Rural Development Finance Toolkit

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Table of Contents

Introduction

Rural communities across the country face a variety of challenges that impact their local economies. Declining population and demographic changes, outdated infrastructure, and limited access to healthcare and other core community facilities are among the conditions that affect economic development in rural areas. Many of these communities also lack the financial resources and human capacity to manage finance programs that can bring capital to places, projects, and industries in need of investment. However, there are many development finance tools and resources at the federal, state, and local levels that can be used to catalyze and support economic growth and stability through entrepreneurship, job creation, redevelopment, community preservation, and more.

The purpose of this toolkit is to provide an overview of the tools in the development finance toolbox -- such as bonds, tax increment finance, tax credits, and revolving loan funds -- and how they can direct and attract capital to rural businesses and projects. This toolkit features comprehensive case studies to provide recent project and program examples of how tools can be implemented to spur growth and resiliency in rural communities. By understanding the development finance toolbox, economic development professionals can increase public and private financing opportunities for the rural communities they serve.

Understanding Development Finance

Development finance comprises the efforts of local communities to support, encourage, and catalyze the physical development, redevelopment, or expansion of a business or industry. This is done through both public and private investment in projects and businesses that benefit the long-term economic health of a community. Development finance is used to provide targeted solutions to address challenges that the local business, industry, real estate, and environment face.

Development finance agencies (DFAs) can be public, quasi-public, or private agencies that provide support for economic development through direct or indirect financing programs, acting as a conduit for channeling investments to both private and public purpose projects. DFAs are able to issue tax-exempt and taxable bonds, provide credit enhancement programs, operate direct lending programs, and many other financing mechanisms. DFAs can be formed at the state, county, township, borough, or municipal level. Frequently, DFAs have the authority to provide development finance programs across multi-jurisdictional boundaries.

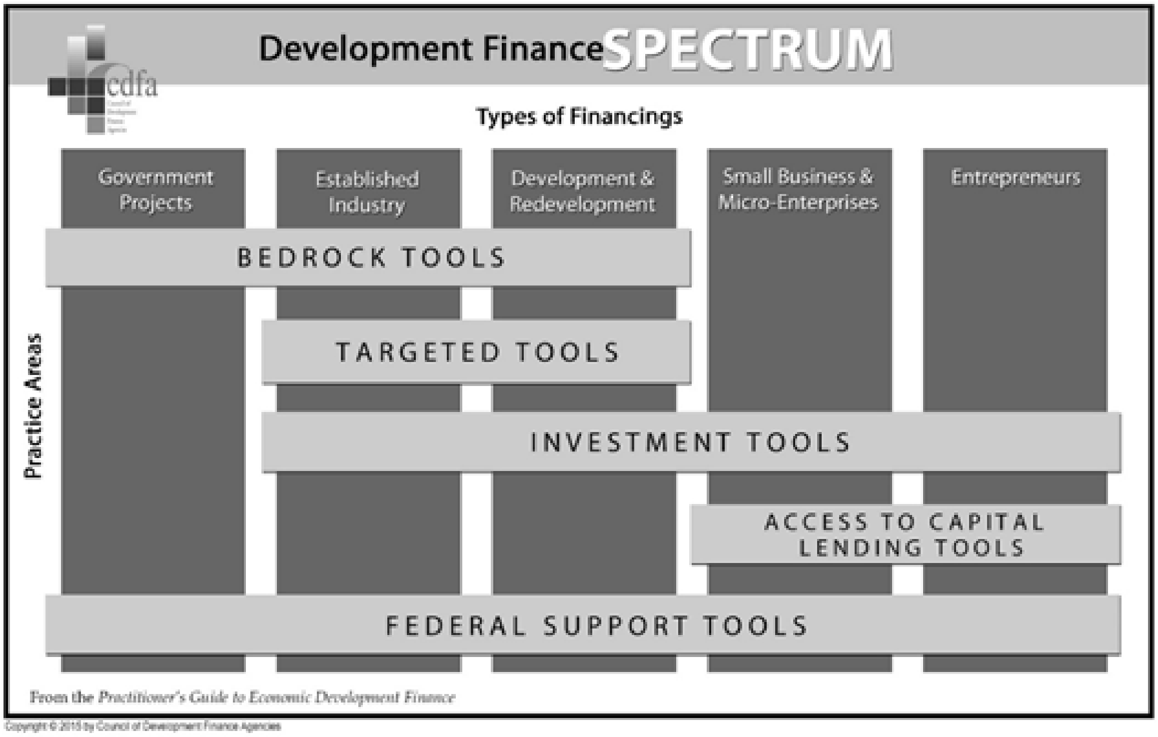
Each type of financing program requires careful analysis for best use and application, along with the proper advisors to guide appropriate implementation. Local communities should engage a qualified municipal advisor along with other financial advisors, underwriters, accountants, and attorneys. Proactively engaging a set of key stakeholders in the financing process will help mitigate risk and ensure impactful social and economic returns over time.

The Development Finance Toolbox

Rural communities can improve resilience and strengthen their local economy by understanding and implementing the development finance toolbox. Aligning available programs with projects, attracting new investment to the community, or creating new financing tools can fill regional gaps in the development finance spectrum.

CDFA's toolbox approach to development finance brings together the best financing concepts and techniques to provide a comprehensive response to capital and resource needs. The toolbox approach offers programs and resources that harness the full spectrum of financing options. This strategy requires a commitment to public-private partnerships and the creation of niche programs to assist different types of industries and enterprises. Whether assisting large-scale industrial development projects or small, micro-enterprise business development, the toolbox approach is designed to provide assistance to numerous types of users and maximize opportunities for growth in the local community.

The full spectrum of development finance can be understood by identifying the types of tools available for different project types and areas of practice.



The toolbox includes the following practice areas of development finance:

- **Bedrock Tools** are the foundational public financing tool known as bonds. Over 10,000 bonds are issued annually to finance infrastructure, housing, agriculture, manufacturing, healthcare, non-profits, and more.
- **Targeted Tools** target specific geographic areas by allowing for the direct reallocation of specific taxes to pay for the current cost of the development. Tax increment financing (TIF), special assessment districts, and Property Assessed Clean Energy (PACE) financing are common tools in this category.
- **Investment Tools** encourage private sector engagement in projects and businesses by attracting investors. Tax credits and Opportunity Zones are the tools that drive this sector.
- **Access to Capital Tools** represent the resources for supporting small businesses, entrepreneurs, and microenterprises. Revolving loan funds, loan guarantees, microlending, and venture capital are all examples of tools in this category.
- **Federal Support Tools** are the most flexible and often easily applied tools. A variety of loan guarantees, loan funds, grants, tax incentives, and other programs are available through various federal agencies.

The full range of development finance tools can be used to finance businesses and projects in rural places, and many programs are designed exclusively for rural geographies. Certain tools in the toolbox are extremely versatile and can be used for many types of projects, while others are best suited for a specific type of business or project. By using the toolbox approach, economic development professionals can combine various tools and programs to support sustainable growth and resilience in their communities.

Building Relationships

Building effective relationships and partnerships is a crucial part of economic development in rural places because investments are most successful when there is collaboration across broad networks. Organizations such as community development corporations, state agencies, local non-profits, and anchor institutions can help DFAs leverage additional resources, knowledge, and connections. Engaging other DFAs in the region can also bring complementary sources of capital to a business or project.

Financing Plans

Creating strategic financing plans is another key component to establishing sustainable, comprehensive economic development. This planning should happen in tandem with any city, county, or regional planning efforts and can be conducted as an addition to existing plans. These plans should identify and prioritize goals and projects, as well as the finance tools that can be used to support them. Developing plans requires an investment of time and resources, but doing so produces more sustainable economic development in the long term and makes the best use of available human and financial capital.

Equitable Finance

Development finance also involves understanding and addressing unmet needs within a community to advance social, racial, and economic goals. Although it is important to focus on maintaining sound financial and programmatic principles first and foremost, implementation of the toolbox can be directed toward supporting underserved sectors, small businesses, and borrowers with limited access to private financing. Development finance should do good when and where it can to be a driver of change, inclusion, and equity.

Bedrock Tools

Bonds are the bedrock of public development finance. Bond finance dates back to the 19th century, with the deferral tax exemption included in the country's first federal tax code. In its simplest form, a bond is a debt or a loan incurred by a governmental entity. Bonds are issued and sold to the investing public, and the proceeds are typically made available to finance the costs of a capital project. If the bonds are being issued for the benefit of a non-governmental borrower, the proceeds are often loaned to such a borrower, and the borrower then makes loan payments corresponding to when principal and interest are due on the bonds. Bondholders receive interest over the term of the bonds, and such interest is often exempt from federal, state, and local income taxes. The tax-exempt status of certain bonds makes them an attractive investment option for investors.

Types of Tax-Exempt Bonds

There are two types of tax-exempt bonds: Government Bonds and Qualified Private Activity Bonds (PABs). Government Bonds are intended to address the traditional infrastructure needs of the nation and can be issued by a state, local, or quasi-public unit of government. Government Bonds may be used for many public purposes (e.g., highways, schools, bridges, sewers, jails, parks, government equipment, and buildings), and their debt service requirements are met by levying taxes on the general public. Facilities financed by Government Bonds are not permitted to be significantly used, operated, controlled, or owned by private entities. Government Bonds are also sometimes called Municipal Bonds (or Munis) as they're often issued by local governments.

Conversely, PABs permit a larger degree of private sector involvement and are used to address numerous development finance needs identified by Congress and state and local governments. PABs drive projects involving both the public and private sectors by passing along the low-cost interest benefit - generated by the tax-exempt status of PABs - to private borrowers. While the language governing the usage of Government Bonds is fairly straightforward, the language governing PAB regulations and uses is far more complicated. The Internal Revenue Code (IRC) permits the financing of several types of projects using qualified PABs, although they may be used partially or entirely for private purposes.

Qualified PABS include:

- Industrial Development Bonds
- 501(c)(3) Bonds
- Exempt Facility Bonds
- Qualified Redevelopment Bonds
- Aggie Bonds
- Green Bonds

Types of Qualified Private Activity Bonds

PABs may be used to address numerous economic development finance needs. They are issued for the benefit of private entities or individuals. The IRC permits the financing of several types of facilities using qualified PABs, although they may be used partially or entirely for private purposes.

Industrial Development Bonds

Small Issue Industrial Development Bonds (IDBs) are also referred to as Small Issue Manufacturing Bonds or Industrial Development Bonds. These bonds are the single most actively used bond tool for financing the manufacturing sector and are a key economic development tool for many states. IDBs are issued for qualified manufacturing projects, with a total bond issuance limit of $10 million. These bonds can support expansion and investment in existing manufacturing facilities, as well as the development of new facilities and the purchase of new machinery and equipment.

501(c)(3) Bonds

501(c)(3) Bonds finance projects owned and used by not-for-profit corporations that qualify for exemption under Section 501(c)(3) of the IRC. Due to the relative affordability of this type of financing, 501(c)(3) Bonds have gained in popularity over the past several years. Organizations using 501(c)(3) Bonds may include universities and private colleges, continuing care facilities, independent and charter schools, cultural organizations, hospitals, religious or charitable groups, scientific organizations, and others.

Exempt Facility Bonds

Exempt Facility Bonds finance a wide variety of projects, including airports, docks, mass-commuting facilities (such as high-speed rail), water and sewage facilities, solid waste disposal facilities, qualified low-income residential rental projects, facilities for the furnishing of electric energy or gas, qualified public educational facilities and qualified highway or surface freight transfer facilities. Exempt Facility Bonds have a wide scope of use, and implementation varies by state or local government.

Qualified Redevelopment Bonds

Infrastructure projects that do not qualify for Government Bonds may qualify for tax-exempt financing if they meet several tests. For instance, in many cases, the proceeds must fund redevelopment in designated areas of blight. These bonds are typically issued for projects that involve special district financing, such as tax increment financing (TIF).

Aggie Bonds

These bonds are small issue bonds and exist in many states to support agricultural investment. Aggie Bonds provide an attractive, affordable source of capital for first-time farmers looking to invest in a new business venture. These programs are commonly referred to as both Aggie Bonds and First-Time or Beginning Farmer Loan Funds, and they are typically managed by the state agriculture department or similar authority.

Green Bonds

Businesses and governments issue Green Bonds to raise funds for a range of environmental projects. The issuer has to ensure that the proceeds from the sale of the bond are invested in green projects, such as renewable energy, energy efficiency, and projects leading to reduced carbon emissions. Green Bonds are not an official category of bonds; rather, the term "Green" Bond is used to describe any bond issued to finance a project related to the environment.

Repayment Structures of Tax-Exempt Bonds

There are two basic methods that a bond can be repaid: General Obligation (G.O.) and Pledged Revenues. This section will describe the difference between the two.

General Obligation (G.O.) Bonds

G.O. Bonds are secured by a pledge of the issuer's full faith and credit to repay bonds. Unless certain tax revenues are specifically restricted or limited (i.e., limited tax G.O. Bonds), the G.O. issuer pledges all its tax-raising powers and any unencumbered funds to pay debt service on bonds. This can mean a levy of unlimited taxes on property, a first claim by bondholders to monies in an issuer's general fund, and the legal duty of the governing body to pass statutes needed to increase revenues, if necessary, to make timely payment of principal and interest on bonds. One of the more significant steps that a bondholder may take to demand payment is to pursue a writ of mandamus in order to receive the full payment that may, in select circumstances, require a court-imposed tax increase in order to satisfy the writ.

The basic general obligation pledge does not vary very much over time. What will vary and change are all of the inputs that go into the pledge. The general obligation pledge is the fulcrum of the municipal market. General Obligation Bonds tend to trade "tighter" or "richer" than their Revenue Bond counterparts due to their unique features that are quite real.

Revenue Bonds

The debt on Revenue Bonds is typically secured by a user fee or dedicated tax, rather than the general taxing power of the issuer. Examples of Revenue Bonds include bonds payable from a special tax such as a sales tax, from a special fund such as a highway fund or toll road, user fees (as a water or sewer system), or by the earnings of a company or non-profit or project in the case of Qualified Small Issues, Exempt Facility, and certain other Private Activity Bonds. The security for Revenue Bonds, therefore, can be narrower than for general obligation or tax-backed obligations. For example, user fees established for a water system can be the sole source of security for water revenue bonds, while G.O. Bonds can call upon property, income, and/or sales taxes to meet debt service payments.

Revenue Bonds generally are not subject to voter authorization, as is usually the case for tax-backed bonds. Typically, Revenue Bond issuers are also not subject to debt limitations under state laws but may have federally imposed ceilings. Other important legal provisions affecting the source of repayment on Revenue Bonds include rate covenants, the flow of funds, and the additional bonds test.

The Bond Players

The bond finance process is complex and requires considerable oversight. In each transaction, there are a variety of players critical to ensuring that the process is effective, efficient, and conducted within the scope of the law. Almost all bonds that are issued by state and local political subdivisions are accompanied by the approving legal opinion of a recognized bond counsel law firm. Some of the key bond players are:

- **Bond Issuer**: An organization that registers, distributes, and sells a bond on the primary bond market. A bond issuer can be a private organization or a government.

  Bond issuers have a wide variety of jurisdictions that they can serve. Some bond issuers are limited to serving a certain area or region, while others can issue bonds statewide. Others are able to issue bonds on a conduit basis anywhere in the country. The jurisdiction a bond issuer can serve is usually determined by state statute.

- **Bond Counsel**: An attorney or law firm retained by the issuer to give a legal opinion. The bond counsel's approving legal opinion gives investors assurance as to the validity, security, and tax-exempt status of the bond.

- **Underwriter**: An investment bank or group which agrees to purchase an entire security issue for a specific price, usually for resale to others.

- **Trustee**: A bank designated by an issuer of bonds to act as the custodian of funds and official representative of the bondholders.

- **Municipal Advisor**: A consultant who advises the issuer on matters pertinent to the issue, such as structure, timing, marketing, fairness of pricing, terms, and bond ratings.

- **Rating Organization**: A organization that provides a rating which indicates credit quality.

Targeted Tools

Targeted financing tools target specific geographic areas or difficult-to-finance sectors in a community by offering incentives, tax rebates, credits, and unique financing structures that drive investment and development within that geographic footprint. The goal of targeted financing tools is to catalyze investment and transform the actual or perceived real estate values of a given geographic area. These programs are also designed to set aside financial resources for investment, maintenance, beautification, safety, and other improvements to the built environment. Communities using these tools have shown sizable increases in property values and overall business development and community improvement. Even smaller and rural communities have applied these tools effectively.

Types of Targeted Tools

Targeted financing tools typically fall into two categories. The first category of tools is designed to generate new taxes in a geographic area through improvements to the built environment. These improvements increase property, sales, or other taxes, which can in turn be used to finance some of the improvements. The second category of tools allows business and industry to generate funds through tax assessments. These assessments, in turn, finance improvements in the geographic area. The following represents a summary of available tools.

Tax Increment Financing (TIF)

Tax increment financing (TIF) is a mechanism for capturing the *future* tax benefits of real estate improvements, in order to pay for the *present* cost of those improvements. TIF can be used to channel funding toward improvements in distressed or underdeveloped areas where development would not otherwise occur. A TIF district, or the area capturing the tax increment itself, is drawn in order to direct benefits to a designated area. The life of a district can be anywhere from 10-40 years, or enough time to pay back the costs or bonds issued to fund the improvements.

TIF uses the increased property or sales taxes generated by new development to finance the costs related to that particular development. These costs may include public infrastructure, land acquisition, relocation, demolition, utilities, debt service, and planning costs.

Individual states authorize local government units to designate TIF districts. While each state’s TIF statute is different, common policy goals and objectives exist. These intentions include blight elimination, something discussed in nearly every state’s statute, and infrastructure additions and improvements.

TIF is referred to in a variety of ways throughout the country. These terms include tax allocation district (TAD – Georgia), tax increment reinvestment zone (TIRZ – Texas), community reinvestment area (CRA –

Florida), and economic redevelopment and growth grant (ERGG – New Jersey); however, TIFs generally adhere to a similar structure and functionality regardless of geography. It is recommended that finance professionals, community leaders, and economic development professionals consult their relevant state statutes before attempting to utilize a TIF program. The use of legal professionals and expert consultants is also recommended to ensure the use of best practices.

On the surface, the TIF process is relatively straightforward. Typically, the first step is to set the TIF district's geographic boundaries. The second step is to establish the initial assessed value of the land in the district. Furthermore, an analysis of current tax revenue from property tax, sales tax, and other taxes should be conducted to benchmark the current tax level. A TIF district generates money for development or redevelopment for a local government by capturing the tax revenue – or increment – above the initial assessed value during the life of the district. The tax increment from a TIF district is created without raising taxes, and also without dipping into the base tax revenues present at the time of adoption. The increment thus becomes a repayment stream for debt used to finance some aspects of what is driving the increase – such as retail, commercial, residential, or mixed-use development.

TIF has provided local governments with a funding mechanism that does not rely on federal funds, that escapes state limits on revenue and expenditures, and that does not apply any new tax on municipal taxpayers. Today, there are thousands of TIF districts in place, making improvements in local communities across the country.

Special Assessment District Financing

Special assessment district financing mechanisms are also a common tool. Every state provides some form of special assessment district financing, and most states offer more than one option. These tools are known by a variety of names and can be structured in a variety of ways, but there are two predominant methods. The first method is the assembly of business and neighborhood groups into a district to generate funding for projects and programs. The second approach is a directly targeted assessment program organized by the local government. In the business/neighborhood-focused model, a local non-profit or development agency manages the district, while in the government-focused model, the local government manages it.

Business and Neighborhood Districts

Business and neighborhood-focused districts are typically run by property owners in the district. These owners impose self-assessed taxes on themselves in order to generate funds for physical improvements or other amenities. Examples of these programs include:

- Business Improvement District (BID)
- Special Improvement District (SID)
- Community Improvement District (CID)
- Neighborhood Improvement District (NID)

Services and programs may include security and safety patrols, economic development, graffiti removal, snow removal, marketing, beautification projects, and cleanliness programs. In states where these programs are permitted, the local government performs the task of establishing the district in cooperation with the district's property owners.

Once the district is authorized, the assessed tax is paid to the government through a collection process. Once collected, the government returns the special assessment to the district's management entity, typically a non-profit or redevelopment agency, and the funds are then used to finance improvements.

Government Districts

Government districts come in many shapes and sizes. These districts often provide services that are similar in scope to those provided by business districts; however, in these cases, government entities typically direct the work of the districts. Examples of government-driven districts include:

- Special Services District (SSD)
- Special Assessment District (SAD)
- Community Facilities District (CFD)
- Community Development District (CDD)
- Transportation Improvement District (TID)
- New Community Authorities (NCA)
- Creative Industry Districts (CID)

This approach can be effective in directing government resources, through a property owner's self-imposed assessment, toward the maintenance or redevelopment of designated districts.

Government-directed programs have largely focused on infrastructure development, such as transportation, roads, sewers, and community amenities like schools and public facilities. These districts are typically formed in undeveloped or underdeveloped areas where commercial and residential development cannot otherwise be supported. Government districts also allow for a wide array of financing options. The use of bonds is one tool used to finance these projects.

Targeting Specific Projects: Brownfields & Sustainable Development

While geographically-targeted financing tools have been the focus of this section, another targeted financing concept also exists for the sustainable development of brownfield sites. Brownfields development is an ever-growing field, due to the prevalence of under-utilized land in urban and industrial areas. Many resources at the local, state, and federal levels address brownfields acquisition, remediation, and redevelopment. Nearly all of the tools in the development finance toolbox may be used to address these opportunities as well.

Tools for financing brownfields redevelopment include:

- **Tax increment finance** – qualified public improvements after remediation, as well as acquisition and remediation, depending upon the state statute
- **Tax credits** – state and local tax credits for remediation and redevelopment
- **Loan funds** – state and local loan funds for acquisition, remediation, and redevelopment
- **Grants** – state and local grants for remediation

Currently, green development is driven by many of the same financing tools as more typical development, such as TIF, tax credits, and loan funds. Some states have begun to award incentives, and also lower loan interest rates for green and sustainable development. The municipal bond industry is beginning to recognize the strength of sustainable projects through robust support of 'Green Bond' issuances supporting these concepts. In addition, the private venture and innovation capital industry has been the quickest to take the lead in supporting green development through clean-tech financing and other seed fund investment in green technologies.

Targeting Specific Sectors: Property Assessed Clean Energy

Property Assessed Clean Energy (PACE) financing is a mechanism for implementing energy-efficient improvements on private property. PACE works by utilizing special assessment district financing techniques to finance projects, with private capital, via the property owners' property tax bills. The property owner is able to access affordable capital in the form of a loan for energy efficiency upgrades, retrofits, or generation to their property. In turn, the municipality places a special assessment on that property's tax bill. This assessment is collected during the regular property tax payment process with payments made to the private lender. Over time, the loan is paid off and the property sees measurable energy savings, creating a more sustainable energy solution for the community.

PACE has emerged as one of the most reliable forms of special assessment financing. Since tax payments are relatively stable, allowing government, private sector partners, and financial institutions to mitigate risk related to non-payment or default. Also, PACE investments are now being seen as an asset class with demonstrable monetary value. Energy improvements to a piece of property – whether it be residential, commercial, or industrial – provide a physical asset that makes the property more valuable to investors. These two reasons, combined with innovative and affordable financing terms, are driving the growth of PACE nationally.

Tax Abatements as Targeted Tools

Tax abatements are an indirect financing tool that removes a particular tax liability from a business or individual balance sheet. While taxes are necessary, tax abatement programs exist to provide incentives for businesses to expand, invest, or relocate in local communities.

In a traditional tax abatement program, a business agrees to make a significant investment in return for the elimination or reduction of certain taxes for a set period of years. Typically, tax abatement agreements may extend up to ten years, but can also be extended beyond this period. Significant investment can be in the form of job creation, physical development, capital investment, research expenditures, or other commitments. Most abatement agreements require job creation and capital investment commitments on the part of the business, and in return, offer abatement or reduction of designated taxes.

Investment Tools

Investment tools drive investment by providing incentives to individual investors and businesses to invest private capital in real estate developments. Investment tools often come in the form of tax credit programs that allow businesses and investors to claim tax credits for committing resources to a project or business. There are different types of tax credit programs that exist at the federal and state levels to encourage investments in redevelopment projects, affordable housing, specific industries, and communities of all sizes.

Tax credits directly reduce a taxpayer's tax liability and are not a deduction, thus making them a very desirable and effective tool. They can be used in urban, rural, and suburban communities, and in some cases, they can be used on a regional basis. Tax credit programs are often designed to provide a targeted impact by addressing many different community sectors, such as low-income neighborhoods, historic districts, and under-served markets that present opportunities for new investment.

In order to receive a tax credit, an investor must first demonstrate that an investment has been made. Such a commitment of resources could be an investment in a brick-and-mortar real estate project or a cash investment in a business. The distributor of the tax credit is authorized to issue credits based on the actual outlay of resources as evidenced by the investor.

Tax credits can be used for several purposes in development projects: to provide an increased internal rate of return for investors, to reduce the interest rates on a particular financing package, and perhaps most importantly, to provide a repayment method for investors in place of cash. In the latter case, the credits can often be sold on the secondary market to generate income.

Federal Tax Credits

There are three main federal tax credit programs: New Markets Tax Credits (NMTC), Historic Rehabilitation Tax Credits (HTC), and Low-Income Housing Tax Credits (LIHTC). As outlined below, each federal tax credit program is designed to promote investment into disadvantaged communities or projects and has a different approach to accessing the tool.

New Markets Tax Credit (NMTC)

The NMTC program was created to generate economic opportunity for underserved people and communities by supporting the growth and capacity of a national network of community development lenders, investors, and financial service providers. The NMTC program helps borrowers and projects achieve lower interest rates and potential equity stakes, which enhances the project and encourages more investment. The Community Development Financial Institutions Fund (CDFI Fund) allocates NMTCs to Community Development Entities (CDEs). The CDE then leverages the allocation of NMTCs to raise equity from investors. An investor receives a federal income tax credit equal to 39% of a Qualified Equity

Investment (QEI) made into a CDE which is then invested in a targeted low-income community. For the purpose of the NMTC program, low-income communities are considered to be census tracts in which the median family income is below 80% of the area's median family income.

Historic Rehabilitation Tax Credit (HTC)

The HTC program was established to discourage unnecessary demolition of older buildings and to help mitigate higher rehabilitation costs that often lead to new builds instead of preserving historic structures. The HTC program is administered by the National Park Service and the Internal Revenue Service (IRS), in partnership with State Historic Preservation Offices located in each state. Investors can receive a tax credit for 20% of the qualified rehabilitation expenditures used for the rehabilitation of certified historic buildings, those listed on the National Register of Historic Places.

Low-Income Housing Tax Credit (LIHTC)

The LIHTC program was created to promote the construction and rehabilitation of affordable rental housing for low-income individuals by encouraging private investment into affordable housing. The equity raised from investors is used to construct, acquisition, and renovation of buildings. There are two types of tax credits, a 9% tax credit and a 4% tax credit, that have different award processes, investor benefits, and financing structures. Both tax credits follow the same income eligibility standards and affordability requirements. LIHTCs are allocated to specific state agencies that determine which projects are eligible for the credit.

State Tax Credits

There are also numerous state-level tax credit programs available, and they can often be combined with federal tax credit programs to incentivize additional investment. These programs address a number of different investment areas, including venture capital investment, affordable housing, job creation, machinery and equipment, targeted area redevelopment, brownfield cleanup, wage adjustment credits, and other industry-specific credits. To determine the types of available tax credits for economic development efforts in a particular state, contact the state agency for economic development. Typically, state departments of commerce or dedicated state-level DFAs can direct you to specific tax credit information.

Access to Capital Tools

Access to capital tools represent resources that help businesses, particularly small businesses, gain access to capital for a broad range of uses. Small businesses are the economic lifeblood of our communities and need access to affordable, flexible, patient capital to launch, operate from day to day, and invest in future growth. One of the largest challenges faced by small businesses is access to working capital to operate, grow, invest, and create jobs. Working capital allows small businesses to pay their bills while investing in future growth.

There are many types of access to capital tools, such as revolving loan funds (RLFs), loan guarantees, microlending, and linked deposit programs. These access to capital programs come in a variety of different models that can be tailored to address the unique needs of a certain community or sector. Below are the most common types of access to capital tools that can be used to finance new and established businesses in rural communities.

Revolving Loan Funds (RLFs)

Revolving loan funds (RLFs) are a flexible source of capital that can be used to help grow small and mid-sized businesses. RLFs are a very popular tool with thousands operating throughout the country. They are typically used for operating capital, acquisition of land and buildings, new construction and renovations, and purchasing machinery and equipment.

An RLF is a sustainable funding pool that replenishes itself. The payments from existing loan recipients are recycled and used to fund new loans. Such loan programs must balance interest rates so that they are low enough to reach the desired borrower but high enough to sustain the fund over time. Loans made from an RLF are meant to fill a gap in the lending landscape rather than compete with other forms of capital, and they help strengthen small businesses so that they can access capital from a broader spectrum of lenders. These funds can be designed creatively and carefully to meet the needs of their intended borrowers. RLFs offer flexible interest rates and terms, accept alternative forms of collateral, use character-based lending practices, and use other approaches to make the loan fund accessible to a more diverse range of businesses.

To establish an RLF, the capital typically comes from a mix of public sources (local, state, and federal governments) and private sources (financial and philanthropic institutions). This funding is usually a grant and does not need to be paid back. To fund an RLF, state and local governments use a combination of tax set-asides, General Obligation Bonds, funds appropriations from state legislatures, annual dues from counties or municipalities, and state lottery funds. The federal government is another common source of this capital.

Loan Guarantees

Loan guarantees shift the risk of a loan from the private lender to a third party – usually a governmental entity – that must be willing and able to repay the borrower's obligations to the lending institution in the event of a default or loss. Loan guarantees are not always a one-to-one guarantee; instead, they are often guaranteed a small percentage to cover the possibility of a default or loss. Having this guarantee reduces the risk for private lenders, which encourages them to make loans and other sources of capital for small businesses more available. Loan guarantees are considered a win-win for government and lending institutions when projects are successful because both parties earn returns on their investment. Communities and projects that employ guarantee programs typically partner with established lending institutions that have a history of supporting economic development. These programs allow local and state governments to promote redevelopment in their communities, encourage public-private partnerships, and invest in businesses. There are many types of guarantee programs, each with its own rules, regulations, and characteristics.

Microenterprise Lending

Microlending provides access to capital for the smallest businesses, which are commonly referred to as "microenterprises" and defined as small businesses with less than five employees, capital needs of less than $35,000, and an average loan size of $7,000. Lenders often perceive these companies as having a high level of risk due to their small size and entrepreneurial nature, making microlending an important tool in supporting the growth of microenterprises. Most microlending programs also include mandatory technical assistance for businesses, usually in partnership with the local Small Business Development Center, that assists with management, marketing, or financial issues.

Linked Deposit Programs

Linked deposit programs provide businesses with access to affordable capital through loans that are offered at reduced interest rates, using "linked" state or local deposits to buy down the interest. This means that the depositor, usually a state or local government, receives a lower interest rate return on the loan in order to make capital more accessible. These programs can be tailored to assist with various types of financing and there are dozens of variations that have different rates, deposit amounts, terms, and eligibility requirements, making them adaptable to a wide range of businesses. Linked deposit programs are usually operated by state governments, though some larger cities have also created their own structures to support such programs.

Early-Stage Capital Tools

Angel investment, seed capital, and venture capital are tools primarily used in the early stages of a new project or business when there is potential for both high risk and high reward. Angel investors are wealthy individuals with a high income or net worth that allows them to provide substantial private financing for emerging businesses that might be too small for other types of financing. Seed capital is an initial capital investment into a new business or project, typically for companies that are in their first year of existence and therefore are too young to secure funding from traditional sources. Investors often seek an equity or ownership position in the company or set a high rate of return (15-30%). Venture capital funds young or growing companies that are usually more established than the types of entities that seed capital supports. Venture capitalists also take an active role in managing the company they are investing in and might provide assistance with product development.

Program Examples

Colorado OEDIT - Venture Capital Authority

Certified Capital Companies Program makes venture capital funds available through the Colorado Office of Economic Development & International Trade to new or expanding small businesses throughout Colorado. The program encourages new business development and expansions of businesses by making a $75 million statewide pool available for investment throughout Colorado, and a $25 million rural pool available for investment in designated rural counties in Colorado.[1]

Maine Rural Development Authority - Loans

Maine Rural Development Authority provides financial assistance to communities, developers, and business owners in order to help develop or redevelop underutilized commercial properties that have experienced major economic losses such as plant closings and downsizing, or are economically distressed. The loan amount can be up to $500,000 and last up to 20 years.[2]

Rural Nevada Development Corporation

Rural Nevada Development Corporation (RNDC) is a 501(c)3 non-profit development corporation that serves fifteen rural counties, rural Clark and Washoe counties, and twenty-seven Native American tribes of Nevada. RNDC has been responsive to the needs of rural communities by addressing critical issues such as affordable housing, down payment assistance, homeowner rehabilitation, and small business alternative lending practices.[3]

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[1] https://oedit.colorado.gov/venture-capital-authority
[2] https://www.famemaine.com/business/programs/business-loans/maine-rural-development-authority/
[3] https://rndcnv.org/

Federal Support Tools

Federal support tools tend to be more flexible, less complex, and more easily applied than most other development finance tools. Support tools offer gap funding through financing and grants, and these tools span across bedrock tools, targeted tools, capital tools, and investment tools. They are often used in conjunction with other tools in a capital stack. Some support tools are available year-round and others can only be accessed or applied for during certain timeframes. While federal support tools such as Community Development Block Grants (CDBG) and U.S. Economic Development Administration (EDA) funding are typically available on an annual basis, various tax incentives and grant funds may only be available for a set period, or in response to specific financing challenges.

Rural development finance agencies can designate a point person to monitor the availability of such funding and maximize opportunities to use support tools for project financing. This role can also be filled on a regional scale, where one person helps multiple agencies track federal support tools. There are over 200 different federal programs that finance economic development, with some directly funding local governments, while others provide funding to specific businesses, industries, collaboratives, or intermediaries. The federal government provides billions of dollars annually, and when utilized fully, these resources are powerful at the local level.

U.S. Department of Agriculture Rural Development (USDA RD)

The U.S. Department of Agriculture's Rural Development (USDA RD) is tasked with improving the economy and quality of life in rural America. USDA RD offers grants, loans, and loan guarantees to help create jobs and support economic development and essential services. These include rural housing, health care, first responder services and equipment, and water, electric, and communications infrastructure. Additionally, the programs promote economic development by supporting loans to rural small businesses through banks, credit unions, and community-managed lending pools. Technical assistance and information offered help agricultural producers and cooperatives get started and improve the effectiveness of their operations. Technical assistance is also available to help communities undertake community empowerment programs.

Business & Industry Loan Guarantees

The Business & Industry Loan Guarantees offers loan guarantees to lenders for their loans to rural small businesses, which encourages commercial lenders to provide affordable financing for rural businesses. Federal and State-chartered banks, savings and loans agencies, Farm Credit Banks with direct lending authority, Credit Unions, and other non-regulated lending institutions that are approved by the applicable agency may apply as lenders for this program. For-profit or non-profit businesses, cooperatives, federally recognized tribes, public bodies, and individuals engaged or proposing to engage in a business may qualify for these loan guarantees.

Community Facilities Loan and Grant Program

The Community Facilities Loan and Grant Program offers affordable funding to develop essential community facilities in rural areas. The USDA defines an essential community facility as a facility that provides essential service to the local community for development in primarily rural areas (those with no more than 20,000 residents). This loan and grant program does not include private, commercial, or business undertakings. Eligible borrowers may include public bodies, community-based non-profits, and federally recognized tribes. The funds may be used to purchase, construct, and/or improve essential community facilities, purchase equipment, and pay related expenses. The kind of funding available includes low-interest loans, grants, and loan guarantees.

Intermediary Relending Program

The Intermediary Relending Program provides low-interest loans to local intermediaries that re-lend to businesses and for community development projects in rural communities. The intermediary lenders that may apply for this program include non-profits and cooperatives, federally recognized tribes, and public bodies. Eligible recipients of loans from intermediary lenders may be individuals, public or private organizations, or other legal entities that have majority ownership held by U.S. citizens or permanent residents, owe no delinquent debt to the Federal Government, are unable to obtain affordable commercial financing, and have no legal or financial interest or influence in the intermediary.

ReConnect Loan and Grant Program

The ReConnect Loan and Grant Program facilitates broadband deployment in areas of rural America that do not already have sufficient access to high-speed broadband. Eligible facilities include homes, community facilities for healthcare and public safety, schools, libraries, farms, ranches, factories, and other production sites. This program offers federal financing and funding options that may include loans, grants, or loan/grant combinations. Entities eligible for this program include Corporations, Limited Liability Companies or Limited Liability Partnerships, Cooperatives or mutual associations, States, Local governments, or any subdivision thereof, a territory or possession of the United States, and Indian tribes.

Water & Waste Disposal Programs

The Water & Waste Disposal Loan & Grant Program helps small, financially distressed rural communities extend and improve water and waste facilities that serve local households and businesses. This program offers funding for clean and reliable drinking water systems, sanitary sewage disposal, sanitary solid waste disposal, and stormwater drainage to households and businesses in eligible rural areas (rural areas and towns with populations of 10,000 or less), including tribal lands and colonias. The program supports state and local government entities, private non-profits, and federally recognized tribes unable to obtain commercial credit.

U.S. Environmental Protection Agency (EPA)

The U.S. Environmental Protection Agency (EPA) offers financing for cleaning up contamination in the environment. Every year, the U.S. EPA awards more than $4 billion in funding in grants, loans, and other assistance agreements. The EPA provides organizations from small non-profit organizations to large state governments with access to capital to remediate environmental contamination. EPA funding remains a chief tool to protect human health and the environment.

Brownfields Programs

EPA's Brownfields programs provide grants and technical assistance to communities, states, tribes, and others to assess, clean up, and reuse contaminated properties. Brownfield Assessment Grants provide rural communities with funding for brownfield inventories, planning, environmental assessments, and community outreach. Brownfields Revolving Loan Fund Grants provide rural communities with funding to capitalize loans that are used to clean up brownfield sites. The Brownfields Cleanup Grants provide rural communities funding for clean-up activities at brownfield sites owned by the applicant. Multipurpose Grants provide rural communities with funding to conduct a range of eligible assessment and cleanup activities at one or more brownfield sites in a target area. It should be noted that due to the expensive nature of cleaning up environmental contamination on brownfields, these EPA funds typically aren't sufficient to cover the entire capital stack of cleanup projects on their own.

Clean Water State Revolving Fund (CWSRF)

The Clean Water State Revolving Fund (CWSRF) provides states (and Puerto Rico) with the flexibility to fund a range of projects that address their highest-priority water quality needs. The 51 CWSRF programs provide low-interest loans for water infrastructure projects and operate like environmental infrastructure banks. Eligible recipients may use their loans for purposes including the construction of municipal wastewater facilities, control of nonpoint sources of pollution, building of decentralized wastewater treatment systems, creation of green infrastructure projects, protection of estuaries, and funding of water quality projects. Individual states may customize loans to provide incentives for certain types of projects. States may also customize loan terms to better serve small and disadvantaged communities.

Drinking Water State Revolving Fund (DWSRF)

The Drinking Water State Revolving Funds (DWSRF) offers capitalization grants to each state (including Puerto Rico) for their DWSRF based on the recent Drinking Water Infrastructure Needs Survey and Assessment, and the state provides a 20% match. In addition to offering grants to all 50 states and Puerto Rico, funding is also available for the District of Columbia, the U.S. Virgin Islands, American Samoa, Guam, and the Commonwealth of Northern Marianas. The DWSRF programs function like infrastructure banks and provide low-interest loans to eligible recipients for drinking water infrastructure projects. As money is paid back to the state's revolving loan fund, the state makes new loans to other recipients. The DWSRF programs are operated by states and may include loans, refinancing, purchasing, guaranteeing local debt, and purchasing bond insurance. The loan terms are set by the state and may include interest rates from zero percent to market rate, and may provide repayment periods of up to 30 years.

U.S. Department of Housing and Urban Development (HUD)

The Department of Housing and Urban Development (HUD) supports capacity building at the state and local level for rural housing and economic development and innovative housing and economic development activities in rural areas. HUD is the federal agency responsible for addressing America's housing needs.

Community Development Block Grant (CDBG) State Program

The State Community Development Block Grant (CDBG) Program allows states to award grants to smaller units of local government that develop and preserve decent affordable housing, provide services to the most vulnerable in our communities, and create and retain jobs. Funding priorities and selection criteria for eligible projects are determined by each state. 49 States and Puerto Rico participate in the CDBG State Program. Funds in the CDBG State Program are administered to each state based on population, poverty, incidence of overcrowded housing, and age of housing. CDBG funds may be used for the acquisition of real property, relocation and demolition, rehabilitation of residential and non-residential structures, construction of public facilities and improvements, public services, activities related to energy conservation and renewable energy resources, and provision of assistance to non-profit and profit-motivated businesses to carry out economic development and job creation/retention activities.

Housing Trust Fund (HTF)

The Housing Trust Fund (HTF) is available to states and state-designated entities. States must use at least 80% of each annual grant for rental housing; up to 10% for homeownership; and up to 10% for the grantee's reasonable administrative and planning costs. HTF funds may be used to produce or preserve affordable housing, and all HTF-assisted units must have a minimum affordability period of 30 years. Eligible activities may include real property acquisition, site improvements, and development hard costs, related soft costs, demolition, financing costs, relocation assistance, operating cost assistance for rental housing, and reasonable administrative and planning costs. Assistance is also available and eligible forms of assistance may include equity investments, interest-bearing loans or advances, non-interest-bearing loans or advances, interest subsidies, deferred payment loans, grants, and other forms of assistance approved by HUD.

Section 108 Loan Guarantee Program

The Section 108 Loan Guarantee Program helps communities by providing low-cost, long-term financing for economic and community development projects. Section 108 financing provides communities that have limited resources to invest upfront, with an avenue for funding larger, more costly projects. Eligible

Section 108 project types include economic development, housing, public facilities, infrastructure, and other physical projects, including improvements to increase resilience against natural disasters. Section 108 can be deployed in two ways: Directly by the community or its governmental or non-profit partner to carry out an eligible project, or indirectly with a community or its partner re-lending the funds to a developer or business to undertake an eligible project.

U.S. Economic Development Administration (EDA)

The U.S. Department of Commerce's Economic Development Administration (EDA) is the only federal government agency focused exclusively on economic development. The EDA facilitates regional economic development by working directly with communities and regions to help them build the capacity for economic development based on local business conditions and needs. Through grant investments in planning, technical assistance, and infrastructure construction, the EDA aims to leverage existing assets to support the implementation of economic development strategies that make it easier for businesses to start and grow. Through its network of regionally-based staff and portfolio of flexible grant tools, the EDA helps communities experiencing economic distress take control of their future and position themselves for economic prosperity and resiliency.

Public Works and Economic Adjustment Assistance Programs

The Public Works and Economic Adjustment Assistance Programs offered by the EDA help economically distressed communities and regions with comprehensive resources to address a wide variety of economic needs. Projects funded by these programs will support work in Opportunity Zones, with the objective being the creation and retention of jobs and increased private investment, advanced innovation, enhanced manufacturing capacities of regions, providing workforce development opportunities, and growing ecosystems that attract foreign investment. Eligible applicants include city, county, or township governments, federally recognized tribes, non-profits, private institutions of higher education, public and state-controlled institutions of higher education, and special government districts. Grants and cooperative agreements made under these programs are designed to leverage existing regional assets and support the implementation of economic development strategies that advance new ideas and creative approaches to advance economic prosperity in distressed communities, including those negatively impacted by changes to the coal economy.

Revolving Loan Fund Program

The EDA's Revolving Loan Fund Program is offered to capitalize or recapitalize loan funds that lend to businesses that are unable to obtain traditional bank financing. These loans provide access to capital as gap financing which enables small businesses to take on new employment opportunities with competitive wages and benefits. RLF recipients must develop and maintain an RLF plan to demonstrate how these funds will be used for specific economic development goals and show how it plans to administer the RLF throughout its lifecycle. State, county, city, or other political subdivisions of a State; Indian tribe; EDA-approved district organization; institution of higher education; and public or private non-profit organization are eligible to apply for a funds to establish an RLF. To be eligible to receive an RLF loan, potential borrowers must prove that credit is not otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed.

U.S. Small Business Administration (SBA)

The U.S. Small Business Administration (SBA) helps small business owners and entrepreneurs by increasing access to capital. The SBA provides counseling, capital, and contracting expertise for small businesses. Its financing programs for small businesses range from the smallest needs in microlending to substantial debt and equity investment capital.

7(a) Loan Program

The 7(a) Loan Program offers financial help to small businesses with special requirements. The SBA recommends this loan when real estate is part of a business purchase, but this loan program can also be utilized for short- and long-term working capital, refinancing current business debt, and purchasing furniture, fixtures, and supplies. The maximum loan amount is $5 million, with smaller 7(a) Loan options also available for up to $350,000. To be eligible for 7(a) Loan assistance, businesses must operate for profit, be considered a small business (as defined by the SBA), be engaged in business with the U.S., have reasonable invested equity, use alternative financial resources before seeking financial assistance, be able to demonstrate the need for a loan, use the funds for a sound business purpose, and not be delinquent on any existing debt to the U.S. government.

CDC/504 Loan Program

The CDC/504 Loan Program offers long-term, fixed-rate financing to support business growth and job creation. SBA 504 Loans are available through Certified Development Companies (CDCs), which are SBA community-based partners that are certified and regulated by the SBA. Recipients of a 504 loan must be for-profit companies located in the U.S. To be eligible for a 504 Loan, a business must also have a tangible net worth of less than $15 million and an average net income of less than $5 million after federal income taxes for the two years preceding the application. The 504 Loan includes other general eligibility standards which are outlined in the SBA size guidelines. This loan program can be used for the purchase or construction of existing buildings or land and for long improvement or modernization of land, streets, utilities, parking lots, landscaping, and existing facilities. The 504 Loan cannot be used for working capital or inventory, restructuring or repaying debt, or rental real estate investment.

SBA Microloan Program

The SBA Microloan Program helps small businesses and certain not-for-profit childcare centers start up and expand with microloans of up to $50,000. The SBA provides funds to intermediary lenders who have experience in lending, management, and technical assistance. These intermediaries determine borrower eligibility and administer the microloan program. Intermediaries typically require some type of collateral as well as the personal guarantee of the business owner. Microloans may be used for a variety of purposes such as working capital, inventory, and equipment.

U.S. Department of Transportation (DOT)

It can be difficult for rural communities to provide needed matches for DOT grants or to marshal resources to develop complex grant applications. That is why DOT is working to address these needs through its TIFIA credit programs with the Rural Project Initiative, and increasing funding allocation to rural projects in the BUILD and INFRA discretionary grant programs. Dozens of other vital DOT's discretionary grant programs are available for rural project sponsors to apply for, to help our nation meet transportation goals of safety and economic competitiveness.

Infrastructure for Rebuilding America (INFRA) Grants

Infrastructure for Rebuilding America (INFRA) Grants prioritize projects that apply innovative technology, delivery, or financing methods with track records of success to deliver projects in a cost-effective manner. For large projects, the INFRA Grant must be at least $25 million. For small projects, the grant must be at least $5 million. 25% of funding for INFRA grants is allocated for rural communities. DOT also prioritizes projects in which the official sponsor is significantly invested and is positioned to begin construction. INFRA Grants may be used to fund reconstruction, rehabilitation, acquisition of property, environmental litigation, and operational improvements directly related to system performance. Generally, INFRA Grants fund highway, bridge, and railway projects. Eligible applicants for INFRA grants include a state or group of states; a unit of government or group of local governments; political subdivisions of a state or local government; a special purpose district or public authority with a transportation function, including a port authority; a federal land management agency that applies jointly with a state or group of states; a tribal government or consortium of tribal governments; or a multi-state or multijurisdictional group of public entities. Multiple states or jurisdictions may submit a joint application for INFRA Grants, but applicants should identify a lead applicant to act as a lead contact. Each applicant in a joint application must be an eligible applicant. Joint applications should include a description of the roles and responsibilities of each applicant and should be signed by each applicant.

TIFIA Rural Project Initiative (RPI)

The Transportation Infrastructure Finance and Innovation Act (TIFIA) Rural Project Initiative (RPI) offers help to rural communities for improving transportation infrastructure. Qualified rural areas with surface transportation projects between $10 million and $100 million in cost can receive significant savings over traditional TIFIA loans and other commercial financing products. These offers include loans for up to 49% of the project's eligible costs (compared to 33% under traditional TIFIA), fixed interest rates equal to one-half of the U.S. Treasury rate of equivalent maturity of the loan at the time of closing, and eligible projects under $75 million in cost can waive all borrower fees. Projects eligible for TIFIA RPI funds include roads, bridges, and tunnels; transit systems infrastructure, bus and train stations, and buses, and passenger rail vehicles and facilities; intermodal connectors; pedestrian and bike infrastructure; freight transfer facilities; sea and inland waterway ports; and airports, under certain circumstances. State and local governments; transit agencies, private entities, special authorities, transportation improvement districts, and state infrastructure banks are all eligible to apply for these funds.

TIFIA Lite

TIFIA is a practical tool for large, complex transportation infrastructure projects that call for low-cost financing. TIFIA is a flexible tool, but this flexibility can prolong the application process. For projects that need an expedited application process, TIFIA Lite may be an alternative.

TIFIA Lite offers an expedited application process, ideal for experienced borrowers with strong credit and small-scale projects that do not require a greater degree of flexibility. Borrowers agree to use a loan template with standard terms to access the traditional benefits of TIFIA (low-interest rate, payment deferral of up to five years, no prepayment penalties, etc.) with a shorter review process. This process means borrowers are approved up to six months faster than an average TIFIA application. Eligible projects can receive up to a $100 million loan.

Rebuilding American Infrastructure with Sustainability and Equity (RAISE) Grants

Rebuilding American Infrastructure with Sustainability and Equity (RAISE) Grants permit DOT to invest in road, rail, transit, and port projects. RAISE Grants are awarded to fund projects that have a significant local or regional impact. DOT receives applications to build and repair critical pieces of transportation networks which are then examined to determine projects with the highest value for every dollar invested. The RAISE Program helps project sponsors obtain funding for multi-modal, multi-jurisdictional projects that are more difficult to support through traditional DOT programs. Examples of this include port and freight rail projects.

U.S. Department of the Treasury

The Department of the Treasury is charged with maintaining the finances of the United States. In addition to its principal duties, Treasury operates several financing programs for community and economic development. These include programs through the Community Development Financial Institution (CDFI) Fund, a subsidiary agency of the Treasury, and also the State Small Business Credit Initiative (SSBCI) program, among others.

Community Development Financial Institution (CDFI) Fund

The CDFI Fund offers funding programs as well as training and technical assistance to expand economic opportunity in low-income communities.

Certified Community Development Financial Institutions (CDFIs) provide access to financial products and services for local residents and businesses. There are thousands of CDFIs operating nationwide that work to bring together diverse private and public sector investors. The CDFI Program uses monetary awards and training opportunities to invest in and build the capacity of CDFIs, allowing them to grow, achieve organizational sustainability, and drive community revitalization. The CDFI Rapid Response Program quickly and broadly deploys capital to certified CDFIs through a streamlined application and evaluation methodology. The Bank Enterprise Award (BEA) program awards FDIC-insured depository institutions for increasing their investment and support of CDFIs and advancing their community development financing in the most economically distressed communities. The CDFI Bond Guarantee Program makes debt available to CDFIs from the Federal Financing Bank. The New Markets Tax Credit Program encourages economic and community development in low-income communities. The Capital Magnet Fund encourages the development of affordable housing in low-income communities. The Small Dollar Loan Program was created to help Certified CDFIs provide alternatives to high-cost, small-dollar loans.

The CDFI Fund offers a capacity-building initiative that offers training programs that target key issues affecting CDFIs and support the development of tailored capacity-building plans to meet the unique needs of individual organizations. Native Initiatives provide awards, training, and technical assistance to CDFIs serving Native communities. The CDFI Fund offers two training and technical assistance programs, Building Native CDFIs Sustainability and Impact II, which is a training program that includes workshops, webinars, etc., and is designed to strengthen the capacity of CDFIs to provide essential financial products and services to native communities. The other training and technical assistance program offered is the Access for All: Expanding CDFI Impact in the Disability Community Program which is a capacity-building training series on how CDFIs can expand financial services and products to those with disabilities.

New Market Tax Credits (NMTC) Program

The New Market Tax Credits (NMTC) Program utilizes the CDFI Fund to allocate tax credit authority to Community Development Entities (CDEs) through a competitive application process. Eligible applicants must be certified as CDEs by the CDFI Fund. CDEs are intermediaries that channel private capital flows from investors to qualified business locations in low-income communities. In exchange for equity in the CDE, investors are offered tax credits. CDEs can make loans and investments to low-income communities with better rates and terms that are more flexible than the market. The tax credits offered to investors are claimed over a 7-year period and are worth 39% of their original CDE equity stake. NMTCs can support manufacturing, food, retail, housing, health, technology, energy, education, childcare, and other types of development. Low-income communities benefit from the jobs associated with these investments as well as greater access to community facilities and commercial goods and services. NMTCs benefit projects and businesses by offering financing that is flexible and affordable, and those seeking NMTC-enhanced financing should identify the CDE(s) serving their area as a first step toward exploring this financing option.

Capital Magnet Fund

The Capital Magnet Fund utilizes the CDFI Fund to competitively award funds to CDFIs and qualified non-profit housing organizations. The Capital Magnet Fund finances affordable housing activities, economic development activities, and community service facilities. The objective of the fund is to uplift economically distressed communities, including underserved rural communities. Capital Magnet Funds can create financial tools such as loan loss reserves, loan funds, equity funds, risk-sharing loans, and loan guarantees. Capital Magnet Funds must use 70% of the dollars awarded to fund affordable housing. Up to 30% of the funds may be used to finance economic development activities linked to affordable housing.

Low-Income Housing Tax Credits (LIHTC)

The Low-Income Housing Tax Credits (LIHTC) Program supports the development and rehabilitation of affordable rental housing. The program awards developers federal tax credits to encourage them to reserve a certain fraction of units that are rent-restricted and for lower-income households. The credits are claimed over a 10-year period and the LIHTC program authorizes state housing credit agencies to award 9% and 4% federal tax credits to developers of affordable housing. LIHTC can benefit banks by offering attractive rates of return when properly managed. Additionally, LIHTC can spur additional commercial lending opportunities with existing customers and newly established banking relationships. LIHTC is awarded under the authority of the Internal Revenue Service (IRS), and state HCAs administer the LIHTC program through qualified allocation plans (QAPs). HCAs award tax credits to developers based on the housing needs identified and selection criteria established by states.

State Small Business Credit Initiative (SSBCI)

The State Small Business Credit Initiative (SSBCI) was reauthorized in 2021 through the American Rescue Plan Act. The U.S. Department of the Treasury allocates formula and incentive-based funding to states, territories, Washington D.C., and tribal governments for small business financing programs and the provision of technical assistance (TA) to small businesses that apply for SSBCI and other government programs. SSBCI funds can be used to support small business financing programs and the provision of technical assistance to small businesses applying for SSBCI and other government programs. SSBCI financing programs include the provision of capital access, collateral support, loan guarantees, loan participation, and venture capital. SSBCI TA funds can be used toward financial advisory, legal, or accounting services.

Case Studies

Expansion of the Yukon Kuskokwim Health Corporation - Alaska

Located in the rural Yukon-Kuskokwim Delta region of Alaska, the Yukon Kuskokwim Health Corporation (YKHC) provides health services to a population of around 30,000 Alaska Natives in 58 federally-recognized tribal communities. In addition to its flagship regional hospital, YKHC owns 5 sub-regional mid-level clinics and 41 small village clinics. The region's population was projected to grow 19% by 2025, so the health system of $1,300 staff and $75 million in payroll needed to expand.

YKHC worked with the U.S. Indian Health Service (IHS) and its Joint Venture Construction Program to expand its staffing and capabilities as a health system. Congress passed legislation to transfer ownership of the new facility to YKHC. IHS entered into a Joint Venture Agreement with YKHC to fund 250-400 new staff and operations for a new primary care facility that would greatly expand primary care, dental, pharmacy, lab, X-ray, emergency, and other services. YKHC then was ready to secure the last major piece of financing for what would become the Dr. Paul John Calricaraq Clinic.[4]

The project's total capital stack was $316.28 million. YKHC contributed $16.17 million in equity. The Alaska Municipal Bond Bank Authority (AMBBA) issued $110.45 million. Alaska's state statutes had to be amended in 2015 to allow for regional health organizations to access low-interest bonds for capital improvements through AMBBA. The Alaska Industrial Development and Export Authority (AIDEA) issued $165 million of Loan Anticipation Notes in January 2018, with USDA Rural Development committing $165 through its Community Facility Loan Program to repay the notes.[5]

[4] Dr. Paul John Calricaraq Project - May 2016 | YKHC.org
[5] CDFA - Regional Hospital Finance Presentation

RePower South Mixed Waste Recycling and Recovery Plant Facility - South Carolina

The South Carolina Jobs-Economic Development Authority (JEDA) is a conduit issuer of bonds that regularly facilitates the financing of projects throughout South Carolina. Certain for-profit entities and 501(c)(3) organizations can access low-cost tax-exempt financing through JEDA. In 2018, RePower South Berkeley took advantage of this by accessing $43.85 million of tax-exempt bonds through JEDA to build a new mixed waste processing facility in Moncks Corner, South Carolina. Approximately 60 jobs were created and four were retained.[6]

Prior to the opening of the facility, residents of the county had to either opt-in and pay for household recycling, or make use of drop-off recycling sites that only accepted cardboard and paper, with all other recyclables being sent to a landfill. The new facility began operations in 2019 and processes mixed waste to recover recyclable items and produce a fuel feedstock. The bulk handling system at the facility can process nearly 200,000 tons of mixed waste annually.[7]

Upper Rockville Mill – Rhode Island

The Upper Rockville Mill, a historic stone mill in Hopkinson, Rhode Island, underwent a $4 million rehabilitation project which converted the historic rope factory and auxiliary building into a new mixed-use of commercial and workforce housing for individuals and families. This rehabilitation project led to the first affordable housing development for families in this rural section of Rhode Island. In an effort to qualify for the Federal Tax Incentives for Rehabilitating Historic Buildings, special consideration was given to the preservation of the historic character and features of this building.

In addition to the 20% federal tax credit, the project also received Rhode Island state historic tax credits. Additional money was available through the Building Homes Rhode Island bond fund, the HOME program; a Community Development Block Grant; and lead program money as well as funds from private investors.[8]

[6] RePower South Uses $43.9 Million Bond Issue for New Mixed Waste Recycling & Recovery Plant – JEDA
[7] May 2, 2019: RePower South starts up advanced recycling system in South Carolina - RePower South
[8] https://www.nps.gov/tps/tax-incentives/case-studies.htm#rockville-mill

Red Lake Trading Post Grocery Store – Red Lake Indian Reservation, MN

The Red Lake Band of Chippewa Indians sought to expand the community grocery store to better serve the Red Lake Reservation. The $10.6 million project more than doubled their physical space and increased produce, dairy, meat, and grocery options. Travois New Markets, LLC, a CDE that exclusively works with Native communities, allocated $10 million in NMTC for the completion of this project.

The Native American Bank provided a loan to build the new grocery store on the Red Lake Reservation, and this was the first deal of its kind to combine NMTC with a USDA Business & Industry Loan Guarantee on a project located on tribal trust land using the ground lease as collateral. The expansion also created 20 new permanent jobs while retaining 30 permanent jobs from the previous store.

Idawy Solid Waste District - Idaho and Wyoming

Four small counties on the border of Idaho and Wyoming faced a challenge with their solid waste systems and landfills. Each county operated its own solid waste system and the associated landfill that intakes the solid waste. The combined total population of the four counties is just over 35,000 residents, so solving the various problems associated with the landfills would've been difficult for any one county to address on its own. The solution was to band together and create a new bond issuer - the Idawy Solid Waste District - to issue bonds for a lined regional landfill.

The Idawy Solid Waste District issued $22.36 million of tax-exempt and taxable revenue bonds, proceeds of which will be used to buy land, pay for permits, and master-plan the new landfill site, as well as cover various costs related to transfer stations in each of the four counties. U.S. Bank served as the underwriter on the deal and the new issuer was able to secure an A-minus rating from S&P Global.[9]

[9] Cooperative effort needed for state-of-the-art landfill | Bond Buyer

Additional Rural Development Finance Resources

Rural Development Finance Resources

What is Development Finance? | https://www.cdfa.net/cdfa/cdfaweb.nsf/pages/df.html
CDFA Rural Development Finance Resource Center | https://www.cdfa.net/rc/rural.html

Bond Resources

CDFA Bond Finance Resource Center | https://www.cdfa.net/rc/bond.html
Bonds and Development Finance | https://www.cdfa.net/p/bond-finance.html
CDFA Original Research: Built By Bonds |
https://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=builtbybonds.html

Targeted Tools Resources

CDFA Tax Increment Finance Resource Center | https://www.cdfa.net/rc/tif.html
CDFA Special Assessments Resource Center | https://www.cdfa.net/rc/specialassessment.html
CDFA Brownfields Finance Resource Center | https://www.cdfa.net/p/brownfields-resources.html
CDFA Property Assessed Clean Energy Resource Center | https://www.cdfa.net/rc/pace.html

Investment Tools Resources

CDFA Tax Credit Finance Resource Center | https://www.cdfa.net/rc/taxcredits.html
Overview of New Markets Tax Credits| https://www.cdfifund.gov/programs-training/Programs/new-markets-tax-credit/Pages/default.aspx
Overview of Low-Income Housing Tax Credits | https://www.huduser.gov/portal/datasets/lihtc.html
Overview of Historic Tax Credits | https://www.nps.gov/tps/tax-incentives.htm

Access to Capital Resources

CDFA Revolving Loan Fund Resource Center |
https://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/rlf.html
CDFA SSBCI Resource Center | https://www.cdfa.net/rc/SSBCI.html
CDFA Seed & Venture Capital Resource Center | https://www.cdfa.net/rc/seedventure.html

Federal Support Resources

CDFA Federal Financing Clearinghouse | https://www.cdfa.net/cdfa/cdfaweb.nsf/ffcsearch.html

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