

U. S. Department of the Interior  
Assistant Secretary—Indian Affairs  
Office of Indian Energy and Economic Development  
Division of Economic Development

Tribal Economic Development Principles at a Glance Series

# The Importance of Feasibility Studies for Federally Recognized Tribes



*This is the first in a series of economic development primers prepared by the Indian Affairs Office of Indian Energy and Economic Development (IEED), Division of Economic Development (DED), U.S. Department of the Interior, to offer answers to fundamental questions about creating jobs and expanding economies in federally recognized tribal communities.*

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*If you would like to discuss feasibility studies more specifically or have questions about other tribal economic development issues, please contact the Division of Economic Development at (202) 208-0740.*

## **Our tribe is considering a development project and it has been suggested that we conduct a feasibility study first. What is a feasibility study?**

Feasibility studies are evaluations of proposed economic development projects conducted by qualified, disinterested third-parties.

“Qualified” means that the consultant or academic institution preparing the study possesses expertise pertaining to the project under consideration, has conducted similar studies before, or has earned academic or professional licenses or credentials relevant to the proposed project.

“Disinterested” means that the consultant or academic institution conducting the study has no financial or personal stake in the outcome of the study.

A “third-party” is a person who is not a member of the tribe or is an entity that is not connected to the tribe.

### **Why do we need a feasibility study?**

Feasibility studies empower a tribal government to make an informed decision regarding their tribe’s economic future and distinguish real economic opportunities from investments that could fail.

No tribe should undertake an economic development project without first obtaining a feasibility study. This is because all development projects pose some element of risk. Feasibility studies weigh those risks to determine whether they are worth taking.

### **Why is it advised that our tribe only consider “disinterested third-parties” to perform a feasibility study? Why can’t we contract with a member of our own tribe to conduct the study?**

A study which recommends that a project go forward can be used to help persuade lenders and investors to provide financial backing for the project. These sources of funding must have faith that those preparing the study have no preconceptions or partiality with respect to the study’s outcome. They may view with skepticism or find less credible a study conducted by a member of the tribe that has sponsored the study.

## Can you give some examples of tribal business and commercial opportunities that warrant feasibility studies?

Feasibility studies are appropriate for virtually any type of potential project. Here are a few examples of the kinds of risks and concerns posed by typical development proposals that could be identified and assessed beforehand by feasibility studies:

### **Example #1:**

*Tribal members complain that they have to drive too far to obtain food, sundries, and gasoline. They have suggested that the tribe invest in the development of a convenience store and gas station on the reservation. Other tribal members point out that this kind of development will also provide needed jobs for the community. This development will cost the tribe several million dollars.*

- *What if there are not enough customers to sustain the store and gas station or pay employees?*
- *Would it be better for the tribe itself to manage the store or should the tribe invite a national franchise to be the tenant?*

### **Example #2:**

*A promoter wants the tribal government to fund a technology s/he is selling that s/he assures will convert trash to diesel fuel which can be used by the tribe at cost and sold on the open market at a substantial profit.*

- *What if the promoter has misrepresented his/her experience and credentials?*
- *What if the promoter is honest and believes in his/her technology but the technology itself is untested and unreliable?*
- *What if no one in tribal government has the engineering or technical background to enable them to determine whether the promoter or his/her wares are bona fide?*
- *Who is likely to buy the diesel fuel from the tribe and how much will they pay?*
- *How much will it cost to transport the fuel to outside customers?*

### **Example #3:**

*The tribe owns an abandoned building that is in good shape and has enough square footage to accommodate several different kinds of uses. Council members hold differing opinions as to how the building should be re-purposed. One believes it would make a good manufacturing site while three others want to convert it to a gymnasium and another is convinced that it should be used as a business incubator.*

- *What if the Tribe retrofits the building for manufacturing and later cannot find a manufacturer interested in using it?*
- *What if the building is not suitable for use as a gymnasium or would cost the tribe too much to convert to that purpose?*
- *What if the building would be a poor location for a business incubator?*
- *What if there are better uses for the building of which the tribal council is unaware?*

In each of these examples, the tribe is in jeopardy of making a costly decision without sufficient information or expertise. In each case, because scarce tribal resources are at stake, a feasibility study would answer the issues raised, potentially saving the tribe from making a poor decision. Where a study finds the proposal to be tenable, it also furnishes the tribe with an economic roadmap for success.

## **How does a feasibility study minimize risk for the tribe?**

Feasibility studies weed out technically implausible and fraudulent project proposals and identify the logistical, financial, and market challenges each proposal presents. They can examine:

- The market for the proposed product or service;
- Likely consumers of the product or service;
- Likely competitors;
- The price consumers are willing to pay for the product or service;
- How much of the market for the product or service the tribal business is likely to capture;
- Whether sufficient capital is likely to be available for start-up;
- What structure the tribal entrepreneur should choose to organize the businesses and how this might affect tribal sovereign immunity and tax liability;
- Whether return on investment will be adequate to pay business or project financing costs;
- Timing, cash flow, and profitability of the business or project;
- Whether projected sales revenues will cover operating costs and ensure continued growth;
- Whether the tribal business will have sufficient expertise and manpower and an adequate infrastructure to succeed; and
- The potential impact of project delays, less-than-expected sales, cost increases, and shifting economic conditions.

## **Can a feasibility study address the credibility of the promoter of the project under consideration?**

Yes. Feasibility studies may rightfully inquire as to a promoter's reliability. Promoters frequently seek to persuade tribal governments to invest in economic development projects inside and outside tribal communities as a last resort when they have exhausted more traditional modes of financing.

Some promoters offer real opportunities and their claims are credible. However, even these claims should be thoroughly vetted by the tribal government before making a long-term financial commitment.

Other investments proposed by promoters involve unproven technologies or lack coherent business plans and pose a strong likelihood of failure. Sadly, a few are even schemes intended to defraud.

## **What if our tribe does not agree with what the feasibility study recommends?**

Feasibility study recommendations help tribes make informed decisions. As sovereign nations, tribes may either accept or reject them.

## **Once completed, can the feasibility study help our tribe obtain financing for the proposed project addressed by the study?**

Yes. Of course, feasibility studies are not the only documents and assurances that a lender or investor will require. But a tribal business equipped with a feasibility study performed by a disinterested, qualified, third-party consultant or university stands a better chance of obtaining the capital it needs to finance projects and hire employees.

Before making a loan or investment, a lender or investor must conduct a "due diligence" examination of the project for which credit is sought. When a lender or investor concludes that there is a chance that the project will not succeed, he or she may avoid financing it altogether or toughen the loan repayment terms to reflect the perceived higher risk of failure.

A feasibility study performed by a reputable third party can often fulfill many of a lender's or investor's due diligence requirements by answering all of the concerns it might have about a project's chances of success. If a feasibility study concludes that a project is worthwhile and financially sustainable, this information alone may persuade a lender or investor that financing the project does not involve untoward risk. This could result in a more rapid approval of the loan or better loan terms.

## **Are there different kinds of feasibility studies?**

Yes. Most feasibility studies conducted for tribes are intended to be used by tribal governments as economic development decision making tools. Others are directed at investors and lenders, and are sufficiently detailed to convince an investor to fund a project. These are called “investment grade” studies.

## **What are the costs associated with an economic development feasibility study?**

Costs depend on the complexity of the issues addressed by the study and the expertise required to deal with them. For example, the average IEED, Division of Economic Development grant for economic development feasibility studies between 2007 and 2013 was approximately \$60,000.

## **If a feasibility study concludes that a project should not be undertaken, does this mean that the study was a waste of time and money?**

It certainly does not. If a feasibility study recommends that the tribe not invest in a particular project and it heeds that advice, the tribe could thereby be spared the funds it would have lost had it launched a project destined to fail.

## **Can a feasibility study be used to obtain a federal, state, or private grant?**

Yes. Recently, one tribe used a feasibility study as the basis for its successful application for a federal grant that covered all costs of obtaining a site and developing architectural plans for a convenience store.

## **Can a tribe request that the project promoter fund a feasibility study?**

One strategy that tribes can use when federal assistance is not available for a feasibility study is to request that the promoter fund a feasibility study conducted by consultants or universities chosen by the tribe before it commits to moving ahead with his or her project proposal.



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