

Federal Tax Credits for Historic Theatres

Plymouth Soundings, LLC

Tax Credit Financing for Historic Theatres

- Revitalizing Historic Theatres – A growing movement
- Tax Credit Programs
- Requirements
- How this can work for Non-profits
- Costs
- Benefits

Revitalizing America's Historic Theatres – A Growing Movement

● WHY?

- Space for performing arts and film
- Reinvigorating downtowns and neighborhoods
- Provide sense of continuity and heritage
- Easily adaptable asset
- Architecture reflects importance to community
- Multiple additional uses
 - Weddings, Lectures, Corp meetings, etc.

Benefits Are Far Reaching

- Improved aesthetics
- Job creation – during and after construction
- Jobs for artists, managers, technicians
- Patronage for restaurants, hotels, parking lots
- Catalyst for investment in additional revitalization projects

Challenges

- Existing conditions
- Control of ownership
- Department of Interior requirements
- Current codes
- Technical feasibility
- Sufficient space
- Economic feasibility
- Cost

2 Federal Tax Credit Programs

- Rehabilitation Tax Credits (RTC)
- New Markets Tax Credits (NMTC)
- These programs can be “Twinned” or used together in the same project
- Other programs are available for specific applications

Rehabilitation Tax Credits

- Began in 1976
- Encourages rehabilitation vs. Demolition
- Historic structures receive 20% credits on Qualifying Rehab Expenditures (QREs)
- No "Cap" on total amount of credits provided in any given year
- 3 Agencies in Control
 - National Park Service
 - State Historic Preservation Offices
 - Internal Revenue Service

Requirements for Rehab Tax Credits

- Comply with Secretary of Interior's Rehab Standards
- Listed on National Register of Historic Places
 - Individually, or
 - Contributing Building in National Register listed historic district

Requirements for Rehab Tax Credits cont'd

- Qualified Rehab Expenses (QRE's) must exceed the greater of the adjusted basis of building or \$5,000
 - QRE's – most hard and soft costs except for
 - Acquisition
 - Unattached furnishings
 - Landscaping
 - New construction outside historic footprint
 - Fundraising expense

Requirements for Rehab Tax Credits cont'd

- Qualified Rehab Expenses (QRE's) must exceed the greater of the adjusted basis of building or \$5,000
 - Adjusted Basis
 - Original cost of building (not land)
 - Plus closing costs
 - Plus prior capital improvements
 - Minus depreciation

Requirements for Rehab Tax Credits cont'd

- Facility must produce income
 - Credible 7 – 10 year operating plan
 - Show a profit even if small

10% Rehabilitation Tax Credits

- Non historic buildings built before 1936
 - State Historic Preservation Office and National Park Service do not consider structure to have architectural, historic or cultural significance
 - Requirements for wall retainage and interior mass
 - Does not require compliance with Secretary of the Interior's Standards for Historic Rehabilitation

New Markets Tax Credits

- Program launched in 2001 for 7 years and recently extended to 2008
- Offers tax credits to investors who fund business development in underserved areas
 - 39% credit on the investment spread over 7 years
 - Underserved area – Census tract in which median family income is 80% or less than that of the community or state
 - Business Development – Commercial activities

New Markets Tax Credits

- 2 Administering agencies
 - US Department of the Treasury's Community Development Financial Institutions Fund (CDFI fund)
 - Internal Revenue Service

New Markets Tax Credits

Different than the Rehabilitation Tax Credit

- Amount of credits available and life of program are limited
- Credits earned over seven years after investment is made
- Requires allocation of investment dollars eligible for the credit

New Markets Tax Credits

- Requires allocation of investment dollars eligible for the credit
 - Community Development Entities (CDEs) compete to get allocations for eligible investments from the CDFI fund
 - Project needs a CDE to “ earmark ” a portion of their allocation for its investors, which allows the investors to receive tax credits in exchange for investing in your project

Requirements for New Markets Tax Credits

- Project must:
 - be in a qualifying census tract
 - be a “Qualifying Active Low Income Community Business”
 - have an allocation from a CDE

Requirements for New Markets Tax Credits – cont'd

- Project must have an allocation from a CDE
 - Viable economic impact
 - Monetary need that funds will meet
 - Competition for allocations is heavy
 - CDEs have limited territories in which they “apply” to operate
 - Each CDE has a mission or objective
 - Timing for approaching CDE can be critical

“Recapture”

- Both Rehab and New Markets Tax Credits are subject to recapture during compliance period
 - Business must remain active
 - Remain qualified as “Qualified Active Low Income Community Business” for New Markets Tax Credits
 - Rehab Tax Credit recapture can occur upon additional changes to the historic structure (including fire)
 - Ownership must not change (Rehab Tax Credits)
 - Amount of recapture depends on nature of default

Can a Non-Profit Owned Theatre Benefit from Tax Credits?

- Non-profit continues to exist for purposes of donations and fundraising activities
- Forms a partnership
 - For profit entity that pays a large amount of taxes – contributes cash (equity) in exchange for tax credits
 - Non-Profit Theatre contributes Theatre, and funds from fundraising activities

Can a Non-Profit Owned Theatre Benefit from Tax Credits? – cont'd

- Add New Markets Tax Credits
 - Each New Markets Tax Credit investment will pass through a CDE before passing into the "For-Profit" entity
- The actual structure will depend on the Investors, type of Tax Credits being used, number of investors, etc.

No "Free Lunch"

- Rehab Tax Credit investor will require a priority return over the life of the 5 year compliance period
- Funds must be set aside to exit the partnership
- CDE typically requires an up front fee and asset management fees over the 7 year term

No “Free Lunch” cont’d

- CDE and Investor legal and accounting fees must be paid
- Owner’s team of advisors, legal counsel, and accountants must be paid

Owner Support

- Architect
- Historic Preservation Consultant
- Technical Specialists (Acoustics, Theatrical, Finishes)
- General Contractor
- Construction Lender
- Real Estate Attorney
- Tax Credit Attorney (Nationally Recognized)
- Financial Accountants
- Tax Credit Accountants (Nationally Recognized)
- Project Coordinator
- Owner's Board Representative or Executive Director

Is It Worth It?

| | | |
|--------------------------------|-------------|-------------|
| ● Project Cost - | | \$5,500,000 |
| ● Qualified Rehab Expense | \$5,000,000 | |
| ● Rehab Tax Credit (20%) | \$1,000,000 | |
| ● Investor Purchase Price | \$950,000 | |
| ● New Markets Credit @39% | \$2,145,000 | |
| ● Investor Purchase Price @75% | \$1,608,750 | |
| ● Gross Credits Received | | \$2,558,750 |
| ● Less Reserves, Fees | | \$558,750 |
| ● Net Benefit | | \$2,000,000 |

Is It Worth It?

Cont'd

- **In this example:**
 - **36%** of funding provided by Tax Credit financing
 - **\$.57** per Owner dollar raised provided by Tax Credits
- **3%** priority return required for 5-7 years

Is It Worth It?

Cont'd

- Funding from Tax Credits increases Owners equity
- Priority return is much lower than interest cost for borrowed money
- Leverages fund raising activities by 40 – 60%
- State Tax credits can further increase tax credit impact
- Rehabilitation and operation of a historic theatre can provide a significant economic engine for the community

Is It Worth It?

Cont'd

- In large applications could be more
 - Professional costs don't grow proportionally with project scale
- Remember ~3% priority return over 5-7 years