Direct Investment vs. Pass-Through Lease: How to Choose Your Historic Tax Credit Structure

There are two overarching ways to structure a historic tax credit transaction: the direct investment structure and the pass-through lease structure. How do the structures differ and how can you choose the right structure for your project? Michael Novogradac, CPA, and Novogradac partner John DeJovine, CPA, discuss the pros and cons of each structure for developers and investors, as well as other considerations when choosing a structure.

Summaries of each topic:

Transcript

Introduction

[00:00:11] **Michael Novogradac, CPA:** This is the January 31st, 2023 podcast. Today's podcast is a must-listen for historic tax credit property owners, developers and investors. We're going to discuss two of the main ways that you can structure a historic tax credit transaction, namely the direct investment structure and the lease pass-through structure. Now, the historic tax credit itself is fairly straightforward in the sense that owners of historic properties can earn a 20% tax credit on every dollar spent on qualifying renovation costs. This 20% tax credit is intended to help offset the higher cost associated with preserving the historic character of a building during rehabilitation.

However, owners themselves often do not have sufficient tax liability to use those 20% tax credits. Furthermore, the renovation project itself won't be financially feasible without generating equity from those 20% tax credits. Thus, owners generally find an investor partner to provide equity in exchange for being allocated nearly all of the historic tax credits.

Now, the simplest way of accomplishing this is to have the partnership or have a partnership own the building with the developer maintaining a small profits and loss interest in the partnership, usually 1% and, in turn, the investor in the partnership typically has a 99% interest and is allocated the same percentage of the tax credit. This is referred to as the direct investment structure.

However, for reasons that we'll discuss today, the direct investment structure has some issues and investors' concerns with the direct investment structure is what led to the creation of an alternative approach, namely the lease pass-through structure.

In today's podcast, we're going to discuss some of the key differences between the lease pass-through structure and the direct investment structure. We'll discuss, you know, the key differences, but more importantly for listeners, the pros and cons of each as you evaluate which structure is best for your transaction.

Now, please note that while we use the term lease pass-through as one of the two structures in the podcast, the lease pass-through is also known as the master-lease structure, and sometimes the prime lease structure. So just know they're synonymous. Lease pass-through structure, master lease structure, prime lease structure.

We're very fortunate to have joining me in today's podcast, my partner John DeJovine. He's from Novogradac's Cleveland office. You may already know John. He's a frequent speaker at tax credit conferences and he is also an instructor in various tax credit workshops.

John specializes in, no surprise here, historic tax credits, along with low-income housing tax credits and new markets tax credits. His extensive experience with financial modeling and consulting on tax credit structures and in that consulting role, he's helped many developer and investor clients walk through historic tax credit structuring and which structure might be best for a given transaction.

If you're ready, let's get started.

So, John, welcome to Tax Credit Tuesday.

[00:03:32] **John DeJovine, CPA:** Thank you, Mike. I've been listening to podcasts for a long time, and, uh, really happy to say this is my first time on a podcast and discussing one of my favorite things, historic tax credits.

[00:03:42] **Michael Novogradac, CPA:** Well, welcome on your maiden voyage. I hope you become a frequent traveler.

[00:03:48] **John DeJovine, CPA:** That, that sounds great.

Origins of the Lease Pass-Through Structure

[00:03:50] **Michael Novogradac, CPA:** So I imagine that some of our listeners are new to historic tax credits. However, they may have experience working with other community development tax credits, namely the low-income housing tax credit or new markets tax credits. And those listeners might be wondering how historic tax credit structures differ from other tax credit incentive structures.

Now, generally speaking, as you know, for the benefit for our listeners, low-income housing tax credit and new markets tax credit transactions have one overarching structure where the investor invests in a partnership that directly or indirectly owns a property or an investment that is generating tax credits. Those tax credits, in turn, flow up from the property or investment to the investor.

Now with the historic tax credit, this concept correlates most closely with the direct investment structure. But as noted in the introduction, the historic tax credit incentive has an alternative, which we're calling the lease pass-through. So John, I thought it would be good if you could let our listeners know how this lease pass-through option came to exist since it really doesn't exist for most other tax incentives.

[00:04:57] **John DeJovine, CPA:** Sure. So I think it's, first of all, I think it's great that we're discussing the two structures today. I think that's a concept that's really helpful for historic tax credits developers to, to understand, that there are these two structures out there.

So the origin of it is very interesting. You know, the credit was originally created to help developers offset higher costs that are associated with developing historic tax credit buildings. And Congress eventually saw that, sometimes developers were having a hard time utilizing those tax credits themselves, so they wanted to give developers an option where they could pass through the credits to their tenants and the tenants could then just pay higher rent to those developers to help give some subsidy to developers. So that was the original origin from it. And since then, we've come a long way, where this lease pass-through structure is used in, in, you know, greater than 50% of transactions and used by, you know, corporate investors as a great way to help them share the benefits and burdens of, of these tax credits and helping historic tax credit developers achieve their goals of getting the equity they need to complete these projects.

[00:06:05] **Michael Novogradac, CPA:** So thank you for sharing that historical point. It definitely shows some of the creativity of the tax community to be able to take the lease pass-through concept and extended to more directly be used to raise equity as opposed to generating higher rents from tenants, which in turn was translating into higher debt balances. So it with the structure we're talking about today, you can generate more equity with the initial approach with the lease pass-through. So it was a way of generating more income so you could support more debt.

So when I think about the two historic structures, I think of them, I guess, I should say they're more overarching structures, the direct investment and lease pass-through and I say overarching because each one has their own twists and variations. And that's a 202 or 302 podcast. Maybe I'll have you back to go into those greater twists and variations, but we're not going to talk about them today.

But in working with clients, we've also seen that choosing a historic tax credit structure is actually a largely investor driven, and it's not so much developer driven. Because a lot of the goals of developers can be achieved with either structure, but it's largely investor driven because investors have different goals and the different structures can achieve different sets of goals for investors.

But it seems like when we're thinking about the goals of the investor, we're looking at, there's various benefits and burdens of owning and operating a historic tax credit property. And then these two structures, you know, change the manner in which those benefits and burdens are shared between the developer and an investor.

Benefits and Burdens Shared Between HTC Developers and Investors

[00:07:34] **Michael Novogradac, CPA:** And we're going to go into those different, you know, ways in which benefits and burdens are shared by talking about each of the individual structures. But I thought it'd be good to kick off the discussion by you maybe just listing out what are the various benefits and burdens of operating an historic-- developing and operating historic tax credit transaction that will be shared between the developer and investor.

[00:07:57] **John DeJovine, CPA:** Sure. Yeah. So those benefits and burdens that, the first one is the historic tax credit. So that's going to be the first benefit. There's cash flow that will be shared. There's taxable income and then there's some of these peripheral benefits. Like how does, how do these, how does investing in this affect, for instance, an investor's GAAP financial books?

So those are some of the things that, that also, you know, get, get thought about here. And you know, before an investor ever makes, you know, equity investment into a project, there's a lot of due diligence that they do behind the scenes to determine, you know, which structure is going to be most beneficial for them and help them manage these benefits and burdens in a way that is most beneficial to them, but also, most marketable to, to a historic tax credit developer.

[00:08:44] **John DeJovine, CPA:** Because there's many historic tax credit investors out there, and, they need to be able to have a structure that works not only for the investor, but also for the developer themselves.

[00:08:55] **Michael Novogradac, CPA:** No, that's, a good overview and we'll talk about each of the benefits and burdens a little bit more detail when we talk about the comparative benefits of the different structures.

But let's now talk about each of the structure. And we'll start with the direct investment structure. I gave a super simple overview of the direct investment structure for historic tax credits. Did you want to add anything to my initial very basic summary?

I will add a little, I don't want to go too far down the rabbit hole, but I will add some. So in a direct investment structure, you're going to have one partnership. That partnership is going to own the property, is going to have all the debt obligations, and they're going to operate the property. Now this partnership is going to be owned 99% by the tax credit investor generally, and 1% by the developer. The reason for this profit interest that the investor has is that historic tax credits follow a profit interest. For others that might do low-income housing tax credits, those follow depreciation. But historic tax credits are different in this way where they follow a profit's interest.

[00:10:02] **John DeJovine, CPA:** And there is a five-year compliance for the historic tax credits. So during that five-year compliance period, that 99-1 profit interest must remain in place or there could be potential recapture if that profit interest is not followed.

Pros and Cons of the Direct Investment Structure for the Developer

[00:10:17] **Michael Novogradac, CPA:** Great, thank you for that. And I would note in addition to the five-year compliance, virtually all tax credit, historic tax credit transactions now are going to be claimed, the credits themselves are claimed over five years. Many listeners may recall it used to be claimed in the year you placed the building in service. Much like renewable energy tax credits are claimed when you place the property in service. But that was changed back in 2017 to extend it out over five years.

So, John, share with our listeners some of the pros and cons of a direct investment structure from the perspective of the developer.

[00:10:52] **John DeJovine, CPA:** Sure. So the first is just the simplicity. You know, it's really, can be beneficial to a developer that just have this one partnership. From an administrative standpoint, it can be a lot easier for them to handle.

And then from a cost perspective, there can be some real savings there with, only having one partnership that you have to draft documents for, that you have audits and tax returns for, so there are, there, there can be some benefits there, to just having that one partnership. Another pro, I'll say that generally you can retain most of the benefits.

As I noted before, we were saying that a historic tax credit investor will have a 99% ownership interest. But through structuring generally most of the benefits can be retained by a developer that those key benefits being depreciation and cash flow, through proper structuring, it can still be done.

[00:11:45] **Michael Novogradac, CPA:** And I appreciate you pointing that out because the, since it's a 99% profits interest, you would generally think the profits are going 99% to the investor. They're getting 99% of their appreciation and 99% of the cash flow. But as you point out, based upon how partnership allocation rules work and a number of other factors in structuring techniques, some of that can be mitigated, to a large extent.

So let's turn now to the pros and cons of a direct investment structure for the investor.

Pros and Cons of a Direct Investment Structure for the Investor

[00:12:17] **John DeJovine, CPA:** Okay. Well, I will back up just for a second here. And just some of the cons from a developer standpoint. So the first can be that whole optics. I've had a lot of discussions with developers on just having that having that investor owning 99% interest in their partnership can be a hard pill to swallow sometimes.

And I've had that conversation a lot. And sometimes developers just, you know, they would prefer not to do it and prefer for the lease pass-through structure because it can be seen as a real negative. I'll say generally there, there's a few more options in the lease pass-through structure for managing cash flow.

It can be a little bit more difficult in a direct investment structure. but usually we can get to a similar place. Another con isa tax credit investor will generally require a forbearance agreement in a direct investment structure and this will be, an agreement with the lender that the lender cannot foreclose for the compliance period.

That lender can have some, some other rights and, you know, could possibly kick out the managing member if, you know, it got to that point, but they will not be able to foreclose on the property during this five-year compliance period. And the reason that's a con is that it can be, sometimes, it can sometimes be harder to have lenders agree to this.

They're, you know, they may not be as, as welcoming to that. So those are some of the key cons.

[00:13:40] **Michael Novogradac, CPA:** Well, I appreciate you mentioning the forbearance agreement because that's an important consideration because it's not all about the tax benefits and the accounting structure, and it's also the legal implications of the different structures from the perspective of the lender.

I would just note for our listeners, you know, I may be stating the obvious to most of our listeners, but the reason why there'd be a forbearance agreement is the investor partner wants their tax credits. They want to claim the tax credits over the five years. They don't want recapture and a foreclosure event would cause recapture.

So it's a way for the investor to mitigate the potential for recapture and or inability to claim credits. So as we talk about the pros and cons of direct investment for the investor now.

[00:14:29] **John DeJovine, CPA:** Yes. Let's move on to that. So similarly with the developer, you know, the simplicity can be attractive to an investor as well, not only just from their perspective, but also to market their deals, to, to developers. And that, you know, it can be a selling point when you're talking to a developer that we have this more simple structure. There's also, from a tax perspective, there is a basis adjustment for a direct investment structure and the basis adjustment is equal to the amount of the historic tax credit and that can be a pro for one reason. Because it will, there will not be a capital loss at the back end for an investor. So if investors have, don't have capital gains to be offset with capital losses, this structure can be advantageous for them because they will, not have a capital loss in this structure, which they, often do in the, lease pass-through structure.

[00:15:21] **Michael Novogradac, CPA:** I guess there's one other potential con for the investor dealing with book losses.

[00:15:27] **John DeJovine, CPA:** That's right. Yeah. So, so for the cons for, some the negatives for, an in an investor as we noted before are those book losses and just some of the unintended consequences of GAAP accounting for them in this structure.

And so that's something that they're certainly considering as most many investors are corporate entities, and banks and insurance companies that are very cognizant of how this will reflect on their financial statements that go out to their investors. So that's one of the key considerations here and one of the cons for this direct investment structure.

[00:16:03] **Michael Novogradac, CPA:** And, and one of the cons that leads to the lease pass-through structure being, popular or more popular than the direct investment structure. So that's a good segue into lease pass-through if, are you ready for that?

[00:16:15] **John DeJovine, CPA:** Yes, I think that sounds great.

Overview of the Lease Pass-Through Structure

[00:16:17] **Michael Novogradac, CPA:** So the lease pass-through structure takes some of these direct investment structure issues or concerns, I should say, and makes them easier to manage or gives you additional tools to manage the allocation of these benefits and burdens between the developer and the investor. So before we talk about the different-- you know how the benefits or burdens can be altered or more easily managed, maybe first talk through what, how a lease pass-through structure works. And unfortunately we don't have any visuals or graphics or charts. So this is always a challenge to try to visualize what the lease pass-through structure is. At some level, it's fairly straightforward and fairly simple, but when you see a chart, sometimes the, because of the entities and the various agreements, it can be a bit overwhelming. But I'll give it, hand it off to you.

[00:17:09] **John DeJovine, CPA:** Sure.

[00:17:09] **Michael Novogradac, CPA:** An attempt to describe the lease pass-through structure without any graphics.

[00:17:14] **John DeJovine, CPA:** Sure. And if any listeners are looking for those visuals, I recommend the Historic Tax Credit 101 webinar, which, you know, you can find on our website, that there's plenty of visuals there. But for this overview here, so in this structure, in the lease pass-through structure, there's two separate partnerships.

The first partnership is generally called the landlord and owns the, incurs the QREs and has the debt obligation. The second partnership is called the tenant entity. This entity will lease the entire property from the landlord under a master lease in this lease pass-through structure. They'll operate the property and collect the rents.

And from our history lesson earlier that we went over, Mike, Congress helped to be able to create the structure where under Treasury Regulation, 1.48-landlords and lessors are allowed to elect to treat the tenant or lessee, as having deemed to have purchased the QRE, thus allowing the tenant to claim the historic tax credits. So this is called passing through the historic tax credits to the tenant. And then they will flow pro rata to that investor in that tenant entity. Now as far as the ownerships go in these entities, the landlord, will generally be owned 90% by the developer and 10% by the tenant. And the tenant will be owned 99% by the investor and 1% by the landlord. And the reason the tenant will have to be owned 99% by the investor is because they must have that profit interest, just as we talked about with the direct structure. So that tenant entity will be owned 99% by the investor and 1% by the developer, and the credits will flow through that.

As the investor is getting those credits, they will contribute equity and that tenant will then, with the 10% ownership that they have in the landlord, contribute that equity, from the tenant to the landlord so that equity can pay for construction costs.

[00:19:18] **Michael Novogradac, CPA:** Super job, you did that well, so, kudos. So hopefully the listeners following along, it all kind of made sense to you. If not, you might want to rewind and just listen to it a second time. And then more of the pieces will sort of fit together. And I'll give my general caveat that's a traditional or a common structure.

There's all sorts of permutations and all different ways in which cash can move around, depending upon the needs of a given transaction. So just know that. You know, one example, and certainly don't think that by default that's how all transactions occur. But let's now move into the, you know, what the developer should know about this structure in terms of how this structure allocates the benefits and burdens between the developer and the investor.

Pros and Cons of the Lease Pass-Through Structure for Developers

[00:20:09] **John DeJovine, CPA:** OK. So from a developer standpoint, the pros, kind of getting back to what we were talking about before, that the optics can be really attractive to a developer because they are owning 90% of the partnership that owns the property. And, they will be getting the depreciation benefits, generally the 90% of the depreciation benefits because they have that ownership.

As I mentioned before, the direct structure can offer some of those, those same benefits. But there's just a little bit of extra structuring and, uh, brain damage that can sometimes go along with it, but, the direct structure can get that as well. But just from a pure optic standpoint, I think it's really attractive to have a partnership that they can own directly that owns the property and don't have to give up a 99% ownership in the partnership that owns the property.

There's also some favorable ways that we can maintain the economics for the developer. There will be lease payments and supplemental lease payments that are at the master tenant level, that are paid over to the landlord. And if there's significant upside, if they, if the developer exceeds what they originally projected, these lease payments can be used to help get that extra cash flow, over to the developer.

[00:21:22] **John DeJovine, CPA:** And there is just a little bit more flexibility, with these lease payments than some of the structuring that can be done at the direct investment level. You know, I think you can get there in the direct investment level as well, but I think that it's just more flexible here, with the, lease pass-through structure.

The third pro I'll say is that the forbearance agreement will not be required and instead there'll be the subordination and non-disturbance agreement. So from a lender perspective, this is less intrusive to them. They may be more apt to agree to an SNDA where the forbearance agreement may not be amenable to them.

So that can be a selling point to a developer because they may have an easier time finding a lender who is willing to lend to this historic tax credit project.

Pros and Cons of the Lease Pass-Through Structure for Investors

[00:22:11] **Michael Novogradac, CPA:** So thank you for that. That's a good overview from the developer's perspective. But as we noted in the intro, the selection of kind of which structure is largely dependent on what the investor desires are.

Please talk about the pros and cons of the lease pass-through structure through the eyes of an investor.

[00:22:31] **John DeJovine, CPA:** Sure. I think it's a lot of the same ones that we've discussed already. From a pros perspective, it's that, that they don't have those, that the book income issues that we discussed before don't have those same GAAP accounting issues that can come up when they're in this lease pass-through structure.

The SNDA can be more attractive to the investor as well. . And then from a cons perspective, you know, it can just be more complex in general. You have two partnerships to deal with, right? You know, just as an example now we have, we have new, Section 842, lease standards that we're just starting to implement in 2022 financials or 2022 financials. And that's just kind of an example of some of the complications that can come out of having these two partnerships, having these leases, and some of the extra, burdens that can come from this. I'll also note that an investor in this deal, there is no basis adjustment.

[00:23:26] **John DeJovine, CPA:** So oftentimes at the end of the compliance period, they may have a large positive capital account and they'll have a capital loss from their exit of the partnership. And if they don't have capital gains that, that they can use-- or that the capital loss can be used to offset, that can be seen as a negative to some historic tax credit investors.

Other Considerations When Choosing a Structure

[00:23:49] **Michael Novogradac, CPA:** So thanks for the overview of both structures and the investor and developer concerns. And we were, we spent our time focused on, you know, benefits and burdens. But there's also a number of other factors and we can't go into all the other factors. Like I said, I'll have you back for a 202 or 302, but maybe you could touch upon some of the other factors to consider, including the infamous 50(d)income.

[00:24:16] **John DeJovine, CPA:** Sure. That sounds great. So, as we had noted before, in a direct structure, you have a basis reduction. But in a lease pass-through structure you have something called 50(d) income, and I won't delve into it very far, but basically it's an income that is allocated to the investor in the amount of the tax credit they got and over the life of the underlying property and that, the depreciable life of that underlying property. So that is a key consideration to have in this and certainly comes into play when we're structuring these transactions and , and working to share those benefits and burdens.

Let me just interject real quick because when I think of the 50(d) income, I always think of it, you know, in the direct structure you have a basis reduction, which means there's depreciation expense that'll never be claimed. However, when you use a lease pass-through structure, there's no basis adjustment.

[00:25:16] **Michael Novogradac, CPA:** So all that depreciation that would otherwise not be claimed in a direct investment structure does get claimed. So the 50(d) income is basically negative depreciation expense, especially saying the developer is going to get all that depreciation. So somebody needs to, you know, have the offset of that and the 50(d) income is attended to basically be negative depreciation expense.

So from, in the totality, from the IRS's perspective, there is an equivalent basis adjustment. It's just done indirectly through this kind of negative depreciation expense, which really isn't a, this isn't really a concept, but it makes it easier for me to understand the relationship between this income and the basis adjustment and depreciation expense on that.

But anyway, back to other issues. We should think about, you know, beyond 50(d) income or if you have additional comments on 50(d) income share those.

[00:26:05] **John DeJovine, CPA:** Yeah, no, think that was a great, overview, so I appreciate that Mike. Some of the other issues that, you know, we consider when sharing the benefits of these transactions and considering the direct versus the lease pass-through structure are how those structures will affect tax equivalency payments.

So generally if taxable income is allocated to an investor during the investment period, they're typically going to want tax equivalency payments to pay for those, pay for that taxable income that was allocated to them. Other considerations are sometimes there's special allocations of depreciation.

And this comes into play in the lease pass-through structure and that may be to offset some of these tax equivalency payments. So that is another thing to consider here. And one other thing I wanted to touch on was the basis reduction. Stepping back to the basis reduction. And keeping in mind that that can reduce the basis of the property for other credits as well.

So if you're pairing it with the low-income housing tax credit, it can reduce the basis for low-income housing tax credits where in a lease pass-through structure you don't have that basis reduction. So that's another consideration to keep in mind and a great place that all these items can be and digested is in the Novogradac Historic Tax Credit Handbook, which we're in the midst of updating for a new 2023 version.

[00:27:25] **Michael Novogradac, CPA:** So thank you for that, John. And I totally, encourage our listeners to get the handbook cause it definitely does a good job at describing all the different issues that we're talking about here. And then obviously all of this ends up revealing itself in the financial forecast, which you spend a lot of time on, and you know, if listeners by now aren't convinced about the importance of a financial forecast and a historic tax credit transaction, you know, they are now.

Because that's how you can go through and analyze and optimize. It's really, you can analyze for sure, but it really is the way in which you can optimize these various factors to achieve, you know, the most, that in total what most benefits the developer and the investor in the aggregate. I wanted to see what other tips or insights you had to share with listeners in the process of choosing a structure? Or did I just by talking about the importance of the forecast, take away what you're going to talk about?

[00:28:18] **John DeJovine, CPA:** No, I completely agree with the importance of the forecast. I have plenty to say about other tips.

So other tips and insights that I would have for an investor or for a historic tax credit developer is not to get too hung up on pricing for a historic tax credit transaction. This is just one of the aspects that will be in a term sheet, but there are many other aspects to consider.

So I would certainly say get to know your investor well. That's going to be your partner for a five-year period after you place in service. So it could be six years or even longer at times. And seek out multiple term sheets to see what other terms are out there.

I think those are some great tips that historic tax credit developers should consider.

[00:29:00] **Michael Novogradac, CPA:** Yeah. Thank you for that, John. And I'd also encourage our listeners, you know, a while back, our partner, Tom Boccia, and I did do a podcast on evaluating term sheets and that's a very good podcast to listen to when you get a term sheet so you're mindful of what you should or shouldn't be looking at. And I will say in terms of the equity price, I always feel like sometimes when I talk to developers about not being solely focused on the equity price, they're like, yeah, yeah, but I need the money. So that's what I'm focused on and I sort of think back and say, "Focus on the net equity over the life of the transaction, taking into account all the various variables." And when you think about it through the net equity, you have the initial equity contributions or the periodic equity contributions, but then you're going to have cash distributions to the developer, to the investor.

How depreciation goes, you know, can end up affecting what in essence your net equity is and other fees and the rest, and tax equivalency payments, and kind of all the rest.

So obviously the amount of cash you get from the investor is a key factor or just a question of taking into account all the ways in which the amount of cash they're getting over the life of the transaction can be changed so that you are actually maximizing the overall net cash equity as opposed to one number at one point in time.

And then the question I, that kind of comes to my mind now, and obviously I have my own view here, but, if there's a developer out there that's looking at historic tax credit transaction, at what point in time should they call you?

[00:30:37] **John DeJovine, CPA:** Well, I'd say definitely before they sign a term sheet is the number one piece of advice I would give.

They're, you know, all the things that we discussed today, all the benefits and burdens and, all, everything that goes into these structures. And there's really just so much to consider with these term sheets and we can do some of our really most high value work at that point when we're comparing these term sheets to help developers, understand what are in those term sheets, how they compare to others, and, you know, where they may want to try to negotiate with their investors. You know, what may not seem like a large issue to a developer when they're reading through the term sheet we can help identify and help, you know, either work with the investor to get to something that's more equitable, with the developer or, you know, show them why another term sheet may be more beneficial.

[00:31:29] **Michael Novogradac, CPA:** No. Okay, great. Thank you for that. And as I mentioned earlier with the forecast, it seems like you really can't sign a term sheet without having a forecast with a property. So, you know, that the project financial feasible with that term sheet and all the rest, that's a given, but I just wanted to emphasize that point. Go ahead, please.

[00:31:47] **John DeJovine, CPA:** Yeah. Yeah. So, so that generally how the process would go is we would do a mini model, for our historic tax credit developer. And this would, you know, within maybe five pages, kind of help quantify how much in tax credits there will be and some of the other economic benefits.

They'll generally take that mini model out to investors. And I think it's really helpful for investors to see that so they can help, you know, shape their term sheets and what will be beneficial for both the developer and the investor. They'll provide term sheets to the developer and at that point we like to do comparisons for the developer, where we'll look at all the different aspects, both pricing, cash flow, taxable income tax, equivalency payments, all those different aspects, and we can help get them down to that net number that you were talking about and help them really do a true comparison of these to make sure that they're choosing the deal that's best for them and not just the one that has the better price.

[00:32:48] **Michael Novogradac, CPA:** That's a great point about how you can end up getting a true apples-to-apples comparison so they can evaluate what is the best. And I will say also that mini-model before you go to investors is also comforting to investors because they're busy and they don't want to spend time on transactions that aren't ready and that demonstrates a lot of credibility to the investor, that you're ready for them to get engaged and spend the time because it's not, you know, it's a reasonable amount of effort for the investor to put together term sheet and all the rest. And they don't want to go through all of that with developers not quite ready for it and we actually, you know, many times if developers don't come to us first, the investors will refer a developer to us and say, go talk to Novogradac, get, you know, get things ready and then I'm ready to talk to you, so that you're doing the prep work. So thank you, John. This has been a great podcast.

I really appreciate you, you know, helping explain these two structures. It's going to be a great addition to our podcast library. So please do stick around for the Off-Mike Section of the podcast where I get to ask you for some fun off-topic advice and recommendations. And to our listeners, I encourage you to reach out to John with any forecasting or construction questions you may have regarding your historic tax credits. We have him on new markets or low-income housing tax credits. Call him on those too. I'll include his contact information in today's show notes.

Outro

And I want to also be sure to remind you, or tell you, not remind you, because you may not know about this yet, the podcast next week is going to be on the fiscal year 2023 round of the Capital Magnet Fund.

That round is now open for applications and you might be thinking to yourself how much money's available? Well, there will be up to $320 million in funding available under this next round. Now, the Capital Magnet Fund, just so you know, offers competitive grants to finance affordable housing and community development efforts that benefit low income people and communities nationwide. So if you work in affordable housing or community development, and you're also thinking whether or not you should apply for the Capital Magnet Fund. Let me just note that over the past three funding rounds, the average award size to a successful applicant was $4.4 million. So if you could use $4.4 million in your community development and afford housing efforts, you should seriously consider applying.

So I do encourage you to tune into our podcast episode next. And we'll talk more about the Capital Magnet Fund, and most importantly, we're going to focus on ways to enhance and make your application more competitive. And the application deadline is March 21st, but it's definitely just around the corner.

And if you're thinking about applying, you need to be thinking about applying now, or you need to start working your application now. Joining me will be my partners, Amanda Read and Brent Parker. They've been on the podcast before talking about Capital Magnet Funds, so they'll be back to share their tips for this upcoming round.

Off-Mike Section

[00:35:50] **Michael Novogradac, CPA:** So now we've reached our Off-Mike Section of the podcast, and I always enjoy asking my guests a variety of questions. I only have two. So I want to ask you an expansive variety, but one of my questions I like to ask is what is your favorite. I don't say best because then it becomes, okay, how do you define best and all the rest, but is there a favorite productivity app or tip that you'd want to share with our listeners?

[00:36:17] **John DeJovine, CPA:** Sure. So I'll share, my, my current productivity tip that I've kind of been focused on here in January. And it's really two that I think kind of go hand in hand. The first is the rule of three. And starting each day and each week, three key things that, you know, I want to accomplish. I think in public accounting, you get pulled in a lot of different directions, but having three clear goals at the start of each day, I think, can be, really beneficial and a way to accomplish those.

Something that I've been focused on is my biological prime time. And that's when I have the most energy and focus in a day, what time of day is that? So I've given thought to when I have that highest level of energy and focus and making sure that I'm working on the things that require that high level of energy and focus.

[00:37:08] **John DeJovine, CPA:** Like, like this podcast for instance, so those have been a couple things that I've been working on from a productivity tip perspective.

[00:37:16] **Michael Novogradac, CPA:** Thank you for that. Let me also thank you for making this podcast one of your three. I'm glad we weren't number four and I really like your focus on kind of your 24-hour clock, you know, circadian rhythms and the rest.

Because that's something I've been trying to pay more attention to in terms of you know what, what skillset is, am I most in tune to in different parts of the day and then trying to schedule things to be most conducive to that. So I appreciate you sharing that. And then the other, one of the other questions I'd love to ask guests, and it's something that, you know, one thing about COVID and the pandemic and staying at home is I finally, I got back on a more regular reading schedule.

And as a consequence, I'm always looking for new books to read and there's a plethora of books. Like, I don't even know how many new books come out every year. So, and of course, over your life you can only read so many books. So I'm always looking for good recommendations. So what do you have for me?

[00:38:16] **John DeJovine, CPA:** Well, well, if it could be only one book, I think it would be the Historic Tax Credit Handbook that we're working on. Okay. Not that one, but I'll go to number two. And, one that I read recently, was "The Productivity Project" by Chris Bailey and that had some of those tips that I talked about earlier, along with, some others that I've liked, like batching maintenance tasks so trying to catch up on my emails. At one point in time, rather than this constant, you know, back and forth where you're picking up and putting down. He also had some great thoughts on handling social media and you know, how often you are, you know, on there and checking that and, you know, ways to kind of batch how you're handling that as well. So that was a book I recently read and really enjoyed.

[00:39:00] **Michael Novogradac, CPA:** Oh, great. I will add it to my list. I read a number of productivity books. I don't know that I've read "Productivity Project" yet. And I like the whole concept of, batching. And I also appreciate your comment on email because that's definitely the area that I need to stay attuned to. Because I can be too easily always tied to my email and then you just end up taking incoming and outgoing and it's like, wait a second.

[00:39:26] **John DeJovine, CPA:** So easy. You could go a whole day just answering emails, couldn't you?

[00:39:30] **Michael Novogradac, CPA:** No, you definitely could. And then at the end of the day, you won't have accomplished very much.

So thank you again, John. You've been a great guest. I look forward to having you back. And to our listeners, I'm Mike Novogradac. Thanks for listening.

Additional Resources

Email

John DeJovine

Webinar

Novogradac Historic Rehabilitation Tax Credits 101: The Basics Webinar Recording