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

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

Steve Kenat, AIA
Director of Community Development
GBBN Architects

Dale McGirr
Senior Financial Strategist
GBBN Architects

John Michel, CPA
Director
Barnes Dennig
Common Condition:

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

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

- 175 yr Institutional Evolution
- New Educational model and Learning environment
- Community Icon & Historic Building
- Agency Collaboration / Community Reinvestment
- Project Scale / Deferred Maintenance
How do your Facilities Contribute…?

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

CAPITAL follows MISSION

…but Facilities can compromise BOTH
Opportunities for Improvement:

- Space Utilization
- Utilities / Resources
- Technology
- Safety
- Staff Culture
Setting Priorities:

“What we need is a decent Buick...”

~ Rob Reifsnyder
Leveraging Potential:

- Organizational Mission
- Maintenance Needs
- Community Impact
- Encouraged Collaboration
- Public Policies for Funding
Testing Feasibility:

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

“We’re too poor to buy cheap stuff…”
Demonstrating Stewardship:

*Lean & LEED*

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

**Environmental**

**Economic**

**Social Equity**
Proving Models:

- Visionary
- Strategic
- Tactical
Visionary

Create Dynamic & Interactive environments for Learning
Strategic

Demonstrate collaboration between Agencies & Partners
Tactical

Electric Consumption (KWH)

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 ….

- 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…

- Your mission can align perfectly with major public programs that want to achieve other outcomes.

- Economic development, historic preservation, energy efficiency all benefit both you and society in general.

- 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

- 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

**Federal Government**
- Tax Credit Allocation

**Private Investors**
- (Qualified Equity Investment - QEI)
- **Equity**

**Community Development Entity (CDE)**
- QLICI
- Investments and Loans

**Qualified Low-Income Community Business (QLICB)**
- (Qualified Low-Income Community Investment - QLICI)
- **QLICB**

**QLICI**
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 (FNMTCP) 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 QLICIs 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 to exclude from credit reduction
- No cap or maximum on the ITC
- Basis for depreciation reduced by 50% of credit
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:
Contact Information:

Steve Kenat, AIA  
Director of Community Development  
GBBN Architects  
skenat@gbbn.com  
www.gbbn.com

Dale McGirr  
Senior Financial Strategist  
GBBN Architects  
dmcgirr@gbbn.com  
www.gbbn.com

John Michel, CPA  
Director  
Barnes Dennig  
jmichel@barnesdennig.com  
www.barnesdennig.com