Key takeaways

Infrastructure planning and financing require a long-term approach and a focus on the Tribe’s overall mission, vision and strategy.

Tax-exempt financing for infrastructure

Federally recognized Tribal governments and their political subdivisions are authorized to issue tax-exempt debt to fund a qualified project or need. The advantage of using tax-exempt debt as opposed to taxable borrowing is that it helps reduce a Tribe’s borrowing costs: since lenders and investors do not pay federal income tax on interest payments received, Indian Tribes are able to borrow at lower tax-exempt rate levels.

Under the federal tax code, Indian Tribes may use tax-exempt proceeds for projects that serve essential government functions, including:

- Public administration facilities
- Roads and bridges
- Housing
- Broadband systems
- Public safety
- Water and waste facilities
- Power
- Recreation and community facilities

In short, Nations have access to tax-exempt financing for many of the same types of services that are customarily performed by state or local governments.

Investments in public buildings, roads, bridges, housing, water and waste facilities, and other services play a vital role in improving the quality of life in Indian Country. Every Nation depends on a strong infrastructure to help current and future generations grow and prosper. In many cases, tax-exempt solutions enable Tribes to meet their infrastructure financing needs and provide essential services to members at the lowest possible cost.

Tax-exempt financing can enable Nations to build needed infrastructure and provide public services to members at the lowest possible cost.

Financial partners who understand Native America are well positioned to provide valuable advice and structure optimal credit solutions.
### Major tax-exempt financing alternatives

<table>
<thead>
<tr>
<th>Financing Type</th>
<th>Description</th>
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</thead>
</table>
| **Loans**     | - Construction loan: Financing for project construction; the lender monitors construction and makes distributions of loan proceeds as construction progress is verified.  
- Multi-draw term loan: Credit that provides an initial draw period when money can be advanced incrementally—usually under interest-only terms. Converts to a repayment period where draws end and principal payments begin.  
- Single-draw term loan: Funding is provided in one disbursement, after which principal and interest payments are due periodically until maturity.  
- Operating line of credit: A facility that establishes a maximum credit commitment for a specified period; advances of funds to the borrower reduce remaining availability and require periodic interest payments; principal payment re-establishes credit availability. |
| **Leases**    | - Lease purchase financing to acquire technology, equipment or other assets.  
- Payment schedules can be aligned with the Tribe’s budget and the useful life of the asset being financed. |
| **Bonds**     | - General obligation: No particular revenue stream or assets are pledged to secure the borrowing.  
- Revenue obligation: Specific revenues are pledged to secure the bond.  
- Asset-backed obligation: Borrowing is secured by one or more assets.  
- Bonds may have longer maturity than loans. |

A Tribe can use a combination of borrowing vehicles to fund an infrastructure initiative. For example, during the construction phase, a Nation may use a short-term bank facility that enables it to borrow funds only as needed. As the projection nears completion, the Tribe can then secure long-term bond financing.

**Geoff Urbina, Managing Director, KeyBanc Capital Markets**

Federally recognized Indian Tribal governments and their political subdivisions may take advantage of the benefits of tax-exempt financing to pay for numerous kinds of public services.
Thorough planning is essential to the success of any infrastructure initiative. Long before a shovel breaks the ground for an infrastructure project, a Tribe must do the hard work of planning to (1) define the Nation’s infrastructure priorities, budgets and projections, and (2) determine the Tribe’s financial capacity as a borrower. Sound planning helps ensure that initiatives are focused on the unique requirements of each community and approached in realistic and cost-effective ways.

Mike Lettig, National Executive of KeyBank’s Native American Financial Services

Infrastructure planning: priorities and financial capacity

Define infrastructure priorities, budgets and projections

At the heart of every Nation’s infrastructure planning are its overall mission, vision and strategy. These statements provide a clear articulation of a Tribe’s goals for meeting its members’ needs for administration, housing, water, waste treatment, roads, bridges, power and other services. A master plan detailing long-term initiatives and priorities for infrastructure can serve as a multi-year road map for completing projects in succession to improve community services.

After the Tribe’s infrastructure priorities are defined, the next step is determining or validating project budgets and projections, including:

- Economic assessments and cost-benefit analyses
- Feasibility studies
- Project design and engineering
- Permitting, regulatory and environmental requirements
- Coordination with other governments as needed

“The early planning stage is the time to ensure that everything is considered and mapped out,” said Ben Rechkemmer, Senior Banker of KeyBank’s Native American Financial Services.

“For example, are all the power, sewer and water connections in place for a new facility? Will existing roads and bridges be able to accommodate increased traffic for buildings that are being constructed? We find that it’s a good idea for Tribes to work with qualified companies at this juncture to help with the numbers and determination of project feasibility.”

Determine borrowing capacity

The second major step in the planning phase is determining the Tribe’s borrowing capacity. The goal is to integrate the infrastructure project process with debt planning to ensure an appropriate balance is struck between a Nation’s needs and its ability to pay for them.

The assessment of a Nation’s debt capacity should include:

- Financial projections over a multi-year period under varying scenarios of revenues and expenses
- Incorporation of infrastructure project budgets
- Evaluation of cash flow reliability to service debt
- Consideration of financing options, including funding from government sources and available cash
- Projections of population changes and trends in utilization of services

“Establishing the Tribe’s borrowing potential involves comprehensive financial and credit analyses,” said KeyBank’s Lettig. “It’s essential that the Nation works with experienced financial professionals to get the best possible insights. The Tribe’s financial partner has to be knowledgeable on Tribal governance, dispute resolution processes and collateral issues that are unique to Indian Country. In addition, a team with deep experience in Native America can recommend debt and financial policies to help guide a Tribe over the long term.”

Creating the optimal financing package

State and local authorities have taxing authority that enables them to pay for their facilities and services without having to rely on revenue generated from the specific service. Indian Tribes typically don’t have the capacity to tax Tribal members and therefore must use other revenue sources to service the debt incurred for infrastructure.
“A Tribe may turn to revenues from an income-generating asset such as a casino to pay for a tax-exempt long-term general obligation bond,” said Urbina. “The need to harmonize Financial Accounting Standards Board (FASB) rules for the private activity with General Accounting Standards Board (GASB) rules for the government service adds a significant layer of complexity to the financing. It’s all doable, but Tribes need to work with seasoned financial professionals to ensure that it comes together smoothly.”

Tribes and Tribal enterprises have been able to expand their financing options with taxable and tax-exempt credit facilities. Projects that have both tax-exempt qualified components, such as a hotel or parking structure, and unqualified components, such as casino construction components, can benefit from a combined taxable and tax-exempt financing structure.

“By combining both taxable and tax-exempt credit facilities into one credit agreement, Tribes have achieved reduced borrowing rates and issuance costs along with a streamlined documentation process,” said Rechkemmer. “These combined taxable and tax-exempt financings can be provided by single bank or by a syndicate of banks, depending on the size of the total financing.”

While the vast majority of tax-advantaged borrowing is for purely governmental purposes, Indian Tribes may also use tax-exempt bonds to finance economic development under the American Recovery and Reinvestment Act of 2009. Subject to a nationwide cap of $957.5 million and an allocation cap per Tribe of $191.5 million for the period commencing August 1, 2016, Tribal governments may seek authorization to issue tax-exempt bonds to fund certain economic development activities.

Meeting your needs for infrastructure financing

One of the first financial institutions to create a dedicated team to serve Native American communities, KeyBank’s Native American Financial Services Team is sharply focused on helping Indian Country meet its infrastructure and development needs. Our specialists have structured a variety of financings to meet the unique needs of Tribal clients, including:

<table>
<thead>
<tr>
<th>Financing Amount</th>
<th>$15,000,000</th>
<th>$38,250,000</th>
<th>$52,900,000</th>
<th>$22,900,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facility</td>
<td>General-obligation tax-exempt financing</td>
<td>Multi-draw taxable term loan/new markets tax credit</td>
<td>General obligation bonds</td>
<td>Revenue bonds</td>
</tr>
<tr>
<td>Purpose</td>
<td>Tribal administration building</td>
<td>Tribal administration building</td>
<td>Public safety/judicial facility</td>
<td>Gaming facility (refinance)</td>
</tr>
<tr>
<td>Terms</td>
<td>18-month interest only, 7-year maturity, 10-year amortization</td>
<td>18-month interest only, 10-year maturity, 20-year amortization</td>
<td>15-year maturity, fully amortizing</td>
<td>12-year maturity, fully amortizing</td>
</tr>
<tr>
<td>Collateral</td>
<td>Pledge of excise tax revenues (cigarette and fuel)</td>
<td>Pledge of investment accounts</td>
<td>General obligation of the Tribe</td>
<td>Priority distribution payment (gaming revenue)</td>
</tr>
</tbody>
</table>

At KeyBank, we take a long-term-relationship approach, focusing on an overall strategy to achieve the most cost-effective financing consistent with your Tribe’s objectives. We provide a full range of debt and financing options, both tax-exempt and taxable.

For more information, speak with your KeyBank Relationship Manager or visit Key.com/nativeamerican.

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