

Financing Tools and Other Fun Financing Information

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Purpose of our Presentation

- Discuss
 - Players in the Process
 - Method of Sale
 - Financing Options
 - State and Federal Regulations
 - Questions and Answers

Players in the Process

- Financial Advisor
- Bond Attorney
- Underwriter
- Rating Agency
- Paying Agent

Independent Financial Advisor

- Professionals who offer unbiased advice on financial matters to their clients – represent solely the interests of the issuer
- Recommend suitable financial products from the whole of the market
- Conduct a detailed survey of their client's financial position, preferences and objectives
- Advise appropriate action(s) to meet the client's objectives
- Recommend a suitable financial product to match the client's needs
- Coordinates financing process

Bond Attorney

- Issues the legal opinion
 - Bonds constitute legal, valid and binding obligations of the issue
 - Interest on the bonds is exempt from Federal income tax (and Minnesota if bond holder is resident of MN)
- Provides necessary legal notices, resolutions and related documents

Bond Attorney (cont'd)

- For a bond issue: provides transcript of the proceeds of the bond sale and closing documents
- For a lease purchase: may provide lease documents and resolutions
- For a bond or levy referendum election: prepares appropriate resolutions and related documents
- Selected by the District

[Underwriter]

- Purchases bonds and resells to investors
- Can be an investment bank, commercial bank, local bank
- Participates
 - Competitively – not involved in structuring of the issue
 - Negotiated – assists in the development of the structure and preparation for sale (acts as both Financial Advisor and purchaser)
- Compensation
 - Discount
 - Reoffering Premium

[Rating Agency]

- Provides an independent evaluation of the credit worthiness of the municipal issuers, called a “bond rating”
- Three major rating agencies
 - Moody’s Investors Service
 - Standard & Poor’s
 - Fitch Investors Service

[Rating Agency (cont’d)]

- Costs associated with a rating
- Bond rating reviewed at time issue comes to market or at other times
- Many, if not all, school district bonds have a credit enhanced rating (the Minnesota School District Credit Enhancement Program)

[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

[Method of Sale]

- Two basic types of sale
 - Competitive
 - Negotiated
- Lowest cost of borrowing
- Tax implication to taxpayers & ratepayers
 - Short-range
 - Long-range

[Competitive Bids]

- Rating of bonds is at least single-A
 - Underlying
 - Credit enhanced
- Secured by known and long-standing revenue stream
- Simple bonds
 - Needs no explanation to bond market
 - Most school bond issues fall into this category

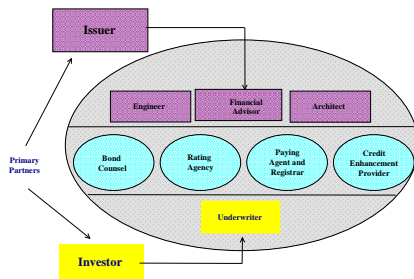
Negotiated Sale

- Rating is lower than single-A or there is a “story”
- Bond insurance or credit enhancement is unavailable or not cost-effective
- Structure of bonds
 - Pooled
 - Variable rates
 - Small or large issues

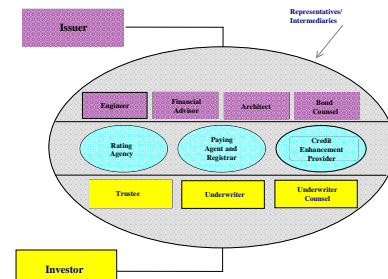
Negotiated Sale (cont'd)

- Target underwriting participation to include disadvantaged business enterprises (DBE's) or local firms
- Other factors that the issuer, in consultation with its financial advisor, believes favors negotiated sale

Competitive Sale Participants



Negotiated Sale Participants



Financing Options

- School Building Bonds
- Levy Referendums
- Capital Projects Levy
- Alternative Facility Bonds
 - Traditional Program
 - Health & Safety
- Capital Facility Bonds
- Capital Notes

Financing Options (cont'd)

- Lease Purchase Financing
- Certificates of Participation
- Lease Levy
- Aid/Tax Anticipation Certificates
- Qualified Zone Academy Bonds
- E-Rate Discounts
- OPEB
- Other

Review & Comment

- Required by the MDE
- Major Components
 - Geographic area and population served
 - List of current facilities & deficiencies
 - Description of project
 - Financing
 - Operational costs
 - Accessibility issues
 - Indoor Air Quality
 - Infrastructure

Review & Comment (cont'd)

- Projects in excess of \$500,000 require consultation
- Projects in excess of \$1,400,000 require Review and Comment (\$500,000 for Districts with outstanding capital loans)
- List of information that must be submitted to the Commissioner of Education expanded during the 2009 legislative session
- Publication of a *summary* of the Review and Comment now permitted; full Review and Comment must be published on District's website

School Building Bonds

- Voter approval required
- Provides up front cash for project
- Can be used for any type of capital expense
- Can be issued for up to 30 years
 - Minimum length of 20 years (or average maturity of 12.5 years) to qualify for debt service equalization aid

School Building Bonds (cont'd)

- Low interest rates
 - General Obligation Bonds
 - Credit enhancement program
- Debt service levy is spread on Net Tax Capacity (MNTC)
- Elections can be held any date except those blacked out by statute

Levy Referendums

- Voter approval required
- Used to finance operating costs as well as capital costs
- Maximum length of 10 years
- Revenue is "capped"
 - Exceptions
 - Sparsity districts
 - Districts that have been "grandfathered" at higher dollar amounts

Levy Referendums (cont'd)

- No debt issued
- Referendum levy is spread on Referendum Market Value (RMV)
 - Seasonal recreational residential (cabins) and agricultural land and building do not pay
- Equalization aid
 - Equalized at a higher levy up to \$700 per pupil
 - May qualify for equalization above \$700 per pupil but to a lesser degree

[Levy Referendums (cont'd)]

- Approval process
 - Specific ballot language dictated by statute
 - Can include inflationary language
 - Generally, one election per year on the general election day

[Capital Projects Levy]

- Voter approval needed
- No interest or borrowing costs
- Used to finance capital expenses, i.e. technology, maintenance
- Maximum length is ten years
- No limit on dollar amount

[Capital Projects Levy (cont'd)]

- Levy is spread on Net Tax Capacity (NTC)
 - If District's NTC increases, will generate more revenue
- No equalization aid
- Election must take place no more than five (5) years before the anticipated project commencement date

[Alternative Facility Bonds and Levy]

- No voter approval needed
- Bonds issued and/or pay-as-you-go levy
- Flexible uses of funds
 - Can be used for deferred maintenance, health & safety, or disabled access – depending on how District qualifies for program
 - No new construction

[Alternative Facility Bonds and Levy (cont'd)]

- Two ways to qualify
 - Full program
 - Available to a small number of districts
 - Minimum of 1,850,000 square feet of buildings, with average building age of 15 years, or 1,500,000 square feet of buildings and average building age of 35 years
 - Specified specifically in law
 - Under Health and Safety
 - If project is greater than \$500,000 per site

[Alternative Facility Bonds and Levy (cont'd)]

- Multi-year plan must be annual updated and approved by MDE
 - For districts in full program - 10 year plan
 - Other districts – 5 year plan
- MDE must separately approve issuance of bonds
- Publication requirement – “Notice of Intent” to sell bonds
- Must follow review and comment requirements except publication requirement

Alternative Facility Bonds and Levy (cont'd)

- Low interest rates
 - General obligation bonds
 - Credit enhancement program
- Debt service levy or pay-as-you-go levy spread on Net Tax Capacity
- District receives additional revenue to make the levy

Capital Facility Bonds

- No voter approval required but subject to reverse referendum
- Requires approval by MDE
- Provides up front cash for projects
- Maximum length of bonds is ten years
- Bond payments limited to District's annual operating capital revenue

Capital Facility Bonds (cont'd)

- Low interest rates
 - General obligation bonds
 - State credit enhancement program
- Revenue neutral – district does not receive new revenue to make bond payments
- Publication notice required as well with 30 day waiting period

Capital Notes

- Similar to Capital Facility Bonds
- No voter approval required
- Provides up front cash for equipment
- Maximum length of bonds is five years
 - Length of note restricted to useful life of what being financed
 - Can be longer if used to pay for special assessments

Capital Notes (cont'd)

- Bond payments limited to District's annual operating capital revenue
- Low interest rates
 - General obligation bonds
 - State credit enhancement program
- Revenue neutral – district does not receive new revenue to make bond payments

Lease Purchase/Certificates of Participation

- No voter approval needed
- Provides upfront money
- Funds can be used for any real or personal property
- Length of lease determined by useful life of asset

Lease Purchase/Certificates of Participation (cont'd)

- Tax exempt financing
- Subject to annual appropriation – higher interest rates
- Leases can be set up through various means
 - Equipment vendors
 - Direct negotiation with bank or leasing company
 - Competitive proposals

Lease Purchase/Certificates of Participation (cont'd)

- Leasing company technically owns asset
- No additional revenues for repayment of debt
- Payments made from existing District revenues

Lease Levy

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

Lease Levy (cont'd)

- Required approval from MDE
- Levy is limited to \$150 per resident pupil unit (can exceed max if meet certain criteria and get approval from MDE)
- Levy is spread on Net Tax Capacity
- No debt is actually issued but in some cases levy can be used to finance payments on lease purchase/COP

Other Post Employee Benefits (OPEB)

- OPEB is restricted to benefits that give rise to a liability under Statement No. 45 of the Governmental Accounting Standards Board (GASB)
- May include health insurance, dental insurance, life insurance, long term care, vision
- Does not include severance pay, pay for unused vacation, or pay for unused sick leave

Other Post Employee Benefits (OPEB) (cont'd)

- Requires actuarial study to determine OPEB liability (does not apply if less than 100 plan members – can use “simplified calculation method”)
- Public institutions must recognize the liability in their annual audit reports
- No requirement to pre-fund

Other Post Employee Benefits (OPEB) (cont'd)

- Pre-fund or pay-as-you-go
 - Pre-fund: Issue bonds if voter approved and/or use existing funds
 - Pay-as-you-go: Pay annual obligations from operating funds or specific levy
- No one answer for all entities
- If bonding, can bond for full amount, partial amount, or bond several times but must get voter approval
- Seek advice from financial advisor, actuary and auditor

Other Financing Options

- Aid and Tax Anticipation Certificates
 - Districts can borrow in anticipation of their state aids or property tax receipts to meet cash flow needs
 - Amount of borrowing limited to the lesser of
 - 75% of the aid/taxes (State law)
 - Five percent of prior years expenditures plus the largest deficit (Federal law)
 - Maximum length is 13 months
 - Low interest rates

Other Financing Options (cont'd)

- Qualified Zone Academy Bonds (QZABs)
 - Federal program – work through MDE to get approval/allocation
 - Does not give District direct authority to issue so must issue by a state authorized method as described earlier
 - Certain eligibility requirements
 - Free and reduce lunch
 - 10% contribution by local business partner(s)
 - Education plan
 - Funds can be used to rehabilitate, renovate, and repair a qualifying school
 - Some type of debt issued – very low interest rates
 - Investors receive a tax credit in lieu of interest
 - Cost of issuance, including discount, is limited to 2%

Other Financing Options (cont'd)

- Qualified School Construction Bonds (QSCBs)
 - Federal program – worked through MDE to get approval/allocation
 - Does not give District direct authority to issue so must issue by a state authorized method as described earlier
 - Funds can be used to build, rehabilitate, or repair public schools or acquire land
 - Some type of debt issued – very low interest rates
 - Investors receive a tax credit in lieu of interest
 - Projects funded by QSCBs are subject to the Davis-Bacon Act
 - Maximum maturity, determined by US Treasury (currently 17 years)
 - Cost of issuance, including discount, is limited to 2%

Other Financing Options (cont'd)

- Build America Bonds (BABs)
 - New type of bond created by the American Recovery and Reinvestment Act (ARRA)
 - Any issuer that has authority to issue tax exempt debt may instead issue taxable debt
 - Bonds must be issued by a state authorized method as described earlier
 - Federal government will either pay a direct subsidy (equal to 35% of interest paid) or a tax credit to investors
 - Taxable rates will have higher interest rates than tax exempt rates, but the 35% payment may make the net cost lower
 - Intended to bring new investors into the market
 - Bonds will be subject to arbitrage regulations

Other Financing Options (cont'd)

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

State and Federal Regulations

- Credit Enhancement Program
- Arbitrage
- Bank Qualification
- Continuing Disclosure
- Reimbursement Regulations

State and Federal Regulations

(cont'd)

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

State and Federal Regulations

(cont'd)

- Arbitrage
 - The profit that results from investing gross proceeds of a tax-exempt issue in higher yielding taxable securities
 - Regulations (with exceptions) may affect your tax exempt borrowing
 - Need to look at all tax-exempt financings, including leases, for the calendar year

State and Federal Regulations

(cont'd)

- Bank Qualification
 - Any school district may designate tax exempt debt as "bank qualified" if it issues \$30 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 (5 to 25 basis points, sometimes more)

State and Federal Regulations

(cont'd)

- Continuing Disclosure
 - Increasing Federal role in regulating disclosure (SEC Rule 15c2-12)
 - 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

State and Federal Regulations

(cont'd)

- IRS Reimbursement Regulations
 - Issuer must declare intent to issue tax-exempt bonds to finance project
 - Reimbursement resolution
 - Declaration of intent of reimburse
 - Declaration occurs before money spent on construction (within 60 days)
 - Failure to comply could eliminate ability to issue tax-exempt bonds

[Questions and Answers]

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