

Columbia
Distressed Communities Testimony
9-28-10

Jeff Craver Distressed Communities Testimony

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1 MR. HILLIS: -- the opportunity to be
2 able to go in the budget process and discuss these
3 items instead of doing an independent board.

4 CHAIRPERSON STOGEL: Actually it is part
5 of the budget process, but that's for another
6 conversation. But glad to give you the --

7 MR. HILLIS: Okay.

8 CHAIRPERSON STOGEL: -- compendium of
9 reading materials.

10 MR. HILLIS: Thank you.

11 CHAIRPERSON GROSS: Any other questions?
12 Thank you for being here.

13 MR. HILLIS: You're welcome.

14 CHAIRPERSON GROSS: Next is, I'm not sure
15 if it's Robert or Roland, and then the last name
16 starts, looks like with a J or an L? Best I can do.
17 Something Commons? Okay. Jeff Craver is next.

18 CHAIRPERSON STOGEL: When anybody has
19 written materials to hand in, just bring it up here.
20 That would be really helpful so it doesn't get lost
21 in the reporter's multiple duties.

22 MR. CRAVER: And there's an addendum
23 coming through.

24 CHAIRPERSON GROSS: Go ahead and state
25 your name and spell it for the record.

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1 MR. CRAVER: Jeff Craver with Advantage
2 Capital Partners. That's C-r-a-v-e-r, V as in
3 Victor. Appreciate the committee's time today.
4 Wanted to talk to you about capital formation for
5 small businesses, but specifically the New Markets
6 Tax Credit Program. It's -- in Missouri it's
7 officially called the New Markets Development
8 Program, but it tends to be known as the New Markets
9 tax credit.

10 Just a little bit about Advantage Capital
11 Partners. I've provided you some information on the
12 left side of your folder is information on the New
13 Markets program, investments in states, news
14 clippings and other information. On the right side
15 is information about Advantage Capital specifically.
16 And the last handout coming around is just a couple
17 points that I'll make at the end of my testimony.

18 Advantage Capital is a double bottom line
19 firm. what I mean by that is we focus both on
20 superior turns -- returns for our investors as well
21 as economic benefits of our investments to -- back to
22 the state and the communities in which we invest.
23 That's in terms of job creation as well as economic
24 activity.

25 Since 1992 we have raised 1.4 billion of

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1 capital in 14 states and have deployed the bulk of
2 that capital in that time period. Since 1996, which
3 is when our presence in Missouri began, we've
4 deployed over \$300 million in capital in both venture
5 capital and gap financing or mezzanine financing as
6 you may call it, basically the financing anywhere
7 below what is bankable by a senior lender.

8 As far as what New Markets is, I think
9 the simplest way to put it is that New Markets is a
10 low interest loan -- and I'm speaking about the
11 Missouri program because the federal program is open
12 to both real estate and small business investment.
13 But the Missouri New Markets program is really a low
14 interest loan for small businesses in low income --
15 low income communities. That's its primary objective
16 and that's where it -- it focuses the effort and the
17 tax credits.

18 Briefly, it was established at the
19 federal level in 2000. It was a bipartisan effort
20 between Clinton and Hastert. It started out as a
21 five-year program and is now a continuing annual
22 federal program totaling 33 billion of direct
23 leveraged investment nationwide. My company,
24 Advantage Capital Partners has participated in six
25 out of seven of the federal allocation rounds and has

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1 raised 388 million from those federal allocations.

2 In Missouri the program was begun in 2007
3 and it expanded again in 2009. Missouri basically
4 piggybacked on the federal program and created an
5 allocation of a total of 312 million of additional
6 capital for these small businesses in low income
7 communities. Those -- that 312 million is leveraged
8 private capital that is derived from a total of \$25
9 million of tax credit cap space, which is probably
10 the way you speak about it in this commission.
11 That 25 million number however won't effect -- won't
12 be reached, because of the way the program phases in
13 over time, won't be reached actually until 2013
14 fiscal year, and then only for a year before it
15 starts to phase back out.

16 Basically how it works, if a small
17 business is in need of capital for equipment,
18 operations, cash flow, expansion, it's going to be
19 going to its banks, it may be looking for alternative
20 sources of capital. It is most likely going to have
21 a capital gap especially in this economy.

22 At that point it -- we get referrals from
23 our banking partners, from other private equity
24 firms, from venture capital firms, from the
25 Department of Economic Development who refer to us or

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1 our competitors' businesses that are in need of this
2 gap financing. We raise capital from the private
3 sector, so every dollar, first dollar in is always a
4 private dollar and it's raised from the private
5 sector from institutional investors. We then invest
6 that money in the form of both equity and debt in
7 these small businesses.

8 To the small business it is really much
9 more like a bank loan. And when I say that, I'm
10 trying to emphasize how there's -- the small business
11 does not have to deal with the red tape. They don't
12 have a file a tax credit application. They don't
13 have to file a tax credit return. They actually
14 never have to deal with the tax credit itself. What
15 they are dealing with is a financial mechanism
16 whereby we are giving them a low interest loan. They
17 are making payments on that loan.

18 And we're also providing them the
19 mentoring because we have real skin in the game.
20 We -- we're putting our own equity at risk in these
21 investments, and without that equity at risk -- that
22 equity at risk makes us want to mentor these small
23 businesses and help them grow. We help with them
24 marketing plans, with management teams, and with
25 general business issues as they -- as they go through

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1 their -- their time in our portfolio.

2 As far as the Missouri experience with
3 the program, I'll turn to the packet. In the very
4 first stapled set of documents, the first is sort of
5 an overview of the program. On the second page and
6 it's stapled, it says, Missouri New Markets
7 Development Program, June 2010 update. I apologize
8 for being slightly dated.

9 But I just want to point to a couple of
10 the highlights. Some of these numbers are estimates
11 because while our community development entity at
12 Advantage Capital is a participant in the program,
13 we're not the only participant in the program, so
14 we've had to estimate certain portions, but we were
15 able to set at least a minimum bar.

16 More than 45 businesses that have
17 received investments with over 2,100 jobs created and
18 retained. The average wage is quite impressive,
19 it's \$48,000, and I know for a fact that all of the
20 companies that we've invested in provide full
21 benefits for their employees as well. That \$48,000
22 average wage is 170 percent of the low income
23 community average wage in which these investments are
24 being made. Leveraged over 300 million of direct
25 investment capital through the program, 312 actually

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1 to be specific, with over 400 million of additional
2 follow-on capital. That's capital that's brought in
3 from other sources, whether inside the state or
4 outside the state that is then syndicated into the
5 total investment. But where the -- the capital we're
6 putting in is the risk capital and therefore it's the
7 anchor capital that makes the rest of the deal stay
8 together.

9 There -- there has been an economic
10 impact study run in 2009, I included it, by Don
11 Phares at -- at UMSL. And it did show that in the
12 first two years of the original program, the 2007
13 program, that there were 65 million of general
14 revenue returned with zero cost to the State at that
15 point. The reason for that is there's a two-year
16 delay. We raise the money and invest the money and
17 there's a two-year delay between that raising of the
18 capital and any redeeming of the credits. That
19 two-year delay allows for the businesses to get up
20 and going. No business can just turn a key and open
21 a door and have a hundred employees at it. And even
22 if it's an existing business, it has to expand its
23 operation. And so this mechanism allows the credit
24 to sort of ramp up the revenue return for the State.

25 Moving really quickly through the rest of

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1 it --

2 CHAIRPERSON GROSS: You've got two
3 minutes, Jeff.

4 MR. CRAVER: Sure. I'll leave the rest
5 of those points on there. Missouri obviously getting
6 three times the national average on small business
7 investments since 2007 for the New Markets program is
8 a phenomenal number.

9 And then lastly this -- the program
10 attributes. I included this just because I'm a --
11 fortunately a little bit of a student of tax credits
12 the last ten years I've spent here and in working
13 with Senator Gross in the past and sitting on a
14 commission very similar to this at one point in the
15 past, have been able to sort of look at the New
16 Markets program and say, well, how is it different.
17 And so I highlighted what I think the top ten reasons
18 are.

19 Two-year delay, I mentioned that already.

20 The short sunset. After the three years
21 from 2007 to '10, it's sunsetted; the sunset meaning
22 that no more capital can be raised, no new tax
23 credits can be vested.

24 I think number three is a very important
25 mechanism. Already in statute it's the only one of

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1 61 programs that has its own independent review and
2 reauthorization included in statute. And what it is
3 is that the program, in order to go back past that
4 three year sunset, has to have a concurrent
5 resolution passed by the General Assembly that says
6 the New Markets program's working and it should be
7 continued. That mechanism is unique and it keeps it
8 out of the legislative process of bill drafting where
9 you get bills with 10, you know, 20 different ideas
10 cobbled together. This process actually makes it so
11 that it is -- it is sort of an up or down vote on New
12 Markets, is it a good idea or a bad idea.

13 Last couple points are in there,
14 transferability, I know you've studied that issue;
15 the recapture, seven years of recapture; federal
16 oversight and protection; application process and
17 accountability.

18 CHAIRPERSON GROSS: Need to cut you off.

19 MR. CRAVER: That's fine.

20 CHAIRPERSON GROSS: Question: The
21 gentleman spoke earlier about the subject to
22 appropriations or at least credits or credit should
23 be subject to appropriations. Yours, you're stating,
24 is subject to appropriations, right?

25 MR. CRAVER: It's not subject to

1 appropriations at this point. In order for any new
2 credits to be issued, it would be subject to
3 legislative action by a concurrent resolution or
4 other type of change to the law.

5 CHAIRPERSON STOGEL: So when does the
6 program sunset?

7 MR. CRAVER: The program sunsetted from
8 the standpoint of raising capital June 30th, 2010.

9 CHAIRPERSON STOGEL: And you're looking
10 for?

11 MR. CRAVER: Well, we're still deploying
12 some of that capital.

13 CHAIRPERSON STOGEL: I understand that.
14 But as far as the Commission's concerned, you would
15 hope the report consensus for economic development
16 would be what?

17 MR. CRAVER: That the program is
18 functioning properly. Whether the legislature would
19 expand the cap which is a separate issue is one
20 question. And the second is whether a -- the sunset
21 should be extended. Because when the original
22 credits that were issued in 2007 roll off the books
23 seven years later in 2014, there will be additional
24 cap space available. So the sunset --

25 CHAIRPERSON GROSS: But you won't have

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1 the authorization --

2 MR. CRAVER: But without --

3 CHAIRPERSON GROSS: -- for the program?

4 MR. CRAVER: -- the sunset expansion or
5 extension by concurrent resolution, that won't occur.

6 CHAIRPERSON STOGEL: So the program's
7 basically going to stop in terms of --

8 MR. CRAVER: Without any further
9 legislative action.

10 CHAIRPERSON STOGEL: It'll run through
11 the cycle for the --

12 MR. CRAVER: That's correct.

13 CHAIRPERSON STOGEL: I would direct --

14 MR. CRAVER: But I -- if I could, just
15 one brief point on that which is that the investment
16 won't stop because our typical investment is three to
17 four years in duration. And so when we get money
18 back, we're forced by statute to reinvest those
19 funds.

20 CHAIRPERSON STOGEL: First of all I'd
21 like to introduce you to Pete Levi who's heading the
22 committee on economic development, so urge you to get
23 whatever --

24 MR. CRAVER: Yeah.

25 CHAIRPERSON STOGEL: -- specific requests

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1 you have of the panel to Pete.

2 MR. CRAVER: Okay. And this one is
3 classified in distressed communities I believe
4 because of its focus on the low income community, and
5 I don't know which is the appropriate --

6 CHAIRPERSON STOGEL: Start with Pete.

7 MR. CRAVER: Okay.

8 CHAIRPERSON STOGEL: If he wants to push
9 over the distressed community one thing, then that's
10 just --

11 MR. CRAVER: That sounds great.

12 CHAIRPERSON STOGEL: -- his chair role.

13 Just so I understand how you deploy it,
14 you take -- you use the federal credits, put the
15 state credits on top and write your interest rate
16 down. So if I'm a small business, what do you lend
17 to me at?

18 MR. CRAVER: It just depends on what the
19 rates are.

20 CHAIRPERSON STOGEL: Ball park?

21 MR. CRAVER: Fifty percent below the
22 market rate for that same type of capital.

23 CHAIRPERSON STOGEL: So --

24 MR. CRAVER: And that's -- that's
25 actually --

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1 CHAIRPERSON STOGEL: -- seven percent --

2 MR. CRAVER: -- national average.

3 CHAIRPERSON STOGEL: -- eight percent, 6
4 percent, I'd have it?

5 MR. CRAVER: Right.

6 CHAIRPERSON STOGEL: And then on top of
7 that you get a 5 percent federal credit which is --
8 so let's say it's eight -- just so I understand.

9 MR. CRAVER: So typically you're looking
10 more in the 10 to 12 percent range because you're
11 talking about gap.

12 CHAIRPERSON STOGEL: Well --

13 MR. CRAVER: Subordinate debt.

14 CHAIRPERSON STOGEL: So you're doing --
15 just so I understand how it works for your firm, just
16 so we're clear on the math, okay?

17 MR. CRAVER: Sure.

18 CHAIRPERSON STOGEL: Eight percent is the
19 market rate, you lend it to somebody at 4. You get a
20 federal credit of 5 percent after tax which is
21 equivalent to say 7 and a half. So 4 plus 7 and a
22 half, you're at 11 and a half, then the state credit
23 adds something in years 3 to 7, so you're getting a
24 15 percent return?

25 MR. CRAVER: That's not the way it

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1 would -- and you may be thinking of -- and I know the
2 old post office was a New Markets investment and --

3 CHAIRPERSON STOGEL: For the record I had
4 three allocations.

5 MR. CRAVER: Yeah. And the way the state
6 program tends to function and the way my company
7 functions is that we raise a pool of capital as a
8 venture capital fund. We raise a pool that is state
9 only and we raise a pool that is federal only and we
10 combine them depending on the needs of the small
11 business on how much equity is needed in the deal.

12 CHAIRPERSON STOGEL: So you really --

13 MR. CRAVER: So we monetize the credit up
14 front into the fund.

15 CHAIRPERSON STOGEL: What's the -- then
16 let's go the other way. In terms of a \$10 million
17 allocation, there's 3.9 million of state credits.

18 MR. CRAVER: Correct.

19 CHAIRPERSON STOGEL: What's the present
20 value equivalent of those credits since you're doing
21 the equity approach on the interest rate?

22 MR. CRAVER: The present value equivalent
23 of those 3.9 million, it's about -- so it goes from
24 39 cents to about 25 cents depending on where it's
25 trading.

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1 CHAIRPERSON STOGEL: Two and a half
2 million dollars?

3 MR. CRAVER: Correct.

4 CHAIRPERSON STOGEL: So the present value
5 discount is something like four?

6 MR. CRAVER: Yes.

7 CHAIRPERSON STOGEL: Okay. Just trying
8 to understand the math. So you're doing an equity
9 approach on an interest rate write down approach?

10 MR. CRAVER: Yes.

11 CHAIRPERSON STOGEL: We can help
12 translate that for the Commission. Thank you.

13 CHAIRPERSON GROSS: Pete, did you have a
14 question?

15 COMMISSIONER LEVI: Suppose there were no
16 state program, but just a federal program. What
17 would the impact be in the state of Missouri?

18 MR. CRAVER: The impact would be much
19 less federal New Markets investing going into the
20 state. The other impact would be that this program
21 which is really sort of getting the best of the best
22 from the standpoint of every year only about 15
23 percent of applicants who apply to the federal
24 program are even given an allocation, that entire
25 network of accountants and CPA's and investors would

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1 be doing much less investing in small businesses in
2 the state or would be taking their federal money and
3 investing it elsewhere.

4 COMMISSIONER LEVI: But you say in your
5 material that Missouri is one of eight states to have
6 implemented this state program.

7 MR. CRAVER: Correct.

8 COMMISSIONER LEVI: Why hasn't it been
9 more widespread around the country?

10 MR. CRAVER: When Missouri implemented,
11 it was the third state.

12 COMMISSIONER LEVI: Why aren't there 40
13 states or 20 states or 30 states?

14 MR. CRAVER: It has -- it's been
15 implemented in five other states since Missouri
16 implemented it. I've seen legislation running in a
17 dozen states in any one year. So what individual
18 legislatures decide is beyond my scope of knowledge.
19 Including this one.

20 CHAIRPERSON STOGEL: And so, but bottom
21 line, you'd like to see the program extended and
22 advanced?

23 MR. CRAVER: Correct.

24 CHAIRPERSON STOGEL: Okay. We got that.

25 COMMISSIONER STILL: Mr. Chairman, I

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1 didn't -- I'm just getting up to speed on this, guys.
2 would it be fair to say that your -- Advantage
3 Capital, you're kind of a middleman between these
4 companies that meet the qualifications --

5 MR. CRAVER: Correct.

6 COMMISSIONER STILL: -- and the tax
7 credits?

8 MR. CRAVER: I don't prefer the term
9 "middleman." I would call it an investment fund
10 manager, portfolio manager. So much like a venture
11 capital firm is both a combination of managing a
12 portfolio of multiple investments as well as
13 providing mentoring for those investments.

14 COMMISSIONER STILL: So when you find --
15 you find a company that meets all the qualifications,
16 is that what happens?

17 MR. CRAVER: Yes.

18 COMMISSIONER STILL: And then do you --

19 MR. CRAVER: Or they find us.

20 COMMISSIONER STILL: Or they find you.

21 MR. CRAVER: Yes.

22 COMMISSIONER STILL: Okay. And then do
23 you apply for the credit or do they apply for the
24 credit?

25 MR. CRAVER: We apply for the credits.

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1 we apply for the credits actually ahead of the
2 conversation with the small business.

3 COMMISSIONER STILL: Okay. So but once
4 you have the credit, then you have to invest it in
5 companies that meet these qualifications?

6 MR. CRAVER: Correct, that are in low
7 income communities.

8 COMMISSIONER STILL: Then do you go ahead
9 and sell them right away and they go out there in the
10 market or what --

11 MR. CRAVER: No. We don't actually sell
12 them out into the market. The -- in every New
13 Markets transaction whether it's on a single deal or
14 on a fund basis, there is a tax credit buyer who is
15 an equity investor into the fund, provides the up
16 front equity capital. Then there's also a lender
17 into that same fund. The equity investor is the one
18 who gets those tax credits. In order for that to be
19 transferred to a different taxpayer, you'd have to
20 switch out equity investors. The skin in the game
21 has to change.

22 COMMISSIONER STILL: And that's a
23 requirement of the program?

24 MR. CRAVER: Correct.

25 COMMISSIONER STILL: All right. All

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1 right. I'm learning here, thank you.

2 CHAIRPERSON GROSS: Any questions or
3 comments? Thank you.

4 MR. CRAVER: Thank you.

5 CHAIRPERSON GROSS: We have two other
6 commissioners who have arrived, Senator Robin Wright-
7 Jones and Commissioner Craig Van Matre.

8 COMMISSIONER VAN MATRE: Van Matre, close
9 enough.

10 CHAIRPERSON GROSS: Van Matre. Also I
11 don't know if they're still here, but two local
12 legislators were here, Chris Kelly and --
13 Representative Chris Kelly and Representative Mary
14 Still. Are they still here?

15 Sorry, I missed them, but we appreciate
16 them assisting putting this together as well.

17 Next on the list is Frank Cordie.

18 welcome. State your name, spell it for
19 the record and proceed.

20 MR. CORDIE: My name Frank Cordie,
21 C-o-r-d-i-e. I'm the president and chief executive
22 officer of Mid-America Brick in Mexico, Missouri.

23 And I'm not here to talk eloquently about
24 the legislative side of things, but I can talk to you
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24 the legislative side of things, but I can talk to you
25 from a person that has benefited from New Market tax

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1 credits. Without New Market tax credits, none of
2 what we have achieved would be possible today.

3 Let me just give you a little idea of
4 what has happened over the last -- I started on the
5 project in December of 2006 and the project is to
6 take the former A.P. Green refractory plant in
7 Mexico, Missouri, and to convert it to a plant that
8 makes brick for home construction, institutions, the
9 brick you see on the walls here -- which I really
10 like by the way, the fact that we got brick inside
11 the buildings, this is good. Good consumer.

12 So started on the project. The hurdle
13 in -- I don't know if it's a function of today's
14 economy, I've never done it, I've never been a
15 startup entrepreneur before, but to raise funds to
16 pull this kind of a magnitude of a project is
17 extremely, extremely difficult. It's a \$22 million
18 project, and to raise the kind of capital we
19 needed -- well, we started it on -- in December of
20 2006 and we closed the deal this past June 1st, so
21 that gives you a scope of the magnitude of the
22 project to pull this together.

23 The New Market tax credits enabled us to
24 communicate and get on board with Advantage Capital
25 who you just heard, and without them, we would not

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1 have been successful in this venture at all. I don't
2 want to say it was exclusively them, but it was
3 primarily Advantage Capital. Without them, nothing
4 else made sense. They brought together a lot of
5 equity funding. Through them I found other partners
6 to equity -- to invest in the business with, as well
7 as a lot of private investors that I attained myself
8 to come up with the necessary funds.

9 We will have a \$12 million capital
10 investment into the facility. We are employing
11 people. To give you an idea, we are now into the --
12 I think today is day 120 of our existence here since
13 June 1st when we took ownership of it, and I have 25
14 employees right now on site working. Not only --
15 those are my employees, but in addition to that we
16 have a lot of contractors in there. We've got
17 everything from -- everything you can imagine, from
18 electrical to plumbing to mechanical contractors,
19 demolition people. At any given time we have
20 probably 50 to 75 people that are being employed
21 working on the facility as we speak. We were
22 definitely shovel ready.

23 But the -- in terms of if this program
24 did not exist, then none of what we have achieved
25 would have happened, there's no doubt about that.

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1 We have also utilized other benefits. We
2 utilized the Brownfield tax credits. The Brownfield
3 tax credits help us remediate the site, and we're
4 still in the process of going through that right now.
5 We've had the economic -- the Enhanced Enterprise
6 Zone, excuse me, Enhanced Enterprise Zone, we're just
7 beginning on utilizing some of that. We're utilizing
8 a lot of that from the aspects of training because
9 everybody's a new employee, so we've got a lot of
10 training needs at our facility. We have training
11 meetings, numerous of those; today, as a matter of
12 fact. We have the investors, the investor group, but
13 we have leveraged by having all of this available.
14 Oh, we also have the USDA, U.S. Department of
15 Agriculture, the government guaranteed loan because
16 we are rural, so we were able to guarantee the loan
17 and help from some aspects.

18 It's very difficult to find a bank that
19 wants to deal with something of this magnitude,
20 startup in a blighted area, if you want to say such.
21 We did find one in Tennessee. And that was brought
22 on board through connections through again with
23 Advantage Capital. The whole spectrum works. The
24 Advantage Capital group, while they are providing a
25 lot of our capital needs, they also provided a lot of

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1 the support necessary for me to get the marketing
2 plan and all the other functions that are necessary
3 in the process of formulating this organization, this
4 company and going forward.

5 I see it for -- you know, I'm here for --
6 not for myself now, I'm here for the next guy. And,
7 you know, as Sallie Hemenway, you're familiar with
8 me, and the Department of Economic Development has
9 been outstanding in the state of Missouri. Without
10 the Department of Economic Development, none of this
11 would have been able to happen either. Commend them
12 highly for everything that's happened.

13 Local government as well. We've got
14 local government impacted here, we've got community
15 involvement, we've got local investors. It takes --
16 it takes an entire community together to pull all
17 this together. The next guy who's got an idea, the
18 next guy that's got a dream, the next guy that wants
19 to make something happen, he's got to have resources
20 to do that.

21 I read your -- on your website, got on
22 there and read around a little bit. You have a Power
23 Point on there and on the Power Point you talk about
24 the gross domestic product and you have a 13.5 I
25 believe the number was, something in that

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1 neighborhood, of manufacturing in the state of
2 Missouri. And we need to pump that up.
3 Manufacturing, it creates so many other jobs. I know
4 years ago it used to be a seven to one factor, for
5 every one you did in manufacturing, it created seven
6 other jobs in service sectors as well. Well, you
7 know, like I said, I've got 25 people working right
8 now. We're going to have substantially more than
9 that when we get to making brick, but we're right now
10 leveraging the job of well over a hundred people
11 being employed, simply because of what we were able
12 to do.

13 And as a definite benefactor of the New
14 Market tax credits, of the Brownfield tax credits, of
15 the economic -- Enhanced Enterprise Zone, and
16 Department of Economic Development and the USDA, I
17 appreciate it and thank everybody for your help and
18 assistance.

19 CHAIRPERSON STOGEL: Do you have both
20 state and federal New Markets?

21 MR. CORDIE: The -- I don't give the tax
22 credits. The tax credits go to the CDE.

23 CHAIRPERSON STOGEL: No, I know that.

24 MR. CORDIE: But yes, yes.

25 CHAIRPERSON STOGEL: We're -- Jeff, were

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1 both federal and state twinned?

2 MR. CRAVER: A blend, yes.

3 CHAIRPERSON STOGEL: We wish you great
4 success with your business and it's a very exciting
5 story and maybe two years from now you'll have 125
6 direct employees. We would wish that for you and for
7 your community.

8 MR. CORDIE: Thank you.

9 COMMISSIONER VAN MATRE: Could I? In
10 your particular situation, how many dollars in tax
11 credits were awarded versus how many dollars actually
12 translated into investment in your business?

13 MR. CORDIE: In terms of the tax credits
14 for the New Market tax credits, I don't get them,
15 they go --

16 COMMISSIONER VAN MATRE: No, I --

17 MR. CORDIE: -- to the CDE.

18 COMMISSIONER VAN MATRE: -- understand.

19 MR. CORDIE: But the CDE made a \$10
20 million loan.

21 COMMISSIONER VAN MATRE: But the
22 efficiency is what I'm looking for in terms of how
23 many dollars --

24 MR. CORDIE: Of equity money is put into
25 the project total?

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1 COMMISSIONER VAN MATRE: As a result of
2 these specific credits that were granted by the
3 State. I'm looking at is there were X dollars
4 awarded and that translated into Y dollars you could
5 use.

6 MR. CORDIE: Yeah. The --

7 COMMISSIONER STOGEL: Let Jeff handle
8 this. He can nail that number right away.

9 MR. CRAVER: I can speak to that. We
10 used the maximum cap on the program which is \$10
11 million into any allocation -- of allocation.

12 CHAIRPERSON STOGEL: Which is 3.9

13 MR. CRAVER: 3.9 million of credits.

14 CHAIRPERSON STOGEL: Of state credits.
15 And what was the sum of the Brownfield credits?

16 MR. CRAVER: I don't --

17 CHAIRPERSON STOGEL: Ball park.

18 MR. CORDIE: It's 1.6.

19 COMMISSIONER VAN MATRE: No. When these
20 credits are presented to the State of Missouri for
21 redemption --

22 MR. CRAVER: Correct.

23 COMMISSIONER VAN MATRE: -- how many
24 dollars worth of credits will be presented?

25 MR. CRAVER: There will -- they will

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1 present 3.9 million spread over five years.

2 COMMISSIONER VAN MATRE: All right.

3 CHAIRPERSON STOGEL: And then the
4 Brownfield's another 1.6. And within --

5 COMMISSIONER VAN MATRE: I don't care
6 about Brownfield. Just the state credit.

7 MR. CRAVER: Just the state New Markets
8 credit would be 3.9 million presented over five
9 years.

10 COMMISSIONER VAN MATRE: And of that 3.9
11 million, how much did Frank get --

12 MR. CRAVER: That would be for that
13 particular project.

14 COMMISSIONER VAN MATRE: No, I --

15 MR. CRAVER: Because the total --

16 COMMISSIONER VAN MATRE: -- understand
17 that.

18 MR. CRAVER: -- project cost was 21
19 million and change.

20 COMMISSIONER VAN MATRE: How many dollars
21 did that translate into in terms of investment into
22 the business?

23 CHAIRPERSON STOGEL: Based on your
24 earlier testimony --

25 MR. CRAVER: That's a response I'd have

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1 to get back to you later on just because the sources
2 and uses of the capital as they came out of funds
3 were -- already had equity sources within the cap--
4 within those funds. So to break it down into an
5 individual deal, to unwind our entire transaction
6 is -- into an individual deal is not something I
7 could do by memory.

8 COMMISSIONER VAN MATRE: I may be the
9 only one that has this view of what the commission's
10 supposed to do, but we're looking at budget deficits
11 and everybody wants their credit protected. And so
12 among the factors we're looking at in terms of
13 recommending at the end of the road is how efficient
14 is this particular credit in terms of translating
15 money spent by the state in effect versus money
16 invested. Can you just ball park it?

17 MR. CRAVER: The ball park would be \$3.9
18 million spent over five years.

19 COMMISSIONER VAN MATRE: No. That as I
20 understand it is the dollar amount the state is going
21 to pay --

22 MR. CRAVER: Correct.

23 COMMISSIONER VAN MATRE: -- by allowing
24 people not to pay that much in taxes.

25 MR. CRAVER: Yes.

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1 COMMISSIONER VAN MATRE: what I want to
2 know is how much of 3.9 found its way into Frank's
3 operation?

4 CHAIRPERSON STOGEL: Didn't you --

5 MR. CRAVER: Oh. So --

6 CHAIRPERSON STOGEL: -- say two and a
7 half million?

8 MR. CRAVER: -- roughly two and a half
9 million on that, yes.

10 CHAIRPERSON STOGEL: The earlier
11 testimony, Craig, before you got here --

12 MR. CRAVER: And these are ball park
13 figures obviously.

14 CHAIRPERSON STOGEL: Plus or minus 25 --
15 two and a half million today is received and three
16 and a half million over seven years is put out by the
17 State. So the -- on a present value basis it's two
18 and a half in and 3.9 out based on what Jeff said.

19 MR. CRAVER: On a present value basis,
20 yes.

21 CHAIRPERSON STOGEL: So that two and a
22 half million will be deployed that the State pays
23 for, nothing for the first two years, and then over
24 five years.

25 MR. CRAVER: Correct.

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1 CHAIRPERSON STOGEL: Correct?

2 MR. CORDIE: I -- can I comment just on
3 that? The --

4 MR. CRAVER: But it leverages so much
5 more.

6 CHAIRPERSON STOGEL: Yeah, we
7 understand. For everybody in the audience that is
8 paired up with Brownfield, the loan from the SLDA,
9 the equity from the federal historic -- I mean, the
10 federal New Markets is to give you a chemistry so
11 that --

12 MR. CORDIE: And the equity investors.

13 CHAIRPERSON STOGEL: And the other --

14 MR. CORDIE: You know, I got -- I got
15 five point something million of equity investors that
16 none of that would have come into our community had
17 we not had that.

18 CHAIRPERSON STOGEL: so all the pieces --

19 COMMISSIONER VAN MATRE: The trouble --
20 what I'm saying here, it sounds like I'm criticizing
21 the program, but I'm not. But the problem is there
22 has to be some way of allocating resources in the
23 state that we can justify. And so if what I'm
24 hearing is accurate, you're saying 60 percent of
25 every dollar the State spends finds its way directly

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1 into an investment in Frank's business.

2 MR. CRAVER: More like 65, but yes.

3 COMMISSIONER VAN MATRE: Okay. And so I
4 mean the corollary I suppose is if the State just
5 gave you that 65 cents, it wouldn't have been a
6 matter of difference to you; either way you would
7 have gotten 65 cents out of every dollar.

8 MR. CORDIE: As long as I would have
9 gotten the rest of the money that they put in behind
10 it with their equity.

11 COMMISSIONER VAN MATRE: And that's all a
12 function --

13 MR. CORDIE: Yeah.

14 COMMISSIONER VAN MATRE: -- of a number
15 of things.

16 MR. CRAVER: And -- and to reiterate a
17 point made earlier which is that when Frank pays us
18 back in advance, you know, because the business will
19 be that successful, the 65 cents when he pays us back
20 the 65 cents, under law, under state statute and
21 federal statute, we're required to then reinvest it
22 until the full seven-year term has run. So 65 could
23 become a 1.30.

24 CHAIRPERSON STOGEL: That's all correct,
25 that's a very good point, but to Craig's point a part

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1 out of \$22 million, 3.9 was -- excluding the
2 Brownfield -- was the State's participation some,
3 under 20 percent.

4 MR. CRAVER: Yes. And it's much easier
5 to give me a -- give you a sort of portfolio-wide
6 analysis of total tax credits on the whole portfolio
7 and then say the six or seven businesses that were
8 receiving the funding.

9 CHAIRPERSON STOGEL: Since efficiency is
10 one of the charges, if you think you would like to
11 submit more information for other companies besides
12 Mid-America Brick, that would be welcome.

13 COMMISSIONER LEVI: But if you take that
14 one step further and you say, those tax credits help
15 create jobs, can you translate those jobs into
16 dollars and then what the ultimate revenue is to the
17 State as a result of the saving or creating jobs?

18 MR. CRAVER: Yes. In the study that was
19 provided on the first \$9 million of credits that the
20 State authorized on the -- on the cap, on the first
21 \$9 million of cap space which -- which Mid-America
22 Brick was not a part of, those jobs, when taking a
23 run through an M-plan analysis, kicked out 65 million
24 of general revenue from that 9 million. Now, that's
25 9 million over five years; it's roughly 49 million

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1 dollars, return is 65 million in the first two years
2 of the program with then still another five years of
3 positive benefits.

4 COMMISSIONER LEVI: Do we have those
5 numbers in --

6 MR. CRAVER: You do.

7 COMMISSIONER LEVI: -- these materials?

8 MR. CRAVER: You do have.

9 CHAIRPERSON STOGEL: Have you tested
10 under the REMI model?

11 MR. CRAVER: We have not. My experience
12 is just that the M-plan model tends to be more
13 conservative, but I'm not an economist.

14 CHAIRPERSON STOGEL: Neither am I, we've
15 established that already today. But Brian -- maybe
16 it would be -- we have somebody who's here from the
17 Senate --

18 MR. CRAVER: We've never had access to a
19 REMI model.

20 CHAIRPERSON STOGEL: Sallie and Brian may
21 be --

22 CHAIRPERSON GROSS: I thought REMI was
23 run on all of them.

24 MS. HEMENWAY: It is.

25 CHAIRPERSON STOGEL: We'll double back

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1 and share that with you.

2 COMMISSIONER STILL: What was meant by
3 the CDE? What's the CDE?

4 MR. CRAVER: It's the Community
5 Development Entity. It's the federal name for the --
6 for essentially Advantage Capital for the entity that
7 we establish to then apply for the program.

8 CHAIRPERSON STOSEL: It's how the federal
9 program and the state program process the paperwork
10 so that you can leverage the private capital.

11 CHAIRPERSON GROSS: Craig, were you
12 finished?

13 COMMISSIONER VAN MATRE: Well, the -- I
14 mean, this particular credit, am I right though, is
15 not necessarily limited to -- I mean, with a
16 manufacturing firm you'd have a good case of
17 leveraging and that classic multiplier factor, but
18 there -- what other types of benefits to the state
19 from these credits are you familiar with?

20 MR. CRAVER: Manufacturing has been the
21 largest sector that's benefited from it. It has gone
22 into a number of other sectors. It's gone into
23 venture capital for early stage company -- company
24 that's profiled in your portfolio called Baron
25 Technologies; they do cancer research. It's a much

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1 smaller employment number, seven jobs, but they're
2 all six-figure jobs and relocated from Tennessee into
3 the central west, so.

4 COMMISSIONER VAN MATRE: If you were
5 going to -- if you were tasked with the job of more
6 specifically targeting the application of this credit
7 to where it would do the most good, how would you
8 consider refining the definition of eligibility to
9 just do that?

10 MR. CRAVER: The definition of
11 eligibility currently has a number of businesses that
12 are considered off the list. So you can't invest in
13 golf courses, you can't invest in packaged liquor,
14 you can't invest in massage services and things of
15 that nature, sin business as --

16 COMMISSIONER VAN MATRE: But the way --

17 MR. CRAVER: -- the Congress has
18 determined.

19 COMMISSIONER VAN MATRE: -- it is now --

20 MR. CRAVER: Best way -- the best way I
21 think to go about it if you were to restrict further,
22 which I would not encourage, would be to stick to
23 that method of saying, Don't invest in these types of
24 businesses.

25 COMMISSIONER VAN MATRE: Instead of --

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1 MR. CRAVER: When you --

2 COURT REPORTER: I'm sorry, I can only
3 take one person talking at a time.

4 MR. CRAVER: Sorry. When you highly
5 target any type of venture capital, you make the
6 fundraising practically impossible. So to go out to
7 an institutional investor and say, I want to raise a
8 fund; by the way, it's got to be Missouri only, it's
9 got to be low income community only, oh, and it has
10 to only be in this sector --

11 COMMISSIONER VAN MATRE: In manufacturing
12 for example?

13 MR. CRAVER: Or whatever it might be.
14 You're never going to raise a portfolio because
15 that's -- that's a hyperexposure to too many sector
16 narrowing. You know, you can't get any diversity in
17 your portfolio. When you raise a -- I'm going off
18 subject here, but to compare that to traditional
19 venture capital where you say they may raise just for
20 medical devices, they're investing in 50 states and
21 perhaps internationally as well. We're investing in
22 Missouri only, in low income communities only. So
23 the ability to have a broad portfolio is very
24 important.

25 COMMISSIONER VAN MATRE: So there is no

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1 particular magic bullet that's going to fire at this
2 particular credit that would reduce and affect its
3 cost to the state because you think it's already as
4 efficient as it should be?

5 MR. CRAVER: In my opinion, yes.

6 CHAIRPERSON STOGEL: What if the credits
7 were started in year one and didn't have the two-year
8 hiatus?

9 MR. CRAVER: I -- actually I don't
10 think -- while you would get an earlier, better net
11 present value on the equity produced from the
12 credits, you would have an immediate budgetary impact
13 when the funds are raised without the jobs being in
14 place to offset that budgetary impact.

15 CHAIRPERSON STOGEL: Fair comment, thank
16 you.

17 CHAIRPERSON GROSS: Thank you for being
18 here.

19 CHAIRPERSON STOGEL: For the record this
20 is the first time I think we've had such commentary
21 at all on the New Markets credits, so thank you for
22 sharing all that.

23 CHAIRPERSON GROSS: Thank you, Mr. Cordie
24 as well. Next on the list is Deb Sheals.

25 MS. SHEALS: Hello, my name's Debbie