, expertise, networking, knowledge sharing)?

CDE Mission, Service Area, Accountability



Service area is not necessarily the same as CDFI Target Market

Can be local, statewide, multi-state, or national

CDE Mission, Service Area, Accountability

Business considerations to determine service area include:

- Knowing LIC needs from past activities
- Fit with the long-term strategy of the organization
- Capacity to serve identified geography
- Manageable for lender / creditor for project oversight and underwriting
- Adequate for robust pipeline
- Adequate for redeployment projects in the event of default
- Availability of LIC representatives

CDE Mission, Service Area, Accountability

CDE's mission is reflected in all elements of business planning, governance, and staffing.

What management solutions does CDE use to meet the mission goals and achieve economies when possible?

- Combining internal resources with outsourcing program functions from industry experts
- Developing staff with skills in multiple areas
- Partnering and sharing expertise with other CDEs

How does CDE track whether it is upholding the mission?

- Internal tools, software
- Targeted outcomes

CDE Mission, Service Area, Accountability

Recruiting the *Advisory Board*

- A minimum of 20% of the Advisory Board must be representatives of LICs in service area (national, regional, etc.)
- Variety of skills: financing, legal, impact, business, governance, etc.
- Diversity of experiences, relevant tribal and ethnic knowledge
- No conflicts of interest with the CDE

CDE Mission, Service Area, Accountability

Advisory Board communication

- Frequency of meetings
- Documenting feedback and votes
- Creating tools for collecting feedback might help with efficiency and getting every member involved

CDE Mission, Service Area, Accountability

Maintaining LIC Accountability

- Annual verification of LIC status
- Reporting to CDFI Fund and investors
- Mitigating risks of losing LIC accountability due to changes in residential or employment status of Advisory Board members:
 - *High percent of LIC representatives on Advisory Board*
 - Internal reporting process in place
- Material Change Form to the CDFI Fund is required within 20 days

CDE Mission, Service Area, Accountability

An effective Advisory Board will have a meaningful role in setting investment parameters, formulating the pipeline of investment candidates, and approving investment decisions.

To do this, Advisory Board members usually:

- Participate in a broader community development plan
- Have relationships with key community representatives & stakeholders
- Identify and refer projects beneficial to the LIC and its residents
- Gain local feedback for a project
- Improve capacity of the CDE with their professional and cultural expertise

Community Outreach, Engagement

Each LIC has a unique set of cultural, social, service, and economic needs.

LIC representatives must have a real voice in designing the CDE mission and prioritizing high-impact results for their communities because they understand the local issues, dynamics, and development plans / priorities of the communities they represent.

Community Outreach, Engagement

What Funding Means for LIC

- Lack of access to capital for investment is one of the causes of perpetuation of LICs
- NMTC subsidy provides a risk cushion to incentivize private capital in underserved areas facing severe conditions:

New projects and operating businesses provide goods, services, jobs, and transformational impacts to change the LIC dynamic

Community Outreach, Engagement

Community Partnerships

- Strategic partnerships enhance the CDE mission
- Community / government / tribal economic development collaboration
- Relationships with banks, CDFIs and other market-based lenders
- Funders (institutional and individual)
- Tax credit investors
- Co-CDE partners

Community Outreach, Engagement

Ideal Attributes of Native American CDEs

- Long, deep associations with LICs and understanding of their needs
- Representative of diverse community perspectives
- Ability to select high-impact, highly relevant projects
- Leadership with cultural competency and particular appreciation for LIC goals
- Commitment to the project and LIC beyond the NMTC timeline
- Cooperation with Native entities and Native government
- Understanding of legislation, governance, decision-making, and funding methods

Community Outreach, Engagement

CDE should seek engagement with LIC residents at every step – in determining CDE mission, business plan, goals, and program implementation

- Direct engagement with LIC residents and community groups
- Relationship with sponsoring tribe if applicable
- Collaboration with peer Native organizations

Community Involvement

Community Feedback Regarding Projects

- Community helps to select projects for funding that are most relevant in addressing the LIC needs and generating meaningful impacts
- In community meetings, residents provide crucial feedback regarding the adequacy of the project site, space composition, goods and services that need to be prioritized
- Community residents serve as a potential employment pool for temporary and permanent jobs that projects will generate
- Community organizations can partner in measuring and tracking community outcomes generated by the projects

Community Involvement

Targeted Outcomes Guide Project Selection

- Defining key targeted outcomes critical when considering projects to include in a pipeline of potential transactions
- Each project should be subject to both a screen for financial viability & sustainability and one for community benefits
- Is the project likely to generate outcomes that will make a tangible & positive difference for community residents and/or low-income people ... can you credibly answer the “so what” question?

Community Involvement

Outcomes Tied to Community Needs

What problem(s) are you trying to address? For example

- Shortage of quality jobs
- Insufficient access to quality health care
- Insufficient access to quality early education
- Insufficient access to key consumer goods / services
- Few Native-owned enterprises

Community Involvement

Ensuring Outcomes Align with & Reflect Local Priorities

Input from key local stakeholders

- Tribal officials
- Community / resident organizations
- Health / human service providers
- Local funders
- Business associations
- CDE board of directors / advisory board members

Controlling Entity

Controlling Entity

- For *CDEs* that received *Allocations* under the CY2013 Round through the CY2021 Round:
- An entity that at the time of Application and throughout the term of the *Allocation Agreement* (if the *CDE* is selected to receive an Allocation), *Controls* an *Applicant*, and has a controlling influence over the day-to-day management and operations (including investment decisions) of the *Applicant* and of any Subsidiary entities to which the *Applicant* may transfer its allocation of tax credit authority.*

*The Glossary attached to the Allocation Application includes differences for different award years

Controlling Entity

What is “Control?”

- (1) Ownership, control, or power to vote more than 50 percent of the outstanding shares of any class of voting securities of any entity, directly or indirectly or acting through one or more other persons; or
- (2) Control in any manner over the election of a majority of the directors, trustees, or general partners (or individuals exercising similar functions) of any other entity; or
- (3) Power to exercise, directly or indirectly, a controlling influence over the management policies or investment decisions of another entity, as determined by the CDFI Fund.

Controlling Entity

Controlling Entity Role

- Relationship with Controlling Entity (CE) must be material:
 - Key business decisions
 - Capital structure
 - CDE can use CE's track record in applying for allocation
 - NMTC goals
 - Operational support for NMTC program

Controlling Entity

Controlling Entity's Support

- Decision to have a CE is not just to augment or “borrow” the track record; the right relationship can help with staffing, expertise, operational capacity, and strategic partnerships to collaborate on project funding. CE can help with:
 - Sourcing transformational projects
 - Underwriting, loan servicing, asset management expertise
 - Funder relationships for most beneficial funding terms
 - Effective community engagement and outreach

Controlling Entity

Controlling Entity as Funding Source for Operations

- CE can provide financial support for new CDEs and CDEs that do not receive allocations:
 - Share staff, facilities, resources
 - Finance training of staff, and/or external expertise
 - Conduct research and data collection in targeted LICs

CDE Mission, History and Experience

Organization's History and Experience

- CDE should build on the prior experience of the organization
- CDE's mission and decision to apply for a NMTC allocation should be an augmentation of entity's role, not a diversion

CDE Mission, History and Experience

Which prior activities can be increased or broadened by a NMTC allocation?

1. How could NMTC capital enhance the organization's ability to fulfill the mission?
2. What customers could benefit from using NMTC funding?
3. What types of projects would fit with the goals of the NMTC Program?
4. What partnerships and relationships could be utilized and developed via NMTC projects?

Is there capacity with current staff to underwrite and deploy a NMTC allocation?

CDE Mission, History and Experience

Past Performance as Platform for NMTC

- History of providing funding for DBCs:
 - Did overall funding provided for DBCs meet statutory priorities?
 - What types of DBC projects were funded by purpose and sector?
- Types of lending products:
 - Asset classes and size, types of lending compatible with NMTCs
 - Real estate and operating business lending
 - Generally secured by real estate
 - Risk management / underwriting

CDE Mission, History and Experience

Past Performance as Platform for NMTC

- Production volume
 - Capacity to introduce NMTC into current portfolio
 - Track record of lending supports application request
- Familiarity with complex financing and borrower industry / activity
- Existing key personnel and resources for expansion
- Underwriting commercial / industrial / nonprofit revenue

CDE Mission, History and Experience

- **Attributes of Successful CDE**
- Experience underwriting and financing loans and/or equity investments to for-profit or non-profit businesses
- Ability to attract tax credit investors
- Pipeline of qualifying projects consistent with prior activities
- Engagement with community in selecting projects that are a part of community development plans

CDE Mission, History and Experience

- **Attributes of Successful CDE**
- Ability to attract leverage capital for a NMTC transaction, either directly and/or in partnership with the project sponsor
- Strategic partnerships for achieving project success and desired community impacts
- Asset management skills
- Capacity to submit competitive NMTC applications and receive allocations

Resource Planning

Key Resource Planning

- Manage full time staff and use consultants as a resource
- Have sufficient cash for operations if no award is received, or if awards are sporadic
- Plan for addressing turnover of key personnel
- Avoiding recapture events and Allocation Agreement default

Resource Planning

Essential Staff Skills

Staff must have ability to negotiate equity and leverage lending funding sources, get approvals from credit approval authorities, close a NMTC project, and track the project outcomes during the 7-year compliance period:

- Understand NMTC funding structure
- Negotiate terms of bank loans and forbearance agreement
- Understand public sources, guarantee programs, tribal funds
- Communicate with providers of grant funding and understand grant enforcement requirements for CDEs whose sponsors use grants
- Be familiar with terms of other tax credit programs, to the extent NMTCs is used in concert with other credits (HTC)

Resource Planning

Investor Perspective

CDE staff must understand and address tax credit investor's perspective:

- CDE ability to manage the NMTC Program for 7 years
 - The CDE's failure to operate as a CDE during the compliance period can be an event of recapture
- CDE capacity to provide security under the indemnity agreement, as needed
- Enforce community outcomes consistent with the projections
- Capacity and pipeline to redeploy NMTC capital, if necessary, in the event of default or recapture

Key Financial Considerations

Key Financial Challenges – Collateral

Collateral limitations:

- Project's development costs exceed underlying collateral value (i.e., appraisal gap)
- Insufficient collateral to support financing needs
- Difficulty determining value of underlying collateral
- Absence of traditionally accepted collateral

Key Financial Considerations

Key Financial Challenges – Project Sponsor Resources

Insufficient Project Sponsor Resources

- Project Sponsor lacks the capital necessary to finance the project itself or to fill the gap between the project costs and the amount of capital it has raised from other sources
- Project Sponsor could conceivably make up the difference but only at the expense of other critical activities in which it engages (i.e., diverting resources from other uses)
 - Doing so could jeopardize its financial sustainability or programmatic effectiveness

Key Financial Considerations

Key Financial Challenges – Cash Flow

Insufficient Revenues or Cash Flows

- Project is unlikely to generate enough cash flow to support conventional debt servicing requirements – at least in early stages
- ***Construction capital gaps or operating capital insufficient for debt service and delivery of the proposed community outcomes are key to analysis of the “But-For” test***

Key Financial Considerations

Key Financial Challenges – Credit History

Insufficient Borrower (or Project Sponsor) Credit History

- Borrower/Project Sponsor doesn't have sufficient net assets
- Borrower/Project Sponsor with periods of negative net income
- Borrower/Project Sponsor with limited debt or credit history

Key Financial Considerations

Potential Solutions to Financial Challenges (1)

Eliminating Capital Gap

- Higher than normal loan-to-value (LTV) ratio
 - Maximum in market usually 75-95% of underlying collateral value; NMTC frequently 100% LTV
- Mixing debt with equity
 - Equity portion of financing package could make up the difference between available capital and project cost
- Providing subordinate capital to attract first-position lender
 - Subordinate loan and/or equity investment
 - CDFI debt to bridge capital raise/grants

Key Financial Considerations

Potential Solutions to Financial Challenges (2)

Reducing Cost of Financing

- Lower origination fees (market fees typically 1% or more)
- Longer loan amortization periods
- Longer periods of interest-only payments

Key Financial Considerations

Potential Solutions to Financial Challenges (3)

Reducing Cost of Financing (cont.)

- Below-market interest rates
 - How much below market depends on cost of leverage debt
 - Maximizing sources of low-cost capital for leverage debt

Key Financial Considerations

Potential Solutions to Financial Challenges (4)

Non-Traditional Collateral

- Leasehold security on Trust lands
- Sponsor net assets
- Capital campaign receipts
- Contract receipts
- No underlying collateral (unsecured financing)

Key Financial Considerations

Potential Solutions to Financial Challenges (4)

Non-Traditional Collateral

- Leasehold security on Trust lands
- Sponsor net assets
- Capital campaign receipts
- Contract receipts
- No underlying collateral (unsecured financing)

Key Financial Considerations

Potential Solutions to Financial Challenges (5)

More Flexible Underwriting

- Cash flow v. collateral
- Less stringent standards on operating cash, net assets, income history, years in operation

NMTC Financial Products

Types of NMTC Products

Loan with Equity-like Features

Use of Leverage Structure in QEI

- Debt Package
- Equity Investment
- Debt/Equity Package

NMTC Financial Products

NMTC Products Characteristics

Convertible Debt

- A/B Debt packages often include a put/call option in which the QALICB has the opportunity to acquire some or all of the “B” portion of the package at the end of year 7 and convert it to equity
- Flexibility in determining how much of the “B” piece can be converted and under what conditions
- Ultimately reduces borrower’s financing burden

NMTC Financial Products

NMTC Products Characteristics

- A/B Debt packages often include a put/call option in which the QALICB has the opportunity to acquire some or all of the “B” portion of the package at the end of year 7 and convert it to equity
- Flexibility in determining how much of the “B” piece can be converted and under what conditions
- Ultimately reduces borrower’s financing burden

NMTC Financial Products (hypothetical)

Conventional Debt:

\$10,000,000 loan
@ 6%, 7 year term, 30-year
amortization, P & I each year
0.5% loan origination fee

Principal reduction:	\$1,036,070
Interest:	4,200,000
<u>L Orig Fee</u>	<u>500,000</u>
cash from borrower:	\$5,236,070

NMTC package:

3% or less, 7-year term, 30 year
amort, Interest only, no origination
fee

Principal reduction:	0
Loan Origination:	0
Interest:	(\$2,100,000)
<u>Debt forgiveness:</u>	<u>(\$2,300,000)</u>

Borrower net cash benefit:

\$4,900,000

NMTC Financial Products (hypothetical 2)

Conventional Debt and Grants of \$6,000,000
\$4,000,000 loan
@ 6%, 7 year term, 30-year amortization, P & I each year
0.5% loan origination fee

Principal reduction:	\$ 414,428
Interest:	168,000
<u>L Orig Fee</u>	<u>40,000</u>
cash from borrower:	\$ 622,428

NMTC package:

3% or less, 7-year term, 30 year amort, Interest only, no origination fee

Principal reduction:	0
Loan Origination:	0
Interest:	(\$84,000)
<u>Debt forgiveness:</u>	<u>(\$2,300,000)</u>

Borrower net cash benefit:
\$2,838,428

NMTC Financial Products

NMTC Products Characteristics (2)

Equity (stand-alone or in conjunction with debt)

- Can the borrower / investee acquire the equity after 7 years, and if so, under what conditions and at what cost? What are the tax implications?
- The amount of equity acquired may also depend on the CDE.
- *Key practice consideration:* The investor can rely on the “reasonable expectations” test provided the CDE does not have more than 30% of equity in the Project.

NMTC Financial Products

Key Takeaways

- Should be responsive to local market needs and address specific financing problems
 - Based on input from CDE board members, stakeholders, & others knowledgeable about local market dynamics
- Should be more flexible and favorable than what's otherwise available to the borrower
 - Extent of flexibility will depend in large part on the characteristics of the capital comprising the QEI (leverage debt and equity)
- Should make project financially viable

Community Outcomes

Quantifying & Assessing Community Outcomes

- How many people will directly benefit from the project (and how)?
- What is the basis for the projected community outcomes?
- Are the projected community outcomes realistic?
- How do the projected community outcomes compare to those of similar types of projects?

Community Outcomes

Methodology for Determining Likely Community Outcomes

- Estimates / projections from the project sponsor (important to understand the basis for the estimates and the underlying assumptions)
- Comparison with similar types of projects elsewhere in the market
- Data from third parties (government agencies, evaluators, accredited research)
- Modeling software

Community Outcomes

Metrics for Assessing Reasonableness of Projections

- Third-party analyses / standards of similar types of projects, for example
 - Education: standard student / teacher ratio, students per square foot
 - Healthcare: provider / patient ratio, CDC patient data
 - Retail: typical radius served by grocery store, number of employees per square foot of retail space
 - Manufacturing: proportion of manufacturing workers per square foot
 - Quality Jobs: Proportion of workers receiving living wages, health insurance and/or other benefits, etc.)
- Objective benchmark standards (e.g., average proficiency on standardized test, immunization rate, area median wage, MIT Living Wage, etc.)

Community Outcomes

Employment Outcomes

- Number of construction and permanent jobs directly associated with financed project
 - “retained” (i.e., holdover) jobs v. new jobs
- Quality of jobs directly associated with financed project
 - Living wage or higher
 - Health insurance and other benefits
 - Training and opportunities for career development / enhancement
- Accessibility of jobs to LIP/LIC residents and people facing barriers to employment
 - Suitability of job requirements
- Plans for recruiting / hiring / training LIP/LIC residents and people facing barriers to employment

Community Outcomes

Commercial Goods / Services Outcomes

- Types of Commercial goods / services (e.g., retail/consumer goods, food, pharmacy)
- Number of LIC residents / low-income people likely to benefit directly
 - Must be rational calculation based on population, LIC data, and industry norms
- Actual benefits derived (e.g., time / cost savings, access to otherwise unavailable staples)

Community Outcomes

Community Goods / Services Outcomes

- Types of Community goods / services (e.g., health care, education, cultural, human services, job training)
- Number of LIC residents / low-income people directly benefiting

Community Outcomes

Community Goods / Services Outcomes (2)

- Benefits of goods and/or services provided
- How are recipients better off as a result of having obtained the goods / services?
 - Greater access to goods and services (quantitative)
 - Higher test scores / graduation rates (qualitative)
 - Reduced food insecurity
 - Job placement / retention

Community Outcomes

Financing Native American Businesses or Minority Businesses

- Extent to which financed businesses / projects or their contractors are owned / controlled by Native Americans or racial / ethnic minorities
- Particular efforts to promote / ensure Native American or Minority ownership / control
- Tangible benefits of financing these businesses (e.g. hiring of Native American or minority workers, including LIP/LIC residents)
- Increased Native American or minority wealth-building

Community Outcomes

Benefits to Tribes of using Native CDEs / CDFIs

- Chairman John Barrett of Citizen Potawatomi Nation discussed impacts on tribes of using NMTCs:
 - New capital for projects
 - New relationships with investors, major banks, other capital providers
 - Increased balance sheet total assets and portfolio of CDFI / CDE
 - Greater collaboration among Native-controlled lenders as loan participants, CDEs with allocation, co-lenders, etc.
 - Increased skills in complex financing.

Community Outcomes

Housing Outcomes

- Types of Housing (Single Family, Multi-family) (per IRS rules)
- Benefits to LIP/LIC residents - At least 20% of financed housing units are affordable to low-income people (80% AMI)
- Relative affordability of financed units to market-rate units
- Responsiveness to high housing need

Community Outcomes

Environmental Outcomes

- Types:
 - Remediation of environmental contamination
 - Generation of renewable energy
 - LEED / Green Building certification
 - Significant reductions in resource use (e.g., water, energy)
- Benefits to LIC residents / Low-Income Persons:
 - Project-specific, such as water treatment, remediation of contaminated or polluted sites, preservation of natural resources and resource sites
 - Number of people who benefited & how benefited

Community Outcomes

Tracking Community Outcomes

- Benchmarked outcomes are typically memorialized in Community Benefits Agreement between QALICB and CDE executed as part of the QLICI closing process
 - Benchmarks are based on the project pro forma; actual thresholds are negotiated between QALICB and CDE
 - Outcomes identified in NMTC application or by CDFI Fund are not exclusive; QALICB and CDE may agree upon other specific outcomes that are appropriate for project / community

Community Outcomes

Tracking Community Outcomes

- QALICB is typically responsible for
 - documenting agreed-upon data points, frequently based on a template provided by CDE
 - reporting to the CDE based on agreed-upon timeline (e.g. annual reporting)
- CDE may need to provide borrower/project sponsor with assistance operationalizing key measures
- CDE is typically responsible for comparing QALICB's reported outcomes to relevant third-party benchmarks; such an analysis may help in selection of future projects, identification of program weaknesses, and/or highlighting best practices

Community Outcomes

Other NMTC Outcomes for Community / CDE (or Controlling Entity)

- Spillover benefits of project on surrounding community (e.g., triggering of other investment, increasing local property values, attracting new residents, reducing blight / crime)
- Bringing new investment / investors into the community (with the potential for longer-term relationships)
- NMTC program can ...
 - generate additional revenues to support organizational activities
 - allow for financing different / larger projects than otherwise possible
 - facilitate relationships with new capital providers
 - expand CDE's presence in its market

Projects - Pipeline

- **Pipeline Characteristics**
- Advances CDE mission, incrementally implements mission through each transaction
- Consistent with organization's history and projects
- Fits CDE's skills / capabilities as a lender
- Meets NMTC Program requirements and particular CDFI Fund priorities
- Serves LIC needs
- Projected outcomes are realistic and enforceable

Projects - Pipeline

Non-Metro Investments

- CDEs can commit to investing a whole or a portion of the award in areas designated as “non-metropolitan counties” because they are not part of a metropolitan statistical area.
- CDEs that make this commitment will prioritize projects or providing products that meet the “non-metropolitan counties” characteristics.

Projects - Pipeline

Innovative Investments

- CDE can commit a portion of its allocation to Innovative Investments that might enhance deployment of NMTC funds (QLICs) to projects in Native Areas
- Investing in *Unrelated Minority-owned or controlled or Native American-owned or controlled CDEs* that do not have *NMTC Allocations*;
 - The “Secondary CDE” relationship can help CDEs build track record, relationships, and expertise
- Investing in states identified by the CDFI Fund as having received fewer dollars of *QLICs* historically; (in 2022, these are AZ, CA, CO, FL, KY, NC, TN, TX, VA, WV, and certain island areas)
 - Making *QLICs* with an original term less than or equal to 60 months;
 - Providing *QLICs* for non-*Real Estate Activities*, such as working capital, inventory or equipment purchase; and;
 - Investing in *Federal Indian Reservations, Off-Reservation Trust Lands, Hawaiian Home Lands, and Alaska Native Village Statistical Areas.*

Projects - Pipeline

Capital Stack

- NMTC investor terms
 - Pricing, fees, credit requirements
 - An investor that provides its own allocation in addition to the tax credit investor can increase benefits to the QALICB if it does not have all the allocation it can use from other CDEs, or if the investor's allocation reduces the number of parties involved in closing
 - Existing relationships with institutions likely to be NMTC investors, or investors desiring to create relationships with the project sponsor or the tribe
- Leverage loan
 - Are terms and structure of the leverage loan compatible with the NMTC structure?
 - Composition (market-based debt versus soft capital) drives the cost of QLICs
 - Funder partnerships and grant funding

Projects - Pipeline

Timing Considerations

- Alignment of project readiness and NMTC awards
- Capital stack and project designs are mostly ready “But-For” NMTC subsidy
- Positive feedback from Advisory Board
- Evidence of community support

Projects - Pipeline

Underwriting Policies

CDE are required to have formal written policies that institutionalize underwriting and investment approval policies, that address:

- the financial considerations to secure guarantees or other collateral for the QLICs;
- the QALICB's ability to repay the QLICs;
- the likelihood of project completion;
- assessment of management team experience and/or expertise relevant to the successful operation of the QALICB;
- market demand for the QALICB's services and/or products;
- other due diligence areas as needed, based on the business strategy and the types of businesses financed with its NMTC award.

Projects - Pipeline

Project/Business Evaluation Checklist

- Are project uses eligible for the NMTC funding? Is Project Sponsor an active organization in good standing, having required business licenses to operate, and experienced management and governance capacity to execute on the project? Are there market studies, community surveys or plans, that verify the need & demand for products & services to be provided?
- Is the project likely to deliver projected outcomes and perform successfully as a business for 7 years and beyond (operations underwriting)?
- Does the project have capacity to support financial projections and refinance in 7 years?

Projects - Pipeline

Project/Business Evaluation Checklist

- Are there balanced sources and uses supported by bids, estimates, and real estate due diligence?
 - Does project readiness align with projected NMTC closing (site control, permits, environmental, architectural, GMP contract)?
- Does the professional and cultural experience of project participants (architect, contractor, project manager, consultants) support the project?
- Has the Project Sponsor received support letters from the community?
- Has the site visit been performed in support of the underwriting?

Closing, Asset Management, Compliance

Closing NMTC Projects

CDE Resources needed for closing a NMTC project:

- Closer to prepare CDE closing documents
- NMTC accounting for preparing 7-year projections
- Legal for drafting legal opinions and loan documents
- Construction management for review of contracts, vendor requirements, and managing disbursement of construction draws
- Credit oversight for review and approval of closing/ post-closing requirements

Closing, Asset Management, Compliance

Loan Servicing

Resources needed for loan servicing:

- Construction disbursements (approval vs review role)
- Loan payments
 - Switching accounts from construction escrow to operating
 - Waterfall payment structure
- QALICB reporting
- Modifications (identified new budget needs, additional funding, adding services)

Closing, Asset Management, Compliance

Portfolio Management

Resources needed for portfolio management:

- Pro forma assumptions (fees, deployment speed, fixed expenses)
- Potential burden on revenue received from other lines of business, impact on overall mission
- Volume of loans at which additional staff might be necessary
- Strategic use of NMTC consultants for risk management, time constraints, quality control

Closing, Asset Management, Compliance

Evaluating Portfolio Performance

- Tracking portfolio performance
 - Asset Management Policy and risk rating of projects
 - Performing vs non-performing assets
 - Watchlist, problem assets, forbearance
 - Default and reinvestment
- Evaluating community impacts
 - Project stories
 - Community Benefits Agreement
 - Annual site visits
 - Compare actual outcomes to expected outcomes (as mutually agreed upon at time of closing) and to third-party standards (metrics)

Closing, Asset Management, Compliance

Compliance

- Identify policies and procedures unique to the NMTC Program:
- IRS compliance
 - Submit QEI form
 - Maintain records of all due diligence, loan and other documents, CDE corporate records, financial transactions, etc.
 - CDE certification,
- CDFI Fund compliance reporting
 - Allocation Agreement commitments – reporting QEIs and QLICIs
 - Reporting of Material Events, if applicable
 - other CDFI Fund programs or future eligibility for NMTC allocation might be impacted

Closing, Asset Management, Compliance

Compliance

- Investor reporting
 - Financials, LIC accountability
 - In default, indemnifications and standstill activate
 - Redeployment (limitations on area, type of deal, no NMTC benefit)

Closing, Asset Management, Compliance

Prepare for Compliance

- Review existing – or create new (if necessary) – lender policies and procedures
- Unify risk management and compliance functions across lending programs, including NMTC
- Evaluate key staff and resources needed to maintain compliance

Closing, Asset Management, Compliance

When Problems Arise

- Work with CDEs and Investor, include lender
- Seek collaborative solutions
- Address right away



Native Initiative Training and Technical Assistance Day 2:

The Secondary CDE and The QALICB

CDFI Fund NMTC Native Initiative

February 22-23, 2023

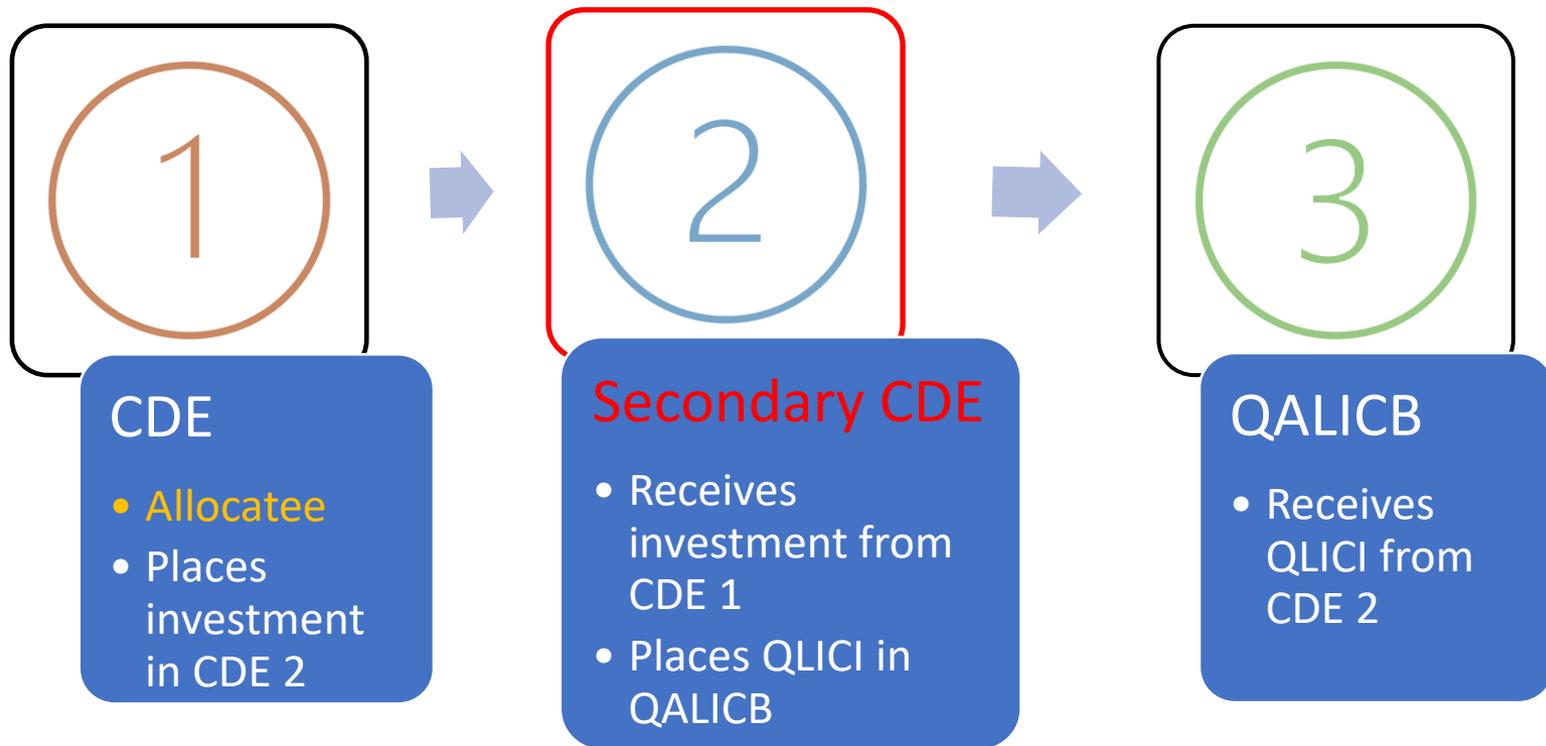
Author: Karen Williams, Sean Zielenbach, Roman Bitsuie, Marina Titova, Big Water Consulting

Secondary CDE

Investing in Other CDEs

- Investing in Unrelated CDEs is a CDE-to-CDE funding option in the NMTC application
 - This is not a sub-CDE structure
- A collaborative deployment strategy that spreads resources, expertise, and learning among a group of CDEs
- IRS regulations allow up to four CDEs can participate in a NMTC project:
 - First CDE receives QEI from the tax credit investor
 - Last CDE must deploy funds into a qualifying project; or provide FCOS to an LIC business or residents
 - When employed, typically 2 CDEs involved—the Allocatee and one unrelated CDE

Secondary CDE



Secondary CDE

Secondary CDE Status

- CDE certification, maintaining an active status, compliance requirements for the Secondary CDE are not different from requirements for all CDEs
- All deployment thresholds must be met as if the first CDE deploys directly into the project
- This strategy requires identifying partner CDEs that can participate in the CDE-to-CDE funding before committing to this activity in an Allocation Application

Secondary CDE

Secondary CDE Role

CDEs that do not have an allocation but want to build capacity and experience with the NMTC Program can participate in a project as a Secondary CDE. To prepare for this role, they need to:

- Identify CDEs with allocation, including investor bank CDEs, that have included lending to Unrelated CDEs as a business strategy
- Cultivate relationships with frequent CDE Awardees to include pipeline projects from potential partners in a future application
- Discuss relationship parameters and terms with potential CDE Awardee partners
- Develop underwriting, impact tracking, compliance, and related expertise and processes

Secondary CDE

Secondary CDE Trade Offs and Opportunities

- Trade Offs
 - Allocatee and Secondary CDEs split the fees
 - Allocatee and Secondary CDEs track the use of allocation
 - Additional participants can increase transactional costs for the QALICB
- Opportunities
 - Allocatee CDE gets access to the Secondary CDE's pipeline
 - Allocatee CDE shares risk with the Secondary CDE that is familiar with the LIC
 - Secondary CDE gets access to a NMTC allocation without submitting an application
 - Secondary CDE shares resources with another CDE
 - Secondary CDE builds a track record for future applications

The QALICB: Qualified, Active Low-income Community Business

Describing the Project

Who is the Sponsor?

- What community outcomes does the Sponsor hope to achieve?
 - What are the needs of the community to be served, and how will the project address them?
- Does the Sponsor have a history of providing these community outcomes or doing similar projects?
 - Sponsor may be an operating entity that provides goods or services, or a real estate developer that will lease the project to operating entity(ies)
- Why does the Sponsor need this project to deliver the planned community outcomes?
- Why does the Sponsor need subsidy to deliver the planned community outcomes?

The QALICB: Qualified, Active Low-income Community Business

Uses of NMTC

What is the activity to be financed? How will the financing be used?

- Land Acquisition
- Predevelopment Expenses
- Construction / Rehabilitation
- Equipment
- Working Capital
- Inventory

The QALICB: Qualified, Active Low-income Community Business

Prohibited Activities

Does the borrower engage in the operation of a *Prohibited Business*?

- Predominantly the development or holding of intangible assets for sale or license
- Golf course
- Country club
- Massage parlor
- Hot tub facility
- Suntan facility
- Racetrack or other gambling facilities
- Store where principal business is sale of package liquor
- Certain farming activity (assets exceed \$500,000)

The QALICB: Qualified, Active Low-income Community Business

Eligibility of Project for NMTC

- Location in NMTC-eligible census tract:
- Does the census tract meet criteria of higher distress?
 - Poverty rate >30%
 - Median family income <60% of area median
 - Unemployment rate >1.5x national rate
 - Non-Metropolitan County
- Does the tract lie within designated revitalization area or other publicly marked “distressed” geography? Examples include
 - Opportunity Zones/HUB Zones/Promise Zones
 - Federal Native areas
 - Designated Food Deserts
 - Medically Underserved Area
 - FEMA Disaster Areas

The QALICB: Qualified, Active Low-income Community Business

Eligibility of Project for NMTC

If not in a qualified census tract, will the project serve a Targeted Population?

- At least 50 percent of the entity's total gross income is derived from sales, rentals, **services**, or other transactions with individuals who are low-income persons*;
- At least 40 percent of the entity's employees are individuals who are low income person*s;
- At least 50 percent of the entity is owned by individuals who are low income persons*.
-

* An individual shall be considered to be low-income if the individual's family income, adjusted for family size, is not more than— (i) For metropolitan areas, 80 percent of the area median family income; and (ii) For non-metropolitan areas, the greater of 80 percent of the area median family income, or 80 percent of the statewide non-metropolitan area median family income. (Targeted Populations Under Section 45D(e)(2), IRS final regulations.

The QALICB: Qualified, Active Low-income Community Business

QALICB Qualifications

- Is project / borrower a Qualified Active Low-Income Community Business?
- At least 40% of services performed by employees are in NMTC-eligible census tracts
- At least 50% of gross income derived from conducting qualified business in NMTC-eligible census tracts
- At least 40% of use of tangible property is located in NMTC-eligible census tracts
- Less than 5% of the QALICB's property is collectibles, other than those held for sale to customers
- Less than 5% of assets are *nonqualified financial property*

The QALICB: Qualified, Active Low-income Community Business

Community Outcomes Examples

- Quality jobs accessible to economically disadvantaged populations
 - ❑ Quality jobs that pay Living Wage, provide benefits (e.g. health insurance, 401K), training, and/or opportunities for advancement
 - ❑ Accessible jobs that are available to unemployed or underemployed persons, or those who are difficult to employ such as disabled or previously incarcerated.
- More accessible / higher quality commercial goods (e.g. groceries) / services (e.g. broadband, restaurants)
- Better / more accessible community goods or services (e.g. education, health, and/or human services)

The QALICB: Qualified, Active Low-income Community Business

- Support of Native American or Minority-Owned / Controlled business, For example
 - For-profit: Citizen Potawatomi Nation Industrial Park;) _
 - Non-profit: The Pine Ridge School_____
- Quality housing affordable to Low-Income People or Low-Income Community residents
 - Multifamily rental housing is eligible only if more than 20% of project revenues are from non-residential activity (Mixed-use)
 - For Sale housing
- Environmental improvements
- Other

The QALICB: Qualified, Active Low-income Community Business

Appropriateness / Relevance of Anticipated Community Outcomes

- Address / respond to a clear & identified local need
- Importance of being able to document local need (e.g., through market analysis, surveys of residents / businesses) and specific ways the project's anticipated outcomes help address it
- Contribute to the realization of expressed local goals & priorities
- Importance of documenting project's alignment with existing community economic development strategies, initiatives or adopted plans
- Have strong support of various key local stakeholders (community residents, elected officials, business / community leaders)

The QALICB: Qualified, Active Low-income Community Business

Community Outcomes that are Quantifiable/Measurable

- Number of people directly benefiting from project – for example
 - Jobs created / preserved
 - Students enrolled
 - Patients served
 - Customers accessing commercial/consumer goods / services
- Number of affordable housing units
- Extent of contracting going to Native American and/or Minority-owned firms
- Reduction in harmful emissions, amount of renewable energy generated

The QALICB: Qualified, Active Low-income Community Business

Community Outcomes: Benefit Low-Income Persons/ LIC Residents (LIP/LIC residents)

- Beneficiaries predominantly **LIP/LIC residents, for example:**
- Meaningful proportion of jobs are accessible to individuals that face barriers to employment or are LIC residents, with clear efforts made to help connect those individuals to the positions
- Students / patients / households served are predominantly **LIP/LIC residents**
- Environmental outcomes clearly benefit low-income people (lower costs, greater public health, closed landfills, re-use of brownfields, etc.)

The QALICB: Qualified, Active Low-income Community Business

Community Outcomes: Benefit LIC Residents / Low-Income People (2)

Meaningful improvements in beneficiaries' lives

- Quality jobs – livable wages, health insurance & other benefits, opportunities for career advancement
- Better health – preventive care, immunizations, managed illnesses, reduced substance abuse
- Better educational outcomes – higher graduation / attendance rates
- More job placements
- Wealth generation (e.g., housing cost savings, equity building)

The QALICB: Qualified, Active Low-income Community Business

Projected Community Outcomes are Realistic

- There is a logical connection between activities and anticipated community outcomes
- The community outcomes are consistent with those of similar types of projects elsewhere and industry standard metrics
- The sponsor has a track record of operating similar business that generated similar types of community outcomes
 - The operating pro-formas, revenues, budgets, staffing plans, etc. support the staffing and other necessary costs of providing the outcomes and show sustainable revenue to support them

The QALICB: Qualified, Active Low-income Community Business

Project Financing

- Total project cost
- Capital in hand and/or legally committed
 - Sponsor equity
 - Tribal dollars
 - Grant proceeds
 - Loan proceeds

The QALICB: Qualified, Active Low-income Community Business

Project Financing (2)

Capital requests pending

- Private loan dollars
- Public / philanthropic grants or concessionary-rate loans
- Capital campaign receipts
- Other potential sources
- Debt service for any loan sources is supported by reliable revenue sources and affordable in light of other budget demands

The QALICB: Qualified, Active Low-income Community Business

Need for NMTC Capital (“But For” Test)

- Filling capital gap (how large?)
- Reducing project cost
- Make the case for why the cost of otherwise available capital makes the project less feasible; how would the infusion of NMTC-subsidized capital meaningfully reduce project expenses?
- Can the project go forward without NMTC-subsidized capital?
- Could it generate the desired outcomes?
- Would the absence of NMTC capital threaten the financial viability of project and/or its ability to continue delivering important goods / services?

The QALICB: Qualified, Active Low-income Community Business

Project Viability

- Will the infusion of NMTC dollars enable the project to go forward?
- Will the project (or its sponsor) generate enough revenues to cover ongoing expenses?
- How stable are the project's revenue sources? How dependent are they on external factors?
- How stable are the expenses?
- Does the financial model work in various economic environments?

The QALICB: Qualified, Active Low-income Community Business

Project Viability (2)

- Can the project reasonably be expected to refinance at the end of 7 years?
 - Ability to meet conventional collateral, debt servicing, & other requirements
 - Stability of revenue stream
 - Positive cash flow
 - Sufficient equity (net asset) cushion
 - Long-term site control
- What are likely sources of refinance capital?

The QALICB: Qualified, Active Low-income Community Business

Project Readiness

- Site control with ability to collateralize
 - Approvals of long-term lease held by QALICB entity
 - HEARTH Act lease to allow leasehold mortgage
- Tribal government education about NMTC if necessary, tribal approvals of business activity, use of NMTCs, understanding of business deal and necessary documents
 - Availability of limited waiver of sovereign immunity if necessary
 - Discussion of venue, applicable law if necessary
 - Leasehold provisions, effect of leasehold mortgage

The QALICB: Qualified, Active Low-income Community Business

Project Readiness (2)

- Alternate security if necessary
 - Pledge of other enterprise revenue
 - Tribal or other guarantees
- Approval of local governmental entities (including permits, easements, etc.)
- Community approval
- Acceptable environmental report
- Other development readiness studies as necessary (Geotech, survey, availability of title insurance, etc.)

The QALICB: Qualified, Active Low-income Community Business

Project Readiness (3)

- Extent of committed capital
- Availability of eligible funds to capitalize leverage debt (and willingness of capital providers to be part of leverage debt structure)
- Timing of construction start and completion (if applicable)
- Timing of start of business activity and of full ramp-up
- Finalization of any contracts, permits, licenses necessary for revenue
 - IHS agreements for health care
 - Revenue agreements for charter school
 - Customer purchase agreements or letters of intent for manufacturing

The QALICB: Qualified, Active Low-income Community Business

Project Readiness (4)

- Identified contractor (if applicable), preliminary cost estimate or bids
- Staffing / consultants dedicated to & experience in project management
- Suitable infrastructure (utilities, transportation)

The more shovel-ready a project, the easier it will be to obtain financing

The QALICB: Qualified, Active Low-income Community Business

Finding a CDE

Size of QLICs required determines likely number of CDE participants

- If > \$10 million in NMTC capital required, likely will need to obtain QLICs from multiple CDEs
- If < \$10 million needed, may be able to finance amount with only 1 CDE

The QALICB: Qualified, Active Low-income Community Business

Finding A CDE (2)

Identifying a CDE (CDEs):

- serving your geographic market
- willing to finance your type of project (e.g., industrial, charter school, mixed-use real estate)
- with willingness / experience financing projects in Native Areas
- with sufficient availability of allocation authority
- with reasonable fees, rates, and terms

The QALICB: Qualified, Active Low-income Community Business

Finding a CDE (3)

- Be aware of NMTC Allocation cycle
 - ❑ Important to get on CDE's radar sooner rather than later
 - ❑ Most Allocatee have far more good projects than available allocation
 - ❑ Allocatees often have most of allocation already earmarked for projects
- Build relationships with multiple CDEs, work with Investors
 - ❑ Networking through bank partners, NMTC conferences, public officials, consultants, CDFIs, potential NMTC investors / leverage lenders
- Process takes time

The NMTC Investors

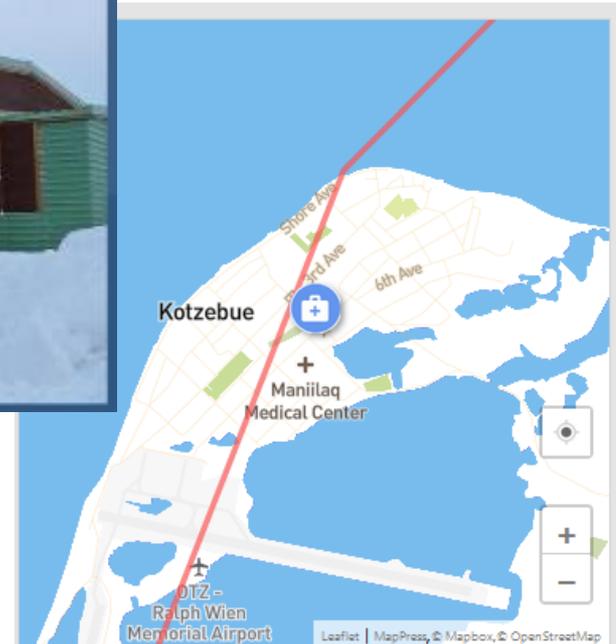
Tax Credit Investor

- Provides capital in exchange for tax benefits
- Is typically an institutional investor with tax-credit portfolio
- Motivated by return on investment and Community Reinvestment Act
- Manages transaction carefully to minimize recapture risk

The NMTC Investors: Project 1



Alaska



The NMTC Investors

Maniilaq Nursing Home

Investor	NYCB/Dudley Ventures
CDE	Alaska Growth Capital
QALICB	Maniilaq Association Affiliate
Services	Adult Daycare, FQHCs, Healthcare, Nursing Homes and Hospice
LIC	Indian Country, Rural
Total Project Costs	\$24 mln
Total NMTC Allocation	\$17.5 mln
Leverage Loan Funders	State of Alaska, Maniilaq Association (12 tribes)
Community Outcomes	503 patients served, 20 permanent and 100 construction jobs created



The NMTC Investors: Project 2



Scottsdale, AZ



The NMTC Investors

Butterfly Wonderland



Investor	Wells Fargo
CDEs	Dudley Ventures, Wells Fargo
QALICB	Affiliate
Services	Rainforest, butterfly and bee atrium, education, ECE, arts, Native American food/retail vendors and workforce development
Total Project Costs	\$16 mln
Total NMTC Allocation	\$10 mln
Leverage Loan Funders	
Community Outcomes	30,000 visitors annually, 76 permanent and 300 construction jobs created

The NMTC Investors: Project 3



Shawnee, OK

The NMTC Investors

Sovereign Pipe

Investor	Wells Fargo
CDE	Heartland Renaissance Fund
QALICB	Citizen Potawatomi Nation affiliate
Services	Manufacturing of high-density polyethylene piping
LIC	Indian Country
Total Project Costs	\$7 mln
Total NMTC Allocation	\$7 mln
Leverage Loan Funders	Citizen Potawatomi CDC
Community Outcomes	65 permanent jobs created

The NMTC Investors: Project 4

Nespelem, WA



The NMTC Investors

Colville Tribal Building

Investor	US Bank
CDEs	Ecotrust, LISC, Waveland community Development
QALICB	Confederated Tribes of the Colville Reservation Affiliate
Services	FQHC, healthcare
LIC	Indian Country, rural
Total Project Costs	\$45 mln
Total NMTC Allocation	\$34 mln
Leverage Loan Funders	Bank loan
Community Outcomes	30 permanent and 150 construction jobs created

Closing

- Closing checklist

NMTC Compliance

- Much of the compliance work is done during closing
- Post-closing compliance for the QALICB/Sponsor is:
 - Complete construction on time
 - Make payments on time and in exactly the amount requested
 - Never make a prepayment
 - Respond to QALICB Questionnaire in CBA on time
 - Submit compliance certificates and operational reports