

# Financing options for Minnesota school districts



## School building bonds (MS 475)\*

### Uses

- The acquisition or betterment of school facilities, including new construction, additions or renovations and improvements as well as the purchase of equipment

### Advantages

- Immediate funds for construction
- Debt service equalization (Tier 1 above 15% ANTC – Tier 2 above 25%)
- Eligible for Ag2School tax credit (60% in Payable 2022 and 70% in Payable 2023 and beyond)
- Election may be held at any time during the year except for blackout periods as defined by statute

### Limitations

- Review and comment (R&C) submission required
- Voter approval needed
  - o Various publication and notice requirements as per statute
- Maximum term of thirty years

## Referendum revenue (MS 126C.17)

### Uses

- May be used for a variety of purposes, including salaries, benefits or supplies and any type of capital project

### Advantages

- Three-tiered aid formulas with generally higher aid percentage than debt service equalization
- Levy spread on referendum market value (excludes agricultural land - seasonal/recreational)
- Can include inflation language

### Limitations

- Annual collection of revenues
- Maximum term of ten years
- State maximum of referendum revenue per pupil unit
- Voter approval needed
  - o Election must be in November unless mail ballot election or district is in Statutory Operating Debt (SOD)
  - o Various publication and notice requirements as per statute

## Capital projects levy (MS 123B.63)

### Uses

- May be used for any type of capital project, including technology, deferred maintenance or building projects, provided commencement of the project takes place within five years of the election

### Advantages

- No review and comment requirement if the capital projects levy only addresses technology
- Authorized amount may increase each year if net tax capacity increases

### Limitations

- Annual collection of revenues
- Review and comment requirement for all projects other than technology
- Maximum term of ten years
- Authorized amount may decrease each year if net tax capacity decreases
- No state aid component
- Voter approval needed
  - o Various publication and notice requirements as per statute

## Long-term facilities maintenance revenue (MS 123B.595)\*

### Uses

- Pursuant to a ten-year facility plan adopted by the school board and approved by the Minnesota Education Commissioner, school may use long-term facilities maintenance revenue for:
  - o Deferred capital expenditures and maintenance projects necessary to prevent the further erosion of facilities
  - o Increasing accessibility of school facilities
  - o Health and safety capital projects as defined under MS 123B.57

### Advantages

- Revenue is calculated on a formulaic basis
- In addition to the formula revenue, districts are eligible to receive revenue for the approved cost of indoor air quality, fire alarm and suppression and asbestos abatement projects with a cost per site of \$100,000 or more
- No voter approval needed and eligible for state aid
- Eligible for Ag2School tax credit (60% in Payable 2022 and 70% in Payable 2023 and beyond)
- A school district may levy the costs of the plan annually or issue bonds to finance the plan

### Limitations

- Plan must be updated annually and submitted to the commissioner indicating whether the district will issue bonds to finance the plan or levy for the costs annually, or a combination of both
- If a district intends to finance any portion of the plan with bonds, the district must publish a notice of the intended projects, the amount of the bond issue and the total amount of district indebtedness at least 20 days before the earliest of the issuance of bonds, or the final certification of levies

## Capital facilities bonds (MS 123B.62)\*

### Uses

- Improve and repair school sites and buildings and equip or reequip school buildings with permanent attached fixtures, including library media centers
- Eliminate barriers or increase access to school buildings for individuals with a disability
- Bring school buildings into compliance with life, safety and fire codes
- Modify buildings and purchase equipment for security

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## Advantages

- No voter approval needed
- Eligible for Ag2School tax credit (60% in Payable 2022 and 70% in Payable 2023 and beyond)
- Immediate funds for projects

## Limitations

- 30-day waiting period between the school board's adoption of a resolution stating the board's intent to issue the bonds and the sale of the bonds
- Publication of notice of the intended projects, the amount of the bond issue and the total amount of district indebtedness
- Maximum term of 15 years
- Revenue neutral with bonds paid from capital operating revenue
- No debt service equalization

## Abatement bonds (MS 469.1812)\*

### Uses

- Limited to use on parking lot construction/re-construction and the associated aspects of the parking lot – drainage system, curbs, lighting and adjacent sidewalks

### Advantages

- No voter approval needed
- General obligation bonds resulting in lower interest rates
- Eligible for Ag2School tax credit (60% in Payable 2022 and 70% in Payable 2023 and beyond)
- Immediate funds for projects

### Limitations

- Principal of bonds cannot exceed sum of authorized abatements
- Public hearing is required prior to bond issuance
- May be perceived as a "back-handed" levy since no referendum vote is required

## Equipment certificates (MS 123B.61)\*

### Uses

- Purchase vehicles, computers, telephone systems, cable equipment, photocopy and office equipment, technological equipment for instruction and other capital equipment
- Purchase computer hardware and software, whether bundled with machinery or equipment or unbundled, together with application development services and training related to the use of the computer
- Pre-pay special assessments

### Advantages

- No voter approval needed
- Immediate funds for purchases

### Limitations

- Equipment (other than technology hardware and software) must have a useful life of at least as long as the term of indebtedness
- Maximum term of 10 years for equipment and 20 years for prepayment of assessments
- Revenue neutral with bonds paid from capital operating revenue
- No debt service equalization

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## Lease purchase (MS 465.71)

### Uses

- Purchase personal property under an installment contract, or lease real or personal property with an option to purchase under a lease-purchase agreement

### Advantages

- No voter approval needed
- Ability to spread major purchases over several years

### Limitations

- Lease payments are subject to annual appropriation by the board
  - o Generally, results in higher interest rates than debt issued as a general obligation
  - o Not eligible for the Minnesota Credit Enhancement Program
- Typically, revenue neutral, with payments made from general fund dollars
- No debt service equalization

## Lease levy (MS 126C.40)

### Uses

- Lease building or land for any instructional purposes, school storage or furniture repair
- Lease administrative space if the district can demonstrate to the satisfaction of the commissioner that the lease cost for the administrative space is no greater than the lease cost for instructional space that the district would otherwise lease

### Advantages

- No voter approval needed
- Additional revenue available, up to \$212 per adjusted pupil unit (APU)
- Districts that are members of an intermediate district may levy up to an additional \$65 per APU for intermediate district programs

### Limitations

- Additions must be less than 20% of the square footage of the previously existing building and be primarily used for K-12 regular instruction
- May not be used for:
  - o Newly constructed buildings used primarily for K-12 instruction
  - o Stadiums
  - o The purpose of leasing or renting a district-owned building or site to itself
- Lease payments are subject to annual appropriation by the board
- If issuing a certificate of participation (COP) to finance payments on a lease purchase, it generally results in higher interest rates than debt issued as a general obligation
  - o Not eligible for the Minnesota Credit Enhancement Program
- No debt service equalization

## Installment payment contracts for purchase and installment of energy conservation measures (MS 123B.65)

### Uses

- District may enter into a guaranteed energy savings contract with a qualified provider to significantly reduce energy or operating costs

## Advantages

- Energy conservation measures may be financed and include facility alterations
- Contract payments will be made from reduced energy or operating costs or from a guaranteed energy savings contract
- No voter approval needed
- Not subject to bidding requirements

## Limitations

- Board must seek proposals and give notice of public meeting to award contract
  - o Contract not to exceed 15 years

*\*If bonds are issued under this authority, they may be issued as a general obligation to the district and are eligible for the Minnesota Credit Enhancement Program.*

**Connect with our Minnesota school districts Value Architects™ for assistance planning a facilities improvement project:**

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