Minnesota Department of Education

Capital Loan Report

Fiscal Year 2013

Report

To the

Legislature

As required by

Minnesota Statutes

section 126C.69, Subdivision 8

COMMISSIONER:

Brenda Cassellius, Ed. D.

Capital Loan Report

January 2014

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Cost of Report Preparation

The total cost for the Minnesota Department of Education (MDE) to prepare this report was approximately $ 297.00 Most of these costs involved staff time in analyzing data from surveys and preparing the written report. Incidental costs include paper, copying, and other office supplies.

Estimated costs are provided in accordance with Minnesota Statutes 2011, section 3.197, which requires that at the beginning of a report to the Legislature, the cost of preparing the report must be provided.

Capital Loan Report

Statutory Directive

Minnesota Statutes 2013, § 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 Account Balances

On December 30, 2013, 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 41.98 percent of adjusted net tax capacity (Minnesota Statutes, § 126C.69, Subdivision 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, § 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 2014 Legislature. Summary of the request follows.

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

The Red Lake Independent School District 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 renovation of the original elementary school and demolition of the adjacent portable currently used for administrative offices. Construction includes new district/student services areas, high school media center, technology labs, physical fitness space, replacement of locker rooms and completion of a common kitchen and cafeteria. 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 and community education programs. 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 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:

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 Statute 126C.69 from the 2014 Legislature to support the project. The required local portion estimated per Minnesota Statutes, § 126C.69, Subdivision 9, is $70,000 and the capital loan request is estimated at $32,516,000.

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. The Red Lake 2011 ANTC per FY 2012 adjusted pupil unit was $7.54, the lowest in the state. Statewide, the average school district ANTC per adjusted pupil unit was $6,332.

Between FY 2004 and FY 2013, the district has experienced enrollment growth of approximately 10 percent in kindergarten to grade six enrollments. In the aftermath of a 2005 school shooting incident, grade seven to 12 enrollments dropped, and have not recovered.

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

Summaries of Activity of Maximum Effort Loan Program

Following are summaries of current outstanding capital and debt service loans under Minnesota Statutes, § 126C.60-72, capital loans cancelled after 30 years, and capital loans fully satisfied by repayment of the original loan with forgiveness of current and accrued interest under the one-time provisions of Laws 2011 Special Session.

Capital Loans

DISTRICT	Date Granted	Years to Cancel	Cancel Date	Original Loan as of 12/15/13	Original Loan Retired	Default Interest Outstanding as of 12/15/13	Loan Balance as of 12/15/13
KELLIHER ISD 36	12-Nov-96	50	12-Nov-46	6,900,000.00	-	9,168,050.72	16,068,050.72
RED LAKE ISD 38 Loan #1	18-Jun-92	50	18-Jun-42	10,000,000.00	-	19,421,923.36	29,421,923.36
RED LAKE Loan #2	12-Jan-01	50	12-Jan-51	11,165,999.82	-	7,244,066.19	18,410,066.01
RED LAKE Loan #3	2-Oct-02	50	2-Oct-52	11,736,595.45	-	5,696,885.73	17,433,481.18
RED LAKE Loan #4	15-Feb-06	50	15-Feb-56	18,391,197.79	-	5,715,791.71	24,106,989.50
Total RED LAKE	-	-	-	51,293,793.06	-	38,103,584.93	89,397,377.99
FOLEY ISD 51	27-Jun-89	30	27-Jun-19	4,852,686.00	-	13,503,973.10	18,356,659.10
CROMWELL ISD 95	30-Jul-91	50	30-Jul-41	3,212,424.00	-	5,950,943.42	9,163,367.42
CALEDONIA ISD 299	20-Sep-01	50	20-Sep-51	14,134,000.00	998,485.92	1,365,550.60	14,501,064.68
LAPORTE ISD 306	21-Jun-01	50	21-Jun-51	7,200,000.00	4,499,366.80	439,916.33	3,140,549.53
OGILVIE ISD 333	27-Apr-90	30	27-Apr-20	11,341,047.73	-	37,770,553.80	49,111,601.53
LITTLEFORK ISD 362	12-Nov-96	50	12-Nov-46	7,000,000.00	-	8,997,709.21	15,997,709.21
ROSEAU ISD 682	29-Oct-91	50	29-Oct-41	8,299,865.00	-	9,875,852.75	18,175,717.75
WARROAD ISD 690	6-Mar-86	30	6-Mar-16	1,295,000.00	-	6,569,413.44	7,864,413.44
NETT LAKE ISD 707 Loan #1	7-Jul-94	50	7-Jul-44	7,824,669.00	-	13,110,777.75	20,935,446.75

DISTRICT	Date Granted	Years to Cancel	Cancel Date	Original Loan as of 12/15/13	Original Loan Retired	Default Interest Outstanding as of 12/15/13	Loan Balance as of 12/15/13
NETT LAKE Loan #2	24-Oct-06	50	24-Oct-56	10,695,268.36	-	2,865,902.91	13,561,171.27
Total NETT LAKE	-	-	-	18,519,937.36	-	15,976,680.66	34,496,618.02
EAST CENTRAL ISD 2580	27-Dec-01	50	27-Dec-51	19,000,000.00	-	7,317,126.16	26,317,126.16
TOTAL CAPITAL LOANS	-	-	-	153,048,753.15	5,497,852.72	155,039,355.12	302,590,255.55
Debt Service Loans	**Date of Last Loan**	-	-	-	-	-	-
FOLEY ISD 51	28-Jul-92	N/A	N/A	104,621.69	-	112,905.86	217,527.55
CROMWELL ISD 95	17-Aug-93	N/A	N/A	55,042.52	-	109,421.60	164,464.12
ROSEAU ISD 682	28-Jul-92	N/A	N/A	89,014.67	-	68,562.94	157,577.61
WARROAD ISD 690	28-Jul-92	N/A	N/A	273,449.95	-	916,706.00	1,190,155.95
TOT DEBT SERV LOANS	-	-	-	522,128.83	-	1,207,596.40	1,729,725.23
TOT MAX EFFORT LOANS	**-**	-	-	153,570,881.98	5,497,852.72	156,246,951.52	304,319,980.78

Capital Loan Cancellations from 7/22/2007 to 12/15/2013

DISTRICT	Date Granted	Cancel Date	Original Loan Cancelled	Defaulted Interest Cancelled	Current Interest Cancelled	Total Capital Loan Cancelled
SO KOOCH R R ISD 363	22-Jul-77	22-Jul-07	7,012,075.00	14,975,223.93	627,330.77	22,614,629.70
BERTHA-HEWITT ISD786	1-Jul-80	1-Jul-10	954,000.00	2,070,579.00	76,458.04	3,101,037.04
BIG LAKE ISD 727 (1st Loan)	9-Jan-81	9-Jan-11	1,685,000.00	1,434,792.88	9,957.70	3,129,750.58
HILL CITY ISD 2	9-Jun-81	9-Jun-11	4,371,379.07	13,377,040.54	453,581.53	18,202,001.14
SO KOOCH R ISD 363	22-Dec-81	18-Aug-11	-	153,284.22	7,666.32	160,950.54
ST MICHAEL ALB ISD885	21-Mar-91	9-Nov-11	-	18,309,535.60	1,627,587.16	19,937,122.76
FARMINGTON ISD 192	11-Jul-91	15-Nov-11	-	12,669,495.42	1,132,803.17	13,802,298.59
REDWOOD FLS ISD 2897	30-May-90	17-Nov-11	-	10,737,612.68	1,047,703.12	11,785,315.80
LAKE/WOODS ISD 390	4-Apr-91	15-Dec-11	-	16,388,807.18	-	16,388,807.18
BIG LAKE ISD 727 (2nd Loan)	24-Jul-95	25-Apr-12	-	11,194,756.51	405,026.00	11,599,782.51
BARNUM ISD 91	1-Mar-82	1-Mar-12	3,710,000.00	12,947,845.53	186,248.40	16,844,093.93
TOTAL	-	-	17,732,454.07	114,258,973.49	5,574,362.21	137,565,789.77

DISTRICT	Date Granted Cap Loan	Pay-off Date	Pay-off of Orig. 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
BIG LAKE ISD 727 (2nd Loan)	24-Jul-95	25-Apr-12	9,770,000.00	11,599,782.51	-	9,770,000.00
TOTAL	-	-	42,295,259.00	73,674,277.38	251,964.51	42,547,223.51