



# 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

TERESA GARCIA, STAFF WRITER

NOVOGRADAC & COMPANY LLP

**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 (NMTTC) 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 NMTTC equity to the project.

Others echoed the importance of the NMTTC. "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 NMTTC 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

- \$16 million in new markets tax credit (NMTTC) allocation from the Los Angeles Development Fund and UrbanAmerica through its community development entity, UA LLC

continued on page 3

continued from page 2

- \$11 million in leverage debt from Capital Impact Partners, as part of the California Fresh Works Fund and in partnership with The California Endowment, Genesis L.A. and Raza Development Fund
- \$5.1 million in NMTC equity from U.S. Bancorp Community Development Corporation

---

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

© Novogradac & Company LLP 2014 - All Rights Reserved

*Notice pursuant to IRS regulations: Any U.S. federal tax advice contained in this article is not intended to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties under the Internal Revenue Code; nor is any such advice intended to be used to support the promotion or marketing of a transaction. Any advice expressed in this article is limited to the federal tax issues addressed in it. Additional issues may exist outside the limited scope of any advice provided – any such advice does not consider or provide a conclusion with respect to any additional issues. Taxpayers contemplating undertaking a transaction should seek advice based on their particular circumstances.*

*This editorial material is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding property compliance or any other material covered in this article can only be obtained from your tax advisor. For further information visit [www.novoco.com](http://www.novoco.com).*



## EDITORIAL BOARD

### PUBLISHER

**Michael J. Novogradac, CPA**

### EDITORIAL DIRECTOR

**Alex Ruiz**

### TECHNICAL EDITORS

**Robert S. Thesman, CPA**

**Thomas Boccia, CPA**

**James R. Kroger, CPA**

**Daniel J. Smith, CPA**

**Owen P. Gray, CPA**

## COPY

### ASSOCIATE EDITOR

**Jennifer Dockery**

### STAFF WRITERS

**Teresa Garcia**

**Mark O'Meara**

### EDITORIAL ASSISTANT

**Elizabeth Orfin**

### CONTRIBUTING WRITERS

**Sun-Ae Woo**

**Tom Boccia**

**Bryan Hung**

**John M. Tess**

**Stephanie Chow**

**Forrest Milder**

**Cyle Reissig**

## ART

### CARTOGRAPHER

**David R. Grubman**

### PRODUCTION

**Alexandra Louie**

**Jesse Barredo**

## CONTACT

### CORRESPONDENCE AND EDITORIAL SUBMISSIONS

**Alex Ruiz**

**alex.ruiz@novoco.com**

**415.356.8088**

### ADVERTISING INQUIRIES

**Tyler Perrotta**

**tyler.perrotta@novoco.com**

**415.356.8062**

EDITORIAL MATERIAL IN THIS PUBLICATION IS FOR INFORMATIONAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED OTHERWISE.

ADVICE AND INTERPRETATION REGARDING THE LOW-INCOME HOUSING TAX CREDIT OR ANY OTHER MATERIAL COVERED IN THIS PUBLICATION CAN ONLY BE OBTAINED FROM YOUR TAX ADVISOR.

## ADVISORY BOARD

### LOW-INCOME HOUSING TAX CREDITS

**Bud Clarke**

BOSTON FINANCIAL INVESTMENT MANAGEMENT

**Jana Cohen Barbe**

DENTONS

**Tom Dixon**

BOSTON CAPITAL

**Rick Edson**

HOUSING CAPITAL ADVISORS INC.

**Richard Gerwitz**

CITI COMMUNITY CAPITAL

**Rochelle Lento**

DYKEMA GOSSETT PLLC

**John Lisella**

U.S. BANCORP COMMUNITY DEV. CORP.

**Philip Melton**

CENTERLINE CAPITAL GROUP

**Thomas Morton**

PILLSBURY WINTHROP SHAW PITTMAN LLP

**Mary Tingerthal**

MINNESOTA HOUSING FINANCE AGENCY

**Rob Wasserman**

U.S. BANCORP COMMUNITY DEV. CORP.

### PROPERTY COMPLIANCE

**Michael Kotin**

KAY KAY REALTY

**Michael Snowdon**

HIGHRIDGE COSTA HOUSING PARTNERS

**Gianna Solari**

SOLARI ENTERPRISES INC.

**Kimberly Taylor**

HOUSING DEVELOPMENT CENTER

### HOUSING AND URBAN DEVELOPMENT

**Flynnan Janisse**

RAINBOW HOUSING

**Ray Landry**

DAVIS-PENN MORTGAGE CO.

**Denise Muha**

NATIONAL LEASED HOUSING ASSOCIATION

**Monica Sussman**

NIXON PEABODY LLP

### NEW MARKETS TAX CREDITS

**Frank Altman**

COMMUNITY REINVESTMENT FUND

**Merrill Hoopengardner**

ADVANTAGE CAPITAL

**Scott Lindquist**

DENTONS

**Matthew Philpott**

U.S. BANCORP COMMUNITY DEV. CORP.

**Matthew Reilein**

JPMORGAN CHASE BANK NA

**Ruth Sparrow**

FUTURES UNLIMITED LAW PC

**Elaine DiPietro**

ENTERPRISE COMMUNITY INVESTMENT INC.

### HISTORIC TAX CREDITS

**Jason Korb**

CAPSTONE COMMUNITIES

**John Leith-Tetrault**

NATIONAL TRUST COMM. INVESTMENT CORP.

**Bill MacRostie**

MACROSTIE HISTORIC ADVISORS LLC

**John Tess**

HERITAGE CONSULTING GROUP

### RENEWABLE ENERGY TAX CREDITS

**Bill Bush**

BORREGO SOLAR

**Ben Cook**

SOLARCITY CORPORATION

**Jim Howard**

DUDLEY VENTURES

**Forrest Milder**

NIXON PEABODY LLP

© Novogradac & Company LLP

2014 All rights reserved.

ISSN 2152-646X

Reproduction of this publication in whole or in part in any form without written permission from the publisher is prohibited by law.