

To Frank J. Rogers, County Administrator
Tyler Carraway, Finance Director
Dr. Robert Johnson, II, Superintendent of Schools
Campbell County, Virginia

From David Rose, Senior Vice President and Manager of Public Finance
Roland Kooch, Jr., Senior Vice President
R.T. Taylor, Vice President

Date August 21, 2020

Subject Financial and Legal Considerations Involving Potential Historic Tax Credits for the Planned Rustburg Middle School Project

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Background

Davenport & Company LLC, in our capacity as Financial Advisor to Campbell County (the “County”), recently assisted the County in successfully securing a major portion of the expected capital requirements for a new Rustburg Middle School (the “Project”). Roughly \$40 million of the expected \$45 million was borrowed via the Industrial Development Authority of Campbell County (the “IDA”) at interest rates approximating 50-60 year lows. As such, the County saved several million dollars in avoided annual interest payments compared to the planning/budgeted rates from 12-18 months earlier.

Recently, Davenport was asked to look at the potential financial impact of pursuing Historic Tax Credits for this Project in the hopes of savings additional money for the citizens/taxpayers of Campbell County.

Following a series of conference calls and other research with a myriad of other parties, Davenport with assistance from Sands Anderson PC (the County’s Bond Counsel) on legal related matters have provided herein the following “Key Findings”:

Key Findings

1st The County would be eligible for State (i.e. Commonwealth of Virginia) Historic Tax Credit considerations only and not Federal Historic Tax Credits. This later result is because Federal Historic Tax Credits cannot be used with tax-exempt financing for governmental facilities. Note: the cost/benefit of doing “taxable” financing vs. tax-exempt financing for the entire Project is far more costly than any potential Federal Historic Tax Credit benefits.

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- 2nd Davenport prepared four funding scenarios using State Historic Tax Credits. Under three of the four scenarios, the overall cost of the Project to the County is more than the potential benefit from the State Historic Tax Credits. Under one scenario, the impact of the State Historic Tax Credits is slightly positive to break-even. In fact, the “cost of issuance” and other legal considerations could easily make even the best of the four scenarios more costly.
- 3rd There are no grant funding opportunities available by pursuing either State or Federal Historic Tax Credits.
- 4th Legal considerations are important in that the security and collateral structure of the recently completed bond issue via the IDA would either need to be redone or amended in such a way that the bondholders are amenable to certain changes. This is a considerable “ask” of bondholders and would be both costly and time consuming to effect. The chances of a successful result are too difficult to quantify at this time. In addition, we believe that because this would be a highly unusual request, the likelihood of success is questionable.
- 5th Pursuing State Historic Tax Credits, even in the most optimistic circumstances, is expensive, time consuming, bureaucratic and as such would materially impact any potential savings to the County. Since the current legal documents do not contemplate this option, we believe that an entire revisiting of this Project would be needed. The County would potentially have to revisit the construction schedule; total project cost (historic renovation would likely increase cost estimates); evaluate the impact of the new potentially higher costs on the previously provided financial plans to fund the Rustburg Middle School and the overall school investment program; reconsider the collateral for the bond funding that has already been secured; and revisit these matters with the bondholders.
- 6th Construction bid considerations are also a factor herein. Of the 11 original (stage 1) proposals received, one proposal included an option to save the 1919 building as a separate facility. Of the 5 shortlisted proposals, one proposal included an option to save the 1919 building as a stand along facility. Therefore rebidding or amending the bid structure to incorporate historic preservation of the 1919 building may be required. The time lost, cost incurred and ultimate result of rebidding or amending the scope of the Project are beyond our expertise, but are nevertheless a factor to be considered in possibly pursuing State Historic Tax Credits.

Conclusion

While Davenport is neither qualified nor capable to address the historic preservation aspects of the Rustburg Project, we can and have addressed the possible financial implications of pursuing State Historic Tax Credits. From our initial findings, it appears that no material financial benefit would be served and more likely, the County would incur additional costs if it pursued this option at this or any juncture along the way on this Project. Should you have any questions, please do not hesitate to contact us.