Financing Historic Theaters
Historic Preservation Tax Credits

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McDonald Hopkins
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Business Advocate
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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 <u>or</u> 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)

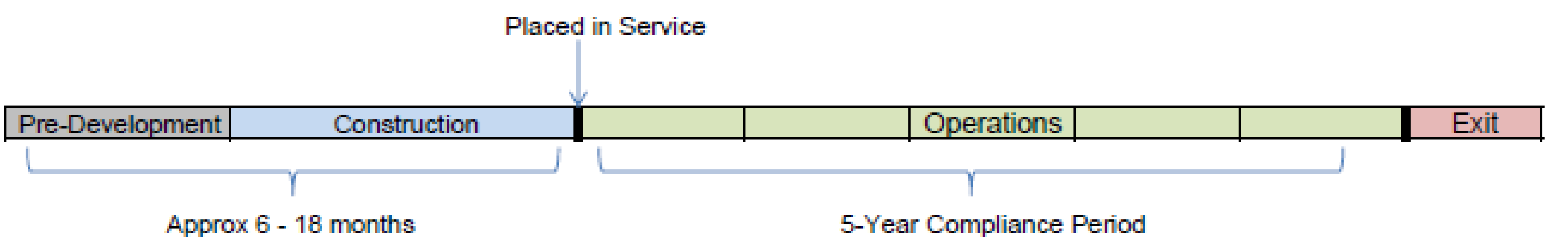
- Qualification requirements and calculation of QREs are the same as for the Federal Historic Tax Credit

- State tax credit equal to 25% of QREs

Historic Preservation Tax Incentives

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

	Non-Qualified	Qualified	Total
Acquisition (Land & Bldg)	$1,500,000	$ -	$1,500,000
Rehabilitation costs	-	8,000,000	8,000,000
Building expansion costs	500,000	-	500,000
Furniture & equipment	300,000	-	300,000
Soft costs (legal, interest, etc)	100,000	200,000	300,000
	$2,400,000	$8,200,000	$10,600,000

	Federal	State	Total
Total QRE's	$8,200,000	$8,200,000	
Credit %	20%	25%	
Tax Credits	1,640,000	2,050,000	
Investor Ownership	99%	100%	
Syndication Rate	90%	75%	
Investor Equity	**$1,461,000**	**$1,538,000**	**$2,999,000**

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

Historic Preservation Tax Incentives

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

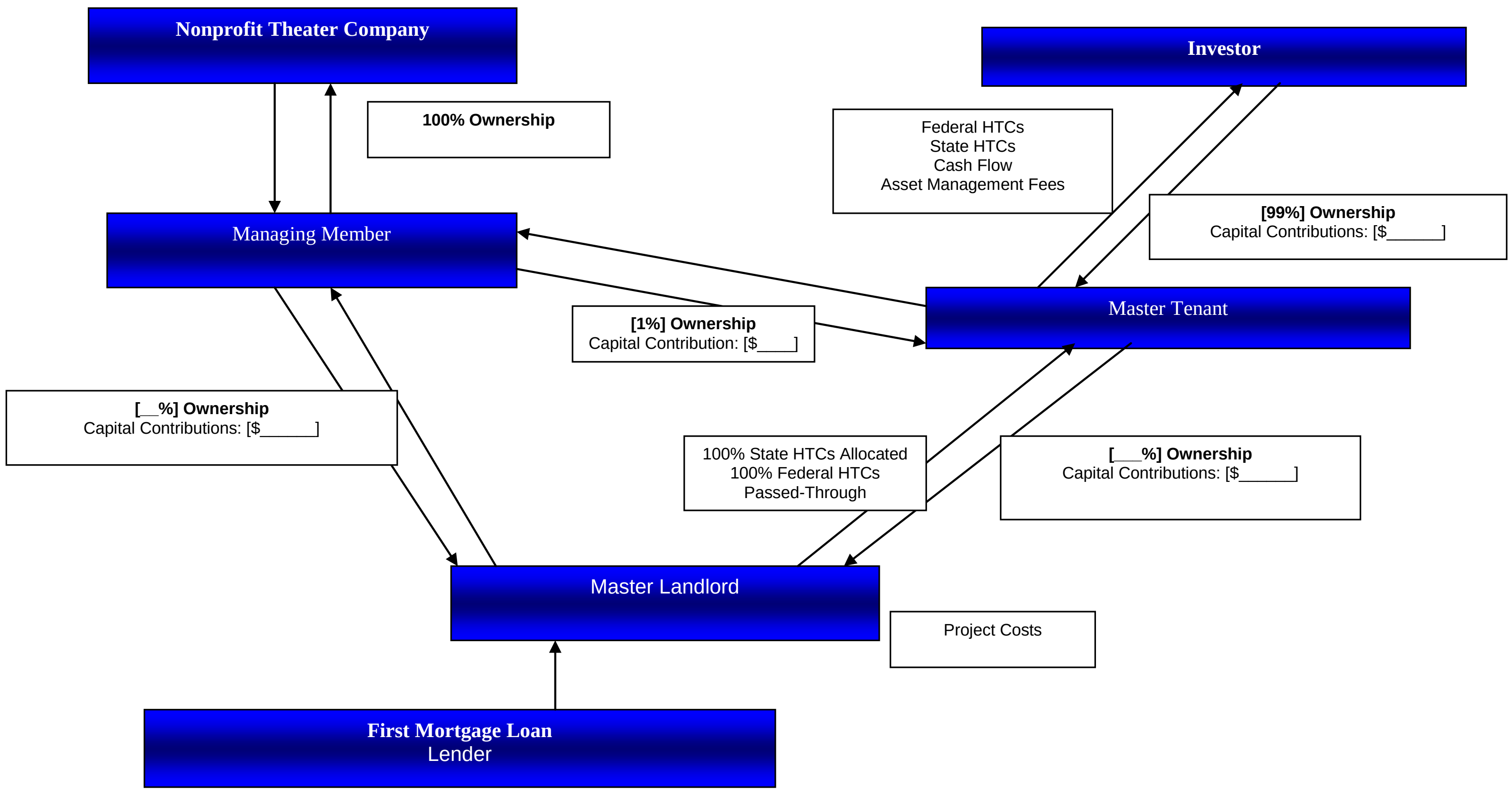
Historic Preservation Tax Incentives

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

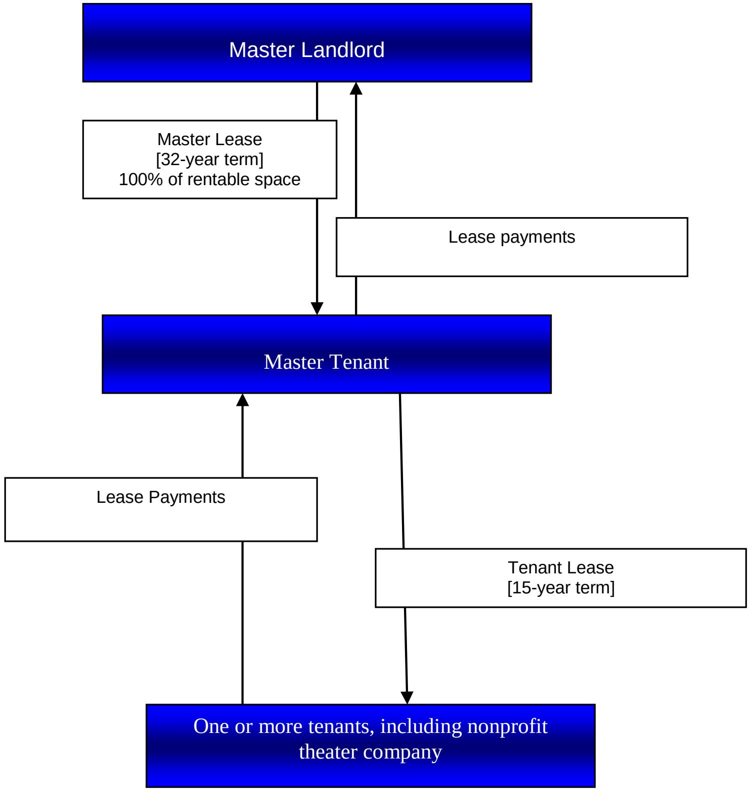
Historic Preservation Tax Incentives

Sample Historic Tax Credit
Entity Structure



Historic Preservation Tax Incentives

Sample Historic Tax Credit
Leasing Structure



Tax Incentives for Developing Capital Projects

Questions

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