Facility financing options for Minnesota schools

2020 MASA/MASE Conference

Kelly D. Smith, Ed. D.
Director
(651) 223 3099
kelly.smith@bakertilly.com

Bill Adams
Superintendent
New London-Spicer
adamsw@nls.k12.mn.us
Today’s discussion

- 01 Financing options
- 02 Players in the process
- 03 Review and comment
- 04 State Credit Enhancement Program
- 05 Federal regulations
Financing options that require voter approval
FINANCING OPTIONS

Voter approval required

- Operating referendum
- School building bonds
- Capital projects levy
Financing options that require no voter approval
FINANCING OPTIONS

No voter approval required

- Capital facilities bonds
- Long term facilities maintenance revenue
- Lease levy
- Lease purchase financing
- Abatement bonds
- Equipment certificates
NO VOTER APPROVAL REQUIRED

Capital facilities bonds

**Project types**

- Improvement and repairs to building and sites
- Modifying buildings and equipment for security

**New money**

- No, up front cash for eligible facility improvements
- Revenue neutral with bonds paid from operating capital
Key features and requirements

- General obligation bonds (lower interest rates)
- Eligible for Minnesota Credit Enhancement Program
- Eligible for Ag2School credit
- Maximum of 15 years (20 years with restrictions)
- Subject to 30 day reverse referendum
- No equalization aid
NO VOTER APPROVAL REQUIRED

Facilities maintenance bonds

Project types
- Deferred capital expenditures and maintenance projects
- Increasing accessibility of school facilities
- Health and safety capital projects

New money
- Yes and no; up front cash for eligible facility improvements
- Revenue is provided through combination of state aid and property tax levy (LTFM revenue)
- Health and safety eligible projects over $100,000 per site qualify for additional revenue
Facilities maintenance bonds cont’d

Key features and requirements

- General obligation bonds (lower interest rates)
- Must have a 10-year plan approved by board and MDE
- Eligible for Minnesota Credit Enhancement Program
- Eligible for Ag2School credit
NO VOTER APPROVAL REQUIRED

Lease levy

Project types

- Classroom additions
- Athletic fields (including artificial turf)
- Rental of ice arena time, golf courses, other facilities for co-curricular programs

New money

- Yes for MDE approved projects (maximum of $212 per adjusted pupil unit for most districts)
- Spread on Net Tax Capacity (NTC)
Lease levy cont’d

Key features and requirements

- Certificates of participation (higher interest rates)
- Subject to annual appropriation
- Not eligible for Minnesota Credit Enhancement Program
- Administrative space not eligible unless approved by MDE
- Additional $65/APU authority for members of Intermediate Districts
- No equalization aid
NO VOTER APPROVAL REQUIRED

Lease purchase (MS 465.71)

**Project types**
- Purchase of land
- Site improvements (athletic fields, tracks, parking lots, roofs)
- Purchase of existing buildings
- Equipment (computers, buses, vehicles, athletic equipment, musical instruments)

**New money**
- No, unless payments qualify for lease levy
Key features and requirements

- Certificates of participation (higher interest rates)
- Subject to annual appropriation
- Not eligible for Minnesota State Credit Enhancement Program
- Maximum of 20 years not to exceed useful life
- No equalization aid
- General fund revenue is used for debt payments
Abatement bonds

**Project types**

- Limited to parking lots and related infrastructure such as lighting, sidewalks, etc.
- Engage bond counsel early in the process
- Baker Tilly (Springsted) was the first to issue abatement bonds for school districts in MN

**New money**

- Yes, abatement bonds result in a tax increase
Abatement Bonds cont’d

Key features and requirements

- General obligation bonds (lower interest rates)
- Eligible for Minnesota State Credit Enhancement Program
- Eligible for Ag2School tax credit
- Determine boundaries of tax abatement
- Public notice and hearing requirements
NO VOTER APPROVAL REQUIRED

Equipment certificates (M.S. 123B.61)

Project Types
- Purchase of vehicles, computers, telephones, office or other capital equipment and prepayment of special assessments

New Money
- No
- Revenue neutral with certificates paid from operating capital

Key features and requirements
- Maximum of 10 years unless used to prepay special assessments in which case 20 years (can’t exceed useful life of equipment with exception of technology)
- No equalization aid
Examples from the field
JANESVILLE-WALDORF-PEMBERTON

$3,600,000 project with no voter approval required
# Combination of Funding Sources

**Independent School District No. 2835 (Janesville-Waldorf-Pemberton)**  
Janesville, Minnesota  
GO Capital Facilities Bonds & Lease Purchase Agreement, Series 2014 Issue Summary

<table>
<thead>
<tr>
<th>Total Issue Sources And Uses</th>
<th>Lease-Levy Portion</th>
<th>Lease Purchase Portion</th>
<th>Capital Facilities Bonds</th>
<th>District Cash Contribution</th>
<th>Issue Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$945,000.00</td>
<td>$750,000.00</td>
<td>$1,285,000.00</td>
<td>$700,000.00</td>
<td>$3,692,319.30</td>
</tr>
<tr>
<td><strong>Sources Of Funds</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Par Amount of Bonds</td>
<td>$945,000.00</td>
<td>$750,000.00</td>
<td>$1,285,000.00</td>
<td>$700,000.00</td>
<td>$3,692,319.30</td>
</tr>
<tr>
<td>Re-offering Premium</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td>$945,000.00</td>
<td>$750,000.00</td>
<td>$1,297,319.30</td>
<td>$700,000.00</td>
<td>$3,692,319.30</td>
</tr>
<tr>
<td><strong>Uses Of Funds</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposit to Construction Fund</td>
<td>$917,949.17</td>
<td>$743,318.58</td>
<td>$1,245,350.00</td>
<td>$700,000.00</td>
<td>$3,606,617.75</td>
</tr>
<tr>
<td>Capitalized Interest</td>
<td>18,632.25</td>
<td>-</td>
<td>16,864.18</td>
<td>-</td>
<td>$18,632.25</td>
</tr>
<tr>
<td>Total Underwriter's Discount</td>
<td>-</td>
<td>-</td>
<td>3,355.12</td>
<td>-</td>
<td>$3,355.12</td>
</tr>
<tr>
<td>Deposit to Debt Service Fund</td>
<td>-</td>
<td>-</td>
<td>3,355.12</td>
<td>-</td>
<td>$3,355.12</td>
</tr>
<tr>
<td>Costs of Issuance</td>
<td>8,418.58</td>
<td>6,681.42</td>
<td>31,750.00</td>
<td>-</td>
<td>$46,850.00</td>
</tr>
<tr>
<td><strong>Total Uses</strong></td>
<td>$945,000.00</td>
<td>$750,000.00</td>
<td>$1,297,319.30</td>
<td>$700,000.00</td>
<td>$3,692,319.30</td>
</tr>
</tbody>
</table>
Abatements bonds

Lac qui Parle Valley High School Parking Lot Project - $1,390,000
Independent School District No. 2853, (Lac Qui Parle Valley), Minnesota
General Obligation Tax Abatement Bonds, Series 2013A

Sources & Uses

Dated 05/01/2013 | Delivered 05/22/2013

<table>
<thead>
<tr>
<th>Sources Of Funds</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Par Amount of Bonds</td>
<td>$1,425,000.00</td>
</tr>
<tr>
<td>Reoffering Premium</td>
<td>28,763.50</td>
</tr>
<tr>
<td>Accrued Interest from 05/01/2013 to 05/22/2013</td>
<td>1,447.25</td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td>$1,455,210.75</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Uses Of Funds</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit to Project Fund</td>
<td>$1,389,196.00</td>
</tr>
<tr>
<td>Costs of Issuance</td>
<td>29,737.25</td>
</tr>
<tr>
<td>Total Underwriter’s Discount (1.240%)</td>
<td>17,670.00</td>
</tr>
<tr>
<td>Deposit to Debt Service Fund (Capitalized Interest)</td>
<td>17,160.25</td>
</tr>
<tr>
<td>Deposit to Debt Service Fund (Accrued Interest)</td>
<td>1,447.25</td>
</tr>
<tr>
<td><strong>Total Uses</strong></td>
<td>$1,455,210.75</td>
</tr>
</tbody>
</table>
## Estimated Tax Impact - Based on Net Tax Capacity

**General Obligation Tax Abatement Bonds, Series 2013**

<table>
<thead>
<tr>
<th>Estimated Market Value (a)</th>
<th>Net Tax Capacity</th>
<th>1st Year Levy</th>
<th>$120,165</th>
<th>TNTC $11,499,854</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>$120,165</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>TNTC</td>
<td>$11,499,854</td>
<td></td>
</tr>
</tbody>
</table>

**Tax Rate Increase (b): 1.045%**

### Homestead Residential

<table>
<thead>
<tr>
<th>Value</th>
<th>Net Tax Capacity</th>
<th>Levy</th>
<th>Rate Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>100,000</td>
<td>718</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>125,000</td>
<td>990</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>150,000</td>
<td>1,263</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>200,000</td>
<td>1,808</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>225,000</td>
<td>2,080</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>250,000</td>
<td>2,353</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>300,000</td>
<td>2,898</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>350,000</td>
<td>3,443</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td>400,000</td>
<td>3,988</td>
<td>42</td>
<td>42</td>
</tr>
<tr>
<td>450,000</td>
<td>4,500</td>
<td>47</td>
<td>47</td>
</tr>
</tbody>
</table>

### Commercial/Industrial

<table>
<thead>
<tr>
<th>Value</th>
<th>Net Tax Capacity</th>
<th>Levy</th>
<th>Rate Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100,000</td>
<td>$1,500</td>
<td>$16</td>
<td>$16</td>
</tr>
<tr>
<td>150,000</td>
<td>2,250</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>250,000</td>
<td>4,250</td>
<td>44</td>
<td>44</td>
</tr>
<tr>
<td>500,000</td>
<td>9,250</td>
<td>97</td>
<td>97</td>
</tr>
<tr>
<td>1,000,000</td>
<td>19,250</td>
<td>201</td>
<td>201</td>
</tr>
<tr>
<td>3,000,000</td>
<td>59,250</td>
<td>619</td>
<td>619</td>
</tr>
<tr>
<td>5,000,000</td>
<td>99,250</td>
<td>1,037</td>
<td>1,037</td>
</tr>
<tr>
<td>7,000,000</td>
<td>139,250</td>
<td>1,455</td>
<td>1,455</td>
</tr>
<tr>
<td>10,000,000</td>
<td>199,250</td>
<td>2,082</td>
<td>2,082</td>
</tr>
</tbody>
</table>
JWP Athletic field project - $4,351,000
# Opportunity in Existing Debt Schedule Reduction

## Independent School District No. 2835 (JWP Public Schools), Minnesota

Category: General Obligation Debt

### Aggregate Debt Service

<table>
<thead>
<tr>
<th>DATE</th>
<th>2012A GO Sch Bldg Ref Bonds</th>
<th>2014A GO Cap Fac Bonds</th>
<th>2017A Bonds Fac Maint Portion</th>
<th>Cap Fac Portion</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>02/01/2018</td>
<td>791,280.00</td>
<td>114,760.00</td>
<td>144,300.00</td>
<td>27,050.00</td>
<td>906,040.00</td>
</tr>
<tr>
<td>02/01/2019</td>
<td>113,570.00</td>
<td>114,300.00</td>
<td>144,900.00</td>
<td>26,450.00</td>
<td>920,320.00</td>
</tr>
</tbody>
</table>

### By MDE Levy Categories, 105% of Debt Service

<table>
<thead>
<tr>
<th>DATE</th>
<th>Voter Approved</th>
<th>Non-Voter Approved</th>
<th>Cap Facilities Debt (Levy Offset)</th>
<th>Total Levy</th>
<th>GDS Req Debt Levy</th>
<th>Levy/Collect Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>02/01/2018</td>
<td>830,844.00</td>
<td>-</td>
<td>120,498.00</td>
<td>830,844.00</td>
<td>951,342.00</td>
<td>2016/2017</td>
</tr>
<tr>
<td>02/01/2019</td>
<td>-</td>
<td>151,515.00</td>
<td>147,651.00</td>
<td>151,515.00</td>
<td>147,651.00</td>
<td>2017/2018</td>
</tr>
</tbody>
</table>

### Additional Information

- **Total:** $791,280.00
- **2012A GO Sch Bldg Ref Bonds:** $1,349,120.00
- **2014A GO Cap Fac Bonds:** $2,304,700.00
- **2017A Bonds Fac Maint Portion:** $279,100.00
- **Cap Fac Portion:** $4,724,200.00
- **Voter Approved:** $830,844.00
- **Non-Voter Approved:** $2,419,935.00
- **Cap Facilities Debt (Levy Offset):** $1,709,631.00
- **Total Levy:** $3,250,779.00
- **GDS Req Debt Levy:** $2,540,475.00
- **Levy/Collect Year:** 2016/2017 to 2028/2029
Combination of Funding Sources

Independent School District No. 2835 (Janesville-Waldorf-Pemberton)
General Obligation Capital and Facilities Maintenance Bonds, Series 2017
Issue Summary

<table>
<thead>
<tr>
<th>Sources Of Funds</th>
<th>COPs</th>
<th>GO Bonds</th>
<th>Issue Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Par Amount of Bonds</td>
<td>$770,000.00</td>
<td>$250,000.00</td>
<td>$1,890,000.00</td>
</tr>
<tr>
<td>Cash Contribution</td>
<td>50,000.00</td>
<td>50,000.00</td>
<td>1,521,000.00</td>
</tr>
<tr>
<td>Total Sources</td>
<td>$820,000.00</td>
<td>$300,000.00</td>
<td>$3,411,000.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Uses Of Funds</th>
<th>COPs</th>
<th>GO Bonds</th>
<th>Issue Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit to Project Construction Fund</td>
<td>750,000.00</td>
<td>285,000.00</td>
<td>3,316,000.00</td>
</tr>
<tr>
<td>Costs of Issuance</td>
<td>37,880.00</td>
<td>4,623.24</td>
<td>34,951.76</td>
</tr>
<tr>
<td>Deposit to Capitalized Interest (CIF) Fund</td>
<td>22,091.67</td>
<td>3,989.58</td>
<td>32,693.75</td>
</tr>
<tr>
<td>Total Underwriter's Discount</td>
<td>6,545.00</td>
<td>3,500.00</td>
<td>26,460.00</td>
</tr>
<tr>
<td>Rounding Amount</td>
<td>3,483.33</td>
<td>2,887.18</td>
<td>894.49</td>
</tr>
<tr>
<td>Total Uses</td>
<td>$820,000.00</td>
<td>$300,000.00</td>
<td>$3,411,000.00</td>
</tr>
</tbody>
</table>
JWP Athletic Complex
Players in the process
Players in the process

- Independent Municipal Advisor
- Bond attorney
- Underwriter
- Rating agency
- Paying agent
PLAYERS IN THE PROCESS

Independent Municipal Advisor

– Professionals who offer unbiased advice on financial matters to their clients – represent solely the interests of the issuer

– Recommends suitable financial options to meet the client’s needs

– Advises appropriate action(s) to meet the client’s objectives

– Coordinates financing process
PLAYERS IN THE PROCESS

Bond attorney

- Selected by the school district
- Issues the legal opinion
- Provides necessary legal notices, resolutions and related documents
PLAYERS IN THE PROCESS

Underwriter

- May be an investment bank, commercial bank, local bank
- Purchases bonds and resells to investors
- Participates through
  - Competitive sale
  - Negotiated sale
PLAYERS IN THE PROCESS

Rating agency

Three major rating agencies
- Moody’s Investors Services
- Standard & Poor Global Ratings
- Fitch Investors Service

Provides a “bond rating”, an independent evaluation of the credit worthiness of the municipal issuers
Paying agent

- An agent who makes principal and interest payments to bondholders on behalf of the issuer of those bonds

- Required for Minnesota school districts participating in the State’s credit enhancement bonds
Review and comment requirement

- Not required for remodeling and maintenance projects for existing space if projects funded by:
  - General education revenue
  - Deferred maintenance revenue
  - Alternative facilities revenue
  - Capital facilities bonds
  - Health and safety revenue
- Not required for projects funded by capital projects referenda if revenue is used exclusively for technology
Review and comment requirement cont’d

- Required for projects other than remodeling and maintenance of existing space if:
  - Project costs are in excess of $500,000 per site for school districts with outstanding capital loan
  - Project costs are in excess of $2 million per site
  - Voter approved referenda regardless of purpose if costs are $2 million or more per site
  - Capital project referenda if revenue will be used for both technology and capital improvements
State Credit Enhancement Program

- Program adopted in the early 90s
- State guarantees principal and interest payment on bonds
  - Bond rating
  - Lower interest rates
- Paying agent required as part of the program
- Simple process
  - Application
  - Resolution
Federal regulations
OVERVIEW

Federal regulations

Arbitrage
Bank qualification
Continuing disclosure
Reimbursement regulations
Arbitrage

- The profits that result from investing gross proceeds of a tax-exempt issue in higher yielding taxable securities
- Regulations may affect your tax-exempt borrowing
- Need to look at all tax-exempt financings, including leases, for the calendar year
FEDERAL REGULATIONS

Bank qualifications

- Any school district may designate tax exempt debt as “bank qualified” if it issues $10 million or less in a calendar year

- Bank qualification creates tax advantages for financial institutions purchasing debt

- Bank qualified debt tends to have lower interest rates than non-bank qualified debt
Continuing disclosure

- Increasing Federal role in regulating disclosure (SEC Rule)
- Issuers must provide accurate and timely information for the investor
- Disclosure requirements are determined at the time of sale
  - Size of issue
  - Total debt outstanding
IRS reimbursement regulations

- Reimbursement resolution
- Declaration of intent of reimbursement
- Declaration occurs before money is spent on construction (within 60 days)
- Failure to comply could eliminate ability to issue tax-exempt bonds
THANK YOU

Contact Information

Kelly D. Smith, Ed.D.
Director
+1 (651) 223 3099
kelly.smith@bakertilly.com