“No Tax Increase” School Bond Referendum? An Opportunity in Time for Issuing New Debt

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“NO TAX INCREASE” SCHOOL BOND REFERENDUM? AN OPPORTUNITY IN TIME FOR ISSUING NEW DEBT

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Questions: Counterintuitive? Difficult to explain? Likely met with skepticism by some wary taxpayers?
Answer: Yes, to all of the above.

It is well understood that in the life of a school district over time there comes a need to issue debt. School districts sell bonds to build new schools because of enrollment growth, replace old schools that have exceeded their useful life, tackle major remodeling, improve safety and health of existing buildings, upgrade heating and ventilating systems and equip and furnish school facilities. Debt is issued when the scope and cost of infrastructure needs cannot be financed with basic revenue earmarked for ongoing maintenance.

Although laws regulating issuance of bonds vary based on unique state statutes, in most cases school districts are required to put their desired package together and hold a referendum, giving taxpayers the final say at the ballot box whether or not debt can be issued to pay for the proposed projects. Given the fact that in most cases, parents of school-age kids represent only 15 – 25% of registered voters living in the school district, passing bond referenda is not easy. In the current environment, the increasingly polarized electorate, pandemic impacted economy and influence of social media don’t help.

As the title above reminds, one occasionally will hear in the media or among colleagues that a school district is promoting a “no tax increase school bond referendum.” For the uninformed observer, all of the questions in the title come to mind. How can that be? Bonds are paid back, typically over 10 – 30 years, by taxing property within the school district. How can my school district ask for $100 million for a new high school and claim there is no tax increase?

This opportunity in time also referenced in the title relates to how new debt (bond payments) can be structured at or close to the end of when old debt drops off. Think of a home mortgage as an example; you borrow $250,000 to buy a home and your repay the loan over with principal and interest payments over 20 years.

Let’s say your payment for principal and interest is $1500 per month. In looking at your loan repayment schedule, you know in what year and month you make your last $1500 payment. You could choose at that time, if there was an advantage to do so, to borrow another $250,000 and buy a second home. In working with your mortgage lender, you could structure the payment on the new home to be exactly the same - $1500 per month – and have the first payment due one month after your last payment on the old mortgage. Presto: a no tax increase home mortgage!

While school district financing is more complex than this example, the same opportunity exists as old school debt is about to be paid off, as well as the property taxes that had been levied to pay off the old bonds. The opportunity not widely understood is that a school district often can launch its “no tax increase school bond referendum” up to three years before the payments for the old debt drop off. This can be accomplished by “wrapping” the debt payments from the new debt around the soon to be retired old debt. The graphic accompanying this article essentially paints a picture of how one school district capitalized on this opportunity and issued new debt early.

When working with a client several years ago, it became apparent that the district had facility needs of approximately $20M, but they were concerned about district resident support for a tax increase to fund the needed project. Fortunately for the district, as we reviewed their existing debt schedule, they had a $1M drop in their existing debt that would occur in three years. This provided a great solution for the district to address the new facility needs while being cognizant of voter apprehension about any tax increases.

Baker Tilly Municipal Advisors developed a debt service schedule for their project that began making principal and interest payments of approximately $1M in the year that existing debt would be dropping by that same amount. In order to make the schedule work, the district needed to capitalize interest (as part of the debt issue, the district borrowed additional funds to make early year interest payments) for the first two years of scheduled payments. While this does add some cost to the total project, it allows the debt issue to move forward without any tax increase even though the new debt was issued three years before old debt expired.

It is incumbent for school leaders and consultants and vendors who work with school districts to be aware of this opportunity, and in particular work with their financial advisor to explore opportunities to issue new debt either as the old debt drops off or up to three years beforehand. Schoolbondfinder is an excellent resource to monitor how much debt is on the books for a particular school district and when it is dropping off. Financial advisors will have more detailed information about the old debt structure if a deeper dive is of interest to the school district.

It is important to understand, however, that even when a “no tax increase school bond referendum” can be structured, the school district and its advisors will still need to communicate effectively. Case in point: a school district client structured a $62.1 million “no tax increase bond referendum” and took it to referendum. While the vote was close, it ultimately lost at the polls. In a post-election scientific, random-sample phone survey done by Baker Tilly, an impressive 88% of community members had heard the “no tax increase” message.

However, when asked to what extent hearing this information affected their votes, nearly 50% said it had “little or no influence.” In this example, there was some combination of other issues going on in the community and/or strong skepticism about the no tax increase claim by the school district. A good reminder to take advantage of these opportunities when they come along, but don’t take anything for granted.

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NET DEBT SERVICE SCHEDULE

Date	Existing D/S	Net New D/S	105% Overlevy
2016	1,560,997.50	0.00	1,639,047.38
2017	1,563,942.50	0.00	1,642,139.63
2018	504,702.50	1,060,214.48	1,643,162.83
2019	500,512.50	1,062,874.48	1,641,556.33
2020	505,872.50	1,059,774.14	1,643,928.97
2021	510,362.50	1,055,774.14	1,644,443.47
2022	508,997.50	1,055,874.14	1,643,115.22
2023	376,885.00	1,185,134.14	1,640,120.10
2024	374,640.00	1,189,764.14	1,642,624.35
2025	377,000.00	1,188,049.14	1,643,301.60
2026	378,600.00	1,184,907.50	1,641,682.88
2027	379,600.00	1,185,845.00	1,643,717.25
2028	0.00	1,565,440.00	1,643,712.00
2029	0.00	1,563,255.00	1,641,417.75
2030	0.00	1,563,617.50	1,641,798.38
2031	0.00	1,561,642.50	1,639,724.63
2032	0.00	1,561,817.50	1,639,908.38
2033	0.00	1,564,730.00	1,642,966.50
2034	0.00	1,564,625.00	1,642,856.25
2035	0.00	1,561,920.00	1,640,016.00
2036	0.00	1,561,570.00	1,639,648.50
2037	0.00	1,563,290.00	1,641,454.50
2038	0.00	1,561,205.00	1,639,265.25
2039	0.00	1,565,815.00	1,644,105.75
2040	0.00	1,561,565.00	1,639,643.25
2041	0.00	1,563,642.50	1,641,824.63
2042	0.00	1,561,477.50	1,639,551.38
0	**$7,542,112.50**	**$42,215,936.30**	**$44,326,733.12**

SchoolBondFinder.com is the first comprehensive online database tracking K12 funding projects in the United States. This service is designed for education solution providers. Opening opportunities and new doors to the billions of dollars in K12 bond funded capital projects.

SchoolNetwork.us is a networking platform for K12 District Administrators to connect and collaborate with Administrators within forums; view and share funding project documents; review solution providers; and advertise RFP/RFQs nationwide.

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