

## MEMORANDUM OF UNDERSTANDING AND OFFER

Date: September 18, 2022  
To: Superintendent Noel Schmidt  
School Board Chairman Tim Riordan  
Mayor of Gilbert, Carl Oberstar  
From: GES LLC by Paul Warshauer, its Managing Member

The schools in Gilbert, Minnesota have a complicated back story. In 1907 the City of Gilbert was platted and named after Giles Gilbert, who led the exploration of the McKinley mine. Gilbert is part of the Quad Cities of Virginia, Eveleth, and Mountain Iron. It appears that each community built some truly amazing schools and several of these magnificent buildings still remain. Over the years consolidations between districts occurred; some contentious. There appears to be some healthy competition between the communities but all of them would like to see their historic buildings saved...if possible.

For our group, and truly for the community, the idea of children remaining in parts of the property is significant. We hope that the tenants proposed in the former high school can accomplish this continuity.

The time is right to save some of the Eveleth-Gilbert schools as the last classes concluded on one site in May of 2022.

In Gilbert, the former high school, built in 1911, and the former junior high school built in 1924 are examples of solid brick construction but contain artistic flourishes that make these structures remarkable. A "Connector" between the two older buildings was added in 1962. A large gymnasium (1953), a Media Center (1990), and a Vocation Education addition (1969) were added. Unfortunately the 1917 "Science Wing" was demolished in September of 2022.

As many school districts in the US consolidated, their schools became vacant or underutilized. Some were razed, some abandoned, and some have been "restored" or adaptively reused. It is not easy reusing an old school but developers have found that creating apartments from old classrooms is a good place to start. There are always problems trying to find uses in each building for the gymnasium, auditorium/theatre, library (media center) and cafeteria. These areas are not normally conducive for residential units.

However...

This project may have a solution to repurpose the entire building and to address some other needs/issues facing the community. The Plan requires several steps and cooperation from the City of Gilbert, the Rock Ridge School District, Gilbert VFW Post 4456, St. Louis County, local foundations, large and small investors, bankers, developers, former educators, historians, architects, engineers and the general public.

GES LLC which stands for **Gilbert Eveleth School** is therefore being formed (as a Minnesota Limited Liability Company) with the understanding that the community would like to save the former Junior and Senior High Schools and affiliated buildings and, that there is a need for market rate apartments, and that major repairs are needed at this time for the City of Gilbert Public Library and Community Center, and that the VFW property needs costly improvements, we offer the overview of our plan.

### **THE PLAN (A VISION)**

- ❖ Development of 22± market rate apartments in the former Junior High School, (the 1924 section) with the working title, Nellie Shean Apartments. (Shean was an educator and administrator in Gilbert for 50 years from 1913-1963)
- ❖ Development of the first floor of the former high school (1911 section) for use by children's agencies and programs including Head Start, child care for all ages, after school programs, and other social service agencies. The kitchen and cafeteria will serve that population with breakfast, lunch, and dinner service. The kitchen and cafeteria will also be utilized for theatre concessions and perhaps can be used for dinners prior to theatre performances and for other public or private events as well.
- ❖ Maintain and improve the Auditorium on the second floor of the former high school, (1911 section) for use as a Community Theatre. The working name will continue to be the Magdalene Feyereisen Auditorium named after a faculty member who worked in the district for 43 years (from 1911-1954). Concerts, musicals, plays, pageants, weddings, musical events, meetings/conferences, and civic ceremonies will be held there. *(See association with the cafeteria and kitchen above)*
- ❖ Relocation of the Gilbert Public Library to the Media Center in the 1990 section of the former school.
- ❖ Relocation of the Community Center to the 1962, 1953 (big gym) and 1969 sections of the former school. The gym will be repurposed to include flexible use for basketball, one tennis court and several Pickleball courts for indoor use year round. The two industrial shops may be used for community use such as a community "hobby" garage for citizens to repair and restore antique cars.
- ❖ Maintain the playground where it is so that children in programs in the former high school, the 1911 building can utilize the equipment. Also: The residents of the Nellie Shean Apartments can see kids at play from their windows or sit on benches surrounding the playground.
- ❖ Relocate the Gilbert VFW Post 4456 to the current Gilbert Community Center and Library Building. (More parking and so many amenities.)

The funding of this PLAN is complex and needs a great deal of coordination, research, diligent accounting, and a thorough property analysis and assessment of ALL of the properties involved.

The acquisition of the Gilbert Campus will be accomplished with a Purchase Agreement and accompanied by a detailed Development Agreement with a timetable, expectations and goals.

The maintenance of the Campus, while negotiations are ongoing, is essential. It is strongly recommended that the utilities remain in tact and that temperatures inside are maintained at 55°F. This means water, gas, sewer, and electricity remain in working order. Security measures must be explored.

It is not enough to just want to “save the old school.” A clear business plan must demonstrate that the project is eventually self-sufficient and supported by the majority of the community.

Any agreement will include provisions that no property or equipment may be removed until negotiations are completed. This includes but is not limited to: all blueprints and drawings of the property, artwork, statues, kitchen equipment, playground equipment, records located in the safes on the property, and any and all equipment located on the property on September 15, 2022 when Mr. Warshauer did a walkthrough of the property.

Many factors must be included in the preparation of the Income and Expense reports necessary for the operations of the property as there are many different operations: apartments, theatre, child care, social services, food service, etc.

First a few basics about how this development may be funded.

Development of most historic properties must be phased and depend on many factors, not the least of which is the importance of a listing on the National Register of Historic Places. This is first and foremost! <https://www.nps.gov/subjects/nationalregister/index.htm>

For developers the use of Federal and State Historic Tax Credits are essential for financing of these complex projects. In brief, a developer can utilize approximately 20% of the Qualified Rehabilitation Credits (QREs) from the sale of Federal Tax Credits and an additional 20% from the sale of State Historic Tax Credits with NO debt and NO equity. The State of Minnesota has allowed the state program to “sunset” but most reports are that the program will resume soon or at least when the next legislative session begins in January of 2023.

<https://www.nps.gov/tps/tax-incentives.htm>

<https://mn.gov/admin/shpo/incentives/state/>

Then there are grants and funding from public entities, quasi-governmental agencies, and private foundations. Many of these dollars are essential to obtain architectural reports, engineering studies, etc. It is our understanding that some reports have been accomplished recently including asbestos studies, etc. Those reports and studies from the District will be helpful in discussing financing.

The District will have to support this plan as well. It is clear that significant funds would be needed to demolish the buildings. This PLAN will clearly cost the District far less than the demolition option!

All projects of this nature require some private equity funding. This means that investors, large and small, should participate in the project. The creation of several Limited Liability Companies is underway. One of them, GES LLC will assume title and provide initial legal, financial and structural support for the project. The LLC will solicit investors in the \$25,000 to \$500,000 range. The units issued to these investors will be based on the total amount of equity required for the project. These people or companies are investors NOT charitable contributors. They should expect a modest return on their investment. At some point, not-for-profit donations will be solicited for the Auditorium/Theatre operations and renovations.

GES LLC will take title to the entire property and will be capitalized at \$10,000,000. This is NOT the cost for the entire project.

At first the focus is on PHASE ONE, the Nellie Shean Apartments. This apartment phase (22 market rate units) is estimated at \$6,000,000 (\$272,000 per unit) which includes all features, HVAC, roof, public spaces, landscaping, parking, etc. but with no funding for any other development of the other parts of the property. The Connector and former High School will be maintained with minimal utilities. As the projects advance, other LLCs or entities may be employed. With the apartments funding might look like this:

Federal HTC (88% of total)	\$ 1,056,000
State HTC (88% of total)	\$ 1,056,000
Equity from investors	\$ 750,000
Commercial bank loans	\$ 1,600,000
Tax Incremental Financing (TIF)	\$ 850,000
Grants + Gov. programs	\$ 500,000
Low interest loans	\$ 200,000
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	\$ 6,012,000
Expenditures for remainder*	\$ 3,988,000
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	\$10,000,000

\*Additional funds will be needed for stabilization of the entire property, utility costs, carrying costs, legal, accounting services, preparation for listing on the National Register of Historic Places, potential utility separation, security, architectural plans, theatre renovation & improvements, build out of parts of the 1911 Section, (see below about a "spin off") and coordination with the City of Gilbert as they begin their process of renovation for their section for the library and community center.

Important note: The LLC will NOT participate in the VFW move nor will it participate in the move of the library and community center. It will participate in coordination efforts as listed above.

Another important step will be the creation of a not-for-profit group that will manage the Auditorium. Eventually this group will be responsible for their own fundraising but for a few years rent will be prorated or based on a percentage of revenue.

At some time, the former high school (1911 Section) will be operated by a separate entity. This means they will serve as Landlord for the not for profit theatre company, and the social service agencies, Head Start, etc. There is a possibility that the new landlord may be a not-for-profit entity and that GES LLC will "spin off" the property by donating the 1911 Section to them and receive a healthy tax deduction for its investors.

Submitted this 19th day of September, 2022

***Paul W. Warshauer***

Paul W. Warshauer  
GES LLC  
Chairman and Managing Member

704 Maple Street SW  
Sleepy Eye, Mn 56085  
Cell: (312) 550-7868  
Fax: (312) 276-8411  
[grandevenues@gmail.com](mailto:grandevenues@gmail.com)

**The following OFFER is subject to a detailed  
Purchase Agreement and Development Agreement**

GES, LLC (a Minnesota Limited Liability Company in formation) hereby offers the Rock Ridge School District the sum of Six thousand dollars, (US\$6,000.00)\* for the property commonly referred to as the former Junior High School, High School, and "Connector." (Legal description to follow.) This offer is subject to a detailed Memorandum of Understanding and development Agreement parts of which are contained in this initial Letter of Interest.

It is understood that throughout this negotiation process the District will maintain the property keeping the utilities connected and maintaining the buildings with temperatures at least 55°F. Water, electricity, gas, and sewer to remain connected.

One important point not mentioned herein is that this developer has NO intention of scavenging the property for "parts and pieces." GES agrees that if its plan fails they will NOT sell the property to anyone who would scavenge. The intent is to develop the property with uses contained herein.

The Developer shall have unlimited access to the property and will be allowed to maintain an office, or offices, on site. It is understood that any visitor who enters the property on behalf of the Developer shall abide by the rules not to remove anything and will not deface the property. These include but are not limited to: architects, engineers, contractors, subcontractors, consultants, investors, certain members of the public, and members of the media (when invited). It might be necessary to have all who enter sign a waiver of liability. This will also give us the names of everyone who enters the building and when they did so.

The parties understand that this is a complicated project and will require months if not a year or two to fully execute. Much of this project involves the direct participation of the City of Gilbert.

*\*This is the approximate sum required to repair the boilers.*