# Proposed Bond Issue and Tax Levies: Project Financial Analysis

SHCSD Finance & Audit Committee

Subcommittee Conclusions

18 July 2023

Shaker Heights Schools

# Objective & Scope

- Objective:  Financial analysis for the Board's consideration of the Resolution to Proceed
    - Confirm that levy amounts would provide funding for aligned with current district forecasts
    - Inform on the sensitivity of key assumptions underlying those forecasts
    - Provide other analysis and conclusions as may be beneficial to the Board's consideration

- Scope:  The Resolution to Proceed for Segment 1 and its purpose and language
    - Resolution to Proceed is the last step before filing with the Board of Elections to be on the ballot
    - Language around the type of levy (operating or capital), millage, and estimated collections based on assessed property valuation
    - Millage on the ballot does not reflect the 1.50 mills ending in calendar year 2025
    - Guiding principles:
        - Analysis limited to Segment 1
        - Work with the Board approved Master Facilities Plan (MFP) and Pre-K Expansion plan as approved in May 2023
        - Draw conclusions based on data-driven facts & insights
        - Utilize a common set of data with other district reports and studies

Disclaimer: This report represents the collective, factual view of the Finance & Audit Committee. It does not represent the individual opinion of any individual member.

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# Executive Summary:
## Levy Amounts Align with Master Facilities Plan & Pre-K Expansion

### Foundation

- Facilities construction cost estimates built on OFCC requirements and estimates from Gilbane
  - MFP split into two segments with segment 1 total cost of $187 million
  - Levy for segment 1 utilizes an average of OFCC and Gilbane estimates
- Capital levy requires a Permanent Improvement (P/I) levy amount
  - Effectively required to be a minimum of 0.50 mills
- Pre-K expansion plan (income and expense) built by administration based on current Pre-K experience and refreshed forecasts

### Conclusions

- Based on current capital project estimates, 6.45 mills generates necessary funding for facilities plan
  - Costs include assumptions for construction & materials cost inflation, construction contingency / soft costs, and time-based cost escalations
- Permanent improvement levy of 0.50 mills within guidelines, but subject to re-evaluation as individual facilities are completed
- Based on current Pre-K operating budget estimates, 3.0 mills collects sufficient funding through FY27/28
- District ability to issue additional Certificate of Participation (COPs) funding, reduced renovation costs, or appropriate from the general fund can cover reasonably anticipated cost overruns not already in estimates

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# Foundational Data:  Master Facilities Plan Summary

- Split the total facilities plan into 2 segments with a total cost estimate of $ 302.9M into two segments
- **Segment 1:  $ 187.1M ($ 47.5M of which is funded by the state)**
  - Renovate Ludlow for Pre-K expansion and Administration relocation (complete 2025)
  - Rebuild/renovate 6-8 Woodbury building w/Auditorium (complete 2027)
  - Build a new indoor pool facility at Woodbury (complete 2027)
  - Renovate & expand five K-5 buildings  (2 by 2029, 2 by 2031 & FE 5$^{th}$ grade addition during 2027-2031)
  - Demo current 7-8 Middle School building (complete 2031 following use as elementary swing space)
  - Taxes levied as bonds issued to fund construction timing
    - Planned millage by calendar year:  1.50 in 2025, 1.70 in 2026, 1.60 in 2028, and 1.60 in 2030
    - *Note: 2025 1.50 mills levied is offset by the expiry of the 2005 1.50 mill levy*
- **Segment 2:  $ 115.8M ($ 32.1M of which is funded by the state)**
  - Enrollment Projections and Total Project Cost as well as State funding subject to adjustment/escalation at time of Segment 2 decision
  - Build a new 9-12 High School building
  - Demo current 9-12 High School building
  - Timing and scope of bond issuances will be determined closer to the start of Segment 2

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# Foundational Data:  Master Facilities Plan Levy Estimates

**Total Project Costs: $ 302.9M**

- **State-funded portion: $ 79.6M**
- **District funded portion: $ 223.3M**

- Segment 1:  $ 187.1M
  - State-funded portion: $ 47.5M
  - District funded portion: $ 139.6M
- Segment 2:  $ 115.8M
  - State-funded portion: $ 32.1M
  - District-funded portion: $ 83.7M

**Total Project Costs represent the average of two estimates: $ 263.5 – $ 342.3M**

- Segment 1 range:  $ 176.7 – $ 197.4M
- Segment 2 range:  $ 86.7 – $ 144.9M

**Segment 1 Additional Details:**

- Includes construction contingency of ~20%, depending upon the building
- Includes cost escalation of 14-45% to reflect planned timing of each building
- Include $58.8M for costs of locally funded initiatives (LFIs) and buildings done in a style consistent with current Shaker school aesthetic
  - LFIs include Ludlow renovation, Indoor Pool, Auditorium and other school building amenities not eligible for state-funding
- Plan does not include:
  - New administration site (once pre-K fills Ludlow)
  - Additional capital costs for utilizing the MS for swing space during construction

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# Segment 1 Foundational Data: Permanent Improvement Levy Estimates

**Levy amount = 0.50 mills**

- State regulations require a permanent improvement (P/I) levy be included in a capital levy
- Funds restricted to maintenance needs of the facilities built by the capital levy
- Guidelines are generally for 0.5 – 1.0 mills
- Operating & capital savings estimated at:
  - Operating:  6-8 = $ 0.3M starting in FY28
  - Operating:  K-5 (1st 2) = $ 0.3M in FY30
  - Operating:  K-5 (2nd 2) = $ 0.3M in FY32
  - Oper. & Cap.:  7-8 post-demo = $ 2.0M in FY32
  - Oper. & Cap.:  9-12 post-demo/new construction = $0.5M in FY34

- Assumption is that $ 0.5M per year is sufficient to maintain Segment 1 facilities
  - Relying upon state guidelines and other district P/I levies to determine amount
  - Facilities would be fully renovated/rebuilt
  - No supporting detail provided
- 2017 P/I was 1.25 mills generating ~$1.0M per year
  - Facilities were being patched vs. renovated
  - None of these funds have been spent to date; leaving a ~$7.0M balance for use during the construction period, if necessary
- Operating and capital savings are already reflected in long-term financial forecast

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# Segment 1 Foundational Data: Pre-K Operating Levy Estimates

**Operating levy = 3.0 mills**

**Estimated annual amount = $ 2.8M**

Estimated operating effect:

| *(in US$ millions)* | FY24-26 | FY27 | FY28 | FY29 |
|---|---|---|---|---|
| Levy | $ 6.9 | $ 2.8 | $ 2.8 | $ 2.8 |
| Tuition | $ 1.0 | $ 1.2 | $ 1.4 | $ 1.7 |
| Expenses | ($ 4.9) | ($ 5.3) | ($ 6.4) | ($ 7.7) |
| Net | $ 3.0 | ($ 1.3) | ($ 2.2) | ($ 3.2) |
| *Cumulative* | | *$ 1.7* | *($ 0.5)* | *($ 3.7)* |

- Assumes cost per pupil = $ 19.3k growing 3.0%/yr.

**Utilization Assumptions**

- Expands enrollment to 360 students by FY29
- Will utilize full-capacity of Ludlow site
  - Onaway renovation includes capacity for both continued Pre-K and grade 5
  - Administration relocates to Ludlow as current Admin Building demoed for new 6-8 building
  - No current plan or cost for Administration facility when Ludlow space needed for Pre-K

| | FY24 | FY26 | FY27 | FY28 | FY29 |
|---|---|---|---|---|---|
| Students | 30 | 180 | 60 | 45 | 45 |
| Location | Onaway | Ludlow | | | |

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# Segment 1 Funding Details

- Facilities Project Sources:

| | |
|---|---|
| • State-funding | $ 47.5M |
| • Bond Issuance | 121.2M |
| • COPs Issuance | 18.4M* |
| Total | $ 187.1M |

- Facilities Project Uses:

| | |
|---|---|
| • Segment 1 Facilities | $ 187.1M |

- Current 5-year operating forecast consumes current general fund balance

* COPs payment details:

| | |
|---|---|
| • Annual cost to service COPs | ($ 1.2M) per year |
| • Payment - Annual 2017 P/I inflow | $ 1.0M per year |
| • Payment - General Fund | $ 0.2M per year |

- District Priorities:
  1. Commitment to Pre-K expansion
  2. Renovation & re-activation of Ludlow
  3. Efficient execution of Phase 1 construction
- Contingency to obtain additional funds:
  - Utilize 2017 P/I fund balance estimated at $7.0M at the end of calendar 2024
  - Take on additional COPs
    - COPs are effectively mortgages on the value of the renovated/rebuilt facilities
  - Secure/increase private funding of LFIs
  - Appropriate moneys from the General Fund
- Contingency to reduce spending:
  - Targeted expense reduction efforts by facility
  - Delayed implementation of Pre-K expansion

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# Segment 1 Funding Details: Planned Timing of Funding Tranches & Levies

## Timing and Impact

- Operating and P/I levies first collected in 2024
- Bond issuances planned for three tranches in 2024, 2027 & 2029 to be first collected in H2: 2025/2026, 2028 and 2030
  - Bonds may be issued faster or slower, but timing aligns funding with construction spend
- The 2005 levy ends in 2025, reducing tax bill

| | 2024 | 2025 | 2026 | 2028 | 2030 | Total |
|---|---|---|---|---|---|---|
| Operating | 3.0 | | | | | 3.0 |
| P/I | 0.5 | | | | | 0.5 |
| 2005 Ending | | (1.5) | | | | (1.5) |
| Bond Tranche | | 1.5 | 1.7 | 1.625 | 1.625 | 6.45 |
| Total<br>Cumulative | 3.5 | 0.0<br>3.5 | 1.7<br>5.2 | 1.625<br>6.825 | 1.625<br>8.45 | <br>8.45 |

## Additional Operating Levy(s)

- Last full operating levy was 6.9 mills in May 2014
- Current 5-year forecast indicates an annual funding deficit of $14.0M in FY2026 and $20.4M in FY2027
  - Current forecast includes $2.8M / yr proceeds from PreK operating levy and associated PreK costs
  - Excluding proceeds from PreK operating levy, revenues are effectively flat at ~$104M
  - Expenses rise from $103.7M to $127.1M, inclusive of PreK expansion costs
  - Forecast presumes 9.9 mill operating levy in CY 2026, beginning collections in FY2027
- General fund balance available to fund operating deficits
  - These funds are not committed to any construction project under the approved plan
- Lower expenses & operating efficiencies can delay the need for an additional operating levy
  - Historically, expense projections have come in below the forecast levels
  - Forecast averages 5.2% expense increase per year
  - Beyond the first levy, without alternate sources of revenue, operating efficiencies and/or lower expenses, additional operating levies will be required on a periodic basis

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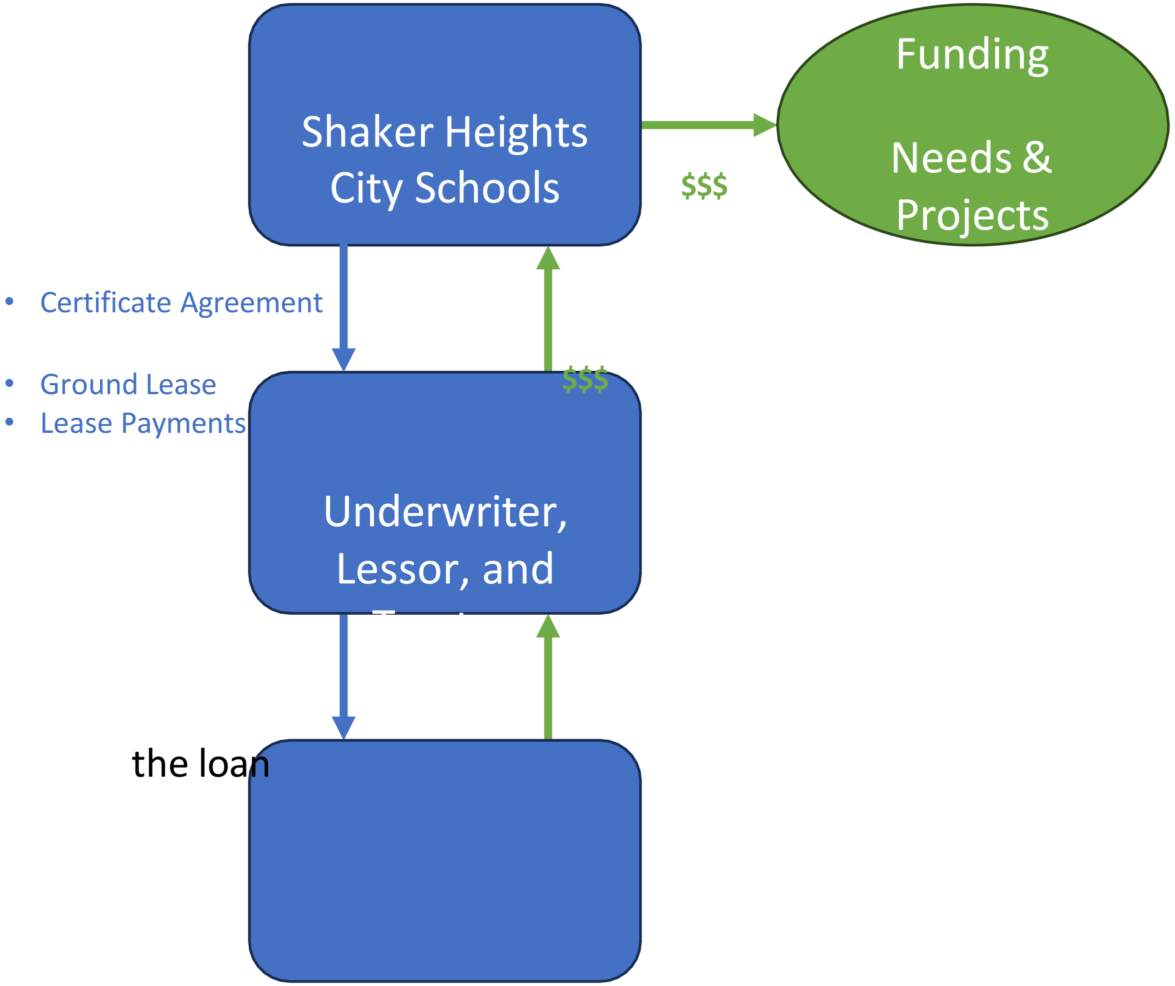
# Segment 1 Funding Details:  Description of COPs

## COPs – Certificates of Participation

- Lease-Purchase financing of the school facilities in Phase I
  - Facilities serve as collateral for the life of the lease agreement (up to 30 yrs)
  - Financially, the mechanics are similar in concept to a home mortgage
- Generally, more expensive than bonds but do not count against debt limits
- COPs amount is limited by market factors
  - Practically, the limit is the value of the Phase I project
- Amount financed is paid back through lease payments from the general or P/I funds under annual budget appropriation
- Does not require taxpayer approval
  - Unless Board elects to place a P/I levy on ballot to repay

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- Certificate Payments

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# Segment 1 Sensitivity Analysis

- Per $5M of capital cost increase, COPs issuance requires $0.3M of annual debt service
- Per $1M of higher operating costs or lower revenue, offset would be $1.0M of unidentified cost savings or use of general fund balance
  - For reference:  FY24 general operating expenses budgeted to be $107.9M
- Facilities plan costs depend heavily upon timing and assumptions on cost escalation
  - Cost is average of estimates from Gilbane and OFCC, with the higher estimate $10.4M above the average
  - Overruns would be addressed first by looking for cost savings and construction efficiencies
  - Private funding would be pursued to fill gaps
    - Locally funded initiatives estimated at 30% of each building's project cost
    - Based on Fernway renovation experience

**Higher Segment 1 net operating costs or capital needs would either accelerate the timing of the next operating levy or require realizing currently unidentified cost savings**

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# Alternative Plan (no levy passage)

- Assuming the Pre-K expansion continues and a revised master facility plan deployed
  - Likely would be a warm-safe-dry style plan addressing prioritized needs
- Pre-K funding available through general fund balance or future operating levies
  - Ludlow renovation financed through COPs repaid from existing P/I and/or General Fund
- Capital funding available through current P/I fund balance & future capital levies
  - Presume general fund balance is reserved for operating needs
  - $7.0M balance from 2017 P/I levy as of 2024 plus $1.0M/year thereafter
    - If funds not used to make annual COPs payments for Ludlow renovations
- Next capital levy would be $36M in 2026 and then $42M in 2035
  - Past capital levies averaged 9 years between issuance
  - Using 2017 $30M levy as a basis and a 1.9%/year increase in levy amount between levies
    - Using a 4.0%/year increase for higher costs and/or special projects would be $43M and $61M
  - Maintaining that schedule, total spend thru 2066 would be $293M vs $223M for Masters Facility plan (after state-match)
- No opportunity for funding via state match for capital to fund ongoing facilities maintenance

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