



**EHLERS**  
LEADERS IN PUBLIC FINANCE

# Tools for Financing Capital Projects

White Bear Lake Area Schools  
Facilities Planning Committee

January 16, 2019



# Background

- School districts never seem to have enough money to finance capital projects
- State has created a number of financing options or “tools” that can be used to finance capital expenses
- Each tool has different rules, procedures, and permitted uses



# Background

- The best tool to meet your district's needs will vary based on your goals and preferences and on what types of projects you need to finance
- In some cases, you may need to combine two or more tools



# Financing Tools Authorized for School Districts

- School Building Bonds
- Capital Project Levy
- Long Term Facilities Maintenance Revenue
- Capital Facilities Bonds
- Capital Notes
- Lease Purchase Financing
- Lease Levy
- Abatement Bonds



# Tools Grid

Funding Tool	Types of Projects										Voter Approval Required?	Property Tax Impact?	Qualifies for Ag Bond Credit?	Tax Base Levied Against			
	New Buildings / Bldg. Purchase	Building Additions	Building Renovations	Site Improvements	Deferred Maintenance	Health / Safety Projects	Parking Lots	Energy Improvements	Security Improvements	Furnishings / Equipment							
Building Bonds	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Y	Y	Y	NTC	None	Statutory debt limit	State Review and Comment required
Operating Referendum	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Y	Y		RMV	Annual revenue; not all up-front	- No borrowing - State maximum revenue/pupil	Annual revenue can be used to make payments on debt issue (e.g., lease purchase, capital facilities bonds, capital notes)
Capital Project Levy	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Y	Y		NTC	Annual revenue; not all up-front	No borrowing	
Facilities Maint. Bonds <small>(All Districts except old Alt. Fac. Districts)</small>					✓								Y	NTC	Payments financed from LTFM revenue	Limit on annual revenue for bond payments and other projects	State approval required
			1			✓						Y	Y	NTC	HVAC, Fire Suppression, Asbestos over \$100k or remodeling for Pre-K	Statutory debt limit	State approval required
Capital Facilities Bonds			✓	✓		✓	✓	✓	✓				Y		Payments financed from general fund revenue	Annual pmts. can't exceed operating capital revenue	State approval required
Capital Notes										✓			Y		Payments financed from general fund revenue	Annual pmts. can't exceed operating capital revenue	
Lease Purchase without Levy	✓	✓		✓			✓			✓					Payments financed from general fund revenue		
Lease Purchase with Lease Levy	2	✓		3								Y		NTC	-Instructional and School Storage use only -Additions limited to 20% of existing building space	Annual lease levy limited to \$212 per pupil	Annual state approval of levy required
Abatement Bonds							✓					Y	Y	NTC	Permitted uses limited to parking construction and improvements	Annual debt service limited to 10% of NTC	Public hearing required



# School Building Bonds

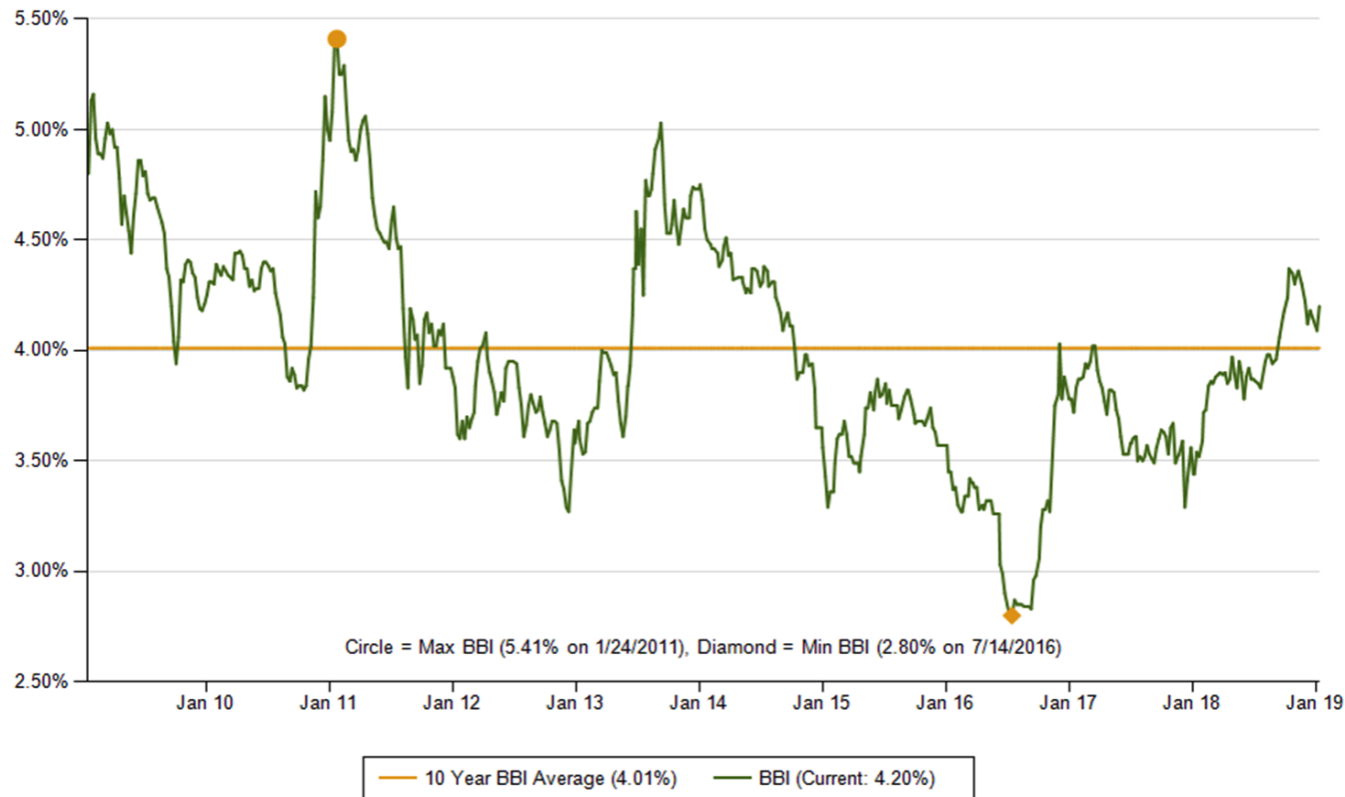
- Voter approval required
- Provides up front cash for project
- Broadest authority
- Issued for up to 30 years
- Flexibility in structuring of payments



# School Building Bonds – Interest Rates

## 10 YEAR TREND IN MUNICIPAL BOND INDICES

Weekly Rates January, 2009 - January, 2019



Source: *The Bond Buyer*

The Bond Buyer "20 Bond Index" (BBI) shows average yields on a group of municipal bonds that mature in 20 years and have an average rating equivalent to Moody's Aa2 and S&P's AA.



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# School Building Bonds (continued)

- Debt service levy spread on Net Tax Capacity (NTC)
- Debt service equalization aid
- Approval
  - Projects in excess of \$2 million require MDE Review and Comment process
  - School board action to call for election
  - Simple majority vote at election
  - Building elections can be held five days per year





# School Building Bonds

- **Advantages**

- G.O. Bonds offer lower interest rates
- State credit enhancement program
- Revenue through additional tax levies and state aid, no drain on general fund
- Flexibility in structuring of payments
- District may qualify for debt service equalization aid

- **Disadvantages**

- Usually causes increase in property taxes
- Voter approval required



# Capital Project Levy

- Voter approval required
- Used to finance capital costs (e.g. technology, maintenance)
- Levy is spread on Net Tax Capacity (NTC)
  - If District's NTC increases, levy will generate more revenue
- ~ 50 districts access the CPL



# Capital Project Levy (continued)

- **Advantages**

- No maximum
- No interest or other borrowing costs
- If district's NTC increases, levy authority also increases

- **Disadvantages**

- Usually causes an increase in property taxes
- Voter approval required
- If district's NTC decreases, levy authority also decreases
- No state equalization aid



# Long Term Facilities Maintenance (LTFM) Revenue

- Available to all districts
- Revenue includes state equalization aid with indexed equalizing factor
- Districts formerly qualifying for full Alternative Facilities Funding program grandfathered with unlimited funding
  - ISD 624 grandfathered with unlimited funding



# LTFM Revenue (continued)

- Permitted Use of funds
  - Deferred maintenance
  - Accessibility
  - Health & Safety
- Revenue may NOT be used for
  - New construction, remodeling of existing facilities, or purchase of portable classrooms
  - Lease purchase agreements or other deferred payment agreements
  - Energy-efficiency projects under section 123B.65
  - Violence prevention and facility security



# LTFM Revenue (continued)

- **Advantages**

- For many districts, higher level of state aid than other financing options
- G.O. bonds result in lower interest rates than other forms of borrowing
- No election required
- 10 year plan requirement positive factor with rating agencies

- **Disadvantages**

- Limited uses
- Limited revenue for most districts (not applicable to ISD 624)
- Multistep approval process



# Capital Facilities Bonds

- Up front cash for projects; allows district to spread payments over several years
- Allowable uses:
  - Improvements and repairs to buildings and sites
  - Equipping and reequipping buildings with permanent attached fixtures
  - Disabled access repairs
  - Fire, life and safety code compliance
  - Asbestos removal or encapsulation/cleanup of PCBs/ cleanup relating to fuel storage
  - Facility improvements to enhance security
  - Energy modifications



# Capital Facilities Bonds (continued)

- **Advantages**

- G.O. bonds result in lower interest rates than other forms of borrowing
- No election required, unless by petition

- **Disadvantages**

- No additional levy authority, debt service payment could strain operating capital or general fund budget
- Potentially higher issuance costs
- Procedures for approval more complex than other forms of borrowing





# Capital Notes (Equipment Certificates)

- Similar to Capital Facilities Bonds
- Provides up front cash for equipment
- Allowable uses include purchase of:
  - Vehicles
  - Computers
  - Telephone systems
  - Cable equipment
  - Photocopy and office equipment
  - Technological equipment for instruction
- Proceeds can also be used to prepay special assessments



# Capital Notes (continued)

- **Advantages**

- G.O. bonds result in lower interest rates than other forms of borrowing
- No election required

- **Disadvantages**

- No additional levy authority, debt service payment could strain operating capital or general fund budget
- Potentially higher costs of issuance
- Procedures for approval more complex than other forms of borrowing



# Lease Purchase

- Provides upfront cash
- Funds can be used for any real or personal property
- Lease length determined by useful life of asset
- During term of lease, financed asset technically owned by “lessor”
- District has right to purchase asset at end of term for nominal fee



# Lease Purchase (continued)

- Tax-exempt financing in most cases
- Leases can be set up in various ways
  - “Privately placed” with bank, leasing company, or equipment vendor
  - “Certificates of Participation” (COPs)
  - Lease Revenue Bonds sold by HRA or EDA
- Methods of sale
  - Competitive sale of COPs or Bonds
  - Request for Proposal process
  - Direct negotiations with one lessor
- In most cases, payments must be made from existing resources
  - If project qualifies, lease levy may be used to to fund payments



# Lease Purchase (continued)

- **Advantages**

- Most times procedures can be completed in a relatively short time
- Most times costs of issuance are relatively low
- No election required

- **Disadvantages**

- Lease payments subject to annual school board appropriation
- Generally higher interest rates than with bonds
- In many cases, annual payments made from existing resources



# Lease Levy

- Funds can be used for “capital portion” of leases for instructional purposes
- **Cannot** be used for
  - New buildings used primarily for “regular” K-12 instruction
  - Additions for regular K-12 instruction, if space is > 20% of existing building
  - District-owned buildings leased to another program in same district
  - Stadiums
- Requires MDE approval



# Lease Levy (continued)

- **Advantages**

- Additional revenue received, no drain on general fund
- No election required

- **Disadvantages**

- Annual approval required from MDE Commissioner
- No state equalization aid
- Usually causes an increase in property taxes



# Abatement Bonds

- No voter approval needed, Board must hold a public hearing
- Funds can only be used for construction or renovation of parking lots and structures
- Limited to 15 years
- Review and Comment process required for projects over \$2 million
- District is allowed to levy each year for principal and interest payments





# Abatement Bonds (continued)

- **Advantages**

- G.O. bonds result in lower interest rates than other forms of borrowing
- No election required

- **Disadvantages**

- Extremely limited uses
- No state equalization aid
- Procedures for approval more complex than other forms of borrowing

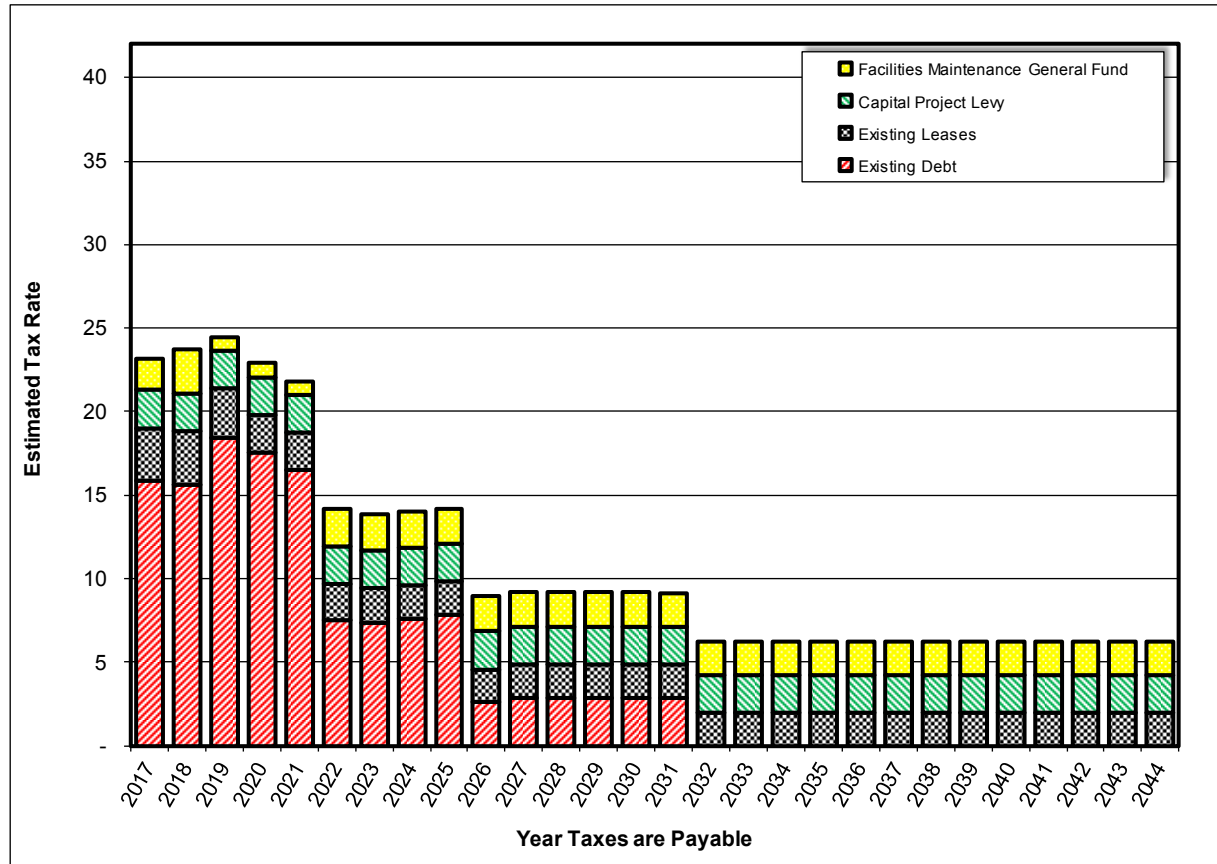


# Existing Debt

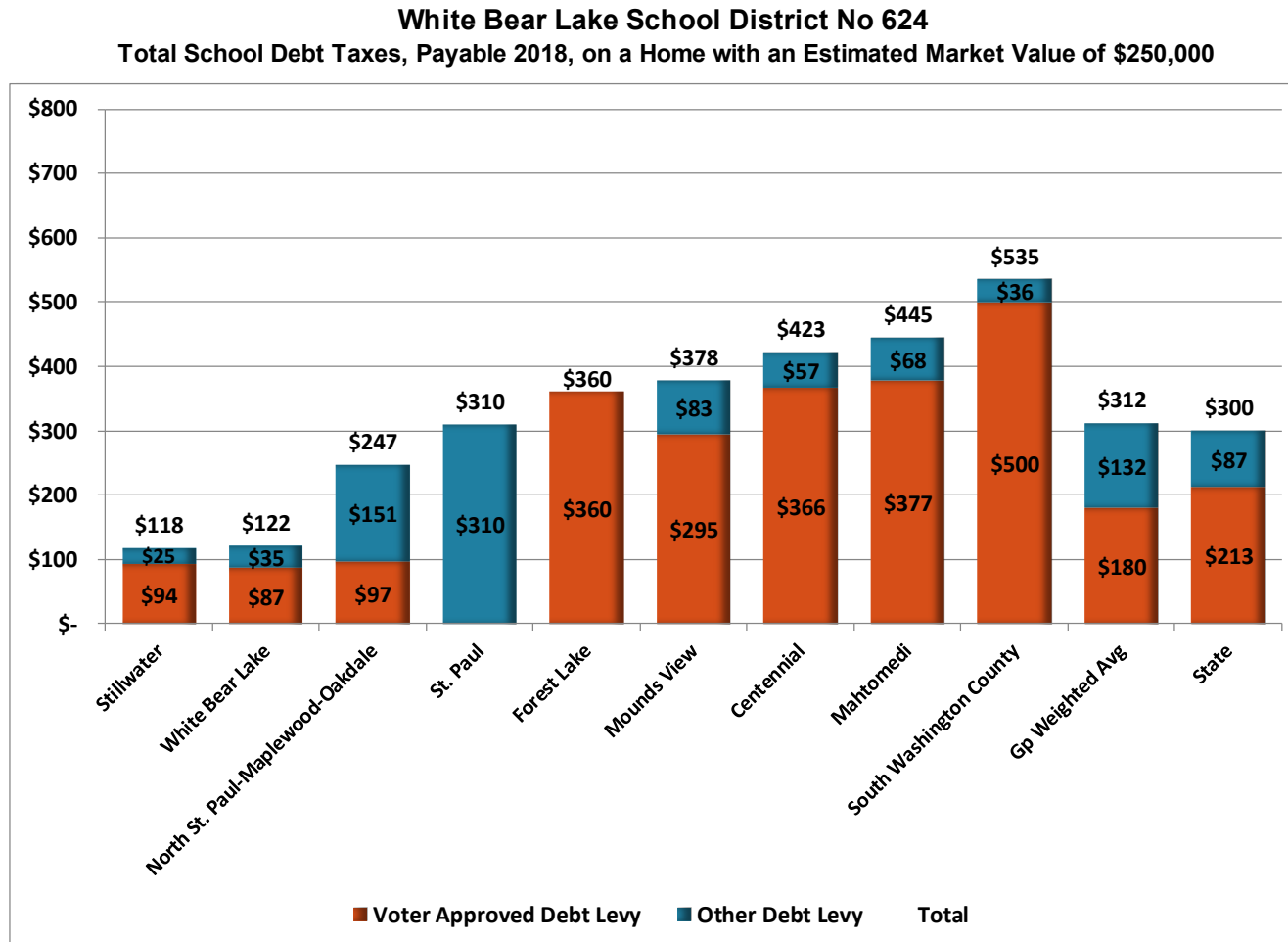
**White Bear Lake School District No. 624**  
**Estimated Tax Rates for Capital and Debt Service Levies**  
**Existing Commitments and Proposed New Debt**

Existing Debt

January 15, 2019



# Existing Debt

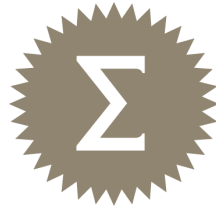


Source: Pay 2018 School Tax Report (Excludes OPEB Levy)



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Greg Crowe  
Senior Municipal Advisor  
Ehlers  
(651) 697-8522  
gcrowe@ehlers-inc.com

Shelby McQuay  
Municipal Advisor  
Ehlers  
(651) 697-8548  
smcquay@ehlers-inc.com

