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Layering the Capital Stack in Indian Country

Layering the Capital Stack in Indian Country



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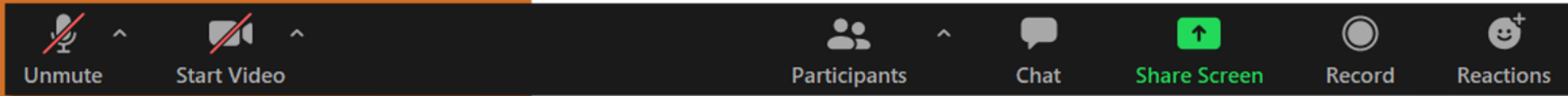
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CDFA Community Facilities Technical Assistance Program for Tribal Communities



4 Core Components

Direct Technical Assistance

One-on-one in-person technical assistance to tribal communities from a dedicated team of development finance experts, supported by CohnReznick.

Tribal Communities Project Marketplace

A virtual networking platform with a dedicated space for tribal communities to connect with potential financing partners, discuss best practices, and collaborate to address economic problems.

Tribal Finance Resource Center

A searchable online tool with information about tribal finance programs, resources, and best practices from communities.

Tribal Financing Webinar Series

A four-part online offering that explores the tools and approaches available to uplift native communities.

Direct Technical Assistance Eligibility



Have a question about eligibility?

Contact me at edelman@cdfa.net

Eligible Borrowers

Public Bodies
Community-based non-profit corporations
Federally-recognized Tribes

Eligible Areas

Rural areas with no more than \$20,000 residents (according to US Census Data).

Funding Priorities

Small communities with a population of 5,500 or less
Low-income communities (median household below 80% of the state nonmetropolitan median household income).

What is a Community Facility?

Healthcare facilities
Public facilities
Community support services
Public safety services
Educational services
Utility services
Local food systems



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Layering the Capital Stack in Indian Country



Laura McRae

Loan Program Manager,
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Layering the Capital Stack in Indian Country

Unlocking Financial Resources for
Economic Development

What is Capital Stacking?

Refers to combining various forms of financing, including debt, equity, and grants, to fund a project.

It helps diversify funding sources and optimize capital structure, reducing investors' risk and increasing the likelihood of success for economic development projects.

Why is it Critical in Indian Country?

Unique Considerations in Indian Country

- ▶ **Unique economic challenges**
- ▶ **Limited access to capital**
- ▶ **Trust Land Issues**
- ▶ **Need to align with tribal sovereignty**

Layering is essential —it allows tribal governments, businesses, and community organizations to leverage different sources of funds, each with its own risk and return profile.

When referring to Indian Country.....

- ▶ **Multiple Stakeholders:**
 - ▶ Federal and state governments
 - ▶ Tribal councils
 - ▶ Private Investors
 - ▶ Philanthropic organizations

Requires blending these sources creatively and strategically to unlock capital for development

Key Components of the Capital Stack

Grants

Debt

Equity

Subordinated Debt or Mezzanine
Financing

Federal and Tribal Resources

- ▶ Indian Loan Guarantee Program (BIA)
- ▶ Community Development Block Grants (CDBG)
- ▶ New Markets Tax Credits (NMTC)
- ▶ Tribal allocation of gaming revenue
- ▶ Tribal allocation of tribal enterprise revenues
- ▶ Leveraging various loan programs to fund housing, infrastructure, and business development projects

Private Sector Investments

Difficult to secure, but crucial for
sustainable growth



Impact investing



Tax Credits



Public - Private Partnerships (P3s)



Tribal Owned Enterprises - renewal
energy, tourism, or construction



Banks and credit
unions within Native

Philanthropic & Social Impact Funding

Foundations and impact investors

- Growing interest in addressing economic development, infrastructure, and social issues in Indian Country
- Focus on maximizing social returns
- Ideal partners for community development, education, and healthcare initiatives

Examples

- ▶ Mackenzie Scott Foundation
- ▶ Ford Foundation
- ▶ Northwest Area Foundation
- ▶ Any Native-focused philanthropic organization

Case Studies

Capital Stacking in Action:

50-year-old established All Nations Indian Health Center

Substantial revitalization of housing for seniors and reservation-based Indigenous population on the Apsáalooke reservation

Substantial expansion of a residential and sober living integrated health care facility to meet community needs

Charter schools on tribal lands to support academics in a culturally adapted manner, including native language immersion, financial literacy, and economic inclusion

Key Challenges & Risk in Capital Stacking



Aligning funders' different requirements and expectations



Federal Programs, private investors, and philanthropic organizations all have unique compliance requirements, reporting needs, and return expectations



Overleveraging debt.

Debt must be repaid.

Projects must ensure adequate cash flow to meet repayment obligations.

Operating Environments can have uncertain revenue streams.

Best Practices for Layering Capital in Indian Country

Build

Build Relationships

Leverage

Leverage Tribal Sovereignty

Diversify

Diversify Funding Sources

Create

Create a Strategic Plan

Bringing It All Together

In conclusion, capital stacking is a powerful tool for unlocking the diverse resources needed to drive economic development in Indian Country.

By combining federal, tribal, private, and philanthropic funding, we can create sustainable projects that benefit Native communities for generations.

Thank you for your time, your attention, and your interest. I'm happy to answer any questions you may have: lmcrae@nadc-nabn.org

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Layering the Capital Stack in Indian Country



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MMCDC BACKGROUND

- ▶ MMCDC is a NeighborWorks Organization and CDFI in NW Minnesota, now operating in several states
- ▶ Lending – Commercial, NMTC, Mortgage, Consumer
- ▶ Housing Development – SF, MF
- ▶ Property Management – own or manage 300+ units
- ▶ Native work – White Earth Investment Initiative subsidiary (Native CDFI)
- ▶ Community Services – VITA, HBE, Financial Literacy

RED LAKE GROCERY STORE

- ▶ Red Lake Band of Chippewa Indians – Northern Minnesota, 12,000 residents
- ▶ Red Lake Trading Post since 1986, Building in severe need of replacement and expansion
- ▶ Proposed Project: 27,000 sf grocery, dollar store, deli, c-store/ fuel center, bakery, laundry, + Subway
- ▶ Jobs: +45 Construction, +27 permanent, retain 30
- ▶ Red Lake Builders Construction Contractor

FINANCING CHALLENGES

- ▶ Tribal Corporation - Ogaakaaning Enterprises dba Red Lake, Inc.
- ▶ Project total development cost \$10M+
- ▶ Project in need of down payment capital to induce bank debt
- ▶ Collateral on Trust Land in Northern Minnesota
- ▶ Valuation – 50% of total development cost
- ▶ Tribe added two parcels, value still below TDC

FINANCING SOLUTION

- ▶ NMTC allocation - Travois CDE, Investor PNC
 - ▶ NMTC provided almost \$2.2M in net equity
 - ▶ NMTC Consultants – Real Estate Consultants, MMCDC
- ▶ Loan from Native American Bank, 20 yr term
 - ▶ CDFI Participant
 - ▶ 70% USDA Business & Industry Loan Guaranty
 - ▶ Unique “Source Loan” into NMTC project
- ▶ Ground Lease + Operating Lease - Red Lake, Inc (land owner), Red Lake Retail (borrower)



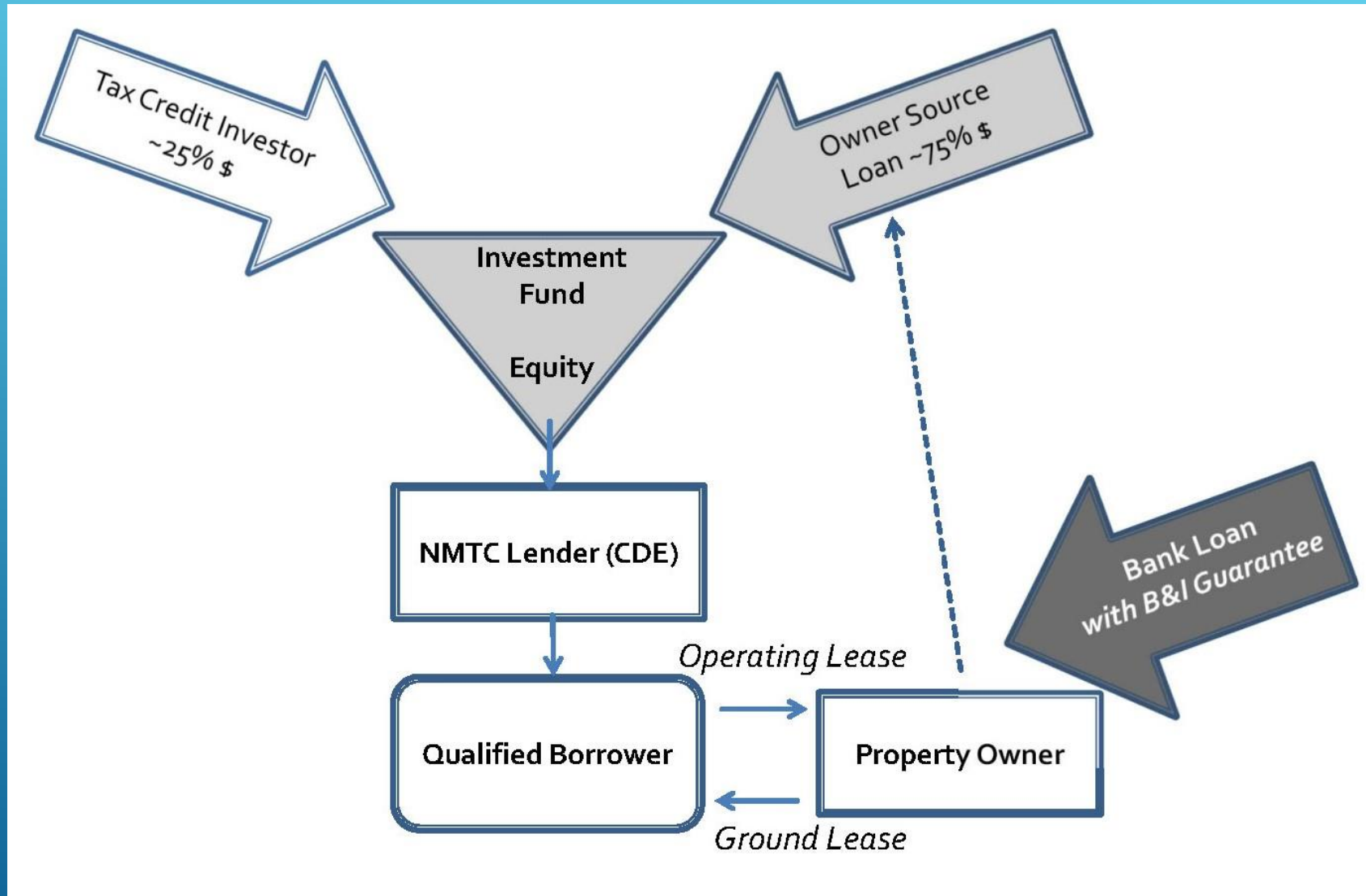
FINANCING SOLUTION, con't.



- ▶ Working Capital loan for equipment – MMCDC via HHS OCS
- ▶ Bridge loan for inventory – Oweesta (National Native CDFI) via Healthy Foods Financing Initiative
- ▶ Tribal Contribution
 - ▶ Equity
 - ▶ Additional Collateral
- ▶ Side Agreement to resolve BIA TAMS property title issues (about 4 months after closing)



NMTC STRUCTURE



RED LAKE GROCERY STORE





FINANCING COMPLEXITIES ON RESERVATIONS

- Collateral: Trust Land Can't Be Mortgaged; Valuation Gap
- Entity Status: Good Standing Certificates for Tribal entities
- Collection Rights: Tribal Sovereign Immunity Rights
- Gambling businesses often not eligible

WHAT CAN BE COLLATERAL?

- Equipment, Personal Property
 - Useful Life vs Loan Term
- Real Estate - Lease Assignment +
- Leasehold Improvement Mortgage
 - Length of Lease, renewals
 - Value Gap – Appraisal

TOOLS TO STRENGTHEN LOANS

- Indian Loan Guarantee and Insurance Program (ILGP)
- US Dept of Interior (aka BIA Guarantee)
- USDA B&I (Business & Industry) Guarantee
- SBA 7a Guarantee or 504 Loan
- New Markets Tax Credit Equity
- Subordinate Loans

EVIDENCE OF ENTITY STATUS

- BIA – Division of Tribal Government Services
 - Directory of Tribal Leaders – semi-annual
- BIA – Office of Federal Acknowledgement (OFA)- Fed Reg.
 - Indian Entities Recognized and Eligible to Receive Services from the U.S. Bureau of Indian Affairs
- State SOS May Have List of State Tribes

WHAT IS SOVEREIGN IMMUNITY?

- A Sovereign state is one that is independent from all other authority
- Right and power to regulate its internal affairs without foreign interference
- Indian Tribes are sovereign entities
- Limited Waiver of Sovereign Immunity Possible

TRIBAL SOVEREIGN IMMUNITY

Tribal sovereignty rests on general tenets:

- Tribes have unlimited authority over internal tribal affairs;
- Tribes are subject to the power that Congress has over them;
- Tribes are immune from state law;
- Tribes cannot be sued absent their express consent or waiver of their immunity;
- Does not extend to individual members.

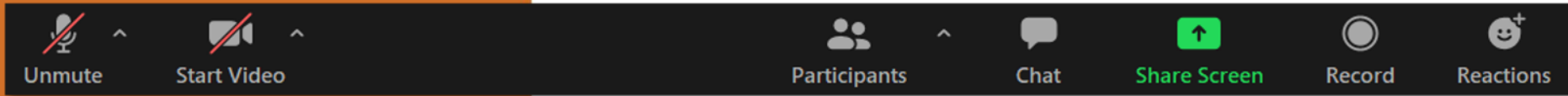
WAIVER OF IMMUNITY - LENDING

- Waiver of sovereign immunity ... for claims or actions related to the loan documents;
- Any suit related to these claims may be brought in state or federal court;
- Waiver of requirement to exhaust tribal remedies in any tribal court or other tribunal of the Band.

ELIGIBILITY OF TRIBES

- Businesses involving gambling operations often not eligible for federal funds
- Portion of Business is eligible for NMTC if:
 - It would be eligible if it were separately incorporated
 - Proceeds are used for separate portion of business
 - Portion of business has separate books and records

Audience Questions



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2:00 PM - 4:00 PM Eastern

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November 26, 2024
2:00 PM - 3:30 PM Eastern

CDFA Equitable Lending Learning Series: Equitable Lending Assessment Tools & Spreadsheet Solutions

December 10, 2024
1:00 PM – 3:00 PM Eastern



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- Equitable Lending
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- Workshops in Federal Grant Writing and GGRF
 - And more!

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Contact Us



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