Minnesota Department of Education

Capital Loan

Report

January 2012

FY 2012
Report
To the
Legislature

As required by
Minnesota Statutes
2011
Section 126C.69,
Subdivision 8

COMMISSIONER:

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Capital Loan

Report

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Upon request, this report can be made available in alternative formats.

ESTIMATED COST OF PREPARING THIS REPORT

Minnesota Statutes, section 3.197 requires the following:

"A report to the legislature must contain, at the beginning of the report, the cost of preparing the report, including any costs incurred by another agency or another level of government."

The following provides estimated costs incurred in the preparation of this report.

This report provides information that the Minnesota Department of Education already collects as part of its normal business functions. The cost information reported below does not include the cost of gathering and analyzing the data, but rather is limited to the estimated cost of compiling data and preparing this report document.

Funding for this Report:

Special funding was not appropriated to cover the costs of preparing this report.

Minnesota Department of Education Costs:

The estimated cost incurred by the Minnesota Department of Education in preparing this report is $297.00.

Capital Loan Report

Statutory Directive

Minnesota Statutes, section 126C.69, Subdivision 8, reads as follows:

Subd. 8. Recommendations of the commissioner. The commissioner shall examine and consider applications for capital loans that have been approved and promptly notify any district rejected of the decision.

The commissioner shall report each capital loan that has been approved by the commissioner and that has received voter approval to the education committees of the legislature by January 1 of each even-numbered year. The commissioner must not report a capital loan that has not received voter approval. The commissioner shall also report on the money remaining in the capital loan account and, if necessary, request that another bond issue be authorized.

Capital Loan Balances

At December 30, 2011, there were no active capital loan construction projects and no account balances remaining.

Background

Provisions for the school district capital loan program that provides facility funding for qualifying districts are included in the Maximum Effort School Aid Law in Minnesota Statutes, sections 126C.61 to 126C.72. A school district is eligible for a capital loan if the estimated net debt service tax rate, computed after debt equalization aid and assuming a 20-year maturity schedule for new debt, is greater than 40 percent of adjusted net tax capacity (Minn. Stat. § 126C.69, Subd. 2).

An eligible district must

1) submit a facility proposal for review and comment by July 1 of an odd-numbered year,
2) submit a project predesign package comparable to those required by Minnesota Statutes, section 16B.335,
3) receive positive review and comment from the commissioner,
4) submit a formal capital loan application by September 1, and
5) receive voter approval of the approved project by January 1.

The commissioner reviews applications for projects receiving positive review and comment and may accept or reject loan applications.

One application has been received and approved by the commissioner for consideration by the 2012 Legislature. A summary of the request follows.

Maximum Effort Capital Loan Summary
Independent School District #38, Red Lake

The Red Lake Independent School District (ISD) has met all the statutory requirements, including voter approval, necessary to commence with this building project.

Project Description

Red Lake Public Schools, ISD #38, is proposing a facility project which is the last phase of the facility master plan developed in 2002.

- The project at the Red Lake Middle School/High School is for the continued renovation and addition to the facility including the demolition of the original elementary school and adjacent portable currently used for administrative offices. Construction includes new district/student services areas, high school media center, technology labs, and replacement of locker rooms. The proposed construction will replace the small, outdated vocational facility with a new self-contained vocational center that would be used by alternative and adult education programs. A fifth grade wing will be added to the middle school to accommodate reconfiguration of the middle school program. Old vocational spaces will be converted to a middle school hands-on learning labs including shop, technology, fitness and nutrition. The project also includes parking lots, sidewalks, water management, landscaping and an environmental studies area. The heating/ventilation system serving the high school and middle school will be completed.

- The project at Red Lake Elementary School will expand and renovate areas supporting music, art, special education, and physical education as well as expanding the food service and cafeteria. Administrative space will be reconfigured to provide visibility to the main entrance, creating greater building security. Six classrooms will be added to accommodate increased enrollment in early grades and an addition will connect the elementary school to the Red Lake Early Learning Center to enable sharing of food service, physical education spaces, and the media center.

- The project at Ponemah Elementary School includes additional space for the media center and technology labs and site improvements to provide safe bus and parent drop-off and pick-up, parking improvements, playgrounds and fields.

These school improvements will enable the school district to continue to meet the educational needs of the students and expand the educational opportunities for district residents. The total project cost qualifies for funding under provisions of the capital loan program and is estimated as follows:

	Estimated Cost
Middle School/High School	$22,769,000
Red Lake Elementary	7,973,000
Ponemah Elementary	1,844,000
Total	$32,586,000

The school district is seeking capital loan funding under Minnesota Statutes, section 126C.69, from the 2012 Legislature to support the project. The required local portion estimated per Minnesota Statutes, section 126C.69, Subdivision 9, is $69,344 and the capital loan request is estimated at $32,516,656.

Impact on Agency Operating Budgets (Facilities Notes)

- There is no effect on the Minnesota Department of Education operating budget resulting from this request.
- The effect on the school district operating budget is expected to be minimal.

Previous Capital Loans for Red Lake

1992	$10 million	Construction of Red Lake Elementary School and addition to Red Lake Middle School
2000	$11.166 million	Construction of Red Lake Early Childhood Center and additions to Ponemah Elementary and Middle School
2002	$12.4 million	Additions and Renovations – Red Lake High School, Early Childhood Center, Red Lake and Ponemah Elementary Schools
2005	$18 million	Begin construction of new middle school facilities and renovation of existing high school

Previous Legislative Action with Line-Item Vetoes

2008	$16 million	Line-item Veto
2009	$5.78 million	Line-item Veto
2010	$5.78 million	Line item Veto

Other Considerations

While funding for school facilities is viewed as primarily a local responsibility, the Red Lake Independent School District has extremely low taxable property values and very little private ownership of land as most of the land is owned in common by Red Lake tribal members. Tribal property is tax-exempt. A measure commonly used to compare school district ability to raise funds through property taxes is the adjusted net tax capacity (ANTC) per pupil unit. In the 2011 Payable 2012 levy cycle, the Red Lake 2010 ANTC per FY 2010 adjusted pupil unit was $7.32, the lowest in the state. Statewide, the median school district ANTC per adjusted pupil unit was $6,536.

Between FY 2002 and FY 2011, the district has experienced enrollment growth of approximately 10 percent in pre-k to grade 6 enrollments. In the aftermath of a 2005 school shooting incident, grade 7 to 12 enrollments dropped, but the district expects stabilization in secondary enrollment.

The Red Lake School District management and the Red Lake community recognize the importance of a stable and healthy school environment to children in an economically and socially depressed community. Completion of the facility plan will bring all Red Lake schools to current education standards.

Following is a summary of current outstanding capital and debt service loans under Minnesota Statutes, section 126C.60-72.

SUMMARY OF CURRENT CAPITAL AND DEBT SERVICE LOANS

DISTRICT	DATE GRANTED	YEARS TO CANCEL	CANCEL DATE	ORIGINAL LOAN AS OF 12/15/11	ORIGINAL LOAN RETIRED	DEFAULT INTEREST OUTSTANDING AS OF 12/15/11	LOAN BALANCE AS OF 12/15/11
CAPITAL LOANS							
KELLIHER ISD 36	12-Nov-96	50	12-Nov-46	6,900,000.00	-	7,616,705.67	14,516,705.67
RED LAKE ISD 38							
Loan #1	18-Jun-92	50	18-Jun-42	10,000,000.00	-	16,445,786.69	26,445,786.69
Loan #2	12-Jan-01	50	12-Jan-51	11,165,999.82	-	5,766,402.30	16,932,402.12
Loan #3	2-Oct-02	50	2-Oct-52	11,736,595.45	-	4,377,083.55	16,113,679.00
Loan #4	15-Feb-06	50	15-Feb-56	18,385,652.79	-	3,854,116.06	22,239,768.85
TOTAL				51,288,248.06	-	30,443,388.60	81,731,636.66
FOLEY ISD 51	27-Jun-89	30	27-Jun-19	4,852,686.00	-	11,333,018.95	16,185,704.95
BARNUM ISD 91	1-Mar-82	30	1-Mar-12	3,710,000.00	-	12,947,845.53	16,657,845.53
CROMWELL ISD 95	30-Jul-91	50	30-Jul-41	3,212,424.00	-	5,035,068.22	8,247,492.22
CALEDONIA ISD 299	20-Sep-01	50	20-Sep-51	14,134,000.00	872,515.65	1,043,743.17	14,305,227.52
LAPORTE ISD 306	21-Jun-01	50	21-Jun-51	7,200,000.00	4,331,613.42	347,217.37	3,215,603.95
OGILVIE ISD 333	27-Apr-90	30	27-Apr-20	11,341,047.73	-	31,681,213.52	43,022,261.25
LITTLEFORK ISD 362	12-Nov-96	50	12-Nov-46	7,000,000.00	-	7,454,553.56	14,454,553.56
ROSEAU ISD 682	29-Oct-91	50	29-Oct-41	8,299,865.00	-	8,071,127.99	16,370,992.99
WARROAD ISD 690	6-Mar-86	30	6-Mar-16	1,295,000.00	-	5,501,118.04	6,796,118.04
NETT LAKE ISD 707							
Loan #1	7-Jul-94	50	7-Jul-44	7,824,669.00	-	11,105,655.07	18,930,324.07
Loan #2	24-Oct-06	50	24-Oct-56	10,695,268.36	-	1,783,472.85	12,478,741.21
TOTAL				18,519,937.36	-	12,889,127.92	31,409,065.28
BIG LAKE ISD 727	24-Jul-95	50	24-Jul-45	9,770,000.00	-	11,194,756.51	20,964,756.51
EAST CENTRAL ISD 2580	27-Dec-01	50	27-Dec-51	19,000,000.00	-	5,323,595.10	24,323,595.10
TOTAL CAPITAL LOANS				166,523,208.15	5,204,129.07	150,882,480.15	312,201,559.23
DEBT SERVICE LOANS	**DATE OF LAST LOAN**						
FOLEY ISD 51	28-Jul-92	N/A	N/A	104,621.69	-	87,515.30	192,136.99
BARNUM ISD 91	18-Jan-85	N/A	N/A	69,134.71	-	522,986.38	592,121.09
CROMWELL ISD 95	17-Aug-93	N/A	N/A	55,042.52	-	92,312.50	147,355.02
ROSEAU ISD 682	28-Jul-92	N/A	N/A	89,014.67	-	59,758.30	148,772.97
WARROAD ISD 690	28-Jul-92	N/A	N/A	273,449.95	-	768,348.01	1,041,797.96
TOTAL DEBT SERV LOANS				591,263.54	-	1,530,920.49	2,122,184.03
TOTAL MAX EFFORT LOANS				167,114,471.69	5,204,129.07	152,413,400.64	314,323,743.26

The 2011 Legislature provided a one-time provision for school districts to repay the original principal of the capital loan with capitalized and current accrued interest forgiven. Following is the status of repayments through December 30, 2011.

Laws 2011, 1st Special Session, Chapter 11, Article 4, Section 8. **EARLY REPAYMENT.**
A school district that received a maximum effort capital loan prior to January 1, 1997, may repay the full outstanding original principal on its capital loan prior to July 1, 2012, and the liability of the district on the loan is satisfied and discharged and interest on the loan ceases.

DISTRICT	DATE GRANTED CAP LOAN	PAY-OFF DATE	PAY-OFF OF ORIGINAL CAPITAL LOAN OUTSTANDING	TOTAL CAPITAL LOAN INTEREST CANCELLED	PAY-OFF OF DEBT SERVICE LOANS	TOTAL MAXIMUM EFFORT PAY-OFF
SO KOOCH R R ISD 363	22-Dec-81	18-Aug-11	61,335.00	160,950.54	-	61,335.00
ST MICHAEL ALB ISD 885	21-Mar-91	9-Nov-11	9,800,000.00	19,937,122.76	-	9,800,000.00
FARMINGTON ISD 192	11-Jul-91	15-Nov-11	8,826,713.00	13,802,298.59	80,821.53	8,907,534.53
REDWOOD FLS ISD 2897	30-May-90	17-Nov-11	5,837,211.00	11,785,315.80	90,979.91	5,928,190.91
LAKE/WOODS ISD 390	4-Apr-91	15-Dec-11	8,000,000.00	16,388,807.18	80,163.07	8,080,163.07
TOTAL			32,525,259.00	62,074,494.87	251,964.51	32,777,223.51