

# Board Memo

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## Construction Project Update and Financing Options

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**Date:** June 21, 2022  
**From:** Katie Hannigan, Director of Finance and Operations  
**Policy Reference:** 4:10 Fiscal and Business Management

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### **Connection to Strategic Plan/District Goals/Priorities:**

Strategic Plan Goal #4: Make effective and efficient use of resources to advance the educational success and well-being of our students now and into the future.

### **Discussion/Highlights:**

#### **Project Update:**

Plans continue to move forward for a building addition to accommodate increasing enrollment as well as the renovation of the LRC and early childhood classrooms. Arcon has provided architectural drawings that are 95% complete and our construction manager has been working with contractors to determine cost estimations based on those drawings. We have made a number of changes to control costs without compromising our ability to create the needed space and provide great educational experiences for our students.

#### **Project Cost:**

When we originally began planning for this addition we asked architects to give us some ideas of what scope we could expect for a \$12M project. In their original plans, the high end of what their proposed project might cost was a little over \$13M. Since that time, several changes have impacted the current cost projections.

- We decided that we would be best served by working with a construction manager.
- We added one of our long-term capital projects (replacement of the middle school gymnasium roof and refinishing the gymnasium siding) to this construction project. The amount budgeted for this roof and siding is \$1.1M.
- Inflation has impacted the cost and availability of materials and labor.

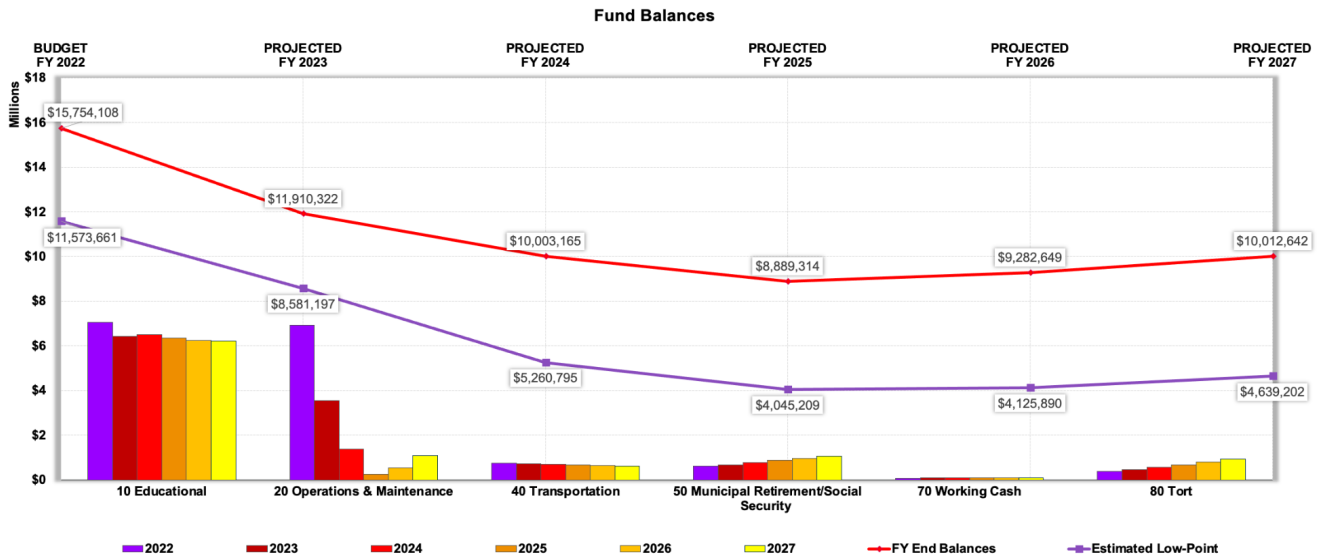
Between inflation and supply chain issues, the construction industry has seen some sharp increases in pricing. Nicholas has been working closely with dozens of contractors to review the architectural drawings throughout this process. The contractors are able to review the drawings to check for any errors or gaps, and they are also able to provide cost estimates that are in line with how they are likely to bid the project. As it stands right now, if everything comes in at the highest of our estimates, the total cost of this project could be \$17.3M. Our architect and construction manager believe that the competitive bid process will result in our total cost being less than this estimate, however, we are not able to predict that reduction and need to plan for the highest possible cost.

### Financing

There are several factors to consider when deciding how to finance this project. These include the best time to sell the bonds, how to best structure them, and how much of our reserves to use. Assuming the highest current projections of approximately \$17.3M, the table below illustrates how we could fund this project.

Source	Amount
Proceeds from the 2021 bond sale that were earmarked for the gymnasium roof and siding	\$1.1M
2022 bond sale	\$12.2M
Cash from our current reserves	\$4.0M

If the Board desired to spend less than \$4M from our current reserves, we do have the capacity to sell up to \$14M in bonds. Factors to consider in this decision include the impact on future borrowing capacity and our operating budget in the coming years. As discussed at the regular Board meeting in January, we have created 5-year projections to forecast the long-term effect of spending down \$4M from our reserves, which is represented in the graph below.



The low-point is projected to occur in FY25 with approximately \$4M in reserves. We would end that fiscal year with fund balances at about \$8.9M. There are several factors that can impact these numbers. Current inflation rates will impact our operating costs and we are set to negotiate a new contract with our teachers' union after the 2023-24 school year. Another important consideration is that our future borrowing capacity will increase annually based on CPI and our regular principal and interest payments.

Several factors that impact our capacity to sell working cash bonds will continue to change with the market over the next few months. Additionally, we will be putting the various aspects of this project out to bid in early July with a bid opening on July 21st. That means we should have our final cost estimates by early August, at which point we'll know the project's actual cost.

Below is an updated table of what a \$12M issuance would cost our taxpayers based on the value of their homes. A median home's annual bond payment of would increase by \$116.18, or about \$10/month.

	Current Annual Bond Payment	Annual Bond Payment After \$12M Bond Issuance		CHANGE in annual payment
		Year 1	Year 2 and after	
\$300,000 Home	\$111.97	\$159.05	\$196.26	+\$84.29
Median Value Home \$401,200	\$154.31	\$219.21	\$270.49	+\$116.18
\$500,000 Home	\$195.65	\$277.93	\$342.95	+\$147.30
\$700,000 Home	\$279.33	\$396.81	\$489.63	+\$210.30

The process to sell bonds does take time and will span three Board meetings. At the first of those three meetings, we will need to establish a cap on the amount we may borrow. At the two following meetings, we will need to hold a hearing and then finally set a parameters resolution to issue the bonds. The cap that we use in the first meeting will be our ceiling for borrowing, but we would have the ability to issue bonds for a lesser amount.

At the July Board meeting, we will present detailed financial information, multiple funding scenarios, the assumptions made for the 5-year projections, and the impact of each of those variables on the District and taxpayers. Bob Lewis from PMA will join us for that conversation to provide expert advice and answer any questions.

*Next Steps:*

- June Board Meeting: Determine the bond issuance cap. Because we are able to actually issue less than this amount when we know the final cost, and in order to provide the Board with the greatest flexibility, we recommend considering setting the cap at \$14M.
- July 5, 2022: Project goes out to bid
- July Board Meeting: Project finances meeting, Officially establish bond issuance cap.
- July 21, 2022: Bid opening
- August Board Meeting: Hold the bond sale hearing
- September Board Meeting: Pass resolutaiton to issue the bonds



# Building Addition and Renovation

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# Current Status

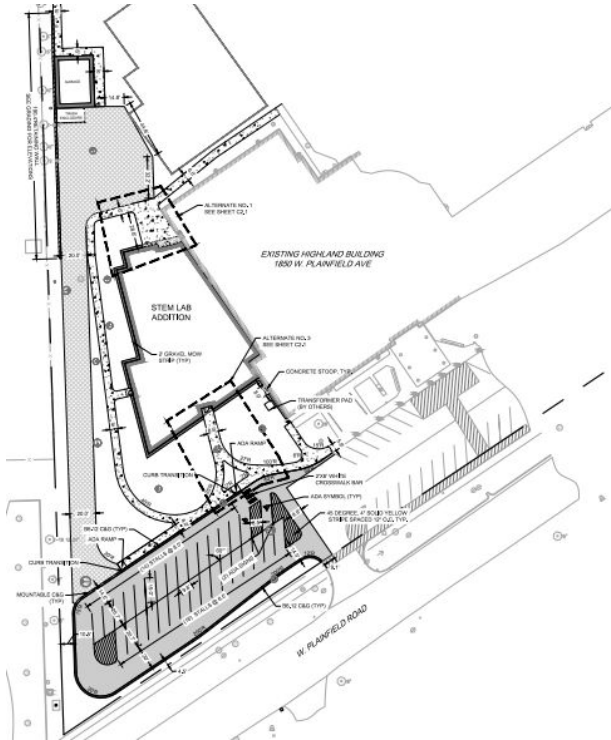


- Arcon has provided architectural drawings that are 95% complete and our construction manager has been working with contractors to determine cost estimations based on those drawings.
- We have made a number of changes to control costs without compromising our ability to create the needed space and provide great educational experiences for our students.

# Design Update



## Site Plan & Updated Renderings



## 1st Floor Commons



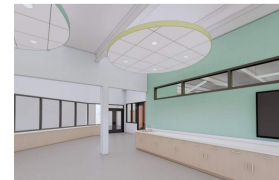
## 2nd Floor Commons



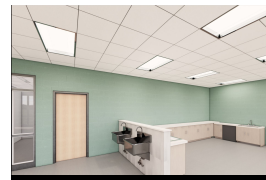
## MS STEM Room



## Classroom



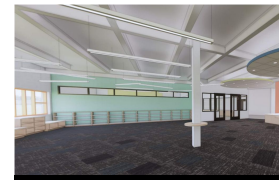
## Elementary STEM



## Art Room



## Science Room



Library



# Cost Update



Over the past 9 months, several changes have impacted the current cost projections.

- We decided that we would be best served by working with a construction manager.
- We added one of our long-term capital improvements to the scope of this project (replacement of the middle school gymnasium roof and refinishing the gymnasium siding). The amount budgeted for this roof and siding is \$1.1M.
- Inflation has impacted the cost and availability of materials and labor.

As it stands right now, if everything comes in at the highest of our estimates, the total cost of this project could be \$17.3M. Our architect and construction manager believe that the competitive bid process will result in our total cost being less than this estimate, however, we are not able to predict that reduction and need to plan for the highest possible cost.

# Financing

## Important Considerations

- The best time to sell the bonds
- How to best structure them
- How much of our reserves to use.

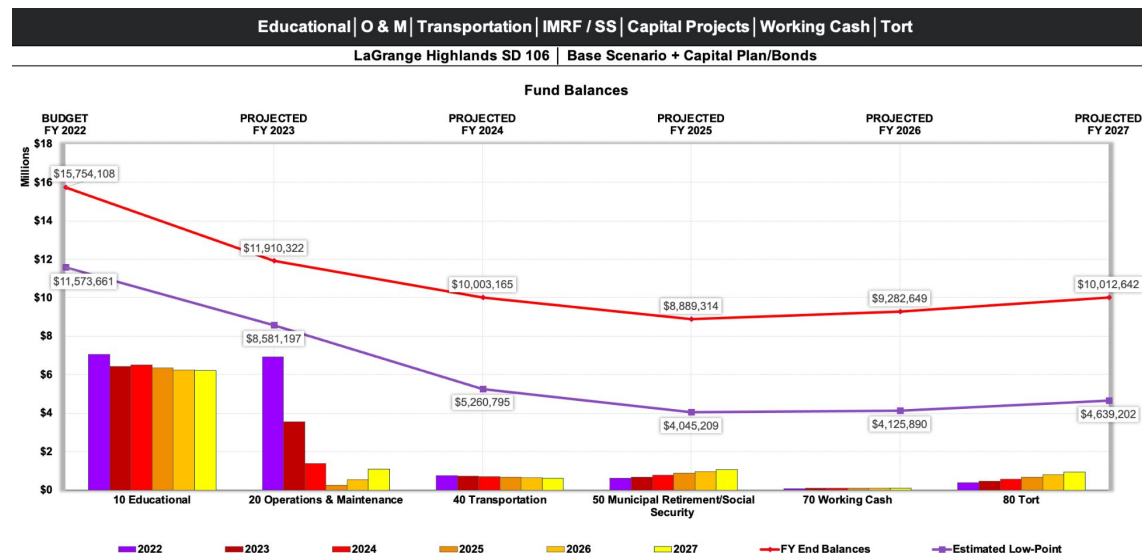
Assuming the highest current projections of approximately \$17.3M, the table below illustrates how we could fund this project.

Source	Amount
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2022 bond sale	\$12.2M
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# Financing

## Consideration:

If the Board desired to spend less than \$4M from our current reserves, we do have the capacity to sell up to \$14M in bonds. Factors to consider in this decision include the impact on future borrowing capacity and our operating budget in the coming years.





# Tax-Payer Impact

Below is an updated table of what a \$12M issuance would cost our taxpayers based on the value of their homes. A median home's annual bond payment of would increase by \$116.18, or about \$10/month until the bonds are repaid (up to 20 years).

	Current Annual Bond Payment	Annual Bond Payment After \$12M Bond Issuance		CHANGE in annual payment
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# Bond Sale

The process to sell bonds will span three Board meetings.

- July Meeting: Establish a cap on the amount we may borrow.
- August Meeting: Hold a bond hearing
- September Meeting: Set a parameters resolution to issue the bonds.

***Important Note:*** The cap that we use in the first meeting will be our ceiling for borrowing, but we would have the ability to issue bonds for a lesser amount.

At the July Board meeting, we will present detailed financial information, multiple funding scenarios, the assumptions made for the 5-year projections, and the impact of each of those variables on the District and taxpayers. Bob Lewis from PMA will join us for that conversation to provide expert advice and answer any questions.



# Next Steps

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- July 5, 2022: Project goes out to bid
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