



New Markets Tax Credits

Program overview

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With You Today



Anita Shah
Principal
Tribal & Gaming

anita.shah@bakertilly.com



Joel Laubenstein
Principal
Development and Community Advisory

joel.laubenstein@bakertilly.com



Nate Voss
Principal
New Markets Tax Credit Consulting

nate.voss@bakertilly.com



Ryan Luetkemeyer
Principal
Tribal & Gaming

ryan.luetkemeyer@bakertilly.com

Today's discussion

1 NMTC program overview and benefits

2 Example Projects

3 Current Market

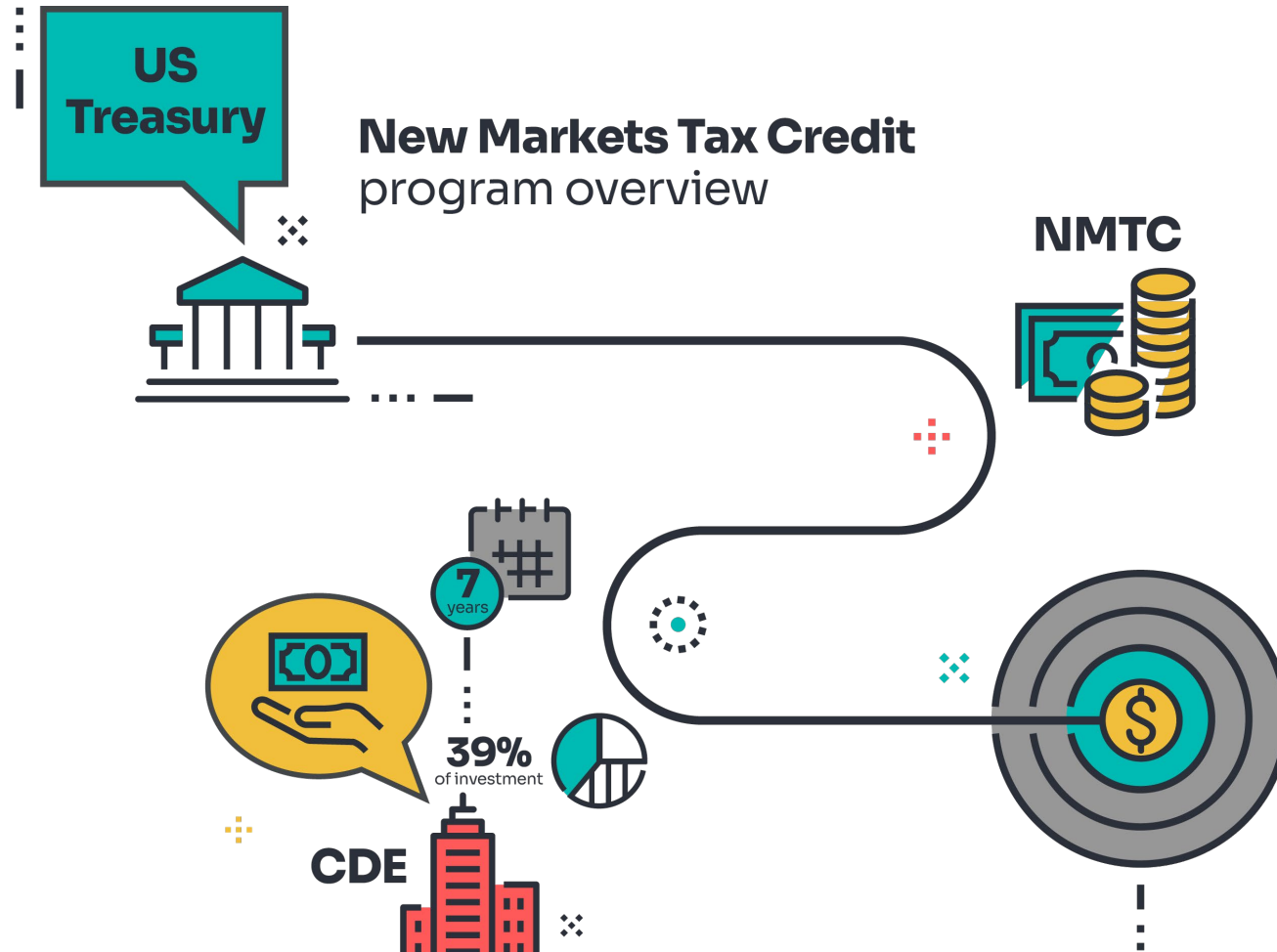
4 Accounting Considerations



NMTC Overview and Benefits

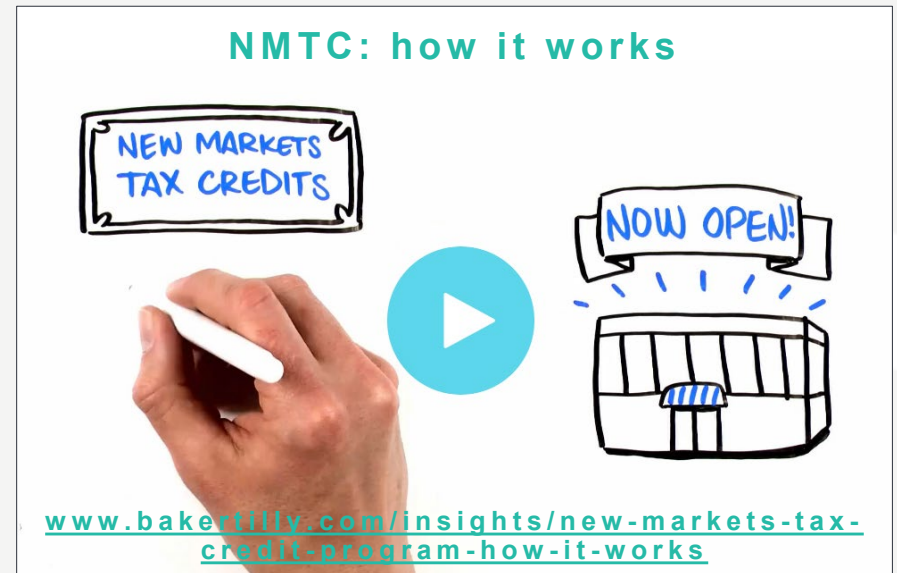


Program overview



Program overview

- CDEs have authority to sell the federal tax credits to third party investors, where the proceeds are used to fund investments in qualifying not-for-profits, operating businesses and real estate projects located in low-income communities
- CDEs use a competitive process to search for and identify qualifying businesses and real estate developments
- The proceeds can fund approximately **20%** of project cost





CRITICAL DISTINCTIONS

An allocation does not equal cash

Unlike other tax credit programs, the NMTCs do not “belong to” the qualified borrower. It was awarded to the CDE, to be monetized by an investor, with the proceeds loaned to a business.

THE MATH (ESTIMATED)

How it works

| | |
|--|--------------------|
| NMTC allocation | \$10,000,000 |
| NMTC rate | 39% |
| Tax credits | \$3,900,000 |
| Investor monetization (\$0.78 per credit) | \$3,042,000 |
| Less: estimated CDE fees and closing costs | \$900,000 |
| Net NMTC cash to the project | \$2,142,000 |

Important: an allocation does not equal cash

What makes a good QALICB candidate?

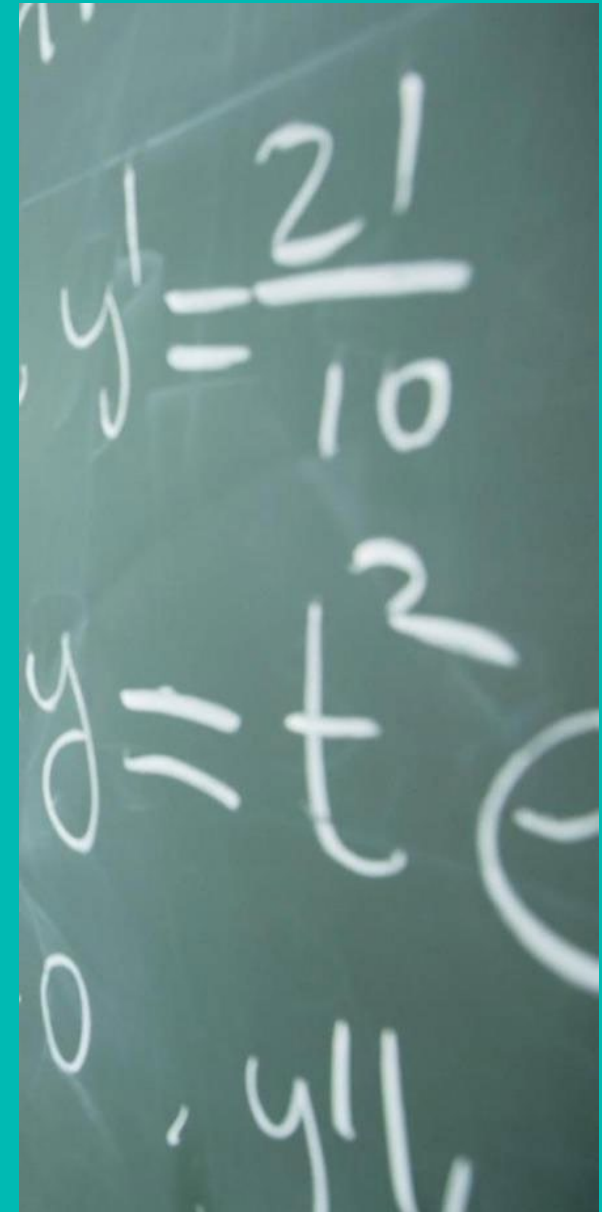


Any of the following:

- Poverty > 30%
- Median income < 60% statewide
- Unemployment > 1.5 times national average
- Non-metropolitan county
- Two of any secondary criteria (e.g.)
 - NMTC Native Areas
 - Brownfield
 - Federally medically underserved
- Tangible community benefit – measured by quality job creation, providing unmet goods and services to low-income communities, environmentally sustainable construction, etc.
- Part of an existing plan for economic revitalization
- “But for” test – NMTC fills a funding gap
- Other sources of funding are committed, and approvals are all in place

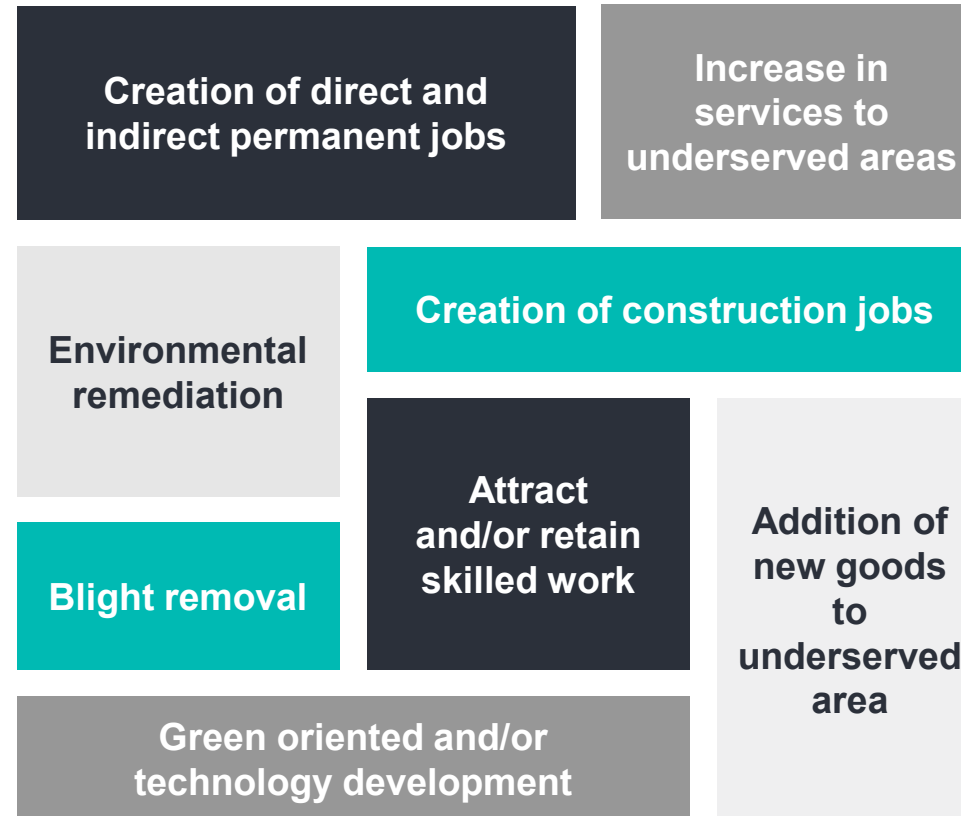
Good NMTC Project Types

- Community Centers
- Manufacturing
- Healthcare
- Schools



IS MY PROJECT ELIGIBLE?

Attractive project characteristics overview



Program benefits

Economic benefits to recipient

- Additional capital to fund projects, including new facilities, expansions or equipment
- Seven years interest only
- Below market interest rates
- Flexible loan terms
- NMTC benefit does not typically need to be repaid

Community benefits

- Create additional economic development for the local community
- Attract and retain skilled workforce
- Bring new goods or services to underserved communities
- Capital investment to underserved low-income communities



Qualified Active Low-Income Community Business/borrower

Qualified businesses

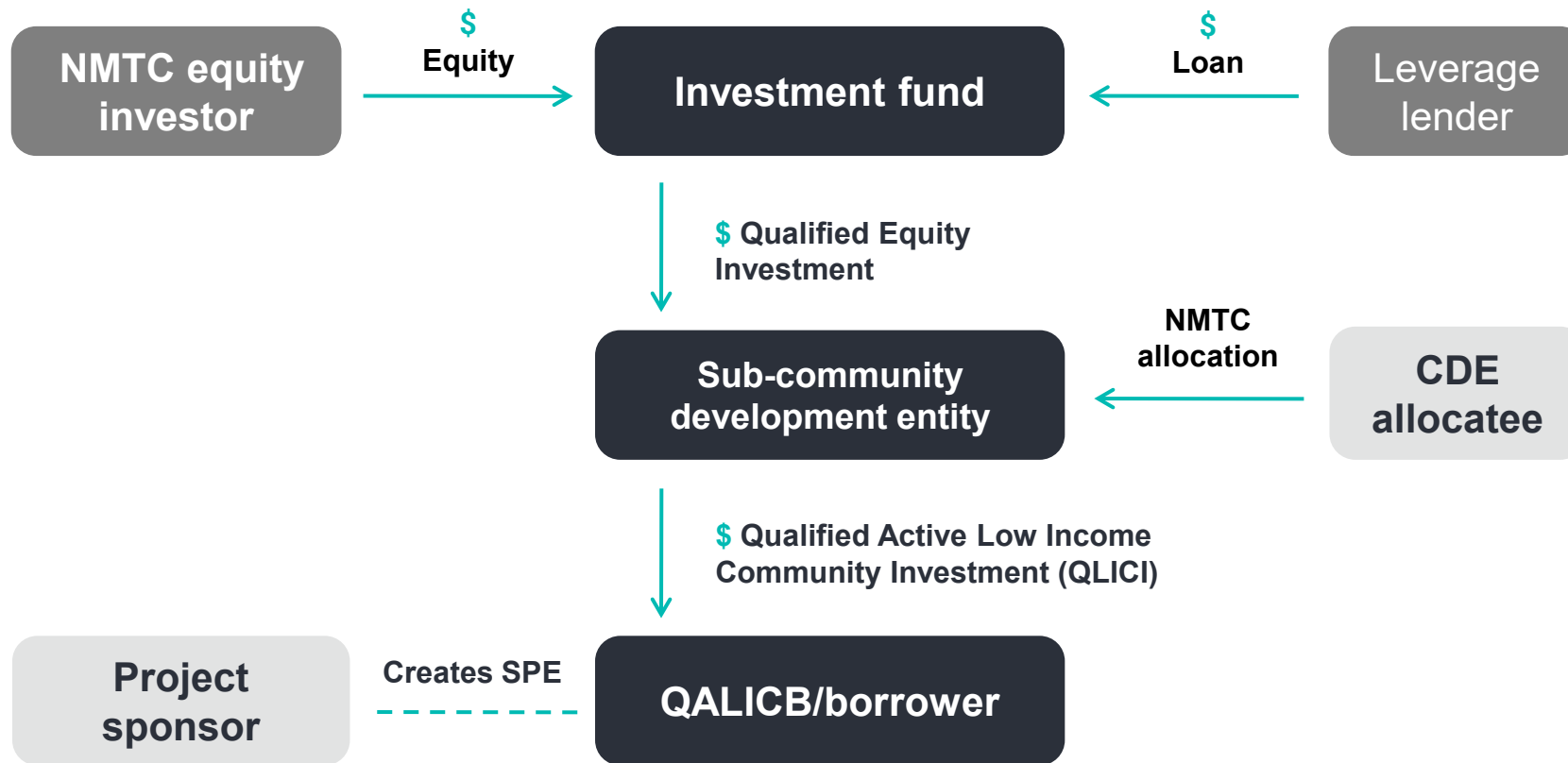
- > 50% of gross income is derived from business in a low-income community
- > 40% of the tangible property is located in a low-income community
- > 40% of the services are performed by the employees in a low-income community
- < 5% of property is collectibles not held primarily for sale
- < 5% of property is 'non-qualified financial property'

Ineligible activities

- Residential rental property (80%) or more of income from residential dwelling units
- Certain businesses
 - Racetracks
 - Golf course
 - Gambling facilities
 - Liquor stores
 - Certain farming businesses
 - Massage business



Transaction diagram



Example Projects



Example Project – Pawnee Behavioral Health Center



| Pawnee Behavioral Health Center | |
|---------------------------------|----------------------|
| Total project costs | \$22,363,198 |
| Total NMTC allocation | \$14,000,000 |
| Closing date | December 1, 2023 |
| CDEs | Clearinghouse CDFI |
| Lender | Native American Bank |
| Investor | Wells Fargo |

Pawnee, Oklahoma

- The New Markets Tax Credit allocation was used to finance the construction of an approximately 22,000 SF inpatient and outpatient behavioral health and substance use disorder treatment facility on Tribal land to enhance healthcare accessibility for the Pawnee Tribe and non-tribal members. According to the Oklahoma State Department of Health, Pawnee County faces critical health issues including a 20% mental illness rate with patients facing a five-week wait time for treatment due to limited resources and availability. The new facility will help address these needs.
- Pawnee and the surrounding area face many mental health challenges related to the COVID-19 pandemic and the opioid and substance abuse crisis. Pawnee Behavioral Health Center created a financially sustainable business model designed to improve rural public health outcomes through partnerships, advocacy, education, data & research, and policy development.
- The facility Serves a historically underserved population in a medically underserved area, serving 2,040 patients annually (90% Native clients), while creating 47 construction jobs (60% accessible to Native, 70% accessible to Low-Income), 53 permanent jobs (25% accessible to Native, 37% accessible to Low-Income and people with the skill level at or equivalent to a high school education). All jobs will provide benefits and training opportunities and be paid a living wage.



Example Project – LCO Community Health Center



Lac Courte Oreilles Community Health Center

| | |
|------------------------------|--|
| Total project costs | \$48,712,539 |
| Total NMTC allocation | \$44,325,000 |
| Closing date | November 14, 2023 |
| CDEs | Impact Seven US Bank Forward Community Investment LISC IFF |
| Lender | Native American Bank & Others |
| Investor | US Bank and Broadstreet |

Hayward, Wisconsin

- The New Markets Tax Credit allocation was used to finance the construction of a state-of-the-art 64,421 SF Federally Qualified Health Center located on the Lac Courte Oreilles Tribal Reservation. The project significantly enhanced healthcare accessibility and quality, bolstering both local and tribal economies. Previously, the tribe’s healthcare facilities were five miles apart and lacked necessary services, forcing tribal members to seek care at facilities up to 100 miles away. Now, the project offers lab and imaging services, a pharmacy, urgent care, and comprehensive primary, dental, and behavioral healthcare services under one roof.
- The project repositions the tribal health system from reactive patterns of healthcare to a proactive, preventative platform by focusing on innovation in preventive healthcare, including wellness programs, screening and treatment plans, immune system function and other culturally-based programs. Further, the project addresses the lack of sufficient medical and dental space at the current facility, with numerous shortfalls due to its design.
- The health center increased annual patient capacity by over 90% and will now be able to accommodate 38,000 unduplicated visits or 9,590 unduplicated patients annually. It is projected that 85% of patients will be tribal members.



Current Market



Legislative background



Community
Development
Financial
Institutions
FUND



Tax credit allocation

Community
Development
Entities

Congress passed the Community Renewal Tax Relief Act of 2000. This created the New Markets Tax Credit (NMTC) program which encourages investment in low-income communities. The program was extended for five years in 2020 and the most recent round of allocation (\$10B) was awarded in December of 2025.

The NMTCs program was set to expire in CY2025.

The NMTCs program was permanently extended at \$5B annually as part of the One Big Beautiful Bill Act.



Tribal NMTCs Activity

- Tribal lands, despite experiencing some of the highest poverty rates in the nation, have historically received less NMTC investment than you might expect.
- However, the past two years have seen record levels of NMTC investment directed toward tribal and Native communities.
- In 2024, a record 8.4% of NMTC allocation went to projects supporting indigenous people, up from 7.1% in the previous year.

Tribal CDEs

- Tribal focused Community Development Entities (not a comprehensive list)
 - Alaska Growth Capital BIDCO, Inc.
 - Chickasaw Nation Community Development Endeavor
 - Native American Bank
 - Travois New Markets
 - Accion Opportunity Fund Community Development
 - Clearinghouse Community Development Financial Institution
 - Community Health Center Capital Fund
 - Dakotas America
 - LISC
 - Midwest Minnesota Community Development Corporation
 - Ecotrust
 - Oweesta Corporation

Program Benefits

Is it worth going through the process and its challenges if I can fund over 20% of my project with low-cost capital?



Accounting Considerations



NMTC Project Accounting Matters

The NMTC transaction is complete, now what?

QALICB Accounting Checklist

1. Understand entity structure, bookkeeping, audit and tax requirements
2. Understand flow of funds from CDE to the Project (QALICB)
3. Track development costs of the project
4. Consider unique GAAP requirements
5. Understand Unwinding Phase in Year 7

NMTC Project Accounting Matters

Inconsistencies in the GAAP reporting of a QALICB project:

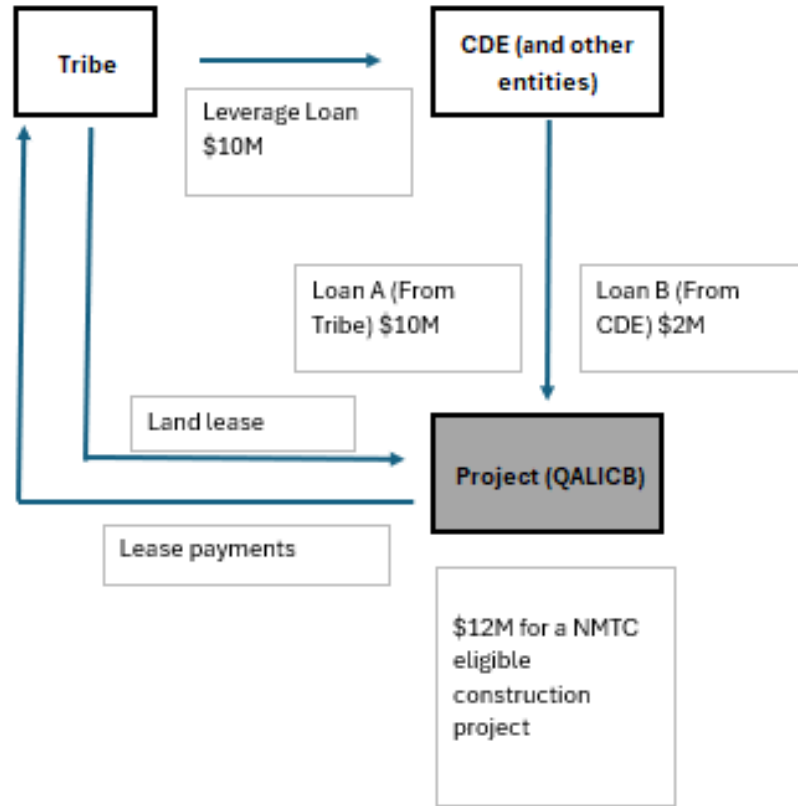
- Financial reporting matters related to the structure of the QALICB and unwind
- FASB/GASB differences
- Legally separate entity – reported as a component unit (blended or discretely presented)

Financial Reporting Matters and Unwind

Let's consider a simple illustration:

- Loans provided to Project by Tribe of \$10M and CDE of \$2M (both forgiven after 7 years)
- All legal, accounting/audit, consultant, and management fees are not considered in this example
- Ground lease established between Tribe and Project (Not including lease of buildings from Project to Tribe)

Financial Reporting Matters and Unwind



Initial entries when NMTC transaction is complete

| Tribe's Accounting | |
|--------------------|-------|
| Loan receivable | \$10M |
| Cash | \$10M |

| Project (QALICB) Accounting | |
|-----------------------------|-------|
| Cash | \$12M |
| Note payable A - Tribe | \$10M |
| Note payable B - CDE | \$2M |
| Construction in Progress | \$12M |
| Cash | \$12M |

Unwind entries at the end of 7 year compliance period

| Tribe's Accounting | |
|--------------------|-------|
| Capital asset | \$10M |
| Loan receivable | \$10M |

| Project (QALICB) Accounting | |
|-----------------------------|-------|
| Note payable A - Tribe | \$10M |
| Capital asset | \$10M |
| Note payable B - CDE | \$2M |
| OFS - Forgiveness of debt | \$2M |

FASB/GASB Reporting Differences

- The Operating Agreement will typically require an audit of the stand-alone financials prepared in accordance with GAAP
- Investors and Banks prefer FASB
- However, if a governmental entity owns the project, it should be reported under GASB
- Debt issuance costs, capitalized interest for construction, lease accounting and presentation of the statements are common reporting differences between FASB/GASB

Reporting as a Component Unit (Blended or Discretely Presented)

How do you know how to report the Project as a component unit in the Tribe's financial statements –

1. Blended – Presented as another fund (government or proprietary)
2. Discretely presented – If the project is at arms-length from the Tribe, it is not reported in the primary government

Q&A

THANK YOU!