

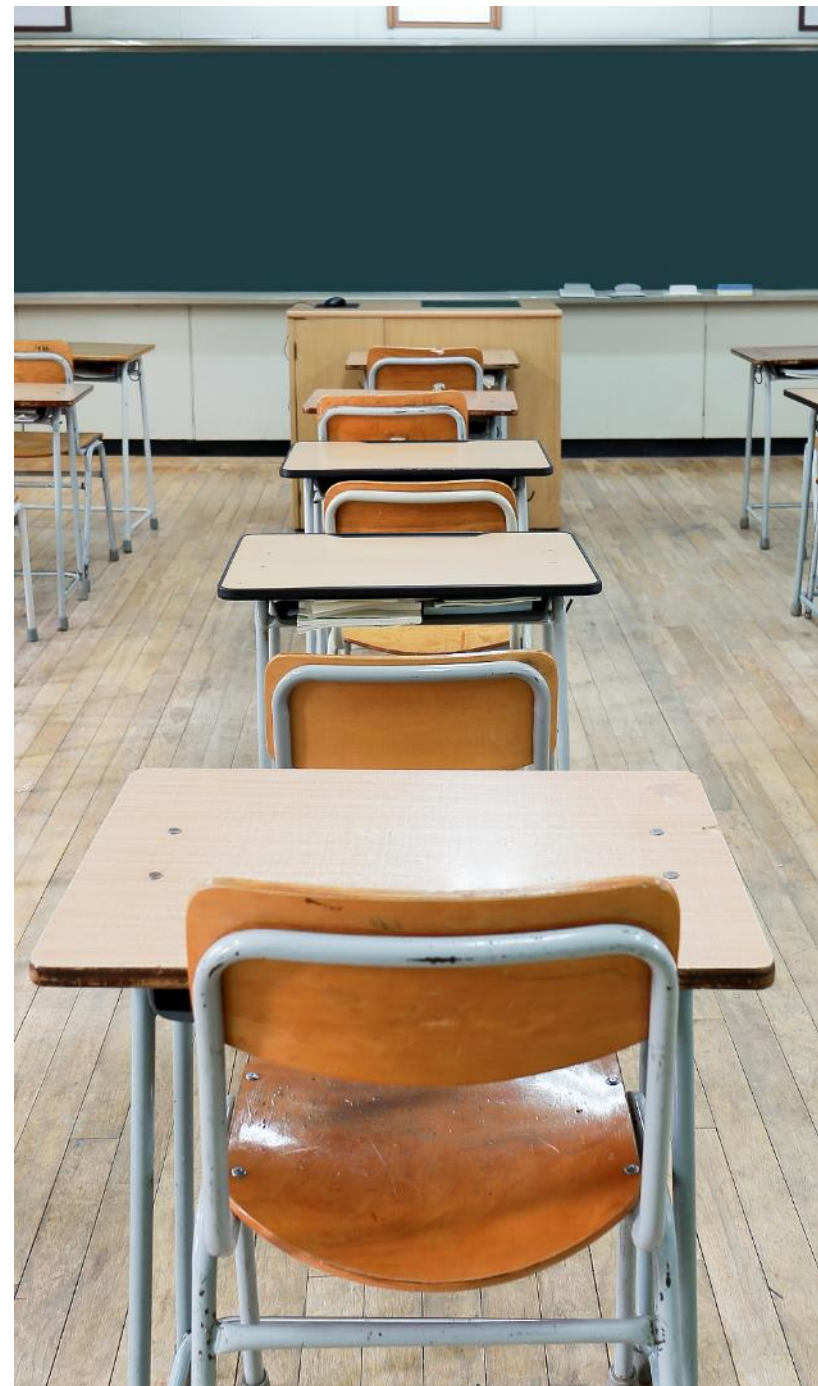


Facility financing options for Minnesota schools

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



INTRODUCTION

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

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



NO VOTER APPROVAL REQUIRED

Capital facilities bonds cont'd

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

NO VOTER APPROVAL REQUIRED

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)

NO VOTER APPROVAL REQUIRED

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



NO VOTER APPROVAL REQUIRED

Lease purchase cont'd

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

NO VOTER APPROVAL REQUIRED

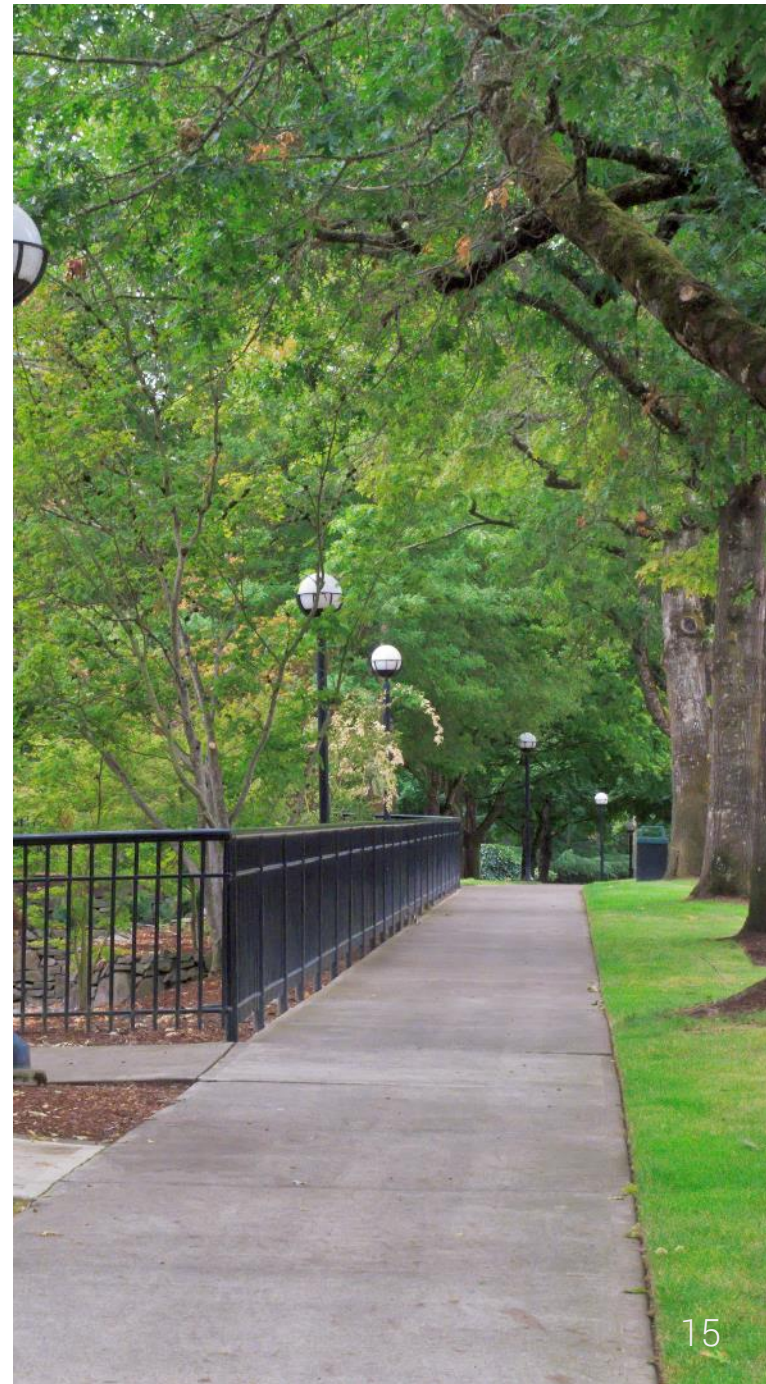
Abatement bonds

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



NO VOTER APPROVAL REQUIRED

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



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

Total Issue Sources And Uses

Dated 07/29/2014 | Delivered 07/29/2014

	Lease-Levy Portion	Lease Purchase Portion	Capital Facilities Bonds	District Cash Contribution	Issue Summary
Sources Of Funds					
Par Amount of Bonds.....	\$945,000.00	\$750,000.00	\$1,285,000.00	\$700,000.00	\$3,680,000.00
Re-offering Premium			12,319.30	-	\$12,319.30
Total Sources.....	\$945,000.00	\$750,000.00	\$1,297,319.30	\$700,000.00	\$3,692,319.30
Uses Of Funds					
Deposit to Construction Fund.....	\$917,949.17	\$743,318.58	\$1,245,350.00	\$700,000.00	\$3,606,617.75
Capitalized Interest.....	18,632.25	-			\$18,632.25
Total Underwriter's Discount (1.312%).....	-	-	16,864.18	-	\$16,864.18
Deposit to Debt Service Fund (Rounding).....	-	-	3,355.12	-	\$3,355.12
Costs of Issuance.....	8,418.58	6,681.42	31,750.00	-	\$46,850.00
Total Uses.....	\$945,000.00	\$750,000.00	\$1,297,319.30	\$700,000.00	\$3,692,319.30

Abatements bonds

Lac qui Parle Valley High School Parking Lot Project - \$1,390,000



\$1,425,000

**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

Sources Of Funds

Par Amount of Bonds.....	\$1,425,000.00
Reoffering Premium.....	28,763.50
Accrued Interest from 05/01/2013 to 05/22/2013.....	1,447.25
Total Sources.....	\$1,455,210.75

Uses Of Funds

Deposit to Project Fund.....	\$1,389,196.00
Costs of Issuance.....	29,737.25
Total Underwriter's Discount (1.240%).....	17,670.00
Deposit to Debt Service Fund (Capitalized Interest).....	17,160.25
Deposit to Debt Service Fund (Accrued Interest).....	1,447.25
Total Uses.....	\$1,455,210.75

Independent School District No. 2853, Lac Qui Parle Valley, Minnesota

Estimated Tax Impact - Based on Net Tax Capacity

General Obligation Tax Abatement Bonds, Series 2013

	Estimated Market Value (a)	Net Tax Capacity	1st Year Levy		\$120,165
			TNTC		\$11,499,854
			Tax Rate Increase (b):		1.045%

Homestead Residential

	100,000	718			7
	125,000	990			10
	150,000	1,263			13
	200,000	1,808			19
	225,000	2,080			22
	250,000	2,353			25
	300,000	2,898			30
	350,000	3,443			36
	400,000	3,988			42
	450,000	4,500			47

Commercial/Industrial

	\$100,000	\$1,500			\$16
	150,000	2,250			24
	250,000	4,250			44
	500,000	9,250			97
	1,000,000	19,250			201
	3,000,000	59,250			619
	5,000,000	99,250			1,037
	7,000,000	139,250			1,455
	10,000,000	199,250			2,082

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

By MDE Levy Categories, 105% of Debt Service

DATE	2012A GO Sch		2017A Bonds		TOTAL	Voter Approved	Non-Voter Approved	Cap Facilities Debt (Levy Offset)	Total Levy	GDS Req Debt Levy	Levy/Collect Year
	Bldg Ref Bonds	2014A GO Cap Fac Bonds	Fac Maint Portion	Cap Fac Portion							
02/01/2018	791,280.00	114,760.00	-	-	906,040.00	830,844.00	-	120,498.00	830,844.00	951,342.00	2016/2017
02/01/2019	-	113,570.00	144,300.00	27,050.00	284,920.00	-	151,515.00	147,651.00	151,515.00	147,651.00	2017/2018
02/01/2020	-	112,380.00	146,600.00	26,450.00	285,430.00	-	153,930.00	145,771.50	153,930.00	145,771.50	2018/2019
02/01/2021	-	110,680.00	143,750.00	25,850.00	280,280.00	-	150,937.50	143,356.50	150,937.50	143,356.50	2019/2020
02/01/2022	-	113,980.00	145,900.00	25,250.00	285,130.00	-	153,195.00	146,191.50	153,195.00	146,191.50	2020/2021
02/01/2023	-	111,280.00	142,900.00	24,650.00	278,830.00	-	150,045.00	142,726.50	150,045.00	142,726.50	2021/2022
02/01/2024	-	113,580.00	144,900.00	24,050.00	282,530.00	-	152,145.00	144,511.50	152,145.00	144,511.50	2022/2023
02/01/2025	-	110,730.00	141,750.00	23,450.00	275,930.00	-	148,837.50	140,889.00	148,837.50	140,889.00	2023/2024
02/01/2026	-	112,880.00	143,600.00	22,850.00	279,330.00	-	150,780.00	142,516.50	150,780.00	142,516.50	2024/2025
02/01/2027	-	109,880.00	145,300.00	27,250.00	282,430.00	-	152,565.00	143,986.50	152,565.00	143,986.50	2025/2026
02/01/2028	-	111,880.00	141,850.00	26,500.00	280,230.00	-	148,942.50	145,299.00	148,942.50	145,299.00	2026/2027
02/01/2029	-	113,520.00	143,400.00	25,750.00	282,670.00	-	150,570.00	146,233.50	150,570.00	146,233.50	2027/2028
02/01/2030	-	-	144,800.00	-	144,800.00	-	152,040.00	-	152,040.00	-	2028/2029
02/01/2031	-	-	146,050.00	-	146,050.00	-	153,352.50	-	153,352.50	-	2029/2030
02/01/2032	-	-	142,150.00	-	142,150.00	-	149,257.50	-	149,257.50	-	2030/2031
02/01/2033	-	-	143,250.00	-	143,250.00	-	150,412.50	-	150,412.50	-	2031/2032
02/01/2034	-	-	144,200.00	-	144,200.00	-	151,410.00	-	151,410.00	-	2032/2033
Total	\$791,280.00	\$1,349,120.00	\$2,304,700.00	\$279,100.00	\$4,724,200.00	\$830,844.00	\$2,419,935.00	\$1,709,631.00	\$3,250,779.00	\$2,540,475.00	25

Combination of Funding Sources

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

Total Issue Sources And Uses

Dated 04/01/2017 | Delivered 04/01/2017

	COPs	GO Bonds		
		Cap Fac Portion	Fac Maint Portion	Issue Summary
Sources Of Funds				
Par Amount of Bonds.....	\$770,000.00	\$250,000.00	\$1,890,000.00	\$2,140,000.00
Cash Contribution.....	50,000.00	50,000.00	1,521,000.00	1,571,000.00
Total Sources.....	\$820,000.00	\$300,000.00	\$3,411,000.00	\$3,711,000.00
Uses Of Funds				
Deposit to Project Construction Fund.....	750,000.00	285,000.00	3,316,000.00	3,601,000.00
Costs of Issuance.....	37,880.00	4,623.24	34,951.76	39,575.00
Deposit to Capitalized Interest (CIF) Fund.....	22,091.67	3,989.58	32,693.75	36,683.33
Total Underwriter's Discount.....	6,545.00	3,500.00	26,460.00	29,960.00
Rounding Amount.....	3,483.33	2,887.18	894.49	3,781.67
Total Uses.....	\$820,000.00	\$300,000.00	\$3,411,000.00	\$3,711,000.00

JWP Athletic Complex

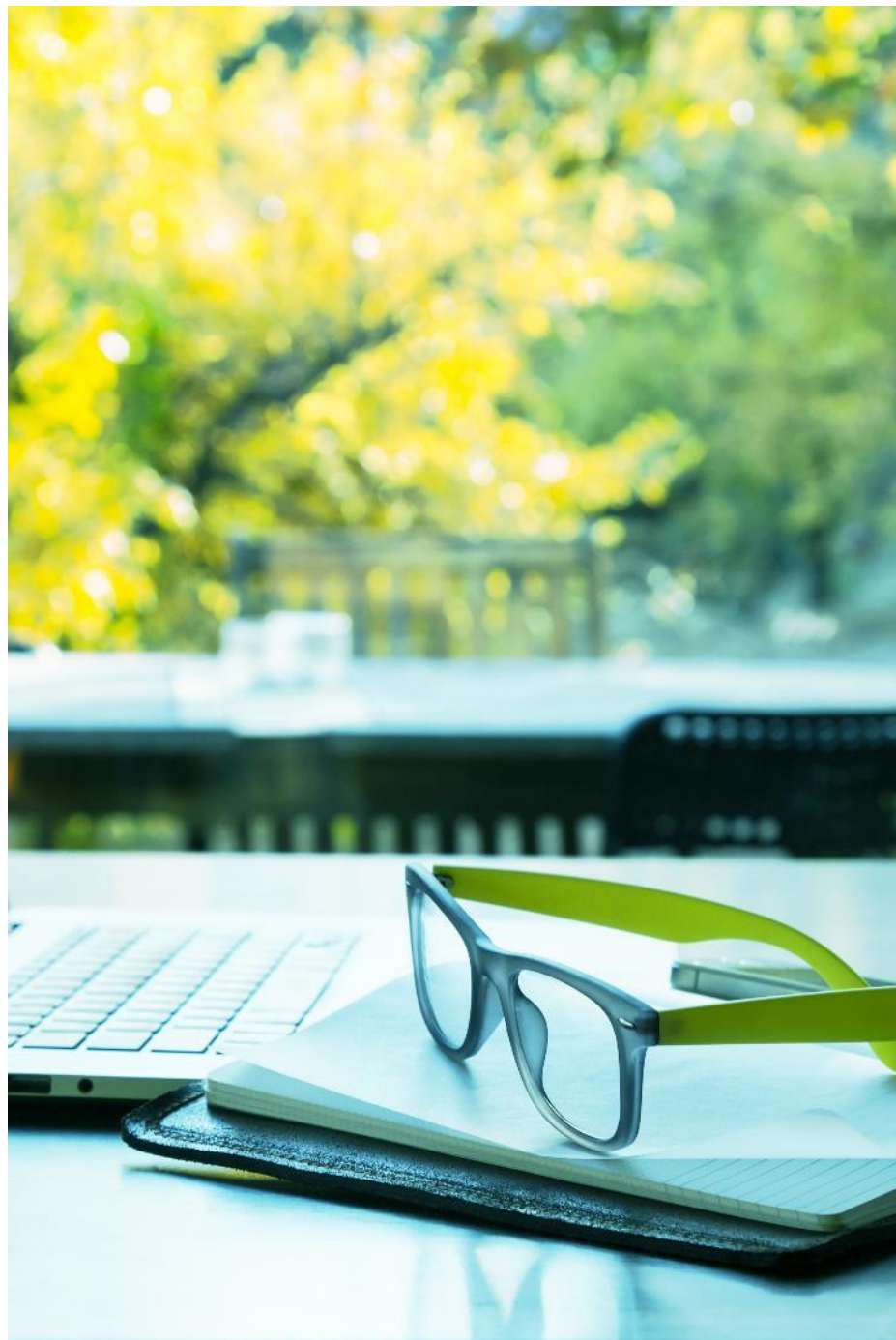


JWP Athletic Complex



Players in the process





OVERVIEW

Players in the process

- Independent Municipal Advisor
- Bond attorney
- Underwriter
- Rating agency
- Paying agent

PLAYERS IN THE PROCESS

Independent Municipal Advisor

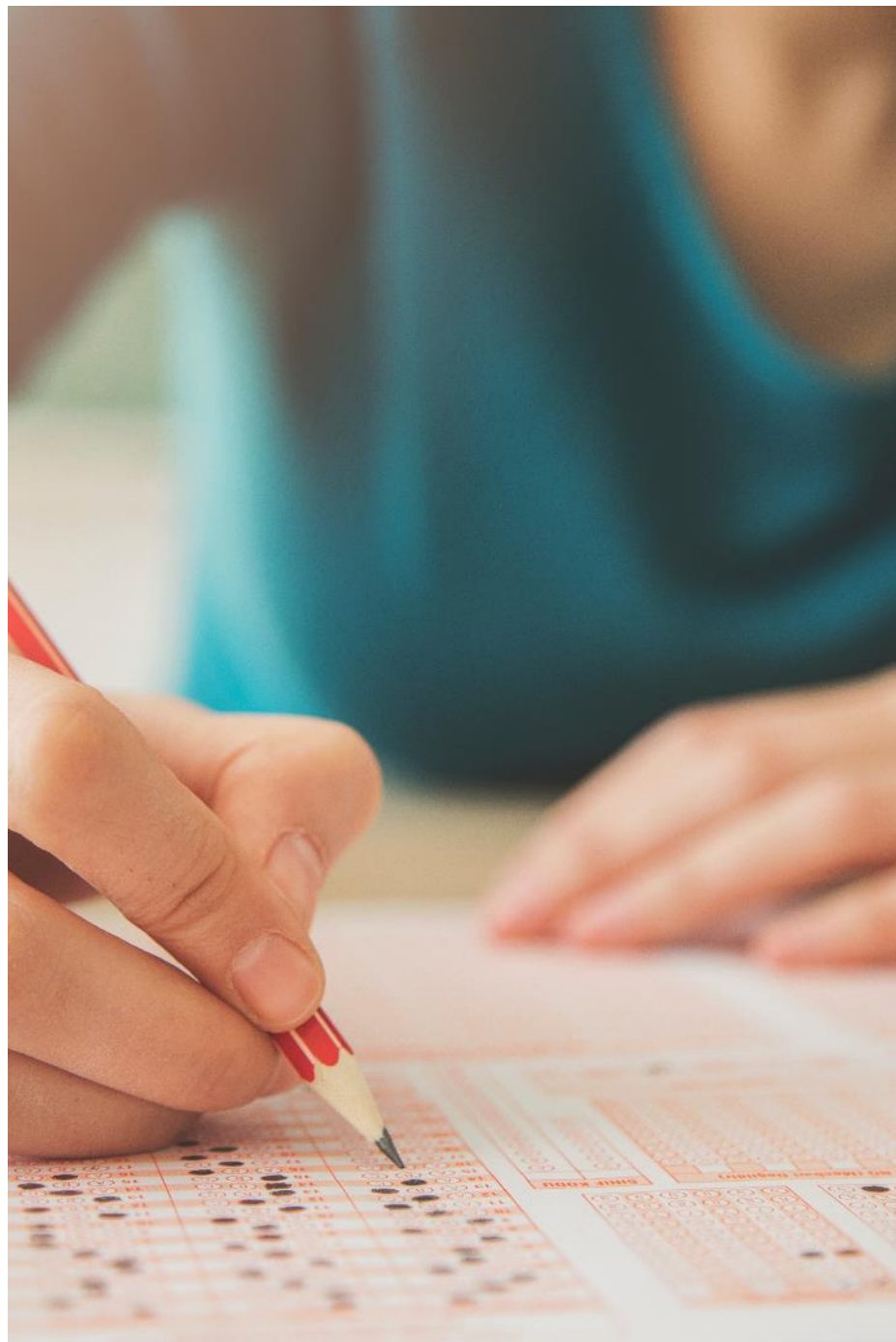
- Professionals who offer unbiased advice on financial matters to their clients – represent solely the interests of the issuer
- Recommends suitable financial options to meet the client's needs
- Advises appropriate action(s) to meet the client's objectives
- Coordinates financing process

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



PLAYERS IN THE PROCESS

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

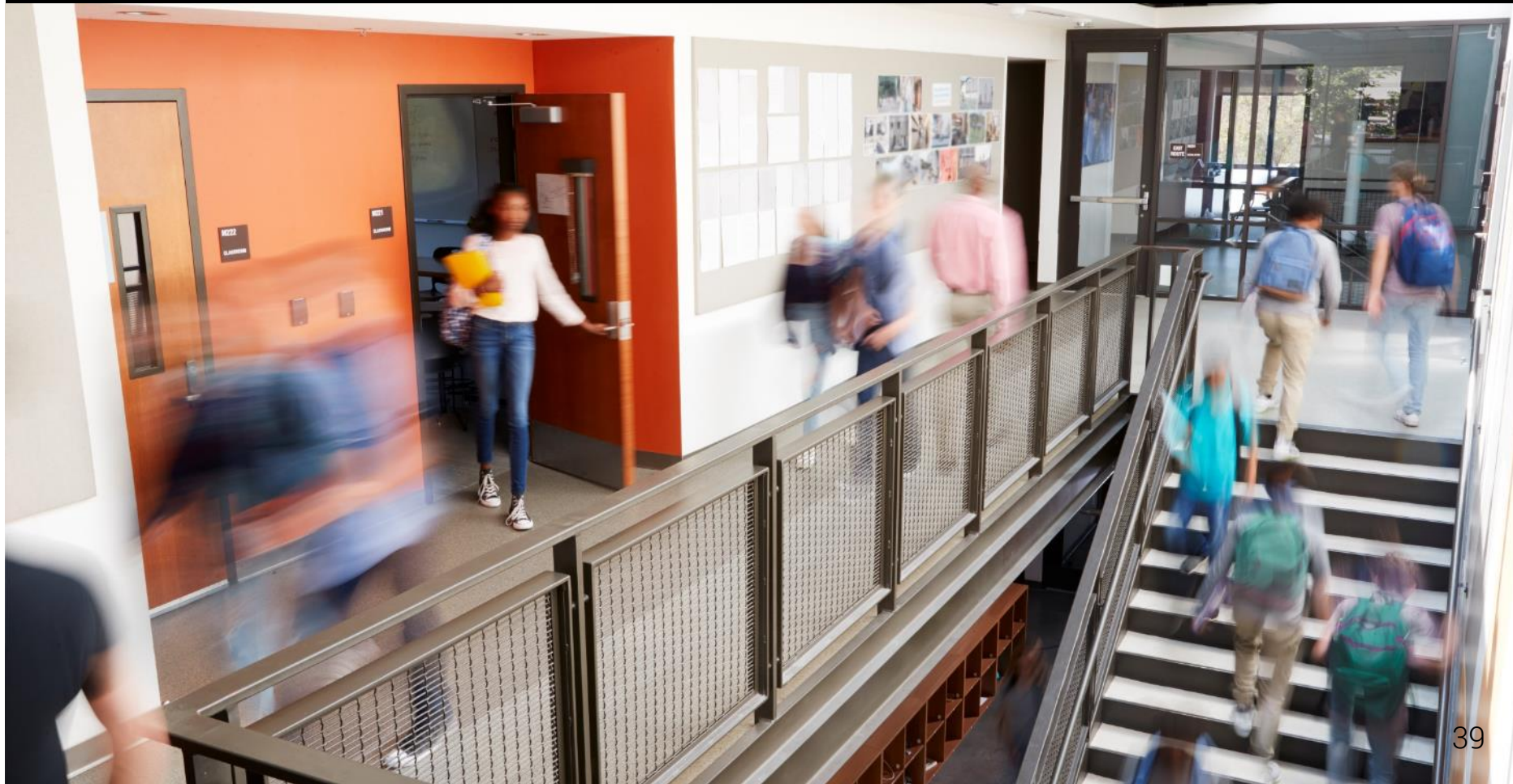


State Credit Enhancement Program

- 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



A modern classroom setting with white tables and green chairs. A whiteboard with mathematical equations is visible on the wall, along with a clock and a paper towel dispenser. The room has large windows on the left side, providing a view of trees outside. The ceiling features recessed lighting and a circular air vent.

OVERVIEW

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

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



FEDERAL REGULATIONS

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

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