Roadmap Report: Center for African-American History, Cultural Arts and Business

Prepared for:
Southern Pines Land & Housing Trust

Prepared by:
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Overview

CDFA selected West Southern Pines as one of the communities across the nation to participate in the CDFA-USDA Community Facilities Technical Assistance Program. This program brings dedicated technical assistance to each community and helps local leaders better understand how USDA financing programs, particularly the USDA Community Facilities Program, can be used with other development finance tools to meet economic development goals. As part of this effort, CDFA conducted preliminary research on the project and visited the project site. During this in-person visit, the CDFA team toured the school, met with board members and community leaders, conducted a SWOT analysis, and discussed potential financing for the project.

On December 15, 2021, the Southern Pines Land & Housing Trust (the Trust), a nonprofit organization in Southern Pines, NC, successfully acquired the historic Southern Pines Primary School with 17 acres of land and 59,000 square feet of building space. During the acquisition process, the Trust received contributions from 435 individual donors and more than 300 people attended the ribbon- cutting ceremony. To fulfill the Trust's mission to enhance the West Southern Pines community's social and economic conditions, the Trust plans to redevelop and renovate the site into the Center for African American History, Cultural Arts and Business (the Center). In addition to aligning $685,000 for acquisition, the Trust has raised an additional $250,000 for development costs. Plans for redeveloping the existing school buildings include updating the auditorium for concerts and religious services; transforming the gym into a flexible event space; renovating classrooms into business incubator space, retail space, daycare, adult daycare, and a museum; and using the Blanchie Carter Discovery Park for outdoor events, education, and recreation.

SWOT Analysis

A SWOT analysis was used to assess the Trust's core strengths, weaknesses, opportunities, and threats, as well as the redevelopment project itself. The SWOT approach defines these terms as follows:

> **Strengths & Weaknesses**: internal factors to the organization or project
> **Opportunities & Threats**: external factors that either present opportunities or problems to the organization or project

Two main strengths emerged from this SWOT analysis: "community engagement" and "preservation of historic Black community." The local community was engaged in the school acquisition process, and have continued involvement via volunteer work, donation of historical artifacts and land, and contribution of time and knowledge. As a unified community, West Southern Pines takes pride in preserving their local arts, food, music, media, stories, and language.

The Trust is facing many internal weaknesses relating to project development, staff capacity, and organizational transition. To gain the trust of the local community, a timeline for completing the project is needed and successes must be shared to demonstrate the progress being made. Looking ahead, it will also be essential to identify streams of sustainable financing and sources of revenue for the $20 million redevelopment of this site to succeed.

The Trust has many new opportunities ahead that would benefit the project. As a highly visible and well-established tourist destination, along with an increasing number of returning residents, active and retired military, and retirees, the infrastructure and market are in existence to help the Center generate a wealth of economic activities and cash flow. The Trust also has identified various grant opportunities. For instance, the Trust is anticipated to receive $3 million in grants and the National Park Service grant was awarded to North Carolina for studying and surveying historical sites. The threats to project development arrive from people's bias and the spread of misinformation. Also, the change in town council members' support for zoning may negatively affect the project in a dramatic way.

SWOT Matrix

Strengths	*Weaknesses*
▪ Strong community engagement ▪ Support for preservation of historic Black community ▪ Trusted leadership on the Trust ▪ Market demand for development	▪ Need project development experience ▪ Limited staff capacity ▪ Experiencing organizational transition ▪ Lack sustainable financing and streams of revenue
Opportunities	*Threats*
▪ Southern Pines as a well-established tourist destination ▪ Returning residents, active and retired military, and retirees ▪ Grant opportunities	▪ Bias toward and misinformation about the project ▪ Changes on city council ▪ Competing development projects ▪ Gentrification

Financing Opportunities

Throughout the course of CDFA's engagement with the community, several financing opportunities emerged to help the redevelopment of the Center. Considering the different stages and phases the project will go through, different tools should be used for different parts of the project, various partners should be involved, and subsidiaries created to access certain financing.

The following outline of potential financing tools should be explored by the Trust in consultation with qualified financial and legal advisors.

USDA Community Facilities Program

The USDA Community Facilities Program offers affordable funding via direct loans and grants to develop or improve facilities that provide essential public services to communities across rural America. Eligible communities must be located in a rural area such as cities, villages, townships, and towns with no more than 20,000 residents, with priority given to small communities with a population of 5,500 or less and low-income communities having a median household income below 80% of the state nonmetropolitan median household income.

The low-interest loan program has several requirements that will need to be met, including how the funds may be used and the terms of the loan. The loan terms include no pre-payment penalties, a fixed interest rate, and the loan repayment terms may not be longer than the useful life of the facility. The USDA Community Facilities Program is an optimal financing choice since its interest rates are fixed for the entire term of the loan. The interest is determined by the median household income of the service area and the population of the community, and there are no pre-payment penalties. The low-interest rate makes this loan an affordable and tangible financing option.

This redevelopment project counts as an essential community facility since it provides community support services by creating community centers, child care centers, and adult care centers. It offers educational services by establishing museums and a discovery park. It also supports local food systems by creating community gardens and community kitchens. To date, the Trust has gained site control, developed a comprehensive analysis of West Southern Pines' demographics and income, conducted financial feasibility analysis, and estimated the cost of redevelopment. Currently, the Trust is trying to identify partners like real estate developers and sources of funding and revenue. One of the statutory requirements for applying for the USDA Program is to gain significant community support. This project meets the requirement by showing numerous donations from individuals and organizations. Moreover, there is a high level of community engagement. To apply, the Trust also needs to prepare the Operating Budget, proposed financial projections for the first full year of operation, and a statement regarding efforts to finance the project via other sources.

501(c)(3) Bonds

Federal and state laws permit certain types of debt financing for a variety of capital improvements on a tax-exempt basis under federal income tax laws. The main advantage of this financing method is the lower interest cost in comparison to the interest rate on conventional debt available to borrowers. Tax-exempt bonds are traditionally issued by state and local governmental units for government functions, such as school construction, public infrastructure, and municipal utilities. However, certain private organizations may also utilize the benefits of conduit tax-exempt financing through state and local governmental units as well as quasi-governmental organizations such as municipal authorities. Legally designated 501(c)(3) organizations can access this low-cost tax-exempt financing through 501(c)(3) bonds. Organizations using qualified 501(c)(3) bonds may include religious or charitable groups, scientific organizations, literary or educational groups, hospitals and other healthcare institutions, and others.

The Trust is a qualified 501(c)(3) organization and to access tax-exempt financing, the Trust must maintain its 501(c)(3) tax-exempt status throughout the entire term that the bonds are outstanding. Since the Trust has plans to develop multi-family affordable housing either by itself or in partnership with other organizations, it is essential to note that there are additional restrictions applied for the proceeds used for residential rental housing for family units. The Trust could engage with various partners from a local, state, and national level, such as the North Carolina Housing Finance Agency, a self-supporting public agency that provides financing via the sale of tax-exempt bonds and federal programs to enhance the quality of North Carolinians.

Immediate actions to take:

- Determine the amount: The Trust should first determine the amount of capital it needs to raise by issuing bonds and the cost of borrowing.
- Choose your financing team: Identify one or more key members for the financing team, such as a conduit issuer, bond counsel, and an underwriting firm.
- Secure a rating: Select a rating agency to get a rating for the Trust and the project to show creditworthiness.

New Markets Tax Credit Program

New Markets Tax Credit (NMTC) was created in the Community Renewal Tax Relief Act of 2000 with the goal to incentivize private sector investment capital into low-income communities (LICs). For the purpose of the NMTC program, LICs are census tracts where either: (1) at least 20% of the population has an income below the federal poverty level; or (2) the median family income does not exceed 80% of the statewide or metropolitan area median family income. The Center is eligible for NMTC since it is located in a census tract with a poverty rate greater than 30% and the total development costs are more than $5 million. Moreover, this project will provide benefits to the local community by generating economic activities and providing social services.

The Community Development Financial Institutions (CDFI) Fund co-administers the NMTC Program with the Internal Revenue Service (IRS). The CDFI Fund allocates NMTCs to Community Development Entities (CDEs). CDE is a domestic corporation or partnership that is an intermediary vehicle for the provision of loans, investments, or financial counseling in low-income communities. The CDE then leverages the allocation of NMTCs to raise equity from investors. An investor receives a federal income tax credit equal to 39% of a Qualified Equity Investment (QEI) made into a CDE which is then invested in a targeted low-income community. The QEI must remain invested in the CDE during the 7-year tax credit period from the date the investment was initially made. NMTC investments may include loans to businesses, commercial, grocery stores, industrial, and/or retail developments, and to developing for-sale housing.

To date, there have been 127 NMTC investments in North Carolina totaling more than a billion dollars in investment. The Trust can consider NMTC as a gap financing tool and the largest allocation of NMTC that the Trust can receive is equal to the total project budget. Finding the right CDE plays an essential part in obtaining NMTC financing. Partners the Trust could consider include U.S. Bancorp Community Development Corporation (USBCDC), National Development Council, and United Fund Advisors.

Immediate actions to take:

- Seek an accounting firm or consultant: Reach out to an accounting firm or consultant specializing in NMTC to assist with the preparation of documents and applications.
- Identify the right CDE: It is important for the Trust to look for CDEs with a national or North Carolina focus on rural investments in community facilities.

Low-Income Housing Tax Credit

The Low-Income Housing Tax Credit (LIHTC) program finances the construction, rehabilitation, and preservation of affordable housing by providing private investors a federal income tax credit as an incentive to make equity investments in affordable housing. The equity raised can be used to construct new properties, acquire and renovate existing buildings, and refinance and renovate existing affordable housing. The program was established in 1986 and is now one of the largest financing sources of affordable housing in the United States. Nearly three million affordable housing units have been placed in service since its inception. It is also the longest-running national affordable rental housing program producing new units due to the bipartisan and homebuilding industry support, as well as a history of strong program performance.

LIHTCs are allocated to each state using a per capita formula. Program criteria require affordable rents to low-income households for a period of at least 30 years. The basic requirements of the LIHTC program include how affordable the rents are and how long the rents will remain affordable. A unit is considered affordable if the household is paying no more than 30% of its income for housing costs. A variety of partners are involved in financing and structuring a LIHTC deal, such as federal, state, and local government agencies, equity investors, attorneys, and project developers.

The Trust desires to devote three acres of land for low-income multi-family housing and mentioned in the site visit that there is a need for affordable housing since much of the affordable housing in the area is not truly affordable. Many low-income families who are really in need of housing cannot afford it. It is important to measure the area's median income and compare it with the median household income in the geographic area to better determine eligibility for housing programs. This further ensures that the program is properly targeted to the right people. Other housing funds can also be leveraged to finance this project, such as the HOME Investment Partnerships Program and the Community Development Block Grant program under the U.S. Department of Housing and Urban Development.

Historic Tax Credit

The Historic Tax Credit (HTC) program is administered by the National Park Service and the Internal Revenue Service in partnership with State Historic Preservation Offices located in each state to encourage private investment in the rehabilitation and reuse of certified historic buildings. This program was created in 1976 to revitalize communities by generating new jobs, enhancing property values, and creating tax revenues. Since its creation, more than 44,000 projects have been undertaken to rehabilitate historic buildings. HTC has been used in rehabilitation buildings of all shapes and sizes and also used in qualified rehabilitation projects that are financed using low-income housing tax credits and New Markets Tax Credits.

To qualify, the historic building must be listed in the National Register of Historic Places or be certified as contributing to the significance of a “registered historic district.” Second, the cost of rehabilitation must exceed the pre-rehabilitation cost of the building. Third, the rehabilitation work should meet the Standards for Rehabilitation and accompanying Guidelines to ensure the historic character of the building is preserved in the rehabilitation. Finally, the historic building must be used for an income-producing purpose such as commercial, industrial, rental residential, or apartment use for at least five years after rehabilitation.

North Carolina is one of the 39 states in the United States that offers an additional state historic tax credit in addition to the federal credit. This tax credit preserves local historic buildings by revitalizing existing buildings and reducing the need to expand public services. Owners and developers may receive a 15-25% state income tax credit for certified rehabilitations of income-producing historic structures. To apply, the Trust can submit applications for review to the State Historic Preservation Office (HPO).

Tax Increment Financing

Tax Increment Financing (TIF) can be applied to a district or a single property, with legislation varying state by state. Aspects of development that increase economic activity for the property or district generate greater tax revenues, which then become the repayment stream – also called the increment – for the debt used to finance those improvements. The life of a district can be anywhere from 10-40 years, depending on how much time is needed for the tax increment to pay back the costs or bonds issued for the development. This structure is set up so that the tax increment from a TIF is created without raising taxes or dipping into the existing tax base at the time that the TIF is established. A TIF district – the area capturing the tax increment itself – is drawn in order to direct benefits to a designated area. This is typically an area that is economically sluggish or physically distressed, where development would not otherwise occur.

Tangible improvements could include turning a historic structure into a food hall or connecting a site to city water and gas to support a commercial kitchen and business incubator. TIF can also support intangible needs such as architecture or site planning costs associated with redevelopment or the purchase of property needed for business expansion.

The TIF law in North Carolina (NC) tends to be more restrictive than other states and NC is one of the last states to authorize TIF. In 2004, the voters finally approved a constitutional amendment intended to facilitate the use of TIF. North Carolina law requires that the total land area of all TIF districts in a city or county, combined, cannot exceed 5% of the total land mass in the jurisdiction. Even though TIF projects tend to occur mostly in larger cities, smaller and rural communities can make use of TIF. One of the first three approved TIF deals in North Carolina happened in the small town of Woodfin and Buncombe County. The Trust could consult consultants and professionals like bond counsel for the establishment of the TIF district.

U.S. Economic Development Administration - Public Works

U.S. Economic Development Administration's (EDA) Public Works program helps distressed communities revitalize, expand, and upgrade their physical infrastructure, including technology-based facilities, multi-tenant manufacturing facilities, business and industrial parks, water, and sewer system improvements, business incubator facilities, and more. The goal is to help the community become more competitive by expanding local businesses, attracting new industries, creating jobs, and spurring economic development.

To be eligible, the project (1) should align with at least one of the EDA's current investment priorities; (2) has the potential to create new jobs and stimulate private investment in the local economy; (3) has the likelihood to achieve its projected outcomes, and (4) the applicant has the ability to successfully implement the proposed project.

From January 13-19, 2023, EDA has announced $1,500,000 in one Public Works project to the City of Eden, North Carolina to help communities revitalize, expand, and upgrade their physical infrastructure that will help create 180 jobs and leverage $270,000,000 in private investments. Nonprofits having a 501(c)(3) status with the IRS are eligible applicants. The expected number of awards is 3000 with an award ceiling of $30,000,000. There are no application submission deadlines and the application is accepted on an ongoing basis. More information can be found on grants.gov.

American Rescue Plan Act Funds

The Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program, a part of the American Rescue Plan Act (ARPA), delivers $350 billion to state, local, and Tribal governments across the country to support their response to and recovery from COVID-19. The Treasury has released the Final Rule, which became effective in 2022. There are four key eligible use categories: Public Sector Revenues, Public Health & Economic Response, Premium Pay for Essential Workers, & Water, Sewer & Broadband Infrastructure.

The SLFRF funds can be used to pay for "government services" in an amount equal to the revenue loss experienced by the recipient due to the COVID-19 public health emergency. Government services generally include any service traditionally provided by a government. This is the most flexible eligible use category under the SLFRF program. The SLFRF funds support the public health and economic response by addressing COVID-19's impact on public health and emphasizing economic harms to households, small businesses, nonprofits, impacted industries, and the public sector. This program also provides premium pay to eligible workers who have and will bear the greatest health risks because of the service in critical sectors. Finally, SLFRF funds invest in water, sewer, and broadband infrastructure by improving access to clean drinking water, supporting vital wastewater and stormwater infrastructure, and expanding affordable high-speed broadband infrastructure in areas of need.

The Trust may be a good fit for the Public Health & Economic Response category that assists impacted nonprofits and disproportionately impacted nonprofits to respond to negative economic impacts. Since the Trust is operating in qualified census tracts and may have been negatively impacted by the pandemic in ways of decreased revenue sources, increased costs, financial insecurity, challenges in operating costs, rent, mortgage, and increased financial hardship. For more detailed information about the program and the application can be found at treasury.gov.

Next Steps

Phase I

A master plan will need to be created regardless of which following model is selected. A master plan is a long-term planning document that provides a conceptual layout for the future growth and development of a public or private entity. Typically, a master plan weaves together the existing infrastructure, economic outlook, projected growth, strategic initiatives, and the surrounding environment. A well-grounded master plan is produced by consulting the public and local experts through a combination of stakeholder and public meetings, surveys, and consulting local and regional planning commissions. After the plan is developed, the Trust can identify developers and partners who could bring various financing resources.

The Trust also needs to decide on a redevelopment model for the school: the Full-In model or the Pay As You Go model.

The Full-In model would position the Trust to align all the capital for redevelopment upfront, giving the Trust a sense of security and flexibility. The community members may also feel a greater sense of confidence and trust by knowing that the project is financially secured and more likely to be completed in its entirety. Moreover, this model may enable a shorter development time compared to the Pay As You Go model. A challenge with this model is that the project cannot start until all the funds are raised and securing this amount of funding is time-consuming.

The Pay As You Go model enables the Trust to begin work as soon as enough capital is raised for renovating part of the campus and allows the Trust to make further improvements as additional funding becomes available. The Trust has more control over which area should be redeveloped first and the sequencing of redevelopment. As mentioned during the site visit, the Trust is eager to redevelop the auditorium, gym, and cafeteria first. This approach allows the Trust to start on the project quicker and begin to generate revenue sooner. The generated revenue can in turn be used for further project development. One downside of this approach is that completing the project may take longer, resulting in community members' decreased level of trust and confidence in the Trust. To build and restore trust and meet the community's goals and expectations, the Trust should continuously make visible progress on the site and, at the same time, keep the community well informed and highly engaged during the entire process. Financing for the project may also become more complicated and challenging since some types of financing may not be accessible for smaller projects like NMTC. Finally, due to the rising costs of materials and labor, the cost of the project may increase over time.

	Full-In	*Pay As You Go*
Pros	▪ Up-front capital ▪ More security and flexibility ▪ Increased confidence and trust from community ▪ Shorter development time	▪ Immediate start of the project ▪ Begin generating revenue sooner ▪ More control over roll-out
	Full-In	*Pay As You Go*
Cons	▪ Delayed start time to account for assembling capital stack ▪ Securing full funding requires significant human resources up front	▪ Longer development time ▪ Decreased confidence and trust from community ▪ Increased complexity of financing ▪ Rising cost of capital over time

Phase II

After the Trust identifies which development model to use and creates a comprehensive master plan, the Trust can start to identify partners, pursue suitable financing options, and assemble the capital stack. The Trust should continue to consult project developers when structuring financing for the project. The potential financing options outlined in this report - including bonds, tax credits, and TIF - are viable sources of funding for this redevelopment project and will require expert advice to utilize. The Trust should take advantage of funding available through the USDA for community facilities as well, in addition to other sources of federal dollars from the EDA and ARPA. Utilizing various development finance tools will be necessary to complete the redevelopment of the Center, and taking this approach to diversify funding will also help make the project more successful in the long run.

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