Instructions for the Project Economic Section

These instructions are provided to assist applicants in preparing materials for key financial components of the operating plan: the operating budget, net operating income, net profit and loss, terminal value calculation, and unlevered internal rate of return. Overall, applicants are responsible for delivering a thorough economic analysis of their cultural arts project.

Net Operating Income (NOI)

1. **Operating Budget**:
   - Prepare a detailed budget listing all revenue sources and expenses for each of the 5 years in the eligibility period.
   - Ensure this budget thoroughly covers the operation of the cultural arts project and aligns with your market study and operating plan.
2. **Calculate Net Operating Income**:
   - For each year, subtract total operating expenses from total revenues to determine the NOI.
   - Provide both annual and total NOI for the entire eligibility period.
3. **Debt Obligations**:
   - Exclude any debt obligations related to project financing when calculating NOI.

Net Profit and Loss

- Determine the net profit or loss each year by subtracting the annual payments of principal and interest from the annual NOI.

Terminal Value Calculation – For Projects in which the applicant will own or have control over the improvements at the end of the eligibility period.*

1. **Depreciation (39-year straight line depreciation)**:
   - Calculate total project costs by adding both eligible and ineligible costs (including building purchases, if applicable).
   - Determine annual depreciation by dividing total project costs by 39.
   - Subtract annual depreciation from total project costs each year, starting after project completion until the end of the eligibility period.
2. **Land Value**:
   - Provide an appraisal of the land and building at the time of application.
   - Adjust the current land value for annual inflation up to the project's exit point using an inflation rate supported by your market study.
   - If the applicant does not own or control the land at the end of the eligibility period, do not include the land value.
3. **Calculate Terminal Value**:
   - Add the adjusted remaining project costs (after depreciation) and the adjusted land value to determine the terminal value at the end of the eligibility period.

***For Projects in which the applicant will not own or have control over the improvements at the end of the eligibility period, assume a terminal value of $0.**

Unlevered Internal Rate of Return (IRR) Calculation

1. **IRR Computation**:
   - Calculate the unlevered IRR with and without tax credits using the terminal value calculated above.
   - Use the total project costs as the investment amount for this calculation.