New Markets Tax Credits

A tool to finance renewable energy projects in Indian Country

New Markets Tax Credits

New Markets Tax Credits can be used to finance a wide range of community economic development projects:

- New hospitals
- New schools
- New businesses
- Renewable energy projects

New Markets Tax Credits

- Created in 2000 to give private investors an incentive to fund economic development projects
- Intended to spark private investment in low-income communities
  - Low-income urban areas
  - Low-income rural areas
  - **Indian Country**

New Markets Tax Credits

A project qualifies for New Markets Tax Credit investments based on the characteristics of the project itself and its community.

- Project characteristics: anything but casinos, golf courses, race tracks, massage parlors, rental housing, liquor stores, farms and financial businesses.
- Community characteristics:
  - Median income is 80 percent or less of statewide median income
  - Poverty rate is 20 percent or greater

New Markets Tax Credits

The program is just now beginning to serve rural and Indian Country markets.

- Lack of sufficient allocation for Indian Country projects
- New focus on non-metropolitan investment
- **Now is the time to begin working with a Community Development Entity that serves Indian Country to put together your financing plan.**

New Markets Tax Credits

Economic development finance

- Debt
  - Bank loans
  - Tribal loans
- Equity
  - Third-party equity
  - Tribal equity
  - Grant funds
- Financing gap
  - You need some source of funds to close the gap

How Does a Transaction Work?

In an economic development project there is always a financing gap

The Developer

The Bank

•Personal funds?

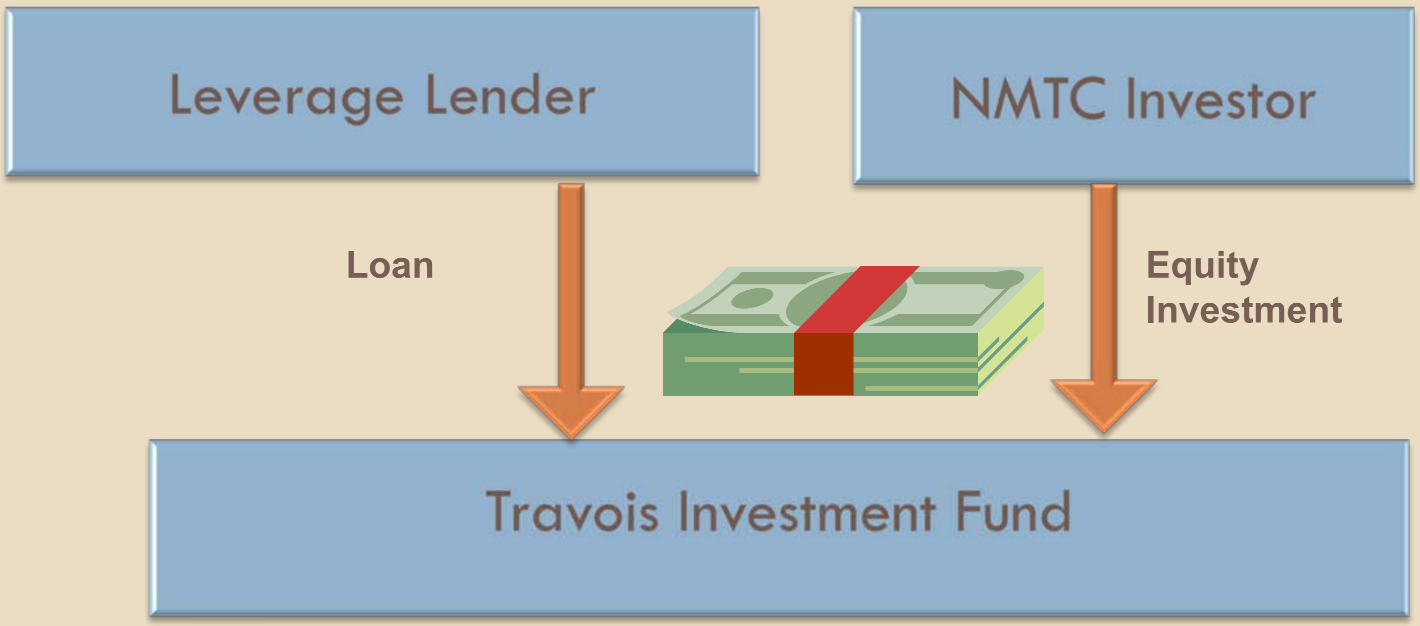
•High-cost mezzanine capital?

•Tribal funds?

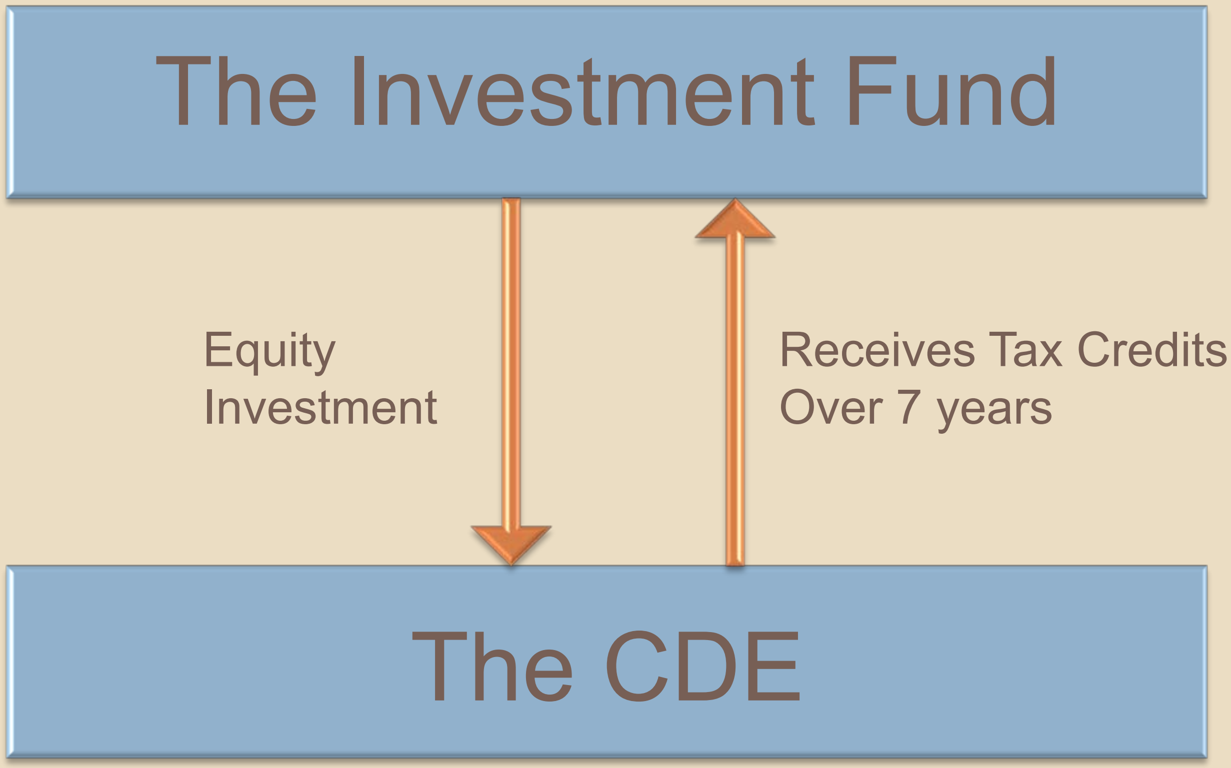
Market rate loan for 75 percent of project costs

The Business

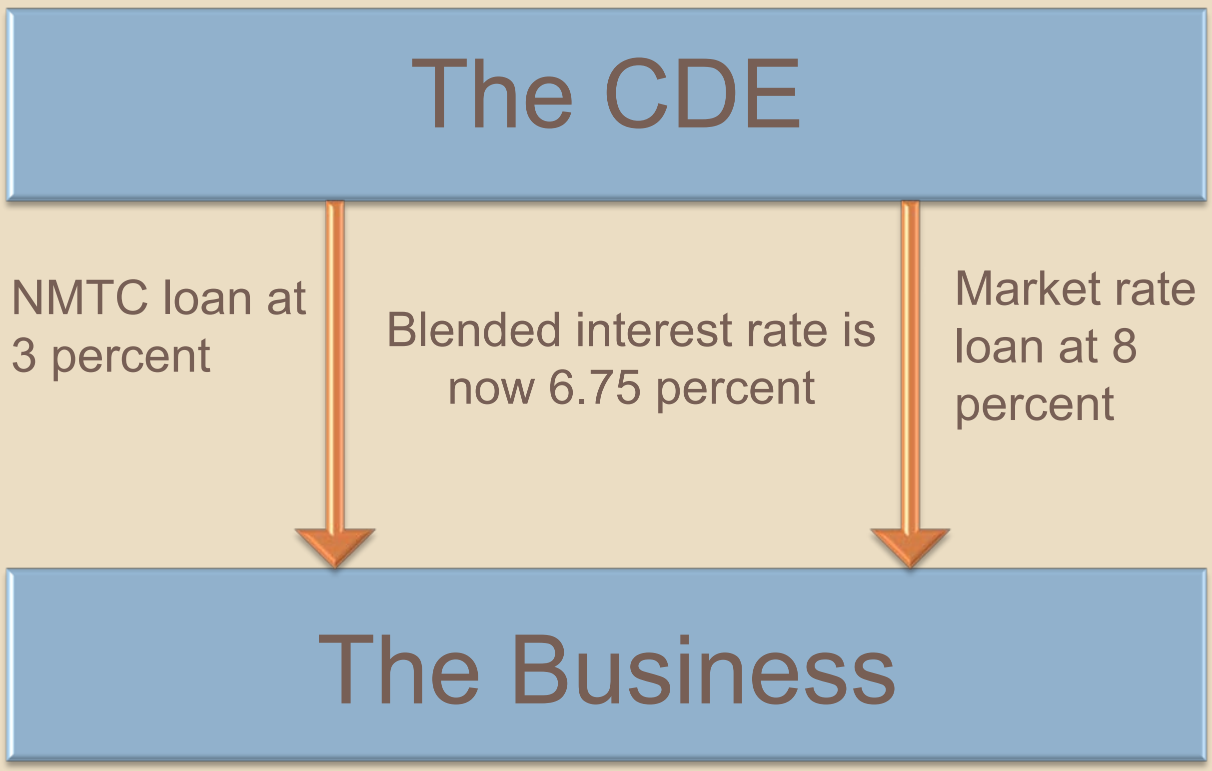
How is a NMTC Transaction Different?



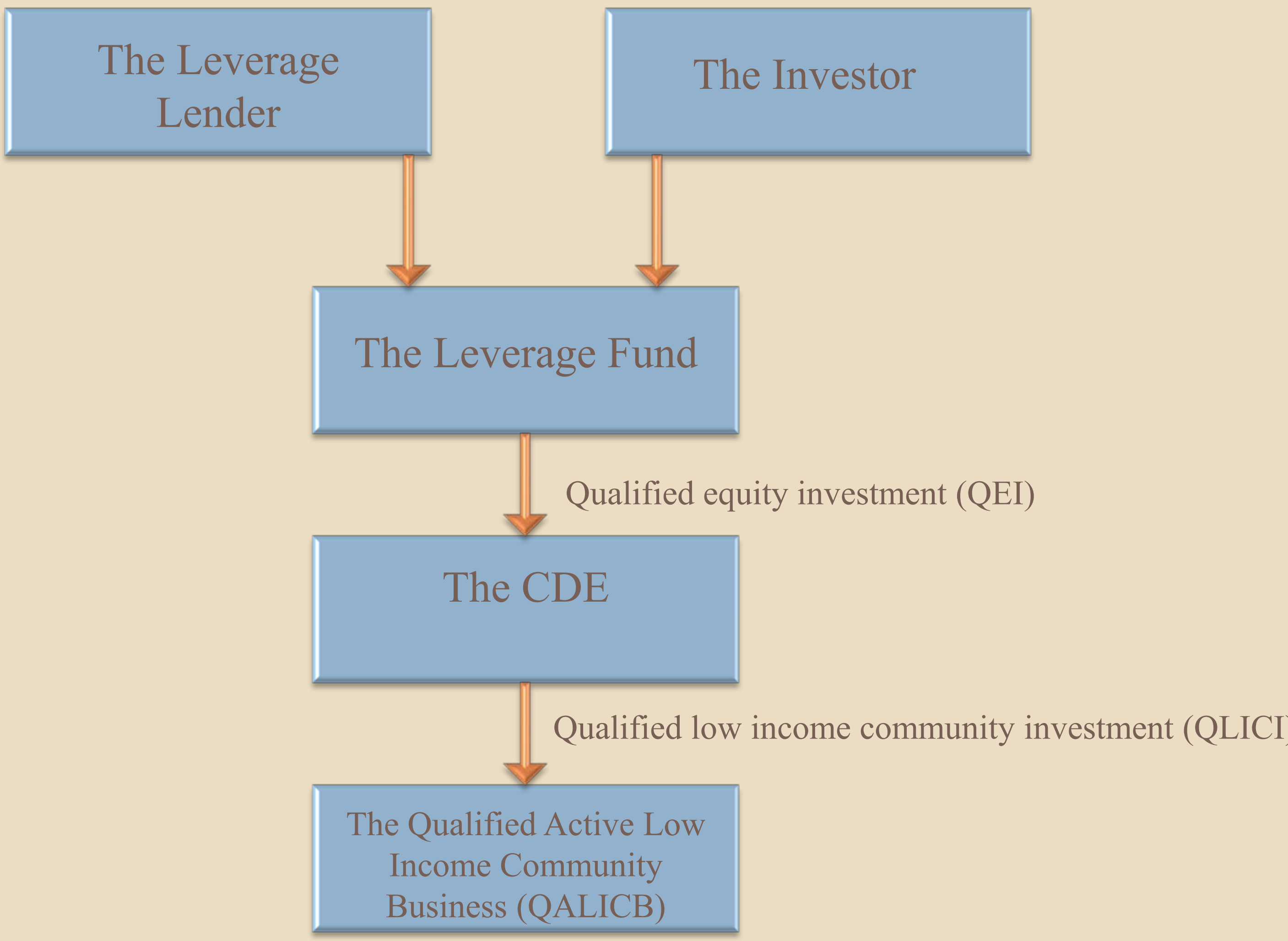
Investment Fund Required



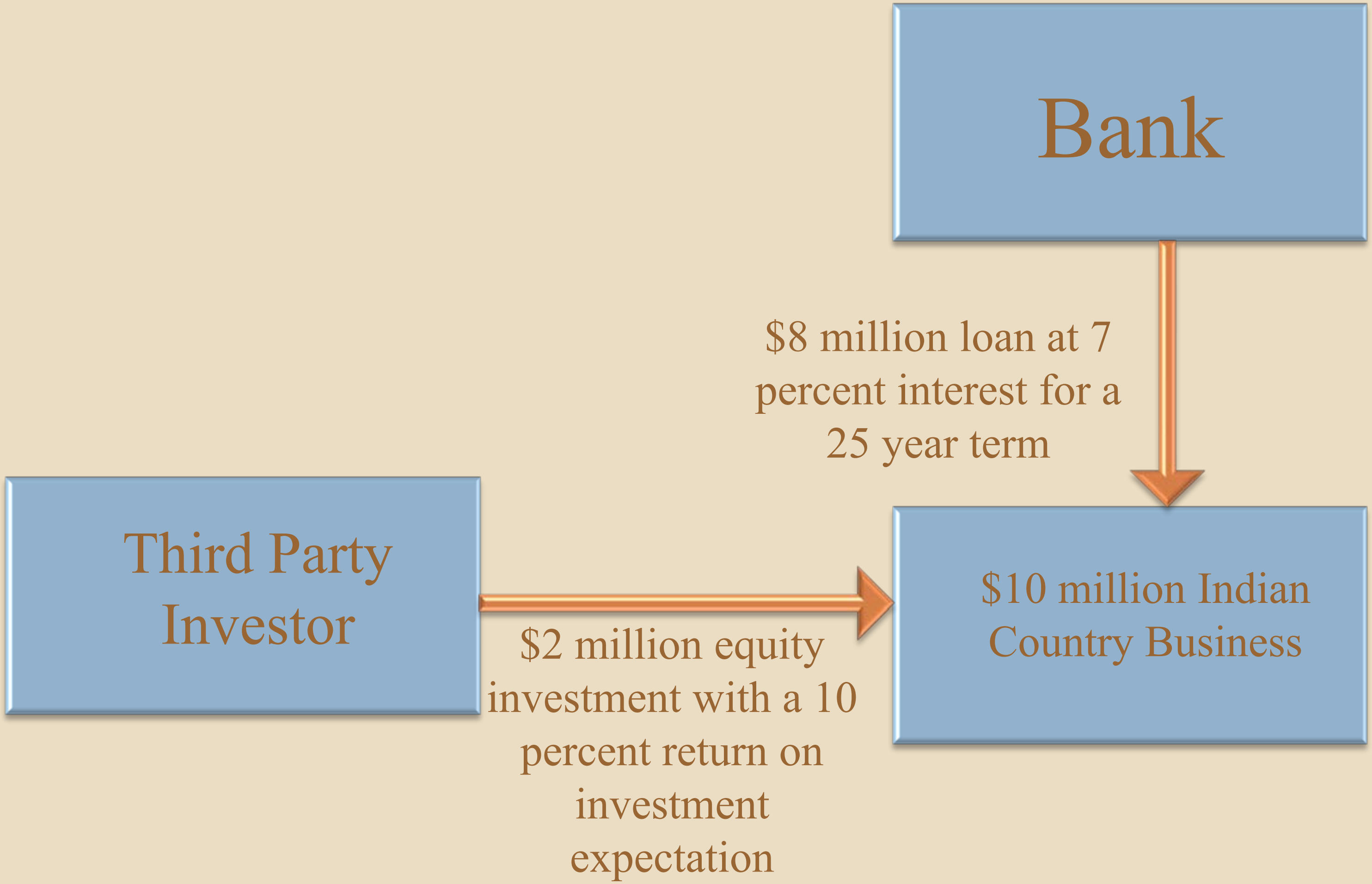
What is the impact of NMTCs on a project?



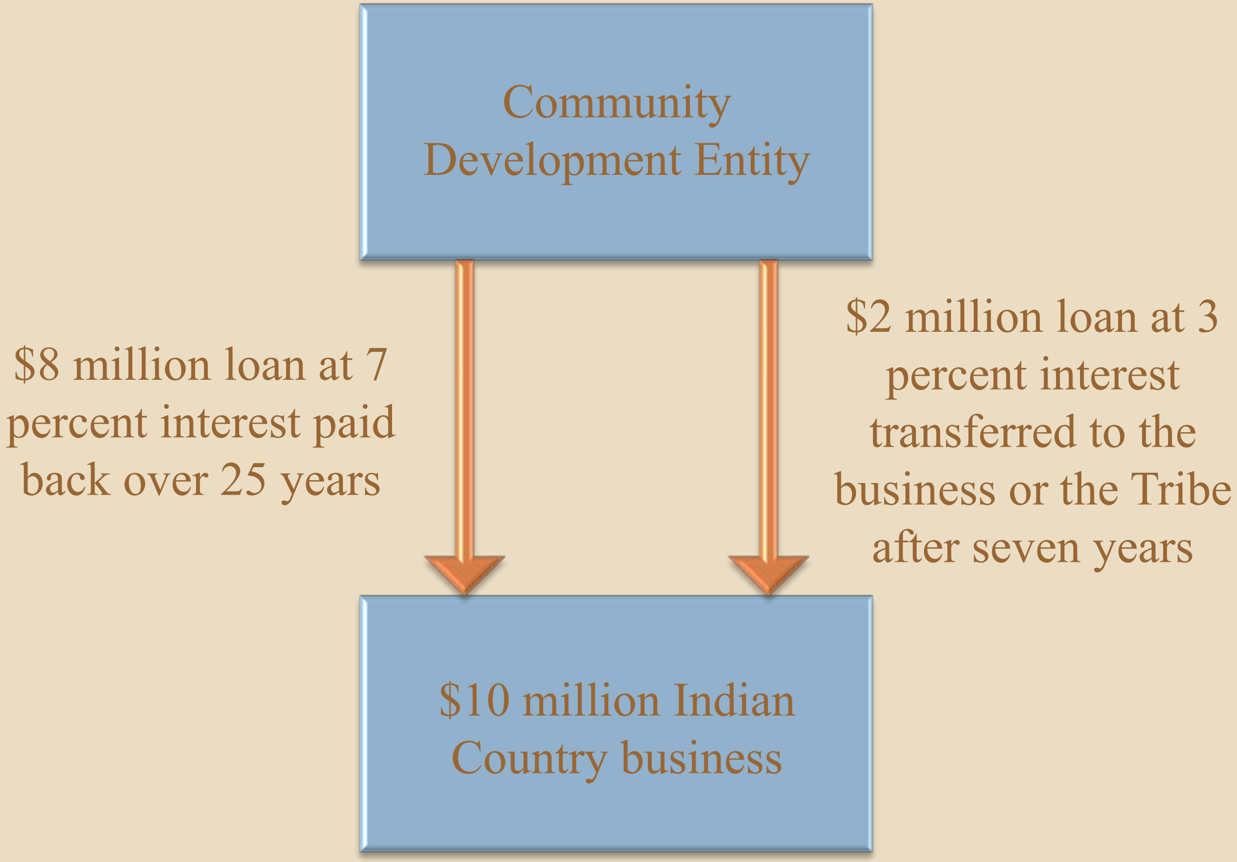
What is involved in a NMTC transaction?



Typical Commercial Transaction



New Markets Tax Credit Transaction



Parties involved in a NMTC Transaction

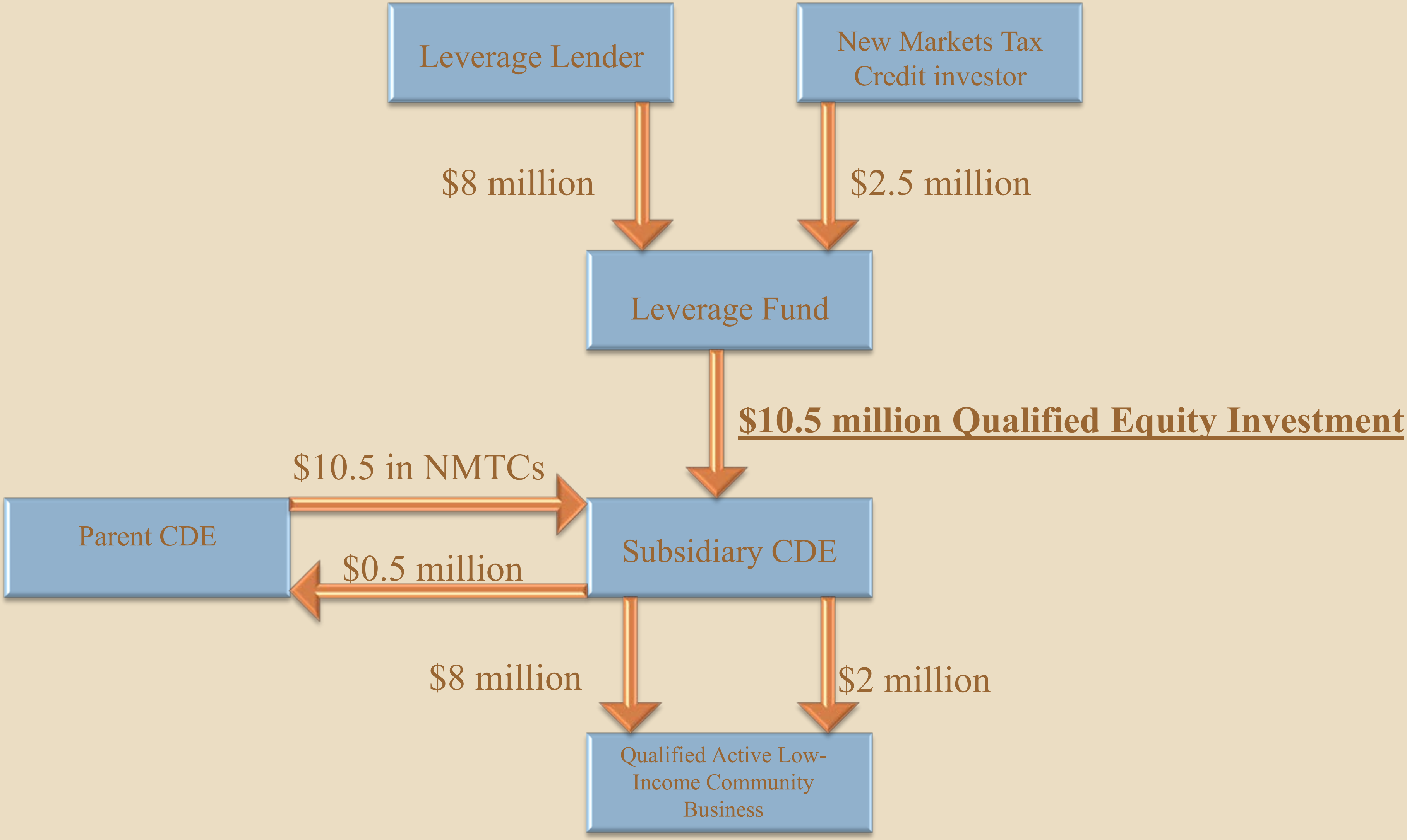
New Markets Tax Credit investor: invests roughly 25 percent of project value in exchange for a tax credit equal to 39 percent of the project value

Leverage lender: lends 80 percent of the project value expecting—after a seven-year period—full repayment of principal with interest

Leverage fund and subsidiary CDE: established solely as conduits for the investment

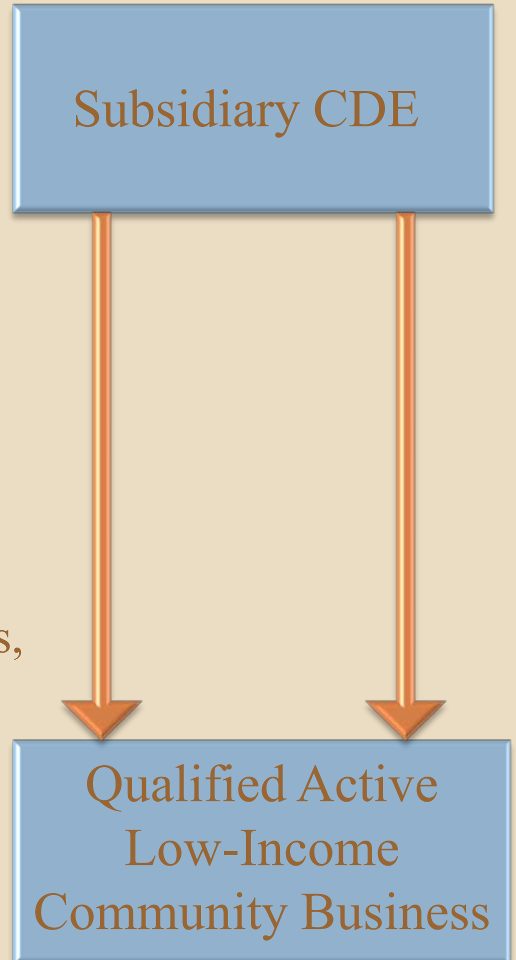
Community Development Entity: provides New Markets Tax Credit allocation to the project in exchange for a fee

Qualified Active Low-Income Community Business: the most important piece



The Transaction

Qualified Low-Income Community Investment



$8 million senior loan

•Carries a market interest rate

•Mirrors loan by leverage lender to leverage fund

•After an initial interest-only period of seven years, this loan must be paid back to leverage lender

$2 million subordinated loan

•Carries a below-market interest rate

•Equal to New Markets Tax Credit investor's investment in leverage fund minus fees

•Can be converted to equity or transferred to the business or its affiliate after seven years

Economic benefits of New Markets Tax Credit investment

•The interest rate on the $2 million subordinated loan can be decreased to 3 percent or less. That could help the business realize an interest rate reduction of 45 percent.

•The $2 million subordinated loan can be transferred to the business or converted to equity in a way that limits the business' long-term financing costs.

•The entire financing package can carry an interest-only payment period much longer than typically offered by lenders.

•The financing package is flexible; New Markets Tax Credit capital can be combined with loans, grants or Tribal funds.

•In the renewable energy industry, investor equity is often required to make projects feasible. New Markets Tax Credit financing can run parallel to other types of debt and equity financing.

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