



Year 15 Exit Issues

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Year 15 Exit Issues

- When should you begin to prepare for year 15?
- Types of year 15 options
- Navigating year 15 exits
- Relevant documents, provisions and rights
- Establishing value



When Should You Begin To Prepare For Year 15?




Types of Year 15 Options

- Continue to operate as-is and hold
- Resyndicate the project
- Purchase the LP ownership interest
- Sale of the project
- Qualified Contract



Navigating Year 15 Exits

- Exit taxes
- Capital accounts
- Purchase options or buy-out rights
- Rights of first refusal
- Forced sale provisions
- Refinancing
- Litigation



Relevant Documents, Provisions and Rights

- Partnership or Operating Agreements
- Option Agreements
- Rights of First Refusal
- Land Use Restriction Agreements



Establishing Value

- What is fair market value?
- Real estate appraisals versus full business appraisals
- Valuation methodology
- Financial forecasts
- Agreement and waterfall provisions



Establishing Value (cont'd)

What is fair market value?

Revenue Ruling 59-60:

“The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm’s length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.”



Establishing Value (cont'd)

Valuation methodology

- Income Approach
 - Discounted cash flow method
 - Capitalization of earnings method
- Market Approach
 - Guideline transactions method
 - Guideline public companies method
- Cost Approach
 - Adjusted balance sheet method



Establishing Value (cont'd)

Financial forecasts

- If no forecasts are available, work with the appraiser to make sure future expectations of the projects operations are captured.
- Capital Expenditures
- Capital Accounts



Establishing Value (cont'd)

Agreement and Waterfall provisions

- Understanding the various provisions of the annual distribution of cash flows.
- Understanding the various provisions of distributions of cash flow in a terminal year i.e. what happens at year 15?
- Understanding how all of the documents relate to each other and their effect on fair market value.



Questions?



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