

# Michigan Magnet Fund

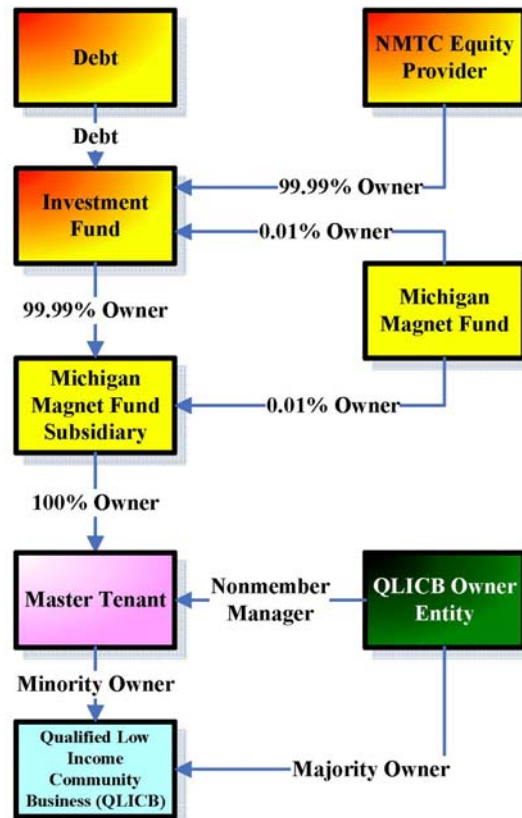
## Historic Project Financing

### Typical Structure

The typical ownership relationships are as shown in the diagram to the right.

The Investment in the Michigan Magnet Fund is normally done through a subsidiary LLC and must be in the form of Equity. In order to translate Debt into Equity, an Investment Fund LLC is established which is traditionally managed by the Michigan Magnet Fund or by the New Market Tax Credit Purchaser. The Investment Fund makes an Equity investment in MMF's subsidiary and becomes a 99.99% Owner. MMF remains as the Managing Member.

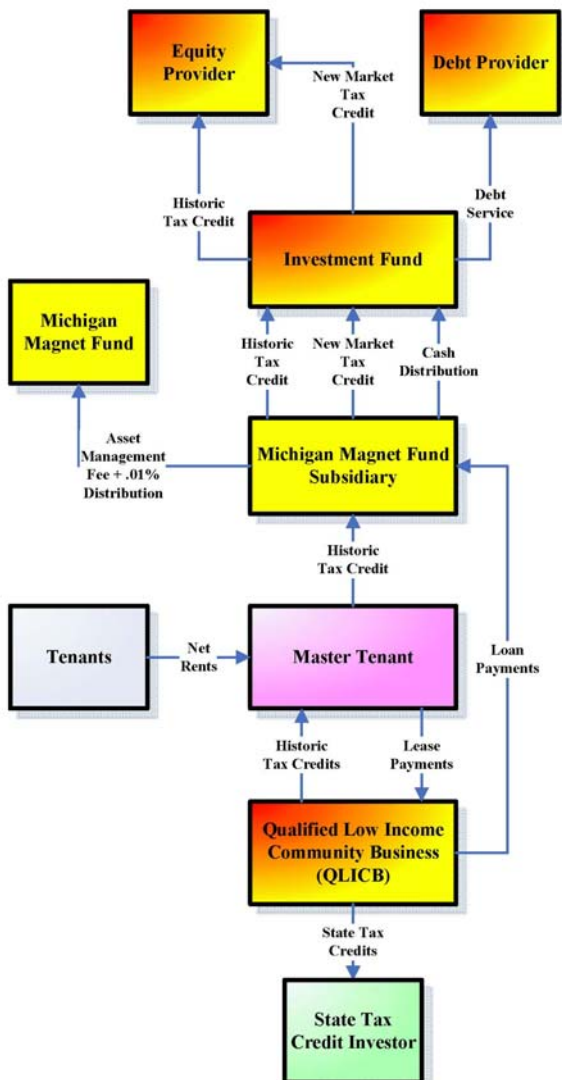
The addition of a Master tenant is important since it has major tax implications. By using a master



tenant the basis of the real estate does not have to be reduced by the historic tax credit. This reduces the tax implication of selling the property or transferring it to a new entity at the end of the seven year holding period. Although the historic tax credit holding period is only 5 years, the longer NMTC period will require the structure to remain in place for seven years.

### Tax Credit Structuring

The table to the left indicates the flow of the tax credits through the structure. The historic tax credit is initially allocated and approved at the QLICB level and flows through the entire structure to the tax credit equity investor. Although not shown in the diagram the QLICB must be a for profit entity. Nonprofits normally form a LLC to be the QLICB. The historic tax credit normally flows through the MMF in order to use the investment to purchase the tax credit as part of the Qualified Equity Investment for the New Market Tax Credit Investment. Since it is equity, it does not need to flow through the Investment Fund although it generally does. The NMTC is allocated by the MMF Subsidiary to the deal. Notice that the cash going to the Investment





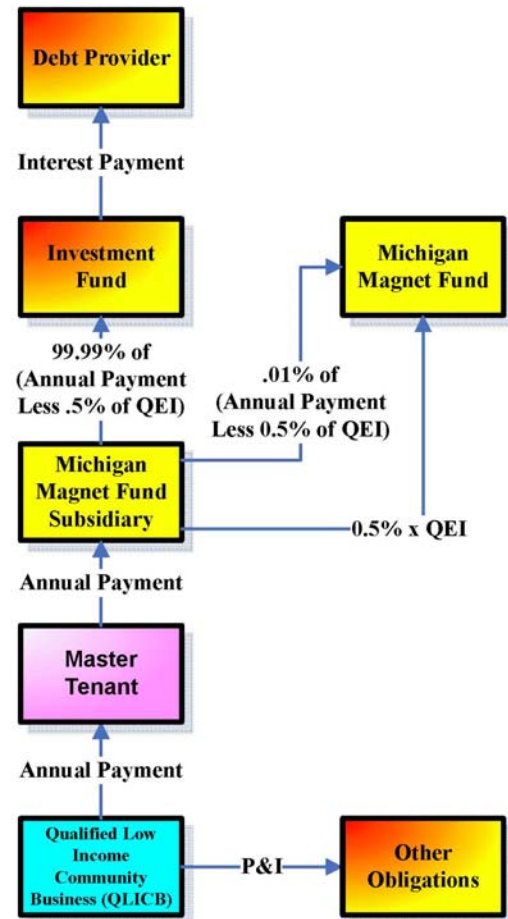
or grant maker not only adds another attorney examining existing documents but adds the costs of existing attorneys examining their documents. It all adds up very quickly.

State tax credits are normally done outside the NMTC structure. They are assignable to investor. Current value that should be used in the Sources and Uses is 85 cents/tax credit.

**Pro Forma Impact**

The major impact on Operating Costs is the annual Compliance Fee of 0.5% of the QEI. The payment is normally structured to occur at the same time interest payments are made in order to reduce number of transactions. In addition, the debt service tends to be interest only for the seven year holding period. In some cases, where the QEI is substantially less than the total financing the bank may do a loan outside the structure. These payments are done directly to the bank, and normally include principal and interest and do not have to follow the NMTC structure payment path.

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