



TFA

Monthly Newsletter

August 2017

IN THE NEWS

Given the interest in New Markets Tax Credits from many of our clients, we've asked our friends at Baker Tilly to contribute to this month's newsletter.

New Markets Tax Credits as a Final Piece of the Capital Stack

by Joel Laubenstein

Having been involved with New Markets Tax Credits ("NMTC") since the program's inception in 2000, Baker Tilly has seen the program and associated market participants evolve and mature significantly. One segment of the NMTC space that continues to be underserved is tribal communities. This is particularly troubling in light of the fact that many types of projects planned and developed by tribal organizations are excellent NMTC candidates for a number of reasons. One of the reasons tribes continue to be underserved is that NMTC can seem to be like threading a needle, given the complexity and unique requirements of the program at first appearance. In this article we attempt to help demystify the NMTC program and provide a basic understanding of how this program works, and how it may help get your tribe's project over the finish line from a funding perspective.

What Exactly are These Things? NMTC's are a Federal tax credit that

are allocated on a competitive basis to eligible projects. Once a project is allocated NMTC, they are monetized through a transaction structure where by a "tax investor" (such as a bank) provides capital to a project in exchange for the tax credits allocated. In today's market this source of capital can fund around 25% of the total project costs with grant-like money. In a typical year, \$3.5 billion of tax credits are allocated by the U.S. Treasury to be deployed in eligible projects.

A Project's Best Friend – The Community Development Entity The Department of Treasury doesn't directly allocate credits to projects, rather it awards them on a competitive basis to Community Development Entities ("CDE"s). CDE's come in a variety of flavors, from affiliates of state or local governments, to not-for profits and for-profit organizations. They all have a general mission of promoting economic development over a specific geographic area, sometimes with a spe-

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Signing of Navajo Generating Station Lease Positions Navajo Nation to Become an Energy Tribe

7/5/17 – NativeNewsOnline.net

Florida and Local Seminole Tribe Finally Reach an Agreement

7/6/17 – CasinoGuardian.co.uk

US House Passes Tribal Land Trust Bill

7/13/17 – TheWorldLink.com

How California is Leading the Way in Affordable Housing on Tribal Lands

7/17/17 – SCPR.org

California Tribe Prevails in Elk Grove Casino Land-Into-Trust Action

7/19/17 – WorldCasinoDirectory.com

House Approves Changes to Casino Gambling Compact

7/24/17 – SFGate.com

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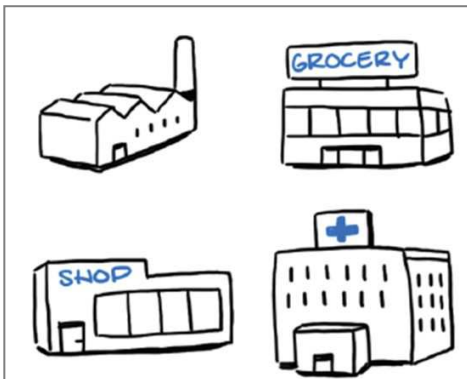
cific project focus. Baker Tilly has its own Community Development Entity, the Valued Advisor Fund. If a CDE writes a winning application to the US Treasury, it might be awarded \$40 million of the \$3.5 billion available, on average per year. Hundreds of CDE's compete for the limited resource on an annual basis via a competitive application process.

Location, Location, Location Before we get too far ahead of ourselves, it should be understood that it all starts with location. With few exceptions, your project must be located in an eligible census tract, and more specifically, a "severely distressed" census tract in order to have a reasonable chance of receiving allocation. This level of distress is related to government instituted metrics such as poverty rate, income level, and employment. Additionally, being located what is classified as a rural area increases your likelihood of being classified as "severe distress". An easy way to determine if your project meets these basic initial criteria is to go to our [online mapping tool](#) and type in your potential project's address.



Economic Impact OK, so my project is in a high distress, eligible location, I get the credits right? Wrong. The next

thing to take stock of is your project's economic impact in terms of helping low income people. How many full time permanent jobs are being created? Part time jobs? Construction jobs? What other benefits are going to the local community? The type of projects that typically are attractive NMTC projects are things such as community or wellness centers, medical facilities, grocery stores, and manufacturing businesses. So called "sin businesses" such as golf courses and gaming facilities do not qualify for NMTC.



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Timing Is Everything Now that you have determined that your project is in an eligible location and will result in a high economic impact for the local community, it's time to get your ducks in a row. Because your project is com-

peting with many other projects for NMTC allocation, having as many of the pieces of the NMTC puzzle in place at the time the allocation is released by the Federal government is extremely important.

Typical NMTC Process From Project Kickoff to Closing The importance of being ready to pursue and, if provided allocation, close a NMTC transaction cannot be understated and is typically the #1 reason why a NMTC doesn't close where an otherwise eligible, high impact project exists. For the fiscal year 2017 round of NMTC, we expect allocation will be awarded to CDE's in late Q4 2017 or early 2018. This means evaluating and discussing projects that you think will start construction in 2018 now to determine if NMTC are a fit for you.

About Baker Tilly
Baker Tilly is the 8th largest professional service network in the world, with 745 offices in 141 different countries.

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