Applying New Market Tax Credits & Direct Public Offerings to Woody Biomass Projects in California

Prepared by Cutting Edge Capital and
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Executive Summary

California's biomass plants use roughly 6.6 million tons of wood biomass as fuel annually to produce more than 600 megawatts of baseload renewable energy thereby avoiding the equivalent of 2.2 million tons of annual CO_2 emissions.[1] Most of these facilities are ending their contract life for power sales to the state's investor-owned utilities at a time when they are needed to help restore forest health and remove 6.4 million tons of dead trees in high hazard zones. Calforests estimates that the continuing expansion of insect and disease in the rest of the state will cause an additional 58 million tons of dead trees that need to be removed to reduce the threat of fire, safeguard our communities, and create healthier and more resilient forests.[2]

With the right infrastructure and financial investment, this dire challenge can be met. Expanding access to additional sources of capital will be critical to success. This report discusses one strategy that employs combining a tax-incentive financing structure with investment crowdfunding. The US Treasury's Community Development Finance Institution (CDFI) Fund and the IRS co-administer the New Markets Tax Credit (NMTC) Program to attract private capital into low-income communities. Through the NMTC program, individual and corporate investors receive a tax credit against their federal income tax in exchange for making equity investments in specialized financial intermediaries called Community Development Entities (CDEs). The credit totals 39 percent of the original investment amount and is claimed over a period of seven years.

These NMTC credits can be leveraged with debt financing to supply more capital. A potential source of debt financing is investment crowdfunding. This is a securities offering by an "issuer" (a for profit or nonprofit company raising the money) that is open for investment by the "crowd" (meaning both accredited and non-accredited investors). Traditional approaches for raising capital relies upon accessing high net-worth individuals or financial institutions such as bank. Investment crowdfunding expands the size of the pool of individuals and organizations that an issuer can directly ask for funds from 1 percent to virtually 100% of the investing population. Investment crowdfunding connect issuers and their communities, help build public-private partnerships, and create community wealth that recognizes not only financial returns but quality of life benefits as well.

Combining NMTCs and investment crowdfunding holds great potential to generate the capital needed for infrastructure to help address forest health, other climate

[1] Westlands and Mountain Counties Letter to Governor Brown, March 9, 2016, http://acconsensus.org/2016/03/12/use-biomass-in-forest-maintenance-westlands-and-mountain-counties-letter-to-governor-brown/
[2] Calforests comments on CPUC biomass resolution, February 23, 2016, http://calforests.org/calforests-comments-on-cpuc-biomass-resolution/

change challenges and community development opportunities. In 2014, Development Finance Institutions' (DFIs) climate finance investments reached $131 billion globally - 33% of total flows.[3] The US Treasury's CDFI Fund has awarded $43.5 billion in NMTCs since the program was established in 2000. An additional $3.5 billion will be awarded this year and through the Protecting Americans from Tax Hikes (PATH) Act of 2015, this level of funding is authorized to continue annually through 2019.

The "mass affluent" represents consumers with an annual household income over $75,000 or liquid financial assets between $100,000 and $1 million. In California, it is estimated that there are over 4 times as many mass affluent households that do not qualify as accredited investors under US securities laws as there are accredited investor households. This non-accredited crowd holds approximately $845 billion in assets. State securities laws and recent changes to federal securities laws are opening up opportunities for this mass affluent segment to directly invest in businesses and funds. While there may be investing limits placed on investment crowdfunding products to protect small investors, for issuers, crowdfunding provides a larger pool of investors to approach and greater flexibility to structure an offering that satisfies both a financial return objective and an affinity or relationship return with personal values and non-financial benefits (i.e. impact investing).

While traditional finance focuses on single-bottom-line profits, impact investing is a triple-bottom-line approach that considers people, planet and profits. A wood biomass project may not satisfy the financial return objectives of a single-bottom-line investor. By considering other factors such as improved forest health, local job creation, reduced carbon emissions, etc., a triple-bottom-line investor may seek lower financial returns to receive other benefits. New Market Tax Credits and investment crowdfunding both support triple-bottom-line investing. By combining these two investing strategies, more capital can be deployed in communities and to projects like wood biomass where it is critically needed.

The purpose of this report is to describe NMTCs and investment crowdfunding in greater detail and how these two financial tools can be used to support wood biomass projects. Section 1 provides an overview of these financing tools. Section 2 describes New Market Tax Credits in greater detail - What are NMTCs? Where can NMTCs be used? How can NMTCs be used? Who are the NMTC actors? How can NMTCs provide leverage? What are some key metrics to evaluating NMTC value? What are some Community Benefits that a project provides through NMTC financing?

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[3] Global Landscape of Climate Finance 2015, Climate Policy Initiative, November 16, 2015, http://climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2015/

A similar assessment is provided in Section 3 on Direct Public Offerings. What are DPOs? Who can use DPOs to raise capital, or to invest? Where can DPOs be used? How can DPOs be used? What is the DPO process, from underwriting to investing?

Section 4 provides a generalized case study for applying these tools to woody biomass projects. Strategies for structuring NMTCs and DPOs to support woody biomass projects will be discussed and contacts of potentially interested funders and investors will be provided.

The report authors are grateful for the assistance and access to information provided by Jonathan Kusel, Sierra Institute and their consultant Tom Peters. The Sierra Institute (SI) plans to develop a 3 MW woody biomass facility on a 29-acre parcel they own at Crescent Mills in Plumas County. We relied heavily upon their experiences in working through the economics and financing strategies associated with this project.

By working through a real world case study like the Crescent Mills project, we were better able to assess the potential opportunities and challenges associated with the financing strategy described. A number of conclusions were observed. One is that this approach is complex and has many moving parts that are time dependent. There is a timeline for applying for and receiving NMTCs that must also fit the project development timeline. The project timeline is also subject to grant availability and timelines, and utility auction rules and timelines. All of these timelines have uncertainties that must be managed through an overall project plan that is flexible but focused and committed to executing a successful project.

Another conclusion is that NMTCs can provide lower cost of capital to the project and improve the project return. A leveraged NMTC allows the tax credit investor to receive a significant portion of the returns through tax savings and requires interest-only payments from the project in the first seven years. Additionally NMTC financing can potentially be coupled with renewable energy tax credits to achieve further project savings.

The NMTC investor must remain committed to the project for the first seven years. After that period the investor will no longer receive tax benefits and will want to exit the project. It will be important to establish an exit strategy that transfers ownership to a successor – either the project sponsor, developer/operator or potentially community ownership.

A Direct Public Offering (DPO) is a term that refers to a public offering of securities by a business or nonprofit to both accredited and non-accredited investors in one or more states. Using a DPO (also known as investment crowdfunding), a business or nonprofit can market and advertise its offering publicly by any means it chooses — through advertising in newspapers and magazines; at public events and private meetings; and on the internet and through social media channels. Also, the entity that is raising the funds offers the investment directly, without a middleman like an investment bank.

There are several CDFIs in California like Northern California Community Loan Fund that use DPOs to raise capital for their loan funds. Non-profit organizations like the Sierra Institute could also raise capital for their projects through a DPO. Because the issuer structures DPOs, they can be more flexible in financing terms than a bank loan or a private placement offering negotiated with an accredited investor. Financing rates are often lower than banks although the cost to obtain funds (preparing a DPO) will be higher.

Timing is also an important consideration for raising capital through a DPO. There is the time required to prepare the documents; time for state regulator review and approval; and time required to raise the capital. Depending on timing and resource constraints, private placement offerings may be quicker. In either case, attracting the needed capital is uncertain. A good marketing and social media campaign is essential to successfully raising DPO funds. This added costs makes DPOs a more expensive option upfront, however experience indicates that the cost of capital is lower for DPOs than private placements.

For both NMTCs and DPOs, it is important to identify and communicate the community and environmental benefits of a project. The more quantifiable these benefits are, the better they fit into an impact investor's portfolio. A well structured DPO that includes quantifiable social and environmental benefits may also receive investment attention by private equity funds that serve the needs of pension funds. The investment fund created for leveraged NMTC financing offers the potential for DPOs to attract private equity and pension funds in addition to local community investors. Given the magnitude of the forest health problem and other challenges in the state such as job creation, a combined NMTC and DPO capital strategy has the potential to attract sizeable amounts of capital from the state's retirement funds seeking both impact and return. This opportunity is discussed in greater detail in the report.

1. Introduction and Overview

New Markets Tax Credits (NMTCs) can be a viable financing mechanism for woody biomass projects. NMTC provide many benefits including: lower cost of money, interest only payments on much of the financing in first 7 years, more equity placed into the project, ability to apply grants and other sources of funds into the project finance structure, ability to include other available tax credit financing like Renewable Energy Tax Credits (RETCs). NMTCs can facilitate other related, community and economic initiatives, through Community Benefit Agreements, to attract broader financing support

NMTC also have several challenges. They are limited in offering to qualified areas based on economic need. NMTCs are complex financing structures that involve many different actors that must be willing and able to play essential roles. NMTC actor roles include:

- NMTC investors who are able to receive the tax benefits;
- Investors and lenders willing to accept various degrees of default risk within the overall capital stack;
- Investors willing to provide patient capital.

NMTCs complexity increases the cost of financing through increased fees for legal, accounting, tax and other professional services, and management fees. NMTCs have funding limits and obtaining credits for a project is a very competitive process.

Woody biomass projects in California are well positioned to overcome these challenges and take advantage of the benefits. These projects satisfy the intended federal NMTC mission and low-income community, and rural service area requirements.

This study has identified many interested actors willing to participate, including Community Development Enterprises (CDEs), Community Development Financial Institutions (CDFIs), Banks affiliated with CDEs and CDFIs, community project sponsors/developers like the Sierra Institute (who provided invaluable information for this study).

Direct Public Offerings (DPOs), or crowdfunded securities, can be a good capital source for NMTCs. DPOs can support loan funds and provide a capital source for CDFI initiated funds. DPOs can be used to create community and project affiliated funds. DPOs provide flexibility in NMTC finance design by tailoring offerings that facilitate smoother exits and investor transitions at critical stages of the NMTC life cycle. DPOs can help reduce tensions among investors regarding the capital stack and potential default waterfall allocations.

DPOs expand the universe of investors. These crowdfunded securities provide direct access to non-accredited investors, especially the mass-affluent which are very limited to retail security offerings. Because of the Community Benefits and positive environmental impacts that woody biomass projects provide, affinity investors and community investors are interested investors and accessible through DPOs. Institutional investors including foundations, endowments and even pension funds may be attracted to these projects through DPOs as part of their Alternative Investments portfolio.

Using DPOs to support project or community affiliated sponsored loan funds for inclusion in a NMTC financing strategy can achieve a number of outcomes. By providing additional sponsor capital, DPOs help improve project finance certainty by establishing a pool of committed funds for project. By having more sponsor "skin in the game," this DPO sourced pool of funds provides greater confidence and attractiveness to other potential investors for the project. These funds can expand the triple-bottom-line metrics by recognizing and communicating (both direct and indirect) community, social and environmental benefits to investors.

Because of the broad range of financing that NMTCs can support (from micro-lending to real estate development), DPO sourced loan funds can enhance industry cluster development (e.g. from timber and forest waste recovery to wood finished products), and build stronger public-private partnerships for related infrastructure development.

This report begins by describing New Market Tax Credits. What are NMTCs? Where can NMTCs be used? How can NMTCs be used? Who are the NMTC actors? How can NMTCs provide leverage? What are some key metrics to evaluating NMTC value? What are some Community Benefits that a project provides through NMTC financing?

A similar assessment is provided on Direct Public Offerings. What are DPOs? Who can use DPOs to raise capital, or to invest? Where can DPOs be used? How can DPOs be used? What is the DPO process, from underwriting to investing?

Once a base of understanding around DPOs has been established, the report provides a generalized case study for applying these tools to woody biomass projects. Strategies for structuring NMTCs and DPOs to support woody biomass projects will be discussed and contacts of potentially interested funders and investors will be provided.

2. New Market Tax Credits

2.1. What are NMTCs

Authorized by the Community Renewal Tax Relief Act of 2000, the federal government's New Markets Tax Credit (NMTC) program encourages new or increased investment in primarily nonresidential operating businesses and real estate projects located in Low-Income Communities (LICs). The NMTC program is administered by the Community Development Financial Institutions (CDFI) Fund in the Department of the Treasury. The NMTC program seeks to attract investment capital to LICs by permitting individual and corporate taxpayers to receive credits against their federal income taxes in exchange for making equity investments in specialized financial institutions known as Community Development Entities (CDEs). The CDEs then invest the capital they raise in qualified low-income community businesses (QALICBs). The resulting NMTC financial structures include the CDEs, investors, and QALICBs—as well as the transactions between them—and may also include private loans and funding from other government programs.

The overall goal of the program is to stimulate community development in "economically distressed" census tracts by creating jobs, businesses, and providing essential services to low-income residents. Other community impacts like cleaning up or improving the environment, and creating access to healthy food and health services are also high priority for the program.

In recent years Congress has authorized $3.5 billion for the NMTC program and in December 2015 Congress extended the program at $3.5 billion for an additional five years. Each year bout 300 CDEs apply for an allocation of tax credits to use to invest in projects within their market area that will have a high community and economic impact. The requested amount of tax credits greatly exceeds the amount available each year. In 2015 only 29% of the CDEs requesting an award of NMTCs received them. Generally, the CDEs awarded NMTCs are banks, CDFIs lenders, and other financial institutions with a strong lending capacity that have established a solid track record with the NMTC program. The CDFI Fund distributes the NMTCs geographically across the country in an attempt to get broad coverage. Some CDFIs have a relatively small market area within a large city or metro region, others operate statewide, and many of the banks and a few CDFIs are national in scope.

2.2. Where can NMTCs be used

Projects can be located in either metropolitan or nonmetropolitan census tracts as long as they meet the program's definition of low income.

The NMTC Program provides an incentive for investment in "Low-Income Communities" (LICs). LICs are census tracts:

- Where the poverty rate is at least 20%; or
- Where the median family income does not exceed 80% of the area median family income; or
- Where the median family income does not exceed 85% of the area median family income provided the census tract is located in a high migration rural county; or
- Where the census tract has a population of less than 2,000 and is contained within a Federally designated Empowerment Zone and is contiguous to at least one other LIC.

Businesses not located in LICs but that otherwise serve Targeted Populations may also qualify for NMTC-enhanced loans/investment. Targeted Populations include Low-Income Persons (e.g. family income no greater than 80% of the applicable area median family income), to the extent the project is located in a census tract with a median family income at or below 120% of the median family income.[4]

2.3. How can NMTCs be used

In order to claim the NMTCs, an investor must make an equity investment (a Qualified Equity Investment, or QEI) into a CDE by providing cash for either stock in a corporation or a capital interest in a partnership, in exchange for the credits. To qualify, the equity investment must:

- Be acquired solely in exchange for cash by the investor at its original issue;
- Be designated by the CDE as a Qualified Equity Investment (QEI); and
- Remain invested in the CDE during the 7-year tax credit period from the date the investment was initially made.

"Substantially all" of QEI proceeds must be invested in Qualified Low-Income Community Investments (QLICIs) within 12 months.[5] QLICIs include:

- Any capital or equity investment in, or loan to, a "Qualified Active Low-Income Community Business" (QALICB);
- Purchase of a loan from another CDE if the loan is a QLICI;
- Any equity investment in, or loan to, a CDE; and
- "Financial Counseling and Other Services" (FCOS) to businesses located in, or residents of, Low-Income Communities (LICs).

2.4. Who are the NMTC actors

"Qualified Active Low-Income Community Businesses" (QALICBs),
A QALICB must meet the following requirements:

- At least 50% of the total gross income is from the active conduct of a qualified business in Low-Income Communities (LICs); and
- At least 40% of the use of tangible property of the business is within LICs; and
- At least 40% of the services performed by the business' employees are performed in LICs; and

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[4] Refer to IRS and CDFI Fund guidance for additional details. https://www.cdfifund.gov/Documents/For%202015%20Round%20-%20Introduction%20to%20NMTC%20Program.pdf

[5] Years 1 – 6: Substantially All = 85% of amount paid by investor at original issue. Generally, returns of equity, capital or principal must be reinvested within 12 months. Year 7: Substantially All = 75%. Reinvestment is not required in the final year of the 7-year credit period.

- Less than 5% of the average of the aggregate unadjusted basis of the property is attributable to collectibles (e.g. art and antiques), other than those held for sale in the ordinary course of business; and
- Less than 5% of the average of the aggregate unadjusted basis of the property is attributable to non-qualified financial property (e.g. debt instruments with a term in excess of 18 months).

Activities not eligible for NMTC Investment include Residential rental property, and other certain types of businesses (e.g. liquor stores, massage parlors, golf courses, etc.).

2.5. Description of the leveraged NMTC structure

NMTC financing typically involves leveraging capital raised from a variety of sources. One is equity, sourced from private investors (typically large banks) with federal tax liabilities that can be absorbed or offset by the NMTC tax credits. The other source of capital is provided by the project sponsor, which could include grants, capital campaign monies, and project loans provided by Community Development Financial Institutions (CDFIs) and other lenders. These sources of capital are made available to an investment fund managed by the bank providing the equity funds in return for the NMTCs. This leveraging of capital increases the amount of funds available for financing LIC projects and businesses, and attracts investors, promoting partnerships to spread the overall risk. [6]

In the leveraged NMTC model, the NMTC investor receives tax credits on the full amount of the equity plus the project capital loaned to the investment fund by the project sponsor, which is called the Qualified Equity Investment (QEI)

The investment fund provides Qualified Equity Investment (QEI) capital, sourced from its leveraged providers, to a for-profit subsidiary of a Community Development Entity (CDE). The CDE uses the QEI funds to make investments (Qualified Low-Income Community Investments, "QLICIs") in the form of 7-year interest-only loans to Qualified Active Low-Income Community Businesses (QALICBs). The CDE retains fees from its lending activities and passes the interest earned on the loans back to the investment fund where they are distributed to the equity investor and leverage lender.

Figure 1 provides an example of the leveraged NMTC structure. The total QEI allocation is $10 million. The investor puts in $2.97 million into the fund and the

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[6] New Markets Tax Credit (NMTC) Program Evaluation, The Urban Institute Metropolitan Housing and Communities Policy Center, April, 2013, http://www.taxpolicycenter.org/UploadedPDF/412958-new-markets-tax-final.pdf

leveraged lender loans the remaining $7.03 million. The investor's $2.97 million is the present value to the investor of the stream of tax credits that will be generated by the investment evaluated at the 7% rate of return. The NMTC credit price to investors is quoted as a dollar invested per dollar NMTC received. In this example the investor paid about $0.76 for the NMTC credit ($2.97M paid / $3.9M received).

One of the most common uses of QEI is to provide loans for construction or renovation of real estate projects and other real assets. The structure of these loans is often designed to transfer a substantial portion of the subsidy created by the tax credits to qualified active low-income community businesses (QALICBs). A common QLICI loan structure used is one in which a CDE makes two loans:

- Loan A
    - Provides most of the economic return on the investment in the CDE;
    - The term of the loan is typically for 7 years with a 1% interest-only payment.
    - Provides the source of payment of the leverage loan

- Loan B
    - Corresponds to the portion of the CDE investment whose return on investment is primarily via the receipt of the NMTCs
    - The term of the loan is typically for 7 years with a 1% interest-only payment.
    - Provides supplemental cash flow needed for the expenses of the CDE and the fund.

This approach is used widely because it fits well within the NMTC program, and within a leveraged investment structure in particular both loans will be interest-only throughout the 7-year compliance term. Given the relatively high cost of market-rate loans, low interest and interest-only payments create significant value for the QALICB.

2.6. Key metrics to evaluating value

In the face of the complexity of the documentation and often-high transaction costs, it is important that both the benefits and the costs be assessed accurately. NMTC's benefit to QALICBs depends upon the sale price of the tax credits, fees paid, and the estimated amount of equity remaining in the QALICB at the end of year seven.

NMTC pricing is typically quoted in cents per $ of NMTC received. The higher the NMTC credit price, the lower the investor's return on the investment and the greater the amount of equity transferred to the CDE and loaned to the QALICB. Figure 2 shows the relationship between NMTC Credit Price, the investor's rate of return (in percent) and the amount of equity invested in the QALICB. From the example above, a NMTC investor credit price of $0.76 translates to about a 7% return to the investor and a $2.97 million equity investment in the QALICB. The market price for NMTC credits varies depending upon the QALICB and market conditions. Figure 3 shows the range of NMTC prices from 2005-2014. Good market prices in 2014 are an indication that more equity was transferred to QALICBs, and investors were accepting lower returns on their investment. In the current low interest rate environment, these returns are at attractive levels for investors.

High fees and retentions to CDEs reduce the NMTC equity available to low-income community businesses. CDEs retain an initial fee, typically in the range of 3-5%, to cover administrative costs before investing the remainder in the project. The CDEs then also charge fees over the course of the 7-year compliance period that further reduces the equity available to the project. These fees take the form of on-going or asset management fees during the compliance period, the cost of annual audits, and closing fees at the end of the compliance period. Table 1 shows the average fees and retentions paid to CDEs as a percentage of NMTC investment.[7]

Higher CDE fees and retentions are often associated with larger and more complex projects. For example, the number of investment transactions that occur on a large NMTC project often involves multiple CDEs, which increases transaction costs.

NMTCs can be twinned with other tax credit programs such as renewable energy tax credits. Project investors may be able to benefit from a project's accelerated, MACRS and bonus depreciation. Although the tax incentives create value, they will also increase fees to the overall project due to the increased complexity. In addition, the projects will incur third-party transaction costs for NMTC related accounting, legal and consulting services not provided by the CDEs. These additional fees further reduce the equity available to QALICBs.

Loan-to-book values and debt coverage ratios are leverage measures often included in NMTC performance assessments. After the seven-year term, NMTC investors will want to exit from the project. The remaining lenders will want confidence that the QALICB will hold sufficient assets to refinance the project at the end of year seven. [8]

2.7. Managing exits and transitions after Year 7

NMTCs are a flexible financing tool that infuses up-front capital into communities with high poverty rates and high unemployment rates to spur job growth and

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[7] GAO-14-500

[8] *In the NMTC program, tax credits provide not only necessary additional funding but also funding at a lower-than-market rate for that level of risk. As a result, leveraging is generally viewed positively by both government officials and private investors, and leverage measures are often included in performance assessments (GAO 2008),* Urban Institute

catalyze community development.[9] The ultimate beneficiaries of NMTCs are the people and communities positively affected by NMTC projects. The NMTC program is structured to motivate the tax equity investor to exit the investment after seven years, once the NMTC tax benefits expire. It is important to have a plan to manage the transition of investors and lenders during this period to ensure that the benefits to the community from the project continue. This plan is typically provided by the attorney representing the QALICB at the time of NMTC closing.

As described above, there are two outstanding loans tied to the leveraged investment. Loan B relates to the NMTC investor bank that has been receiving interest only payments. While the NMTCs have essentially repaid the original investment, there remains a principle balance on the books that must be settled (or written off). This is typically done through a put or call option, which is a document drafted by the attorney at the time of closing the NMTC transaction. With a put option, the investor has the right but not the obligation to "put" its investment interest in the leverage fund to the QALICB, or an affiliate of the QALICB, for a nominal price. Alternatively, the QALICB or affiliate holds a call option to purchase the interest from the investor at fair market value.[10] In either scenario, the NMTC investor exits the arrangement and the B loan is forgiven and converted to equity to the QALICB or affiliate. There can be significant tax consequences that result and all parties should consider and plan for these consequences when the original deal is structured. An exit plan should be established up-front to help with exit execution and to minimize tax implications.

Loan A , which is the leverage loan made from the project sponsor to its affiliated QALICB, is also forgiven at the 7-year unwind. The exit plan should recognize this possibility and be reviewed well prior to the transition phase to make sure the plan still fits the current market conditions and provide sufficient time to arrange alternative financing if needed.

2.8. Community Benefits

In addition to providing direct funding for community facilities, many NMTC projects involve formal or informal community benefits agreements (CBAs) between CDEs and businesses benefiting from the NMTC financing. Nearly two-

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[9] New Markets Tax Credit: The Unwind – The Investor's Perspective, Matthew Potter and Brooke Roseberry, U.S. Bancorp Community Development Corporation, August 2013, https://www.cohnreznick.com/new-markets-tax-credit-unwind-investor-s-perspective

[10] For a more detailed description, please see Year 7 Exits, Frank Buss, CPA, Novogradac & Company LLP, http://www.novoco.com/events/conferences/nmtc/2014/san_diego/manual/articles/novogradac_jtc_2013-10_nmtc_pg52.pdf

thirds of projects reported by CDE survey respondents in 2013[11], and almost half of the respondents in 2014[12], involved some form of community benefits agreement.

A CBA is an agreement negotiated between a prospective developer and CDE that specifies the public benefits and amenities that a particular developer will provide to the impacted community in exchange for the CDE's support of its proposed project. Provisions contained in a CBA often include such things as local living-wage requirements, local hiring and job training programs, minority hiring minimums, environmental remediation requirements, and funding for community services and programs. Because CBAs are negotiated on a case-by-case basis, the benefits can be tailored to meet specific community needs.[13]

NMTC financing involves attracting leverage lenders to provide patient capital at below market rates during the first seven years. Social impact investors are more likely to participate if the community, social and environmental benefits associated with the project satisfies their investing objectives. A community benefits agreement with the developer, or community benefits with performance metrics established and publicly reported, provides important information to assist an impact investor in making investment decisions.

3. Direct Public Offerings
   3.1. What is a DPO

A Direct Public Offering (DPO) is a term that refers to a public offering of securities by a business or nonprofit to both accredited and non-accredited investors in one or more states. Using a DPO (also known as investment crowdfunding), a business or nonprofit can market and advertise its offering publicly by any means it chooses — through advertising in newspapers and magazines; at public events and private meetings; and on the internet and through social media channels. Also, the entity that is raising the funds offers the investment directly, without a middleman like an investment bank.

DPOs allow enterprises to:

- Offer debt, stocks, and other kinds of investment opportunities to the public;

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11 NMTC Coalition, 2013, http://nmtccoalition.org/wp-content/uploads/NMTC-Progress-Report-2014.pdf

12 NMTC Coalition, 2014, http://nmtccoalition.org/wp-content/uploads/NMTC-Progress-Report-2014.pdf

13 Understanding Community Benefits Agreements: Equitable Development, Social Justice and Other Considerations for Developers, Municipalities and Community Organizations, Patricia E. Salkin and Amy Lavine, 2008, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1272795

- Advertise the investment opportunity to the public;
- Accept as many investors as they want or need – both accredited and unaccredited;[14] and
- Do all this without violating the state and federal securities laws.

A DPO is a generic term that can involve several different legal compliance strategies, some of which are surprisingly simple and easy to do. There are several legal compliance pathways that can be used to conduct a direct public offering. An often used strategy for local businesses is the federal Intrastate Exemption,[15] which exempts "any security which is a part of an issue offered and sold only to persons resident within a single State or Territory, where the issuer of such security is a person resident and doing business within or, if a corporation, incorporated by and doing business within, such State or Territory." This exemption recognizes that an issuer that is only offering and selling securities within one state and doing most of its business within that state is best left alone by the federal securities laws and left to the regulatory authority of the state in which that issuer is located and offering securities. In California, DPOs are submitted by application for permit to the California Department of Business Oversight (DBO) under California Corporations Code §25113(b)(1) and §260.113 of the California Code of Regulations.

3.2. Who can raise capital with DPOs

DPOs are available to many different organizations, including for-profit corporations, LLCs, cooperatives, and nonprofits. Private companies can use DPOs to raise either debt or equity. C-corporations can raise equity in the forms of common or preferred stock, while S-corporations are limited to common equity. Limited liability companies offer equity in the form of membership interests. Coops can raise equity-type capital through memberships. Nonprofits do not issue equity, but can raise capital through debt and revenue share offerings.

Renewable energy projects are often structured as limited partnerships or LLCs in order to pass through investment tax credit and accelerated, MACRS depreciation benefits. LLCs can have multiple classes of membership interests and are documented in the LLC's operating agreement. Often the LLC will include 2 classes of memberships, a general partner that actively manages the energy project and

[14] In most DPO circumstances, there are no limits on the number of investors, accredited or unaccredited. However, going over 500 unaccredited investors or 2,000 total investors in a single class of equity securities can be inadvisable under some circumstances, due to the SEC public reporting requirements.
[15] For a more detailed description, please visit the Cutting Edge Capital website: http://www.cuttingedgecapital.com/the-intrastate-exemption-from-the-federal-securities-offering-registration-requirement/

limited partners that invest in the project to receive the tax benefits but are not involved in day-to-day activities. At the end of the year, the LLC will distribute K-1 forms showing each equity investor's allocation of profit and losses of the entity. Raising capital through a crowd-funded DPO for such a project may involve issuing membership interests to a large number of investors, many of whom may not be eligible to take full advantage of the pass-through tax benefits.

A fund that invests in other businesses will generally be subject to the Investment Company Act of 1940 (40 Act), which regulates mutual funds. A few options are available to avoid onerous regulation as an investment company. A company holding equity in multiple businesses must either qualify for an exemption from the Investment Company Act, or set up a Business Development Company, which enjoys less onerous regulation under the Act. Another alternative is to use a series of LLCs with each having less than 100 investors. Charitable organizations are exempt from the definition of an investment company under the 40 Act. That is why so many small business funds are nonprofits.

There are some limitations on nonprofit funds. First, they must meet the IRS definition to be considered a 501(c) (3) entity (e.g. operated for a charitable purpose). This means that loans and investments must be targeted (1) to aid an economically depressed or blighted area; (2) to benefit a disadvantaged group, such as minorities, the unemployed or underemployed; and (3) to aid businesses that have actually experienced difficulty in obtaining conventional financing (a) because of the deteriorated nature of the area in which they were or would be located or (b) because of their minority composition, or to aid businesses that would locate or remain in the economically depressed or blighted area and provide jobs and training to the unemployed or underemployed from such area only if the assistance was available. The organization must show its specific criteria used in determining whether businesses are eligible for its assistance and how such criteria relate to furthering public rather than private interests.

The other limitation is that nonprofits cannot offer equity investments – they can only offer debt or revenue sharing. These limitations fit well with the scope and mission of new market tax credits. In fact, CDFIs like NCCLF will raise debt capital through DPO's to support their leveraged lending activities for NMTC projects.[16]

3.3. Who can invest in DPOs

DPOs are available to both accredited and non-accredited investors. Individuals are accredited investors if they satisfy any one of the following standards:

1. A net worth (with their spouse) in excess of $1 million;

[16] Prospectus: Northern California Community Loan Fund, November, 2015, http://www.ncclf.org/wp-content/uploads/2015/12/FY16-Prospectus.pdf

2. Individual income for the past two years and a reasonable expectation of income for the current year in excess of $200,000 (excluding spouse); or
3. Joint income with their spouse in excess of $300,000 for the past two years and a reasonable expectation of such income for the current year. [17]

For non-accredited investors, the Department of Business Oversight (DBO) has broad discretion under the Corporate Securities Law of 1968 to set standards for the offer and sale of securities.[18] The DBO may require investors to meet specific qualifications related to experience, level of financial responsibility, tax status or any other criteria the DBO deems necessary. These "investor suitability" standards are imposed as needed and depend on the securities issued. The issuer may be permitted to offer and sell the securities in an "open qualification" to the public generally. When investor suitability standards are imposed, the DBO in most cases restricts the offer and sale of the securities to persons having a minimum gross income and minimum net worth, or limits the percentage of net worth a person could invest.[19] For example, the NCCLF DPO imposes suitability standards of $1,000 max investment on investors with a minimum of $75,000 in net worth, plus $50,000 gross income, or $150,000 net worth plus 10% net worth cap on investment amount.[20]

Investment crowdfunding is a term that refers to a public offering of securities by a business or nonprofit to both accredited and non-accredited investors in one or more states. DPOs allow companies to raise capital directly from everyone—their community, fans, customers, and supporters. Reaching both accredited and non-accredited individuals greatly expands the universe of potential investors.

Table 2 illustrates the increased investing potential that DPOs and investment crowdfunding provides. Within the Rural Community Development Initiative (RCDI) region, there are approximately 14,000 accredited investor households collectively holding an estimated $22 billion in financial wealth. By applying investment crowdfunding techniques to DPOs, the number of potential investors with household incomes over $75,000 increases to 114,000 and the total pool of financial wealth held almost triples to $61 billion. Assuming that 3% of this added 100,000 household investor pool invested $1,000 in a local DPO opportunity, the funds available for the project would be $3 million. A potential outcome could occur

[17] 17 CFR §230.501(a)(5)–(6), https://www.law.cornell.edu/cfr/text/17/230.501
[18] Cal. Code Regs., tit. 10, § 260.140.01.
[19] For range of suitability standards imposed, see CA DBO's Annual Report On the Offer or Sale of Securities by Permit under Corporations Code Section 25113, December, 2015, http://www.dbo.ca.gov/Licensees/Corporate_Securities_Law/pdf/2015%20Securities%20Annual%20Report.pdf
[20] NCCLF DPO Prospectus, 2015

where local accredited investors are willing to invest more in a project if they see strong community commitment through their crowdfunded, DPO investing.

Another potential outcome is broader regional and state investing. According to the Table 2, the number of potential investors with household incomes over $75,000 within the state of California increases four fold. An additional $846 billion in wealth is added to the investing pool. Again assuming a 3% participation rate from this crowdfunded investor pool, at $1,000, the total funds available would be $125 million. If the RCDI investment project were to attract 3% from the state pool of crowdfunded investors, an additional $3.7 million is made available for the project. By building both state and local interest in a local RCDI project, the total potential investor participation is over $6.7 million, excluding accredited investor participation.

3.4. What is involved in the DPO application process

Typically, the DPO application process includes the following stages:[21]

- Issuer files application with the department.[22] Fees range from $200 to $2,500;
- Department assigns staff attorneys to review the application;
- Staff attorneys determine the merit of the application by comparing the application materials to the standards specified by the Commissioner in Title 10;
- Within 15 days the department must decide whether the application qualifies. The attorney either 1) approves the application and issues an order to this effect, or 2) contacts the applicant to explain application's deficiencies that need to be amended;
- Applicant negotiates with the department on areas of non-compliance;
- Non-compliant applications are either "pending" until approved, withdrawn by the applicant or "abandoned" by the commissioner when the applicant has not responded to the department communications in a reasonable period of time.

The following items are included in a California DPO application[23]:

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[21] Securities Regulations and Their Effects on Small Businesses, p58, Rosa Maria Moller, Ph.D., April 2000, CRB-00-005, http://www.nationalcommonwealthgroup.net/docs/SecuritiesRegulationsAndTheirEffectsOnSmallBusiness.pdf

[22] Application - State Of California, Department Of Business Oversight, Facing Page DBO-260.110 (Register 1993, No. 27) (Rev. 09-15), http://www.dbo.ca.gov/Licensees/Corporate_Securities_Law/pdf/260110.pdf

1. Check for filing fee payable to "Department of Business Oversight" (amount = $200 + 1/5 of 1% of the maximum amount to be raised ($2,500 maximum))
2. Signed application form
3. Formation documents (articles and bylaws or articles and operating agreement)
4. Financial statements
    a. Prepared in accordance with Generally Accepted Accounting Principles;
    b. Balance sheet as of a date within 90 days prior to the date of the application;
    c. Statements of income and statements of cash flows for each of the two fiscal years preceding the date of the balance sheet and for the period, if any, between the close of the last fiscal year and the date of the balance sheet;
5. Sample advertising materials
6. Signed Customer Authorization of Disclosure of Financial Records;
7. An exhibit, or table with a list of the complete names of the directors, officers, trustees, and/or general partners, as the case may be, and the general managers, principal executives and/or other persons who will be charged with the business activities and operations of the applicant and with respect to each of the foregoing persons, the current post office address (you can use the company address), age, and current occupation and principal occupation during the last five years.

Once the application is approved, the company has one year to raise funds or file for extension.

3.5. How do investors invest in DPOs

Once the DPO is approved by the state, the DPO offerer can begin to raise capital. The typical process for soliciting and accepting money from an investor include:

- The company provides a prospective investor an Offering Memorandum, or prospectus, that has been prepared in accordance with the Department of Business Oversight's disclosure requirements and contains important information about the company;

[23] State Of California –Department Of Business Oversight Application For Qualification By Permit (Section 260.113) DBO – 260.113 (Rev. 08-13) http://www.dbo.ca.gov/Licensees/Corporate_Securities_Law/pdf/260113.pdf

- The prospective investor completes a Questionnaire to determine if they satisfy certain requirements to qualify as an investor;
- The company reviews the questionnaire and sends the prospective investor a Qualification Notice verifying that the investor is qualified to invest, subject to potential investing limits established by the state;
- The company sends the investor a Subscription Agreement, a legal contract that sets out the terms that both parties are agreeing to for the purchase of shares in the company. The company also requests certain information from the investor such as residential address, email address, date of birth, tax ID number and signature;
- The final step in becoming an investor in the company is to pay for the shares that being purchased in the subscription agreement.

3.6. Advertising a DPO

Using a DPO, a company can market and advertise its offering publicly by any means it chooses—through advertising in newspapers and magazines; at public events and private meetings; on the internet; and through social media channels. DPOs can involve a variety of different compliance strategies and are legal under existing law.[24]

An "Advertisement" means any written or printed communication or any communication by means of recorded telephone messages or spoken on radio, television, or similar communications media, published in connection with the offer or sale of a security.

Any advertising intended for publishing must be filed with the state at least three business days prior to the publication. Any advertising submitted before the permit is issued is considered approved and no three-day waiting period is required.

As an example of a potential DPO advertising campaign for woody biomass projects, consider the following: Increased forest fire risk and reduced water availability from the upper watersheds due to drought and overall forest health have been persistently in the news to build awareness, and increase public involvement on actions that can be taken to reduce risks and associated adverse impacts. Projects

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[24] Cutting Edge Capital has prepared a Marketing Guide for Investment Crowdfunding (a.k.a. DPOs) to help with marketing techniques, practical ideas and proven strategies for marketing a DPO. This guide can serve as a roadmap of sorts to help think through how marketing a DPO might be accomplished and includes examples of "best practices" from successful DPO clients. http://www.cuttingedgecapital.com/marketing-guide-for-investment-crowdfunding-a-k-a-dpos/

that can demonstrate how DPO investments help mitigate and lower these risks may be in a good position to leverage securities crowdfunding advertising around the PSA messaging to increase investor participation.

3.7. Impounding DPO raised funds for large capital items

In some DPO's, an impound condition may be imposed. When a large capital expenditure is required of the DPO funding, a specific minimum amount of funds necessary to finance the proposed undertaking may need to be collected to make the project financially viable. The Department of Business Oversight (DBO) may stipulate as a condition for approval of the DPO application, that the issuer will not be allowed to expend any of the proceeds from the sale of securities prior to receipt of such minimum amount.

When an impound condition is imposed in connection with the sale of securities, the issuer may not issue any certificates or other evidences of securities, except subscription agreements, unless and until the impound condition has been satisfied and the impounds have been released to the issuer pursuant to an order of the DBO. All checks shall be made payable to the depository or to a licensed broker-dealer acting as the seller agent. The depository must be a California Bank or a national bank with a California branch.

One hundred percent of any amounts received from the sale of securities, including any amounts to be allowed as selling expenses, shall within 48 hours of the receipt be placed with the depository until the impound condition is released. The issuer should allow sufficient time for the DBO to conduct an examination of the impound account. In unusual cases a partial release or modification of impounds may be approved based upon the individual circumstances with the consent of the subscribers.

3.8. How DPOs can be used to support a NMTC structure

There are three areas where DPOs could fit within a NMTC structure. One area is as a loan fund to support NMTC leveraging. Another area of support is at the project, or QALICB level. Because of the NMTC investor exit in year-7, DPOs may be helpful in supporting this transition from tax-focused investors to longer-term impact investors and greater community ownership. Each of these will be discussed.

DPOs are a good tool for raising capital to support loan funds. As noted earlier, not-for-profit organizations can setup and manage loan funds. In addition to NCCLF, other nonprofits like Calvert Foundation, RSF Social Finance, Working Capital for Community Needs (WCCN), and Economic Development & Financing Corp., have established funds to support loans to disadvantaged communities and targeted populations, or other mission driven programs.[25]

The leverage loan fund could support a specific project (e.g. woody biomass CHP facility), or multiple projects. It could be designed to provide micro-lending and small-business lending.[26] Loan funds could be targeted for specific programs (e.g. forest health and watershed improvement, community health, childcare, etc.).[27] Loan funds could be established in partnership with a financial institution in which the non-profit or community organization provides loan capital, defines loan eligibility, terms, and requirements, and the financial institution manages loan origination and servicing.[28]

3.9. Loan Fund DPOs and the Opportunity for Institutional Investing

By positioning a sponsored DPO loan fund as one of several sources of QEI funds, the DPO becomes located in an investing space where institutional investors (e.g. pension funds, foundations, endowments, etc.), via private equity participate. US public pension funds have become the largest investors in private equity (PE) in the world, with more than $350b committed globally.[29] Foundations are the most numerous entities among institutional investors in PE, accounting for 15% of all investors.[30]

To highlight the potential investing opportunity for pension funds, consider CalPERS. Almost twenty-five percent of CalPERS' $285 billion pension fund is invested in "alternative assets"[31] (Table 3). Private equity investments account for

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[25] Please visit CuttingEdgeX.com for9

[26] For example, see Phoenix Community Development and Investment Corporation's NMTC micro-lending program, http://www.phoenixnewmarkets.org/loan-programs/micro

[27] See Coastal Enterprises, Inc.'s Targeted Loan Programs, http://www.ceimaine.org/financing/business-financing/targeted-loan-programs/

[28] For example, see Alternatives Federal Credit Union's Community Partnership Lending® program, http://www.alternatives.org/cpl.html

[29] Letter from the US: PE in the firing line, Investment & Pensions Europe Magazine, Maria Teresa Cometto, January 2016, http://www.ipe.com/analysis/letter-from-the-us/letter-from-the-us-pe-in-the-firing-line/10011288.article

[30] Foundations Investing in Alternative Assets, Preqin, September 2015, https://www.preqin.com/docs/reports/Preqin-Foundations-September-2015.pdf

[31] An alternative investment is an investment in asset classes other than stocks, bonds, and cash. https://en.wikipedia.org/wiki/Alternative_investment

$28.7 billion, or 10.1% of CalPERS' portfolio (Table 4).[32] One PE fund in CalPERS' portfolio is Bank of America Community Venture Fund, LLC (Table 5), which focuses on providing capital to rural and urban markets, especially in California.[33] One of BoA's holdings is Pacific Community Ventures Ptrs III, LLC. Pacific Community Ventures is a 501(c)(3) nonprofit and CDFI, similar to NCCLF, that uses NMTCs to fund small businesses.[34] DPOs offered by CDFI lenders or project sponsors can potentially attract sizable amounts of institutional capital to a non-profit sponsor's funding initiatives. The key is to structure and present a DPO as an alternative investment (AI) that satisfies the investing criteria of the institutional investor.

3.10. DPOs Supporting Year-7 Transitions

As described earlier, the NMTC equity investor is often motivated to exit the deal at the end of year-7, after receiving all of their tax benefits. To accommodate the investor exit, there may be additional financing and capital requirements to address potential tax implications and the transition of interest only loan payments to include repayment of loan principle. A QALICB affiliate sponsored DPO may be useful in supporting a smooth exit of the NMTC investor in year-7, and ease the transition and rebalancing of the investor portfolio going forward.

A couple of DPO strategies could be considered. Initially, a QALICB sponsor could structure a DPO as a subordinated, interest-only loan during the NMTC compliance years, with a conversion to preferred equity in year-8. Alternatively, the sponsor could issue the DPO toward the end of the compliance term as part of the exit and transition plan to replace all or a portion of any long-term debt provided by the CDFI.

4. Applications for Woody Biomass Projects

The Sierra Institute (SI) plans to develop a 3 MW woody biomass facility on a 29-acre parcel they own at Crescent Mills in Plumas County. Northern California Community Loan Fund (NCCLF) and Cutting Edge Capital reviewed several capital budget scenarios provided by SI's consultant, Tom Peters. Creative sources of capital for financing the project, including New Markets Tax Credits, Renewable Energy Tax Credits, DPOs and other types of grants and low cost financing were

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[32] CalPERS Asset Allocation & Performance, September, 30, 2015, https://www.calpers.ca.gov/page/investments/asset-classes/asset-allocation-performance

[33] CalPERS PE Funds, https://www.calpers.ca.gov/page/investments/asset-classes/private-equity/pep-fund-performance/fund&id=9

[34] Pacific Community Ventures, http://www.pacificcommunityventures.org/about/

analyzed. We assessed the debt (loan) capacity for the project based upon various income projections and underwriting standards.

Based upon this review, a sources and uses of funds development budget was prepared including financing costs for NMTCs and the other sources of capital. If financial gaps for the project were identified, a DPO or private investment with the capacity to absorb tax credits and passive losses from MACRS and bonus depreciation was applied.

The Crescent Mills facility intends to supply electricity under a long-term power contract to PG&E under their Bioenergy Market Adjusting Tariff (Senate Bill 1122).[35] The power purchase agreement will be established by a competitive bidding auction mechanism. Because of competitive bidding, the analysis has been adjusted to illustrate a $20 million NMTC financing arrangement. The analysis assumes that the auction price and resulting PPA will reach a level that will satisfy the financial requirements needed to underwrite the project.

4.1. Sources of Funding

NCCLF researched several sources of funding for the biomass facility as summarized below. Figure 5 provides a $20 million sources and uses budget for an illustrative biomass project with $16.1M in hard costs and $1.4M in soft costs. The balance of the financing is applied to fees, transaction costs and reserves. Figure 6 is a diagram of where these sources and uses reside within the NMTC structure.

4.1.1. New Markets Tax Credits (NMTC)

There are several CDEs in California that have established solid NMTC records and are awarded NMTCs on a regular basis by the CDFI fund. CDEs can be either nonprofit or for-profit organizations. NCCLF, for example, created a nonprofit CDE and has received NMTC allocations in several rounds of funding. The tax credits are allocated by CDEs to projects in their service area that have a high community impact and that are considered a good mission fit for the CDE.

Investors, typically large banks, purchase NMTCs that provide cash to help fund projects in economically distressed census tracts. Figure 7 is a GIS mapping of Severely Distressed areas in Northern California. NCCLF checked for NMTC eligibility for the biomass energy project in Crescent Mills. It is located within census tract #06063000400. This census tract has the following economic distress indicators:

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[35] See PG&E's website for more details, http://www.pge.com/en/b2b/energysupply/wholesaleelectricsuppliersolicitation/BioMAT/index.page

- A median family income of 65.8%
- Poverty rate of 12.6%
- Unemployment Rate of 5.6%

Although this census tract data does not by itself meet the definition of being "severely distressed", when the relatively low median family income of 65.8% (below 70%) is combined with the fact that the project is located in a "non-metro (rural) area, it qualifies for NMTC financing at the highest level of need. When Congress set up the program it mandated that a significant portion of the tax credits be invested in projects in non-metro areas; thus, a census tract with a median income below 70% located in a non-metro area bumps up to the severely distressed (highest need) category.

Securing NMTCs is a competitive process, however, and also a complicated and legalistic transaction, requiring the services of an experienced consultant to organize and structure the transaction. One of the key tasks of the consultant is to secure a NMTC commitment from a CDE that has been awarded tax credits from the CDFI fund. The key strategy is to present the project specifics to multiple CDEs whose geographic market includes northern California, particularly rural California, and have an interest in the community impacts of the project.

Other fundamental factors that are evaluated for NMTC financing, similar to loan underwriting, include analyzing the financial capacity of the project affiliate host (Sierra Institute, for the Crescent Mills Facility) and its capacity to manage the financial transaction and reporting requirements, its ability to secure the balance of the funding required for the project (discussed below), and evidence of a long-term power purchase agreement (PPA).

Timing of the project is fundamental for success. NMTCs are announced annually (most likely next awards will be in summer 2016) and the project needs to be ready to go with other financing secured and the PPA negotiated. Closing NMTCs typically occurs within six months of the award announcements. To be able to close the transaction the construction bid documents must be complete, building permits must be approved, and the owner must have received hard bids from equipment vendors and the general contractor who will construct the project so the budget can be finalized.

There are several California-based CDEs that could potentially allocate NMTCs for the project and be a lender at the same time. In fact, CDEs that allocate tax credits for a project prefer to be the lender and this process generally works best in terms of coordination and ease of closing the transaction. We have identified several CDEs that would likely have an interest in this energy project. Two of the CDEs, Clearinghouse and Northern California Community Loan Fund (NCCLF) are based in California. Ecotrust is located in Portland, Oregon. Based upon direct conversations with the NMTC directors of these three CDFIs, there is interest on their part for potentially investing in the project. These CDEs are large, well-established community development corporations and lenders with distinguished NMTC track records.

A fourth CDE, Coastal Enterprises, Inc. in Brunswick, Maine has missions aligned with renewable energy and natural resource conservation and they, too, should be contacted.

These CDEs applied for an allocation of NMTCs for the upcoming round (applications were due December 16, 2015). The size of the Crescent Mills project (in excess of $20 million) will require NMTC allocations from at least two CDEs, since the maximum amount of tax credits that one CDE will allocate to a single project is generally $10-12 million. For a project of this size, the bank that purchases the tax credits will also generally chip in up to $2.0 million in tax credits for a nominal fee.

In addition to finding CDEs to allocate the NMTCs for the project, the consultant also negotiates with various banks to competitively purchase the tax credits. There are several large banks that are active with the NMTC program in California, including Bank of America, Chase, US Bank, Capital One, and Wells Fargo. There are a number of regulatory incentives provided through the Community Reinvestment Act, and the Dodd-Frank Act that attract bank participation (see Figure 8).[36] Generally, once a NMTC allocation is secured from the CDEs, the banks show interest and in fact compete with one another by bidding on the project. The NMTC consultant assists the client with this process by evaluating bids and the professional capacity of the bank staff, fees charged by the bank, and past experience working with the bank. The tax credit consultant also assists the project sponsor with securing an experienced tax credit attorney and Certified Public Accountant, who are essential members of the closing team. The fees for these consultants are generally funded at the closing of the NMTC transaction to minimize out of pocket expenses. The NMTC fee structure is outlined in the NMTC project budget.

4.1.2. CDFI Lenders

The best strategy is to work with a CDFI lender- CDE for a package deal. The CDEs described above are also CDFI lenders and all have closed many NMTC transactions as both a lender and a CDE. If the CDE allocates the NMTCs they generally prefer to also be the lender for the project (called a "leverage loan"). This can expedite the

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[36] Community Development Loan Funds: Partnership Opportunities for Banks, Office of the Comptroller of the Currency, October, 2014, http://www.occ.treas.gov/topics/community-affairs/publications/insights/insights-community-development-loan-funds.pdf

closing of the loan since underwriting for the NMTC loan and the leverage loan can be done simultaneously.

CDFIs provide a unique range of financial products and services in economically distressed target markets, such as flexible underwriting and risk capital for needed community facilities, and technical assistance, commercial loans and investments to small start-up or expanding businesses in low-income areas. CDFIs include regulated institutions such as community development banks and credit unions, and non-regulated institutions such as loan and venture capital funds.[37]

Some CDFI lenders make loans for community facilities in conjunction with the New Markets Tax Credit Program. Nonprofit CDFI lenders, like NCCLF, specialize in making loans to other nonprofits that provide essential social services to their communities, create jobs, and work to improve the lives of low income populations. CDFI loans today average in the 5-7% range with loan terms tailored to meet the needs of the nonprofit borrower.

CDFI loan capital is raised by various means. The CDFI Fund (U.S. Treasury) awards grants annually to many high-performing CDFIs across the country. CDFIs raise loan capital through direct public offerings to investors looking for a modest rate of return on their investment with high community, environmental, or social impacts. Banks and foundations also invest in CDFIs.

Clearinghouse, based in southern California, is a large for-profit CDFI lender that was recently selected by the CDFI Fund to participate in their bond guarantee program. Through the CDFI Bond Guarantee Program, qualified entities (CDFIs or their designees) issue bonds that are guaranteed by the federal government and use the bond proceeds to extend credit to CDFI lenders for community development purposes. Each bond has a maximum maturity of 30 years. This allows Clearinghouse to underwrite loans that are more flexible and patient than commercial loans.

Clearinghouse has some knowledge of the biomass energy sector having recently closed an interim loan for the 1 MW Phoenix Energy biomass project in Northfork (Madera County). This project, funded essentially with grants, including a large California Energy Commission (CEC) grant and a NMTC allocation from a CDE based in Fresno, will hopefully be successful in order to pave the way for future CDFI lending for larger biomass projects like SI's in Plumas County, which need loans as part of their capital stack. Clearinghouse's loan for the Northfork project is a bridge loan to pay for capital expenditures and engineering fees that will eventually be reimbursed by the CEC grant. A bridge loan will likely be needed by SI as well if they

[37] For more information on CDFI lenders in northern California, contact the CDFI fund at www.cdfifund.gov.

secure a CEC grant for their project and take advantage of the Renewable Energy Tax Credits.

Clearinghouse would likely use the CDFI bond program to make a loan; they quoted an interest rate of 7.5% with interest-only payments for the 7-year NMTC compliance period, after which the loan would require refinancing. Their loan origination fee is 2%. The CDFI bond program can provide flexible capital, but the bond issuance cost adds points to the interest spread.

If NCCLF were to loan on the project, they would prefer to have an amortized loan. NCCLF's rate is currently in the range of 6.0%. If the two CDFIs collaborate on a participation loan, presumably the term of the loan could be lengthened with a blended interest rate that could be lower than 7.5%.

In speaking with the NCCLF lending director and the lending team at Clearinghouse CDFI, both agencies are interested in potentially lending on the SI bioenergy project, given its many economic and environmental impacts. CDFIs often collaborate on "participation" loans so the risk is spread between both lenders. NCCLF's loan limit is in the process of being raised to $3.0 million, whereas Clearinghouse can do larger loans.

During the 7-year NMTC compliance period, the CDE making the 1% interest-only NMTC loan will be in first lien position. The bank establishing the investment fund will want to be comfortable with the underwriting standards used by the CDE. An advantage of working with experienced CDFI lenders is that they are generally comfortable being in second lien position, as long as the underlying economics are sound and the appraisal for the project is satisfactory. A DPO investor will need to be aware and comfortable with their position of investment recovery in the event of a default.

Below is contact information for CDEs and lenders that we feel would be interested in this project:

Ross Culverwell
Lending Director
Northern California Community Loan Fund CDFI
870 Market Street, Suite 677
San Francisco, CA. 94102
415-392-8215 x317
rculverwell@ncclr.org

Jay Harrison
Chief Investment Officer
Clearinghouse CDFI
23861 El Toro Road, Suite 401
Lake Forest, CA. 92630

949-528-3069
jayh@clearinghousecdfi.com

Bettina Von Hagan
EcoTrust Forest Management, Inc.
721 NW 9th Ave, Suite 200
Portland, Oregon
503-467-0756
Bettina@ecotrust.org

Ted Atwell
CEI Capital Management
100 Commercial Street, Suite 406
Portland, Maine 04101
207-772-2886
tatwell@ceicapitalmgmt.com

4.1.3. Renewable Energy Tax Credits (RETC)

The federal Renewable Energy Investment Tax Credit (RETC) was created by Congress to spur the development of renewable and clean energy projects. Combined Heat-Power (CHP) biomass projects are currently eligible for a 10% tax credit on the hard project costs. In December 2015, congress extended the RETC for biomass projects that begin construction before January 1, 2017. Additionally, investors can take advantage of 5-year, MACRS depreciation and a 50% bonus depreciation in the first year. Unlike the NMTC, the RETC is an over-the-counter tax credit available directly from the IRS, without competition, and becomes available to the investor once the project is completed and brought on line.

Timing is also an important element in RETCs. In order to take advantage of the RETCs and accelerated depreciation benefits, businesses using the off-take heat from the CHP facility must also be in place at the time of project completion. This may require incentive financing packages to encourage new businesses to locate at or near the site. NMTCs and DPO loan funds established by the site host can be helpful in providing packaged incentives.

The RETC can be combined with NMTCs. Generally this is accomplished by a bridge loan made by a lender for the amount of the tax credit. The bridge loan is leveraged through the NMTC structure to create a larger NMTC benefit, comparable to the benefit if each tax credit was sold separately. The NMTC investor in essence purchases both credits as a bundle. After the project is completed, the actual RETC provided by the IRS when the investor files taxes, is used to repay the RETC bridge loan. The tax credit attorney retained for this project will structure the deal in a way that allows the project and the investor bank to leverage both NMTC and the RETC.

It is also important to note that maximizing tax equity benefits in the first 7 years and supporting a transition to flip the project ownership to other investors once the tax benefits are consumed is a viable development strategy to pursue. The Wisconsin State Energy Office, when evaluating energy applications from agriculture and cheese manufacturing feedstock, also reached this conclusion (see Figure 9).[38]

4.1.4. California Energy Commission Electric Program Investment Charge (EPIC) Grant Program

The California Public Utilities Commission created EPIC in 2012 to provide grant funding for technology demonstration and deployment and market facilitation for clean energy technologies and approaches for the benefit of public utility customers (e.g., PG&E). The goal is for electricity to be delivered in a more sustainable manner at lower cost and enhanced safety. EPIC is the most comprehensive statewide approach to creating new energy solutions, fostering regional innovation, and bringing ideas to the marketplace. EPIC consolidates the R&D programs of the three largest investor owned utilities into an aggregate program, which ensures not duplication of spending and implements compliance with state energy policies.

EPIC presents a unique opportunity for the SI biomass project. Grants seem to range from $3-5 million. The Northfork 1 MW gasification biomass demonstration project was recently awarded a $5.0 million grant. The grant window is expected to open in early 2016.

Governor Brown issued an emergency proclamation on October 30, 2015 ordering, among other things, that the CEC "prioritize grant funding from the EPIC for woody biomass-to-energy technology development and deployment, consistent with direction from the Public Utilities Commission." This may mean that additional money is allocated by the state to the EPIC program in an expedited manner, which will open up a major window of opportunity for the SI project.

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[38] Financial Incentive Overview, Energy Applications from Agriculture and Cheese Manufacturing Feedstocks, Baker Tilly Virchow Krause, LLP, 2012, http://www.bakertilly.com/uploads/WI-SEO-Energy-applications-from-agriculture-and-cheese-manufacturing-feedstock-2012-6-Financial-incentive.pdf

Contact:

Erik Stokes
California Energy Commission
1516 9th Street
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916-445-5283
Erik.Stokes@energy.ca.gov

4.1.5. Federal Economic Development Administration (EDA)

EDA is a federal agency that makes grants to applicants in rural and urban areas to support and stimulate economic activity and job creation. The grants are designed to leverage existing regional assets and support the implementation of economic development strategies that advance news ideas and creative approaches to furthering economic prosperity in distressed communities.

As a nonprofit agency, the Sierra Institute is eligible to apply for the EDA grant in cooperation with Plumas County. The county will need to demonstrate that the biomass energy project is consistent with its overall economic development strategy. For example, the county's General Plan may speak to the goal of creating jobs and utilizing natural resources (e.g., woody biomass, dead trees) for manufacturing or energy production purposes, and reusing closed lumber mill sites.

In discussions with the regional EDA representative, Malinda Matson, she indicated that EDA would be interested in supporting woody biomass energy projects since they create quality jobs and produce renewable energy. They are particularly interested in supporting projects that spin off other small businesses; for example, private small businesses that could use the heat waste generated by the 3 MW project. Another strategy would be to hire private contractors to haul the woody biomass to the site in Crescent Mills.

A grant request of $1.5 - $2.0 million is considered the "sweet spot" for the size of an EDA grant request and requires a 1:1 match. The award ceiling is $3.0 million.

The current round of funding opened October 26, 2015 and there are no submission deadlines. Proposals are accepted on an ongoing basis until the publication of their next notice of funding availability.

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915 Second Ave., Room 1890
Seattle, WA. 98174
916-235-0088
mmatson@eda.gov

4.1.6. Rural Energy for America Program (REAP) Loan Guarantee and Grant

REAP is administered by the U.S. Department of Agriculture and is targeted to rural projects that produce and conserve energy. Funds can be used for the purchase, installation, and construction of renewable energy systems, including biomass.

The maximum grant is $500,000, which cannot exceed 25% of the project cost. REAP can also provide a loan guarantee for up to 75% of the project cost if combined with the grant.

We recommend that the project host apply for the $500,000 grant only. The loan guarantee could be useful if the CDFI lender requests it. However, if the debt load for the project is kept relatively low at between 30-40% of total CAPEX, it may not be needed. If private investors are brought into the biomass project and own at least 20% of the project, they may be required to personally guarantee the loan in front of the USDA loan guarantee. However, if the project has a relatively low loan to value ratio, and other characteristics that mitigate lender risk, such as a firm 20-year power purchase agreement and a 10-year supply of woody biomass, applicants can request a USDA waiver for the personal guarantee requirement.

Contact:

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Davis, CA. 95616
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Steven.nicholls@ca.usda.gov

4.1.7. State of California Economic Development Block Grant (EDBG) Program

The State Department of Housing & Community Development (HCD) administers the Community Development Block Grant (CDBG) program for California's rural counties and cities. 30% of the overall CDBG pot of money administered by HCD is set aside for economic development projects (EDBG). Up to $3.0 million is available per project, based upon a $35,000 amount per each job created. The majority of the jobs created must be filled by persons who are earning no more than 80% of the county median income per household size.

EDBG could be a flexible source of capital for the SI biomass project. The grant application is sponsored by the Board of Supervisors at an open public hearing. The project is underwritten by HCD staff and presented for approval to their loan advisory committee. The grant is then awarded to Plumas County, which must have the local capacity to administer the grant or retain a consultant to perform these duties. The grant is typically loaned to the project at "soft" terms, (i.e. deferred payback, low interest, or perhaps forgiven altogether based upon the jobs being created).

Because the EDBG program is administered by the State Department of Housing they require that the small cities and counties applying for the funds keep their Housing Elements in compliance, which means spending significant money to update the elements every 5-10 years. Counties that do not do this within the prescribed deadline imposed by HCD are ineligible to apply for EDBG grants.

In checking with HCD and Plumas County's Planning Director, it was determined the housing element is currently out of compliance. If SI would like to apply for EDBG funding, the County will need to find resources to update its housing element.

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jdiedesch@hcd.ca.gov

4.1.8. California Infrastructure and Economic Development Bank

The I-Bank was chartered by the State of California to provide low-cost financing for municipal infrastructure projects and for nonprofit 501(c)(3) companies that provide a public benefit. I-Bank raises its loan capital by the State of California issuing tax-exempt bonds and passes the low cost of capital to its borrowers. The current interest rate is approximately 4% fixed, and the loan can be amortized from 20-30 years.

The I-Bank approved a large loan to a Sacramento nonprofit in 2014, which planned to use NMTC financing. In discussions with the I-Bank director, however, we learned that they do not make loans for start up businesses like the SI biomass project. They look for a solid company with at least a five-year track record. Furthermore, under the nonprofit loan program, the project needs a government sponsor with a financial interest in the project, typically a local government proving a grant or loan to the project.

4.2. Conclusions and Recommendations

NMTCs are an excellent and affordable source of capital. NMTCs can be a very important and affordable source of capital for the Crescent Mills project. Given the wide range of severely distressed communities throughout the northern California regions where woody biomass projects are under consideration, NMTCs have good potential to fund these projects. In addition to woody biomass energy projects, NMTCs could also potentially provide capital for supporting businesses.

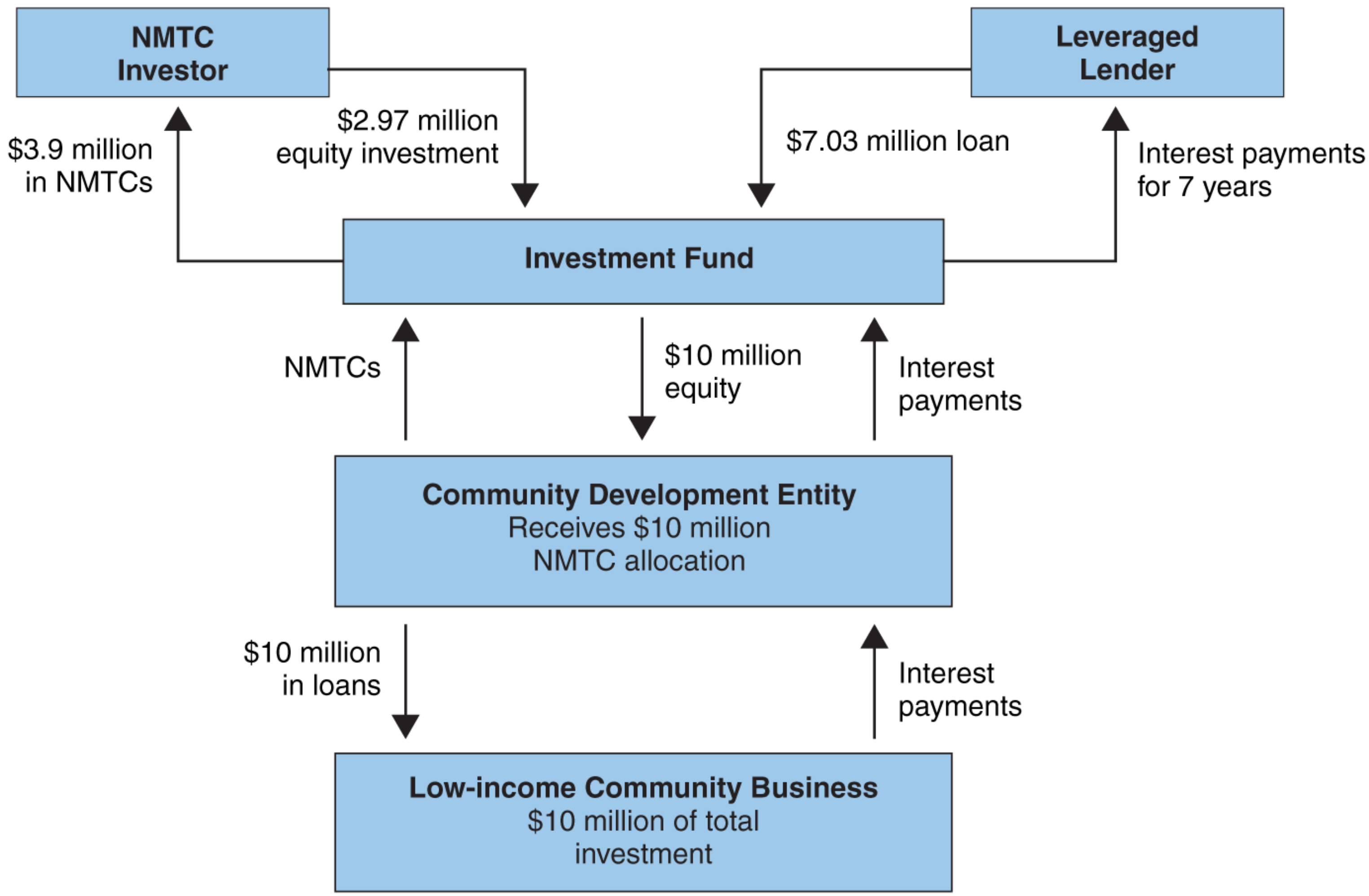
Grants and tax credit incentives are important elements in making these projects financially viable. Grants improve the loan-to-book value of the project. Tax credits subsidize the investors' required rate of return on the project. Projects that maximize these incentives have a greater chance of success.

Direct Public Offerings can be a viable source of capital for these projects. DPOs will require a project affiliate sponsor that holds a subordinate position among other leverage lenders providing Qualified Equity Investment (QEI) for these projects. DPOs can be crafted by the sponsor to address specific financing needs, better support the QEI capital stack, facilitate a smooth exit for NMTC investors and associated loan restructuring at the end of the 7-year compliance period.

Measuring and communicating Community Benefits and environmental impact should be important elements in the overall financing of these projects. Such metrics can attract impact investors that may sacrifice a certain amount of financial return for quantifiable non-financial outcomes. Crowdfunded securities like DPOs will rely upon these metrics to attract investment at below market rates. Institutional investors may also discount financial returns in exchange for impact measures that satisfy their mission and investing objectives.

Figure 1

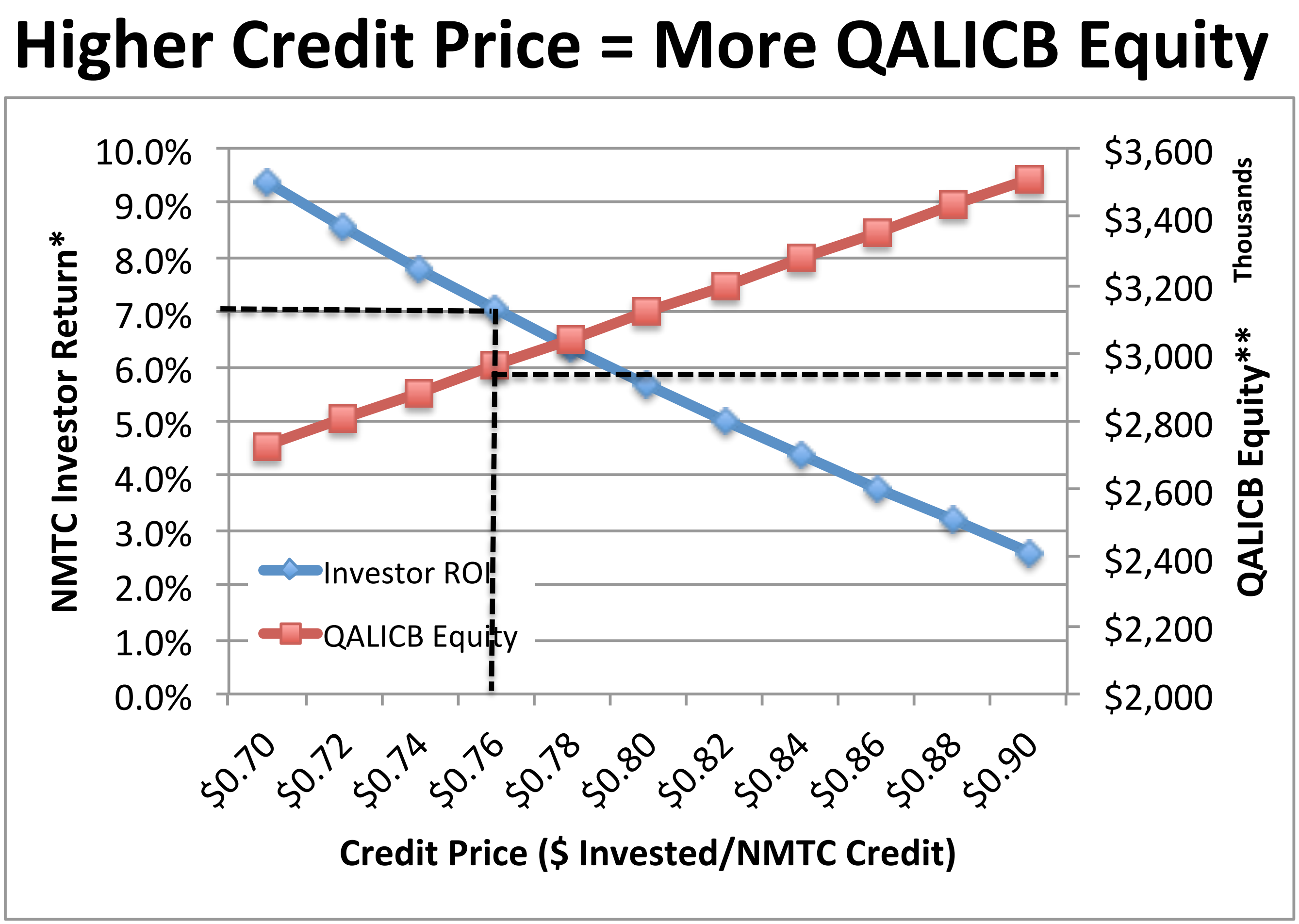
Simplified Example of New Markets Tax Credit (NMTC) Investment Leveraged with Private Funds



Source: GAO-14-500 New Markets Tax Credit Update
http://www.gao.gov/assets/670/664717.pdf

Figure 2

Relationship Between NMTC Credit Prices, Investor Returns and QALICB Equity

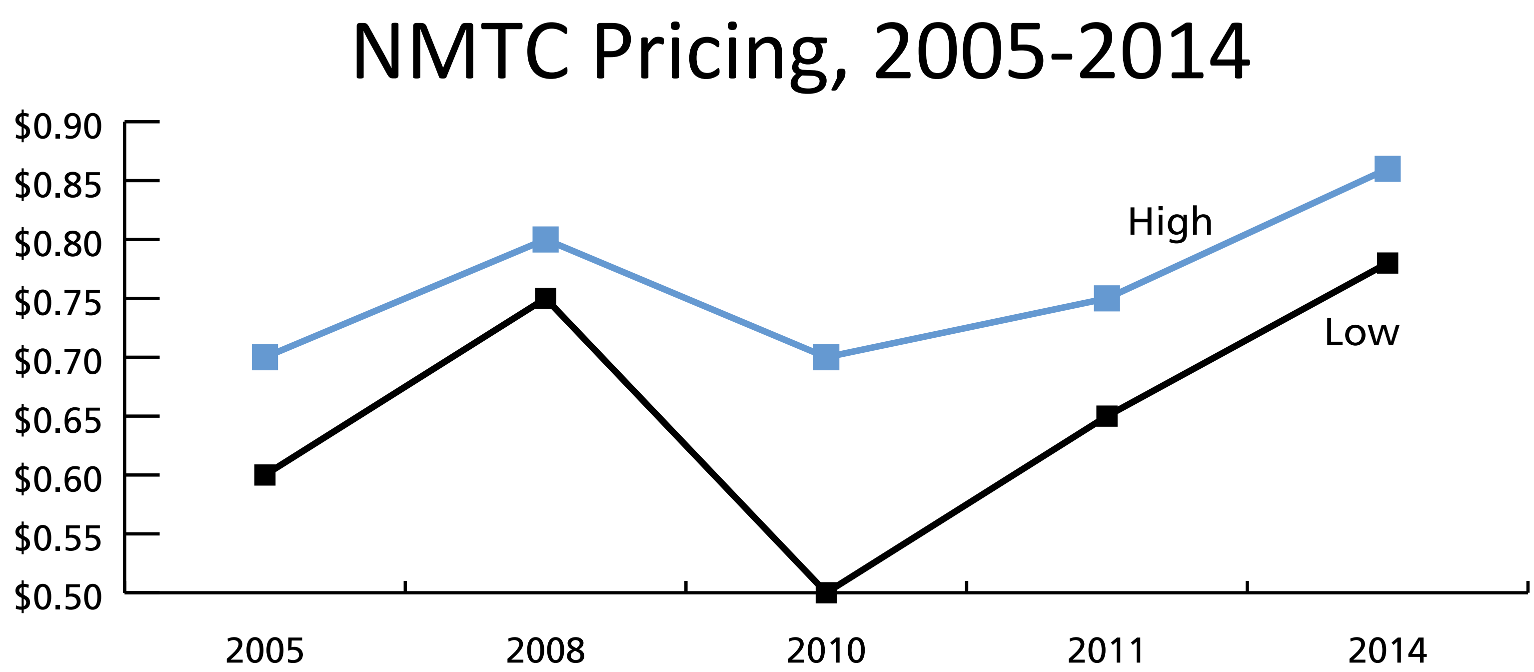


*Includes no interest only payment, **Fees not included

Figure 3

Historical NMTC Prices

(amount invested per $ of tax credit received)



Source: The above chart shows the range of pricing in various surveys of NMTC investors. It includes a blend of data from the Urban Institute, GAO Novogradac & Company, and 2014 data from the NMTC Coalition's survey.

http://nmtccoalition.org/wp-content/uploads/NMTC-Progress-Report-2015-Final.pdf

Table 1

Typical Fees Charged by CDEs

CDE Fees (as % of total NMTC Investment)	Percent
NMTC investment retained by CDEs	1.90%
CDE professional fees charged	
Front-End (at or prior to close)	2.10%
On-Going (during 7 year compliance period)	2.30%
Back-End (at or after investment exit)	0.80%
Sub-Total	5.20%
Total Fees	7.10%
Source: GAO analysis of CDFI Fund data. | GAO-14-500 http://www.gao.gov/assets/670/664717.pdf	

Table 2

Household Wealth in California and Noted Regions

Financial Assets ($ billions)				
	California	RCDI*	Inland Empire**	Southern CA***
Accredited Investors	$1,561	$22	$79	$729
$75k Suitability Standard	$846	$38	$74	$426
Below Suitability Standard	$241	$7	$28	$129
Total	$2,648	$67	$181	$1,284
Number of Households (thousands)				
	California	RCDI*	Inland Empire**	Southern CA***
Accredited Investors	974	14	50	455
$75k Suitability Standard	4,175	100	398	2,154
Below Suitability Standard	7,514	207	851	4,035
Total	12,663	321	1,299	6,644
Assets per Household ($ thousands)Ŧ				
	California	RCDI*	Inland Empire**	Southern CA***
Accredited Investors	$1,603.00	$1,603.00	$1,603.00	$1,603.00
$75k Suitability Standard	$202.59	$381.41	$185.30	$197.90
Below Suitability Standard	$32.01	$32.34	$32.58	$31.94
Average	$209.09	$209.37	$139.35	$193.24

*Rural Community Development Initiative (RCDI) includes Calaveras, Madera, Placer, Plumas, Shasta, Siskiyou, Trinity and Yuba Counties

*Inland Empire includes Riverside and San Bernardino Counties

***Southern California includes Loos Angeles, Orange, Riverside, San Bernardino and San Diego Counties

Ŧ Weighted values based upon fixed amounts assigned to household population, income level distributions, accredited investor fixed at $1,6M per household. See Spotlight on the Mass Affluent, by Ken Kehrer, PhD, http://goo.gl/nveIaU

Table 3

CalPERS Investment Fund Values*

Total Market Value: $284.65 Billion	
Breakdown by Asset Class	**Total Value ($ Billion)**
Global Equity	$149.79
Private Equity[1]	$27.22
Global Fixed Income	$55.93
Liquidity[1]	$5.82
Real Estate[1]	$25.86
Inflation Sensitive[1]	$13.86
Infrastructure & Forestland[1]	$4.53
Other[2]	$1.65

[1] Private Equity, Liquidity, Real Estate, Inflation Sensitive, and Infrastructure & Forestland market values reflect values reported on a quarterly basis. These values are lagged one quarter.

[2] Other includes absolute return strategy; multi-asset class; and overlay, transition, and plan level.

*Numbers reflect daily open book market values as of market close on January 6, 2016.

Table 4

CalPERS Asset Allocation & Target

Allocation & Market Value by Asset Class as of September 30, 2015

Asset Class	Current Allocation	Interim Strategic Target*	Actual Investment (Billions)
Growth	62.3%	61.0%	$176.9
Public Equity	52.2%	51.0%	$148.3
Private Equity	10.1%	10.0%	$28.7
Income	19.8%	20.0%	$56.1
Real Assets	11.1%	12.0%	$31.6
Real Estate	9.6%	10.0%	$27.1
Forestland	0.8%	1.0%	$2.2
Infrastructure	0.8%	1.0%	$2.2
Liquidity	1.0%	1.0%	$2.7
Inflation	5.2%	6.0%	$14.6
Trust Level**	0.6%	N/A	$1.8
Total Fund	100.0%	100.0%	$283.9

* *Interim strategic targets adopted by the Investment Committee at the June 2015 Investment Committee meeting*

** *Trust Level includes: Absolute Return Strategy; Multi-Asset Class; and Overlay, Transition, and Plan Level*

https://www.calpers.ca.gov/page/investments/asset-classes/asset-allocation-performance

Table 5

Bank of America Community Venture Fund, LLC

Provides capital to rural and urban markets, especially in California (fund is fully invested)

Fund	Vintage Year	Capital Committed	Cash In	Cash Out	Cash Out & Remaining Value	Net IRR	Investment Multiple
Search Fund	Search Year						
21st Century Group Equity Fund II, L.P.	2008	$4,440,497	$2,543,913	$2,902,274	$3,289,238	9.9%	1.3x
Acon-Bastion Partners II, L.P.	2006	$8,563,127	$8,269,146	$11,314,919	$16,025,314	15.1%	1.9x
Altos Ventures III, LP	2005	$2,700,200	$2,700,696	$360,263	$2,679,093	-0.1%	1.0x
Ascend Ventures II, L.P.	2005	$5,400,399	$5,422,205	$605,131	$1,305,025	-19.8%	0.2x
Belvedere Capital II	2005	$3,753,758	$3,797,555	$137,544	$188,885	-40%	0.0x
Encore Consumer Capital Fund	2006	$10,948,541	$9,310,019	$16,249,475	$21,401,640	17.4%	2.3x
Fulcrum Capital Partners, LP	2003	$2,561,825	$2,213,580	$821,641	$821,641	-24%	0.4x
Ironwood Mezzanine Fund II, LP	2007	$4,440,497	$3,557,733	$3,020,522	$6,213,784	10.7%	1.7x
Marwit Capital II, LP	2006	$8,563,127	$8,341,223	$5,812,024	$7,906,529	-0.9%	0.9x
Pacific Community Ventures Ptrs III, LLC	2007	$2,886,323	$2,553,973	$395,392	$2,994,022	3.2%	1.2x
Praesidian Capital Investors LP	2004	$5,123,446	$3,303,131	$2,475,747	$3,088,985	-1.6%	0.9x
Rustic Canyon/Fontis Partners, L.P.	2005	$6,750,499	$4,961,473	$2,527,701	$4,686,567	-1%	0.9x
St. Cloud Capital Partners II, L.P.	2007	$11,101,243	$10,813,385	$4,670,252	$13,258,609	5.6%	1.2x
Syndicated Communications Vent. Part. V	2006	$8,563,127	$8,406,086	$39,312	$2,963,048	-18.4%	0.4x
Williams Capital Partners, LP	2006	$7,685,476	$7,321,080	$3,374,218	$9,460,657	4%	1.3x

Pacific Community Ventures is a 501(c)(3) nonprofit and community development financial institution (CDFI)

Figure 4

Illustrative Woody Biomass Facility			
Sources & Uses of Funds	**Sources**	**Uses**	**Difference**
NMTC Equity Investor Equity			
NMTC Investment Fund	$20,000,000		
NMTC tax credits (%)	39%		
NMTC Tax Credits	$7,800,000		
NMTC purchase (per $ of credit)	$0.85		
NMTC Investor Equity (provided through multiple CDEs)	**$6,630,000**		
Leverage Lenders			
CDFI Lender			
Term Loan	$2,000,000		
Bridge Loan (Renewable Energy Tax Credits, 10% of hard costs)	$1,611,878		
QALICB Affiliate Lender (Sierra Institute)			
Grants (CEC, EDA, USDA)	$7,000,000		
Loan Fund (DPO)	$2,758,122		
Total Sources, Leverage Lenders	**$13,370,000**		
Investment Fund			
Leverage Lenders	$13,370,000		
NMTC Investor Equity	$6,630,000		
Total Qualified Equity Investment (QEI)	**$20,000,000**		
Sub Community Development Entity, LLC			
Qualified Equity Investment (QEI)	**$20,000,000**		
Qualified Low-Income Community Business (QALICB)	**$20,000,000**		
Hard Costs (Engineering, Procurement, Construction)		**$16,118,781**	
Soft Costs (Working Capital, Project Management, Inspections, Permits, Sevice Connections, Fees, etc.)		**$1,431,219**	
Loan, Direct Public Offering & Grant Preparation Costs:			
Lender Appraisal		$7,500	
Interest on CDFI Term Loan during construction (9mos, 6.5%)		$97,500	
Interest on Bridge Loan (1 year, 6.5%)		$104,773	
EPIC Grant Working Capital Loan		$81,250	
Lender's environmental, engineering review & Inspection reports		$0	
CDFI Loan Fees-term loan 2.0%		$48,000	
CDFI Loan Fees- ITC bridge loan		$37,334	
Lender's Legal		$10,000	
Direct Public Offering legal fees		$25,000	
Direct Public Offering Marketing Fees		$100,000	
CEC, EDA, EDBG Grant Applications ---Consultant Fees		$35,000	
Total Loan, Direct Public Offering & Grant Preparation Costs:		**$546,357**	
NMTC Transaction Fees			
NMTC CDE Fee Estimate (3%)		$600,000	
Escrow, Title Insurance & Recording		$25,000	
Investor's Construction Budget Inspections		$15,000	
NMTC Legal (QALICB, CDEs, Investor)		$300,000	
Certified Public Accountant-Financial Forecast		$40,000	
NMTC Consultant		$90,000	
Total NMTC Transaction Fees		**$1,070,000**	
NMTC Cash Reserves			
Reserves for CDE Asset Management Fees -7 yrs (3.5%)		$700,000	
Reserves for Sub CDE Audits/Taxes CDE #1 (8 yrs)		$100,000	
Total NMTC Cash Reserves		**$800,000**	
Total QALICB	**$20,000,000**	**$19,966,357**	**$33,643**

Figure 5

Source & Use Diagram for $20M NMTC Financing of a Woody Biomass Facility

NMTC Equity Investor Equity	
NMTC Investment Fund	$20,000,000
NMTC tax credits (%)	39%
NMTC Tax Credits	$7,800,000
NMTC purchase (per $ of credit)	$0.85
NMTC Investor Equity	$6,630,000

Leverage Lenders	
CDFI Lender	
Term Loan	$2,000,000
Bridge Loan (ITC)	$1,611,878
QALICB Affiliate Lender	
Grants	$7,000,000
Loan Fund (DPO)	$2,758,122
Total Sources, Leverage Lenders	$13,370,000

Investment Fund	
Leverage Lenders	$13,370,000
NMTC Investor Equity	$6,630,000
Total Qualified Equity Investment (QEI)	$20,000,000

Sub Community Development Entity, LLC	Sources	Uses
Qualified Equity Investment (QEI)	$20,000,000	
NMTC CDE Fee (3%)		$600,000
Qualified Low Income Community Investment (QLICI)	$19,400,000	

Qualified Low-Income Community Business (QALICB)	Sources	Uses	Diff
Loan A (offers range from 6.0% amortized to 7.5% interest only)	$13,370,000		
Loan B (1% interest only)	$6,030,000		
Total QLICI	$19,400,000		
Hard Costs (Engineering, Procurement, Construction)		$16,118,781	
Soft Costs (Working Capital, Project Management, Inspections, Permits, Sevice Connections, Fees, etc.)		$1,431,219	
Loan, Direct Public Offering & Grant Preparation Costs:		$546,357	
NMTC Transaction Fees		$470,000	
NMTC Cash Reserves		$800,000	
Total QALICB	$19,400,000	$19,366,357	$33,643

Figure 6

New Markets Tax Credit (NMTC) Program Eligibility and Severely Distressed Status

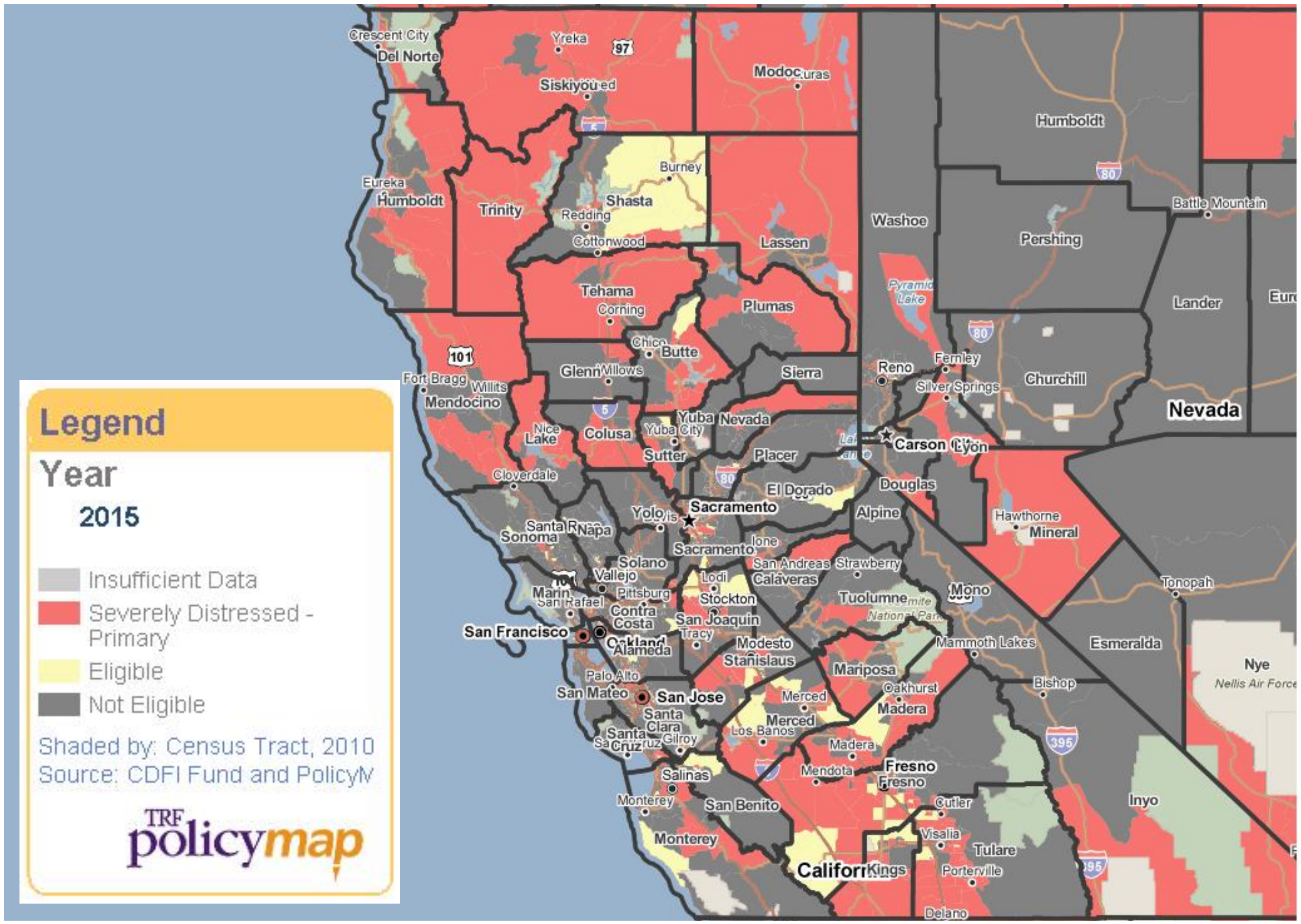
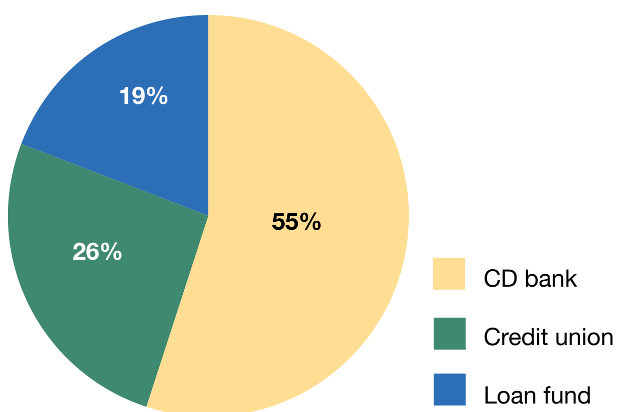


Figure 7

Tax equity financing provides incentives and opportunities for banks

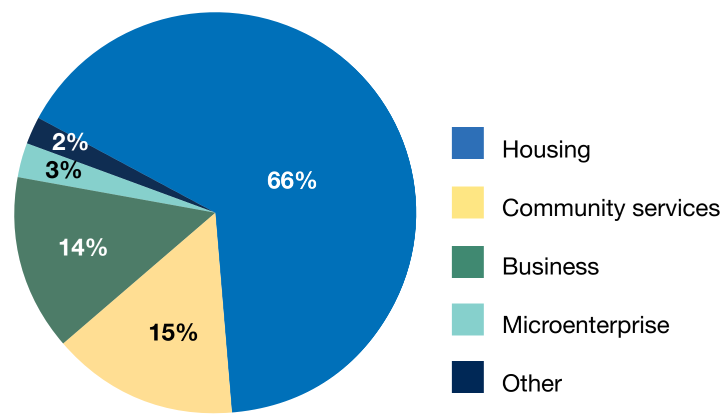
- Reduced capital adequacy requirements improves ROC
- Improved performance ratings by regulators
- Increased revenues through new business development

Percentage of Total CDFI Assets by Institution Type



Source: CDFI Data Project 2008.

Percentage of CDLF Direct Financing Outstanding



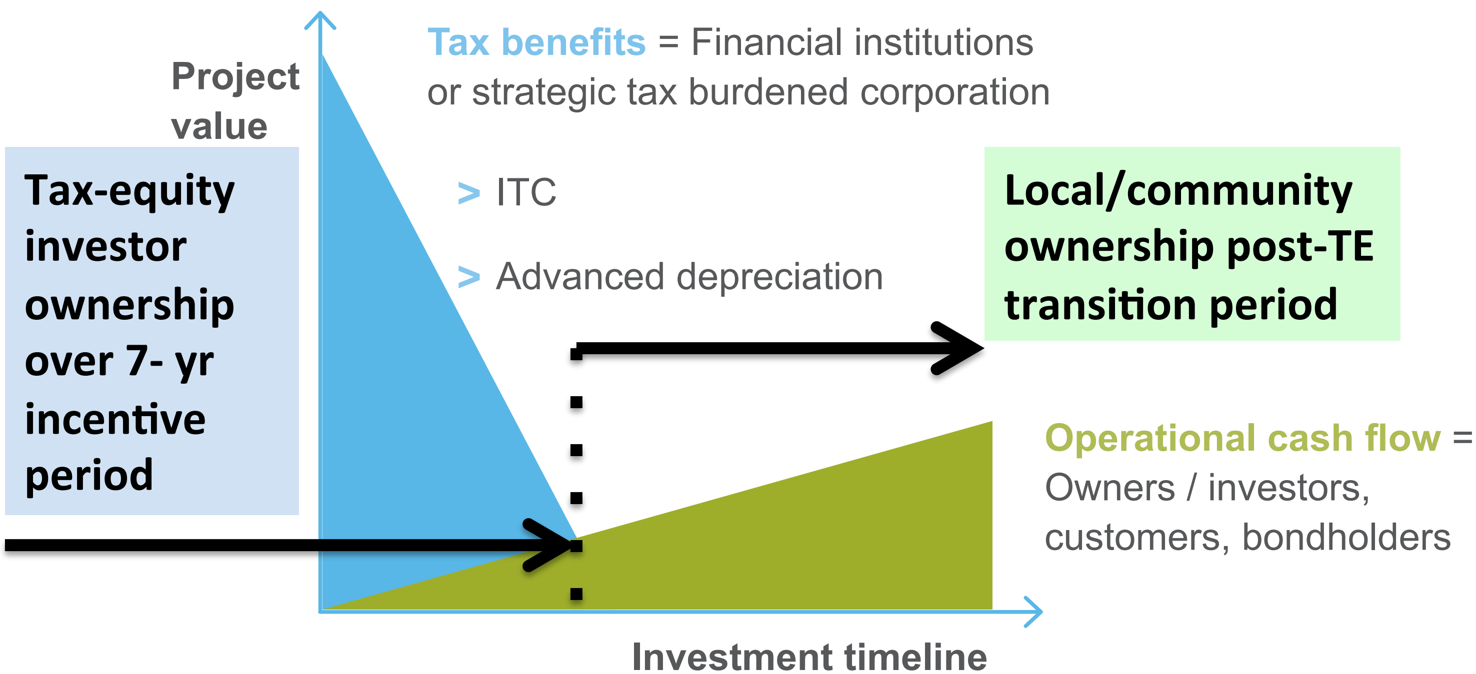
Source: CDFI Data Project 2008.

http://www.occ.treas.gov/topics/community-affairs/publications/insights/insights-community-development-loan-funds.pdf

Figure 8

Funding Objective: Optimize all streams over the project life to maximize value and build community wealth

"From a funding capability perspective, Wisconsin projects may find value in exploring project aggregation opportunities, potentially creating an investment fund for a group of projects. This approach may provide the critical mass necessary to incent a tax credit investor to perform the necessary due diligence and incur the relevant transaction costs to participate in a project. The answer is not included in this report and will require more review in each specific situation, but the idea is that all project value streams should be considered for optimization, including those related to project structuring and financial negotiations." Wisconsin State Energy Office Report



http://www.bakertilly.com/uploads/WI-SEO-Energy-applications-from-agriculture-and-cheese-manufacturing-feedstock-2012-6-Financial-incentive.pdf