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Public Finance, Project Management, Policy

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ANNANDALE SCHOOL
Ownership and Operations
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Prospects for reuse of historic structures are influenced by availability of capital for their rehabilitation, as well as the viability of their next generation of uses. As a result, the listing and discussion of prospective funding sources is organized under three themes that relate to use as well as finance. Partnerships, taxability and phasing are three elements that will influence decision making about the Annandale School.

Partnerships
The scale of rehabilitation required for the school requires exploration of long-term, formalized partnerships to enable both construction and ongoing operations. The primary partnership that needs to be evaluated as it relates to the Annandale School, is between the Annandale School District and the City of Annandale. Current leadership is not predisposed to invest cash assets in the rehabilitation of the school building, but our team recommends focused discussion on whether members of the School Board and the City Council are willing to support the rehabilitation in other ways. For example, the City could exercise its powers to establish a tax increment financing (TIF) or tax abatement district. The School District could retain the land beneath the school and enter a long-term land lease on terms that facilitate the reuse of the building.

Depending on the uses introduced to the building, these municipalities, perhaps in tandem with other public partners, could form a joint powers agreement to formalize a shared initiative in the building. The School District, if partnering with Wright County, Wright County Community Action and a public health entity, could form an entity known as a family service collaborative, to co-provide services for local families and children in a portion of the school building. These are offered as examples only, to outline that an exchange between the School District and the City Council could help identify new ways of partnering toward reuse of the '22 building.

Larger sponsor organizations such as the YMCA may also be suited to a partnership in the Annandale School. While the YMCA does have multiple branches located north and west of the metropolitan area, the nearest is in St. Cloud, 22 miles away. The current strategy for expansion at the YMCA is for a nearby branch to explore a pilot investment in a relatively small space in a new community, such as a storefront. The YMCA uses this structure to test the efficacy of local programming and membership development. If these evaluations are positive, the YMCA may advance a capital campaign and membership drive, to develop a more permanent presence in a community. In the case of Annandale, YMCA representatives noted the relative lack of nearby facilities, but also expressed reservations about the ability of a small, somewhat seasonal community base to support a permanent YMCA branch.

Existing local organizations such as YouthFirst may also represent potential partners in the reuse of a rehabilitated school building. As an organization broadly supported by the community, YouthFirst could contribute by committing to a lease of multiple years, and offering programs complementary to other uses in the building. Other stable local organizations with a support base on which to draw, could participate similarly.

Given the size of the Annandale School and the intensity of rehabilitation required, successful partnerships for reuse will be critical. First and foremost, a shared strategy for the building's future by the City and the School District, will be important. Secondly, developing partnerships with interested users as early as possible will assist in procuring financing from tax credit investors and lenders.

Taxability

As school district property, the Annandale School is exempt from property taxes levied by the City, School District and County. The future ownership of the school will determine its treatment for property tax purposes. If the owner organization of the building, and all of the users housed within it, qualify as charitable or are public agencies, then under State law there will be no property tax liability. If either the owner organization or some of the users are individuals (as in the case of housing), or private enterprises, then the property will incur annual taxes to the City, School District and County.

The issue of taxability is a significant consideration for reuse, because it is based on use and influences the tool set available for financing. The nonprofit structure employed by the Detroit Lakes Community and Cultural Center (see inset), as a tax-exempt entity, reduces the annual cost burden on the facility, and facilitates membership contributions that are tax-deductible. A public ownership model provides property tax exemption and retains the possibility of State bond support or other sources. For tax-exemption to be granted, the Annandale School would be limited in its uses to public or charitable uses in the structure, which include a community center and (under certain conditions) affordable housing.

Incorporating market-rate housing, condominiums, or commercial uses necessitate the assumption of property tax liability. While this creates a cost to be managed through operations, the property's taxable status may also expand the financing tool kit to include tax increment financing (TIF) and tax abatement. These tools allow the capture of property tax revenues generated by a rehabilitated school building, and allow for repayment of the investment in the construction over time. Moving the school from the tax-exempt status it has always held as a public building, into taxable status, reflects one form of value of reusing the historic structure.

Phasing

The Annandale School, at roughly 40,000 square feet, represents a substantial inventory of space to deliver to the local real estate marketplace, whether for lease or for sale. A theme raised in interviews and community meetings has been the prospect for filling the building in a series of phases, with the first floor completed and reused first, and upper floors built out and occupied subsequently. As this strategy relates to supporting the downtown marketplace, this approach to phasing is recommended. The development of partnerships and securing of financing also may progress at different rates, making a phased approach advantageous. At the same time, completing some elements of the rehabilitation (such as mechanical equipment) in the most cost-effective way will demand they are undertaken for the building as a whole, instead of in a phased way.

Phasing can impact financing strategies, as well. The development of affordable housing, for example, often relies on the federal low-income housing tax credit (LIHTC). The credit, which is awarded to projects by Minnesota Housing, allows the project to trade the credit in exchange for investors' substantial contribution toward construction. Attracting these investors is a competitive process, and phasing of a development introduces a risk element that will narrow the field of investors interested in the project.

		Scenario Comments	
Funding Tool	**Notes**	**Community Center/Affordable Housing**	**Community Center/Luxury Condo**
Project Finance Tools			
Federal Historic Rehabilitation Tax Credit	The Federal Historic Rehabilitation Tax Credit provides a mechanism to aggregate capital for the restoration of historic property. The credit is a vehicle for purchasers – typically banks or other larger investors – to contribute funds to a project in exchange for a tax credit on federal income. The federal program allows for projects to sell credits equal to up to 20% of the qualifying expenses of the project. Proceeds of the sale are then used for rehabilitation of the historic structure. Buyers of the federal credits are typically large banking organizations.	Eligible for rehabilitation costs	Eligible for rehabilitation costs
State Historic Tax Credit	Minnesota's Historic Structure Rehabilitation State Tax Credit reflects the general structure of the federal credit. Like the federal tool, the state credit allows for the sale of credits for up to 20% of qualifying expenses on a project, and buyers of this credit are also large entities, primarily banks.	Eligible for rehabilitation costs	Eligible for rehabilitation costs
Federal 10% Rehabilitation Tax Credit	An additional tax credit vehicle exists to support rehabilitation of pre-1936 buildings that are not designated on the National Register of Historic Places. The 10% credit provides a more flexible tool, but it does require that structures are depreciable (requiring private ownership of the building), and the credit proceeds are not permitted for residential rehabilitation. The 10% credit	Eligible for rehabilitation costs, provided property is in private ownership	Eligible for rehabilitation costs, provided property is in private ownership

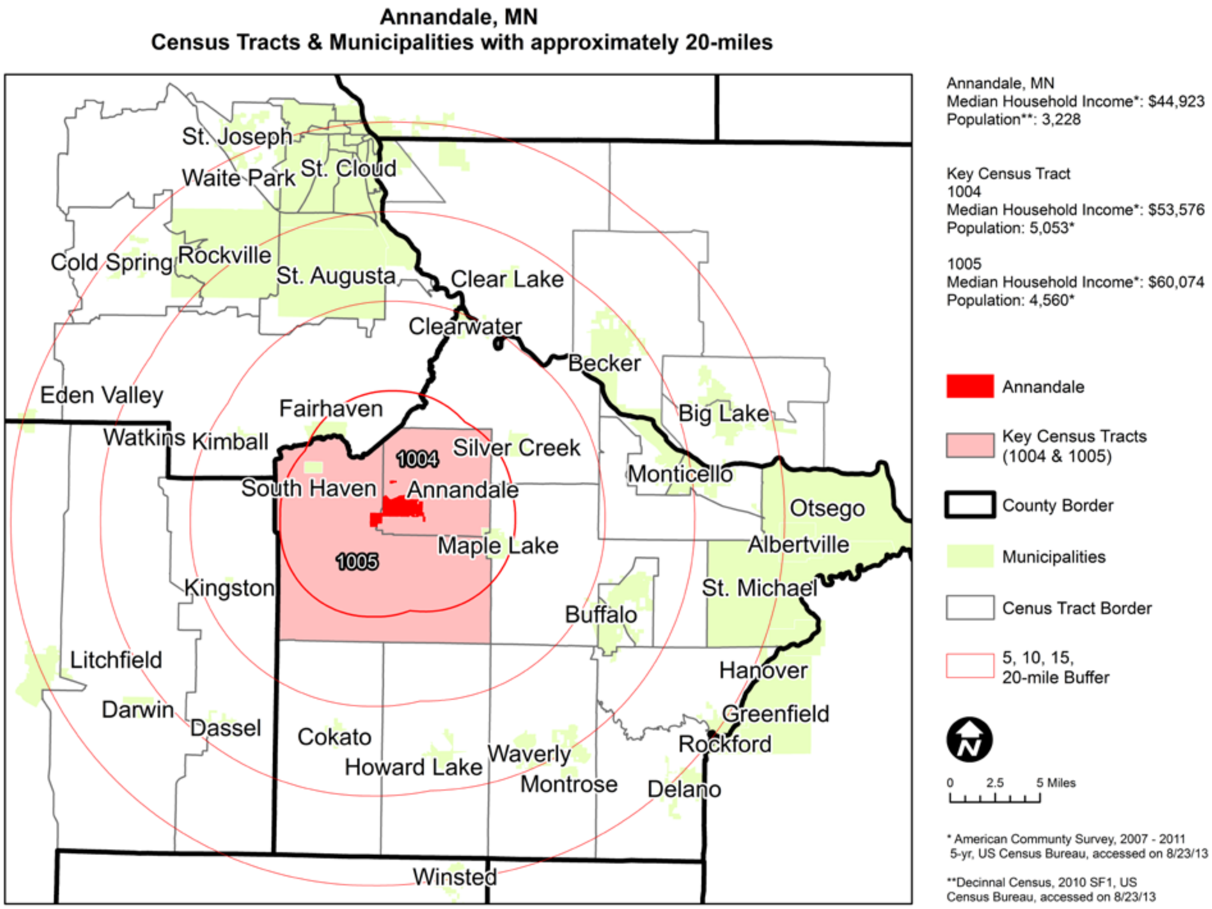
		Scenario Comments	
Funding Tool	**Notes**	**Community Center/Affordable Housing**	**Community Center/Luxury Condo**
	cannot be used in tandem with the 20% federal historic rehabilitation tax credit.		
Low-Income Housing Tax Credit (LIHTC)	The federal LIHTC credit provides an annual tax credit of 4% or 9%, for a period of ten years. Like the historic tax credits, LIHTC allows for the pooling of capital up front for construction, in exchange for a tax credit awarded through Minnesota Housing. LIHTC requires a minimum of 20% of the rented units be affordable for households earning 50% or less of area median income, or that a minimum of 40% of the units are affordable to households earning 60% of the median family income or less. Typical affordable housing projects using the 9% credit are able to sell these credits to fund roughly 60% of the capital required. Often, a mortgage by a private lender provides 10% of the funds required, and an additional 30% is covered by equity, grants and other contributions.	Eligible for portion of rehabilitation and construction costs used by affordable housing.	Ineligible.
HUD Section 202 Advances	The Section 202 program is designed to increase the inventory of affordable housing with supportive services for very low-income elderly residents. These projects provide an environment for independent living, which also provides support activities such as cleaning, cooking, and transportation	Eligible.	Ineligible.

		Scenario Comments	
Funding Tool	**Notes**	**Community Center/Affordable Housing**	**Community Center/Luxury Condo**
	HUD provides interest-free capital advances to private, nonprofit sponsors to finance the projects, and the source does not require repayment if the project is in service for 40 years. HUD 202 funds can also be used as rental assistance resources for residents over time.		
Private Lending	Rehabilitation may also be funded by construction debt, subsequently consolidated into a long-term mortgage on the property. In cases where historic and LIHTC credits are utilized on the same project, a private lender may become a partner both by purchasing these tax credits and by lending funds for the rehabilitation.	Eligible.	Eligible.

Public Agency Tools			
Tax Increment Financing (TIF)	Tax increment financing (TIF) is a mechanism used to dedicate a portion or all of the property tax revenue collected on property, in order to support outcomes such as redevelopment of difficult sites or structures, or affordable housing development. In Minnesota, the process for establishing a TIF district is initiated by the City, which may proceed to establish a redevelopment TIF district, or a housing TIF district to advance a project like the Annandale School. In each case, the maximum term of a district is 25 years from the date the first "captured" property tax revenue is received. TIF districts do not eliminate the collection of property tax by the City, County and School District; they trap those revenues generated beyond a base level, and authorize their use as repayment of construction costs.	Eligible if building is held by private, taxable party. Could operate as redevelopment TIF district or housing TIF district.	Eligible if building is held by private, taxable party. Could operate as redevelopment TIF district.
Tax Abatement	Tax abatement provides for the capturing of property tax revenue payable to the City only, on property. The term of an abatement is typically limited to 15 years, and the amount is restricted to the larger of 10% of net tax capacity or $200,000. For Annandale, this tool would allow for abatement of up to roughly $225,000.	Eligible if building is held by private, taxable party.	Eligible if building is held by private, taxable party.
School District Lessor	The Annandale School District could elect to retain the land under the school and structure a long term lease to the party advancing the rehabilitation or redevelopment of the Annandale School. At an estimated land value of $8.00 per foot, the Annandale School District could retain roughly	Eligible.	Eligible.

	$630,000 of land value on its balance sheet, reducing the overall cost of acquisition and rehabilitation by this amount for an end user. ** Presumes land area of 75,000 square feet in total.*		

Supplemental Data



Wright County Census Tracts	1004	1005	Combined
Total population	5,053	4,560	9,613
Age Groups			
Under 5 years	6.00%	6.90%	
5 to 9 years	5.00%	5.70%	
10 to 14 years	7.20%	8.40%	
15 to 19 years	6.50%	5.90%	
20 to 24 years	2.90%	3.40%	
25 to 29 years	4.30%	5.30%	
30 to 34 years	7.30%	4.10%	
35 to 39 years	4.30%	7.50%	
40 to 44 years	6.20%	6.10%	
45 to 49 years	9.10%	9.50%	
50 to 54 years	7.40%	7.90%	
55 to 59 years	7.30%	7.10%	
60 to 64 years	7.50%	7.20%	
65 to 69 years	5.00%	6.50%	
70 to 74 years	4.10%	3.80%	
75 to 79 years	3.10%	2.10%	
80 to 84 years	3.50%	1.40%	
85 years and over	3.30%	1.20%	

Also Available with Male / Female Breakdown.
American Community Survey 2011 Estimates.

EMPLOYMENT STATUS	1004	1005
Population 16 years and over	4,044	3,554
In labor force	2,566	2,391
Civilian labor force	2,566	2,391
Employed	2,414	2,194
Unemployed	152	197
Armed Forces	0	0
Not in labor force	1,478	1,163
INCOME AND BENEFITS (IN 2011		
Total households	2,183	1,774
Less than $10,000	102	78
$10,000 to $14,999	144	80
$15,000 to $24,999	130	166
$25,000 to $34,999	290	124
$35,000 to $49,999	373	233
$50,000 to $74,999	468	424
$75,000 to $99,999	290	311
$100,000 to $149,999	244	260
$150,000 to $199,999	55	53
$200,000 or more	87	45
Median household income (dollars)	53,576	60,074
Mean household income (dollars)	67,858	71,680
With earnings	1,672	1,422
Mean earnings (dollars)	68,806	70,209
With Social Security	813	516
Mean Social Security income	16,372	20,107
With retirement income	431	307
Mean retirement income (dollars)	16,602	22,082
With Supplemental Security Income	15	36
Mean Supplemental Security Income	5,680	7,103
With cash public assistance income	67	34
Mean cash public assistance income	7,051	3,050
With Food Stamp/SNAP benefits in the	118	58

American Community Survey 2011 Estimates