



Unlocking the Economic Potential for Native American Tribes

Native American Tribes in the U.S. hold the keys to great financial opportunity. Yet, evaluating which doors to open can be challenging. Tribal councils and economic development corporations (EDCs) receive an onslaught of inbound investment proposals, but not all potential partners are acting in good faith or can deliver on their promises.

Tribal leadership must also balance the risks and rewards of an investment opportunity with how it fits into the values of the Tribe and creates jobs and other benefits for its members. Bear in mind that private equity or venture capital players typically target short-term investment and distressed assets. In contrast, your Tribe is probably focused on longer-term investments, much like a family office or wealth fund.

Sound investment choices start with planning

Making investment choices that will diversify your Tribe's holdings and deliver sustained returns begins with a strong framework for decision-making:



Set a strategic plan.

Begin by laying out your goals and the timeframe. Consider what assets or advantages your Tribal Council already controls, such as gaming or natural resources, and what returns it needs from future investments.



Create a governance structure and clear channels for communication.

Develop a system of checks and balances between your Tribal Council and your EDC with a board of directors to act as an intermediary. The board should hold monthly board meetings to evaluate the EDC's actions, as well quarterly meetings with the Tribal Council and EDC to chart progress toward your goals. In between these set meetings, regular communication is paramount. None of the entities should have unilateral decision-making power.



Incorporate your Tribe's values.

While outlining the economic criteria of a deal can be straightforward, the impact to the community is harder to capture and articulate. Make sure potential deal partners understand the values and traditions of your Tribe and offer positive outcomes for your members, such as jobs, updated infrastructure, or increased housing.



Establish third-party relationships that can advocate for your Tribe.

Build a network of trusted referrers among your bank representatives, attorneys, and financial advisors. Share your investment criteria so professionals in the investment industry can bring you vetted deals.

Getting deals in place

As your Tribal EDC's investment evaluation structure becomes more sophisticated, your EDC will shift from waiting for opportunities to come in to proactively telling the market what types of deals it wants. Yet, your Tribe's financial arm must still be prepared to assess potential opportunities and say "No" to those that don't meet your strategic goals.

Partnering with a Tribal EDC is very attractive for investors because of the tax-exempt and tax credit programs available, such as New Market Tax Credits and Indian wages and insurance credits. Investors also recognize the advantages of gaining preferential access to federal contracts and subsidized financing.

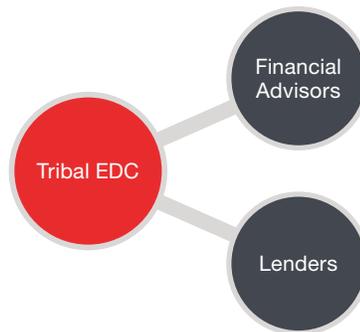
However, some bad-faith actors may assume your Tribe is naive and try to take advantage. Start by conducting thorough due diligence. Go beyond financial records and pro forma plans, and examine how the opportunity stacks up from the standpoint of operations, human resources, and alignment with your Tribe's goals and values.

Next, have realistic expectations. If your Tribe is accustomed to the high returns of gaming investments, bear in mind that those returns are not the norm for all investment types. While creating other kinds of investment cash-flow streams can be time-consuming and generate only low to moderate returns, diversification offers the benefit of offsetting the cyclical and seasonal returns of gaming.

When a deal has been selected, your Tribal EDC should work closely with financial advisors and lenders to take advantage of all the unique financing types and tax advantages available. If your organization is making an equity contribution, make sure you understand the risks and start with the most conservative financing solution.

Tribal Economic Development (TED) bonds overview and what's next

Tribes and investors alike can benefit from using Tribal Economic Development Bonds, or TED Bonds, which are tax-exempt bonds that Indian governments can issue to finance economic development projects that would not otherwise qualify for tax-exemption. TED bonds were created by the American Recovery and Reinvestment Act of 2009 (Recovery Act), which established a total volume cap of \$2 billion for bond allocations. The federal government doesn't provide any



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funding under the TED bond program; rather, it offers a tax incentive to those who provide capital for Tribal economic development projects.

That is, if your Tribe is considering a qualifying project, you have the option of applying to the IRS for a TED Bond allocation. Then, you will receive the authority to borrow the allocation amount from private investors or use it to secure tax-exempt financing from a bank or a group of banks.

TED bonds allow Tribes to use tax-exempt financing for a wider variety of projects than allowed with conventional public bonds.

Where traditional public bonds can be used to finance only a limited range of governmental functions, TED bonds can be used to obtain tax-exempt financing even for commercial projects, such as hotels, entertainment venues, golf courses, and more, as long as the project is located on Indian Tribal land and is structurally independent of a gaming facility.

Since TED bonds were created in 2009, many Tribes have applied to the IRS and received bond allocations representing the amount of financing that could qualify for TED-covered tax-exempt financing. As a result, the initial \$2 billion cap established for total allocations has shrunk considerably. The total published available volume cap for the period commencing June 1, 2019, is \$182,605,445.95. Now that the program is nearing 10 years old, and the available volume cap is dwindling, some Tribes are lobbying for their representatives to increase the volume cap.

KeyBank Native American Financial Services

One of the first financial institutions to create dedicated teams serving Native American entities, KeyBank's Native American Financial Services works with over 70 Tribes and corporations today. We understand the complexities each Nation faces and can develop customized solutions, including gaming and non-gaming economic development, natural resources and energy, infrastructure, and agriculture.

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