Saving Money for the Recovery School District, New Orleans

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Executive Summary

The Recovery School District (RSD) is faced with an immense challenge of rebuilding and restructuring schools placed in its control. Monetarily, the RSD cannot handle this responsibility, but the RSD can explore several of the following paths to increase its resources. In addition, this policy brief explores how other states offer tax credits and benefits that can increase school district resources.

The RSD needs to look into obtaining Federal Historic Rehabilitation Tax Credits to aid rebuilding projects throughout the city. Because of their age, multiple school buildings located in the RSD would qualify for the 20% tax credit if the FHRTC accepted schools into the list of eligible properties. If the 20% tax credit is not an option, then the RSD can apply for a 10% tax credit for reconstruction.

New Market Tax Credits are aimed directly at projects that create jobs and new economic opportunities for residents. The competition for these credits is intense. Following the guidelines of energy reduction set by the federal government, the RSD can easily receive Energy Efficient Commercial Building Deductions and save money within the rebuilding process.

Introduction

Four years after Hurricane Katrina, New Orleans needs resources to continue to repair, rebuild, and reopen schools. The RSD must look to tax credits and programs dedicated to saving money so each school in the district can begin to take the steps necessary to execute individual plans of action in order to be rebuilt, reopened, and restructured. The following sections summarize ways in which the RSD can use tax credits and otherwise save money.

I. Government Based Financial Benefits

Federal Historic Rehabilitation Tax Credit (FHRTC)

The Louisiana Division of Historic Preservation offers the Federal Historic Rehabilitation Tax Credit (FHRTC) to commercial builders and contractors who are willing to restore properties deemed historic. Together with the Louisiana Department of Revenue (LDR), the National Parks Service (NPS) and the Internal Revenue Service (IRS) created the Federal Historic Rehabilitation Tax Credit to encourage the rehabilitation of historic properties.

The FHRTC allows developers or contractors restoring historic buildings to deduct 20% of the cost of the project from federal taxes. To be added to the National Historic Register, the owner of the historic property must apply, and be certified by the NPS. A qualified building must be at least 50 years old, or stationed in a local historic district.[1]

Currently, several school buildings are listed on the register that could prove significant in obtaining this tax credit. This 20% cost break applies only to expenditures for a structural component of a building. Multiple projects fall under the title of structural components: walls, floors, ceilings, windows and doors, components of central air conditioning and heating systems, plumbing, lighting, sprinkling systems, and fire escapes.[2]

How to Apply[3]

Step One

If a property is already listed on the National Historic Register step one does not apply. If a property is not listed on the National Historic Register or if a property is located within a local historic district, an application must be submitted to the NPS for approval.

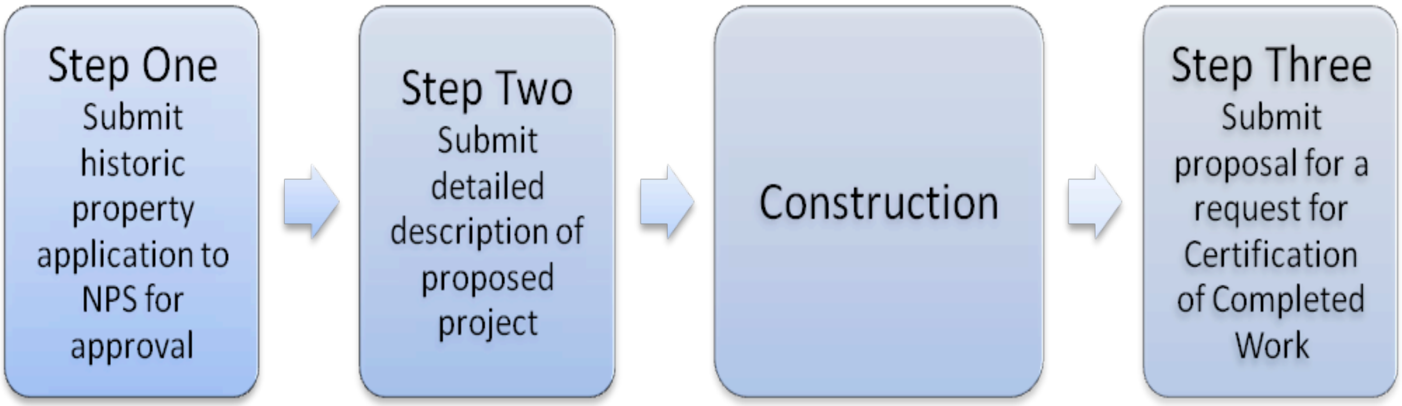
Step Two

A detailed description of the proposed project must be submitted by anyone affiliated with RSD financing or project oversight. The summary must include everything upon which money would be spent.

Step Three

A request for Certification of Completed Work must be submitted to document that the work was completed according to standards. This proposal must include photos of the interior and exterior of the completed work.

Figure 1. Steps of Applying for the Federal Historic Rehabilitation Tax Credit



Benefit to the Recovery School District

Traditionally, the FHRTC applied to commercial properties, which produce income. School buildings do not necessarily fall under this category, but RSD buildings that produced income before the storm would be eligible for these tax credits. Multiple school buildings allocated to the RSD can be found listed on the Register, and multiple school building that are not listed on this register are most likely qualified.

We recommend that the RSD petitions for school buildings to be able to receive this tax credit. Also, whether a previous school building is being renovated as a school building or as something else, say office space, could have a bearing on whether or not the tax credit is applicable. Enticing potential buyers with the fact that they could get this tax credit with renovation is strong incentive. The FHRTC is one of the most helpful and possibly easiest tax credits to gain.

Andrew H. Wilson Elementary School

The Andrew H. Wilson Elementary School was erected in, and has served the Broadmoor Community of New Orleans since 1907. Through flooding caused by Hurricane Katrina, the elementary school was devastated. Dedicated to keeping the historic air of the building, the RSD decided to renovate the building. Plans exist to refurbish the structure historically and to implement new and helpful technologies such as storm water management, lighting efficiency, air quality management, and more. The more than 100-year old building would qualify for the FHRTC if it was an income producing property.

10% Rehabilitation Tax Credit

Non-historic, non-residential buildings placed in service before 1936 looking to undergo substantial rehabilitation (of $5,000 or more) are able to apply for the 10% Rehabilitation Tax Credit. A building that has been moved from its original site of construction is not eligible to apply for this tax credit. Projects accepted for this 10% Rehabilitation Tax Credit must meet post-reconstruction standards:

- ✓ at least 50% of the building's external walls existing at the time the rehabilitation began must remain in place as external walls at the work's conclusion, and
- ✓ at least 75% of the building's existing external walls must remain in place as either external or internal walls, and
- ✓ at least 75% of the building's internal structural framework must remain in place.

No formal review program exists for the 10% Rehabilitation Tax Credit. To receive this tax credit it must be claimed on IRS form 3468 for the year in which the project will be completed. School buildings would qualify for this tax credit.[4]

Arizona Tax Credit (ATC)[5]

In Arizona, members of the community can donate any amount to the Arizona school (excluding collegiate schools) of their choice. This money is then used by the school to support after-school activities, including sports, clubs, tutoring, or study-groups. When taxes are prepared for the following year the donation is noted and subsequently deducted from said donor’s state liability. If more than the designated liability for that year is donated, the extra amount carries over to the next year’s taxes.

How to Apply[6]

Step One

Determine eligibility – to receive the credit immediately the donator must have Arizona State tax liability.

Step Two

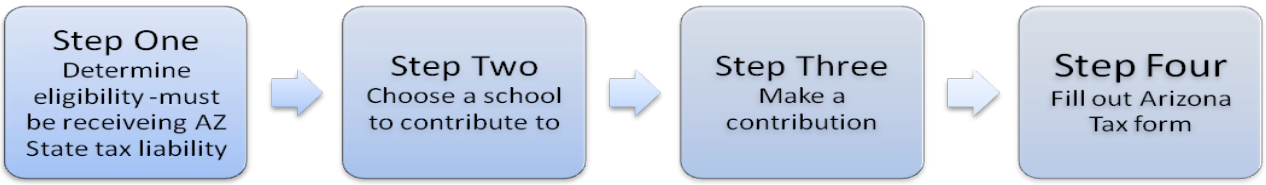
Choose a school to contribute to – a specific program need not be mentioned, but a school must be designated.

Step Three

Make a contribution – accepted through credit or check
Step Four

Fill out Arizona Tax form 322 to deduct contribution.

Figure 2. Steps for Applying for Arizona Tax Credit



New Market Tax Credits (NMTC)

The New Market Tax Credit (NMTC) program is a federal program that was enacted in addresses the lack of capital available to business and economic development ventures in low-income communities and hurricane-damaged areas. The NMTC program allows taxpayers to receive a credit against Federal income taxes for making qualified equity investments in Community Development Entities (CDEs). Credits can be obtained every year the investment is kept, for up to seven years of the credit period.

Competition among CDEs for credits is intense and applicants are scored in four areas: community impact, business strategy, capitalization strategy, and management strategy. A large amount of flexibility is created in businesses and development activities that NMTC can support, such as community facilities, child-care or health care facilities, charter schools, and non-profit or for-profit businesses.

CDEs that demonstrate past investments and projects achieve the NMTC program's goals can go back for more credits each year. Due to the strict compliance requirements, CDEs look for projects with the highest likelihood of success. Each state will be credited an amount available for NMTCs, Louisiana obtains $12,500,000 for 2009 and 2010.[7]

Figure 3. How New Market Tax Credits Are Funded

New Market Tax Credits Applied In Other Areas

Los Angeles County[8]

Excellent Education Development (ExED) was awarded New Market Tax Credits from the U.S. Department of treasury to be used for the development of public charter school facilities in Los Angeles County. These tax credits allowed ExED to give greater loans to charter school operators.

Green Tax Credits (GTC)

Green tax credits can be easily obtained through the implementation of energy saving systems. Since the Energy Policy Act of 2005, there have been a wide variety of newly available green tax credits. Within each of these green tax credits, there is a common deduction of 30% of the total cost of purchasing these systems.

Insulation, efficient doors and windows, metal and asphalt roofing, HVAC (heating, ventilation, air-conditioning), solar energy systems, and small wind energy systems are eligible for tax credits.[9] Louisiana has a state green tax credit, known as the Tax Credit for Solar and Wind Energy Systems. Within this state tax credit, "50% of the first $25,000 of the cost of each system" is refunded via tax credit.[10] This state tax credit can be combined with the federal 30% tax credit to enable substantial savings on wind or solar systems.

To this point, these forms of tax credits have been limited to household improvement, but they could soon be expanded beyond the residential sect. Currently there is a push to expand green tax credits to include non-residential buildings, as the current system seems to only benefit homeowners and does not seem to be designed to help green all buildings. Many are pushing for an expansion so that all buildings could receive necessary aid to ease the greening process.

Within this potential expansion, schools within the rebuilding process will benefit greatly, as greener schools could be built with greater ease. At this moment, these credits do not stand as a possibility for the RSD, but there are current alternatives, such as tax deductions and assistance from non-profit companies, that seek to guide the greening of RSD schools.

Energy Efficient Commercial Building Deductions (EECBD)

Schools in the process of rebuilding are not limited to seeking tax credits to lessen the economic burden of rebuilding, but they may also look for tax deductions. Though tax credits are preferable to tax deductions, as credits lower the amount of taxes that must be paid dollar-for-dollar while deductions lower the percentage of taxable income, tax deductions are still effective in lowering costs of building projects. In the Energy Policy Act of 2005, a very intriguing tax deduction became available to public designers.

The Energy Efficient Commercial Building Deduction offers building designers a hefty tax reduction for designing, or in our case, redesigning a building to meet certain energy standards. If the building reduces potential energy consumption by 50% through a combination of energy-efficient insulation systems, internal lighting systems and HVAC, its designer is rewarded substantially. With a 50% reduction, the designer can take $1.80/sq. ft tax reduction for the renovated building.[11]

If the reduction is <50%, yet still significantly charged in renovating one of the three criteria, a reduction of $.60/sq. ft can still be taken. This deduction for the designer results in fewer funds being allocated from the RSD's already limited recovery budget, because the designers overall price tag has been cut through deductions. Though this tax deduction is the only system that can be applied to the RSD today, one can reference tax credits that have been created in other states, such as Oregon, which could be potentially implemented in Louisiana to help the RSD tomorrow.

Oregon Business Energy Tax Credits (OBETC)

Since 1979, Oregon has practiced a state tax credit system focusing on promoting business participation towards creating efficient energy. Since 2001, business cooperation in partial funding of non-profit energy expenditures has been included in this program. The Business Energy Tax Credit (BETC) program has been highly successful in its promotion of efficient energy in the state of Oregon, and the state of Louisiana should take notice of this success. The Pass-through Option, implemented in 2001, makes it possible for businesses to assist in the renovation of schools.[12]

This option entails that a non-profit with no tax liability (such as a non-profit organization or a school) can have a business fund 25.5% or 33% of the necessary amount needed for the desired energy efficient project. In return for this funding, this business receives a tax credit worth either 35% (if 25.5% was given) or 50% (if 33% was given).

As a result of this tax credit, businesses receive tax credits higher than their investments and non-profits get funding for energy efficient projects.

The Dalles Middle School, a new, energy efficient school, was $398,000 short of completing its construction. It turned to Nike, the world famous Oregon based athletic company, to help meet its goal. By using the Pass-through option, Nike provided the school with $107,000, while taking $139,000 in its own tax credits.[13] Louisiana can learn valid lessons from Oregon's BETCs, as it is evident that these tax credits are beneficial for both state businesses and the renovation of public schools.

A program similar to Oregon's BETC should be implemented within Louisiana in the near future, as it would both aid in school renovation and highlight business desire for recovery. Though programs like the BETC are currently absent in Louisiana, there is an independent push to green schools that is making strides on a daily basis.

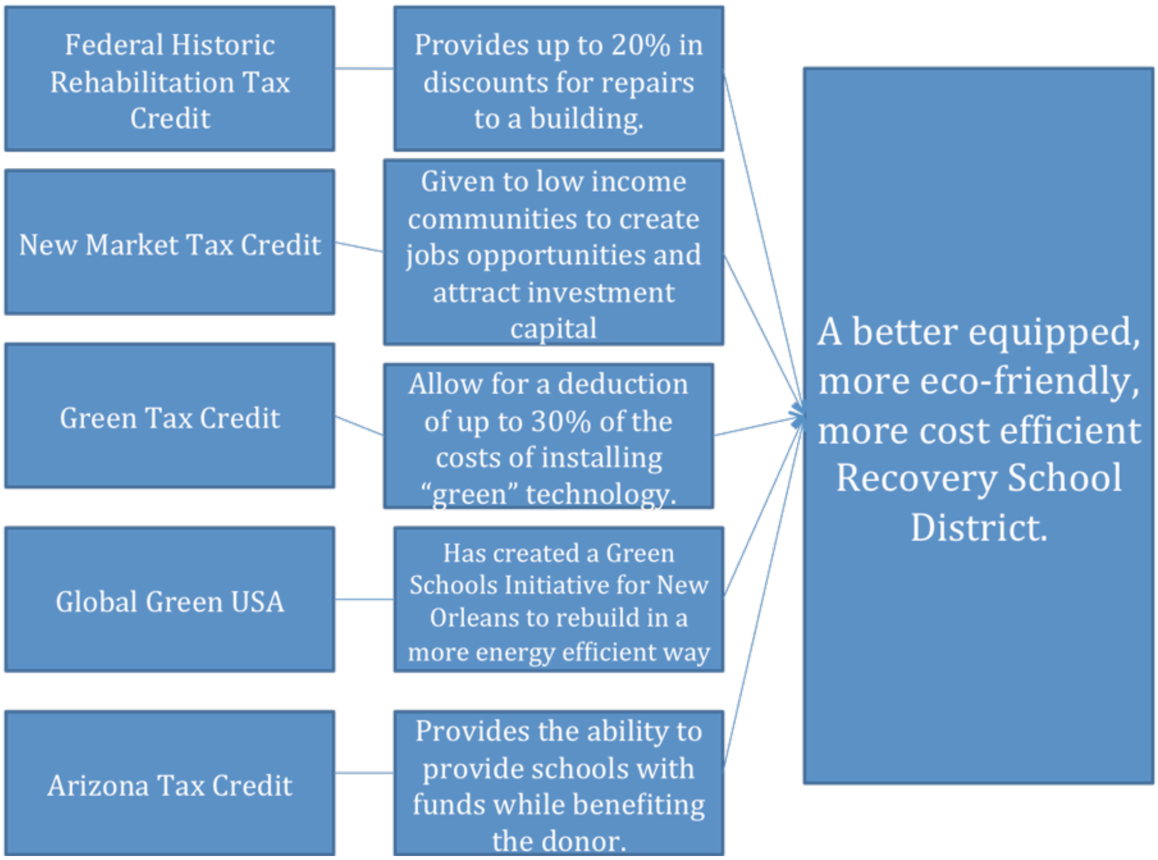
Global Green U.S.A. (GGUSA)

A non-profit organization, Global Green USA, has made it part of their mission to rebuild New Orleans as a much more energy efficient city than it was before. Within this goal lies the Green Schools Initiative, a plan to rebuild New Orleans schools in a greener, more efficient manner. The website for the Green Schools Initiative explains that "the goal of this initiative is to create healthier classrooms and more energy efficient schools that in turn improve student performance and save money for school districts, while helping to protect the environment and reducing carbon emissions."[14] In fact, the Green Schools Initiative has already promised the greening of five existing schools, and the creation of two new, extremely efficient schools.

Today, two of these five schools have completed the greening process: A.P Tureaud Elementary School, and the International School. Though $75,000 in grants were necessary for the greening of these schools, the estimated savings in energy will make the investments pay for themselves with 2.5 years (Tureaud), and 3.5 years (International), respectively. The schools serve as examples of efficient design, arguing that it is not only affordable to green schools, but it is for the best interest of the state.

"Global Green partnered with New Orleans' Recovery School District (RSD) in 2007, offering guidelines and ongoing technical assistance. The guidelines were incorporated into the recently adopted master plan for Orleans Parish Public Schools."[15] The RSD can continue to collaborate with Global Green USA, working together to come up with innovative strategies to both green schools and find the necessary funding for the greening of schools. Additionally, it would be wise for the RSD to adopt a curriculum in which the benefits of greening were taught to all of the districts students. Altogether, the RSD should try to maintain a good relationship with Global Green USA, as they are a great partner for the RSD and have good intentions for the future of the district.

Review of Avaible Tax Credits



III. Policy Recommendations

The RSD must begin to implement technologies and undertake projects that will enable the district to save money. The following recommendations are the best opportunities that the RSD should partake in which would simultaneously improve each individual school that a program is being applied to and save money while doing so.

Historic Tax Credits

The RSD needs to look into obtaining Federal Historic Rehabilitation Tax Credits to aid rebuilding projects throughout the city. Because of their age, multiple school buildings located in the RSD would qualify for the 20% tax credit if the FHRTC accepted schools into the list of eligible properties. If the 20% tax credit is not an option, then the RSD can apply for a 10% tax credit for reconstruction.

Arizona Tax Credits

Adopting a program for the state of Louisiana such as Arizona's Tax Credit system could be the deciding factor for the RSD to become fiscally efficient. The Arizona Tax Credit benefits donators, gives money to after school programs and saves money for more industrial activities such as rebuilding or implementing new technologies, like projects to green the school. A program that allows for these three things to stem from one donation is necessary.

New Market Tax Credits

New Market Tax Credits are an extremely important asset to rebuilding New Orleans low-income communities, but charter schools are unlikely to receive them because of the competition for NMTCs and the inability of RSD charter schools to meet the standards of the NMTCs. These tax credits are aimed directly at projects that create jobs and new economic opportunities for residents. Los Angeles is the only place that successfully gained New Market Tax Credits due to their success rate in test scores, and significant amount of job openings. To hope to receive these tax credits the RSD must significantly better the performance of the charter schools within the district.

Green Tax Credits

In order to achieve the greening of New Orleans schools, green tax credits must be extended to the entities rebuilding the schools. If solar systems for the schools could be deducted using the federal and state green tax credits, they will become affordable in ways that are not seen today. We also suggest an implementation of a Business Energy Tax Credit, similar to that of Oregon's. This can lead to additional funding for the greening of New Orleans schools, as businesses will supplement necessary funding. Schools will benefit substantially with their inclusion into green tax credit programs, and there will be more incentive to implement green technologies into RSD schools.

Energy Efficient Commercial Building Deductions

It has become clear that rebuilding schools efficiently is the smartest option for the RSD, and the Energy Efficient Commercial Building Deductions is the best way to ensure this is done in a cost-effective way. The RSD should make it a priority to try to ensure schools are rebuilt using these deductions, as it parallels goals of efficiency and cost saving. Following the guidelines of energy reduction set by the federal government, the RSD can easily receive these tax deductions and save money within the rebuilding process. These deductions can be used as the first step among many incentive programs rewarding greening of schools and promoting a more efficient future.

Global Green USA

The effort Global Green USA makes toward optimizing the future of schools in New Orleans deserves great praise and respect. It would be beneficial to the RSD to continue its collaboration with Global Green USA. The RSD school board can petition Global Green USA for an expansion of their grant program to New Orleans schools, as this will enable the RSD access to necessary funding and allow the RSD to continue to implement green technologies to more schools. New Orleans needs more organizations like Global Green USA to step up, and rise to the challenge of building a better New Orleans.

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