

Using Federal Historic Tax Credits to Finance Projects in the State of Connecticut

National Trust
**COMMUNITY
INVESTMENT**
Corporation

a subsidiary of

NATIONAL TRUST FOR
HISTORIC PRESERVATION*

- About National Trust Community Investment Corporation.
- Overview of Tax Credits for economic development.
- How Connecticut compares to other states on the use of tax credits.
- Accessing federal and state credits – navigating the investor marketplace.
- Combining historic and new markets tax credits – case study
- Tax Reform and the future of tax credits for economic development.



Wauregan Hotel - Norwich CT



Southern New England Telephone
Co. - New Haven, CT

NTCIC: A brief history

- Organized as a for profit, wholly-owned subsidiary of **the National Trust for Historic Preservation** in August 2000.
- NTCIC's primary objectives: making equity investments in real estate projects that qualify **for federal and state historic, new markets and low-income housing tax credits** and provide financial support through profit sharing with the National Trust.



West Village, Durham, NC. (Before)



West Village (After)



Dalton Building Rock Hill, SC
First NTCIC Investment of
\$1million

- Partnership with Bank of America led to organization of the **Banc of America Historic Tax Credit Fund** in 2000.
- NTCIC financed its first project, Dalton Building, in May 2001.
- NTCIC received its first New Markets Tax Credit allocation in October 2003.
- **\$437.8 million** in gross equity/debt invested to date in **77 projects**.
- **\$1.84 billion** in total development costs to date.

NTCIC New Markets Tax Credits Awards

NMTC Round	Total Allocation
1	\$127,000,000
4	\$53,000,000
5	\$60,000,000
6	\$40,000,000
7	\$35,000,000
8	\$28,000,000
Total:	\$343,000,000

Performing Arts Charter School St. Louis, MO



Property Type: Community Facility

Credits Used: HTC, NMTC

Total Development Cost: \$21,554,285

Net Investment: \$5,010,000

Wake Forest Bio-Tech Place Winston-Salem, NC



Property Type: Bio-technology lab space

Credits Used: HTC, NMTC

Total Development Cost: \$103,177,201

Net Investment: \$5,250,000



Property Type: 155 Units of supportive housing for the homeless

Credits Used: HTC (federal and state), LIHTC

Total Development Cost: \$37,118,214

Net Investment: \$23,988,497

Greater Hartford Academy of the Arts Hartford, CT



Property Type: Performing Arts

Magnet School

Credits Used: HTC and NMTC

NTCIC Investment : \$2 million NMTC loan



68-70 Bank Street -
Waterbury CT

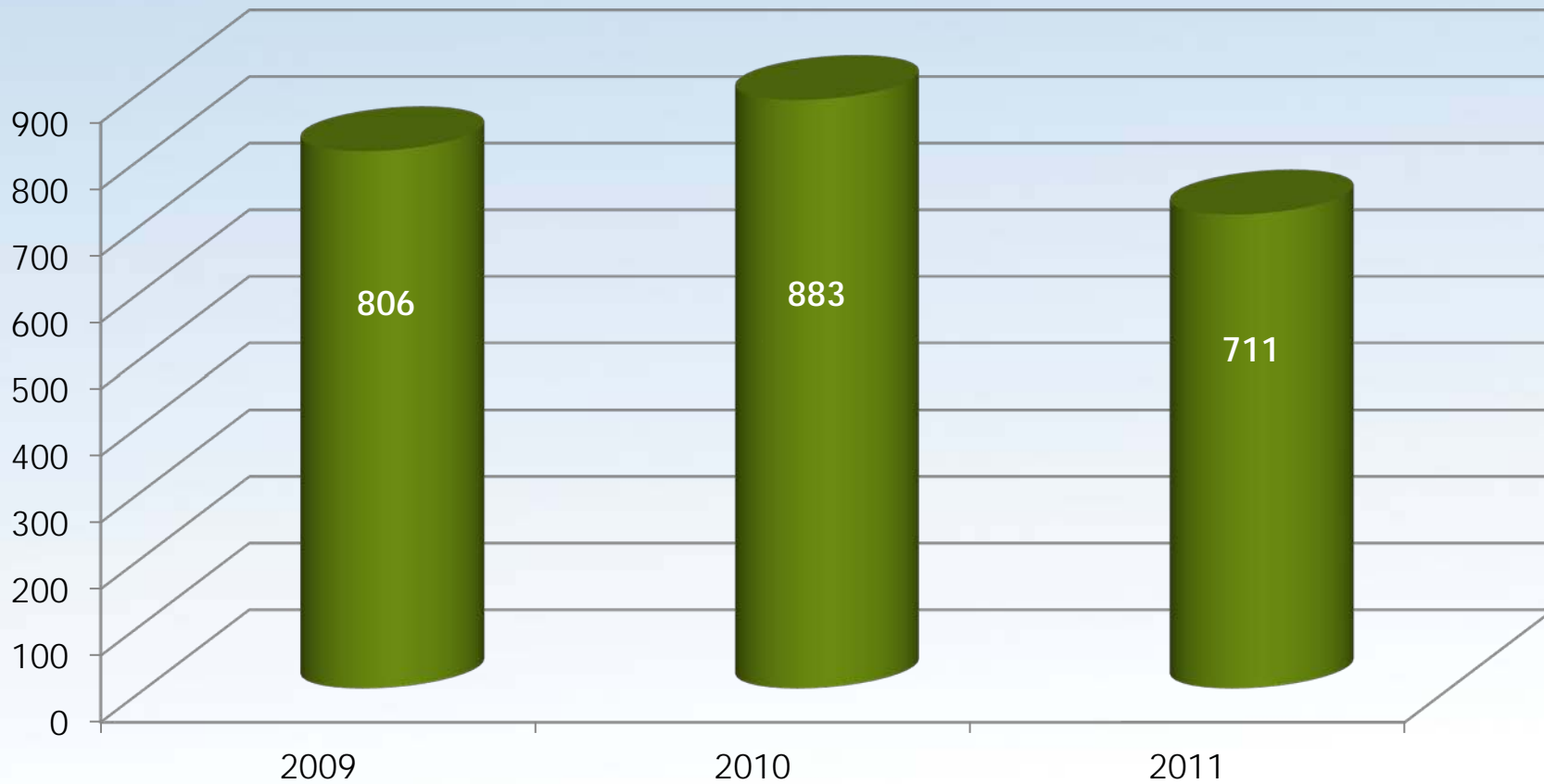
- **Federal 20% Historic Tax Credits**
www.ntcicfunds.com/basics/basics.federal.html
- **Connecticut State Historic Tax Credits**
www.ntcicfunds.com/basics/basics_state.html
- **Low-Income Housing Tax Credits**
www.nls.gov/offices/cpd/affordablehousing/training/web/lihtc/basics/
- **Federal New Markets Tax Credits**
www.ntcicfunds.com/basics/basics_newmarkets.html



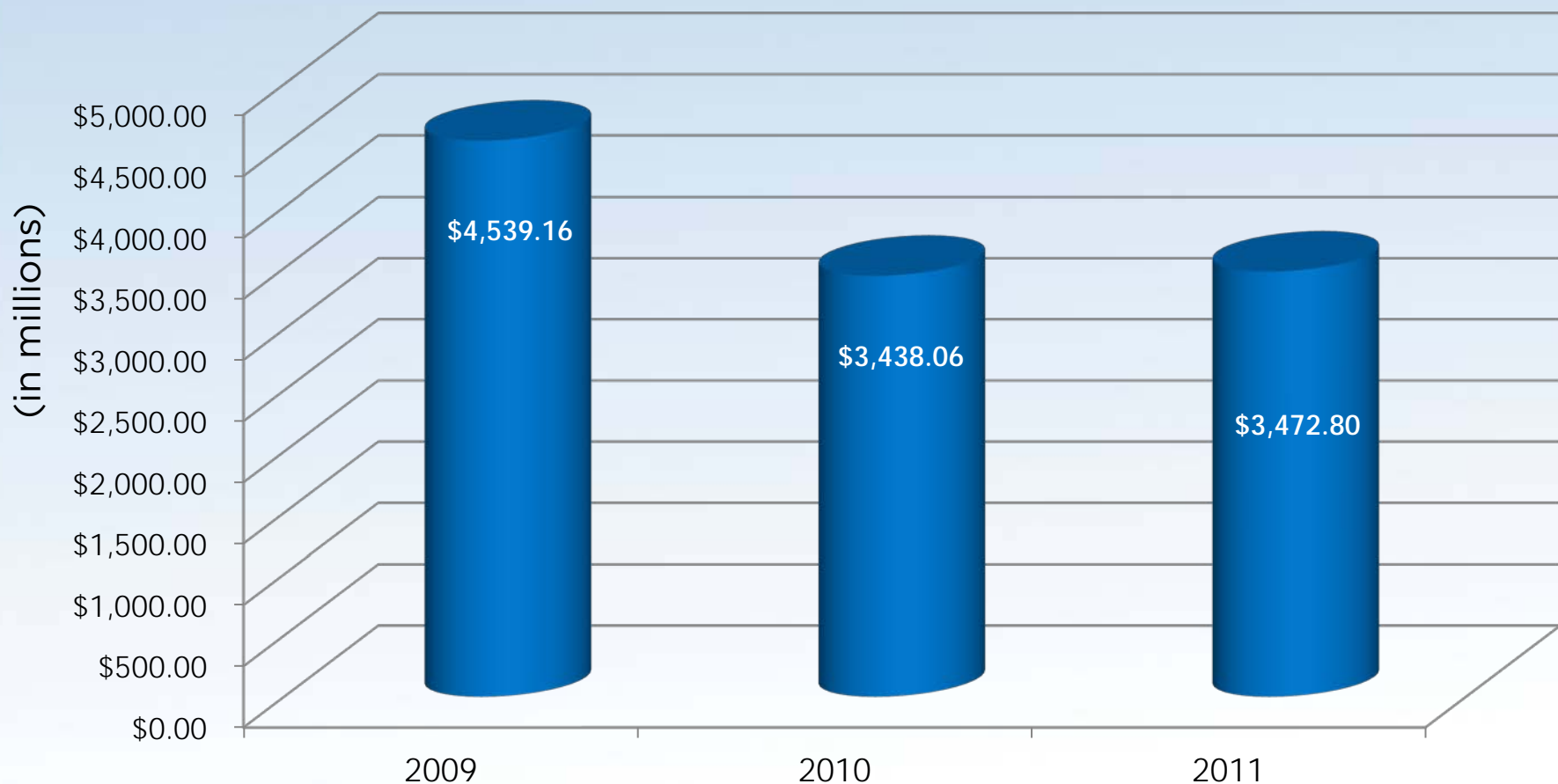
Arcade Building - Bridgeport, CT

- 20% federal income tax credit on Qualified Rehab Expenditures
- For income producing properties on or eligible for National Register (NR) for Historic Places and contributing buildings in a NR District.
- Rehab must meet the Secretary's Standards.
- 5-year holding, compliance and recapture period.
- Minimum rehab expenditure \$5,000 or adjusted tax basis whichever is greater.
- Design approval required from state historic preservation office and National Park Service.
- Credit 100% earned at placement in service.
- Uncapped.

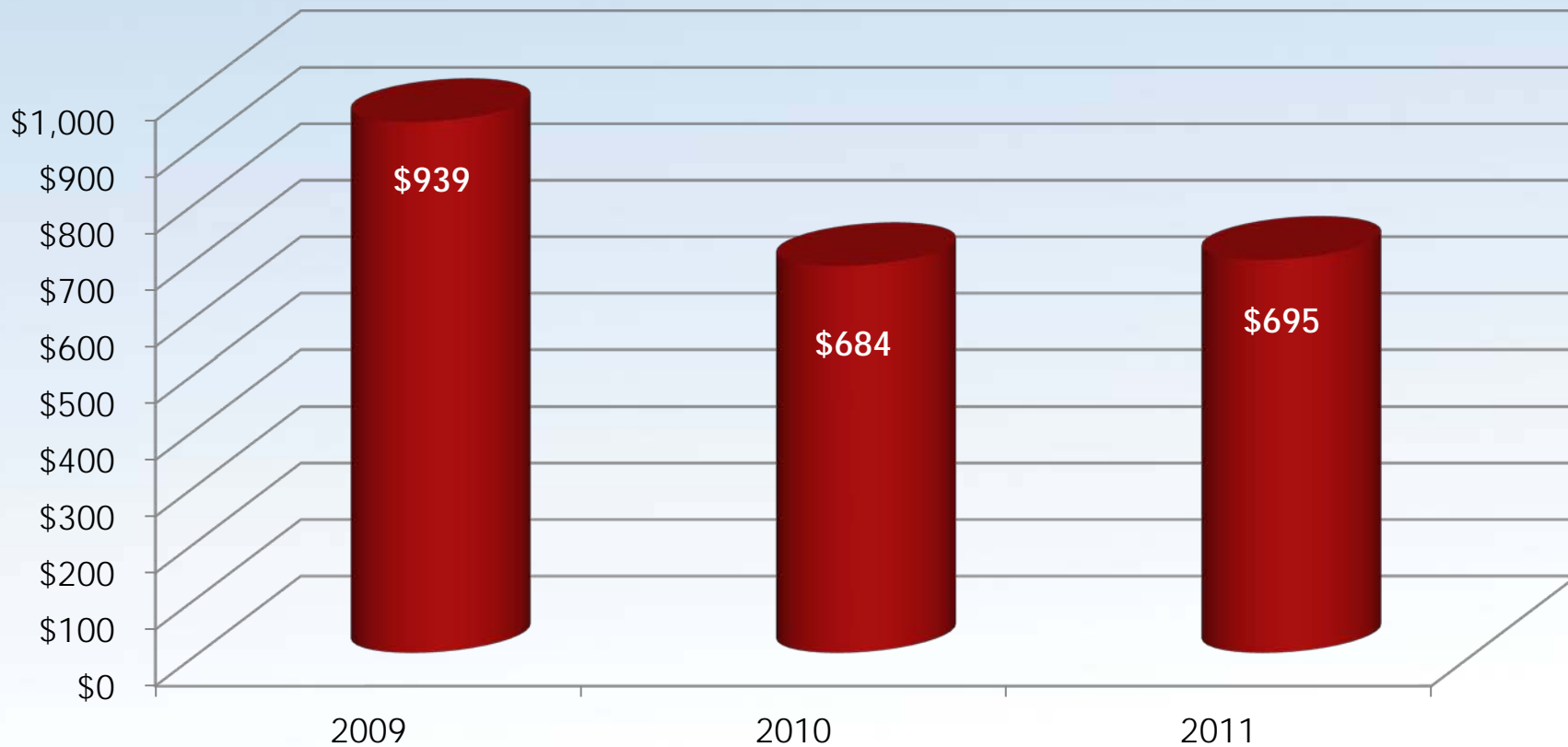
Part 3s approved (federal)



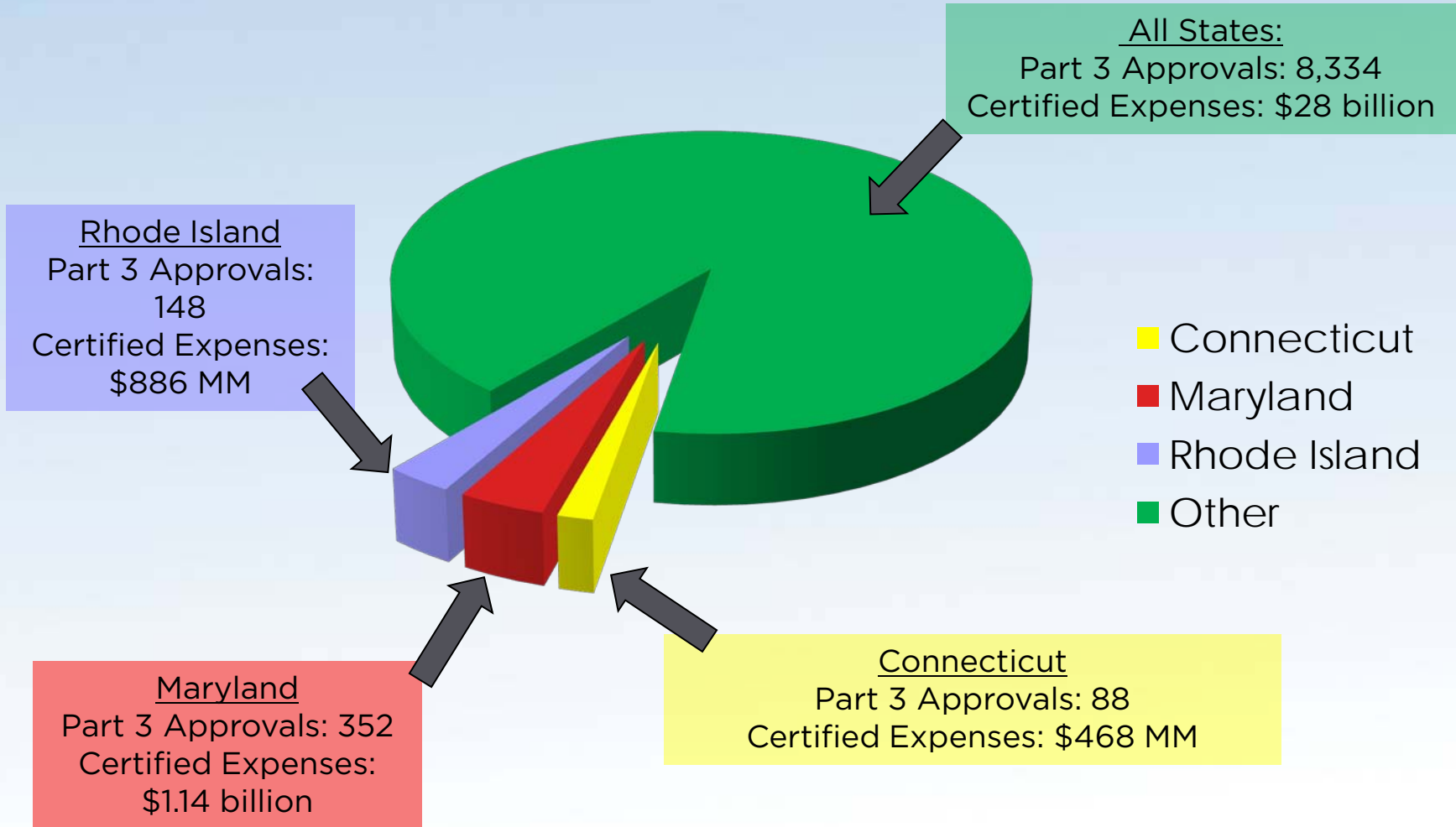
Certified Rehabilitation Expenditures (in thousands)



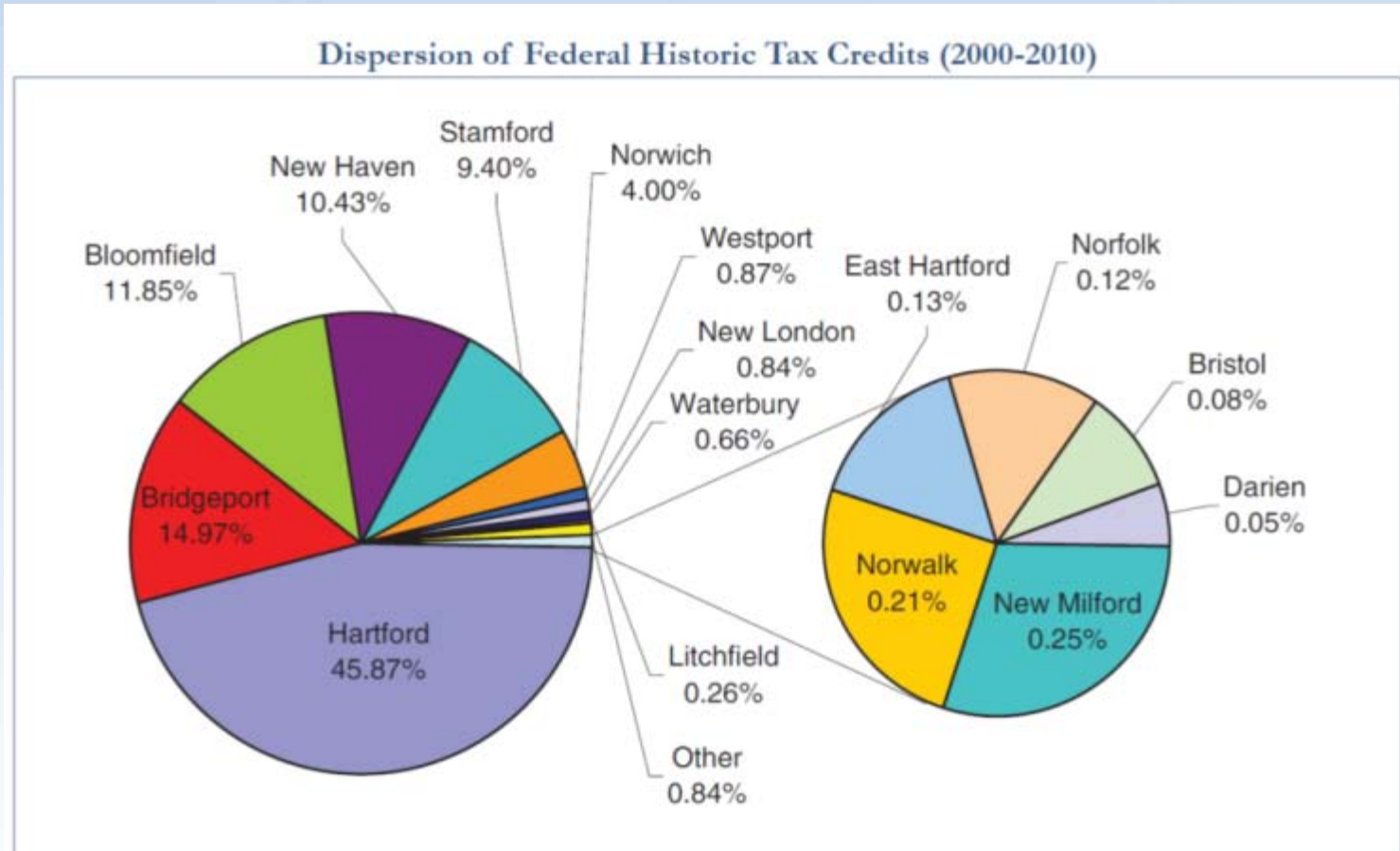
Maximum amount of federal credit allocated: (in millions)



Use of the federal HTC in Connecticut 2001-2011



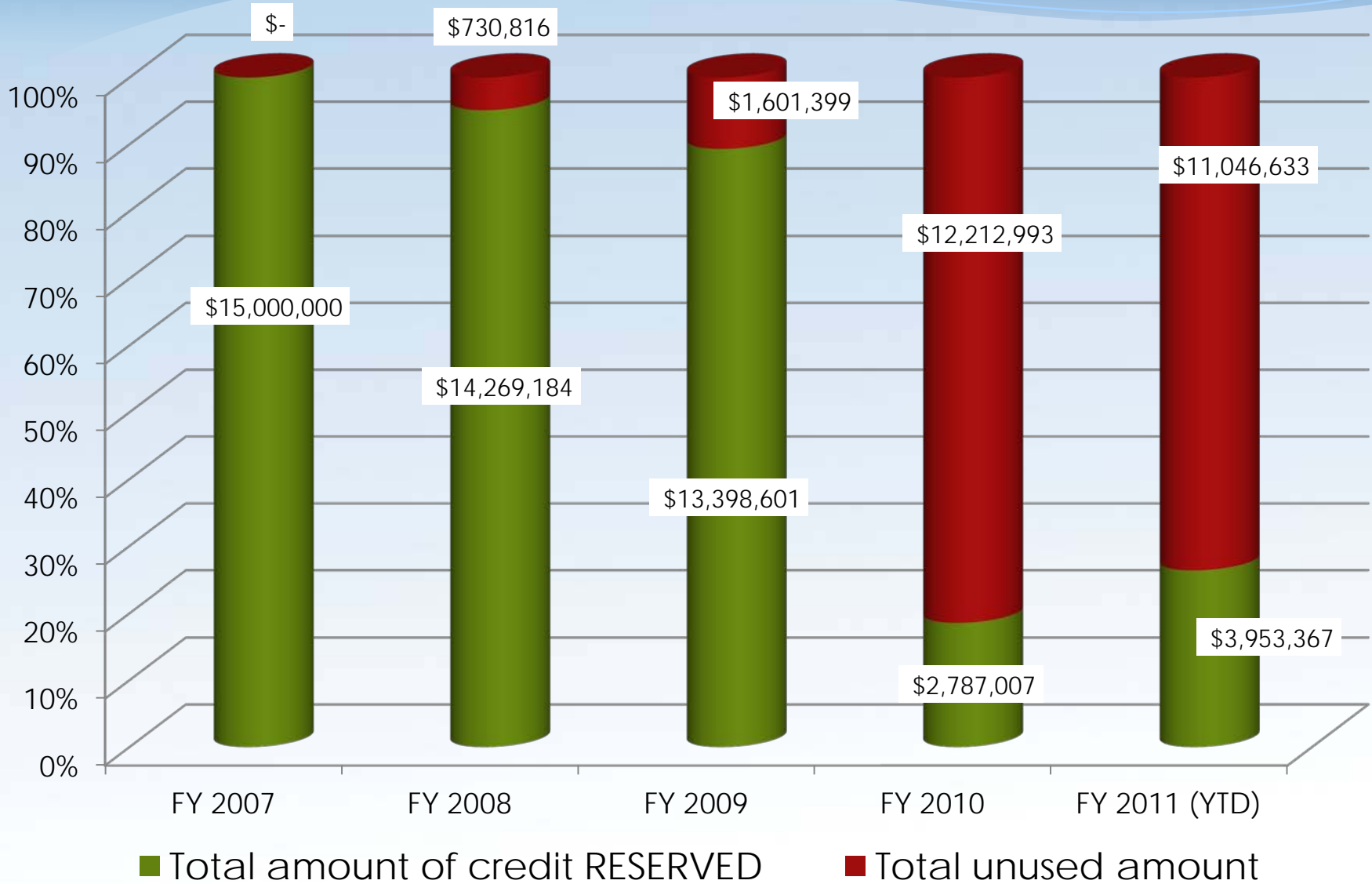
Dispersion of federal HTC in CT (2000-2010)



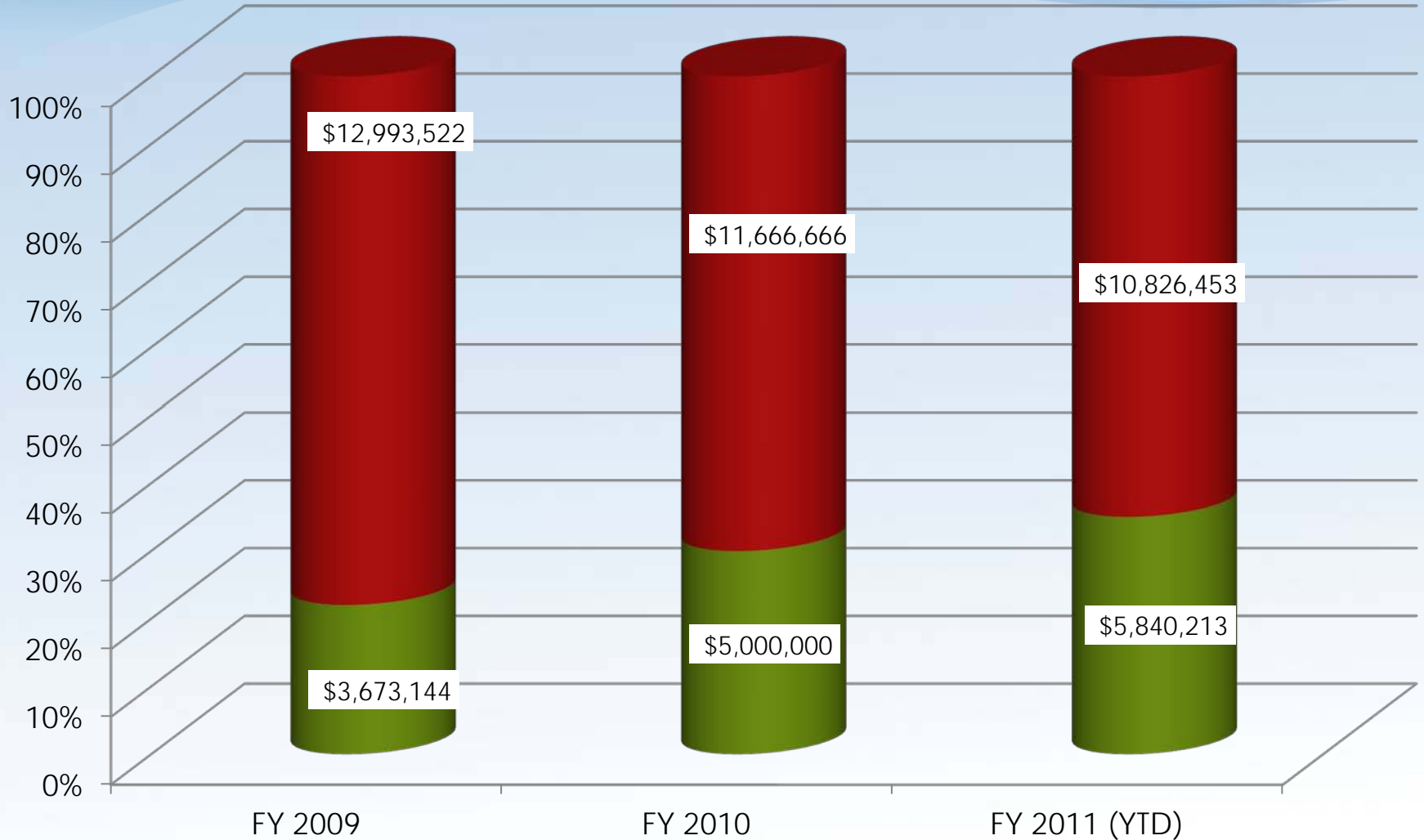
- **CT Historic Structures Rehabilitation Tax Credit** (Sec.10-416a) – 25% state income tax credit for conversion of former commercial and industrial buildings into housing or mixed housing and other uses. 5% additional credit for affordable housing. \$2.7MM per building cap.
- **CT Historic Preservation Tax Credit** (Sec. 10-416b) – improves upon earlier statute by allowing for more flexible commercial and mixed-uses.
- Both credits **freely transferable** within partnership or outside a partnership as a tax certificate sale.



CT Historic Structures Rehabilitation Tax Credit: Utilization Rate



Connecticut Historic Preservation Tax Credit – Utilization Rate



■ Total amount of credit RESERVED

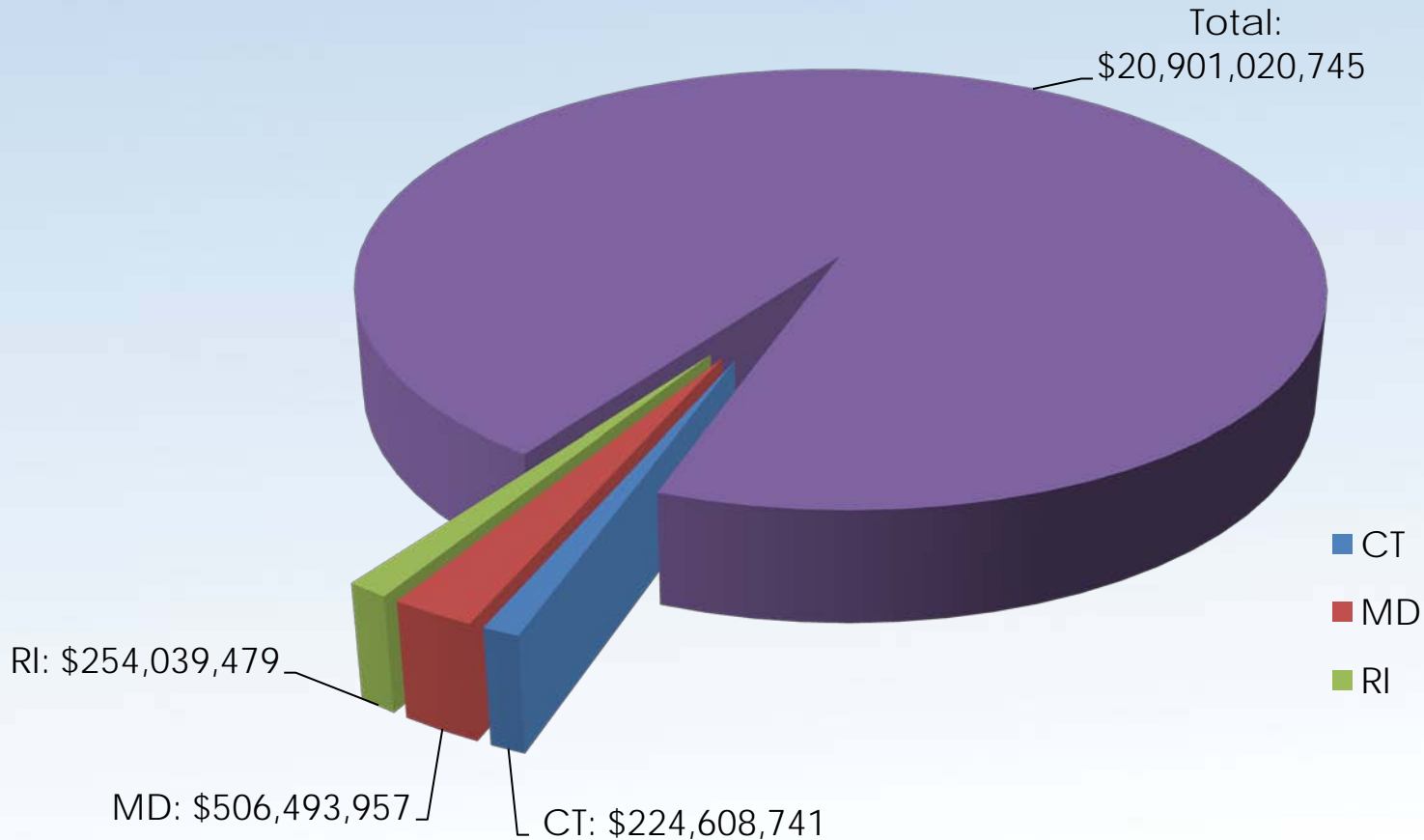
■ Total unused amount



Hollander Foundation Center -
Hartford, CT

- 39% federal income tax credit for equity investment or loan to a commercial property in a qualified low-income census tract.
- Mixed-use with housing allowed as long as 20% of revenue is from commercial uses.
- Credit earned over 7-year compliance period.
- Allocated by certified Community Development Entities (CDE) that specialize in community development finance.
- Authority to award these credits is subject to an annual CDE competitive grant application to the US Treasury.
- Basis for the credit is the equity investment or loan amount (\$1 million loan earns \$390K)
- No recapture for failure of the project.

NMTC Basics: Qualified Low-Income Community Investments (QLICs) since 2003



How Does Connecticut Measure Up on Tax Credits?



Hollander Foundation Center -
Hartford, CT

- Connecticut has **outstanding historic resources** with an especially rich industrial heritage.
- It **lags well behind other states** in the region in its ability to attract federal historic tax credits.
- **Connecticut is not fully utilizing its state HTC programs.** Limitations on qualified building types and eligible new uses in the past has limited their marketability
- **States with the strongest state HTC programs always leverage the highest amount of federal HTCs.** Connecticut's inability to attract federal HTC investment is directly related to performance of its state HTC program.
- **There has been only one award** (\$85MM - Round 6)) of NMTC allocation to a Connecticut-based CDE (Commercial & Industrial Community Development Enterprise, LLC)





Ambassador Apartments Hartford, CT(Before)





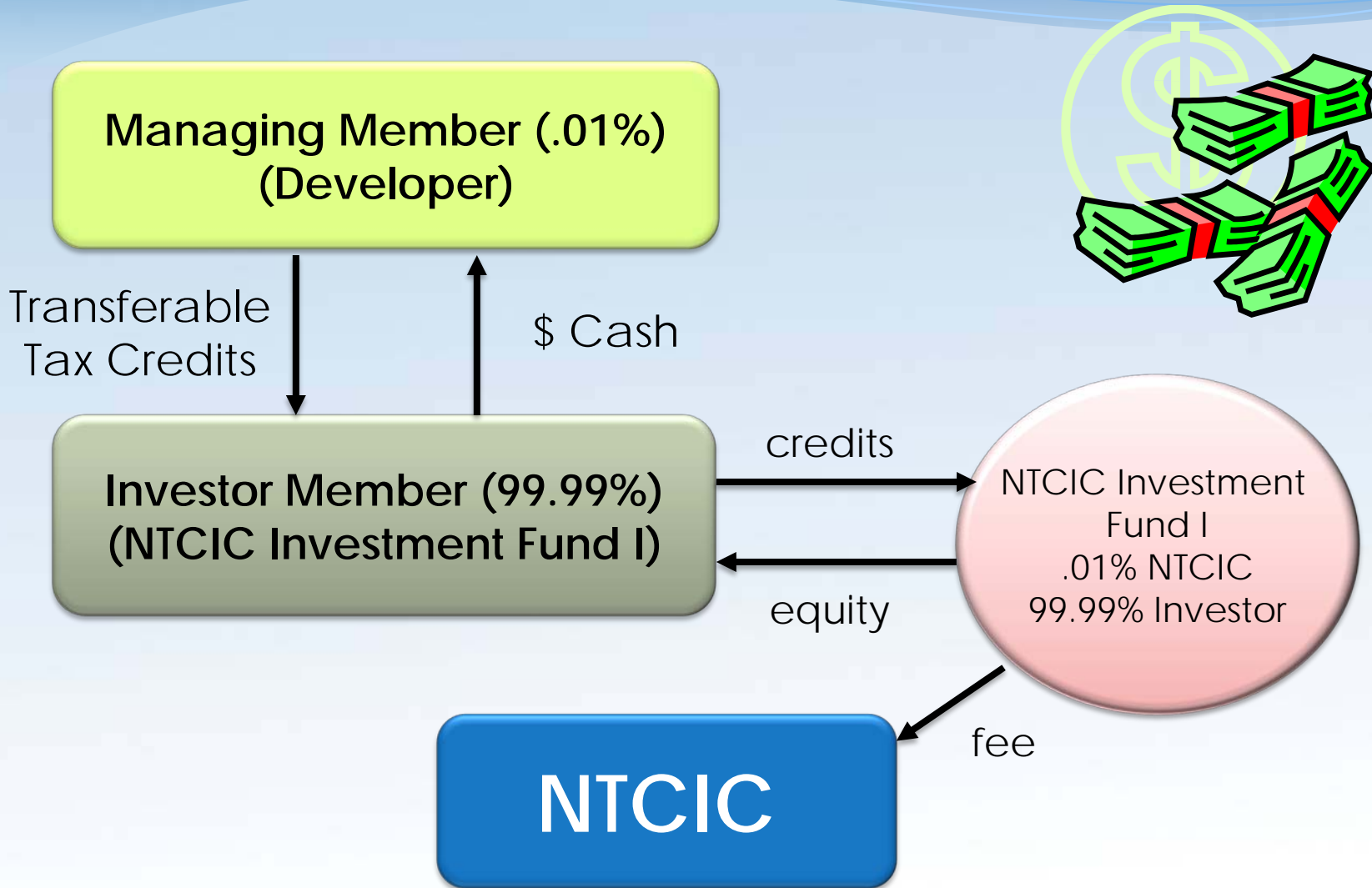


Katherine Hepburn Cultural Arts
Center - Old Saybrook, CT

The federal HTC is a shallow subsidy that is designed to **twinned** with other economic development credits including:

- New Markets Tax Credit
- Low-Income Housing Tax Credit
- State Historic Tax Credits

“Layered financing” is the key to making historic rehabilitation feasible in areas of greatest economic need. Multiple layers of credit equity combine to reduce the need for debt financing and create a economically sustainable property.



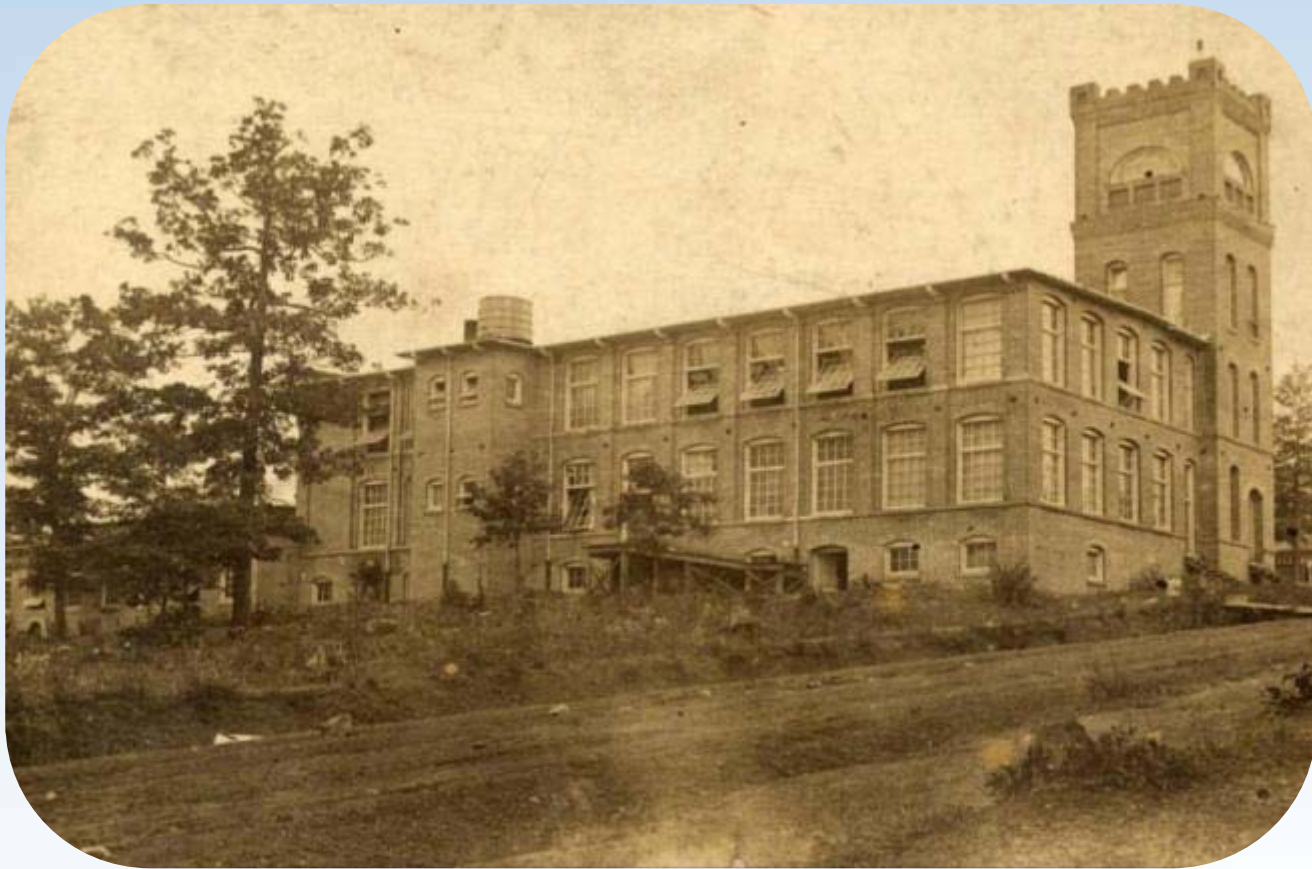
Accessing the Tax Credit Market Place – What makes a project competitive?

Investors are looking for:

- Scale
- Location
- Market strength
- Developer experience
- Potential for tax credit recapture
- Return on investment
- Community benefit

Accessing the tax credit market place – Who are the players?

- A bifurcated market
 - Direct investors
 - Syndicators
- CRA driven vs. yield driven investors
 - Banks – looking to earn CRA credit
 - Insurance Companies - yield
 - Manufacturers - yield
- Different investors like different credits



- Built in 1905 as the Lillian Knitting Mill, and functioned as a textile mill until 2001.

- A contributing building in Albemarle's Five Points Historic District.



- Vacant since mill operations ceased, it was bought by a consortium of local developers and contractors and has undergone a substantial rehabilitation.



NMTC Eligibility

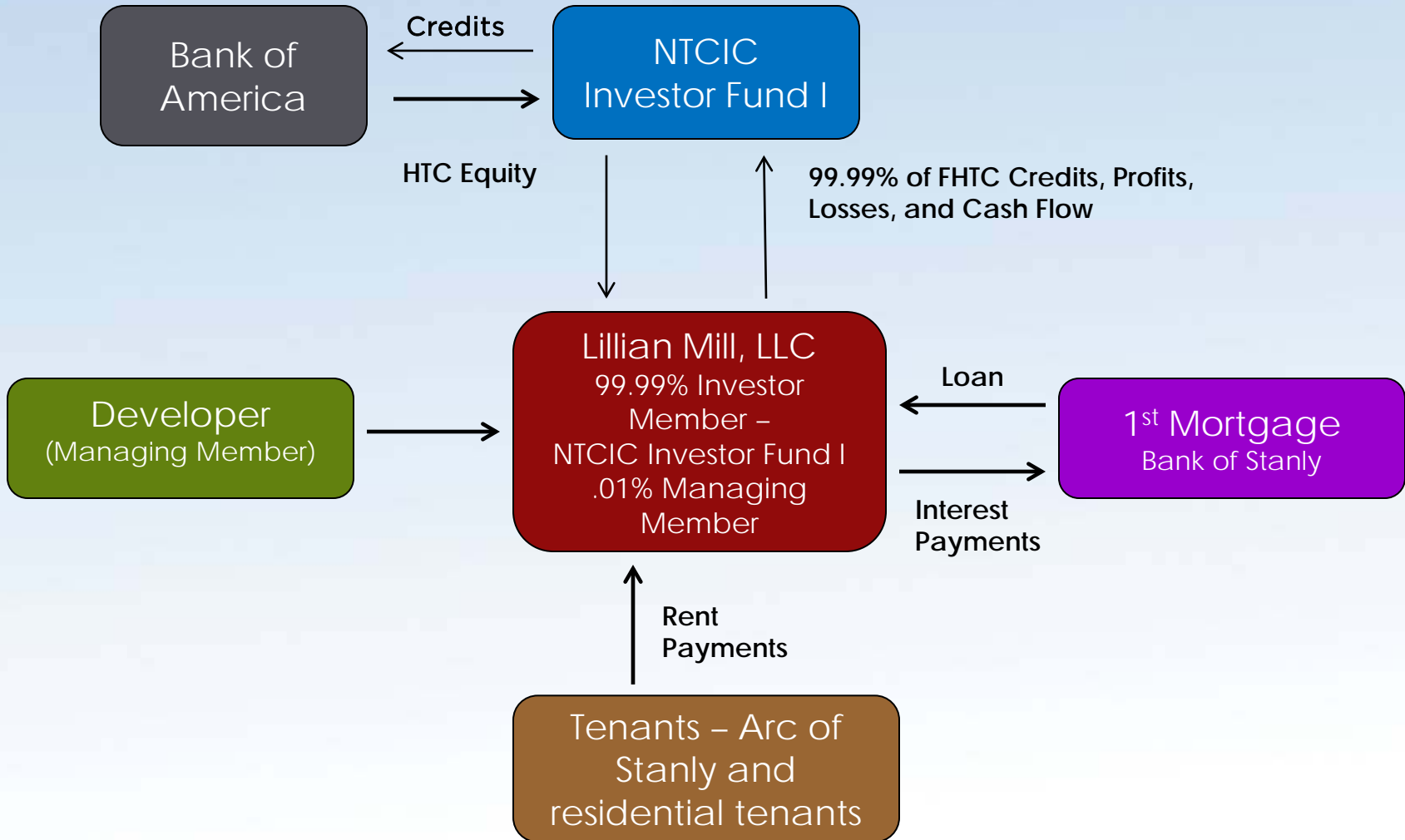
According to the CDFI Fund, Lillian Mill is located in a qualified census tract:

- 22.3% poverty rate
- 77.2% median family income
- 1.47 times the national unemployment rate
- HUD Housing Hot Zone
- SBA HUBZone
- NC State Development Zone

- Renovation of 32,668 square feet
- Office space for nonprofit
- Upper-story residential apartments



Office space has been leased to the **Arc of Stanly County**, a local chapter of a national nonprofit organization supporting persons who are mentally and physically challenged.



<u>Use</u>	<u>Amount</u>	<u>\$/SF</u>	
Acquisition	\$400,000	\$12.24	
Hard Costs	\$3,590,132	\$109.90	Construction costs
Soft Costs	\$754,000	\$23.08	Architect, legal fees, survey, etc.
Financing Costs	\$168,000	\$5.14	Interest, closing costs
Developer Fee	\$837,000	\$25.62	Paid from cash flow
Reserves	\$118,190	\$4.15	Lease-up and operating expenses
TDC	<u>\$5,867,322</u>	\$180.14	

Financing Sources	Amount
1 st and 2 nd Mortgages	\$1,697,863
Developer Equity	\$400,000
Deferred Developer Fee	\$837,000
GAP	\$2,932,459
Total	\$5,867,322

Filling the Financing Gap: Calculation of 20% Federal Credit

- 1) Estimated QREs = **\$4,944,298**
- 2) Estimated federal HTC is
20% x \$4,944,298 = \$988,860
- 3) Negotiated price of federal HTC = **\$0.98**
- 4) HTC equity is **\$0.98 x \$988,860 = \$968,139**

- 1) Estimated QREs = **\$4,944,298**
- 2) NC State Mill Credit is **40% x \$4,944,298 = \$1,977,719**
- 3) Negotiated price per dollar of state credit = **\$0.60**
- 4) State credit equity is **\$0.60 x \$1,977,719 = \$1,186,632**

- 1) Combined federal and state HTC equity of **\$2,154,771** is deemed a **Qualified Equity Investment** under NMTC program.
- 2) Value of NMTCs on HTC equity is **39% x \$2,154,771 = \$840,361**
- 3) Negotiated price per NMTC = **\$.68**
- 4) Additional equity due to NMTCs is **\$.68 x \$840,361 = \$571,445**

Sources of Financing with Tax Credits

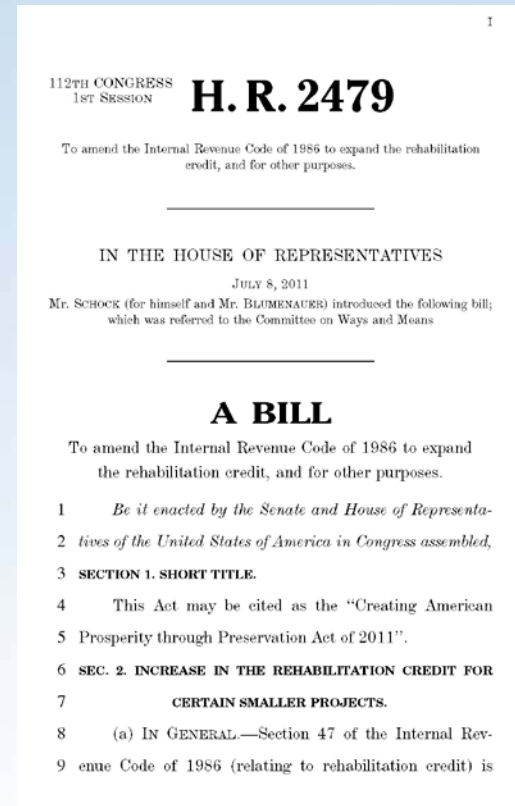
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- **Threat:** Deficit Reduction through the elimination of tax expenditures (credits).
- **Threat:** Elimination of tax expenditures to help finance a lower corporate tax rate.
- **Response:** The Historic Tax Credit Coalition, National Trust for Historic Preservation, New Markets Tax Credit Coalition, the A.C.T.I.O.N Campaign.



Tax Reform and the Future of Tax Credits

- **CAPP Bill – Creating American Prosperity through Preservation**
 - Small Deal Credit – 30%
 - Energy Efficiency Supplement – 2%
 - Promote nonprofit sponsorship of HTC transactions in low-income areas.
 - Eliminate federal taxation of the proceeds of allocated state HTCs.



Tax Reform and the Future of Tax Credits

- **National Trust Campaign to Save the HTC**
 - <http://www.preservationnation.org/issues/rehabilitation-tax-credits/>
- **Affordable Rental Housing ACTION Campaign**
 - <http://www.rentalhousingaction.org/>
- **Extend the New Markets Tax Credit**
 - <http://nmtccoalition.org/>



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