



**Capital  
Loan Report**

**Report to the  
Legislature**

**January 2004**

**As required by  
Minnesota  
Statutes 2003  
Section 126C.69,  
Subd. 8**

**COMMISSIONER**

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**Capital**  
**Loan Report**

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**As required by**  
**Minnesota**  
**Statutes 2003**  
**126C.69**  
**Subd. 8**

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

## **ESTIMATED COST OF PREPARING THIS REPORT**

Minnesota Statutes 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 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 actually 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 Department of Education in preparing this report is \$424.78.

# Capital Loan Report

## Statutory Directive

Minnesota Statutes 2003, 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 Account Balances

The December 30, 2003 balance available for payment on capital loan projects in process is \$6,729,181.23. Estimated cash projections based on current projects indicate that funds from the remaining additional bonding authority of \$2,505,000 will be required in approximately May or June 2004.

## Background

Provisions for the school district capital loan program that provides facility funding for qualifying districts are included 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% of adjusted net tax capacity (M.S.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 M.S. 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 for consideration by the 2004 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 its building project.

#### **Project Description**

The Department of Education requests funding through the education capital loan program to support the Red Lake School District. The request includes:

- ◆ \$31.2 million to build a new middle school facility, and
- ◆ \$2.2 million to continue construction on the high school, including renovation, an addition, and demolition of the 1949 portion of the building.

Of the total project cost of \$33,482,832, the local district contribution calculated according to M.S. 126.C.69, subd. 9 is approximately \$50,000, and the capital loan request is \$33,432,832.

The combination of unexpected increases in enrollment and deteriorated, crowded facilities caused the Red Lake School District to initiate a long-term facility predesign that was finalized in September of 2003. The long-term predesign addresses the period 2004-2009 and includes construction of a new middle school, a large addition to Red Lake Elementary School, renovation of the existing high school, and renovation of Ponemah Elementary School. Upon completion of these projects, school district facilities will meet current education standards.

The decision to build a separate middle school was a result of planning that included participation by school district management, architects, engineers, students, faculty, and community members including tribal elders and spiritual leaders. Community opinion favors segregation of middle school students in a site that is remote from high school and alternative learning center programs. The middle school is to be constructed on a new site to be leased from the Red Lake Tribal Council that will be large enough to accommodate future construction, should additional space be needed in the distant future. The 146,000 square foot structure will house 560 students in grades 6-8, with a maximum capacity of 600. Six grade level "houses" will each have a population of 80-100 students, plus special needs students. Ponemah Elementary School currently serves a portion of the district's grade 6-8 students and moving these students to the new site will free classrooms for projected increases in elementary students at that site.

Current middle school space allocated in the high/middle school building is shared with special education and alternative learning center programs. It was constructed in the early 1950s as an elementary school, with additions in 1994 and 2001. In spite of renovations, the structure provides substandard educational space. Classrooms are undersized for current and projected enrollment and specialized areas for curriculum involving science and technology are lacking. Library and media facilities are very poor and common spaces are too small to accommodate the current student population.

Plans for the high school include a 12,000 square foot addition that will include a science laboratory, special needs classrooms and support spaces, and a family and consumer science classroom. These areas are currently either lacking or substandard in the current facility.

### **Impact on Agency Operating Budgets (Facilities Notes)**

There is no impact on the Department of Education operating budget associated with this request.

The school district's operating costs for the middle school are projected to increase by approximately \$660,000 beginning in the first year of operation due primarily to changes in staffing and increased maintenance costs. District revenue projections show revenues sufficient to absorb the additional costs.

### **Previous Appropriations for this Project**

The Red Lake School District requested \$40.125 million in 2002 for additions to five schools and major renovations at the high school and middle school. The 2002 legislature appropriated \$12.4 million used by the district to begin additions and renovations to the high school, two elementary schools and early childhood classrooms. Of this amount, up to \$500,000 was allocated to predesign of the projects initially proposed.

In previous years, the legislature has appropriated the following amounts for construction and improvement of Red Lake School District facilities.

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 - High School, Early Childhood Center, Ponemah and Red Lake Elementary Schools

## **Other Considerations**

While funding for school facilities is viewed as primarily a local responsibility, the Red Lake School District has extremely low property values and very little private ownership of land as most of the land is owned in common by Red Lake Tribal members. Even with state assistance through the debt service equalization program, the district cannot fund capital projects through local levies. 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 2002 ANTC per FY 2002 adjusted pupil unit was \$7 for the Red Lake School District. For all Minnesota school districts, the median 2002 ANTC per FY 2002 adjusted pupil unit was \$3,613. The school district's maximum bonding limit calculated according to M.S. 475.53, subd. 4 was \$100,802 for FY 2003.

Enrollment growth in the Red Lake School District increased 14.5% from FY 1998 to FY 2003 and is projected to increase approximately 41% in the next ten years. The district is experiencing population growth as many members of the Red Lake Tribe are moving back to the Red Lake area. In addition, a new housing development has been opened and desirable housing is available for returning tribal members. The development continues to have waiting lists in spite of continued construction of new housing units. Enrollment growth also assumes that new or renovated facilities allowing expanded educational programming will draw many of the approximately 11.5% of resident students who currently open enroll to other districts back to the Red Lake Schools.

The Red Lake School District management and community recognize the importance of a stable and healthy school environment to children in an economically and socially depressed community. Current crowded and deficient facilities do not provide an environment conducive to learning or supportive to children.

Based on long-term planning, the Red Lake School District plans to apply for an additional capital loan in June, 2005 to support further renovation to the High School and two new projects: an addition to the Red Lake Elementary School, and renovation at the Ponemah Elementary School.