

Case Study with Tax Credits



The Tax Increment Finance Course

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Example: Village of CDFA Hills Redevelopment Project

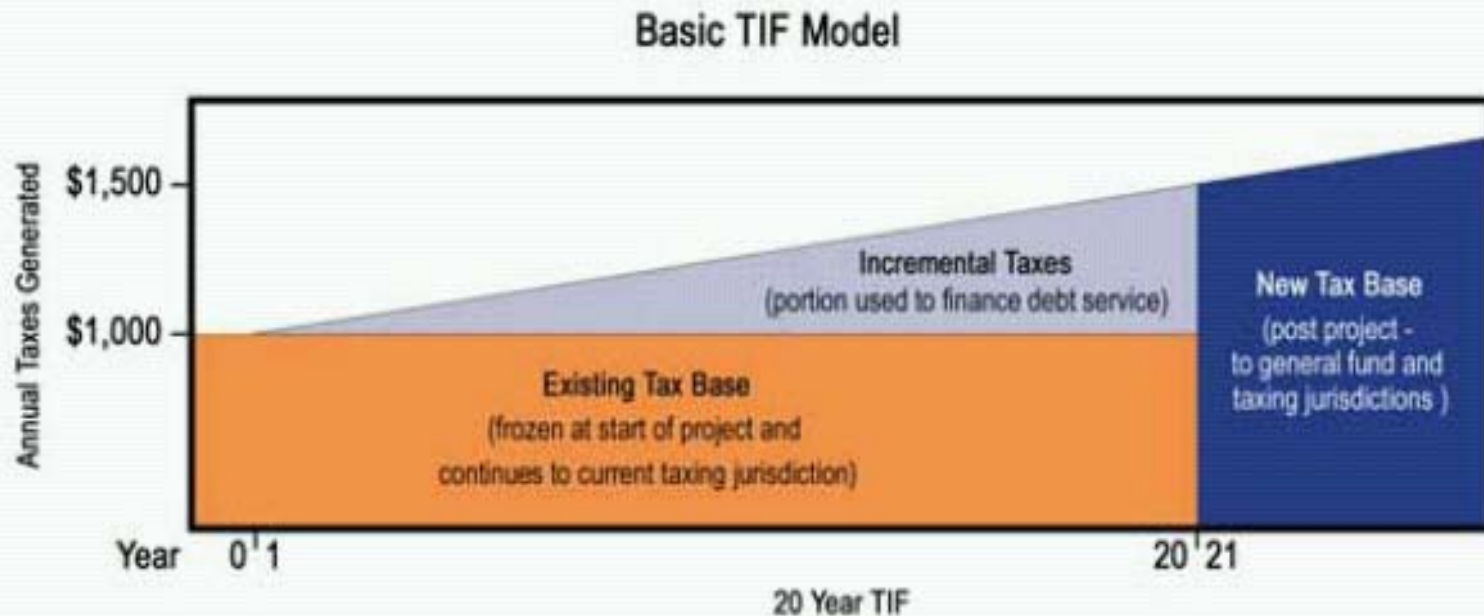
- Project Budget: \$32,882,901*
- Annual NOI: \$ 2,219,596
- Cash on Cost Return: 6.75%
- NEED RETURN OF: 9.00%
- GAP: \$ 8,342,901

How do we fund the gap?

* Includes extraordinary costs of development, due to remediation of blight, that are TIF-eligible.



How Much Debt Can the Increment Support?





Rehabilitation Tax Credits for Historic Buildings

- Since 1976, federal law has provided tax incentives for historic preservation.
- Federal law provides an investment tax credit equal to 20% of approved costs for qualified rehabilitation of certain historic buildings for income-producing use.

What Buildings Qualify for the Credit?

- To be eligible for federal credits, a building must be "***historic.***" To qualify as "historic" a building must either:
 - Be listed individually in the National Register of Historic Places, or
 - Be a contributing element of a historic district that is listed in the National Register of Historic Places, or
 - Be a contributing element of a Local Historic District that has been certified by U.S. Department of the Interior as substantially meeting National Register criteria.

What Rehabilitation Work Qualifies for the Credit?

- Qualified work for the federal credits includes costs associated with work undertaken on the historic building, as well as architectural and engineering fees, legal expenses, development fees, and other construction-related costs, if such costs are added to the basis of the property and are determined to be reasonable and related to the services performed.

Recapture Provisions

- A property owner must maintain ownership for a period of five years after the credit is issued.

The Calculations

Total Construction Cost	\$24,500,000
Soft Costs and Fees	<u>2,503,449</u>
TOTAL ELIGIBLE FOR HISTORIC CREDIT	\$27,003,449

Incentives & Credits

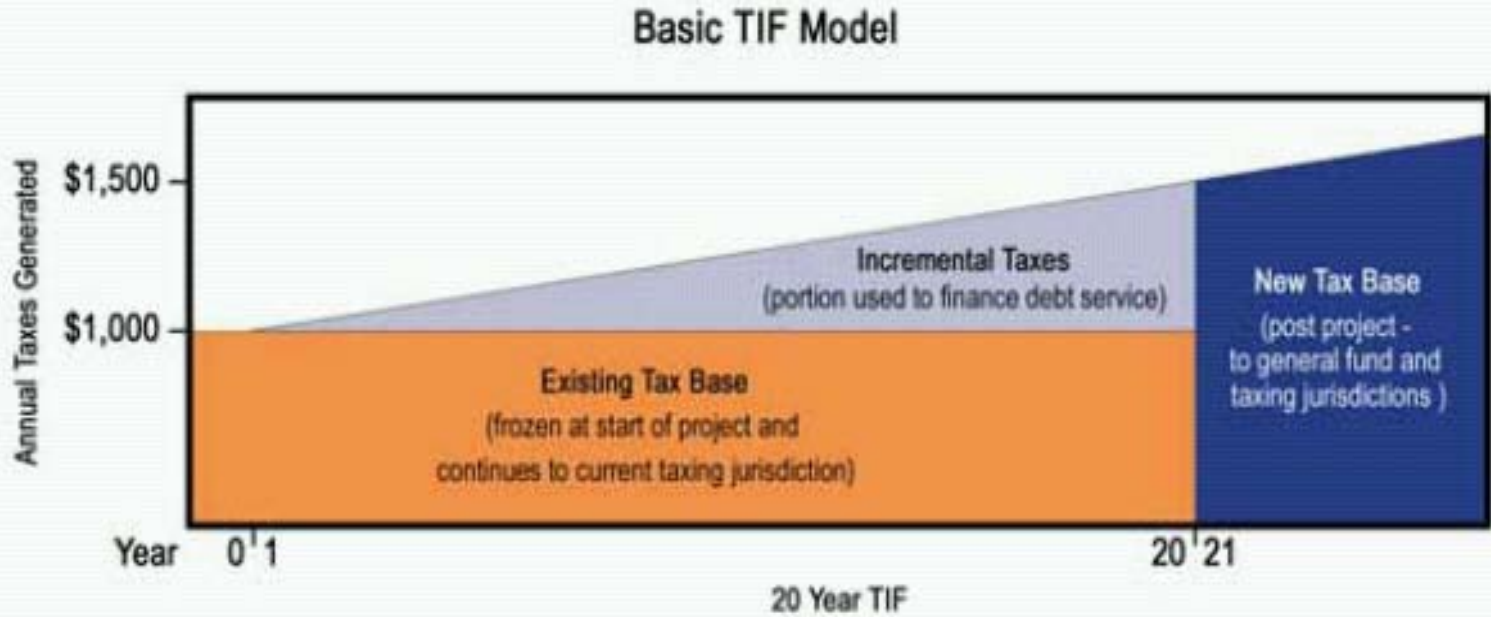
Historic Tax Credit (20%)	\$5,400,689
Sale Price (92%)	\$4,968,634

• Total Construction Cost	\$24,500,000
• Soft Costs and Fees	<u>2,503,449</u>
• TOTAL ELIGIBLE FOR HISTORIC CREDIT	\$27,003,449
• Incentives & Credits	
• Public Finance & Tax Credits	
• TIF Proceeds	(\$8,342,901)
• Historic Tax Credit (20%)	<u>(4,968,634)</u>
• Total Public Finance & Tax Credits	(\$13,311,535)
• Other costs	
	\$5,879,452
• Total Budget	\$32,882,901
• Total Budget Net of Incentives	\$19,571,366

The Return

- \$2,219,596 Annual Net Operating Income
- \$19,571,366 Net Project Cost
- Cash on cost return: 11.3%

Creative Use of Incentives Permits Revenue Sharing



Don't Forget: www.cdfa.net "Research and Resources"