



# The CDFI Fund's New Markets Tax Credit Program Native Initiative

## Native CDFI Network 4<sup>th</sup> Policy & Capacity Building Summit

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# NMTC Native Initiative

## Increasing NMTC Investment in Native Areas

### Objectives:

- Increase Native CDE, Native CDFI, and tribal participation in the NMTC Program
- Improve Native CDEs' ability to receive allocations, given the competitive nature of the allocation process
- Increase NMTC investments in Indian Country through partnerships among Native and Non-Native CDEs and access to information

# Overview of Project Deliverables

1. Analysis of NMTC Investments in Indian Country
2. NMTC Technical Workshops and Individual Training Sessions
3. Market Research Report
4. Case Study Report
5. Self-Assessment Guide
6. Best Practices Workshops

# Summary of NMTC Investments in Indian Country

## 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)

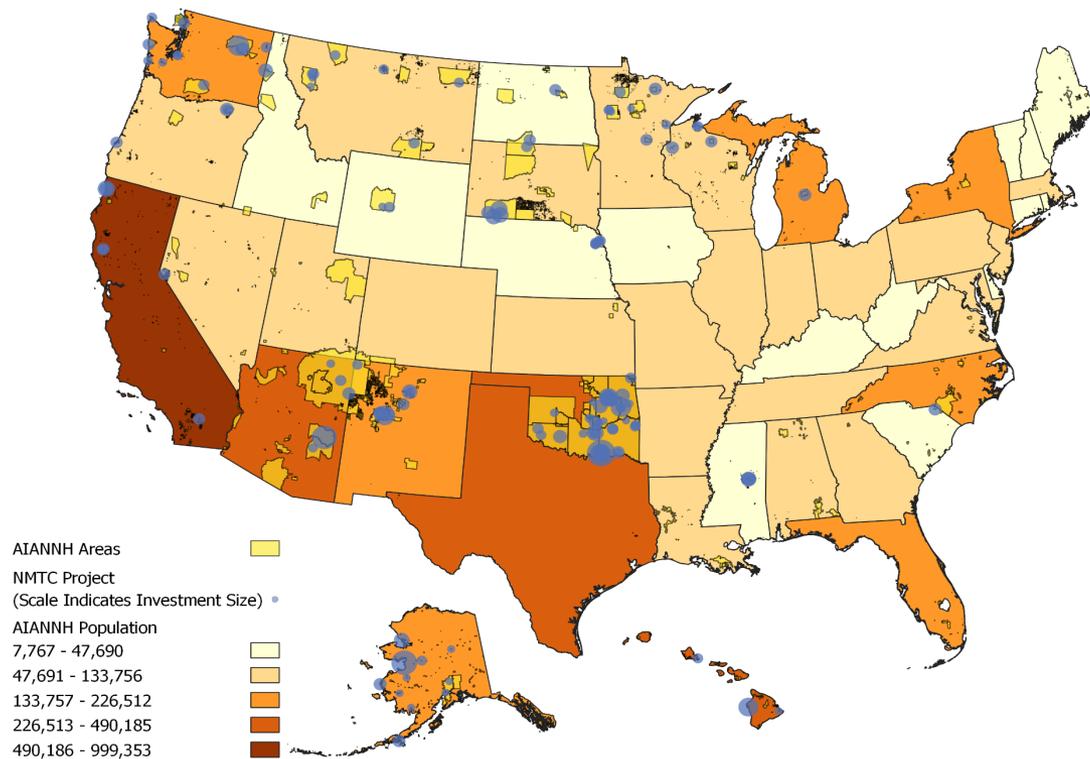
# Summary of NMTC Investments in Indian Country

## 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 Indian Country

## NMTC Projects, AIANNH Lands, and AIANNH Population by State



# Summary of NMTC Investments in Indian Country

## 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%

# 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

# 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.

# 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

# 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 Identified in Market Research

- 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, 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

- There are enhanced opportunities for community economic development in Indian Country.
- Investors and partners must be aware of the historic and current challenges that have prevented tribes from accessing capital.
- The need for more and better data underlies many limitations to community economic development in Indian Country, including data gaps and access to data.

# 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 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.

# Case Study Report Methodology

- The research team developed a list of NMTC projects that would illustrate varied, successful, and replicable approaches with specific, on-the-ground examples.
- Researchers 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.
- Limitations:
  - Researchers intended to reach representatives of the CDE, QALICB, investor, tribe, and leverage lender for each case selected; however, due to turnover within these organizations and constraints around number of organizations that could be contacted due to the Paperwork Reduction Act, response rates among the non-CDE entities were low.

# Survey Findings

- Two-thirds (66%) of responding CDEs had over 10 years of experience lending/investing in Indian Country 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

Case Study Report recommendations and best practices are directed towards multiple actors:

- Congress
- CDFI Fund
- Tribes and Native governing organizations
- Native CDFIs, CDEs, and potential CDEs
- Native-serving funders
- Non-Native tax credit investors and lenders
- Sponsors and owners of Native-serving projects or businesses

# 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:

- Use of HEARTH Act leasing authority (e.g., to issue a leasehold mortgage) when appropriate for a particular tribe
- Established tribal government practices for project approval and use of limited waivers of sovereign immunity

# Recommendations and Best Practices Summary

Track record is important to justifying a CDE's allocation requests. There are several strategies Native CDEs can take to build a financing track record. Native CDEs should:

- Develop NMTC experience by participating in transactions as a secondary CDE
- Participate as partners/collaborative lenders to Native QALICBs
- Provide leverage and/or source loans to NMTC project sponsors

# Recommendations and Best Practices Summary

Cultural and legal competency are prerequisites for 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

# 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

# Upcoming NMTC Native Initiative Presentations

A summary of the market research conducted and best practices derived from this project will be presented in person at:

- Novogradac NMTC Pre-Conference Workshop (Carlsbad, CA; January 24, 2024)

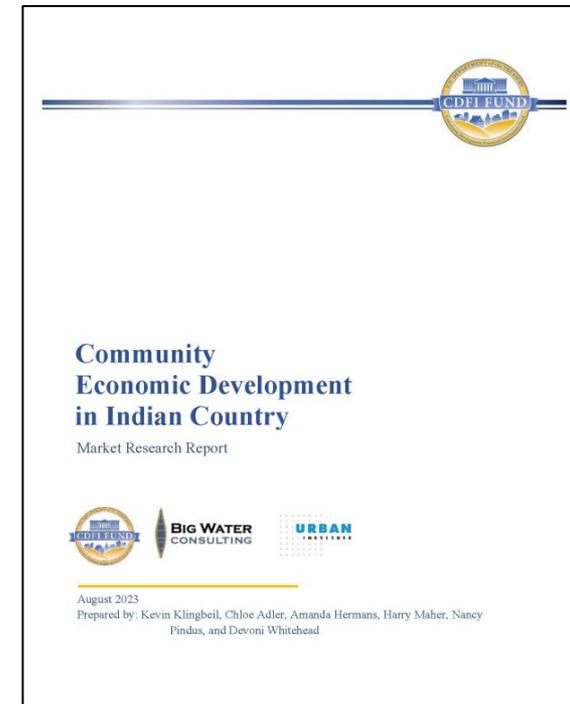
A summary of the market research conducted and best practices derived from this project will be presented virtually by:

- Native CDFI Network (January 11, 2024)

# 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>