

Case Study in Using New Markets Tax Credits

March 12, 2010



We have a vision for your business.

Posty Cards, Inc.

- **Operating business in KCMO since 1948**
- **Designs and produces customized business-to-business greeting cards**
- **Located within a Low Income Community**
- **Long time commitment to the area**
- **Business expansion project**
 - **Gold LEED standards**

Two types of NMTC Borrowers



- **Real Estate QALICB**
 - Property held for rent to unrelated parties
 - Proceeds must be used for new construction or include “substantial rehabilitation”
 - Early years of NMTC focused on real estate
- **Operating Company QALICB**
 - Fewer restrictions on use of proceeds – can include equipment, working capital and refinance of debt
 - Possible to “look through” a single purpose LLC used to hold real estate for an operating company
 - Only operating companies are eligible for State of Missouri NMTC

NMTC Structural Challenges



- **By law, NMTC is not a grant**
- **No entitlement to NMTC**
- **NMTC can be structured as debt or equity**
 - Debt must pass a “true debt” analysis
 - If equity, then the CDE must own less than 50%

- **Compliance with NMTC location requirements**
 - Emphasis on “high distress”
- **Community Impact Assessment**
 - Does the project fit within the mission of the CDE?
- **Basic Feasibility**
 - Fit with mission of CDE
 - Demonstrated need (“But For” test)
 - Financial viability
 - Readiness to proceed

- **Limited access to traditional credit**
- **Identify the funding gap (NMTC is not an entitlement like HTC) – “but for test”**
 - Gold LEED standard
 - Additional cost of single vs. multiple phase development
- **Extra-ordinary costs – environmental remediation, infrastructure improvements, etc.**

- **Traditional Bank Financing**
- **Federal NMTC**
- **State NMTC**
- **EDC / LCRA – 10 yr Property Tax Abatement**
- **Enhanced Enterprise Zone State Tax Credits (Missouri DED)**
- **Customized Training Grant (Missouri DED)**
- **Owner Equity**
- **Funding used to expand production facility**

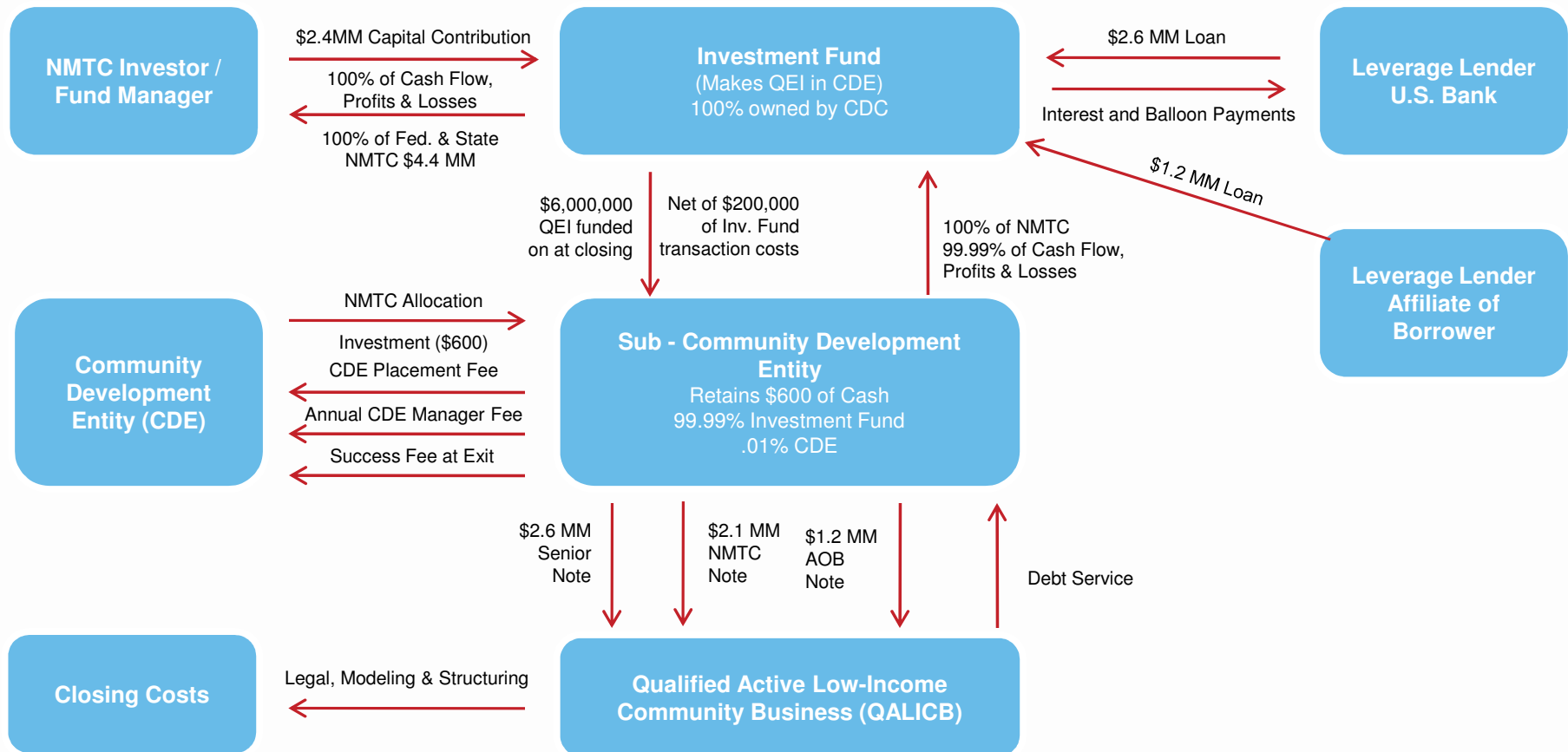
- **Real Estate Issues Addressed**
 - Site control obtained
 - Environmental issues addressed
 - Necessary municipal approvals received
 - Development plan complete, including costs, construction schedule, etc.
- **Business Issues Addressed**
 - Program eligibility verified
 - Private financing in place

Posty Card Transaction Participants



- **CDE – Kansas City, Missouri CDE**
- **Investor – U.S. Bancorp CDC**
- **Lenders – U.S. Bank and an affiliate of Posty Cards**
- **Borrower – Posty Cards, Inc.**
- **Accountant – Baker Tilly**
- **Attorneys – One for each party**
 - Husch Blackwell – for the NMTC Investor
 - Leverage Law Group – for the CDE
 - Polsinelli Shughart – for the bank lender
 - Armstrong Teasdale – for the borrower and affiliate lender

Posty \$6 million NMTC Transaction Diagram



This transaction includes State of Missouri NMTC, which provided about \$825,000 of additional benefit

- **Timing is critical**
 - CDEs are motivated to deploy their NMTCs quickly, which can work for or against a borrower depending on their readiness to proceed
- **CDEs are unique – know what to look for:**
 - Footprint – national, regional or local
 - Mission – jobs, redevelopment, services to LICs, etc.
 - Demonstrate Community Impact

- **Sole source of return is built into the discounted purchase price of the credits**
 - No economic interest in the underlying CDE loan or equity investment with the borrower
- **Main concern is avoiding recapture**
 - CDE fails to remain a qualified CDE
 - Borrower fails to remain a QALICB
 - QEI fails to remain deployed with a QALICB

- **CDE involvement for the 7 years**
 - Must remain a QALICB for compliance period
 - Reporting requirements of the CDFI Fund
- **Unwinding the structure**
 - Put/Call relationship between the borrower and the NMTC Investor

Thank you for your participation.

For more information on today's topic, contact:

Michael Fitzpatrick

Michael.Fitzpatrick@bakertilly.com

608 240 2609