



# Novogradac Journal of Tax Credits

News, Analysis and Commentary On Affordable Housing, Community Development and Renewable Energy Tax Credits

July 2014 • Volume V • Issue VII

Published by Novogradac & Company LLP

## NMTCs Serve Up New Space for Food Business Entrepreneurs, Social Enterprise

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**F**or partners in the \$17.5 million L.A. Prep project, the recipe for a successful food business accelerator calls for equal parts social philanthropy, economic development and collaborative synergy. They say that when the 56,000-square-foot former warehouse opens near downtown Los Angeles early next year, 50 tenant food companies will find nearly everything they need to grow their businesses under one roof. Features of the building include 49 licensed wholesale food production spaces that, unlike traditional incubator kitchens, are each leased to only one tenant. The building will also house a local nonprofit focused on job training and providing healthy and affordable nutrition to seniors.

Brian Albert, co-principal of Civic Enterprise Development, said that one of the main motivations behind L.A. Prep is to help small food businesses avoid many of the overhead costs and regulatory expenses of opening their own wholesale kitchens. “We hope it changes the landscape for food makers in L.A. by giving innovative startup food companies the opportunity to scale their growth,” said Albert. He said that although some small shared kitchens exist in the city, only L.A. Prep is prepared to offer tenants wholesale licenses from the county of Los Angeles. Albert expects that tenants will also be able to obtain a number of other certifications for their products, including U.S. Department of Agriculture (USDA) grants of inspection, kosher, gluten-free and organic.

Mott Smith, co-principal at Civic Enterprise Development, said that L.A. Prep worked with the county health department to offer tenants a state-of-the-art wholesale food production environment where they can more easily follow good manufacturing practices. He said the key is to maximize the tenants’ ability to make their products in separate, independent spaces they control at all times. Civic Enterprise Development partnered with food business accelerator Food Centricity on development of the facility. Both partners will remain involved in ongoing operations.

Food Centricity will also offer on-site business management and support services designed to speed companies’ time-to-market, make them more competitive and connect them to appropriate resources.

Michel Algazi, CEO of Food Centricity, held executive leadership positions at several Fortune 500 companies for years before deciding to launch his own food production startup—an experience he said gives him firsthand knowledge of the challenges that all emerging food businesses face. He said that food businesses have a short runway, or the amount of time needed to “lift off” before they run out of capital. Algazi explained that Food Centricity’s collaboration with L.A. Prep will address the four factors he sees as essential to helping businesses successfully lift off: a shorter time to market; reduced

continued on page 2

continued from page 1

cost of goods; assistance in penetrating the market with the help of a network of industry contacts; and access to growth capital.

Smith said L.A. Prep's combination of facilities and services will be a game-changer for food startups. "Today, food businesses tend either to be microscopic or enormous; there's very little in between," said Smith. "But we see enormous potential for a well-supported, vital middle class in the food world."

L.A. Prep will also be the home of anchor tenant L.A. Kitchen, a nonprofit social enterprise and workforce development organization. Founder Robert Egger modeled L.A. Kitchen after the community kitchen concept he developed 25 years ago at DC Central Kitchen in the nation's capital. Egger said L.A. Kitchen will collect donated and purchased surplus produce from regional farms and wholesale companies. Those ingredients will then be used in L.A. Kitchen's 15-week culinary arts training program focused on preparing emancipated foster youth and formerly incarcerated adults for culinary jobs. The healthy meals produced will be distributed for free to nonprofit partners that serve seniors, after-school programs, drug treatment centers and homeless programs, or sold, via contracts, to government agencies and private businesses. "Our goal is to create one of the most visible examples of new philanthropy," said Egger. "Rather than just serving clients, we're empowering people. Rather than chasing money, we're making our own."

### Financing

L.A. Prep was financed using \$16 million in new markets tax credit (NMTC) allocation from the Los Angeles Development Fund and from UrbanAmerica, through its community development entity, UA LLC.

"Without the new markets [credits], the affordability of the project wouldn't happen—we're talking about L.A. real estate," said Maria Bustria-Glickman, vice president of U.S. Bancorp Community Development Corporation (USBCDC), which contributed \$5.1 million in NMTC equity to the project.

Others echoed the importance of the NMTC. "I don't think we can overemphasize the importance of putting a subsidy in there that gives a startup business the opportunity to get in with a low operating cost," said Scott Spote, chief lending officer of Capital Impact Partners, which provided \$11 million in leveraged debt, as part of the California Fresh Works Fund, with The California Endowment, Genesis L.A. and Raza Development Fund.

L.A. Prep's financing partners said that the development's goals and projected community benefits made it a natural fit for the NMTC program. "This was the trifecta opportunity in terms of meeting the objectives of the New Markets Tax Credit program: it creates jobs for people in need of work who are coming out of prison, it provides fresh produce for the local community and homeless and it gives opportunities for entrepreneurs to practice their trade and get into the [food] business," said Richmond McCoy, president and CEO of UrbanAmerican Advisors.

Sandra Rahimi, corporate secretary and manager of LADF, added that potential inspiration and collaboration among the 50 tenant businesses, Food Centricity and L.A. Kitchen could result in further economic investments and growth for the community. "We're excited to do incubators because they are an opportunity to create home-grown companies and create jobs," said Rahimi.

For example, she said graduates of the L.A. Kitchen culinary training program may be hired to work for one of the tenant businesses or may become inspired to start food businesses of their own.

Egger agreed that L.A. Prep is designed to succeed on a variety of levels. "We want to make L.A. a stronger city, whether by preventing health care costs by supplying people with healthy food, employing people who were formerly unemployed or marginalized or by putting L.A. at the epicenter of the new food economy," said Egger. "There's a saying that L.A. is where the future comes to happen and this [project] is about making that true." ❖

### L.A. Prep FINANCING

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continued on page 3

continued from page 2

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*This article first appeared in the July 2014 issue of the Novogradac Journal of Tax Credits.*

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ISSN 2152-646X

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