

# CAPITAL PROJECTS FROM START TO FINISH & HOW THEY ARE FINANCED



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# TOPICS FOR DISCUSSION

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- Leasing Equipment and/or Facility Upgrades
- Referendum Projects
- Questions about Existing Debt
- Refunding of Existing Debt
- Second Questions
- Energy Projects / Power Purchase Agreements
- Capital Reserve
- November Referendum Approval – Available Funds for Security Improvements
- Secondary Market Disclosure / Continuing Disclosure Compliance

# EQUIPMENT LEASE PURCHASE

- Equipment Lease Purchase- N.J.S.A. 18A:20-4.2(f)
  - Limited to 5 years (except school buses)
  - Payments are within your cap
  - Authorized via resolution
  - Must bid the financing if cumulative interest expense exceeds the bid threshold
  - Things to consider:
    - ✓ Existing leases
    - ✓ Availability of State Aid
    - ✓ Impact on your cap
    - ✓ What projects qualify as 'equipment'

# FACILITIES LEASE PURCHASE

- Facilities Lease Purchase- N.J.S.A. 18A:20-4.2(f)
  - Improvements or additions to school buildings
  - Limited to 5 years – Payments are within your cap
  - Authorized via Resolution; Requires Public Hearing; Application to Commissioner of Education
  - Usually Requires a Ground Lease
  - Must bid the financing if cumulative interest expense exceeds the bid threshold
  - Things to Consider:
    - ✓ Existing Leases
    - ✓ Availability of State Aid
    - ✓ Impact on your cap
    - ✓ Title concerns with school property
    - ✓ Cost of the Lease

# SCHOOL BONDS

- School Bonds- N.J.S.A. 18A:24-1 et seq.
  - Type II School Districts Authorize Bonds via Referendum  
5 times a year to go to the voters –  
4<sup>th</sup> Tuesday in January,                      2<sup>nd</sup> Tuesday in March,  
Last Tuesday in September,              2<sup>nd</sup> Tuesday in December &  
Your Annual Election
  - Assemble Financing Team: Licensed Architect, Bond Counsel,  
Municipal Advisor, Construction Manager, Appraiser if Purchase  
of Land is Included

# SCHOOL BONDS

- Sample Ballot Question

The Board of Education of the Township of AnyTown in the County of AnyCounty, New Jersey is authorized (a) to undertake the construction of additions and renovations to AnyTown Elementary School and AnyTown Middle School; (b) to make the necessary onsite and offsite improvements and purchase the necessary furniture and equipment associated with such improvements; (c) to appropriate \$15,500,000 for such improvements; and (d) to issue bonds in the amount of \$15,500,000 to finance the project, thus utilizing \$5,000,000 of the \$7,000,000 borrowing margin of the Township of AnyTown previously available for other improvements.

The final eligible costs of the projects approved by the Commissioner of Education are \$14,000,000 (with \$10,000,000 allocated to AnyTown Elementary School and \$4,000,000 allocated to AnyTown Middle School). The proposed improvements include \$1,500,000 for school construction elements in addition to the facilities efficiency standards developed by the Commissioner of Education or not otherwise eligible for State support pursuant to N.J.S.A. 18A:7G-5(g). The State debt service aid percentage will equal 40% of the annual debt service due with respect to the final eligible costs of the projects. The Board of Education is authorized to transfer funds among the projects approved at this special election.





# SCHOOL BONDS

- School Bonds- N.J.S.A. 18A:24-1 et seq.
  - Type I School Districts Authorized by Municipality via Ordinance
  - Financed over the Useful Life of the Projects via a Competitive Bond Sale
  - May Qualify for Debt Service Aid (at least 40% of eligible costs)
    - Calculation of Preliminary Eligible Costs
      - Rehabilitation/Renovation
      - New Construction
  - Payments are Outside Cap
  - Temporary Notes

# SCHOOL BONDS

- School Bonds- N.J.S.A. 18A:24-1 et seq.
  - Things to consider:
    - ✓ Existing Debt
    - ✓ Useful Life of the Asset
    - ✓ Interest Rate Environment (Borrowing and Investing)
    - ✓ Tax Impact to Community
    - ✓ Referenda are Merely Elections
    - ✓ Availability of State Aid
    - ✓ Timetable
    - ✓ Costs associated
    - ✓ Draw Down Schedule



# EXISTING DEBT

- Main Reasons to Look at Existing Debt

- Plan for Future Projects; and
- Potentially Refund Existing Debt

Planning for Future Projects- it takes time... if you have debt falling off in several years start planning today!

Once tax rate for debt service falls off, it is difficult to get it back!



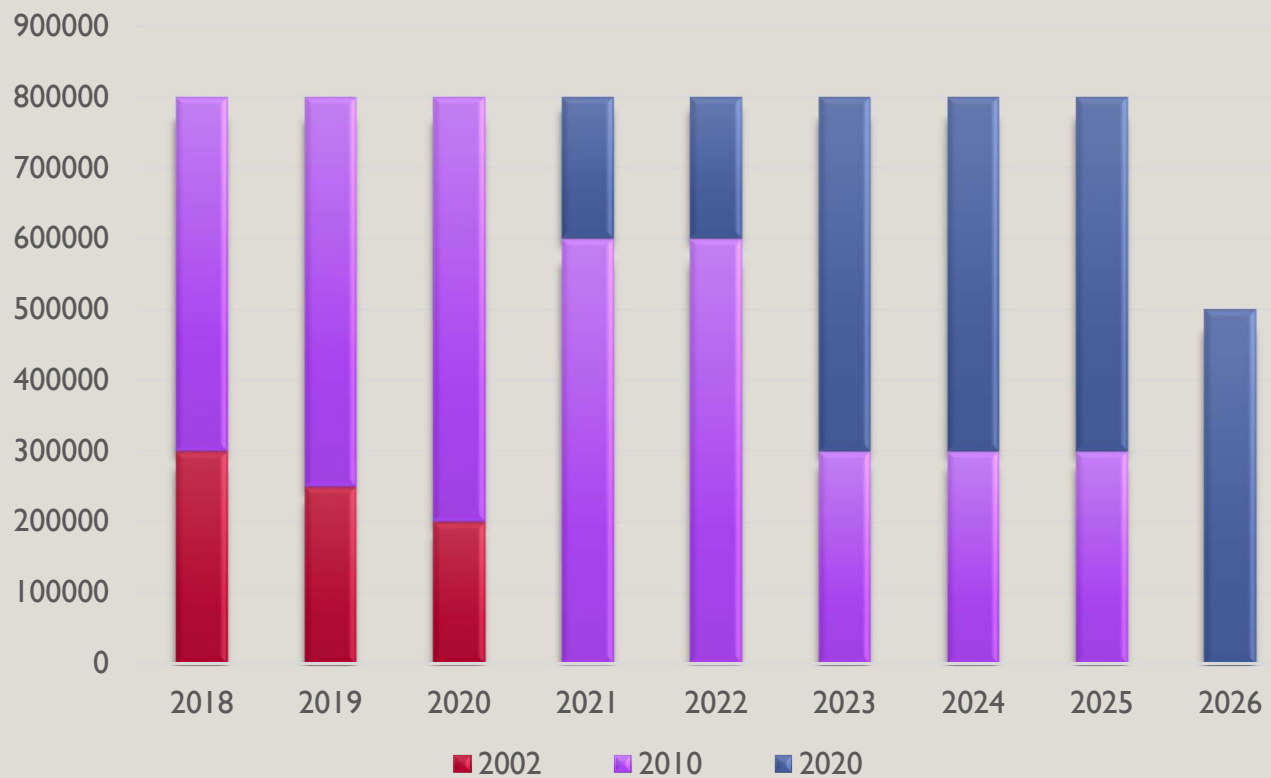
# EXISTING DEBT

- Refunding School Bonds- N.J.S.A. 18A:24-61 et seq.
  - Authorization via Ordinance – Two Readings, Public Hearing & Notification of Public Hearing
  - Can be Sold as Either a Competitive or Negotiated Sale
  - Tax Reform in December of 2017 Now Prohibits Tax-Exempt Advance Refundings
  - Legislative Safeguards so that you Must Save at Least 3% Net Present Value Savings – Accountability Regulations also Require you to Proceed with Refunding if you Reach 3% NPV Savings
  - Participants Include: Bond Counsel, Municipal Advisor, Auditor, Underwriter, Escrow Agent, Verification Agent, Rating Agency, Printer and Board Attorney

# EXISTING DEBT

- Plan to “Wrap” Debt

## Existing and Proposed Debt



# ENERGY PROJECTS

- Energy Savings Improvements Program (ESIP)- N.J.S.A. 18A:18A-4.6
  - Provides the ability to make energy related improvements and upgrades using the value of the energy savings to pay for those improvements.
  - Three Methods to Complete Projects:
    - DIY
    - Energy Services Company; or
    - Hybrid method
  - Two Methods to Finance:
    - 15 to 20 year Lease Purchase; or
    - Energy Savings Obligations (authorized and sold like refunding school bonds)



# ENERGY PROJECTS

- Energy Savings Improvements Program (ESIP)- N.J.S.A. 18A:18A-4.6
  - Process to Complete an ESIP
    - I. Energy Audit
    - II. Select Method – DIY or ESCO – Issue BPU Approved RFP
    - III. Investment Grade Audit – Develop Energy Savings Plan (ESP)
    - IV. Third Party Review of Energy Savings Plan
    - V. Review & Approval of ESP by BPU
    - VI. Adopt ESP and Post on Website
    - VII. Financing
    - VIII. Project Implementation
    - IX. Energy Savings Verification

# ENERGY PROJECTS

- Energy Savings Improvements Program (ESIP)- N.J.S.A. 18A:18A-4.6
  - Pros and Cons of Financing Methods and How to Decide

## Lease Financing

- Single Rate – Held for 30 to 60 Days
- Usually Shorter Financing Timeline
- Lower Cost of Issuance as Compared to Bonds
- Can be Limited Interest
- Higher Interest Rate
- Tax Law Changes Favor Bonds

## Bond Financing

- Lower Interest Rate
- Stronger Security
- Requires Additional Approval (LFB)
- Longer Timeline to Complete
- Interest Rate Not Set until Day of Sale
- Higher Costs of Issuance (need bond rating)

- Professionals Will Help Decide Best Financing Option





# ENERGY PROJECTS

- Power Purchase Agreements

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- Turn Key Project
  - Solar Investor Designs, Finances, Installs & Maintains Panels
  - Must Select Through a Competitive Process
  - Maximum of 15 Years
  - Savings Can be Applied To an ESIP



# BUDGET DEFICITS/SECOND QUESTIONS

## Budget Deficits

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- Limited opportunities to help rectify a deficit
- Textbooks are the savior!

Second Questions- Remember Second Questions are for the Year that the Question is Being Asked!

- Good Option to Use to Get Project Completed without Issuing Bonds

# CAPITAL RESERVE

- Adding Funds to Capital Reserve Allow you to Chip Away at Projects
  - Develop a True Capital Facilities Plan
  - Great Use for One-Time Savings
  - Total Amount in Capital Reserve can not Exceed the Amount of Projects Included in your LRFP



# NOVEMBER BALLOT REFERENDUM

- Funds Available for Security Improvement Projects
  - NJ Voters Authorized \$500 Million toward Improving School Security, Upgrading Water Infrastructure, Expansion of Vo-Tech and County College Programs
  - \$100 Million to Water Infrastructure
  - \$50 Million for County Colleges
  - \$350 Million for Vo-Tech and K-12 Schools
    - How will funds be allocated?
    - Likely an Application Process with Award to Priority Projects

# CONTINUING DISCLOSURE

- Agreement to Provide Bondholders with Certain Financial and Important Information Throughout Life of Bonds
  - Annual CAFR and Operating/Statistical Information
  - Budgets
  - Material Events
    - Bond Rating Changes
    - NEW MATERIAL EVENTS BEGINNING FEBRUARY 27, 2019
      - Required to Disclose the Incurrence of Any Financial Obligation without an Official Statement within 10 Days of Issue
      - Leases, Short-Term Notes, Bank Loans all need to be disclosed

# QUESTIONS?

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