Capital Projects Financing

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SECTION 1

WHY DO WE BORROW?

Why do we borrow?

Borrowing funds might be the preferred approach for one or more of the following reasons:

- Project costs exceed available funds
- Acquire needed assets/facilities sooner
- Interest cost less than construction inflation
- Even-handed distribution of projects
- Preserve cash reserves
- Spread cost over current and future users

Why do we borrow?

Without bonds, an even-handed and timely distribution of projects can be difficult.

Option 1 – Partial distributions

Monthly check

Project 1	Project 2	Project 3	Project 4

- Projects are slow to fund because funds are distributed among all needs.

Option 2 – Ordered distributions

Monthly check

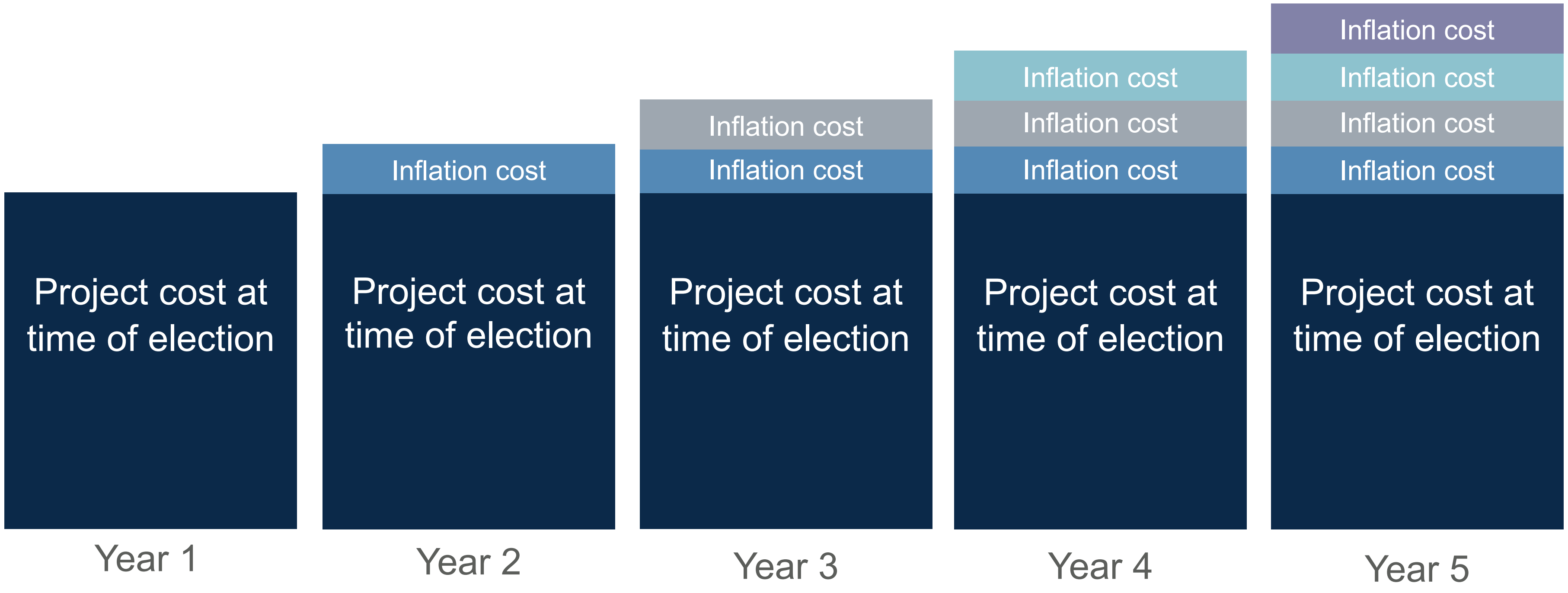
Project 1	Project 2	Project 3	Project 4

- Projects are slow to fund because funds are distributed among all needs.

Why do we borrow?

Bonds preserve current-dollar buying power levels (lock out inflation).

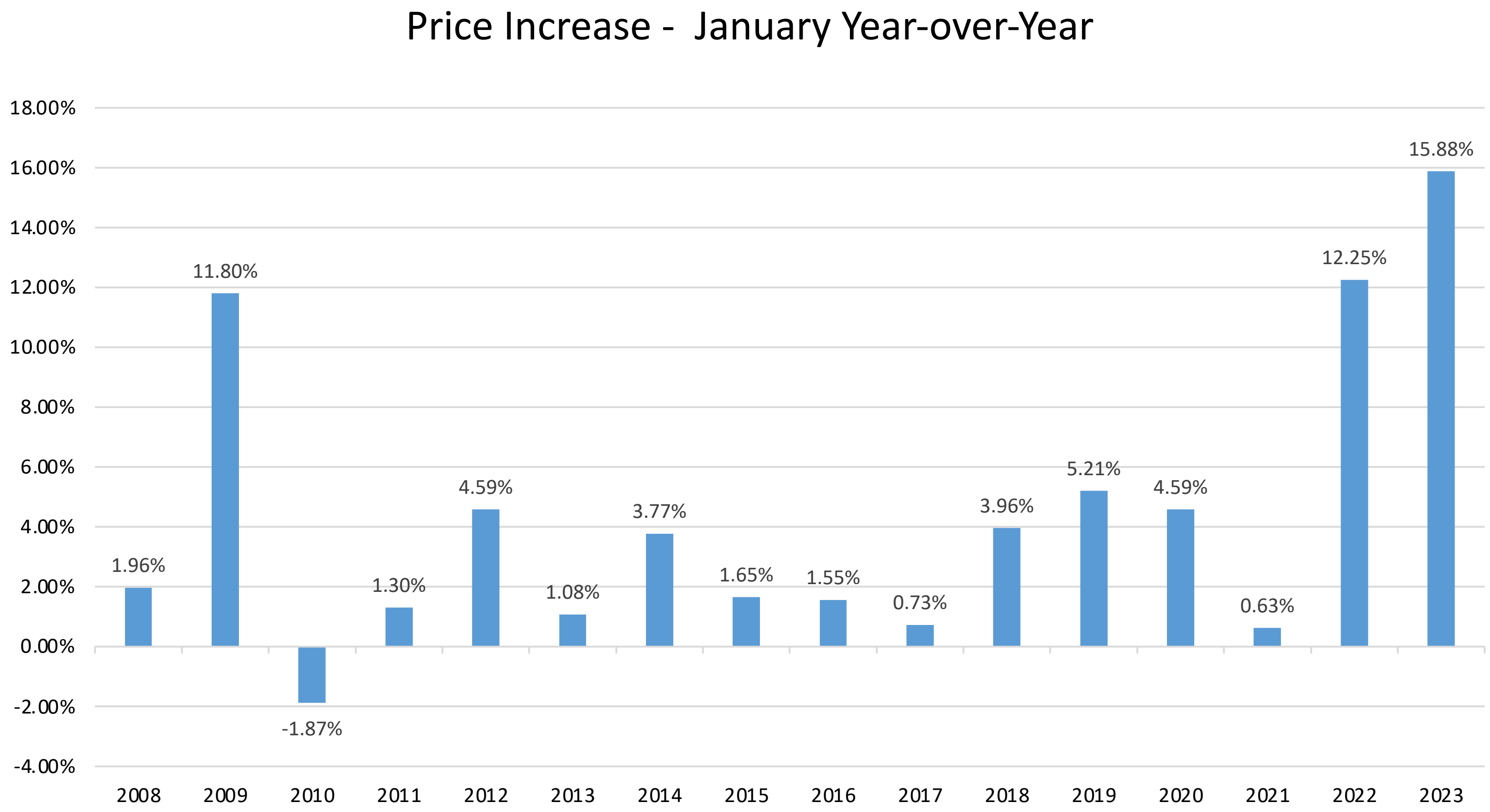
When inflation is present project costs increase as time passes.



Exact future rates of inflation/deflation are unknown.

New school building construction – price index

- From 2008 to 2023, new school construction prices have increased by 4.32% annually on average. From 2008 to 2021, prices increased by 2.93% annually on average.
- In 2023, the index increased by 15.88%.
- A $10 million school project, per this index, would be $1,588,000 more expensive compared a year earlier.



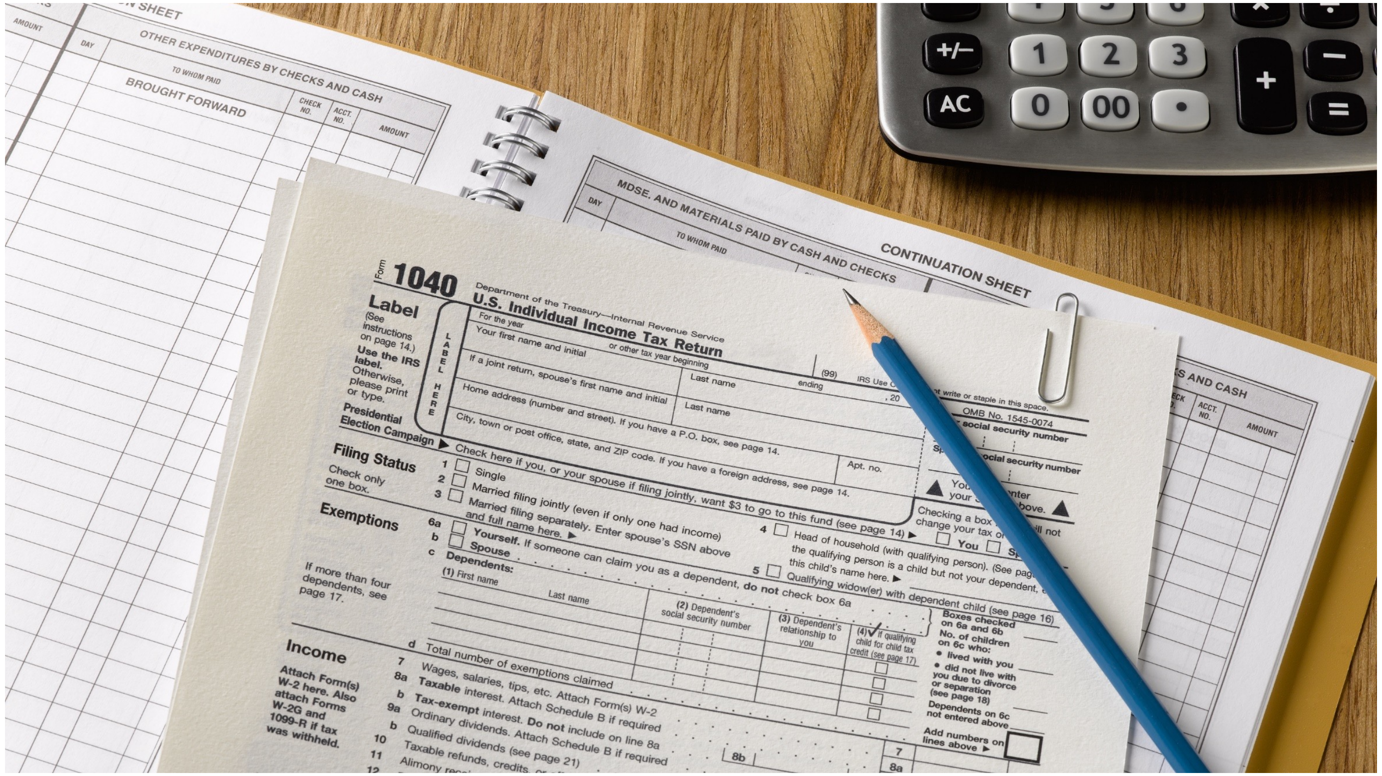
Source: Bureau of Labor Statistics: PPI Industry Data for New School Building

SECTION 2

FINANCING OPTIONS FOR SCHOOL DISTRICTS

Short-term financing – tax anticipation notes

Tax anticipation notes (TANs) are typically issued to finance working capital expenditures. A working capital expenditure is any cost that is not a capital expenditure. Generally, current operating expenses are working capital expenditures.



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Three methods for long-term financing

1. **General obligation bonds**

   Generally <u>unlimited</u> tax-backed financing

2. **Intergovernmental contract revenue bonds**

   Tax-backed financing (can be limited; tax backing is different based on state laws)

3. **Multiyear, annual-appropriation leases**

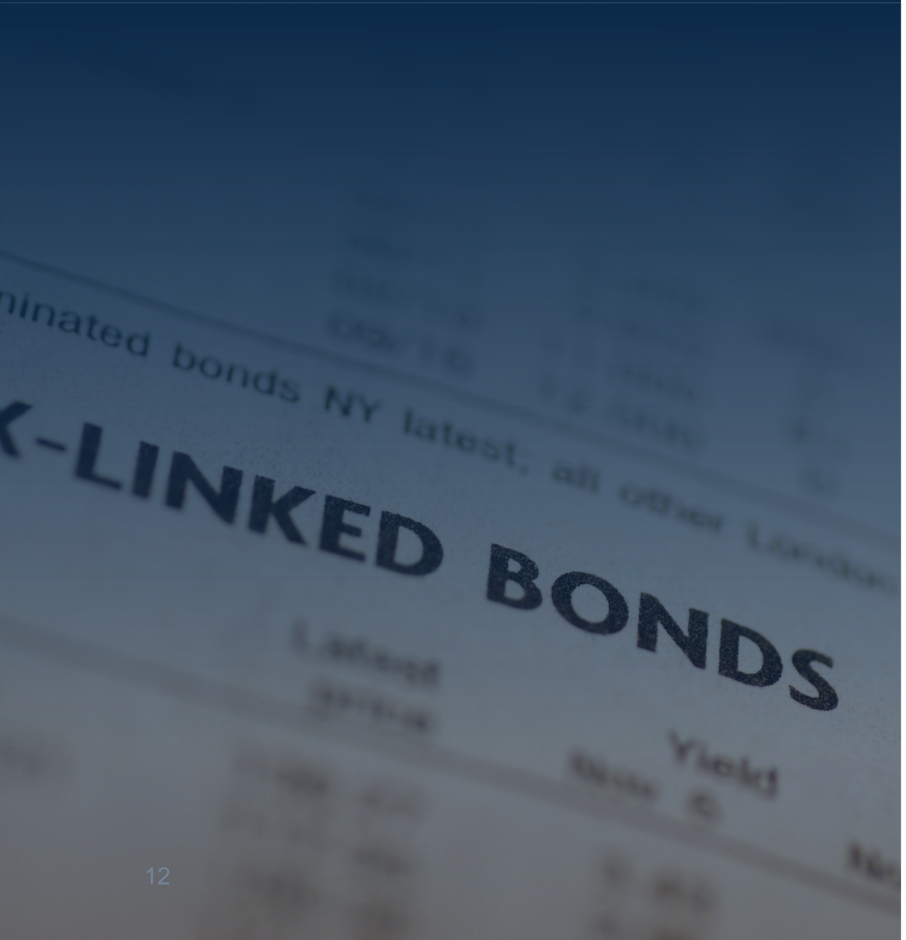
   Collateral-based financing

General Obligation Bonds

- Often require **voter approval**
- Often is an unlimited full faith and credit tax-backing
- Not subject to annual appropriation
- Check your state's law for aggregate limit based on the total assessed value of taxable property
- Check for maximum term limitation

Purposes: There are several exceptions, but, generally, school district general obligation bonds may be issued to provide funds to finance or refinance any long-term capital projects of the school district. A list of proposed projects should be reviewed by legal counsel to confirm eligibility.

General Obligation Bonds



Other common requirements:

- Provision made for the levy and collection of an annual tax sufficient to pay the debt service on the bonds prior to their issuance. All monies derived from the levy and collection of the bond millage must be placed in a separate sinking fund and used exclusively to pay debt service on general obligation bonds.

- Some states hold that any brochures, lists or other statements of intent regarding the proposed projects that are approved by the governing body and used in the referendum process will be binding.

- Some state laws require bonds to be validated by the superior court of the county in which the issuer is located prior to their issuance. A legal notice is published for weeks and immediately prior to the week in which the hearing is held.

- Often, the issuer is not obligated to sell any or all the approved bonds. It cannot sell more bonds than were approved in the referendum, nor can it have annual principal maturities that exceed those that were approved.

General Obligation Bonds

Planning steps

1) **Determine capital project wants and needs**
- If applicable, are major facilities in your state's approved capital outlay plan?
- When do projects need to be "online?"
- Buses, textbooks, safety and security equipment, etc.

2) **Make projections regarding collections**
- Review historical collections data
- State law changes title ad valorem tax, gas tax

3) **Consider the lead time needed**
- Current revenue source expiration date
- Election call and advertisement requirements

4) **Projects priority**
- Bonds, or establish order of project or phases
- If a particular item is contingent on robust collections, voters need to be made aware; if presented incorrectly the school district may have to complete from other funds.

General Obligation Bonds

5) **Other school systems may get a portion of the revenues (like a city school system)**

- By student count?
- If a vote passes or fails in a county, or city, what are the ramifications?
- What are the rules about countywide revenue source passage vs. debt passage within each system?

6) **Prior debt and tax relief**

- Is there prior general obligation debt that needs to be included?
- Are there capital items that typically would be purchased from maintenance and operation funds

7) **What if the vote fails?**

- What prohibitions (if any) exist in your state for a revote?
- Is there a ban on alternative financing(s) for projects which are the same or “substantially similar?”
- Inefficient restart of collections – for sales tax, cash registers must be changed twice

Example of referendum calendar (for Georgia school districts)

Date	Task
At least 130 days prior to the election	Distribute first drafts of referendum resolution, ballot question and election superintendent call document.
TBD	Provide comments and information on all documents.
TBD	Send out revised drafts of referendum resolution and ballot question and election superintendent call document.
TBD	Provide final comments to all documents.
At least 100 days prior to the election for even years and 70 days prior to the election for odd years	Board of education to adopt referendum resolution. Election superintendent to call the election. Notice of election sent to the local newspaper to run the following week. Ballot questions are sent to the ballot printer.
90 days for even years (29 days for odd years) prior to Election. (at latest)	Call for election runs once in the local newspaper.
Fifth week prior to election	Notice of election to run in the local paper.
Fourth week prior to election	Notice of election to run in the local paper.
Third week prior to election	Notice of election to run in the local paper.
Second week prior to election	Notice of election to run in the local paper.
A week prior to election	Notice of election to run in the local paper.
Election day	**Election held.**
Day following election day	**Board of education meeting held to certify election results.**

Intergovernmental contract revenue bonds

Overview

- Contract between a local government and a governmental authority with the legal power to construct a particular project (local public facilities authority)
- Maybe limited to statutory maintenance and operations taxing limits
- Not subject to annual appropriation

Purposes

Provided that the authority issuing the revenue bonds on behalf of the school district has such powers, intergovernmental contract revenue bonds may be issued to provide funds to finance or refinance any long-term capital projects of the school district.

Timing considerations

- Not subject to referendum
- Is validation required in your state?

Multiyear, annual-appropriation leases

Overview

- Often, the title to the project is transferred to the owner entity and the project is leased back to the school district for the term of years.
- They will be subject to annual appropriation. If funds are not appropriated to make the current year's debt service payments, the lender cannot require further payment. The project, however, is security for the financing, and the title will transfer to the lender.
- Often limited to statutory maintenance and operations taxing limits
- You may have aggregate lease annual payment limitations.
- Often, you will see a moratorium on failed general obligation projects.
- You may see no state appropriation funds for these projects.

Purposes

Multiyear annual appropriation lease transactions may be used to finance long-term capital assets. Generally, lenders require that the project be essential to the operations of the school district.

Timing considerations

- Generally, not subject to a voter referendum and no bond validation requirements
- Are there public hearing requirements in your state?

Long-term borrowing options summary

	General Obligation	Intergovernmental Contract	Lease
Tax Pledge	Unlimited	Possibly limited millage pledge	No specific pledge
Asset Pledged as Security*	No	Maybe	Yes
Appropriation Risk	No	No	Yes
State Intercept (Aa1/AA+)	Yes	Sometimes	No
State Capital Outlay Compatable*	Yes	Yes	No

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SECTION 3

CASE STUDIES

Cook County School District (Georgia)

Background

Cook County School District, in the south-central part of Georgia, desired to construct a new high school and various other capital projects.

Cost estimates from the architect, and a desire to keep annual debt service within annual sales tax collections, drove our initial suggested bond program to be $20 million with a 15-year amortization. The underwriter suggested voting for more principal than was anticipated to be issued.

The district revised the design and got the cost estimates lower. They desired a shorter term (to save interest expense). We all agreed on an $18,515,000 issue with 11-year amortization.

The successful referendum was held on September 26, 2006.

Bond issue authorized by the voters

Date	Principal
10/01/2008	1,235,000.00
10/01/2009	1,315,000.00
10/01/2010	1,365,000.00
10/01/2011	1,415,000.00
10/01/2012	1,470,000.00
10/01/2013	1,765,000.00
10/01/2014	1,835,000.00
10/01/2015	1,905,000.00
10/01/2016	1,985,000.00
10/01/2017	2,070,000.00
10/01/2018	2,155,000.00
Total	$18,515,000.00

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Cook County School District (Georgia)
General Obligation Bonds, Series 2007

The $15,000,000 general obligation bonds, Series 2007, were issued on March 8, 2007.

- Bond yield was 3.75%.
- 6.2 years was the average life of the bonds.
- The issuing consisted of the first nine maturities, with part of year 10.
- It was projected to be all that was needed to complete the project.

Date	Principal
10/01/2007	-
10/01/2008	1,235,000.00
10/01/2009	1,315,000.00
10/01/2010	1,365,000.00
10/01/2011	1,415,000.00
10/01/2012	1,470,000.00
10/01/2013	1,765,000.00
10/01/2014	1,835,000.00
10/01/2015	1,905,000.00
10/01/2016	1,985,000.00
10/01/2017	710,000.00
Total	$15,000,000.00

Cook County School District (Georgia)

General Obligation Bonds, Series 2008

Project costs came in higher than expected. In late 2007, plans were made for issuing more of the approved general obligation bonds and to finance part of the high school with a lease purchase.

On January 8, 2008, the remaining $3.515 million general obligation bonds were issued (private placement). The bonds were part of year 10 and all of year 11; the average life was 10.3 years at a yield of 3.37%.

Date	Authorized Principal	Series 2007 Principal	Series 2008 Principal
10/01/2007	-		
10/01/2008	1,235,000.00	1,235,000.00	
10/01/2009	1,315,000.00	1,315,000.00	
10/01/2010	1,365,000.00	1,365,000.00	
10/01/2011	1,415,000.00	1,415,000.00	
10/01/2012	1,470,000.00	1,470,000.00	
10/01/2013	1,765,000.00	1,765,000.00	
10/01/2014	1,835,000.00	1,835,000.00	
10/01/2015	1,905,000.00	1,905,000.00	
10/01/2016	1,985,000.00	1,985,000.00	
10/01/2017	2,070,000.00	710,000.00	1,360,000.00
10/01/2018	2,155,000.00	-	2,155,000.00
Total	$18,515,000.00	$15,000,000.00	$3,515,000.00

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Cook County School District (Georgia)

Lease purchase (via Georgia School Boards Association), Series 2008

Details

No local authority was available that could finance the school district's projects.

We were able to identify the part of the high school that was approximately equal to the budget overrun. Also, the distinct footprint allowed for financing via lease purchase.

A 20-year amortization was used in order to keep the annual lease payments in compliance with Georgia law (below 7.5% of last year's property tax collections).

On January 30, 2008, the $3.5 million general obligation was issued via private placement. The average life was 12.003 years at a yield of 3.91%.

Date	Principal
04/01/2009	97,000.00
04/01/2010	124,000.00
04/01/2011	129,000.00
04/01/2012	134,000.00
04/01/2013	139,000.00
04/01/2014	145,000.00
04/01/2015	150,000.00
04/01/2016	156,000.00
04/01/2017	162,000.00
04/01/2018	169,000.00
04/01/2019	175,000.00
04/01/2020	182,000.00
04/01/2021	189,000.00
04/01/2022	197,000.00
04/01/2023	204,000.00
04/01/2024	212,000.00
04/01/2025	221,000.00
04/01/2026	229,000.00
04/01/2027	238,000.00
04/01/2028	248,000.00
Total	$3,500,000.00

Cook County School District (Georgia) – aggregate debt service

	Series 2007 GO	Series 2008 GO	Series 2008 Lease	**Combined**
	P&I	P&I	P&I	P&I
10/1/2007	351,502.08			**351,502.08**
10/1/2008	1,837,575.00	86,538.32		**1,924,113.32**
10/1/2009	1,868,175.00	118,455.50	323,683.01	**2,310,313.51**
10/1/2010	1,865,575.00	118,455.50	254,699.92	**2,238,730.42**
10/1/2011	1,860,975.00	118,455.50	254,751.24	**2,234,181.74**
10/1/2012	1,859,375.00	118,455.50	254,606.96	**2,232,437.46**
10/1/2013	2,095,575.00	118,455.50	254,267.08	**2,468,297.58**
10/1/2014	2,092,400.00	118,455.50	254,712.04	**2,465,567.54**
10/1/2015	2,089,000.00	118,455.50	253,941.84	**2,461,397.34**
10/1/2016	2,092,800.00	118,455.50	253,956.48	**2,465,211.98**
10/1/2017	738,400.00	1,478,455.50	253,736.40	**2,470,591.90**
10/1/2018		2,227,623.50	254,262.04	**2,481,885.54**
10/1/2019			253,533.40	**253,533.40**
10/1/2020			253,550.48	**253,550.48**
10/1/2021			253,293.72	**253,293.72**
10/1/2022			253,743.56	**253,743.56**
10/1/2023			252,900.00	**252,900.00**
10/1/2024			252,763.04	**252,763.04**
10/1/2025			253,293.56	**253,293.56**
10/1/2026			252,491.56	**252,491.56**
10/1/2027			252,357.04	**252,357.04**
10/1/2028			252,850.88	**252,850.88**
	$16,562,275.00	$4,653,723.00	$5,143,394.25	**$26,359,392.25**
	$15 million at 3.75%	$3.5 million at 3.37%	$3.5 million at 3.912%	

Lowndes County School District (Georgia)

Background

In May 2018, Lowndes County School District, on the southern border of Georgia, financed certain school efficiency upgrades with an energy savings lease via private placement. It matured over 15 years at a rate of 3.58%.

In 2020, the district used the Lowndes County Public Facilities Authority as an issuer of revenue bonds, secured by an intergovernmental contract with the district, to acquire those assets (refinance the lease).

Better market conditions, and a better mouse trap, meaning better security, generated substantial debt service savings for the school district.

The publicly offered Series 2020 revenue bonds were rated Aa1, based on the state of Georgia's intercept program for public schools, and Aa2 based on the district's underlying rating.

It had a 7.071-year average life with a bond yield of 0.895%.

Lowndes County School District (Georgia)

Debt Service Comparison

Date	Series 2020 Revenue Bonds	vs.	Series 2018 Lease	Annual Savings
02/01/2021	-		-	-
02/01/2022	718,696.11		719,033.31	337.20
02/01/2023	733,400.00		734,854.11	1,454.11
02/01/2024	748,700.00		751,565.11	2,865.11
02/01/2025	768,100.00		770,094.71	1,994.71
02/01/2026	786,450.00		790,335.51	3,885.51
02/01/2027	807,850.00		810,180.11	2,330.11
02/01/2028	827,450.00		830,592.71	3,142.71
02/01/2029	850,250.00		853,501.71	3,251.71
02/01/2030	871,050.00		875,763.91	4,713.91
02/01/2031	899,850.00		900,343.51	493.51
02/01/2032	924,650.00		926,097.31	1,447.31
02/01/2033	272,950.00		951,917.91	678,967.91
02/01/2034	-		599,887.71	599,887.71
Total	**$9,209,396.11**		**$10,514,167.63**	**$1,304,771.52**

PV Analysis Summary (Net to Net)

Net PV Cashflow Savings @ 1.376%(AIC)	1,192,999.63
Net Present Value Benefit	$1,192,999.63
Net PV Benefit / $8,241,154 Refunded Principal	14.476%
Net PV Benefit / $7,415,000 Refunding Principal	16.089%

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SECTION 4

LOOK BEFORE YOU LEAP

Look before you leap: energy savings leases

What would this equipment cost if purchased outright?

Are we using this program because it is cost-effective or because it is convenient?

Would we replace this equipment during the life of the contract anyway?

Counting “savings” beyond the natural replacement cycle is disingenuous.

Allowing the energy savings contract provider to “audit” the savings is a massive conflict of interest.

Please note, the “guarantee” is separate from the financing mechanism.

In Georgia, we do not earn capital outlay (“Free”) funds for projects financed with a lease.

Look before you leap: energy savings leases

How does my borrowing rate compare to the current market?

If "savings" fail to materialize, the lease is not an energy savings lease and counts against the aggregate leasing limitations.

Is there a "scoop and toss" payment scheme for janitorial or maintenance services?

READ THE FINE PRINT: Energy savings contracts usually require operating standards (i.e., minimum and maximum thermostat settings and restricted usage times). If you violate the rules, you incur penalties that offset the savings guarantees.

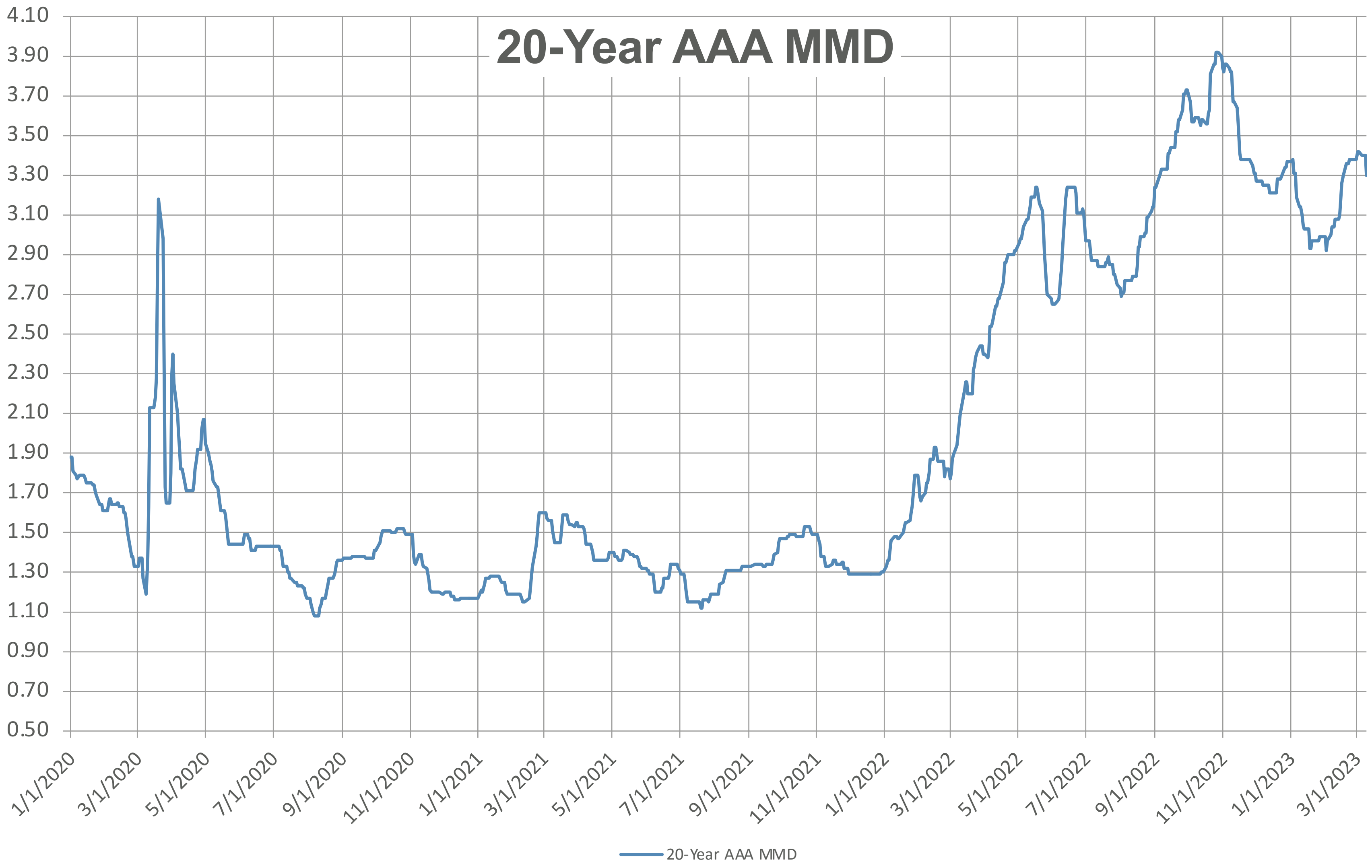
Do I have a better borrowing mechanism?

Low-wealth school districts are being burdened with long-term financings that inhibit their ability to access low-wealth project-specific funding to replace entire buildings, which is the ultimate efficiency upgrade.

SECTION 5

CURRENT BOND MARKET AND INVESTMENTS

Market environment since January 2020



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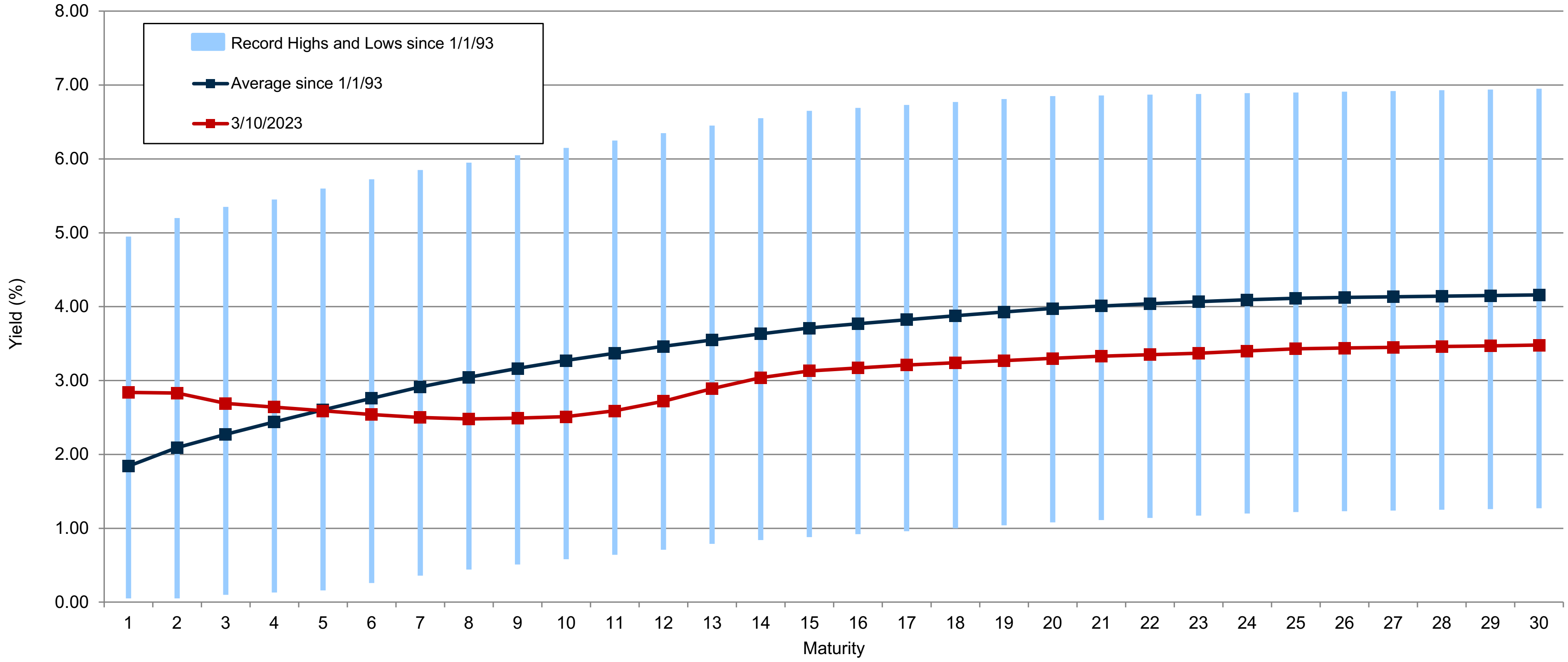
Historical AAA MMD rates

The graph below shows the range between the record highs and lows of AAA Municipal Market Data (or “MMD”) at each maturity since 1993, along with average rates over this time frame and the current rates.



Current (06/16/17)	1	5	10	15	20	25	30
Record Low since 1/1/93	0.05	0.16	0.58	0.88	1.08	1.22	1.27
Record High since 1/1/93	4.95	5.60	6.15	6.65	6.85	6.90	6.95
Average since 1/1/93	1.84	2.60	3.27	3.71	3.98	4.11	4.16
Current (03/10/23)	2.84	2.59	2.51	3.13	3.30	3.43	3.48

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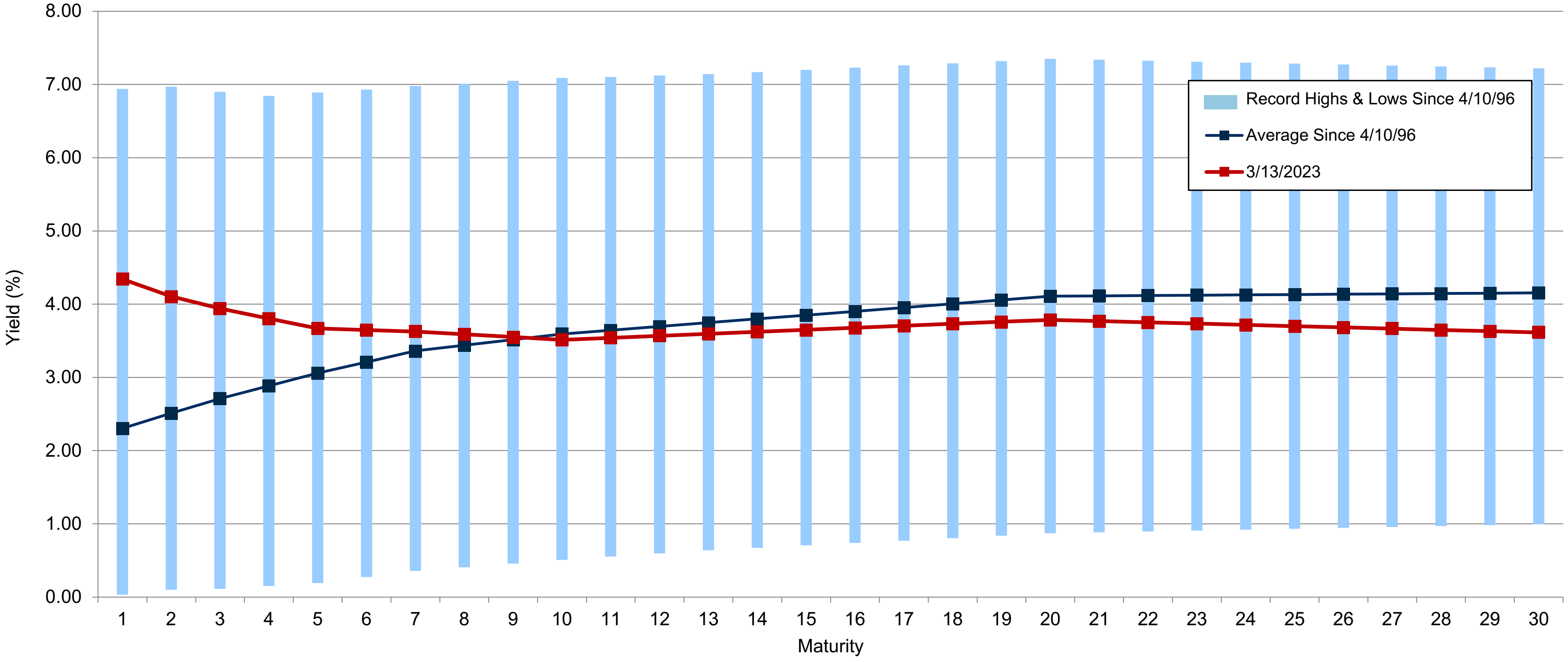
Historical treasury rates

The graph below shows the range between the record highs and lows of Treasury rates at each maturity since 1996, along with average rates over this time frame and the current rates.



Current (06/16/17)	1	5	10	15	20	25	30
Record Low since 4/10/96	0.03	0.19	0.51	0.71	0.87	0.93	1.00
Record High since 4/10/96	6.94	6.89	7.09	7.20	7.35	7.29	7.22
Average since 4/10/96	2.30	3.06	3.59	3.85	4.11	4.13	4.15
Current (03/13/23)	4.34	3.67	3.51	3.65	3.79	3.70	3.61

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Tax-exempt bond spending rules

The **Arbitrage Rules** are designed to prevent borrowers from:

1. Earning a profit from the issuance of tax-exempt bonds;
2. Issuing more bonds than are necessary; and/or
3. Issuing a bond too far in advance of the time that funds are needed.

IRC Section 148(a) – **yield restriction**

IRC Section 148(f) – **rebate rules**

There are exemptions to these rules that benefit school districts.

Yield restriction – temporary period exemption

The temporary period exemption

An issuer may invest bond proceeds for a temporary period of three years at an unrestricted yield if, at the time of issuance, they reasonably expect to satisfy three tests.

1. The issuer expects at least 85% of sale proceeds to be allocated to project expenditures by the end of the three-year temporary period.

2. The issuer incurs a substantial binding obligation to a third party to expend at least 5% of the sale proceeds on the project within six months.

3. The issuer proceeds with due diligence.

Rebate rules

Rebate rules describe when an issuer may keep "excess" earnings.

If an exemption to the yield restriction rules exists (i.e., a three-year temporary period), an issuer may be able to invest bond proceeds to earn more than the bonds cost (the "bond yield") but will have to rebate the excess earnings to the IRS.

There are two exemptions to the rebate requirement:

Small issuer exemption: For public school construction issues, the issuer does not have to rebate arbitrage if they reasonably expect to issue not more than $15 million of bonds in a calendar year.

Spending exemptions (usually two years): An issuer may keep arbitrage earnings if it meets the following spend-down schedule …

10% – six months

45% – within one year

75% – within 18 months

100% – within two years

Bonds issued over the past two years with slower-than-expected spending may need to check for "excess" earnings.

Contact information

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