



Rural Nebraska Pellet Producer Expands Business with NMTC Assistance

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The expansion of Platte Valley Distillers (PVD) was a near-perfect new markets tax credit (NMTC) transaction for CEI Capital Management LLC (CCML).

“This project squares nicely with our triple bottom line for the NMTC—economics, social equity and environmental benefit,” said Tom Dolan, chief operating officer for Maine-based CCML, which allocated \$20 million in NMTCs to the Lexington, Neb., company. “This is using a byproduct to create jobs in a low-income community.”

PVD recently closed a transaction to provide NMTC equity—U.S. Bancorp Community Development Corporation (USBCDC) was the equity investor—that allowed it to expand its capacity manufacture high-quality distillers grain in a cube or pellet form for livestock feed. PVD also is manufacturing the machinery needed to produce the patented product.

“This would not have happened without CCML [and the NMTCs],” said Tom Kruml, one of three co-owners of PVD. “We would not be at this stage. From our standpoint, we felt lucky to be connected to CCML.”

PVD’s story is a tale of entrepreneurial spirit, a rural town, an effective tax credit and an idea to change an industry.

Creating a Unique Product

About a decade ago, Kruml and two partners—Jim Trotter and Gaylord Boilesen—secured the construction and development of an ethanol plant in Ord, Neb. In the following years, they developed a spinoff business in Ord involved in the wholesale distribution and trucking of a byproduct of the ethanol process, distiller’s grain, which is a useful product for feeding livestock.

The only problem? Distillers grain is a fine, powdery substance, which makes it difficult to handle and gives it a short shelf life—limiting its capacity as feed to locations within about 50 miles of production.

In nearby Lexington, however, there was progress. The partners teamed with the owner of a plant there who patented a process that creates cubes and pellets with a self-sealing outer layer that is less susceptible to air, heat and humidity, thus preserving the inner section. The completed process allows the compacted



Images: Courtesy of Platte Valley Distillers LLC

(Left): Platte Valley Distillers in Lexington, Neb., expanded its capacity to manufacture both high-quality distillers grain and the machinery needed to produce it by investing equity from new markets tax credits (NMTCs); (Right): Platte Valley Distillers produces high-quality distillers grain in pellet form, shown coming out of the extruder and passing to a conveyor to be cooled. The plant's business was made possible through NMTC equity.

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cubes and pellets to be trucked hundreds of miles or more.

When the partner company ran into financial difficulties, PVD used financing that included the NMTC to purchase the plant, expand it and begin production of the cubes and pellets. As Dolan said, the benefits were social, environmental and economic.

NMTCs Emerge as a Tool

Kruml said he was familiar with tax credits before this transaction, mostly through word-of-mouth. So when CCML discussed the possibility of an allocation, he was interested. "It gave us the opportunity to take the technology we developed and use it on a larger scale," said Kruml. "We had kind of run out of financial 'oomph.' We had a patented process for producing the pellets, so we developed specs for the equipment available to build them for third-party facilities."

But the company lacked the finances to expand. The fact that the investment would be for a product (and equipment) that hadn't fully established a place in the

market made it harder to get investors—even NMTC investors.

"I'd say in the new markets world, this is unusual," Dolan said. "But CCML seeks projects that others might pass over because of the complexity or uniqueness of it. We don't shy away from difficult deals. This isn't particularly difficult, but novel."

The NMTC allocation came through. The investment was made. The expansion in Lexington started. The benefits came.

Benefits to Small Town

Ranchers and farmers will benefit from the product, and so will the community of Lexington, which has a population of about 10,000. The new plant is projected to add 14 full-time jobs and includes a \$50,000 scholarship fund for students in the ag-tech field. Scholarships will be offered to local students who complete their education and spend a specified amount of time in the field—with money paying off student debt.

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“In our area, it’s a struggle to find qualified employees,” Kruml said. “Unemployment is extremely low and we have a hard time hiring employees. We worked with Tom [Dolan] and his idea was to get a job-training scholarship program.”

The type of jobs is significant. “The jobs it creates are high-paying jobs in a rural, small area,” said Dan Blocher, assistant vice president at USBCDC. “That’s impactful.” At the peak of construction, there were often more than 40 workers on-site and occasionally more than 100. “It was a big deal,” Kruml said. “It’s still a big deal.”

Also important were jobs created in the greater community. Once the expansion started, another group built a hotel in Lexington. Kruml said the reception has been positive, particularly because of secondary businesses affiliated with the plant. And, he hopes to add more employees. Dolan praised the impact on the city.

“CCML focuses on rural transactions and sometimes it’s difficult to equate jobs to investment because all jobs aren’t equal,” said Dolan. “But the impact of jobs and the credit in non-metro areas is enormous. It often goes unqualified, but we look for indirect benefits.”

Matt Meeker, a partner in the Dover, Ohio, office of Novogradac & Company LLP, was a tax credit consultant and provided the NMTC financial forecast on the Platte Valley Distillers project.

“One of the great things about the NMTC program is the flexibility it provides,” said Meeker. “This not only provided much-needed capital to a rural business that needs it, it allowed PVD to maximize the impact of the investment in a way that affects not only the company and its employees, but all of its potential customers.”

Financing

USBCDC provided the \$6.6 million NMTC equity and Blocher said it was a fairly easy decision. “We’ve taken a look at a couple of these that used dried distillers grain as an animal feed,” said Blocher. “We did a previous project with Capital Impact and ... it is in an underserved state. It’s an operating business, in a rural underserved area.”

Blocher said the fact that PVD takes what would otherwise be a waste byproduct and reuses it is crucial. “Otherwise, it would just be a throwaway,” he said. “They make something out of it.”

Andrew Farrell, assistant vice president and project manager at U.S. Bank, said the fact that so much of the NMTC equity went to the business, not real estate, was unusual. “The lion’s share of the new markets [equity] went to working capital of a business,” Farrell said. “They have to put deposits to get the equipment that they’ll manufacture and sell. You’re getting money and not getting paid until you deliver the product, so there’s a gap in the cash flow and the new markets benefit goes to that. It’s a nuanced use.”

Farrell said the presence of a local lender (Lincoln Bank, which loaned \$13.3 million to the development) who understands the food pellet market was important.

Operating Well

Kruml said the plant isn’t quite up to the scale it will eventually reach, partly because of the timeline to get equipment to build the machines for others that complete the patented process. But he says the company is well into production of the pellets and cubes. “We have the facility secured and have a base to operate,” Kruml said. “And we have some equipment sale transactions.”



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The shift in focus has been the biggest surprise. “When we started [the transaction], our primary focus was going to be production of pellets and cubes,” Kruml said. “As it took off, the focus has shifted somewhat to the equipment and technical side. We’re now operating at full capacity and we probably won’t be able to add much equipment to our existing material. We’re almost using our existing facility [in Ord] as a prototype so [potential customers] can look at it. Ultimately, we’ll always have the production of cubes and pellets, but we can’t meet the full demand.”

Kruml said the company hoped to sell one to three production lines while focusing on their own facility.

Since August, it has contracts on 20 production lines that will be sold over the next three years.❖

Platte Valley Distillers

FINANCING

- ◆ \$20 million NMTC allocation from CEI Capital Management
- ◆ \$13.3 million loan from Lincoln Bank
- ◆ \$6.6 million NMTC equity investment from USB CDC
- ◆ \$6.2 million sponsor equity from Platte Valley Distillers

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