



**Capital
Loan Report**

**Report to the
Legislature**

January 2006

**As required by
Minnesota
Statutes 2005
Section 126C.69,
Subd. 8**

COMMISSIONER

Alice Seagren

Capital
Loan Report

DEPUTY COMMISSIONER

CHAS ANDERSON

FOR MORE INFORMATION CONTACT

Tom Melcher, Director

Division of Program Finance

T: (651) 582-8828

E-MAIL: tom.melcher@state.mn.us

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Audrey Bomstad, Supervisor

Budgeting, Payments and Categorical Aids

T: 651-582-8793

E-Mail: audrey.bomstad@state.mn.us

1500 Highway 36 West

Roseville, MN 55113-4266

TTY: (800) 627-3529 OR (651) 582-8201

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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 \$152.92.

Capital Loan Report

Statutory Directive

Minnesota Statutes 2005, 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, 2005 appropriation balances available for payment on capital loan projects in process is \$18,766,664. Estimated cash projections based on current projects indicate \$18,460,824 will be under contract and that there will be expenditures of \$8,156,000 from the remaining bonding authority will be required through December 2006.

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.

Two applications have been received and approved for consideration by the 2006 Legislature. Summary of the requests follow.

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

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

- ◆ \$29.851 million for continued renovation of and addition to Red Lake High School and Red Lake Middle School including additions to create new high school space in the current middle school building. Additions/renovations will include a new kitchen/cafeteria to serve both the high school and middle school, vocational and other specialty program classrooms, community education spaces, and new administrative offices. In addition, the heating plant, piping, and air handling units for both schools will be replaced or upgraded. Portions of the building where mold growth is an issue will be replaced.
- ◆ \$22.685 million at the Red Lake Elementary and Early Childhood Learning Center to add classrooms and common space to accommodate increased enrollment, and the addition of a building segment that will link the two facilities.
- ◆ \$2.914 million at the Ponemah Elementary for additions and remodeling to accommodate a media center and a Head Start Center, including site improvements that will add parking, improve bus drop-off, and expand playground facilities.

Of the total project cost of \$55.450 million, the local district contribution calculated according to M.S. 126.C.69, subd. 9 is approximately \$67,000, and the capital loan request is \$55.383 million.

In addition, district plans include an \$898,684 expansion and renovation of the school bus center. The capital loan program does not allow use of state bond funds for this purpose, and the district will fund this project from another source. This portion of the proposed plan is not included in the capital loan request.

The Red Lake Independent School District recognized the need for a facility plan as the district experienced increasing enrollments in crowded, deteriorated, and unhealthy facilities. The district completed long-term facilities planning prior to the 2004 legislative

session with the goal of determining and prioritizing district facility needs and outlining a plan to bring all district facilities up to current education standards.

The school district is using funding provided by the 2005 legislature to convert the current high school facility to house middle school students. A portion of the current funding request will be used to convert the current middle school (originally constructed as an elementary school) to house the high school, area learning center, and vocational center. Both sites lack space for specialty classrooms and require modernization. The cafeteria and kitchen addition will serve both middle and high school students. Replacement of the current heating plant will not only be sized to adequately serve the entire facility, but will also help resolve issues of mold growth in the current middle school facility.

The classroom additions at the Red Lake Elementary School will accommodate increased enrollments. The additions linking the Early Childhood Center to the Red Lake Elementary School will allow sharing of services and make both facilities more useful.

Impact on Agency Operating Budgets (Facilities Notes)

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

District operating costs will increase slightly primarily due to increases in staffing. There will be small increases in maintenance costs due to increased square footage. District revenue projections show revenues sufficient to absorb the additional costs.

Previous Appropriations for this Project

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
2005	\$18 million	Additions and Renovations – High School and Middle School

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 adjusted pupil unit. In the 2005 Payable 2006 levy cycle, the Red Lake 2004 ANTC per FY 2004 adjusted pupil unit was \$6.64. For all districts, the median value of ANTC per adjusted pupil unit was \$4,769.

District enrollment has increased in the last ten years by 20%. The district is experiencing population growth as many members of the Red Lake Tribe are moving back to the Red Lake area. District management projects continued enrollment growth.

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. Current crowded and deficient facilities do not provide an environment conducive to learning and supportive to children.

Maximum Effort Capital Loan Summary Independent School District 707, Nett Lake

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

Project Description

The Department of Education requests funding through the education capital loan program to support the Nett Lake Independent School District in providing additions and renovations to the district facility that currently includes collocated space for the Head Start program, daycare services, out-of-school youth services, and medical services. These additions and renovations will result in increased quality of services to children and the community.

The proposed project builds upon the success of a 1993 collaborative effort that included collocation of the Head Start program, daycare services, youth center, human services and tribal education services. The collaborative services concept has been extremely successful in the community. This success along with population growth has led to full utilization of the facility. Currently, lack of space is a deterrent to program maintenance and expansion.

Building additions/renovations are planned for the Head Start, daycare, youth programs, and K-6 education spaces. Building security will be addressed through evaluation of current building access and the creation of controlled entry to education and early childhood spaces. The human services program will be relocated to another site and the area the program currently uses will be renovated and expanded to house a community medical clinic. The clinic will join with the school district in working to address the high incidence of diabetes in the student and community population through an education program emphasizing regular physical activity and healthy diet.

Of the total estimated project cost of \$11 million, the local district contribution calculated according to M.S. 126C.69, Subd. 9, is approximately \$.302 million and the capital loan request is \$10.698 million. The school district has applied for two federal grants totaling \$5 million and is seeking additional funding of approximately \$.3 million. The federal grant applications are for \$3 million under the Impact Aid Program, Discretionary Construction Program, Section 8007(b), and \$2 million under the Indian Health Service, Small Ambulatory Program. If the District is awarded all grants, the state capital loan request would decrease to \$5.398 million. Since receipt of these funds is uncertain, the Department of Education is currently seeking the full amount required to fund the project after applying the local contribution required under the capital loan program.

Impact on Agency Operating Budgets (Facilities Notes)

There is no effect on the Department of Education operating budget resulting from this request.

District operating costs will increase due to increase in staffing, and maintenance costs will increase due to expansion of square footage. District revenue projections show revenues sufficient to absorb the additional costs.

Previous Appropriation for this Project

The 1993 Legislature approved a capital loan of \$7.967 million for remodeling of and an addition to the current Nett Lake facility. Of this amount, \$5 million was provided in the 1993 session, and the remainder in the 1994 session.

Other Considerations

While funding for school facilities is viewed as primarily a local responsibility, the Nett Lake Independent School District has very low property values. Even with state assistance through the debt service equalization program, the district cannot fund major 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 adjusted pupil unit. In the 2005 Payable 2006 levy cycle, the Nett Lake 2004 ANTC per FY 2004 adjusted pupil unit was \$403.26. For all districts, the median value per adjusted pupil unit was \$4,769.

The Nett Lake School District serves E-6 students at the current facility. Students in grades 7-12 are served in the St. Louis County School district under an agreement for secondary education (M.S. 123A.30).

Student enrollment has increased by approximately 75% since the 1993-94 school year. The population of the community has increased as tribal members have moved back to the community, and the need for early childhood facilities has increased dramatically.