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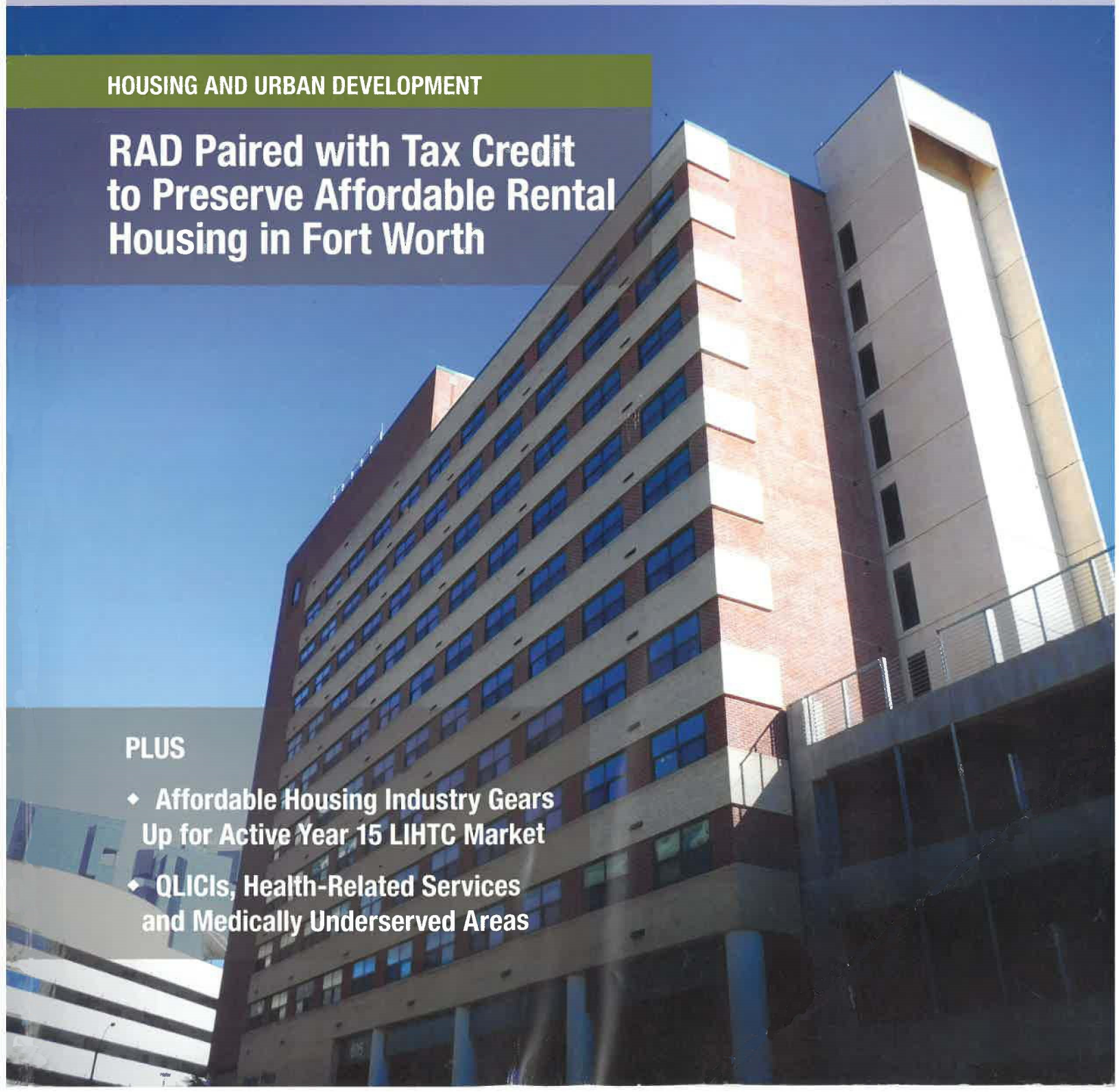
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Huge NMTC Investment Makes Pet Product Manufacturing Site Possible

BRAD STANHOPE, ASSIGNMENT EDITOR, NOVOGRADAC AND COMPANY LLP

An American-made, American-sourced, American-owned company is getting an all-American opportunity: expansion, thanks to a significant investment via new markets tax credits (NMTCs).

Prairie Dog Pet Products (PDPP), a leading specialty manufacturer of premium pet treats and antlers, will open a 100,000-square-foot manufacturing center in Abilene, Texas, later this year. It's a deal that those involved say couldn't have happened without a \$24 million allocation of NMTCs from National New Markets Fund LLC (NNMF), which brought an \$8 million investment from JPMorgan Chase New Markets Tax Credit Group.

PDPP will be able to expand its growing base while bringing 200-plus jobs to Abilene, a city that has struggled in recent years and is thrilled to have a tenant for the huge building it erected almost a decade ago.

"The new markets tax credit is really playing a critical role with these types of expanding companies in distressed communities across the country," said Deborah La Franchi, president of NNMF. "The Prairie

Dog investment will make a substantial impact in this community, particularly given the multiplier effect resulting from the 2015 additional paychecks in this community."

Robbie Ruminer, vice president of NMTC and site selection at HWH Group, which was in charge of site selection, agreed. "The New Markets Tax Credit program is a vital tool for companies that are needing to expand, but have limited access to affordable capital," Ruminer said.

PDPP is a perfect example. "It would have been very difficult to expand without the new markets tax credits and the city of Abilene," said Ira Goldfarb, founder and CEO of PDPP. "This was not the simplest financing deal we have experienced, but in the end we got it done and it will be a huge success for us and for Abilene. It will help us grow and created more jobs here in the USA."

Prairie Dog Pet Products

Goldfarb founded PDPP in 2007. The company collects and processes naturally shed North American antlers to make chew toys for dogs. It makes a variety of other treats, such as jerky, biscuits and sausages, in its own

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Image: Courtesy of Development Corporation of Abilene

Prairie Dog Pet Products will move manufacturing into this building in Abilene, Texas, later this year, after getting significant funding from new markets tax credits (NMTCs)



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facilities using American labor and sourcing from American companies. “We believe in manufacturing in this country,” Goldfarb said. “And we’re growing because we’re making a safe, quality product here at home.”

That was evidenced by the fact that Ruminer and others involved actually tasted the product.

“It’s a high-quality product with artesian qualities to it,” said Ben Glispie, senior commercial lender at Chase New Markets Tax Credit Group. “We got a tour of their existing facility in Grand Prairie and they made a point that it’s above FDA standards. We did get to taste some of the product ... for being dog treats, it was pretty good.”

The company began manufacturing its own products in Montrose, Colo., and expanded its manufacturing and warehouse facilities in Grand Prairie, Texas. But it needed a bigger home and ultimately found Abilene—about 160 miles west of Grand Prairie—suitable.

Making the Choice

Ruminer’s group worked with Prairie Dog to find a site, spending about a year looking at 85 sites in 46 communities in 14 states—from New Mexico to Virginia—before settling on Abilene.

Kent Sharp, the CEO of the Development Corporation of Abilene, said that Abilene wasn’t a front-runner because his agency had an agreement with another potential resident of the existing building—but when they backed out in May 2015, his city got involved.

Sharp said he realized Abilene had a shot. “No. 1, we had a building and when a project comes out and says there is a preference for an existing building, they mean it,” Sharp said. “That’s why we had a spec building to begin with.”

Ruminer said the Development Corporation of Abilene was a major asset and set the city apart from competing communities. “Kent and his team worked tirelessly to make this project a success,” he said. “And at the end of

the day, it’s mandatory that the client needs to have the confidence that the community leadership is supporting this project not only today, but as future growth needs arise.”

Goldfarb said Abilene’s pro-business environment was a huge plus. “They were very like-minded—they believe in manufacturing and bringing quality companies to their community,” Goldfarb said. “This gives us the ability to expand and the location is close enough to Grand Prairie that it made sense.”

The 100,000-square-foot industrial building will be a state-of-the-art facility supporting 215 full-time employees and will include a corporate headquarters. Construction began in March and is expected to be finished in August or September.

Role of the NMTC

La Franchi said tax credits were essential to the development.

“This met our impact criteria squarely, given the amount and quality of the jobs; also, as we underwrote the transaction, it was clear that traditional financing was not going to work for Prairie Dog’s expansion needs. The NMTCs—with the flexible and low-cost financing terms—were critical,” La Franchi said. “There also was incredible support from Abilene through the development corporation and the city. On numerous occasions, they made it clear they were our partners in making this a success. In many ways, the Prairie Dog transaction is precisely the type of job-creating, public-private partnership for which NMTCs were created.”

“This is a very strong illustration of ‘but for,’ (provision in NMTC applications)” said Steven Hattier, vice president of tax credit financing at HWH group. “This wouldn’t have worked without tax credits and site selection.”

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Financing

The investment was used to build out the existing facility to PDPP's specifications and purchase equipment needed to manufacture high-quality specialty pet treats, as well as build headquarters including corporate finance, customer support and sales.

Ruminer said the size of the investment by NMMF is uncommon in the industry today. "NMMF is one of the few CDEs that will allocate an investment this size—\$24 million—which dramatically increased the net benefit to Prairie Dog and was ultimately the major driver in the success of this project moving forward," he said.

La Franchi said the Prairie Dog Pet Products fits NMMF's investment focus, with targets such as manufacturing, technology/growth companies and small businesses. She said the benefits are similarly a good fit. "These 215 jobs will result in an additional \$7 million a year in payroll income being pumped into the Abilene community—a city suffering from a 27 percent poverty rate."

La Franchi said the large allocation is intended to drive more of the economic benefit to the qualified active low-income community business (QALICB). "The closing costs are lower, due to the increased pace of the closing as well as reduced number of law firms involved in closing the transaction; in addition the seven years (of NMTC compliance) costs to the QALICB are lower when there is only one or two, versus three or four CDEs. When you reduce these expenses, the benefit goes right to the QALICB."

The Development Corporation of Abilene contributed the \$5 million building, as well as \$4.5 million in cash to finish it out. In return for the \$9.5 investment, it set a series of financial performance measures over the next eight years and when Prairie Dog Pet Products reaches that standard, the \$9.5 million will be forgiven.

Big Benefit for City

Ruminer said that once the plant is up and operating at full capacity, the benefit to the city of Abilene will be extensive: "This company will invest \$30 million-plus in

land, building and equipment while creating 215 quality jobs with an estimated \$7 million payroll," he said.

Others agreed. "This is a huge job creator. It creates 215 full-time jobs and the city has strongly backed this," Glispie said.

"The community is really excited about it," Sharp said. "It's been a few years since we were able to compete for and win a new manufacturing facility."

Sharp is already looking ahead. He said the best-case scenario is that Prairie Dog Pet Products not only meets, but exceeds expectations and expands both its footprint and its staff. "And when we look back on how much taxes and economic multipliers are added, it will be something we can give ourselves some 'attaboys' for," he said. "I'm very pleased. When you think about the complexity of the deal, I have nothing but praise for the attorneys, the CDE, Chase, all the partners who helped us."

Goldfarb said his company is overjoyed with the partnership with the city. "We are unbelievably thrilled and impressed by Abilene," he said. "The leadership there is phenomenal. We believe in the city and never would have been able to get this project done without them. It is great to work with community leaders who are looking to create opportunities for their constituents." ♦

Prairie Dog Pet Products

FINANCING

- ♦ \$24 million new markets tax credit allocation from National New Markets Fund
- ♦ \$8 million in NMTC equity from JP Morgan Chase
- ♦ \$8 million private investment by Prairie Dog Pet Products
- ♦ \$5 million cost of existing building from Development Corporation of Abilene
- ♦ \$4.5 million from Development Corporation of Abilene to complete construction