

Novogradac Journal of Tax Credits

News, Analysis and Commentary On Affordable Housing, Community Development and Renewable Energy Tax Credits

October 2011, Volume II, Issue X

Published by Novogradac & Company LLP

Twinning NMTCs with HTCs Helps Produce Peabody Opera House Project

By John Tess, Heritage Consulting Group

Ever since I began working in the field of historic preservation in the 1970s as grants manager and state and federal tax coordinator for the Oregon State Historic Preservation Office, historic preservation projects have always had funding gaps that needed to be filled. In the past, these gaps were filled by various methods, whether it was in the form of federal tax incentive programs, grants, low interest loans, property tax relief or a combination of incentives. More recently three other sources of funding have become popular, including brownfields tax credits, state historic tax credits — which often mirror and in many cases can be used with the 20 percent federal preservation tax credit — and the topic of this article: the new markets tax credit (NMTC). The use of NMTCs with historic tax credits (HTCs) is commonly referred to as “twinning.”

Overview

The NMTC program was established by Congress in 2000 to jump-start investment into existing businesses and real estate projects located in low-income communities. Low-income communities are defined as census tracts with a 20 percent poverty rate or household median incomes at or below 80 percent of the area or statewide median, whichever is greater. According to estimates, this includes nearly 40 percent of the United States and most central business census tracts. The program attracts capital by providing a federal tax credit, equal to 39 percent of the original investment amount, to individuals and corporate investors who make equity investments in specialized organizations called community development entities (CDEs). NMTCs are redeemed over a seven-year period and the investment in the CDE cannot be redeemed before the end of that period. The Community

Development Financial Institutions (CDFI) Fund has made almost 600 NMTC awards totaling nearly \$30 billion.

Twinned Deals

In 2002, the IRS issued guidance that allowed for the twinning of HTCs with NMTCs. Reports suggest that based on a review of Part 3 approvals, historically 68 percent of approvals were granted to properties within census tracts that would qualify for NMTCs. Since 2002, it is estimated that 15 to 20 percent of all HTC projects are twinned with NMTCs. Considering the numerous program pre-requisites, this is a sizeable percentage of projects.

General Consensus

The general consensus among various HTC professionals and users – including accountants, attorneys, United Fund Advisors, U.S. Bank, PNC Bank and the National Trust

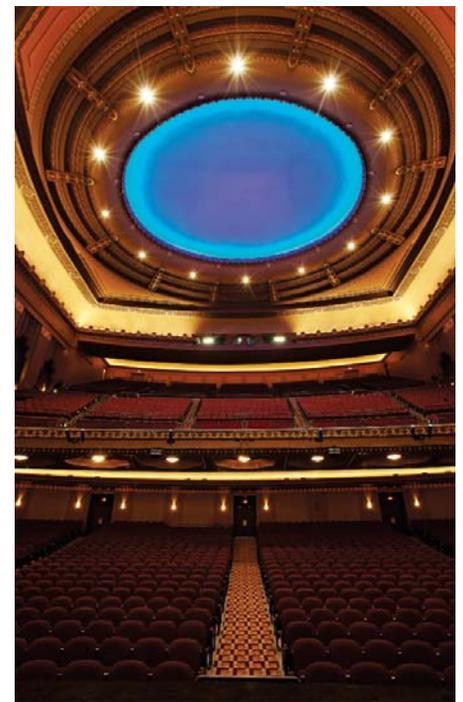


Photo: Courtesy of Tom Paule Photography
The \$78.7 million rehabilitation of the Peabody Opera House is an example of the use of twinning NMTCs with HTCs.

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Community Investment Corporation—is that twinned deals are absolutely more complicated than single credit deals. From a compliance standpoint they will cause more brain damage than non-twinned deals. However, because twinning can potentially bring 30 to 35 percent more equity to a transaction it is important to consider a twinned deal for your project.

In the future as demand increases, timing issues will begin to play a more important role in the ability to twin deals. It is also anticipated that community benefits and considerations will play a much larger role in funding requests, i.e. what is the direct community impact?

The Peabody Opera House

I have been involved in hundreds of historic rehabilitation projects over the last 30 years. Some are memorable, some not so and some forgettable. Of all the projects with which I have been involved, the rehabilitation of the Peabody Opera House stands out as one of the best.

The historic Kiel Opera House, located in downtown St. Louis and now renamed the Peabody Opera House, hosted its opening night October 1, 2011. This opening came some 20 years after the curtain fell on the last performance at the 1934 Art Deco-style performing arts center. As built, the Opera House held 3,500 seats and was designed by the St. Louis architecture firm of LaDeaume & Klein.

The Opera House was originally part of the Municipal Auditorium complex. The complex consisted of the Opera House, completed in 1934, and the 9,300-person capacity convention hall located to the south, completed in 1936. In 1942, after the passing of St. Louis Mayor Henry Kiel, the complex was renamed the Kiel Opera House and Auditorium. On April 21, 1934 the Opera House opened with the New York Metropolitan Opera production of Aida. The Opera House was in operation for more than 57 years, hosting cultural icons such as the Rat Pack, Ray Charles and the Rolling Stones. On October 30, 1948 President Harry Truman gave a re-election campaign speech that was nationally broadcast.

Unfortunately, on May 4, 1991 the Kiel Opera House hosted its last performance. The property became vacant and the adjoining Kiel Auditorium was demolished. The Opera House was also slated for demolition but avoided the wrecking ball. A new arena, called the Scottrade Center, replaced the 1936 Auditorium and is home to the St. Louis Blues hockey team.

In 2006, SCP Worldwide, a multifaceted sports, media and entertainment company, owners of the St. Louis Blues and long-term lessees of the Scottrade Center, entered into a long-term lease for the Kiel Opera House. Affiliates for SCP Worldwide and Optimus Development headed rehabilitation of the building. Paric Corpo-

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ISSN 2152-646X

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ration has served as the general contractor in association with KAI Design and Build. The Washington D.C. architectural firm of Martinez and Johnson led the rehabilitation design team. Peabody Energy, the world's largest private-sector coal company, purchased naming rights and renamed the Kiel the Peabody Opera House.

Rehabilitation of the property includes the two-story lobby that is constructed entirely of Tennessee and St. Genevieve marble, the etched glass ticket windows and many original fixtures and fabrics. The main theatre has been renovated to seat 3,200 guests, and the 1934 design has been modernized, adding concessions, code compliant ADA access, dressing rooms and parking. Six other venue and event spaces have been added to the property, including four small theatres with a capacity of as many as 700 guests each, an exposition hall, a basement restaurant space, offices and maintenance facilities.

The \$78.7 million rehabilitation of the Peabody Opera House is a spectacular example of the use of twinning NMTCs with HTC's in a historic rehabilitation project. Financing for the project included nearly \$32.6 million in bonds and slightly more than \$28 million in state, federal, NMTC and brownfield tax credit equity. U.S. Bank served as the state and federal HTC investor as well the NMTC investor. USBCDE LLC, U.S. Bank's allocatee, committed \$10 million of NMTC allocation authority. The balance of the financing came in the form of a first mortgage debt and private equity.

Jay Leno and Aretha Franklin were scheduled to perform on opening night. Thanks to the incentive programs for promoting the rehabilitation of historic buildings, the Peabody Opera House is sure to host cultural icons of the future for decades to come. I highly recommend that anyone in the St. Louis area make sure that they put the new Peabody on their list of places to see. ♦

John M. Tess is president and founder of Heritage Consulting Group, a national firm that assists property owners seeking local, state and federal historic tax incentives for the rehabilitation of historic properties. Since 1982 Heritage Consulting Group has represented historic projects totaling more than \$1 billion in tax credits. He can be reached at 503-228-0272 or jmtess@heritage-consulting.com.

This article first appeared in the October 2011 issue of the Novogradac Journal of Tax Credits.

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