

# Overview of the Cultural and Arts Facilities Expansion (CAFE) Program



# Cultural and Arts & Facilities Expansion (CAFE) Program Key Features



Established by legislation (S4011) on December 21, 2023 (P.L. 2023, c.197, and codified at N.J.S.A. 34:1B-383 through -393)



Provides **tax credits** to incentivize broad scale **capital projects for arts and cultural venues** in New Jersey



Focuses on **development and rehabilitation of cultural arts facilities** as a key component of the state's economy



Awards up to 100% of eligible project costs capped at **\$75 million** per project



A project must have a financing gap and **not be economically feasible without the tax credit**



Tax credits awarded via an **application process**



Tax Credits are **transferable** (can be sold)



Minimum project size is **\$5 million** in capital investment per project.

# Key Eligibility Requirements

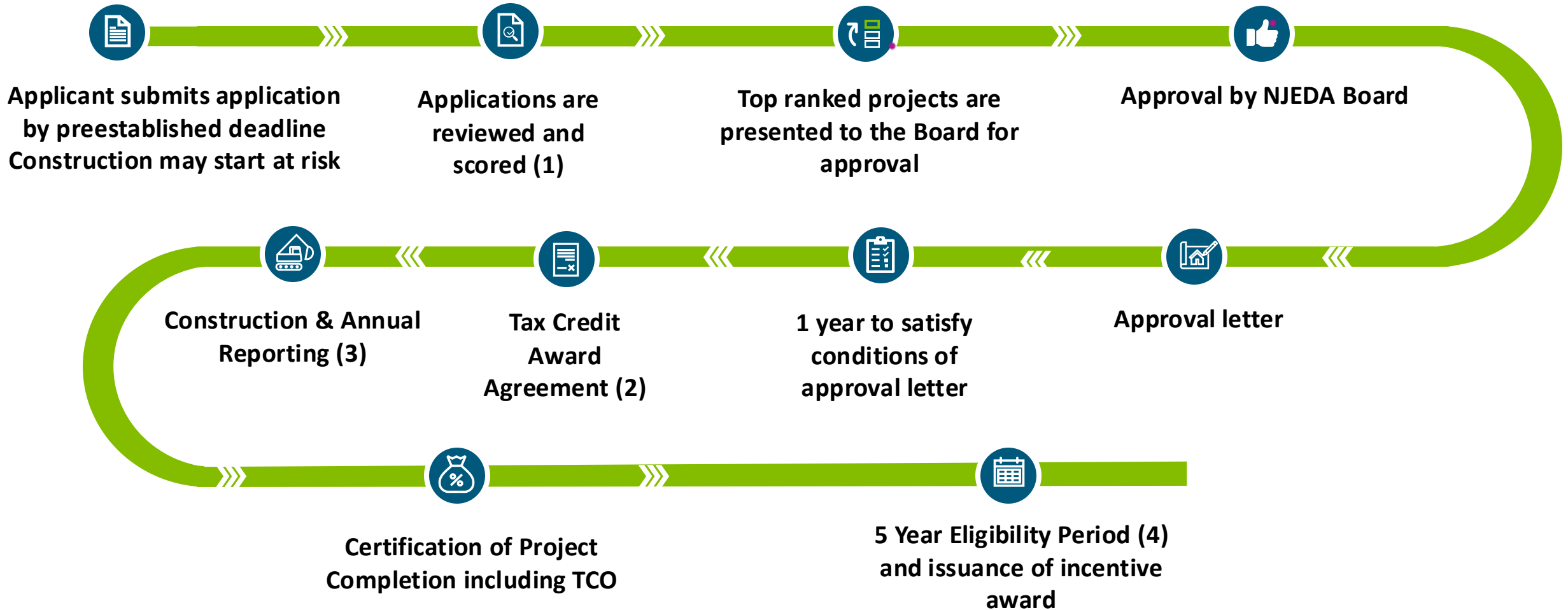
- ▶ The applicant must be a **cultural arts institution** and **will have ownership or lease space** in the cultural arts facility, **will operate** the facility, **and the project will be open to the public.**
- ▶ Minimum project size: **at least \$5 million** in capital investment.
- ▶ Non-profit and governmental applicants must have a **mission** of cultural, arts and cultural education, or artistic enrichment of the people of this State. Also allows for-profit organization that is receiving a federal or state historic tax credit.
- ▶ Construction has **NOT** commenced, unless the Authority determines the project would not be **completed** without the tax credit.
  - ▶ Exceptions for demolition, remediation, and correction of a health / safety hazard (if ordered by an official). Limited exception allowed for unexpected construction increases.
  - ▶ Construction can start after application submission but is at risk. Work must comply with all program rules and conditions (including but not limited to: **prevailing wage, public works contractor registration, green building, etc.)**
- ▶ Construction completed within 4 years of tax credit agreement.
- ▶ Minimum equity requirement is 20% (10% in GRM); project financing gap required.

# Key Points

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- ▶ Tax Credit -- not a grant
  - ▶ Tax credit is issued after construction is complete (in 5 equal annual installments)
  - ▶ Therefore, applicant will need to bridge the gap to pay for construction prior to receiving tax credit
- ▶ Program rules available at [www.njeda.gov/cafe](http://www.njeda.gov/cafe)
- ▶ New legislation modified program, allows for rolling applications
- ▶ The program supports the construction, rehabilitation, and expansion of cultural arts facilities
- ▶ Prevailing Wage (Construction and Building Services)

# CAFE Process and Timeline

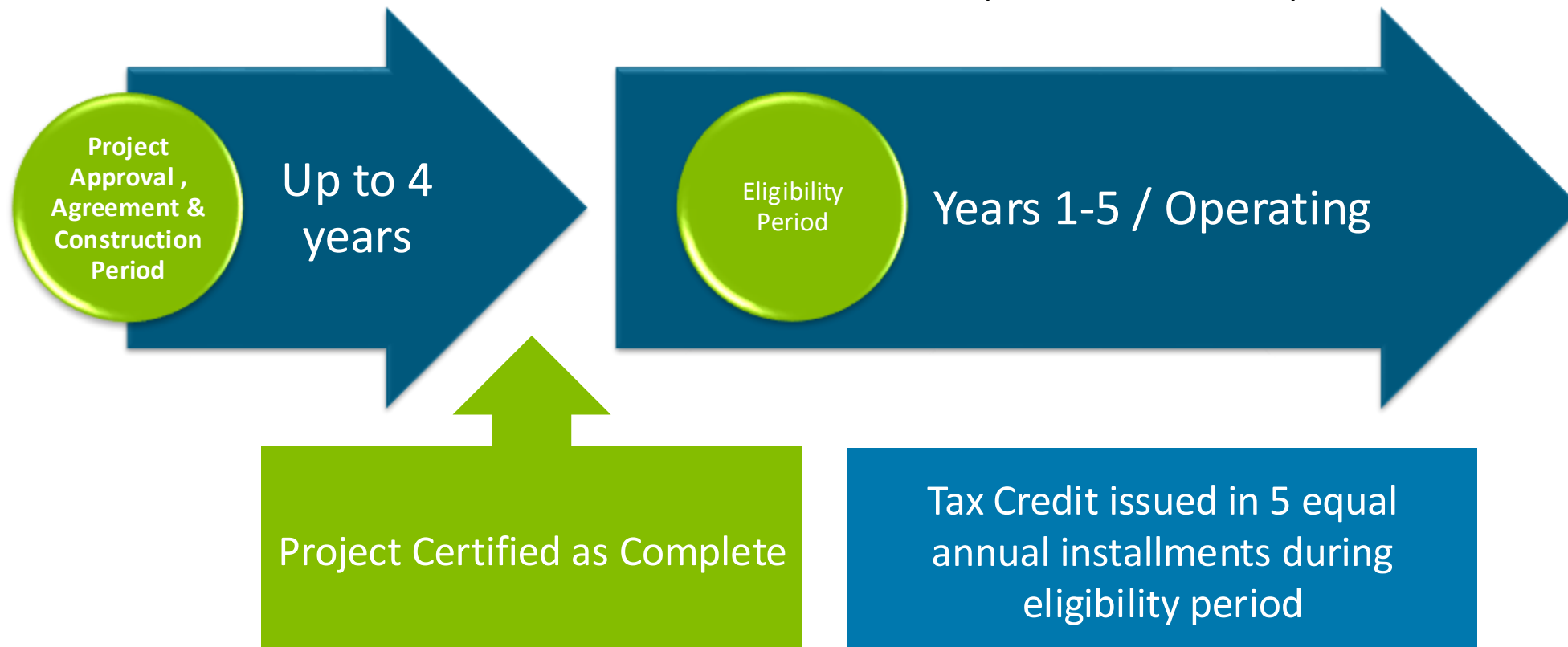


- (1) NJEDA reviews for eligibility criteria, submission requirements, and adequacy of information.
- (2) Four years from execution of Tax Credit Award agreement to completion (TCO).
- (3) Submit annual reports from Tax Credit Award Agreement through end of eligibility period.
- (4) Tax Credit issued in 5 equal annual installments during eligibility period. Prevailing wage applies to construction and building service work from application submission through the end of the eligibility period.

# Timeline

## "Eligibility Period"

"Eligibility period" means the period of **5 years** during which a cultural arts institution may claim, sell, transfer, or otherwise use a tax credits under the program, beginning with the tax period in which the Authority accepts certification of the cultural arts institution that it has met the capital investment requirements of the program.



# How Do Tax Credits Work?

- ▶ An awardee of NJEDA tax credit program will generally sell the credits to an investor or tax credit syndicator.
- ▶ Once the project is completed, the investor or syndicator will claim the credit each year of the eligibility period. Under the CAFE Program, for example, if an awardee receives a \$25 million award, the investor can claim a tax credit of \$5 million each year during the 5-year eligibility period.
- ▶ An investor or syndicator will buy the tax credits from the awardee for 85 cents (or higher) on the dollar, before discounting. In the example above, if an investor purchases the credit from the awardee for 90 cents on the dollar, the investor will purchase the credit for \$4.5 million each year of the 5-year eligibility period.

# How Do Tax Credits Work?

- ▶ An awardee of a real estate tax credit program, like CAFE, can use two methods to bring cash into its project.
  - ▶ The first is to bring the proceeds from the sale of the credits into the project each year of the eligibility period.
  - ▶ The second (and most prevalent method) is to enlist a bridge lending source and monetize the credit to bring cash into the project at the beginning of construction. However, the source will typically charge an interest rate that will discount the tax credit award.
    - The bridge lending source will typically be a tax credit investor, bank or syndicator.

# MONETIZATION OF CREDITS

- ▶ At time of application, the applicant must show:
  - **Terms for sale or transfer of credits** at a sale price at or above the minimum program requirement (85¢/\$1).
  - **How credits will be monetized** prior to execution of the tax credit agreement (document showing that buyer will provide funds upfront, bridge loan, etc.)
  - **Full funding stack** showing availability of **funds to cover total project costs**

# ISSUANCE OF CREDITS

- ▶ **Once construction work is done**, the cultural arts institution submits documentation to certify that all work was completed in accordance with the agreement **work is certified and the 1<sup>st</sup> tax credit certificate is issued.**
- ▶ After tax credit certificate is issued, the cultural arts institution can request a **transfer certificate** to be issued.

## Transfer and Utilization of Credit



**Credits must be sold for no less than 85% of their face value**



**Credits are disbursed over 5 years (after construction is complete). Credits are to be utilized on the year they were issued. Unused credits amounts may be carried forward by transferee for up to 5 subsequent years.**



**Credits can be sold or transferred only once.**

# Claiming the tax credit

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## Claiming the tax credit

- ▶ This tax credit may be applied to Insurance Premium Tax and Corporate Business Tax
- ▶ The tax credit may be transferred one time (only)
  - ▶ Can be transferred increments as low as \$25,000 (transfer fee applies to each transaction)
  - ▶ Floor for tax credit transfer:
    - ▶ 85 cents on the dollar
- ▶ The **transferee** may carry forward all or part of the tax credit for the next 5 tax periods



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