

**Massachusetts Cultural Facilities Fund & Artist Link Program  
Present Tools for:**

***Financing Capital Costs of Artist Housing & Cultural  
Facilities in Massachusetts***

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Presented by: Jay Paget, Director, Massachusetts Cultural Facilities Fund



The Marston Building in Lowell, Mass

This document contains summaries of tax credit, grant and pre-development loan programs offered by federal and state government programs in the United States and available as tools for artist housing and capital improvement to cultural facilities in Massachusetts. Some of the financial tools listed below work better for artist housing and the accompanying space often incorporated into the housing such as galleries, while some of the tools are designed for cultural facilities like as theatres, museums and historic sites.

Each program has its own specific guidelines and in the case of federal dollars their use is up to the discretion of the local government and their preference for cultural/artist investment. For example, federal block grants designed to assist low- and moderate-income communities can be used for a wide array of economic development and housing objectives. Artist housing may be a very small percent of what these funds are actually used for but nonetheless, it still provides a financial mechanism for developers of artist housing. Facility investment by the public sector is far more rare yet recently the state of Massachusetts created a Cultural Facilities Fund for the

first time in its history. This fund is specifically for capital rehabilitation, new construction and maintenance as well as feasibility studies and planning for cultural facilities.

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## MASSACHUSETTS PROGRAMS AND FUNDS

### **Artist Link--Predevelopment "Recoverable" Grants for Artist Space (Massachusetts)**

The ArtistLink predevelopment fund is designed to help those developing artist live/work space determine the feasibility of a project and bring it along to the point of securing construction financing. The fund pays for architects, marketing plans, environmental studies, building codes consultants, and an array of costs associated with the stages before construction. Because this is "revolving," fund it should be paid back at the first disbursement of the construction financing. Once this happens, the money goes back into the pool where another project can take advantage of the revolving fund.

### **The Community Preservation Act (Massachusetts)**

The Community Preservation Act is recent option local towns and cities have to generate revenue just for their community. The legislation to allow cities and towns to create a ballot initiative that allows the community to vote for a 1-3% surcharge on their property tax. If the referendum passes, whatever is collected locally will be matched by the state dollar-for-dollar. Per the legislation that created the Act, the funds can only be used for open space preservation, affordable housing, or preservation of historic buildings and landscapes. This legislation strengthens and empowers Massachusetts communities to exercise control over capital planning and preservation as well as open space protection.

Here is a summary of the key components of the legislation.

- Local elections are held to adopt the Act. (1%-3% surcharge to property tax)
- Local legislatures must appoint a committee of local people to draw up plans for use of the funds.
- Funds raised locally are matched 1:1 by the state
- These plans are subject to local comment and approval.
- If residents don't feel the CPA is working as they expected, they can repeal it.

The Community Preservation Act provides new funding sources which can be used to address three core community concerns:

- Acquisition and preservation of **open space**
- Creation and support of **affordable housing**
- Acquisition and **preservation of historic buildings and landscapes**

A minimum of 10% of the annual revenues of the fund must be used for each of the three core community concerns. The remaining 70% can be allocated for any combination of the allowed uses, or for land for recreational use. This gives each community the opportunity to determine its

priorities, plan for its future, and have the funds to make those plans happen.

### **Massachusetts Cultural Facilities Fund (Massachusetts)**

The Massachusetts Cultural Facilities Fund is a new initiative of the Commonwealth of Massachusetts. The Fund was created as part of a major economic stimulus bill approved by the Massachusetts Legislature in July 2006. The legislative appropriation to the Fund for its first year was \$13 million (2007) and \$12 million (2008).

The goal of the Cultural Facilities Fund is to increase investments from both the public and private sector to support the sound planning and development of cultural facilities in Massachusetts. Each grant requires a dollar-for-dollar match of the state funds.

The Fund provides Capital Grants as well as Feasibility and Technical Assistance Grants to promote the acquisition, design, repair, rehabilitation renovation, expansion, or construction of cultural facilities in Massachusetts.

Eligible applicants include nonprofit cultural organizations, municipalities and institutions of higher education that own cultural facilities.

### **TAX CREDITS**

#### **Low-Income Housing Tax Credit—Artist Housing (Federal Credit)**

The Low Income Housing Tax Credit Program is an investment vehicle created by the federal Tax Reform Act of 1986, which is intended to increase and preserve affordable rental housing by replacing earlier tax incentives with a credit directly applicable against taxable income. Each state has an annual tax credit authority equal to \$1.25 per state resident

#### *How the Tax Credit Program Works*

The maximum tax credit a project may receive is based on a percentage of the portion of rental housing (whether the housing is newly constructed or rehabilitated) that the owner agrees to maintain as both rent and income restricted for a period of at least 18 years. At a minimum, either 20% of the units must be for residents whose incomes do not exceed 50% of area median income or 40% of the units must be for residents whose incomes do not exceed 60% of the area median income (as determined and adjusted annually by HUD). The rents on the units must also be restricted. An annual credit equal to roughly 9% of the qualified basis of construction or rehabilitation costs is available to developments not utilizing federal or tax-exempt financing. An annual credit roughly equal to 4% of the qualified basis is applicable where federal or tax-exempt financing is utilized and, in certain cases, for acquisition cost associated with rehabilitation.

*The following example illustrates the value of the tax credit:*

A Developer who constructs a 100-unit building at a total cost of \$60,000 per unit with taxable financing and reserves all of the apartments for low income tenants.

**Construction Expenses**

Development Costs	\$6,000,000
Less Land	-\$200,000
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Eligible Basis	\$5,800,000
Percentage of Low Income Units	x 100%
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Qualified Basis	\$5,800,000
Applicable Credit Percentage	x 9%
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Annual Credit	\$522,000
Period of Credit	x 10 Years
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Total Credit over 10 years	\$5,220,000

**New Markets Tax Credits-- Cultural Facilities (Federal)**

The New Markets Tax Credit (NMTC), administered through the U.S. Treasury Department's Community Development Financial Institutions (CDFI) Fund, was designed to stimulate private sector investment in the economic development of low-income communities.

Through the NMTC Program, taxpayers receive a credit against federal income taxes for making equity investments in Community Development Entities (CDEs), which, in turn, will make debt and equity investments in low-income areas.

*Investors Benefit from Tax Credits and Capital Incentives*

Investors receive an annual tax credit equal to five percent of the amount they invest in the CDE for each of the first three years, and six percent for each of the following four years, for a total of 39 percent over the seven-year life of the tax credit. The CDFI Fund will allocate tax credits annually to CDEs under a competitive application process.

## **Historic Tax Credits—Artist Housing & Cultural Facilities (Federal & State)**

### *Federal*

The Federal Government provides a 20% tax credit to developers of certified historic renovations. The federal government also provides a 10% tax credit to support non-historic renovations of non-residential buildings over 50 years old.

The 10% tax credit is a good fit for non-historic, non-residential work-space renovation projects. It does not involve historic approvals.

### *State*

The Massachusetts historic credits may be granted for amounts ranging from 1% to 20% of the qualified rehabilitation costs. The total for Massachusetts credits was recently raised to \$50 million per year.

## **FEDERAL GRANTS**

### **Community Development Block Grants—Artist Housing (Federal)**

The Community Development Block Grant (CDBG) program is a flexible program that provides communities with resources to address a wide range of unique community development needs. Beginning in 1974, the CDBG program is one of the longest continuously run programs at HUD. The CDBG program provides annual grants on a formula basis to 1180 local governments and states.

### **HOME Funds—Artist Housing (Federal)**

HOME is the largest Federal block grant to State and local governments designed exclusively to create affordable housing for low-income households. Each year it allocates approximately \$2 billion among the States and hundreds of localities nationwide.

## **FEDERAL LEGISLATION**

### **The Community Reinvestment Act (Federal)**

The Community Reinvestment Act (CRA) was established by the US Congress in 1977. The Act requires that deposit-taking financial institutions offer equal access to lending, investment and services to all those in an institution's geographic assessment area—at least three to five miles from each branch. In the case of large banks with many branches, the geographic area may encompass an entire county or even a state.

Banks have to have a favorable CRA rating in order to merge. Given the popularity of mergers banks have served as good community partners making their products available to all in their target area, this includes grants, arts-related support as well as mortgages.

The following activities give banks favorable CRA ratings:

### **Lending**

- Small business loans (less than \$50,000) previously unavailable, or only available at substantially higher interest rates.
- Mortgage loans with low down payments and reasonable interest rates available to moderate and low-income residents.
- Monitoring and correction of discriminatory practices.
- Financing of affordable rental housing built by nonprofit developers.
- Mortgage financing for long-term affordability properties including LEHCs and CLT housing.

### **Investments**

- *Corporate grant programs that support community-based organizations.*
- *Bank investments in nonprofit community development loan pools.*

### **Services**

- Bank vendor purchase programs that offer business opportunities for minority-owned businesses.
- Retention of local bank branches.

## **Individual Charitable Giving to a Non-Profit 510c3**

Individual charitable donations make up a large percentage of revenue for many arts and cultural non-profits in the United States. Charitable donations benefit the giver with a federal tax write-off. The write-off is limited to 50 percent or less of their adjusted gross income.