Financing Historic Theaters

Historic Preservation Tax Credits

Heritage Ohio Annual Revitalization and Preservation Conference
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Chad Arfons, McDonald Hopkins LLC
Federal Historic Preservation Tax Credits

Program Overview

• Intended to encourage private investment in historic rehabilitation

• Federal Rehabilitation Tax Credit is administered by the National Park Service (with assistance from State Historic Preservation Offices) & IRS

• To qualify a building must be either listed individually in the National Register of Historic Places or located in a registered historic district and contribute to the historical significance of the district

• The rehabilitation work must be approved by the Secretary of the Interior as consistent with the historic character of the building and the district

• Federal tax credit equal to 20% of qualified rehabilitation expenditures (“QREs”)

• 5-year compliance period
Ohio Historic Preservation Tax Incentives

Program Overview

- Ohio Historic Preservation Tax Credit is administered by the State Historic Preservation Offices) & Ohio Development Services Agency

- The credit is awarded through a competitive application process. Applications are accepted on a bi-annual basis in March (award announced in June) and September (award announced in December)

- Qualification requirements and calculation of QREs are the same as for the Federal Historic Tax Credit

- State tax credit equal to 25% of QREs
How do historic tax credits help finance theater projects?

- Building is transferred to a for-profit partnership
- Private investor (typically a bank, insurance company or publicly-traded corporation) makes an investment in the partnership
- Investment helps pay for project costs
- Private investor receives and uses tax credit
- Subsidiary of theater controls partnership
## Historic Preservation Tax Incentives

<table>
<thead>
<tr>
<th></th>
<th>Non-Qualified</th>
<th>Qualified</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition (Land &amp; Bldg)</td>
<td>$1,500,000</td>
<td>$-</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>Rehabilitation costs</td>
<td>-</td>
<td>8,000,000</td>
<td>8,000,000</td>
</tr>
<tr>
<td>Building expansion costs</td>
<td>500,000</td>
<td>-</td>
<td>500,000</td>
</tr>
<tr>
<td>Furniture &amp; equipment</td>
<td>300,000</td>
<td>-</td>
<td>300,000</td>
</tr>
<tr>
<td>Soft costs (legal, interest, etc)</td>
<td>100,000</td>
<td>200,000</td>
<td>300,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,400,000</strong></td>
<td><strong>$8,200,000</strong></td>
<td><strong>$10,600,000</strong></td>
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<table>
<thead>
<tr>
<th></th>
<th>Federal</th>
<th>State</th>
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<tbody>
<tr>
<td>Total QRE’s</td>
<td>$8,200,000</td>
<td>$8,200,000</td>
</tr>
<tr>
<td>Credit %</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>Tax Credits</td>
<td>1,640,000</td>
<td>2,050,000</td>
</tr>
<tr>
<td>Investor Ownership</td>
<td>99%</td>
<td>100%</td>
</tr>
<tr>
<td>Syndication Rate</td>
<td>90%</td>
<td>75%</td>
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<tr>
<td>Investor Equity</td>
<td>$1,461,000</td>
<td>$1,538,000</td>
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</tbody>
</table>
Historic Preservation Tax Incentives

Historic Projects for Theaters:

• Opportunities:
  – Buildings that are 50+ years old, historically significant or located in a historic district
  – Theaters, mixed-use facilities, community facilities, commercial buildings, buildings with multiple users

• Challenges:
  – Cannot use tax-exempt financing
  – 50% Rule—Cannot have used property prior to rehabilitation, then occupy more than 50% of the building for 5 years after the rehabilitation
  – Cannot have purchase option for a fixed sum
  – Lease cannot exceed 20 years
  – Series of complicated transactions
Other Considerations:

– Impact on institution’s financial statements
– Investor reporting requirements:
  • Cost certification
  • Annual audited financial statements
  • Quarterly reporting
– Exit strategy after 5-year compliance period
– Financial projections
Historic Preservation Tax Incentives

Purpose of a good set of projections:

• Control cash flow
• Control depreciation allocation
• Used for syndication and underwriting by investors and lenders
• Used by working group to refine transaction structure
• Blueprint for the preparation of the legal documents
• Tool to formulate exit strategies
• Used as budgeting tool during construction period and operations
Historic Preservation Tax Incentives

Sample Historic Tax Credit
Entity Structure

Nonprofit Theater Company

Managing Member

[___] Ownership
Capital Contributions: [$_____]

[100%] Ownership

Master Landlord

First Mortgage Loan
Lender

100% State HTCs Allocated
100% Federal HTCs Passed-Through

100% Federal HTCs Passed-Through

[___] Ownership
Capital Contributions: [$_____]

[99%] Ownership
Capital Contributions: [$_____]

Federal HTCs
State HTCs
Cash Flow
Asset Management Fees

[1%] Ownership
Capital Contribution: [$____]

Master Tenant

Investor

Capital Contributions: [$_____]
Sample Historic Tax Credit
Leasing Structure

Master Landlord

- Master Lease
  - [32-year term]
  - 100% of rentable space
- Lease payments

Master Tenant

- Lease Payments

Tenant Lease
- [15-year term]

One or more tenants, including nonprofit theater company
Tax Incentives for Developing Capital Projects

Questions

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