

**BEMIDJI AREA SCHOOLS
BEMIDJI, MINNESOTA**

DATE: MARCH 30, 2015

TO: BOARD OF EDUCATION, ISD #31

FROM: CHRIS J. LEINEN, DIRECTOR OF BUSINESS SERVICES

SUBJECT: APPLICATION FOR NEW MARKETS TAX CREDIT FUNDING

COMMENTS:

The Bemidji School District has retained the services of Dougherty and Company to assist us in the process of applying for New Markets Tax Credit Program funding. This is a Federal Program designed to spur investment in certain qualifying communities.

The attached application to the MMCDC (Midwest Minnesota Community Development Corporation) is for a project total of \$35 million. The net proceeds to the district will be around 20% of the awarded amount. The list of possible uses of the net proceeds is included in the application.

If a smaller award is given then the list of possible projects will necessarily have to be trimmed down.

ACTION:

The motion was offered by _____, seconded by _____ and, carried () to approve the submission of a NMTC Funding application to the MMCDC for a total requested amount of \$35 million.



Part A: Project Information
(To be completed by project sponsor and / or MMCDC program staff)

GENERAL INFORMATION

Project Name:	Bemidji Schools Redevelopment
Date Submitted:	April 15, 2015
Person Completing Form:	Jeff Seidel
Contact for Follow Up Information:	
Name:	Jeff Seidel
Telephone Number:	612-376-4195
Email Address:	jseidel@doughertymarkets.com

SPONSOR INFORMATION

Sponsor Name:	Bemidji School District 31
Organization Type:	<input type="checkbox"/> For-profit Entity <input checked="" type="checkbox"/> Nonprofit entity
Is the sponsor/owner from the community in which the business is located?	<u>Yes</u> / No

PROJECT LOCATION

Street:	1911 Middle School Avenue NW
City:	Bemidji
State:	MN
Zip Code	56601
Census Tract*:	4507.02
Population of Community	13,431

- * The Census Tract Code can be obtained by going to <http://www.ffiec.gov/Geocode/default.aspx> and entering the project's address (i.e. 38-218-0023.00 state code-county code-tract code)

Please indicate whether the project location meets any of the following distress criteria: Bemidji 4-5 Elementary School

	Yes	No	Don't Know
Poverty rates greater than 30% 66.3%		X	
Median family income less than 60% of benchmarked income		X	
Unemployment rates at least 1.5 times national average (US Unemployment Rate website: http://data.bls.gov/PDO/servlet/SurveyOutputServlet?request_action=wh&graph_name=LN_cpsbref3) (MN Unemployment Data website: http://www.deed.state.mn.us/lmi/tools/laus/Default.aspx) 1.72x		X	
Tax Increment Districts in Minnesota		X	
JOBZ District in Minnesota		X	
Designated for redevelopment by a governmental agency			X
Federally designated Empowerment Zones, Enterprise Communities, or Renewal Communities (website: http://egis.hud.gov/egis/cpd/rcezec/ezec_open.htm)			X
SBA designated HUB Zones (website: http://map.sba.gov/hubzone/hzqry.asp?state=mn)		X	
Federally designated as Native American or redevelopment areas by the appropriate Tribal or other authority			X
Brownfield redevelopment area: (website: http://pca-gis04.pca.state.mn.us/website/mes/mesfin/entry.htm) VIC sites, not all inclusive		X	
Encompassed by a HOPE VI redevelopment plan			X
Located in a CDFI Hot Zone			X
High Migration Rural County (10% decrease in population 1980 to 2000) (website: http://www.lmic.state.mn.us/datanetweb/php/census2000/c2000_menu.php) -11%			X
Non-Metropolitan Area (population < 50,000)	X		





PROJECT DESCRIPTION

Nature of Venture for which Financing is Being Requested:	<input checked="" type="checkbox"/>	Real Estate (Purchase/Develop Property for Rental purposes)
	<input type="checkbox"/>	Business (Real Estate or other to be used directly in the business)
	<input type="checkbox"/>	Other

Please provide a general description of the project in the space below. (You can supplement this information by attaching additional materials.) If applicable, please describe the use of the real estate (office, retail, industrial, housing, day care, charter school) and the prospective tenant mix. NOTE: If it is a mixed-use project, then no more than 80% of its gross revenue may come from rental dwelling units.

This project is construction of a new grade 4 & 5 Elementary School, an HVAC renovation of the Middle School plus improvements to the transportation and recreation facilities of the school district. The cost of new school project is \$30 million and the BMS HVAC project is \$4 million. These projects are funded through a voter approved bond referendum. Additional parts of the project that were in excess of the referendum include an expansion of the planned ADA inclusive playground which will serve the adjacent youth soccer, softball and baseball fields (\$200,000). Also planned is a new walking/bike path to connect the new Elementary School with the existing Middle School and the housing development currently under construction to the west of the project (\$200,000). Additionally we would like to build a second gymnasium onto the new school to help meet the demands for indoor recreation space during winter seasons (\$2 million). We are planning for improvements to the district bus garage to facilitate student transportation (\$1.1 million). We also plan on replacing our 50 year old ice sheet (\$2 million) and would like to upgrade the roof of the new school from 25 years to a 50 year life expectancy (\$500,000). The total cost of the new school project is \$34 million but there is also \$6 million in additional project costs, not approved in the referendum for these buildings which can be funded due to the NMTC program.

Complete the following information regarding your status as a Qualified Business. Your business must meet the following criteria:

	Yes	No	Don't Know
Does the business currently earn revenues directly related to its business or expect to do so within 3 years? (If a nonprofit, the entity must perform activities now or within the next 3 years furthering its primary mission)	X		
Is at least 50 percent of your total gross income derived from active conduct within a low-income community?	X		
Is at least 40 percent of your business's tangible property within a low-income community?	X		
Do your employees perform at least 40 percent of your business's services within a low-income community?	X		
No more than 5% of assets are "Collectibles" not used in direct line of business (e.g., coins, artwork, antiques, etc.)	X		
No more than 5% of assets are "Nonqualified Financial Property" (investments, excess cash above working capital needs, stocks, bonds, futures, options, etc.)	X		

Discuss Development Team experience and capabilities, and/or attach resumes of team members.

The Development Team consists of the School District, led by its Superintendent, Dr. James Hess (resume available), DLR Architects (<http://www.dlrgroup.com/home/>), Kraus Anderson Construction Company (<http://www.krausanderson.com/index.php>), Springsted Public Finance (<http://www.springsted.com/public-finance>), and Dougherty & Co. (<http://www.doughertymarkets.com/>). Dougherty & Co. is the advisor to the District for the New Markets Tax Credits (led by Jeff Seidel). Background on Dougherty and Seidel can be found at





New Market Tax Credit Funding Application

www.doughertymarkets.com





ANTICIPATED COMMUNITY IMPACT

Likelihood of Generating Tangible Economic and / or Social Benefits. Please estimate the following tangible outcomes expected to be generated by the proposed project.

Square Footage of Commercial Real Estate Development (excluding housing units):	--
Retail Square Footage	--
Office Square Footage	--
Manufacturing Square Footage	--
Square Footage of Business Real Estate Development (combined Middle and Elementary Schools):	344,037
Manufacturing/Production Square Footage	--
Office Square Footage	6,880
Other Square Footage	337,157
Square Footage of Housing Units:	--
Number of Housing Units Produced	--
Number of Housing Units Targeted to Low-Income Persons	--
Number of Permanent Jobs Created or Retained by Project:	75 Retained and up to 30 New within the District
Number of Construction Jobs (Temporary) Created by Project:	60-80 construction jobs created
Number of Indirect Jobs Created by Project:	Over 150

Please indicate the value of the outcomes listed above to low-income communities or residents. If applicable, please try to address the following:

- **Tenants of Commercial / Community Space:** What specific tenants (or types of tenants) are expected to occupy the commercial space, and how will the jobs they generate and / or goods & services they provide help the local community?
 - To what extent will the project provide vital community services to residents of the low-income community (grocery store where one doesn't exist, day care for workers in the area, cultural venue, etc.)?
 - Will the project provide space for locally-owned, minority- or women-owned businesses or nonprofit tenants? Is there an explicit set-aside for such tenants?
 - What, if any, community services will be provided by the project?
- **Housing:** What significance does the housing have on the revitalization of the local community?
- **Jobs:**
 - To what extent are the tenants likely to be creating new jobs, rather than relocating jobs from another location?
 - If jobs are being relocated, would they be coming from another low-income community?
 - To what extent are jobs likely to go to residents of the low-income community or low-income people from other areas?
 - What, if any, efforts will be made to target jobs to low-income community residents or other low-income people?
 - What is the nature of the anticipated jobs in terms of wages, benefits, etc?

Beyond the value of creating temporary construction jobs, the Projects will expand the capacity for the schools in order to grow the student and teacher population (the District employs 400 licensed teachers and 450 non-licensed personnel for 5,109 students). Bemidji is 220 miles northwest of the nearest large metropolitan area (Minneapolis) and has to fight hard for businesses to domicile there. Currently the major non-governmental employers include Sanford Health (1,484 employees), Anderson Fabric (270 employees), Knife River Materials (250 employees) and Nortech Systems (154 employees). In addition, being the hub the County as well as the City, the Bemidji School District has 830 employees, and Beltrami County has 370 employees. And finally Bemidji also houses Bemidji State University, with 554 employees. All of these entities see the need for good schools to





attract professionals to Bemidji, who otherwise might not come. They have all indicated that the upgrade of the school facilities is imperative for the City and School District to keep up with the demands of the local employers and citizens. With this growth, the District is expecting a rise in the student population of approximately 300 students in the next decade. This will secure new employment of at least 12 licensed teachers and 18 non-licensed personnel.



Need for NMTC Financing in Order to Generate Benefits. Please indicate why favorable NMTC financing is needed to generate the economic and social benefits described above. (Would project proceed without NMTC financing? Would it be reduced without NMTC?)

Bemidji School District went through an extensive strategic planning process which resulted in a list of projects with their assigned costs. A public survey included a question about how much each taxpayer was willing to spend in additional property taxes in support of a school district bond referendum. The list of projects was then prioritized to meet the scope in which the majority of property tax payers were willing to support. This resulted in \$39.815 million bond referendum passing in November 2014. The extensive planning project list includes an additional \$25 million in projects that were addressed as facility needs but are not included in the \$39.815 million bonding (\$5.0 million to be used as capitalized interest for the next 5 years). With the proceeds of the NMTC's, many of the other items in the District's list of critical items can be addressed.

FINANCING INFORMATION

Total Project Cost:	\$40,000,000
Amount of NMTC Financing Being Requested (if known)	\$35,000,000 allocation

Please provide the type (see options below), amount, source and status (see options below) of other project financing.

TYPE	AMOUNT	SOURCE	STATUS
General Obligation Bonds	\$39,815,000	N/A	To Close 10/2014
* Taxable bonds for NMTC	(\$5 million cap i)		

Type: Debt – Commercial / Debt – Government / Debt – Other / Grant – Government / Grant – Other / Equity – Owner / Equity – Historic Tax Credit / Equity – Other

Status: Disbursed / Committed / Term Sheet / Application Pending / Other

Primary Need for NMTC Financing:

<input checked="" type="checkbox"/>	To fill a capital gap in the development budget
<input type="checkbox"/>	To reduce debt service in the operating pro forma
<input type="checkbox"/>	Other:

Please describe the need for NMTC financing in the space below, responding in particular to the following questions. Please be as specific as possible. (You can supplement this information by attaching additional materials.)

- What type of advantageous terms are being sought from the NMTC financing?
- What would be the impact to the project / business if it does not receive NMTC financing?

As mentioned above, the capital needs of the District are beyond the amount raised by the voter approved November referendum. During the strategic planning process for the referendum, it was determined by independent consultants through multiple surveys and community meetings that most voters would be willing to approve up to \$34 million in project costs. Therefore, a number of other project needs were removed from the referendum request. With the NMTCF proceeds, some of the more critical additional project needs will be completed including \$6 million for additional ADA playground space, walking/biking paths to connect schools and recreation facilities, additional indoor gymnasium space, improved transportation services, updated ice facility and an upgraded roof for the new school, improving efficiency and longevity. The NMTCs will allow for these improvements to be completed.





TRANSACTION TIMING

What is the earliest date by which this transaction could be ready to close and latest date by which it must close?

Earliest Date:	October, 2015
Latest Date:	November, 2015

Please explain the basis for these dates in the space below, including the status of the items listed below. (You can supplement this information by attaching additional materials.) Please be as specific as possible.

- *What is the status of non-NMTC financing?*
- *If the transaction involves real estate financing:*
 - *What is the status of site control?*
 - *What is the status of environmental work?*
 - *What is the status of project permits?*

The general obligation bonds required for the project will be going to market in early-October, 2015 for closing approximately mid-October. We will need some time after that to complete the NMTC portion of this self-levered transaction. Therefore the earliest we can close would be November, 2015. We have spoken with the contractor about construction timing. The bulk of the construction work will be done over the summer of 2015 through the summer of 2016, with the expectation that the new school will be available for classes in the fall of 2016. A fall, 2015 closing fits the construction time frame.

Site control will be completed shortly as will all of the environmental work. Final permitting is pending financing, but this is not expected to hold-up any closing.

LEVERAGE

Lender involved?	Public Sale
Have they participated in NMTC financing previously?	No
Are they willing to do so?	Yes

Please name lender and discuss involvement and NMTC experience.

Springsted Corporation is the financial advisor for the District. They are preparing the offering documents and will be offering the general obligation bonds to the public in October, 2015. The bonds will be sold to an underwriter at that time, for closing in late-October 2015. This is a very basic process and there should be no delays in the sale and closing of this bond issue.

Dougherty & Co. is also active in the New Markets Tax Credit program, having closed NMTC deals with the Standing Rock Sioux for a telecommunications business, two transactions for the Shannon County School District #65-1 in South Dakota for the Rockyford High School and the Batesland High School in 2011, the Minnewaukan, ND School District in 2013 and the Wahpeton, ND School District in 2014. The NMTC advisor to the Bemidji School District has many years of experience to be able to complete this financing.

