



Using Tax Credits To Help Fund Facilities Needs of Non-Profit Organizations

Agenda:

- o Presenter Introductions
- o Making the Case
- o How it Works
- o Tax Credits Eligibility
- o Forum



Speakers:



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MAKING THE CASE

Common Condition:

- o Aged Buildings in Neighborhoods of Low income
- o Providing Social Services to Low-income Population
- o Antiquated Building Systems & Deferred Maintenance
- o Underutilized spaces in Buildings
- o Needs are Up / Funding Down
- o Fund-raising focused on Programs
- o Reluctance for Capital Campaign



United Way of Greater Cincinnati

- o Institution Vision & Credibility :
BOLD GOALS
- o Design Feasibility & Analysis
 ‘Good Bones’ for Reinvesting
 Sustainability at all Levels
- o Market Timing : Bang for the Buck
- o Agency Collaborations
- o Jobs . Jobs . Jobs :
 Attraction / Retention /
 Construction



St. Aloysius Orphanage

- o 175 yr Institutional Evolution
- o New Educational model and Learning environment
- o Community Icon & Historic Building
- o Agency Collaboration / Community Reinvestment
- o Project Scale / Deferred Maintenance



How do your Facilities Contribute...?

- o Effective Workflow
- o Efficient Buildings
- o Attract & Retain Staff
- o Treat your Clients with Respect



CAPITAL follows **MISSION**
.... but Facilities can compromise BOTH

Opportunities for Improvement:

- o Space Utilization
- o Utilities / Resources
- o Technology
- o Safety
- o Staff Culture



Setting Priorities:

**“What we *NEED*
is a decent Buick...”**

~ Rob Reifsnyder

Leveraging Potential:

- o Organizational Mission
- o Maintenance Needs
- o Community Impact
- o Encouraged Collaboration
- o **Public Policies for Funding**



Testing Feasibility:

- o Physical - Condition Assessment & Program Needs
- o Cultural - Community Impact, Internally & Externally
- o Financial - How to pay for it & ROI



Long Term Investment:

**“We’re too poor
to buy cheap stuff...”**

Demonstrating Stewardship:

Lean & LEED

- o Planning & Cashflow
- o Timing Advantages
- o Credibility & Confidence
- o Triple Bottom Line

Economic

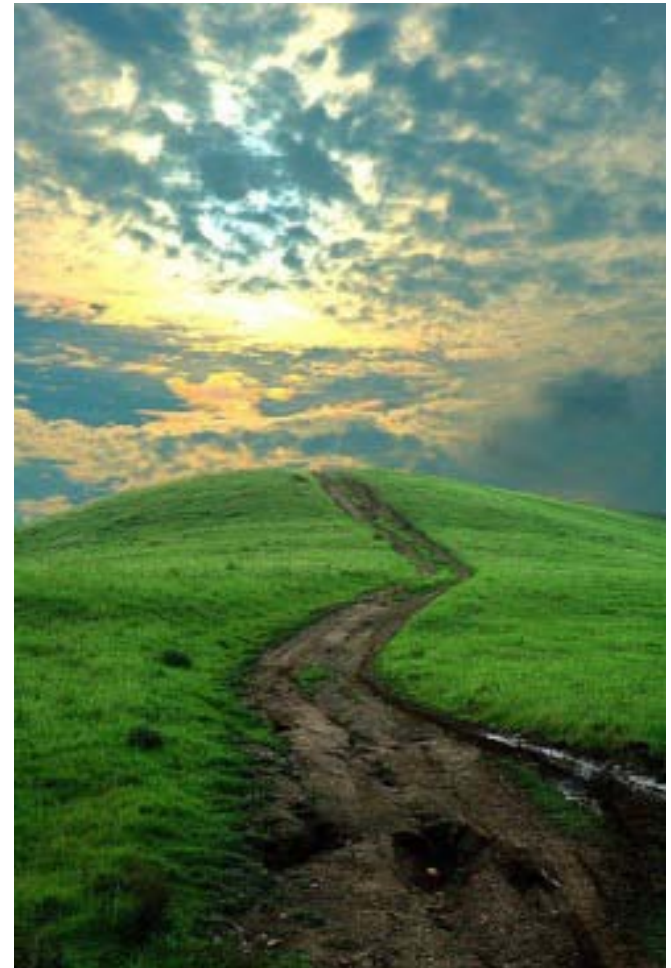
Environmental



Social Equity

Proving Models:

- o Visionary
- o Strategic
- o Tactical



Visionary



Create Dynamic & Interactive environments for Learning

Strategic



Demonstrate collaboration between Agencies & Partners



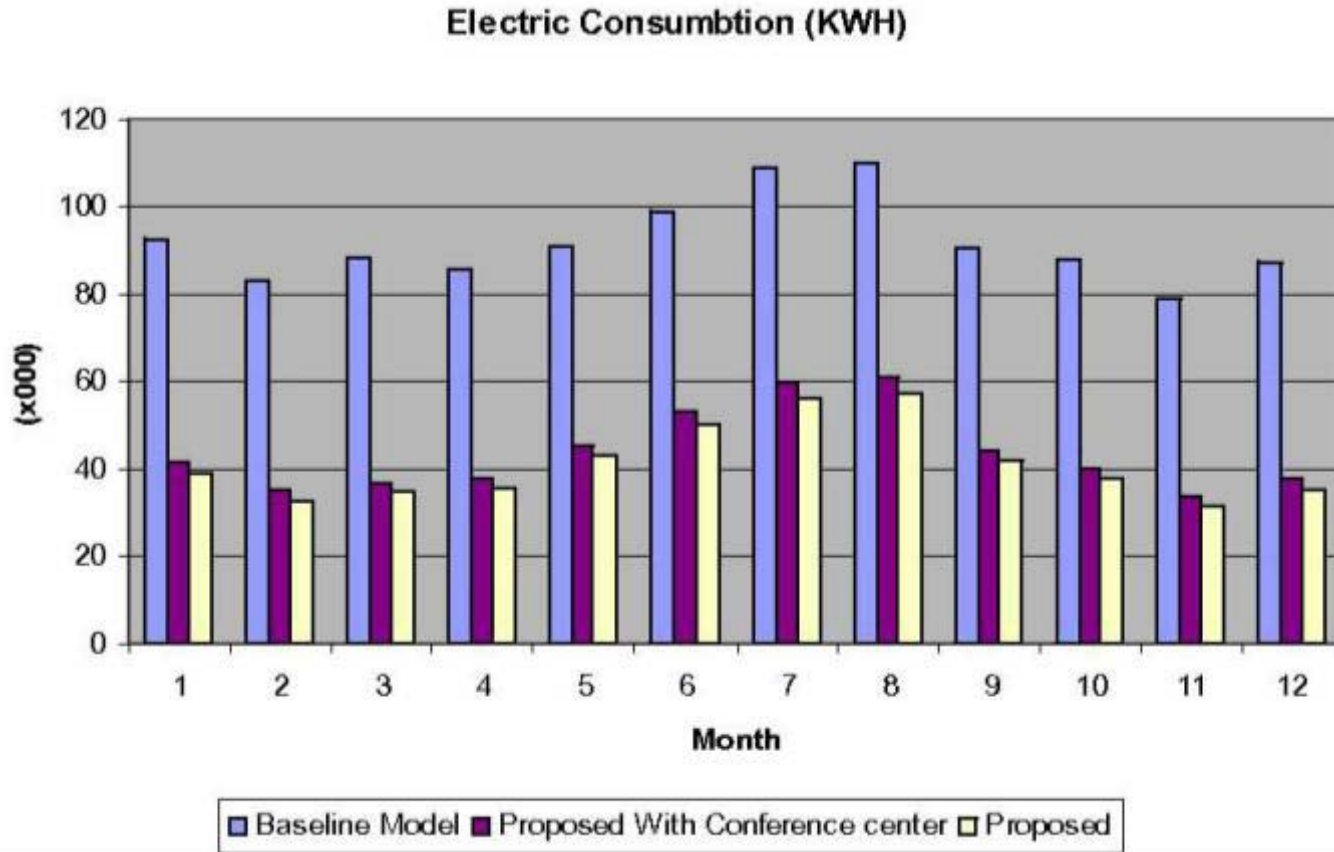
Families Forward



NUTRITION COUNCIL



Tactical



Energy Modeling of Operational Savings

Communicating Impact



Reposition a strong Institutional Brand for the Future

Communicating Impact



Create a shared resource for Convening the Community

Communicating Impact



Create an Open and Engaging Workplace for UWGC

HOW IT WORKS

How it Works

- Using tax credits IS a form of capital fundraising for facilities
- Tax credits strategy is a good “first phase” of a capital fundraising before you approach the private donors
- Tax credits function as a “lead gift” and as an incentive to traditional donors



How it Works...

Nonprofits can do this stuff!!!!

So, why not Take the money?

How it Works...

- o Your mission can align perfectly with major public programs that want to achieve other outcomes
- o Economic development, historic preservation, energy efficiency all benefit both you and society in general.
- o So, the market for tax credits can bring you substantial project funding assistance for your own mission



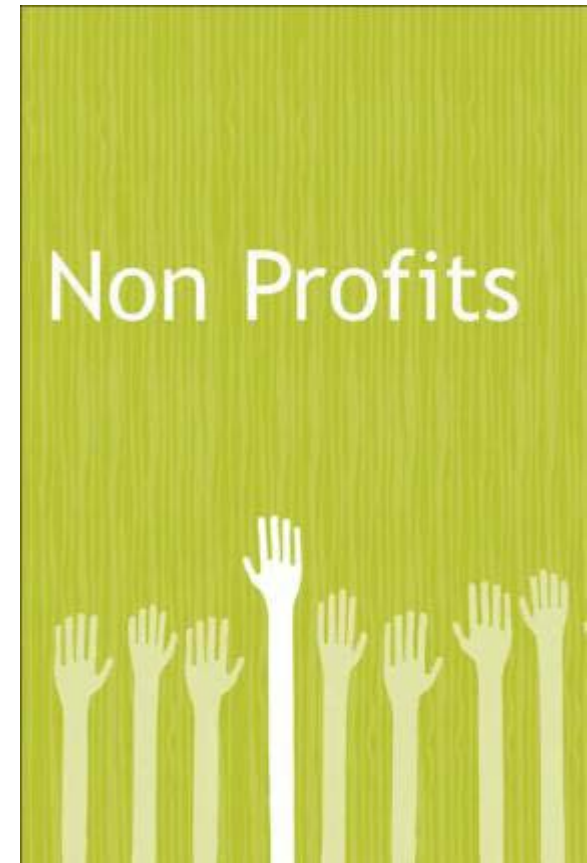
How it Works...

- Nonprofit owns or controls facility by long-term lease (>40 yrs.) – Prior to using Tax Credits
- Nonprofit determines which tax credits they are eligible for and approximate gross value for each tax credit, based on the law creating the tax credit program
- Mature market to sell credits to buyers who need the tax credits



How it Works...

- For unlimited tax credits, eligible amount is also the available amount
 - Federal historic tax credits
- For “competitive/capped” tax credits, confirm availability based on eligibility
 - Federal new market tax credits;
State new market tax credits;
State historic tax credits
 - Must market the project to those that own or control the tax credits you want.



How it Works...

- Nonprofit finds a “buyer” for the available tax credit amount
 - Any business entity or person with the appropriate federal or state tax liability during the period involved with the project's tax credit
 - Banks (own account) or bank syndicate
 - Insurance companies or other corporate placement
 - Nonprofit forms a for-profit subsidiary with one job - form the needed partnership with the buyer to execute the transaction



How it Works...

- Gross tax credit amount vs. Net sale proceeds from buyer
 - Tax credit buyer is making an investment that needs a return of principal and a return on principal
 - Example for federal NMTC's
 - \$12.8M project can generate \$5M (39%) in federal NMTC's collectable over 7 yrs.
 - Buyer pays \$3.5M (varies with investment market changes) to project owner as the project begins construction for those tax credits to use for project costs
 - Buyer gets back the \$3.5M plus a return of about about 9%/yr over seven years on the investment

How it Works...

- Net sale proceeds vs. Net project funding benefit
 - Legal and consulting costs of these transactions are significant for the many parties involved, but so are the net benefits to the project
 - Immense legal compliance procedures for each program in the relevant tax code
 - Continued example
 - Net federal NMTC sale proceeds of \$3.5M
 - Legal and other costs make net project funding benefit about \$2.6M (25% of project)



How it Works...

- If you are eligible for more than one kind of tax credit, they can often be combined on a single project to produce a larger net project benefit
- Give yourself 12-18 months of working time to put together this source of funding before you need to start construction
- Be prepared to spend some of the consulting and design costs before the tax credit closing can occur
- Project needs to be at least \$5M to use federal NMTC's, as fees are high



TAX CREDITS

Tax Credits

- Federal Historic Tax Credits
- State Historic Tax Credits
- Federal New Markets Tax Credits
- State New Markets Tax Credits
- Energy Tax Credits



Federal Historic Preservation Tax Credit Program

- 20% income tax credit for certified rehabilitation of a “certified historic structure”
- A “certified historic structure” is a building listed in the National Register for Historic places, or located in a registered historic district & certified by the Secretary of the Interior
- Rehabilitation must follow the Secretary of the Interior’s Standards for Rehabilitation



Federal Historic Preservation Tax Credit Program

- Projects are reviewed on a case-by-case basis
- State Historic Preservation Offices (SHPOs) serve as first point of contact
- Rehabilitation must be completed in one 24-month period
 - If rehabilitation is completed in phases, a 60-month period is substituted
- 10% income tax credit for rehabilitation for non-residential use of non-historic buildings built before 1936



Ohio Historic Preservation Tax Credit Program

- Tax credit for rehabilitation expenses to owners of historically significant buildings
- 25% of qualified rehabilitation expenditures for historic rehabilitation projects
 - Generally hard construction costs
 - Must meet same “certified historic structure” requirement and rehabilitation standards as the federal credit program



Kentucky Historic Preservation Tax Credit Program

- 20% of qualified rehabilitation expenses
- Limited to \$5 million per calendar year
 - Apportionment formula applied to determine the amount of credit awarded to each project
- Must meet same “certified historic structure” requirement and rehabilitation standards as the OH and Federal credit programs



Federal New Markets Tax Credits Overview

- Multi-billion dollar effort designed to spur development in low-income areas
- Provides federal income tax credit to investors, who in turn will loan to or invest in businesses in low-income areas
 - Flexible: FNMTCS can be applied to a wide range of business activities

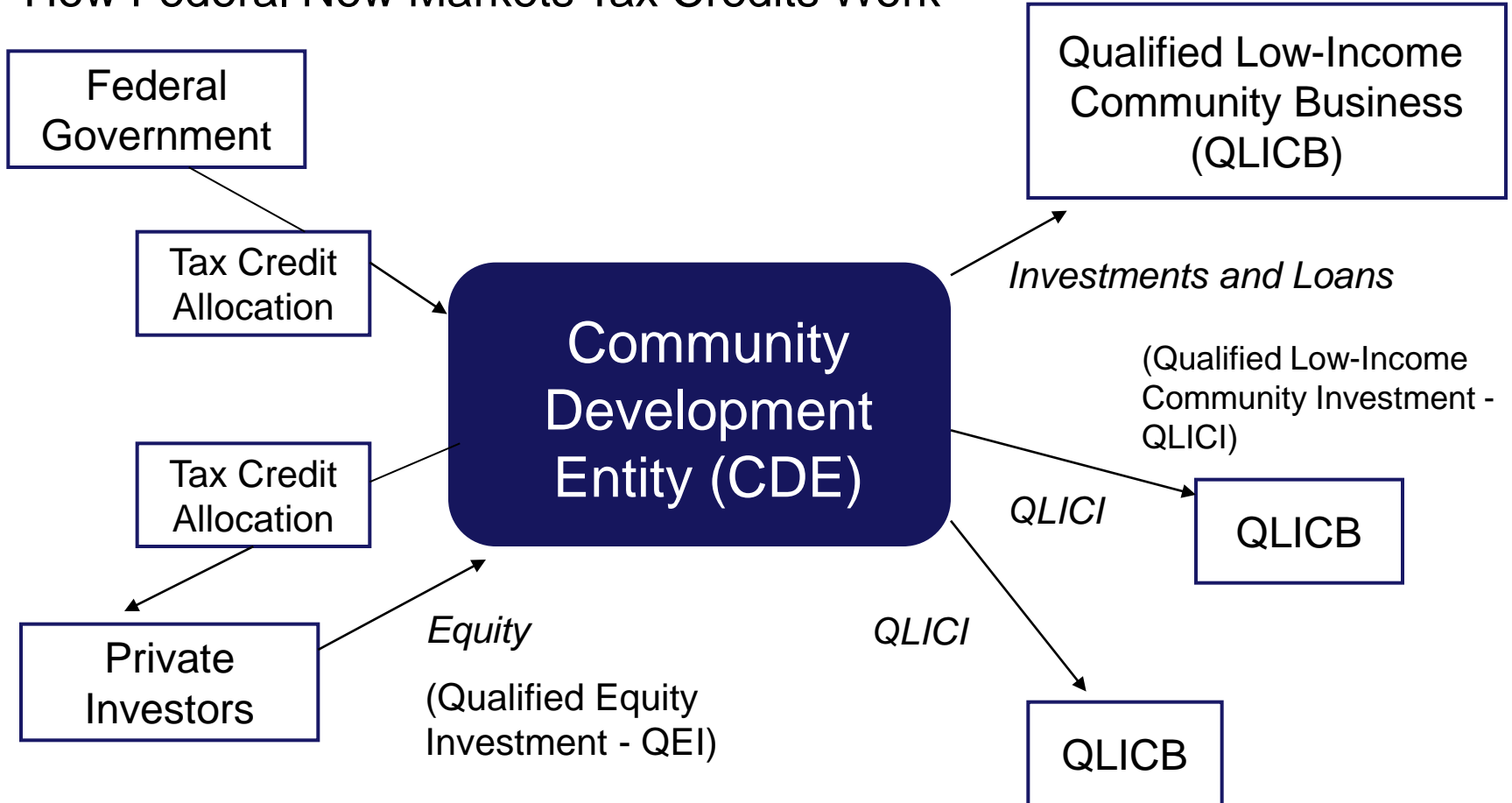


Federal New Markets Tax Credits Overview

- Administered by the US Treasury, through Community Development Financial Institutions (CDFI Fund)
- Income tax credit for Qualified Equity Investments (QEI) in Community Development Entities (CDEs)
 - CDEs must be certified by the CDFI Fund
 - Substantially all QEIs must be used for loans or investments in low-income community (LIC) businesses



How Federal New Markets Tax Credits Work



CDE Definition

- A Community Development Entity (CDE) is any duly organized entity treated as a domestic corporation or partnership for federal income tax purposes that:
 - (a) Has a primary mission of serving, or providing investment capital for, Low Income Communities (LICs) or **Low-Income Persons**;
 - (b) Maintains accountability to residents of LICs through their representation on any governing board of the entity or any advisory board to the entity; and
 - (c) Has been certified as a CDE by the Community Development Financial Institutions (CDFI) Fund of the United States Department of the Treasury.

CDE Certification Benefits

- An organization must be certified as a CDE in order to benefit from the Federal New Markets Tax Credit (FNMTC) Program.



Locating the Appropriate CDE:

- How your project would interface with the types of Qualified Low-Income Community Investment (QLICI) activities of the target CDE
 - Geography
 - Mission
 - Size of Allocation
- CDEs of local renown or used by local projects:
 - 3CDC
 - CDF
 - Uptown Consortium
 - Consortium America
 - Ohio Finance Fund
 - US Bank
 - PNC
 - Fifth Third

What You Could Expect From a CDE:

- Provide more-favorable financing terms in association with the lending bank than a low-income business could otherwise obtain
 - Extended Repayment Terms
 - Lower Interest Rates
 - Forgivable Debt or Equity
- Make QLICs in communities that are particularly distressed



Why a Third Party Might Purchase New Market Tax Credits

- Any **taxable** investor that makes a qualified equity investment (QEI) in a qualified CDE is eligible for the tax credit
 - Individuals, companies, investment funds, etc.
- The FNMTC is distributed to an investor over seven years and equals 39% of the cash equity investment
 - 5% in years 1-3
 - 6% in years 4-7
- Investor may receive economic benefit
 - During 7-year period: only some portion of the return on capital invested
 - After 7-year period: return of capital and return on capital

Ohio NMTC

- Up to \$10 million in tax credits awarded per year
- Up to \$1 million awarded per project
- Eligible applicants are CDEs which have been allocated FNMTCS
- Ohio NMTCs are provided for QEIs in funds established by a CDE for projects in Ohio
- Investors in CDEs with Ohio NMTC allocations that receive economic benefit
 - Foreign insurance companies subject to Ohio tax
 - Financial institutions subject to Ohio tax



Ohio NMTC

- The Ohio NMTC is distributed to an investor over seven years and equals 39% of the cash equity investment
 - 0% for each of the first two years
 - 7% for the third year
 - 8% for the next four years
- There are currently only 8 states with active NMTC Programs
 - This gives Ohio a competitive advantage nationally

Kentucky NMTC

- Up to \$5 million in tax credits awarded per year
- Eligible applicants are CDEs which have been allocated FNMTCS and an application must be submitted to the state
- Credits are distributed in the same 7 year process as Ohio
- Ohio and Kentucky make up one fourth of the states with their own active NMTC Programs
- This is a great national advantage for Greater Cincinnati nonprofits



Investment Tax Credit (IRC Section 48)

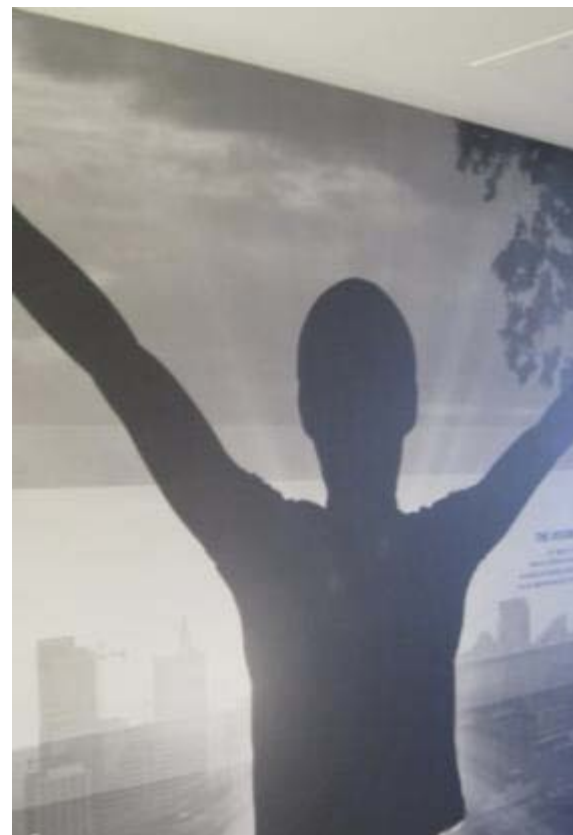
- Up to 30% Federal tax credit for qualified energy investments
- The American Recovery and Reinvestment Act of 2009 allows taxpayers to elect to obtain a grant in lieu of Section 48 tax credits
 - Grant applications must be received by October 1, 2012
 - Property must generally be placed in service in 2009, 2010, or 2011
- Calculated based on total cost of the energy property LESS grants or rebates received
- Election can be made to treat state grant as income reduction
- No cap or maximum on the ITC
- Basis for depreciation reduced by 50% of credit



SUMMARY

Summary

- Non-profits can benefit from many tax credit programs
- Historic Preservation Tax Credit programs are beneficial for funding the rehabilitation of older buildings
- The New Markets Tax Credit programs are particularly useful in the tri-state region by combining the Ohio or Kentucky program with the Federal program
- Energy Tax Credits reward efficient energy use which helps owners and the environment



Questions:



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