

OKTFC: January 2020

New Markets Tax Credits is a financing options for tribes



Meet your presenter



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INTRODUCTION

About Baker Tilly



Our 3,600 specialized professionals guide clients through an ever changing business world



We have grown to become one of the 15 largest accounting and advisory firms in the US



Member of Baker Tilly International, a worldwide network of independent accounting and business advisory firms in 145 territories, with 34,700 professionals





A WORLD OF RESOURCES

About Baker Tilly Capital

Baker Tilly Capital is a boutique investment bank specializing in merger and acquisition (M&A), capital sourcing, project finance and corporate finance advisory services. Baker Tilly Capital is a registered broker-dealer, member FINRA and SIPC.

Comprehensive credits and incentives solutions

Our team of 90 professionals has experience in municipal, state, federal and international incentives programs and negotiations. Our value of closed transactions is in excess of \$10 billion.

We can help you navigate your options, including:

- **New Markets Tax Credits (NMTC)**
- State and local credits and incentives
- Job creation and retention credits
- Tax Increment Financing (TIF)
- Property Assessed Clean Energy (PACE)
- Historic Tax Credits
- Opportunity Zones

TRIBAL PRACTICE

About Baker Tilly

Risk and compliance

- External financial audit
- Internal audit advisory
- Single audit
- Cybersecurity
- Gaming compliance
- Regulatory compliance
- Employee benefit plan audit
- 8(a) contract compliance



Strategy and operations

- Long-term financial planning
- Economic development advisory
- Productivity and cost reduction
- Capital planning
- Tribal utility formation
- Grant writing and advisory
- Business process reviews
- Outsourced accounting and bookkeeping



Government contracts advisory

- Service Contract and Davis-Bacon Act
- Standard Form 1408 accounting system assessments
- Provisional billing and forward pricing rate development
- Incurred cost proposal preparation and review
- Indirect cost rate structuring
- GSA Federal Supply Schedule Contracts
- Contractor business systems



Project development

- Comprehensive project finance
- Incentives advisory
- New Markets Tax Credits
- Low Income Housing Tax Credits
- Energy and infrastructure advisory
- Public private partnership facilitation
- Transaction advisory services
- EB-5 financing
- Opportunity Zones

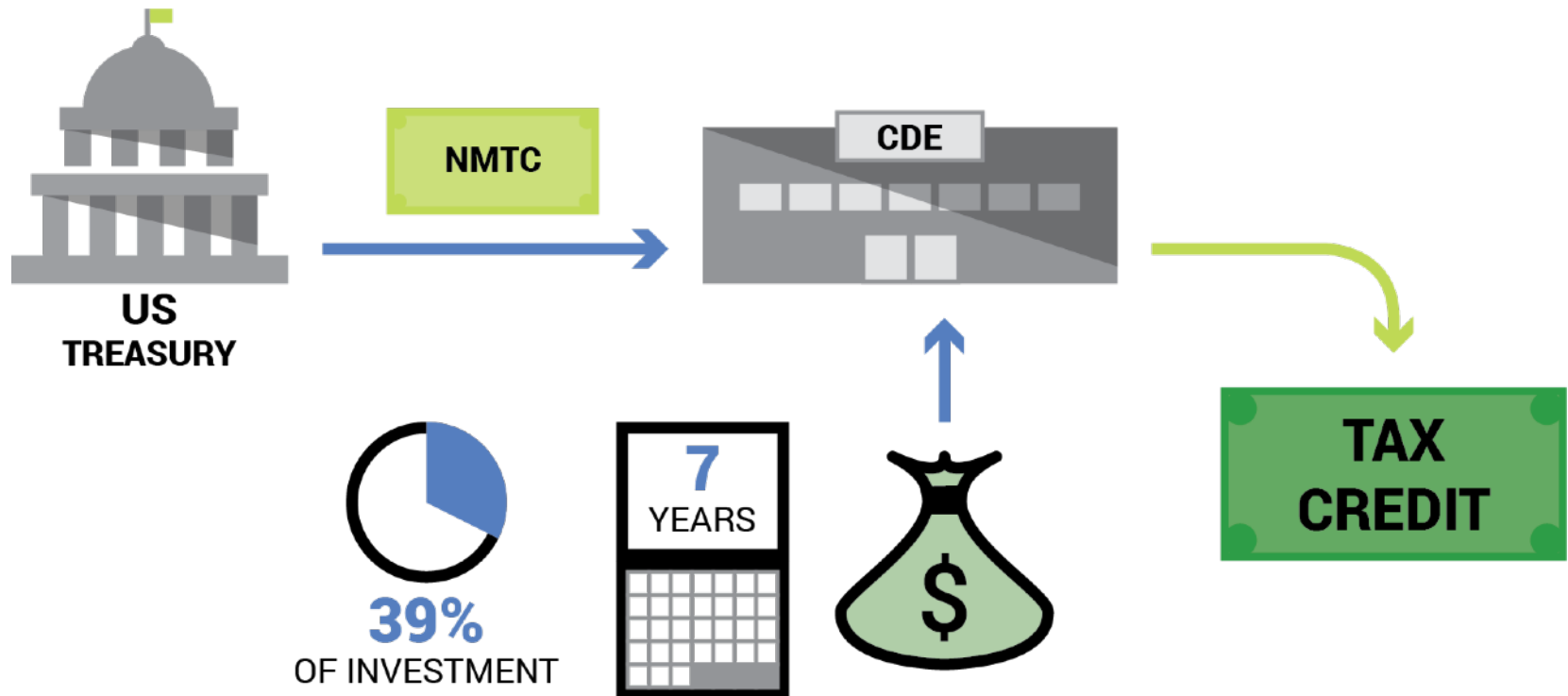
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New Markets Tax Credits (NMTC): Overview and value to you



NEW MARKETS TAX CREDITS

Program overview





UNDERSTANDING THE CDE

The CDE: those that are awarded credit to allocate to your project

Who are these guys?

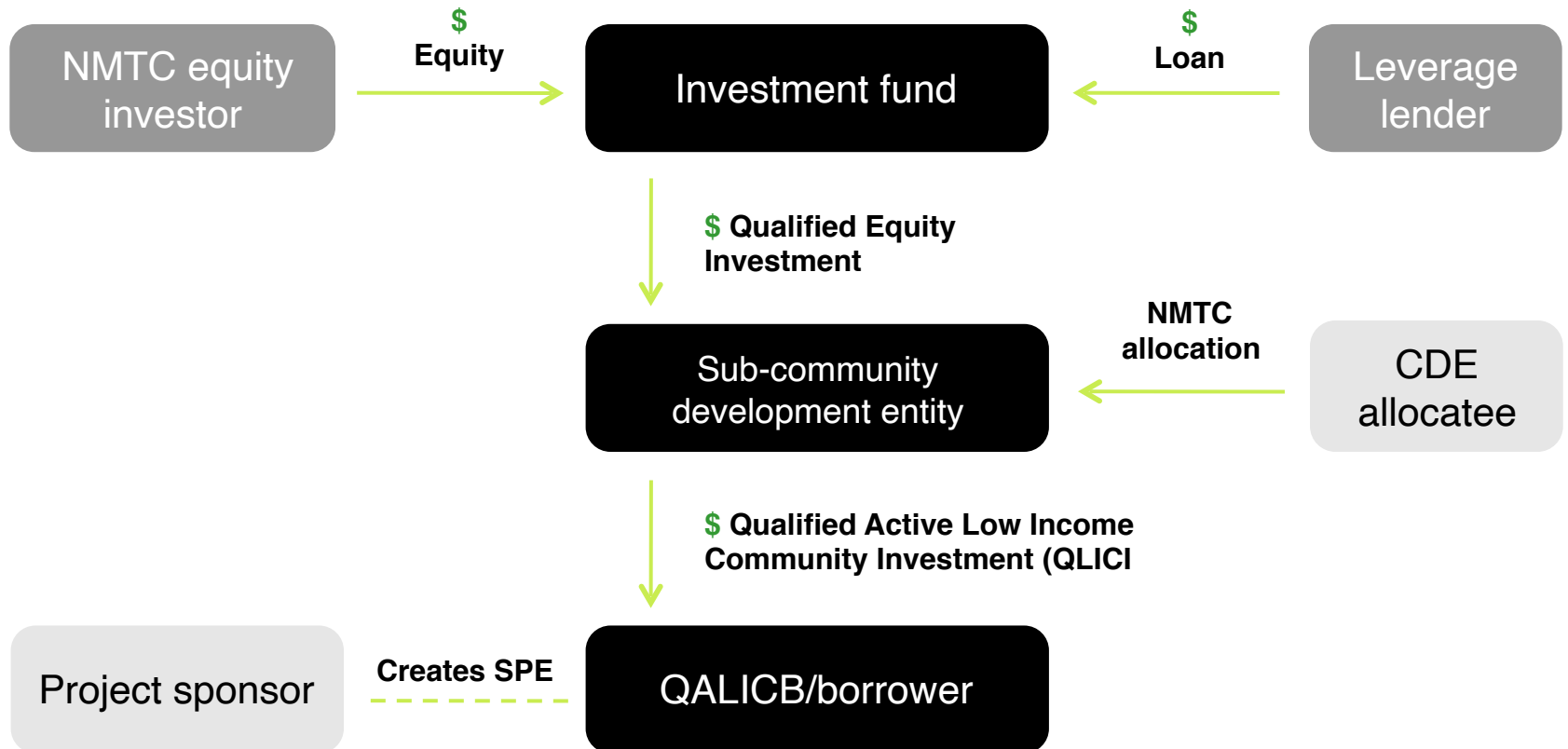
- A division of state or local government (e.g. the state of Wisconsin)
- A subsidiary of a financial institution (e.g. Wells Fargo)
- A not-for-profit community development organization (e.g. Local initiatives support corporation)
- A privately held organization (e.g. Baker Tilly – Valued Advisor Fund)

What are they looking for?

- Each have a intended purpose/goal when deciding which projects to allocate NMTC
- Some have regional geographic focus and some have national focus
- Since this is a very competitive, limited resource and not an entitlement program (like many other grants, credits and incentives), they “call the shots”

NEW MARKETS TAX CREDITS

Transaction diagram



THE MATH (ESTIMATED)

How it works

NMTC allocation	\$10,000,000
NMTC rate	39%
Tax credits	<u>\$3,900,000</u>
Investor monetization	\$3,100,000
Less estimated closing costs and fees	\$900,000
Net NMTC cash to the project	\$2,200,000

Important: an allocation does not equal cash

What makes a good project candidate?

1

Located in a “highly distressed” census tract

Any of the following:

- Poverty > 30 percent
- Median income < 60 percent statewide
- Unemployment > 1.5 times national average
- Non-metropolitan county
- Two of any secondary criteria

2

Community impact

- Tangible community benefit – measured by quality job creation, providing unmet goods and services to low income communities, environmentally sustainable construction, etc.
- Part of an existing plan for economic revitalization
- “But for” test – NMTC fills a real funding gap that would otherwise not happen

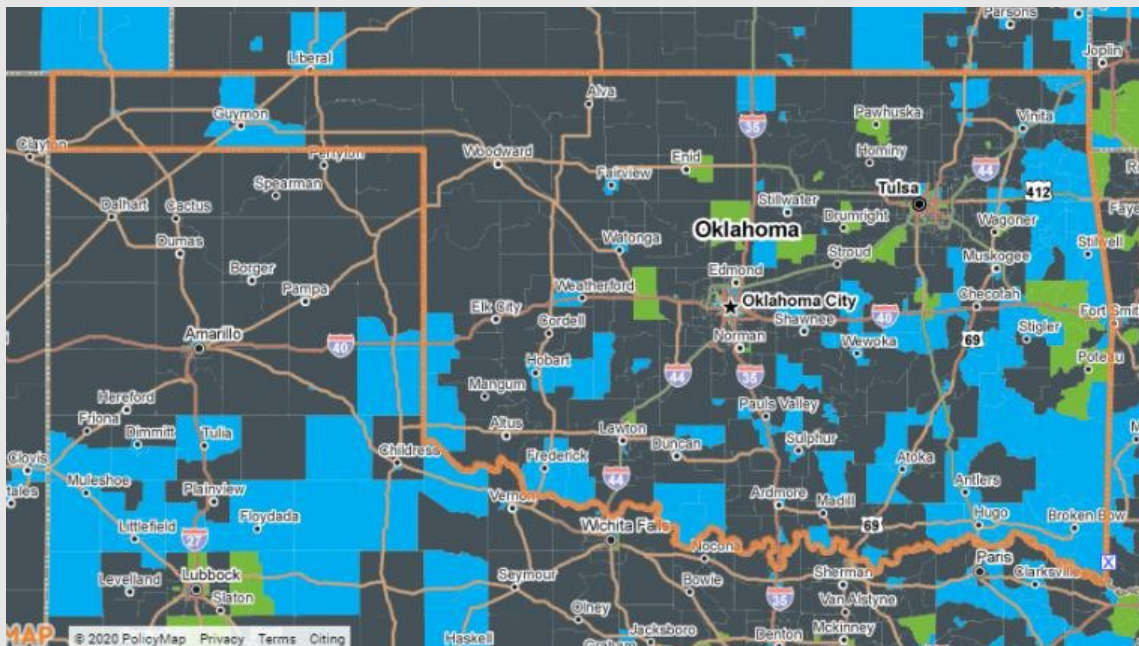
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Ready to go





Other sources of funding are committed and approvals all in place

IS MY PROJECT ELIGIBLE?

NMTC mapping tool



NMTC Status ✕

-  Insufficient Data
-  Eligible - NMTC, severe distress
-  Eligible - NMTC, distressed
-  Eligible - Other incentives

Source: CDFI Fund and PolicyMap

Find eligible areas at go.bakertilly.com/nmtc-lihtc-mapping-tool

Program benefits

Economic benefits to recipient

- Additional capital to fund projects, including: new facilities, expansions or equipment
- Low cost of capital
- Below-market interest rates
- Flexible loan terms
- NMTC benefit does not typically need to be repaid

Community benefits

- Create additional economic development for the local community
- Attract and retain skilled workforce
- Bring new goods or services to underserved communities
- Capital investment to underserved low-income communities



Enhance economy



Create jobs



Improve low-income communities

Program obstacles

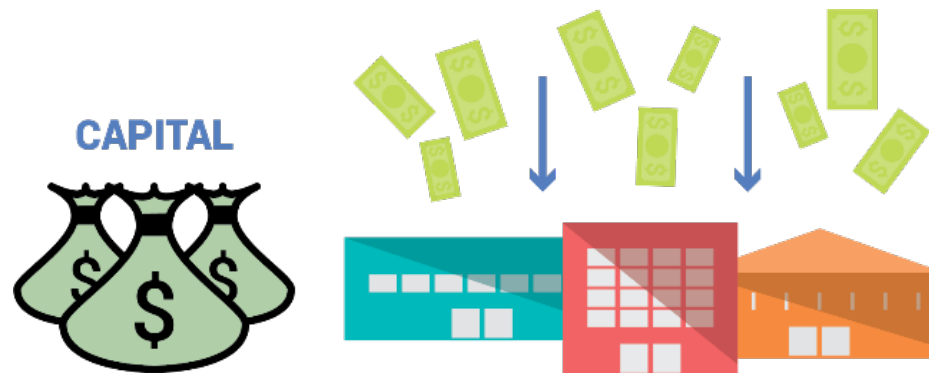
- Seven year forbearance agreement (the compliance period)
- No principal amortization for length of NMTC investment
- In the event of a default, required to re-lend funds to another QALICB for the duration of the compliance period



- Must be compliant for seven years with QALICB requirements
- Guarantee on QALICB status often required
- Additional reporting requirements

Program benefits

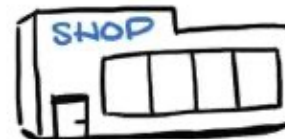
“Is it worth going through the process and its challenges if I can fund over 20 percent of my project with low cost capital?”



EXAMPLES

Good NMTC projects (assuming in NMTC eligible location)

- Rural community centers
- Rural healthcare clinics
- Manufacturing businesses
- Rural schools
- Infrastructure projects (energy, telecom, water/wastewater) which directly benefit low income communities



UPDATE

Status of NMTC program

- **Survived tax reform!**
- Program extended for five years at \$3.5 billion/year in Dec. 2015
- \$3.5 billion in awards announced in the second quarter of 2019
 - 10 of the 73 allocates that received allocation in the last round are minority or Native owned/controlled and received allocation totaling \$365 million
- One remaining round currently approved for \$5 billion
- Next round of awards (\$3.5 billion) anticipated to be announced in spring of 2020
- Extension of the NMTC program are high on the industry's radar for the near and extended term

NATIONAL ECONOMIC IMPACT

Status of NMTC program

- \$57.5 billion in NMTC allocation awarded to date with \$52.3 billion utilized to fund projects as of August 2019
- NMTC allocation that has not been utilized is largely committed to projects
- Since 2003, the NMTC program has created or retained nearly 750,000 jobs
- It has supported construction:
 - 51MM/SF of manufacturing space
 - 89MM/SF of office space
 - 65MM/SF of retail

PUEBLO OF LAGUNA

Laguna water and wastewater project

The 4Points Laguna project will repair, replacement and construction of new water and wastewater lines, wastewater lagoons and collection systems within all six villages; rebuild and expand the three current water sources on the Pueblo to allow for 60% additional capacity; and provide additional pressure into the lines in order to provide fire flow and an appropriate fire protection system throughout the Pueblo

- **Community benefit:** eliminate line breaks (which was a major issue, leaving the Pueblo without water for 12 days)
- **Total investor equity:** \$2,163,720
- **Total project cost:** \$7,300,000



KALISPEL TRIBE

Wastewater treatment and buffalo preserve

The Reservation for the Lower Kalispel people is in WA and has 400 enrolled members with 4,557 acres, which is partially used for buffalo herding. After ongoing problems with overtopping of its wastewater lagoons and the cost of hauling its wastewater to a facility off of the reservation, the tribe invested in a new wastewater facility that provides immediate cost savings and prevents environmental contamination.

- **Investor:** Wells Fargo
- **Total project cost:** \$10.7M
- **NMTC:** \$10.7M
- **Jobs:** Created and retained 18 full-time and created 25 construction jobs



NAVAJO NATION

NTUA wastewater treatment facility

Navajo Tribal Utility Authority (NTUA) provides electricity, natural gas, water, wastewater treatment, renewable energy and telecommunications services to homes and businesses throughout the Navajo Nation and neighboring communities.

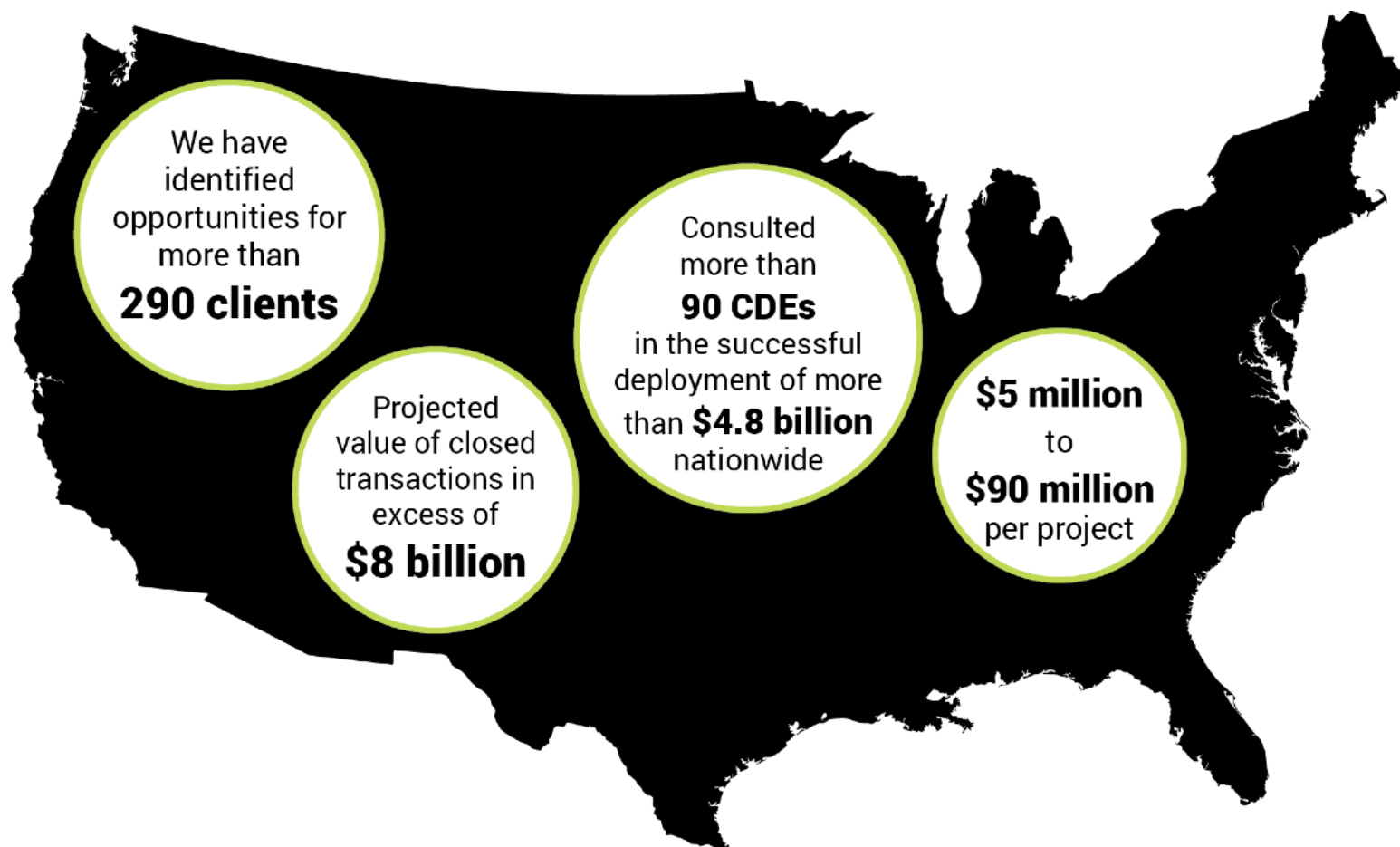
The new facility will process waste water in an environmentally sustainable manner without a rate increase on some of America's most low-income families.

- **NMTC:** \$12.8M
- **Jobs:** 27 construction and 2 permanent jobs
- **Impact:** Affordable, sustainable plumbing for low-income families in Navajo Nation



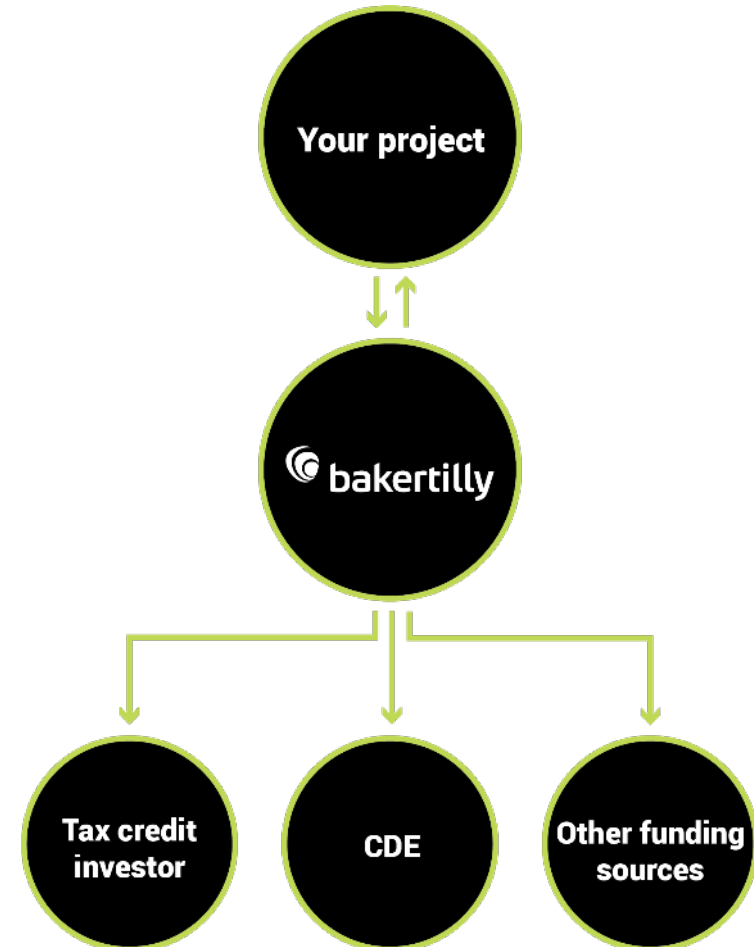
ABOUT BAKER TILLY

NMTC experience



Services for borrowers

- Determine NMTC eligibility
- Design transaction structure
- Analyze community impact
- Prepare executive summary for CDEs
- Identify CDEs
- Obtain term sheets and negotiate terms
- Discuss MTC structure implications
- Source the NMTC investor
- Prepare financial model
- Assist with closing



Working with CDEs, investors, and other funding sources on your behalf



CONTACT INFORMATION

Questions

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