Welcome

Tax Credit Programs: An Untapped Funding Source for Nonprofits

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New Markets Tax Credits for Nonprofits

By Jonathan Giokas and Dave Herdlick

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Background of NMTC Program

- Section 45D of the Internal Revenue Code (enacted December 2000)
- Creates a tax credit for Qualified Equity Investments (QEIs) in Community Development Entities (CDEs)
- Encourages investment in communities traditionally underserved by capital markets
- Administered by the U.S. Department of Treasury – Community Development Financial Institutions Fund (CDFI Fund)

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NMTC Program Overview

- Allocation is key
- CDFI annually allocates investment authority to CDEs
  - Each $1 of investment authority results in $.39 of credits
    - Credits claimed over 7 years
  - Allocatees identify both:
    - Service area (geographic)
    - Predmominent financing activity
  - Examples of most recent allocations
    - St. Louis Development Corporation = $30,000,000

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Credit Fundamentals

- Credits are claimable by investors:
  - who make a Qualified Equity Investment (QEI)
  - in a Community Development Entity (CDE)
  - that has an allocation of NMTCs; and
  - uses substantially all of its QEI to make loans or equity investments (QLICIs)
  - in Qualified Active Low Income Community Businesses (QALICBs)

- QEIs cannot be redeemed for 7 years
  - As a result, for practical purposes, no principal repayment of QLICI is permitted for 7 years

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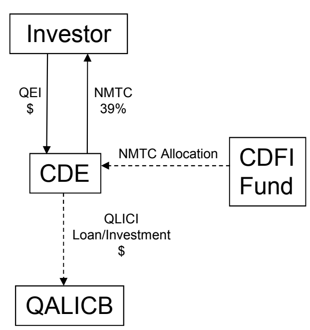
Credit Fundamentals



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What is “Low-Income?”

Generally, “Low-Income Communities” are:

- Census tracts with at least 20% poverty
- Census tracts where the median family income is at or below 80% of the greater of:
  - State wide median income
  - Metropolitan area median income

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What is “Low-Income?”

Generally, “Low-Income Communities” are (cont):

- “targeted populations”
  - Census tracts with less than 2,000 people that is contiguous to a low-income community and within an empowerment zone
- High migration rural counties (use 85% instead of 80%)

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QALICB Fundamentals

- QALICB Requirements
  - Less than 5% of entity's property is "nonqualified financial property"
    - Limits ability to hold cash, notes, etc.
  - 50% of gross income is derived within Low-Income Community
  - At least 40% of tangible property must be located in a Low-Income Community
  - At least 40% of employees must be located in a Low-Income Community

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Ineligible Business Activity

- Operation of residential rental property:
  - Buildings which derive 80% or more of income from residential dwelling units; and
- Properties where no substantial improvements are made
- Development or holding of intangibles
- Operation of other ineligible businesses – e.g.:
  - Golf courses
  - Race tracks
  - Gambling facilities
  - Certain farming businesses
  - Stores where the principal business is the sale of alcoholic beverages

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Implications for NFPs

- NFPs can be QALICB
- Must meet QALICB requirements
- Report Commissioned by the CDFI Fund found that for **40 Percent** of NMTC projects, the QALICB was a nonprofit entity
- NFPs are also very involved as CDEs
  - In last allocation found, 58 percent of allocatees receiving awards were NFPs

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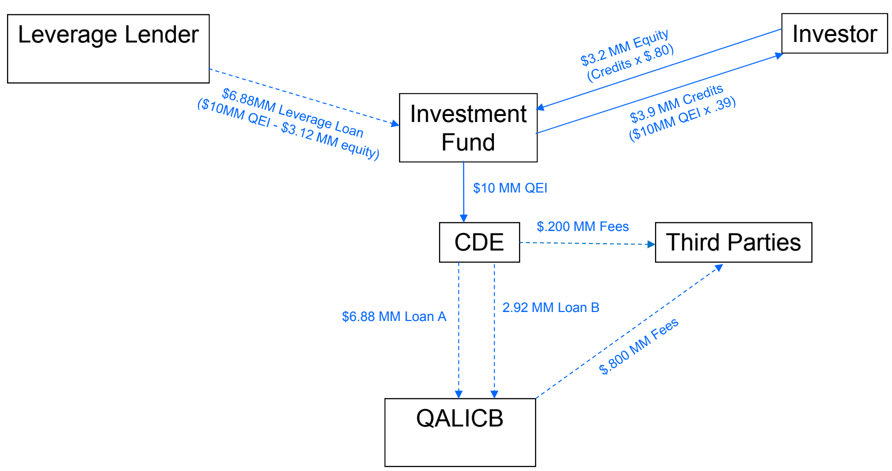
Potential Transaction Structure - INITIAL INVESTMENT



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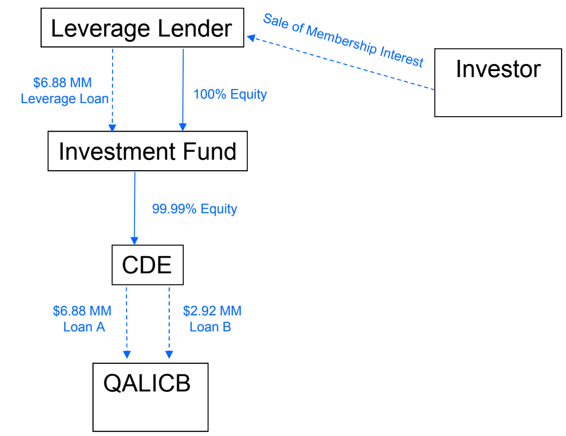
Potential Transaction Structure - EXIT PROCESS



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Conclusion

- NMTCs offer potentially significant economic benefits but within a challenging transactional framework
- Questions/Discussion
- Thank you

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Low Income Housing Tax Credits
("LIHTCs")

By Stacey M. Grote

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Background

- Section 42 of the Internal Revenue Code (Tax Reform Act of 1986)
- Indirect subsidy used to finance the development of affordable rental housing for low-income households
  - Dollar for dollar credit against tax liability over a 10 year period
  - Based upon the amount invested in the affordable housing component of the project
  - Non-transferrable – recipient must own interest in the project awarded
- Administered by each state's housing finance agency
  - Missouri Housing Development Commission ("MHDC")

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Project Eligibility/Requirements

- Residential Rental Property
  - New construction, rehab, and in some cases acquisition
  - Urban, Rural, Suburban Areas
  - Families, special needs tenants, single room occupancy and the elderly
- Meet Occupancy Threshold Requirements
  - 20/50 or 40/60 election
- Restrict Rents
  - Based on a percentage of HUD determined area median
- Minimum Affordability Period
  - (30 years or longer)

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Amount of the Credit

- 9% and 4%
- Calculation
  - Calculate total project cost
  - Subtract ineligible costs to get eligible basis
  - Determine portion of the project that is affordable to determine qualified basis
  - Multiply qualified basis by the applicable federal rate, published monthly by the IRS, to determine the maximum allowable tax credit allocation
- Final tax credit allocation is based on actual project sources and uses of funds, the financing shortfall and the actual applicable federal rate
- The allocation cannot exceed the initial reservation amount and may be reduced if an analysis determines that the maximum allowable amount would generate excess equity proceeds to the project

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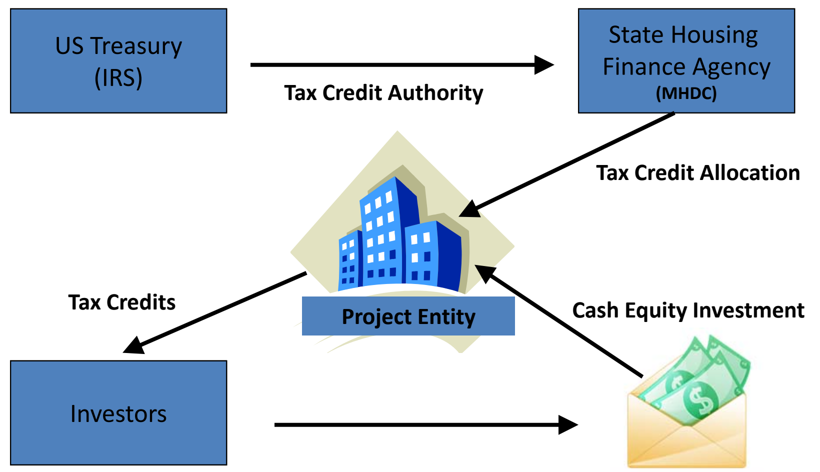
How It Works



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Project "Owner" Entity Structure

Project Owner Entity: Limited Partnership Structure

- General Partner (Developer) – Very Small Ownership Interest (~0.01%,) but controls and manages the project
- Limited Partner (Investor(s)) – Large Ownership Percentage (99.9%) but usually plays a passive investment role

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Syndication

- "Selling" the credits
- Developers may claim housing tax credits directly, but most "sell" the credits to raise equity capital for the project
- The developer can sell the tax credits:
  - Directly to an investor; or
  - To a syndicator, who assembles a group of investors and acts as their representative
- Syndicators pool several projects into one LIHTC equity fund

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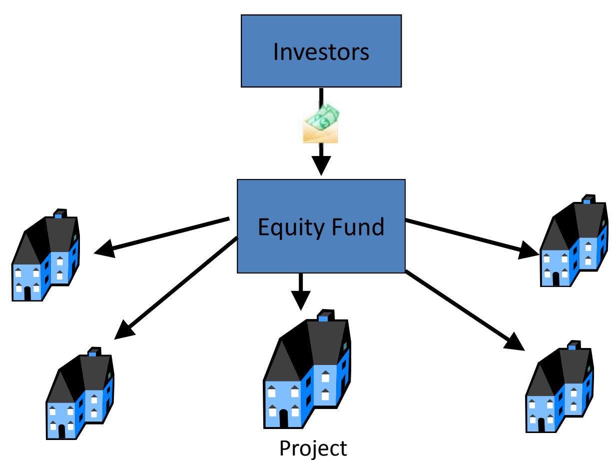
Tax Credit Syndication



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MHDC

- Allocates LIHTCs
- Assures compliance with the regulations
- Physical inspections of the property
- Reviews management and occupancy procedures
- Compliance period initial 15 years and an additional 15 year extended use period
- Wide discretion in determining which projects to award credits
- State LIHTC – MHDC may allocate up to 100% of federal credit

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Nonprofit Considerations

- Set-Asides
- Priorities
- IRS Guidance
- Year 15

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LIHTC FINANCING FOR NON PROFITS

WHAT'S THE PROCESS FOR ACCESSING LIHTC'S?

WHAT ARE THE FINANCING IMPACTS OF LIHTC'S?

By Joseph Cavato

JAC Consulting, LLC

THE MHDC APPLICATION AND ALLOCATION PROCESS

- MHDC is the "Housing Credit Agency" designated to carry out the allocation of Federal LIHTC's per the Internal Revenue Code
- MHDC also allocates the state LIHTC's, per Missouri statutes
- Both 9% and 4% LIHTC's are administered and allocated by MHDC
  - 9% Credits; amounts determined state by state by Feds on the basis of a per capita formula
  - 4% Credits: amount not capped, but projects must be financed by tax exempt bond issuance
- All forms of LIHTC's are subject to the review and recommendation of MHDC

THE QUALIFIED ALLOCATION PLAN

- MHDC issues an annually published "Qualified Allocation Plan": Detailing the requirements of applying for and receiving LIHTC's

- QAP establishes MHDC's:
  - Detailed requirements for qualifying LIHTC submissions
  - Criteria for selecting projects
  - Priorities for what types of projects will receive preference
  - Allocations of LIHTC dollars going to the regions of the State
  - Timetable for submission and MHDC approvals

KEY SUBMISSION AND REVIEW REQUIREMENTS

- Participant Standards: Good standing; use of local vendors/contractors, MBE/WBE participants, etc.

- Development Standards: Extensive, including; design/construction guidelines, zoning, green building standards, prevailing wage standards, limitations on contractor profits and costs, developer fees, minimum MBE/WBE participation

- Project Underwriting: Proposed rents, total development cost per unit, developer and contractor fees, amount of tax credit requested (maximums apply)

FUNDING PRIORITIES AND SET ASIDES

- 10% set aside for non profits
- 33% set aside for special needs priority: defined as housing for persons "physically, emotionally or mentally impaired or suffers from mental illness; developmentally disabled; homeless or youth aging out of foster care"
- Other priorities (without specific set asides); "service enriched housing", preservation of existing affordable housing, extraordinary MBE/DBE involvement, higher level of "very low income" occupancy (50% of AMI)

MHDC PROJECT SELECTION CRITERIA

- Project location and site characteristics
- Market feasibility
- Special needs, and addressing unmet housing needs
- Sponsorship strength and mission
- Strength and experience of development team
- Total development costs
- Indications of local support by city, county, and state officials
- Formal prioritization by City or County Chief Elected Official

THE DEVELOPMENT PROCESS: WHAT DOES IT TAKE?

- Locate and control site
- Assemble qualified and experienced Development Team:
  Architect, market feasibility consultant, accountant, attorney, engineer, development consultant, construction contractor, tax credit equity investor, property manager
- Assemble and commit financing: first mortgage and construction lender, equity investors
- Identify and obtain other funding ("Gap"), if required (CDBG, HOME, other sources)
- Submit MHDC LIHTC application
- After LIHTC award, complete requirements of "Firm Commitment", and other sources of funding: initial closing on project and partnership
- Complete construction; receive confirmation of credits
- Lease up and manage project
- Other Factors/Issues re Ownership:
  - Compliance with LIHTC requirements is critical
  - Real estate taxation

WHAT DO LIHTC'S DO FOR THE FINANCING OF A PROJECT?
(OR, WHY GO THROUGH ALL OF THIS?)

TAX CREDIT EQUITY FUNDING OF DEVELOPMENT COSTS
FOR AFFORDABLE HOUSING PROJECTS
Examples of LIHTC Equity Provided

		9% LIHTC New Const	9% LIHTC Rehab/HTC	9% LIHTC Rehab/HTC	4% LIHTC Rehab/HTC
Total Development Cost		$8,836,000	$12,326,000	$9,832,000	$3,298,000
Loans		1,360,000	835,000	n/a	n/a
Total Tax Credit Equity		7,475,000	11,144,000	9,699,000.00	1,712,000
	% of TDC	**85%**	**90%**	**98%**	**52%**
Other		1,000	1000	132,000	1,586,000
	Total Sources	$8,836,000	$12,326,000	$9,832,000	$3,298,000
Dev Fee Earned by NFP Developer		**$895,000**	**$965,000**	**$905,000**	**$400,000**

QUESTIONS?

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JAC Consulting, LLC

Benefits/Eligibility/Timing - Federal

- Benefits
  - 20% credit on qualified rehabilitation expenditures (QREs)
  - Investors pay $0.90 to $1.00 per credit
- Eligibility
  - Income producing property
  - Certified historic structure (listed individually on National Register or certified as contributing to a historic district)
  - Property previously placed in service
  - QREs must exceed the greater of $5,000 or the adjusted basis
  - Credit cannot be claimed by a tax-exempt entity or passed through by an exempt entity (we'll come back to this)
  - NPS approval
- Timing
  - Investor will make an initial contribution prior to PIS (at least 20%) and 75% of the contributions must be fixed before PIS
  - Timing of contributions is negotiated and affects pricing (common milestones)

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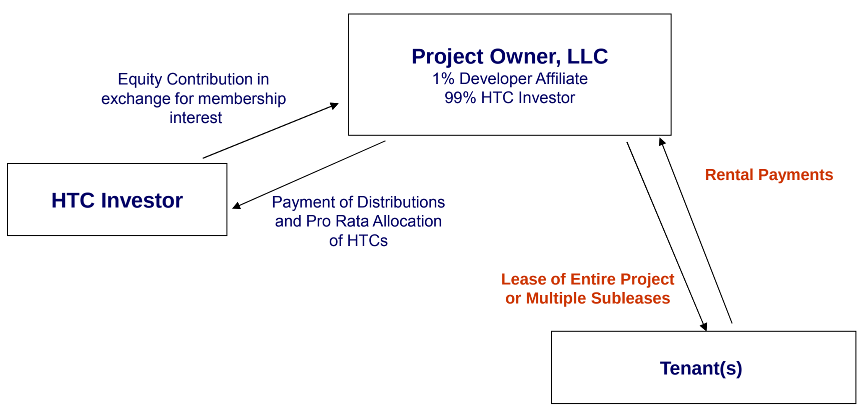
Federal Structure – Single Tier



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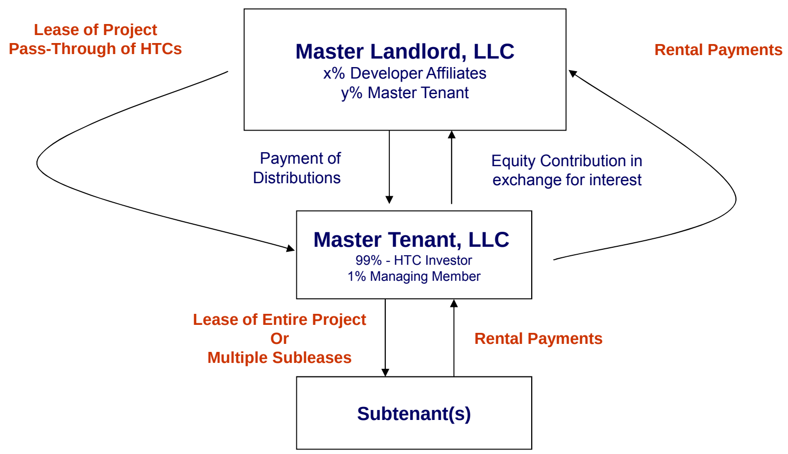
Federal Structure – Pass-Through



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Benefits/Eligibility/Timing - State

- Benefits
  - 25% credit on QREs (generally the same as federal)
  - Buyers pay $0.87 to $0.93 per credit
- Eligibility
  - Same as federal
  - QREs must exceed 50% of basis
  - Not-for-profit entities are ineligible and a pass-through for-profit entity is also restricted if the entity has a not-for-profit entity as part of its ownership (we'll come back to this)
  - NPS approval
  - DED preliminary approval
- Timing
  - Must complete the project, prepare a cost certification, and submit an application for final approval with DED
  - Once approved, DED will issue a tax credit certificate

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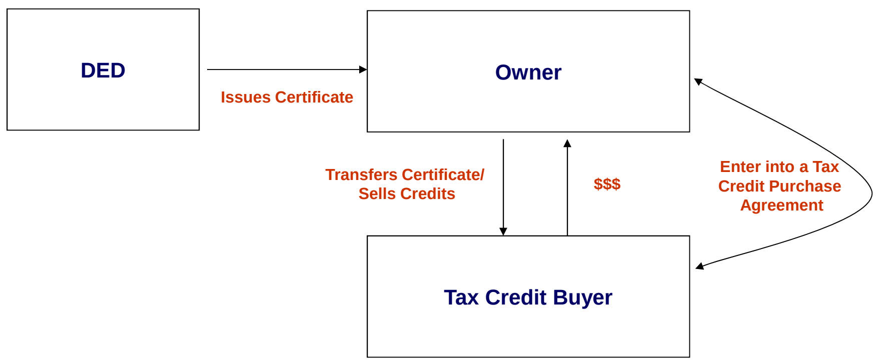
State Structure



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Tax-Exempt Use - Federal

- Ownership by a tax-exempt entity (directly or indirectly)
- Leasing of more than 50% of the net rentable square footage by a tax-exempt entity in a “disqualified lease”
  - Financed (directly or indirectly) by an interest-free obligation (i.e. tax- exempt state or local bonds), and the tax-exempt lessee (or related entity) participated in the financing
  - A fixed or determinable purchase price or an option to buy the property for less than fair market value
  - Term in excess of 20 years (includes all renewals that are less than fair market value)
  - Tax-exempt lessee (or a related entity) previously used the property
- Proportionate Share Rule

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Tax Exempt Entities - State

- Not-for-profit entities are ineligible
- A pass-through for-profit entity is also restricted if the entity has a not-for-profit entity as part of its ownership Tax credits will be reduced by the greater of:
  - Percentage of ownership held by not-for-profit
  - Percentage of capital contributed by not-for-profit
  - Percentage of tax credits distributed to the not-for-profit

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So then how does this work?

- Back to structure slides
- Foregoing property tax exemption; obtaining tax abatement

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Historic Tax Credits Application Procedures

By Karen Bode Baxter
Preservation Specialist
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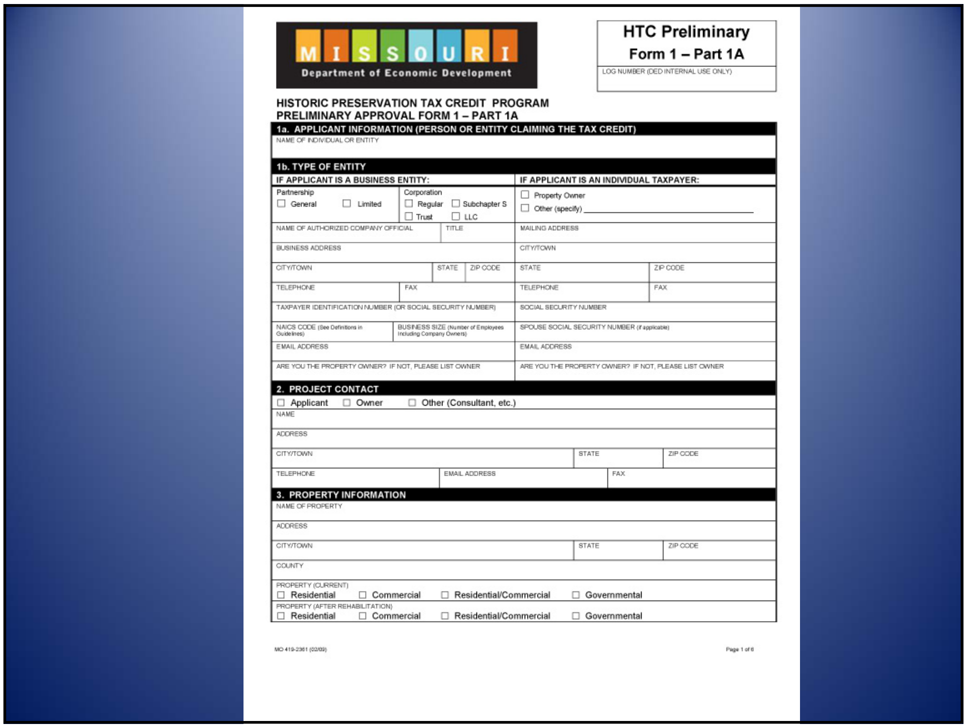
Basic Requirements

- QREs exceed 50% of purchase price of property (Federal is 100% of basis in building)
- Listing on National Register of Historic Places or Certification as Contributing Building in Designated Historic District
- Design Review/Meets Secretary of the Interior Standards for Rehabilitation
- Application submittal *before* project begins with complete photos, floorplans and scope of work

- Submission of amendments to application during construction if plans change
- Submission of documentation at end
  - Complete set of after photos for comparison
  - Final application forms (Mo. Part 2/Fed. Part 3
  - Detailed cost accounting to verify expenses and payments *before* credit issued

Application Process

- ❑ Determine historic eligibility
  - ❑ Prepare NR nomination if not yet listed
  - ❑ Provide proof of NR eligibility with tax application
- ❑ Estimate project costs—meet basis test
- ❑ Gather ownership information
  - ❑ Legal Description
  - ❑ Owner's name/tax ID/contact information
  - ❑ Copy closing/settlement statement-proof of purchase amount
  - ❑ Recorded Deed showing ownership or sales contract
  - ❑ Operating or partnership agreement identifying NFPs
  - ❑ Developer's agreement
  - ❑ E-Verify participation MOU
  - ❑ Secretary of State Business Registration Form



MISSOURI Department of Economic Development

HTC Preliminary Form 1 – Part 1A

LOG NUMBER (DED INTERNAL USE ONLY)

HISTORIC PRESERVATION TAX CREDIT PROGRAM
PRELIMINARY APPROVAL FORM 1 – PART 1A

1a. APPLICANT INFORMATION (PERSON OR ENTITY CLAIMING THE TAX CREDIT)

NAME OF INDIVIDUAL OR ENTITY

1b. TYPE OF ENTITY

IF APPLICANT IS A BUSINESS ENTITY:				IF APPLICANT IS AN INDIVIDUAL TAXPAYER:	
Partnership ☐ General ☐ Limited		Corporation ☐ Regular ☐ Subchapter S ☐ Trust ☐ LLC		☐ Property Owner ☐ Other (specify) ____	
NAME OF AUTHORIZED COMPANY OFFICIAL		TITLE		MAILING ADDRESS	
BUSINESS ADDRESS				CITY/TOWN	
CITY/TOWN		STATE	ZIP CODE	STATE	ZIP CODE
TELEPHONE	FAX			TELEPHONE	FAX
TAXPAYER IDENTIFICATION NUMBER (OR SOCIAL SECURITY NUMBER)				SOCIAL SECURITY NUMBER	
NAICS CODE (See Definitions in Guidelines)	BUSINESS SIZE (Number of Employees Including Company Owners)			SPOUSE SOCIAL SECURITY NUMBER (if applicable)	
EMAIL ADDRESS				EMAIL ADDRESS	
ARE YOU THE PROPERTY OWNER? IF NOT, PLEASE LIST OWNER				ARE YOU THE PROPERTY OWNER? IF NOT, PLEASE LIST OWNER	

2. PROJECT CONTACT

☐ Applicant ☐ Owner ☐ Other (Consultant, etc.)

NAME		
ADDRESS		
CITY/TOWN	STATE	ZIP CODE
TELEPHONE	EMAIL ADDRESS	FAX

3. PROPERTY INFORMATION

NAME OF PROPERTY		
ADDRESS		
CITY/TOWN	STATE	ZIP CODE
COUNTY		

PROPERTY (CURRENT)
☐ Residential ☐ Commercial ☐ Residential/Commercial ☐ Governmental

PROPERTY (AFTER REHABILITATION)
☐ Residential ☐ Commercial ☐ Residential/Commercial ☐ Governmental

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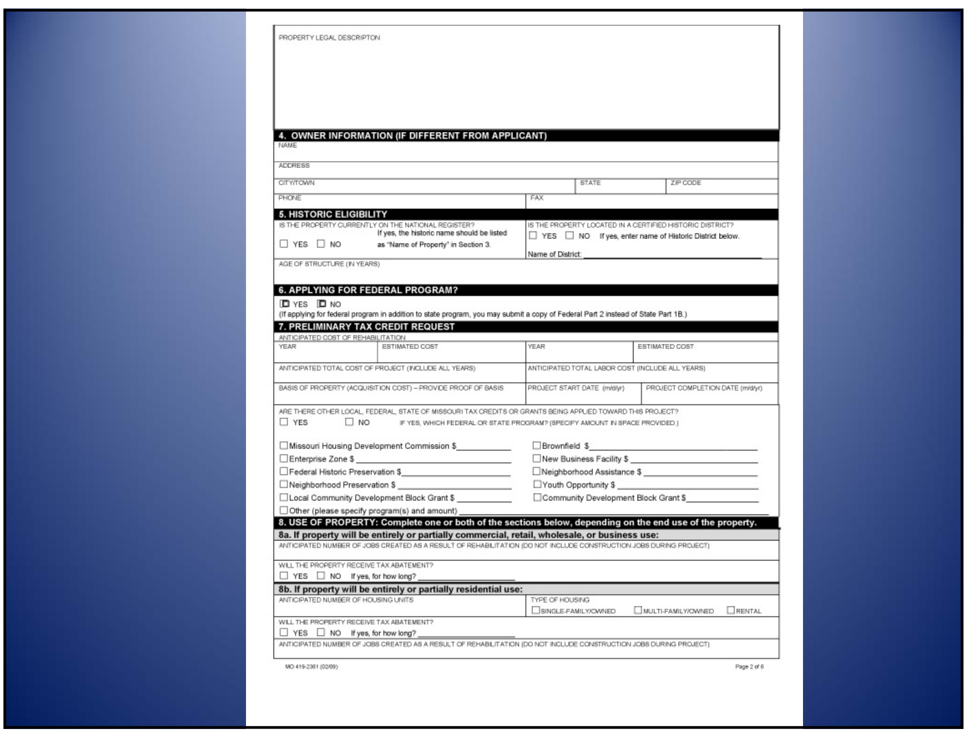

PROPERTY LEGAL DESCRIPTON

4. OWNER INFORMATION (IF DIFFERENT FROM APPLICANT)

NAME		
ADDRESS		
CITY/TOWN	STATE	ZIP CODE
PHONE	FAX	

5. HISTORIC ELIGIBILITY

IS THE PROPERTY CURRENTLY ON THE NATIONAL REGISTER?
☐ YES ☐ NO If yes, the historic name should be listed as "Name of Property" in Section 3.

IS THE PROPERTY LOCATED IN A CERTIFIED HISTORIC DISTRICT?
☐ YES ☐ NO If yes, enter name of Historic District below.
Name of District: ____

AGE OF STRUCTURE (IN YEARS)

6. APPLYING FOR FEDERAL PROGRAM?

☐ YES ☐ NO
(If applying for federal program in addition to state program, you may submit a copy of Federal Part 2 instead of State Part 1B.)

7. PRELIMINARY TAX CREDIT REQUEST

ANTICIPATED COST OF REHABILITATION

YEAR	ESTIMATED COST	YEAR	ESTIMATED COST
ANTICIPATED TOTAL COST OF PROJECT (INCLUDE ALL YEARS)		ANTICIPATED TOTAL LABOR COST (INCLUDE ALL YEARS)	
BASIS OF PROPERTY (ACQUISITION COST) – PROVIDE PROOF OF BASIS		PROJECT START DATE (m/d/yr)	PROJECT COMPLETION DATE (m/d/yr)

ARE THERE OTHER LOCAL, FEDERAL, STATE OF MISSOURI TAX CREDITS OR GRANTS BEING APPLIED TOWARD THIS PROJECT?
☐ YES ☐ NO IF YES, WHICH FEDERAL OR STATE PROGRAM? (SPECIFY AMOUNT IN SPACE PROVIDED.)

☐ Missouri Housing Development Commission $____ ☐ Brownfield $____
☐ Enterprise Zone $____ ☐ New Business Facility $____
☐ Federal Historic Preservation $____ ☐ Neighborhood Assistance $____
☐ Neighborhood Preservation $____ ☐ Youth Opportunity $____
☐ Local Community Development Block Grant $____ ☐ Community Development Block Grant $____
☐ Other (please specify program(s) and amount) ____

8. USE OF PROPERTY: Complete one or both of the sections below, depending on the end use of the property.

8a. If property will be entirely or partially commercial, retail, wholesale, or business use:

ANTICIPATED NUMBER OF JOBS CREATED AS A RESULT OF REHABILITATION (DO NOT INCLUDE CONSTRUCTION JOBS DURING PROJECT)

WILL THE PROPERTY RECEIVE TAX ABATEMENT?
☐ YES ☐ NO If yes, for how long? ____

8b. If property will be entirely or partially residential use:

ANTICIPATED NUMBER OF HOUSING UNITS

TYPE OF HOUSING
☐ SINGLE-FAMILY/OWNED ☐ MULTI-FAMILY/OWNED ☐ RENTAL

WILL THE PROPERTY RECEIVE TAX ABATEMENT?
☐ YES ☐ NO If yes, for how long? ____

ANTICIPATED NUMBER OF JOBS CREATED AS A RESULT OF REHABILITATION (DO NOT INCLUDE CONSTRUCTION JOBS DURING PROJECT)

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Application Process ….

- ❑ Take and label complete photos of building
  - ❑Show all exterior walls
  - ❑Show entire site
  - ❑Provide details of exterior features/damage
  - ❑Show all 4 walls of every interior room
  - ❑Provide details of special interior features
  - ❑Provide examples of damage
  - ❑Provide photos of representative windows (exterior views)
  - ❑Provide good documentation for window damage
- ❑ Prepare floorplans as is (key photos to plans)
- ❑Prepare floorplans showing proposed changes
- ❑Provide elevation drawings/details of changes

Application Process ….

- ❑Prepare Part 1b (or Federal Part 2) describing scope of work
  - ❑Create items of work for each component of building (site work, roof, exterior walls, windows, display windows, exterior trim, porches, interior walls, interior ceilings, mechanical systems, floors, staircases, etc.)—do not describe by room or by side of the building
  - ❑List example photos for each item of work
  - ❑List plan pages for each item of work

Describe existing feature and its condition:

Historic display window system is only partially intact, with aluminum replacement window frames. It retains the original recessed wood framed entries and the wood framed transom above the storefronts, but the glass has been removed and the openings boarded with vertical aluminum siding.

The cast iron support columns at each corner to a recessed entry appear to be in good condition, but the steel beam above the transom is failing.

The kick plates have been modified.

The transomed, wooden storefront doors with the large rectangular glass light are the original doors with the original wood storefront framing somewhat intact around them, including the wood paneled ceilings in the recessed entryway. The concrete flooring in the recessed entries appears original and in good condition.

The original wood, transomed, stairway door is intact, with a rectangular light in the upper third divided into 6 lights above two vertical recessed panels. This recessed opening also has wood paneled ceilings and wood framing.

Describe work and impact on existing feature:

The display window systems will be carefully dismantled to allow for any structural repairs. The remaining historic details in the framing and finish have been carefully documented and measured and all finish framing and kick plates will be designed to replicate the original configuration and details. The display windows will be insulated glass units.

The transoms will be repaired, with new glass and repainted.

The historic doors will be stripped, repaired, and painted with missing glass replaced and have new hardware installed as needed. Severely damaged doors will be replaced with doors milled to match the historic doors. The original wood ceilings on the recessed entries will be scraped, primed and painted.

The concrete entry floors will be re-poured to meet ADA requirements.

Application Process ….

- ❑ Submit application—original signature required
  - ❑ With documentation required about ownership
  - ❑ With proof of historic designation
  - ❑ With photos and plans
  - ❑ Submit 2 sets if MO only to DED; 3 sets if also federal
- ❑ If Federal, be prepared to pay by Credit Card when billed for half of filing fee
- ❑ Expect 2 months for approval (state) and 3 months total if also federal
- ❑ Amend application to provide further details or if scope changes

Application Process When Finished

- ❑ Take photos of finished work from same views as before
  - ❑ Label photos and key to finish floor plans
- ❑ Complete Part 2 (MO) and Part 3 (fed)
- ❑ Be prepared to pay balance of federal filing fee by credit card when billed
- ❑ Submit Final Application for review of work

  2 sets if MO; 3 sets if also federal
- ❑ You will not receive MO approval letter—only hear if there are conditions before it can be approved
- ❑ You will receive signed federal approval
- ❑ Design approval from SHPO takes 2 months (MO); 3 months total if also federal

Application Process When Finished…….

- ❑ Prepare Cost Certification
  - ❑ Under $250,000 project costs, assemble invoices and proof of payments, prepare Exp Form; hire Mo. CPA to review and make sure the materials are assembled properly and add up
  - ❑ Over $250,000, take information to Mo. CPA to assemble and conduct 100% audit
- ❑ Submit Cost Certification—identified by address and project # to Dept. of Economic Development
- ❑ Answer queries (done by e-mail) from DED accountant and staff or application put on hold!!!
- ❑ DED accountant reviews cost certification, makes sure bills paid by applicant

Application Process When Finished…….

- ❑ DED staff reviews contracts and other legal documents such as developer fee agreements, promissory notes, corporate structure/members
- ❑ Other MO agencies check to see if you owe back taxes (will deduct credit from it) and business in good standing with MO state
- ❑ Pay MO Administrative Fee when billed—2.5% of credits earned
- ❑ GET TAX CREDIT (looks like a certificate or letter from DED)
- ❑ USE Tax Credit or Sell (all or some) Credits
- ❑ Take pride in your accomplishment!! And in saving and reusing an historic building!!!

Less Popular but Equally Rewarding: Other Tax Credit Programs

By Ernesto Segura

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What else is out there?

- Brownfield Redevelopment Program
  - Administered by DED/DNR
- Tax Credits for Contribution
  - Administered by MDFB

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MO Brownfield Remediation Tax Credits

- Provides financial incentives for the redevelopment of commercial/industrial sites that are contaminated with hazardous substances and have been abandoned or underutilized for at least three years
- Tax Credits can be issued for up to 100% of the remediation costs to clean up the project property
  - 75% of credits issued upon proof of payment of costs
  - Remaining 25% issued when DNR issues a clean letter
- RSMo. §§ 447.700 to 447.718

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MO Brownfield Credits Eligibility Criteria

- The applicant cannot be a party who intentionally or negligently caused the release or potential release of hazardous substances at the project
- The city or county must endorse the project
- The project must be accepted into DNR's "Voluntary Cleanup Program"

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MO Brownfield Credits Eligibility Criteria

- An "eligible business" must occupy the majority of the property upon completion of the rehabilitation and the project must <u>create at least ten new jobs or retain twenty-five existing jobs</u> (or a combination thereof)
- The project may be a mixed-use facility, but the state economic impact will be based only on the commercial operations

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MO Brownfield Credits Eligibility Criteria

- Key issue is that the total amount of state funding for a project is limited to the "projected state economic benefit"
- DED makes the determination of the state economic benefit
- Factors include new payroll, the amount of new capital investment, purchases of Missouri made machinery/equipment or inventory, and the type of business
- Other entitlement tax credits, such as the Historic Rehabilitation Tax Credit, are included in this calculation as a **<u>state cost</u>**

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MO Brownfield Credits
Eligibility Criteria

- An eligible business is a "revenue creating enterprise"
- Ineligible businesses include residential facilities (owner occupied and rental), facilities owned by a governmental agency for its internal operations (except for revenue producing enterprises), religious-based organizations or facilities, facilities for political organizations, or others as determined by DED at its discretion

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MO Brownfield Credits
Deal Structuring

- So how can you leverage Brownfield Tax Credits in your development?
  - Non-profits <u>CAN</u> directly receive these tax credits
  - Biggest hurdle is the "state economic benefit" test – non-profits need to substantiate to DED that the state will receive sufficient benefits from the project to justify the issuance of the credits
  - Without profits for the eligible company, that may be difficult, but not impossible!

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Tax Credit for Contribution Program

- MDFB may grant a tax credit equal to 50% on the value of any eligible contribution to MDFB by any taxpayer
- To be eligible for the credit, the contribution must be made to one of three MDFB funds:
  - Industrial Development and Reserve Fund
  - Infrastructure Development Fund
  - Export Finance Fund
- RSMo. §100.286.6

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Tax Credit for Contribution Program Project Eligibility

- There are four eligibility requirements under the Contribution for Tax Credit Program:
  - Applicant Eligibility
  - Project Eligibility
  - Contributor/Donor Eligibility
  - Contribution/Donation Eligibility

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Tax Credit for Contribution Program Project Eligibility

- Historically, every application submitted to the Board has been for contributions proposed to the Infrastructure Fund
- Such projects must qualify as a "public infrastructure facility", which include highways, streets, bridges, water supply and distribution systems, etc

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Tax Credit for Contribution Program Project Eligibility

- Also included in that definition are "public facilities", which are facilities or improvements available for use by the general public including facilities for which user or other fees are charged on a nondiscriminatory basis
- By policy the Board will not consider applications for health and/or medical facilities, including nursing or retirement facilities or combination thereof, or for private or public educational facilities

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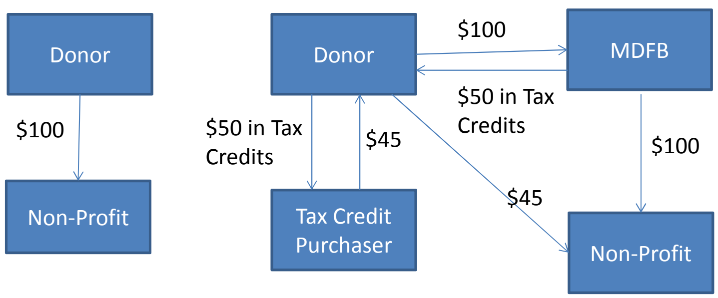
Tax Credit for Contribution Program Deal Structuring

- Non-profits can leverage these Tax Credits by including MDFB in the "donor pipeline"



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