SEYFARTH SHAW

Seyfarth Shaw LLP

FINANCING PROJECTS… WITH ACRONYMS! IDBs, NMTC, EB-5, and More!

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PART 2 OF FINANCING WITH ACRONYMS
(Part 3 of Sidebar Financing Session)

FIND WALDO AND FIND
THE CAPITAL STACK FOR
YOUR PROJECT!

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CASH FOR CREDITS
NEW MARKETS TAX CREDITS
NMTC

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BASIC RULE

THE PROJECT TYPICALLY NETS SUB DEBT ("FORGIVABLE LOAN") EQUAL TO 20%-25% OF THE NMTC ALLOCATION

- Something called a "CDE" holds the allocation of credits and is the conduit.
- Ultimate NMTC benefit should be calculated net of costs and any applicable taxable income on exit.

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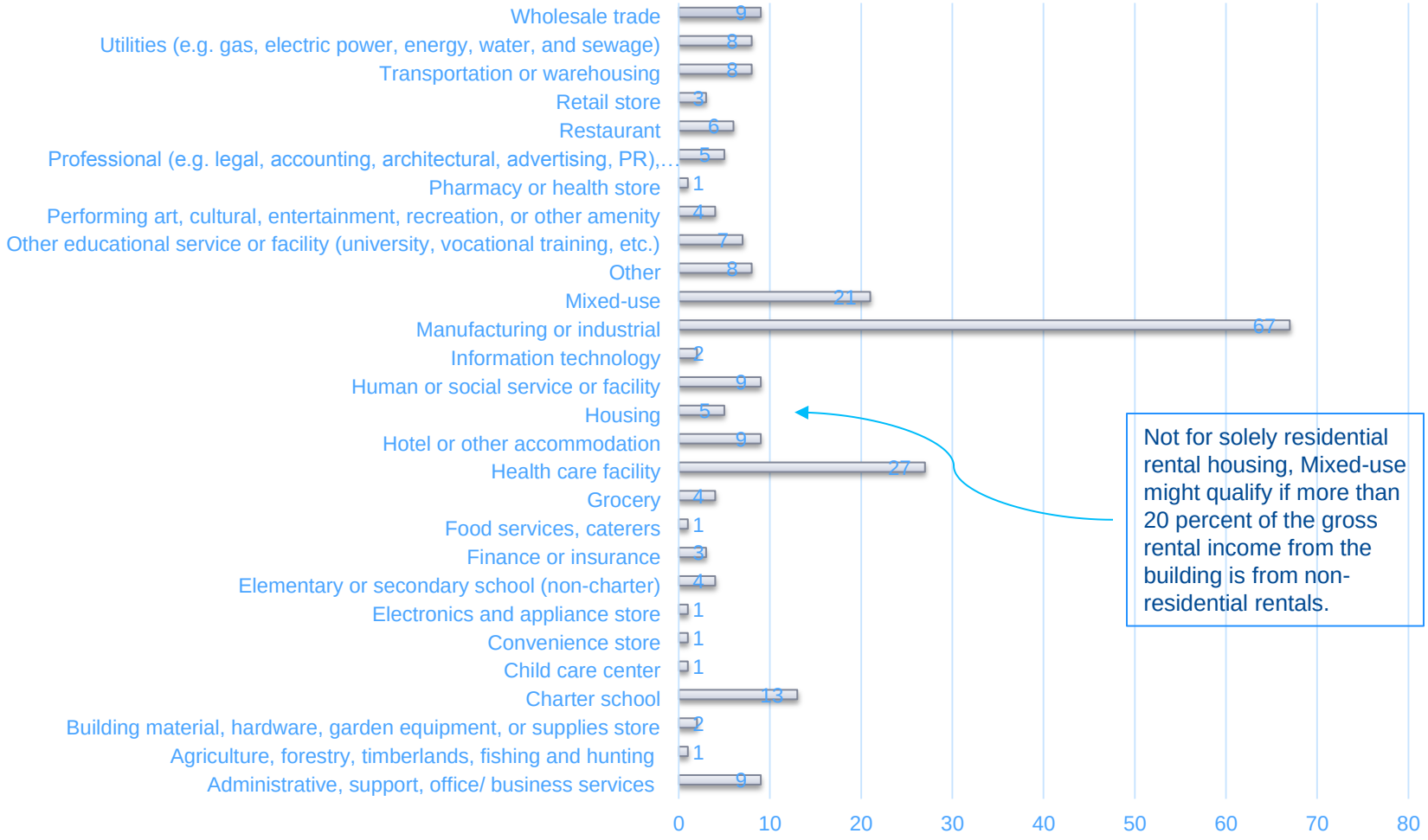
CAN I GET THE MONEY?

2014 Uses of NMTC

Source: NMTC Coalition



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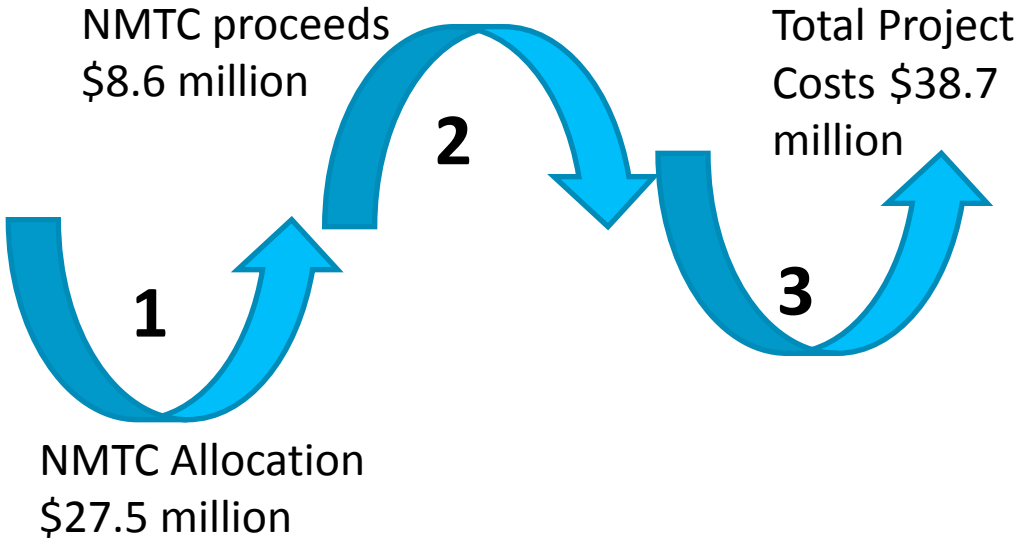
CLOSE TO HOME EXAMPLE

Meredian Bioplastics, Inc. (Meredian) is a green technology company that uses byproducts of the timber and agricultural industry to create bioplastics.Meredian utilized NMTC financing to acquire new equipment and expand from their previous facility to a 190,000 square-foot industrial, office and research facility in Bainbridge, Georgia. The continued success and growth of Meredian is vital to the economic health of the city of Bainbridge, and the new facility has brought significant investment into a low-income community in rural Georgia.
Source: Meredian



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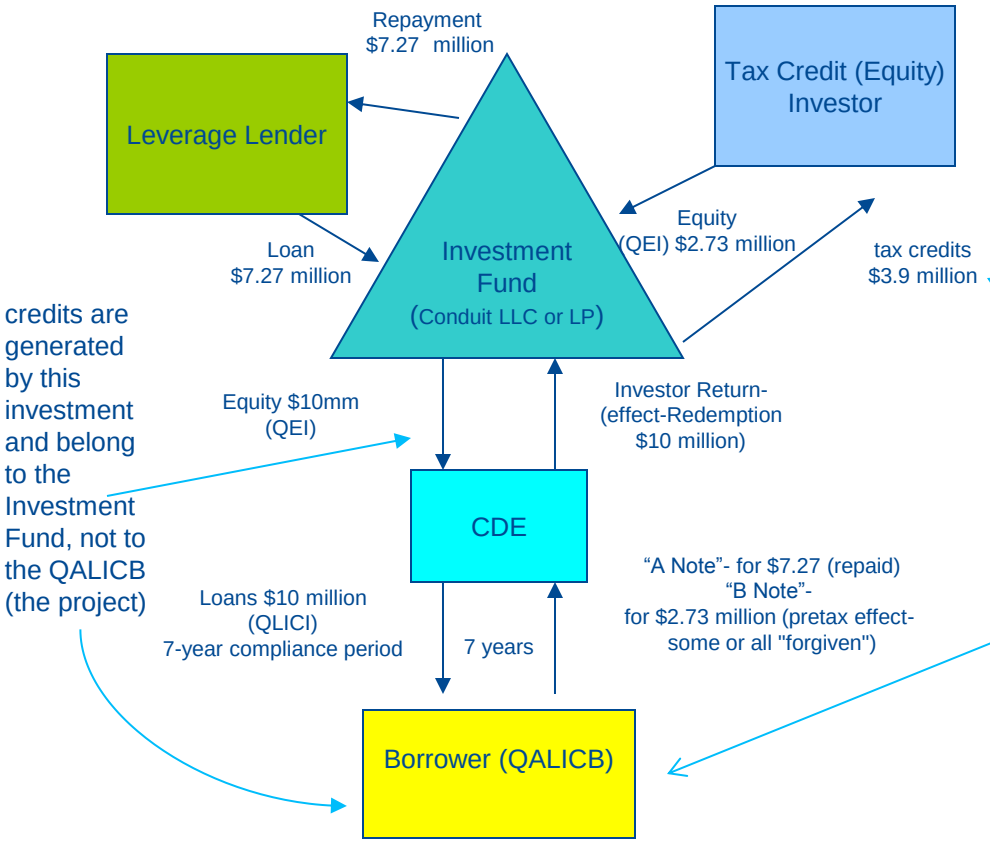
HOW NMTC SUB DEBT BECOMES A "FORGIVEABLE LOAN"



Tax Credit Schedule for NMTC Investors		
Year 1	$500,000	5%
Year 2	$500,000	5%
Year 3	$500,000	5%
Year 4	$600,000	6%
Year 5	$600,000	6%
Year 6	$600,000	6%
Year 7	$600,000	6%
	$3.9 million	39%

TAX AND OTHER NMTC REQUIREMENTS INCLUDE CENSUS TRACT QUALIFIED AS-
Most Favored: Severely Distressed
Practical Minimum: High Distress
Legal Minimum: Qualified (based on poverty or low income)
If census tract is qualified and low income, then project could be severely distressed if serves Targeted Population to the extent that: (a) such project is 60% owned by low-income persons (LIPs); or (b) at least 60% of employees are LIPs; or (c) at least 60% of customers are LIP
(other qualifications/issues might apply)

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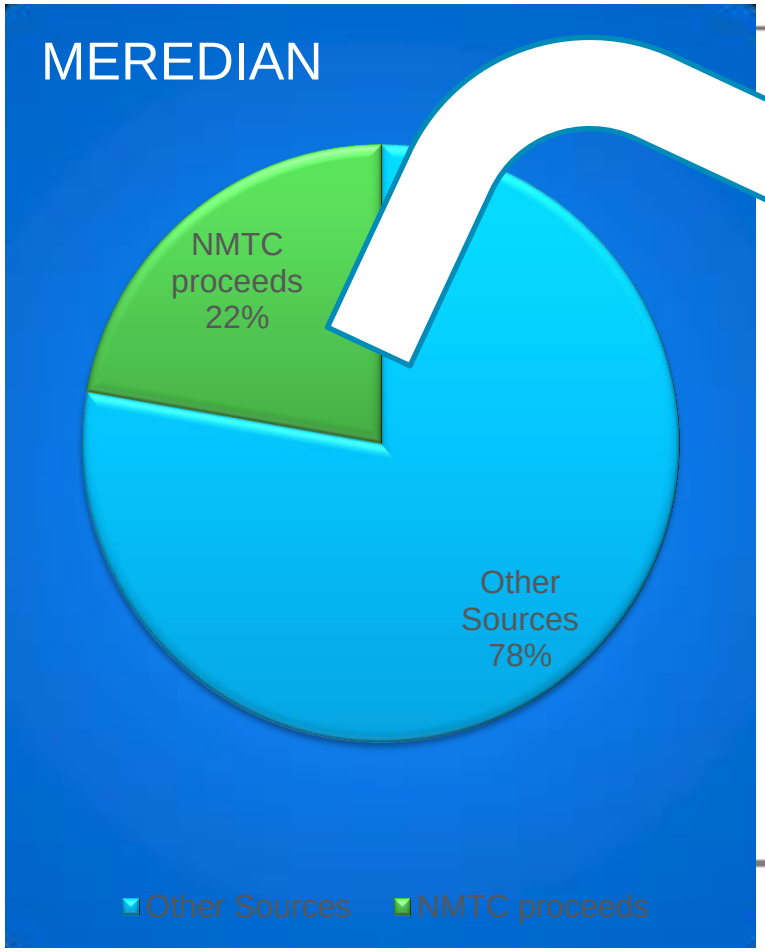
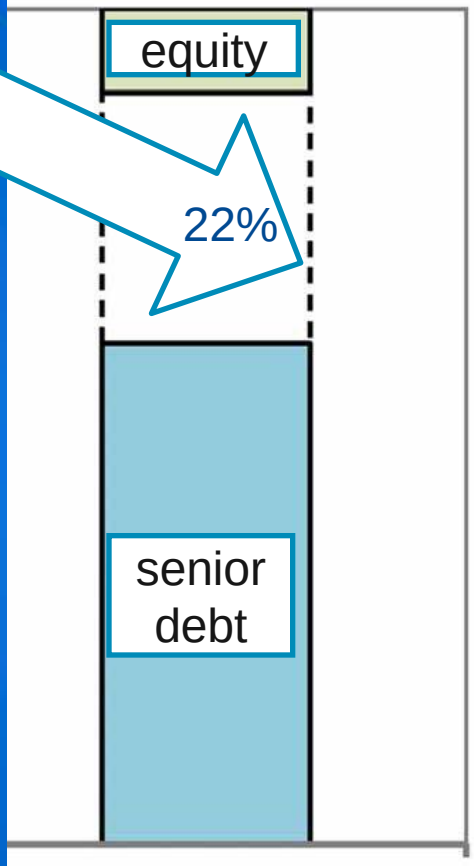
HOW NMTC FILLED THE GAP





Prototypical "Capital Stack" For Real Estate Projects

- Equity
- Mezzanine Debt
- Senior Debt

Taken From: Smith, "Closing the Gap"

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- Latest (2014) round of NMTC allocations announced June 15, 2015
- $3.5 billion of allocation authority awarded to 76 allocatees
  - Largest = $75 million
  - Smallest = $15 million

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- **$1.905 billion will be invested in major urban areas**
- **$813 million will be invested in minor urban areas**
- **$721 million will be invested in rural areas**

GEORGIA IS AN HISTORICALLY UNDERSERVED STATE THAT RECEIVES PREFERENTIAL ATTENTION FROM CDEs.

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- 12 allocatees qualified as "rural CDE"
  - 31 allocatees will deploy some of their investments in non-metro counties
- 67% of the allocatees indicated that they will devote some portion of their allocation to Healthy Food financing

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IMMIGRANT INVESTOR CAPITAL
EB-5

BASIC RULE

FOR A $500,000 INVESTMENT IN A TARGETED EMPLOYMENT AREA THAT CREATES AT LEAST 10 DIRECT, INDIRECT OR INDUCED JOBS, A FOREIGN INVESTOR WILL GET A "GREEN CARD"

- Something called a "Regional Center" raises the capital and is the conduit .
- Capital is raised on a per project basis via a Private Placement Memorandum.
- Per investor requirement is $1 million, unless project is located in a Targeted Employment Area.

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WHAT MOTIVATES THE INVESTOR?

Investor's priorities (in this order)-

1. **ultimate return of capital**
2. **obtain "green card" (permanent resident visa)**
3. **get small return (maybe)**

The investor does not want to work at the project. Except perhaps for a due diligence visit, the community will never see the investor.

A loan made to the project out of the investment normally has a 5 year term and is not repayable early because of the "continuously maintained" requirement that applies to the investment.

THE REGIONAL CENTER IS THE CONDUIT

- REGIONAL CENTER (RC)
- EB-5 investment can be made by an investor on a stand-alone basis, or through a USCIS-designated Regional Center (RC)
- RCs are the norm
- Each investor's investment must create at least 10 jobs (direct, indirect and induced)
  - If the investment is stand-alone, indirect/induced jobs are not counted
  - RCs use an economic model to calculate and substantiate job creation
    - Models that are used are subject to USCIS approval

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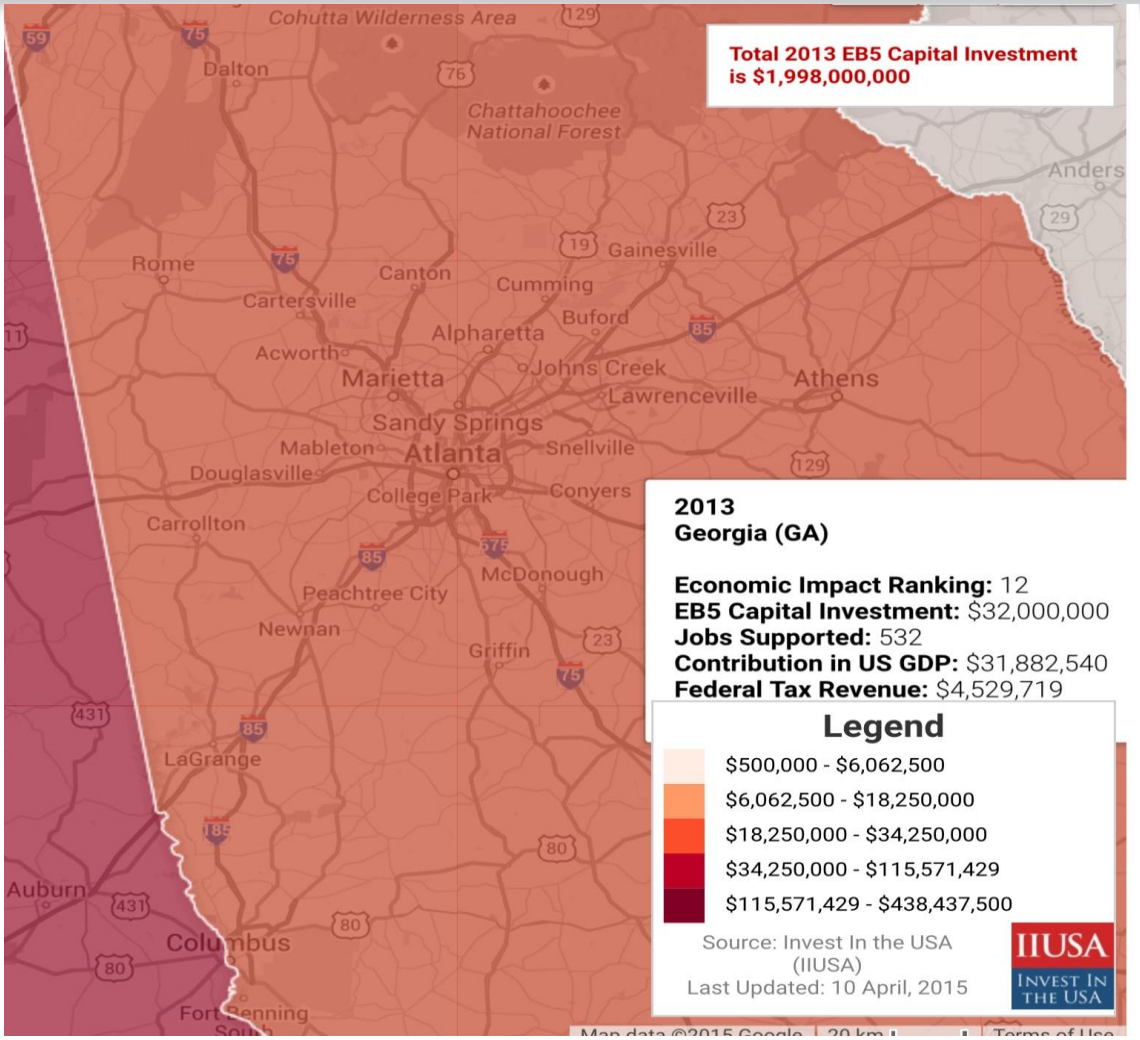
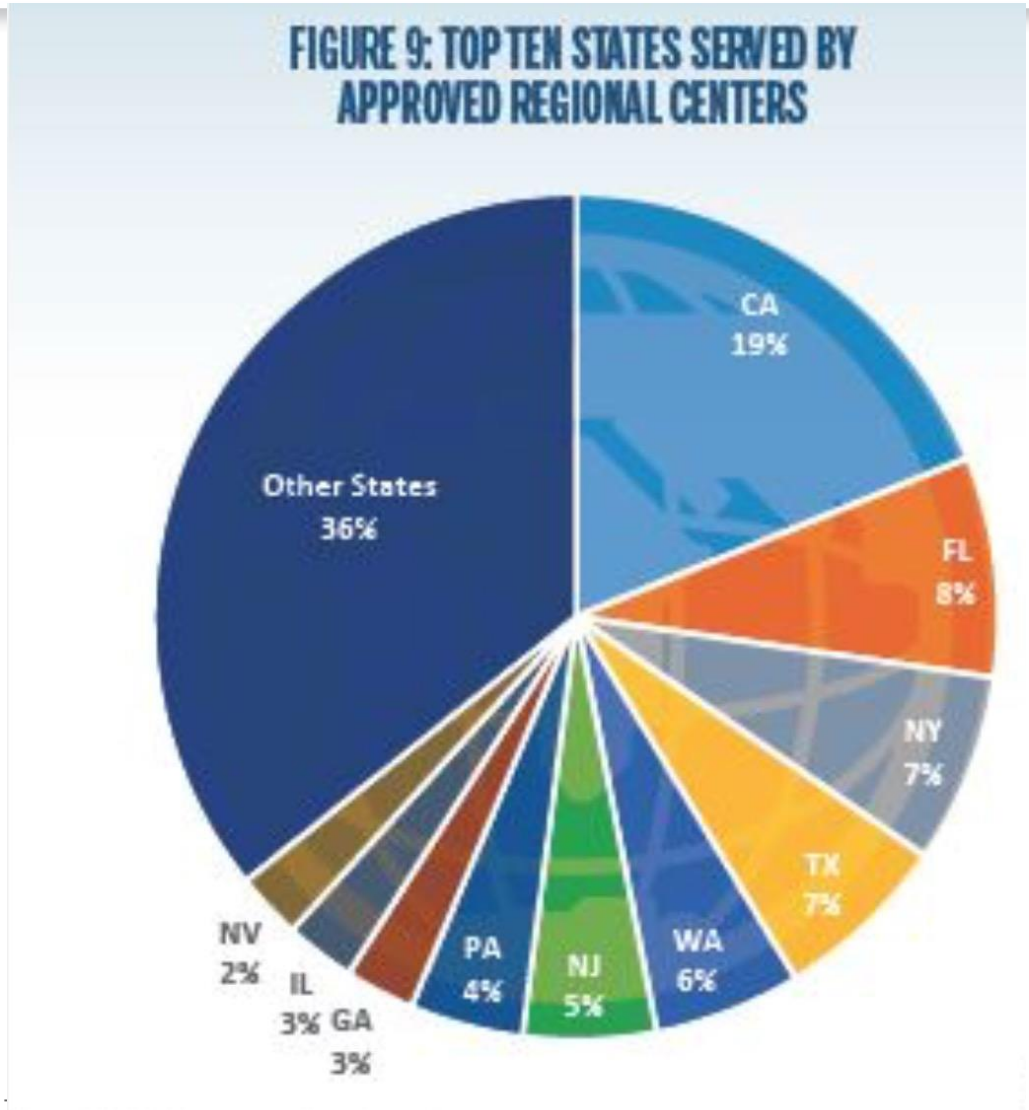
IS IT REAL? YES!



GEORGIA IS IN THE TOP 10!



Source:
IIUSA

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CLOSE TO HOME EXAMPLE ATHENS HOTEL

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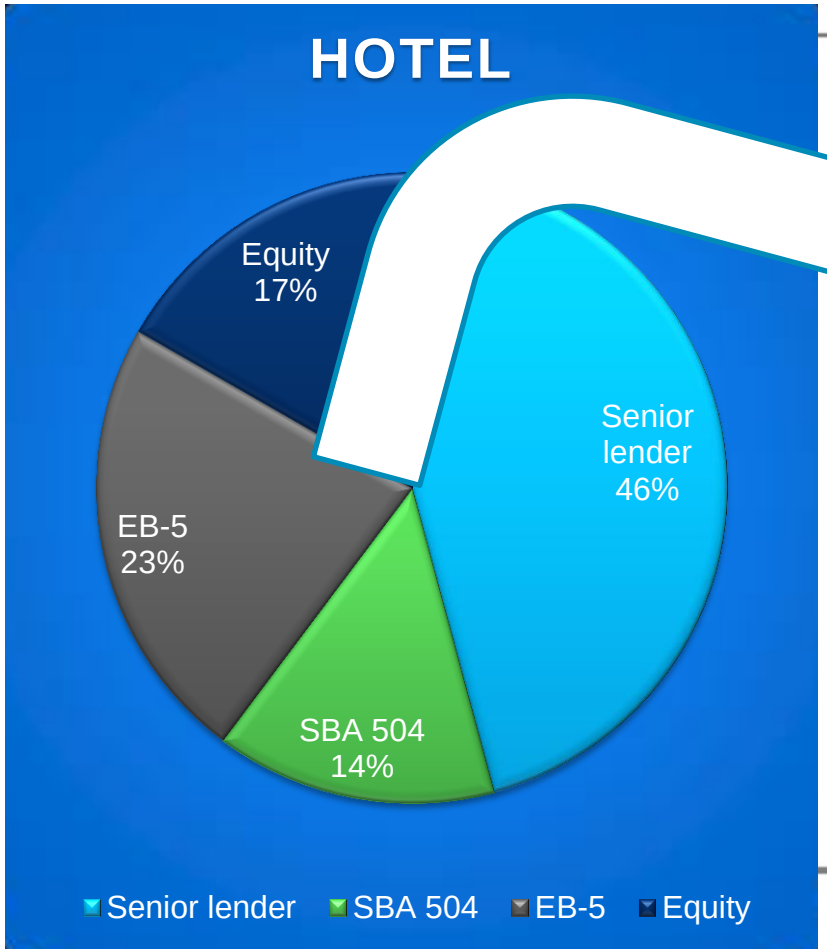
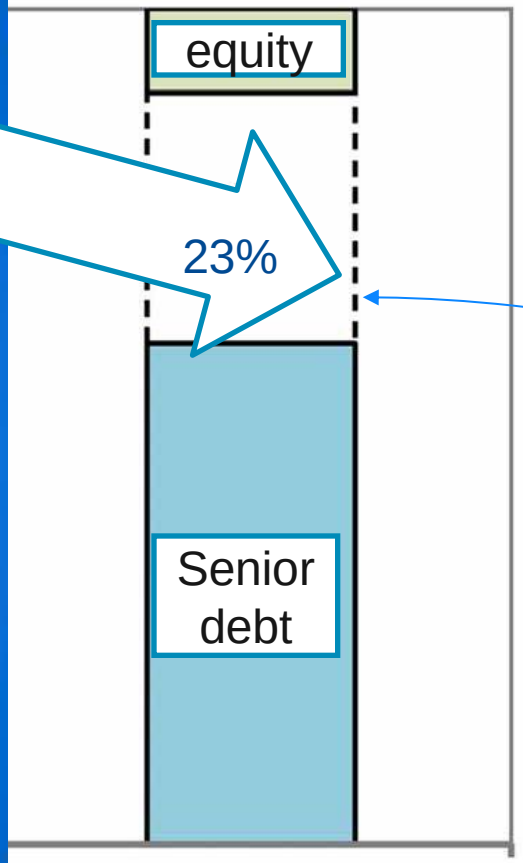
HOW EB-5 FILLED THE GAP





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Taken From: Smith, "Closing the Gap"

DOES YOUR COMMUNITY QUALIFY?
TARGETED EMPLOYMENT AREA (TEA)

- TEA
- A Rural Area
  - outside an MSA, and
  - city or town with population under 20,000, or
  - unincorporated county
- OR
- An area of high unemployment (areas with unemployment rates at least 150% of the national rate)
  - The state may designate a particular geographic or political subdivision located within a metropolitan statistical area or within a city or town having a population of 20,000 or more within such state as an area of high unemployment (at least 150 percent of the national average rate)

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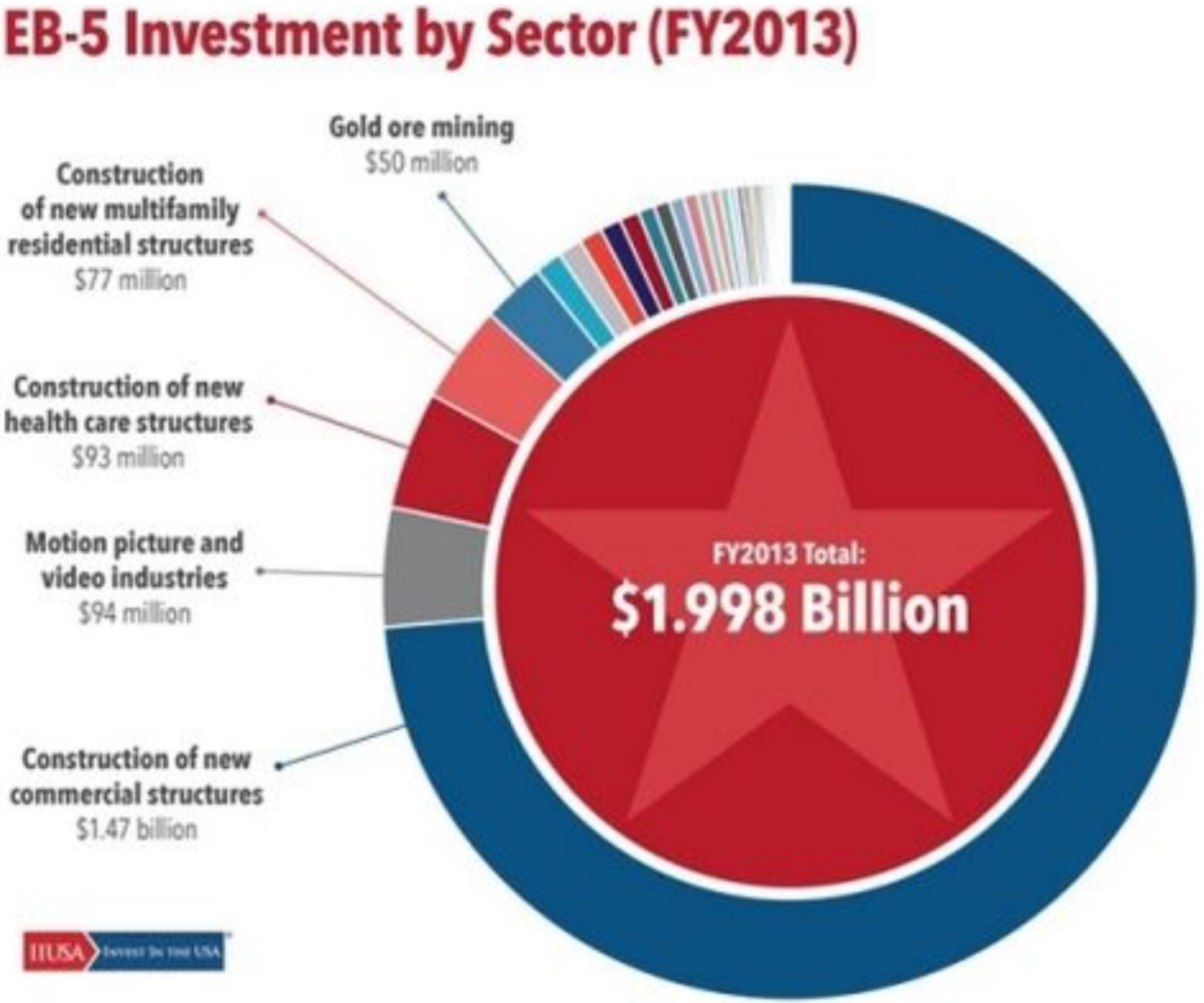
COULD YOUR PROJECT GET EB-5?

The "'tenant occupancy" rule can eliminate projected job creation attributed to prospective tenants who would occupy commercial space making EB-5 unavailable for such projects.



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WHY DO PROSPECTS WANT EB-5?

- IT'S NOT BECAUSE THE INTEREST RATE IS LESS THAN WITH A REAL ESTATE MORTGAGE.
- WHEN THE PROJECT BORROWS EB-5 FUNDS, INTEREST RATE EXAMPLES ARE OFTEN IN THE 5%-7% RANGE. NOT SO GREAT, COMPARED TO A PERMANENT LOAN IN THE REAL ESTATE INDUSTRY.

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WHY EB-5?

HERE'S WHY-

- COMPARE IT TO THE REAL ALTERNATIVE, AND IT COSTS LESS
- "… Compared with typical costs of between 9-20 percent annually for mezzanine capital, traditional equity or preferred equity (plus potentially points upfront and equity participation), EB-5 capital has obvious appeal." Source: Jahangiri & Tishler Mar 04, 2015
- IT'S OFTEN INTEREST-ONLY THROUGHOUT THE TERM.

WHY EB-5?

- "EB-5 capital rarely requires personal guarantees.
- EB-5 capital will often be unsecured and/or have deep subordination."

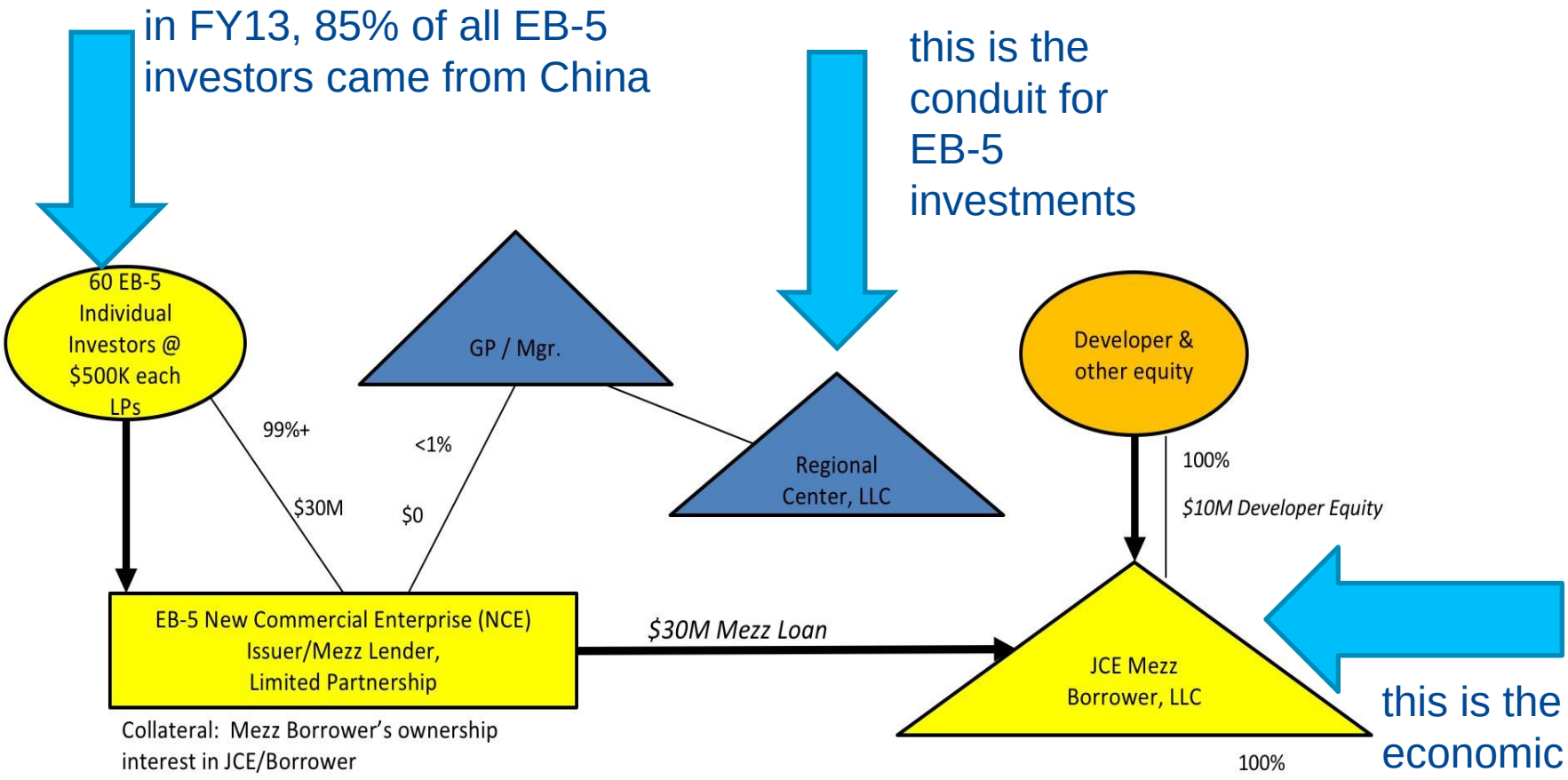
Source: Jahangiri & Tishler Mar 04, 2015

WHY EB-5?

- And, very large amounts of capital are available through the Eb-5 program.
- Practically speaking, the only real limits are the level of job creation, and self-imposed limits that some regional centers have on the percentage of the capital stack that they will finance.
  - 30%-50% is common
  - But 85% is not unheard of
  - The average is 34.5%

(source: IIUSA)

WHERE DOES EB-5 COME FROM?



Source: Calderon and Friedland

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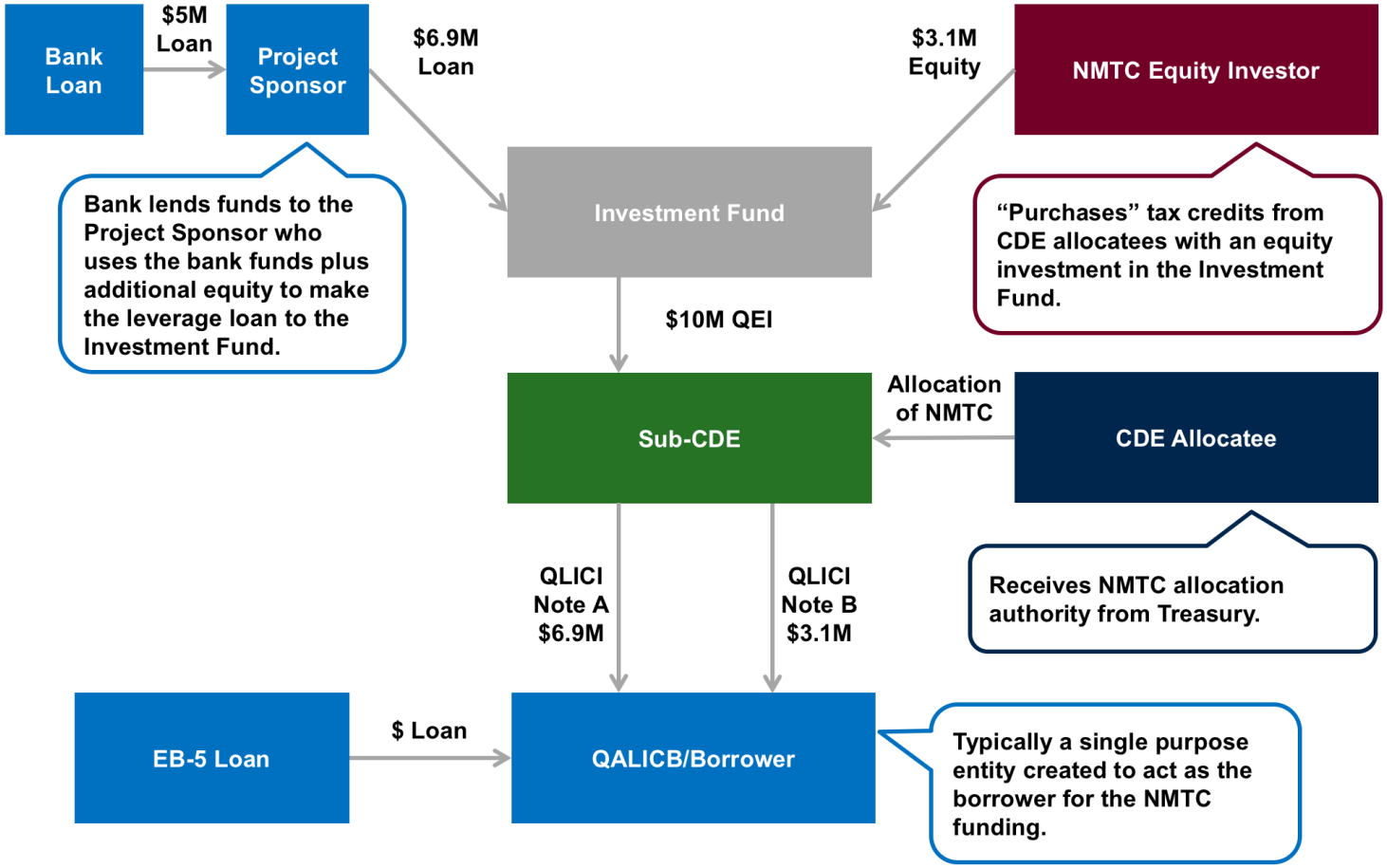
CONCLUSION

EB-5 WORKS WITH CAPITAL STACKS
EXAMPLE WITH NMTC



Slide taken from: Fitzpatrick

Example assumes $0.80 NMTC pricing and ignores transaction costs.

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THIS IS A GOOD TIME TO USE EB-5

- Pending legislation would extend the EB-5 program for 5 years but would also increase the minimum investment in a TEA to $800,000 and in a non-TEA to $1.2 million
- "Shovel ready" projects are at a premium now
  - Investors want to hurry so they can invest $500,000 instead of $800,00
- Changes in the program and industry practices have accelerated the availability of funds from an EB-5 raise from a typical 9-12 month period to as little as 3 months after the application is filed with USCIS

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THANK YOU FOR FINDING WALDO!

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MORE INFORMATION

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QUESTIONS?

If you have any questions or comments on this presentation, please do not hesitate to let me know.

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