



Financing Options for Minnesota Schools

MASA Great Start Session
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Purpose of our Presentation

- ▶ **Discuss**

- ▶ Financing Options
- ▶ Players in the Process
- ▶ Review and Comment
- ▶ State Credit Enhancement Program
- ▶ Federal Regulations

Financing Options for Minnesota Schools

- ▶ Voter Approval Required
 - ▶ Operating Referendum
 - ▶ School Building Bonds
 - ▶ Capital Projects Levy

Financing Options for Minnesota Schools

- ▶ No Voter Approval Required
 - ▶ Capital Facilities Bonds
 - ▶ Equipment Certificates
 - ▶ Facilities Maintenance Bonds (LTFM)
 - ▶ Lease Purchase Financing
 - ▶ Lease Levy

Operating Referendum (voter approval required)

▶ Project types

- ▶ May be used for variety of operating purposes, including equipment

▶ New money

- ▶ Yes, but not until the fiscal year following referendum
- ▶ Spread on Referendum Market Value (seasonal rec. and agriculture excluded except house, garage, and one acre)

Operating Referendum *cont.*

▶ Key features and requirements

- ▶ Maximum of 10 years
- ▶ November referendum unless mail ballot or SOD district
- ▶ Authority is capped at \$1,827.54 per pupil unit for FY22
- ▶ May renew at same authority up to one year early and still get more favorable “no tax increase” language on ballot

School Building Bonds

(voter approval required)

- ▶ **Project types**

- ▶ May be used for variety of construction projects, including equipment

- ▶ **New money**

- ▶ Yes, up front cash for construction
- ▶ Spread on Net Tax Capacity (NTC)

School Building Bonds *cont.*

▶ Key features and requirements

- ▶ General obligation bonds (lower interest rates)
- ▶ Eligible for Minnesota Credit Enhancement Program
- ▶ Maximum of 30 years
- ▶ Revenue placed in dedicated account and only used for what was approved in Review and Comment
- ▶ Eligible for Ag2School Tax Credit (55% in Pay 21)
- ▶ Eligible for Debt Service equalization aid

Project #1

\$19,265,000 building project with no tax impact

General Obligation School Building Bonds, Series 2015
25 Year Term

NET DEBT SERVICE SCHEDULE

Date	Principal	Coupon	Interest	Total P+I	CIF	Existing D/S	Net New D/S	105% Overlevy
02/01/2015	-	-	-	-	-	-	-	-
02/01/2016	-	-	865,214.48	865,214.48	(865,214.48)	1,560,997.50	1,560,997.50	1,639,047.38
02/01/2017	-	-	865,214.48	865,214.48	(865,214.48)	1,563,942.50	1,563,942.50	1,642,139.63
02/01/2018	195,000.00	1.200%	865,214.48	1,060,214.48	-	504,702.50	1,564,916.98	1,643,162.83
02/01/2019	200,000.00	1.550%	862,874.48	1,062,874.48	-	500,512.50	1,563,386.98	1,641,556.33
02/01/2020	200,000.00	2.000%	859,774.14	1,059,774.14	-	505,872.50	1,565,646.64	1,643,928.97
02/01/2021	200,000.00	2.450%	855,774.14	1,055,774.14	-	510,362.50	1,566,136.64	1,644,443.47
02/01/2022	205,000.00	2.800%	850,874.14	1,055,874.14	-	508,997.50	1,564,871.64	1,643,115.22
02/01/2023	340,000.00	3.050%	845,134.14	1,185,134.14	-	376,885.00	1,562,019.14	1,640,120.10
02/01/2024	355,000.00	3.300%	834,764.14	1,189,764.14	-	374,640.00	1,564,404.14	1,642,624.35
02/01/2025	365,000.00	3.600%	823,049.14	1,188,049.14	-	377,000.00	1,565,049.14	1,643,301.60
02/01/2026	375,000.00	3.750%	809,907.50	1,184,907.50	-	378,600.00	1,563,507.50	1,641,682.88
02/01/2027	390,000.00	3.950%	795,845.00	1,185,845.00	-	379,600.00	1,565,445.00	1,643,717.25
02/01/2028	785,000.00	4.100%	780,440.00	1,565,440.00	-	-	1,565,440.00	1,643,712.00
02/01/2029	815,000.00	4.250%	748,255.00	1,563,255.00	-	-	1,563,255.00	1,641,417.75
02/01/2030	850,000.00	4.350%	713,617.50	1,563,617.50	-	-	1,563,617.50	1,641,798.38
02/01/2031	885,000.00	4.500%	676,642.50	1,561,642.50	-	-	1,561,642.50	1,639,724.63
02/01/2032	925,000.00	4.550%	636,817.50	1,561,817.50	-	-	1,561,817.50	1,639,908.38
02/01/2033	970,000.00	4.650%	594,730.00	1,564,730.00	-	-	1,564,730.00	1,642,966.50
02/01/2034	1,015,000.00	4.700%	549,625.00	1,564,625.00	-	-	1,564,625.00	1,642,856.25
02/01/2035	1,060,000.00	4.750%	501,920.00	1,561,920.00	-	-	1,561,920.00	1,640,016.00
02/01/2036	1,110,000.00	4.800%	451,570.00	1,561,570.00	-	-	1,561,570.00	1,639,648.50
02/01/2037	1,165,000.00	4.900%	398,290.00	1,563,290.00	-	-	1,563,290.00	1,641,454.50
02/01/2038	1,220,000.00	4.950%	341,205.00	1,561,205.00	-	-	1,561,205.00	1,639,265.25
02/01/2039	1,285,000.00	5.000%	280,815.00	1,565,815.00	-	-	1,565,815.00	1,644,105.75
02/01/2040	1,345,000.00	5.050%	216,565.00	1,561,565.00	-	-	1,561,565.00	1,639,643.25
02/01/2041	1,415,000.00	5.100%	148,642.50	1,563,642.50	-	-	1,563,642.50	1,641,824.63
02/01/2042	1,485,000.00	5.150%	76,477.50	1,561,477.50	-	-	1,561,477.50	1,639,551.38
Total	\$19,155,000.00	-	\$17,249,252.76	\$36,404,252.76	(1,730,428.96)	\$7,542,112.50	\$42,215,936.30	\$44,326,733.12

Capital Projects Levy

(voter approval required)

- ▶ **Project types**

- ▶ Variety of facility, equipment or technology expenditures


- ▶ **New money**

- ▶ Yes, in fiscal year following first levy
- ▶ Spread on Net Tax Capacity (NTC)

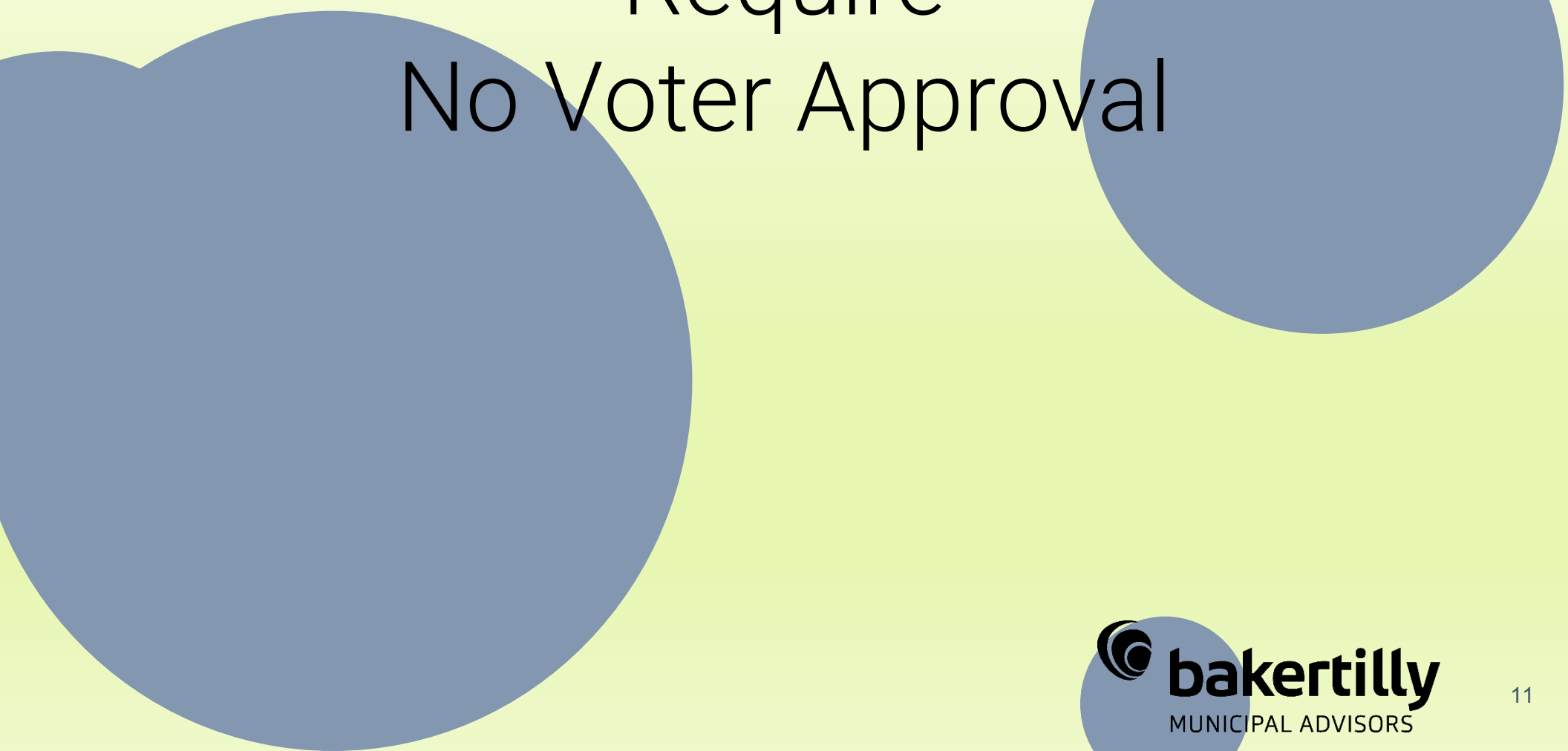
Capital Projects Levy *cont.*

▶ Key features and requirements

- ▶ No debt issued – annual levy (no interest or borrowing costs)
- ▶ Maximum of 10 years
- ▶ Revenue placed in dedicated account and only used for what was approved by MDE
- ▶ Revenue increases/decreases with changes in NTC
- ▶ No equalization aid



Financing Options that Require No Voter Approval



Capital Facilities Bonds

(no voter approval required)

- ▶ **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

Capital Facilities Bonds *Cont.*

- ▶ Key features and requirements
 - ▶ General obligation bonds (lower interest rates)
 - ▶ Eligible for Minnesota Credit Enhancement Program
 - ▶ Maximum of 15 years (20 years with restrictions)
 - ▶ Subject to 30-day reverse referendum
 - ▶ Eligible for Ag2School tax credit (55% in Pay 21)
 - ▶ No equalization aid

Facilities Maintenance Bonds

(no voter approval required)

▶ Project types

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

▶ New money

- ▶ Up front cash for eligible facility improvements
- ▶ Revenue neutral with bonds paid from long term facilities maintenance revenue
- ▶ Health and safety eligible projects over \$100,000 per site qualify for additional revenue

Facilities Maintenance Bonds, *cont.*

- ▶ Key features and requirements

- ▶ General obligation bonds (lower interest rates)
- ▶ Must have a 10-yr plan approved by board and MDE
- ▶ Eligible for Minnesota Credit Enhancement Program
- ▶ Eligible for Ag2School tax credit (55% in Pay 21)
- ▶ Maximum of 15 years

Equipment Certificates

(no voter approval required)

- ▶ **Project types**

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

- ▶ **New money**

- ▶ No
- ▶ Revenue neutral with bonds paid from operating capital

Equipment Certificates *cont.*

▶ Key features and requirements

- ▶ General obligation bonds (low interest rates)
- ▶ Eligible for Minnesota Credit Enhancement Program
- ▶ Maximum of 10 years unless to prepay special assessments in which case 20 years (can't exceed useful life of equipment with exception of technology)
- ▶ No equalization aid

Lease Purchase

(no voter approval required)

▶ 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

Lease Purchase *cont.*

▶ 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

Lease Levy (no voter approval required)

▶ 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 school districts)
- ▶ Spread on Net Tax Capacity (NTC)

Lease Levy *cont.*

▶ Key features and requirements

- ▶ Certificates of Participation (higher interest rates)
- ▶ Subject to annual appropriation
- ▶ Not eligible for Minnesota Credit Enhancement Program
- ▶ Maximum of 20 years not to exceed useful life
- ▶ Administrative space not eligible unless approved by MDE
- ▶ Additional \$65/APU authority for members of Intermediate Districts
- ▶ No equalization aid

Abatement Bonds

(no voter approval required)

- ▶ **Project Types**

- ▶ Parking lot improvements

- ▶ **New money**

- ▶ Yes

- ▶ Spread on Net Tax Capacity (NTC)

Abatement Bonds *Cont.*

- ▶ Key features and requirements

- ▶ General obligation bonds (lower interest rates)
- ▶ Eligible for Ag2School tax credit (55% in Pay 21)
- ▶ Eligible for Minnesota Credit Enhancement Program
- ▶ Maximum of 15 years (20 years with restrictions)

Abatement Bonds *Cont.*

Lac qui Parle Valley High School



Abatement Bonds *Cont.*

Lac qui Parle Valley High School



Other Financing Options

- ▶ Building Bonds for Calamities
- ▶ Installment Contract – Energy Conservation Methods
- ▶ Maximum Effort Capital Loans

**Review and Comment is required for some projects under Minnesota Statutes, Section 123B.71*

Players in the Process

- ▶ Independent Municipal Advisor
- ▶ Bond Attorney
- ▶ Underwriter
- ▶ Rating Agency
- ▶ Paying Agent

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

Bond Attorney

- ▶ Selected by the school district
- ▶ Issues the legal opinion
- ▶ Provides necessary legal notices, resolutions and related documents

Underwriter

- ▶ Can be an investment bank, commercial bank, local bank
- ▶ Purchases bonds and resells to investors
- ▶ Participates
 - ▶ Competitive sale
 - ▶ Negotiated sale

Rating Agency

- ▶ Three major rating agencies
 - ▶ Moody's Investors Services
 - ▶ Standard & Poor's
 - ▶ 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

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 program
- ▶ Simple process
 - ▶ Application
 - ▶ Resolution

Federal Regulations

- ▶ Arbitrage
- ▶ Bank Qualification
- ▶ Continuing Disclosure
- ▶ Reimbursement Regulations

Federal Regulations

- ▶ Arbitrage

- ▶ The profits that results 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 *cont.*

▶ Bank Qualification

- ▶ 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

Federal Regulations *cont.*

- ▶ 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

Federal Regulations *cont.*

- ▶ 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

ATTENTION

Disclaimer

- ▶ The information provided here is of a general nature and is not intended to address the specific circumstances of any individual or entity. In specific circumstances, the services of a professional should be sought.
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