

## Substations Power Up 400 Families, Promise 600 New Jobs

By Jennifer Dockery, Staff Writer, Novogradac & Company LLP

When the Navajo Tribal Utility Authority (NTUA) brings its two new electrical substations on line later this summer, it will bring change to the Navajo Nation. Four hundred families living on the reservation will have power in their homes for the first time, and at least seven community development projects will be able to move forward. The electrical substations will nearly double the capacity of NTUA and spur more than \$41 million in economic development. Without an infusion of new markets tax credit (NMTC) equity, NTUA would not have been able to complete the substations, and large portions of the reservation would remain in the dark.

“Right now, there is no power available in this area...right now the grid does not exist in this community. They cannot build anything else in these areas until they have power lines to serve them,” said Phil Glynn, director of Travois New Markets, a community development entity (CDE) that specializes in affordable housing and economic development projects in Indian Country and provided the NMTCs for the project.

The Navajo Nation extends across more than 26,000 square miles of northeastern Arizona, northwestern New Mexico and southeastern Utah. Founded in 1959, the not-for-profit NTUA supplies electricity, natural gas, wastewater treatment and photovoltaic services to residents. The utility authority serves 38,000 electric customers, 35,000 water customers, 13,000 wastewater customers and 7,000 natural gas customers. It does not generate electricity, but purchases it from outside companies and then distributes it to customers at one of the lowest rates in the nation.

“In a rural utility sense, it's extremely important

that they're able to provide low-cost power to their residents,” said Christopher Vukas, CDE manager at Travois.

When the two substations are complete, NTUA will be able to provide electricity to more of the estimated 18,000 families on the reservation that do not have utility services. The project consists of replacing a 40-year-old electrical substation at Cudeii, N.M., and building a new substation at Shiprock, N.M. The new substations will be larger and more efficient, doubling the electrical capacity of the NTUA. Because of that increased capacity, 400 single-family homes will be able to tap into the power grid, and development can occur in areas that formerly lacked a reliable power source. The substations will create 30 construction jobs on the reservation, which has an unemployment rate of more than 35 percent.

“NTUA is under constant pressure to keep the rates as low as possible. The new markets program allowed them to do exactly that,” Glynn said.

Travois expects the cost of building and outfitting the two substations will be \$6.4 million. Travois provided an allocation of NMTCs to fund the construction of the substations and U.S. Bank Community Development Corporation (USB CDC) invested in the tax credits, resulting in nearly \$1.9 million in gross equity for the project. NTUA used an existing asset to obtain a \$4.5 million line of credit from Wells Fargo.

“NTUA is a non-profit entity, therefore they don't charge their customers high rates. Their margins are pretty thin. That's one of the reasons we felt this was really important,” Vukas said.

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# Substations

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Glynn described the transaction as a hybrid of a real estate and equipment deal because NTUA is using the credits to fund both the construction of the buildings and the equipment needed to distribute the power.

Because the substations are on tribal land, the limited liability company (LLC) formed by the companies had to work with the Bureau of Indian Affairs and different levels of the tribal government on the project. The Navajo Nation holds all the land on the reservation in a tribal land trust, so the LLC could not gain control of the land under the substations and had to transfer the right of way from the tribe. The LLC had to obtain tribal approval for many different aspects of the project, which can be complicated.

"There are different laws in every location. We're trying to work with a federal IRS program and these other local and tribal laws don't always mesh," Vukas said.

Although, NTUA was able to leverage one of its

own assets into the transaction, it struggled to increase capacity without passing the cost on to its customers. When NTUA originally conceived the project several years ago, material costs were lower and the economy was stronger. When construction began on the substations earlier this year, some material costs, such as the price of copper, had quadrupled.

The NMTCs allowed NTUA to stretch its funds and finish two years worth of work in less than a year, Glynn said.

All of the parties involved cited the need for increased infrastructure in an area with a poverty rate of more than 30 percent and a per capita income of less than \$10,000.

"Within their community, [the Navajo] have some of the poorest census tracts in the nation, so this is a very large [project]," said Maria Bustria-Glickman who specializes in tax credit investments for USBCDC.

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## Building a Nation

"We're using \$6.4 million of new markets tax credits, but we're able to increase the economy at a much larger magnitude," Vukas said.

In the Shiprock area, Travois expects the new substation to catalyze more than \$41 million in economic development. Travois identified numerous projects that could not move forward because of the lack of affordable electricity. The projects include the Shiprock Home for Women and Children, a second five-unit women's shelter, an adult treatment center, 21 transitional housing units, the expansion and renovation of a behavioral health

center, the expansion of the Navajo Housing Authority, a 24-unit apartment building, a 96-unit apartment development and several new schools. Vukas estimates that the projects will result in 609 additional jobs on the reservation, including 144 direct permanent positions and 465 indirect permanent positions.

"These are definitely small towns, but they're communities of people who need services. [The substation] is exactly the kind of deal that catalyzes other development," Glynn said, noting that now the Navajo will be able to move forward with the residential and school projects. ❖

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