
March 2020 Referendum | Financing & Tax Rates

South Tama County Community School District

Informational Meeting



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Section I: Goals of Tonight's Meeting

What is the District hoping to Accomplish with this Discussion?

ACCURATE INFORMATION

Goal is to provide patrons with accurate information regarding the District's finances and financing plan:

- Project Budget
- Tax Rate History
- Financing Components
- Tax Rate Forecast

VARIABLES

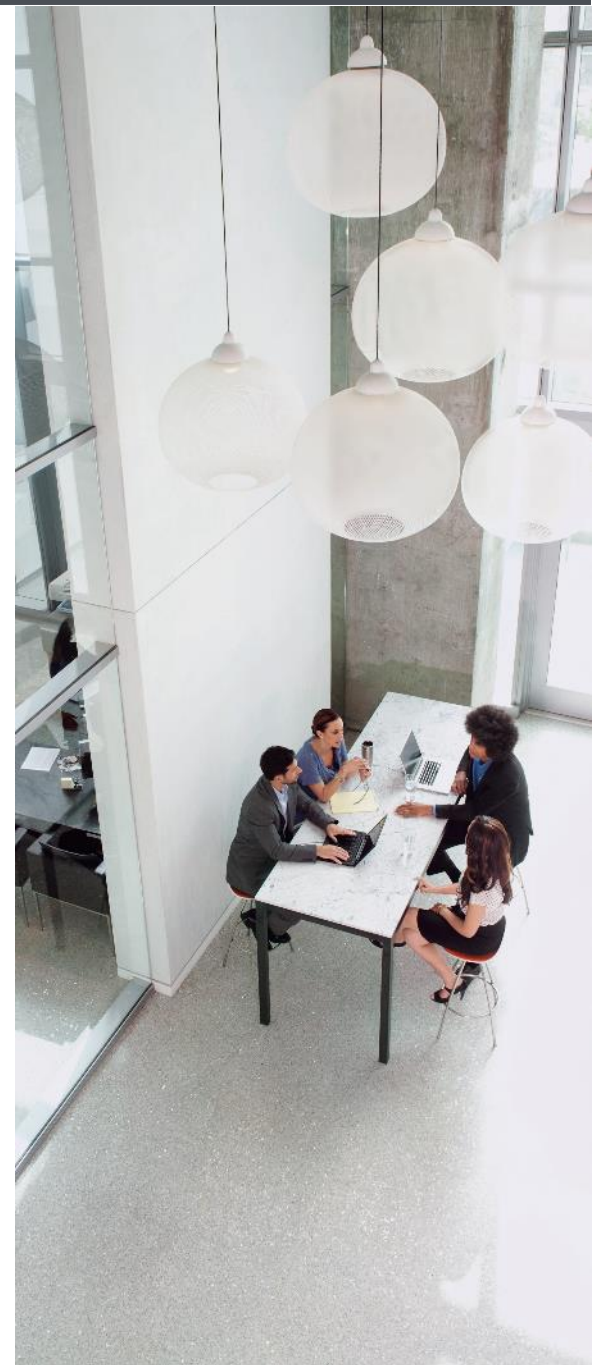
Goal is to provide an overview of the items with the school finance formula that the District's have control over and the items that they do not have control

- Items outside of the District's control
- Items under the District's control

SIMPLIFY

The goals is to provide simplified information and talking points surrounding the project financing

- As you will figure out, school finance is not mysterious, but it's also not simple
- If you are not willing to trust the District will follow through on the plan that is outlined, then no matter of simplification is going to provide you with the answers that you want



Section II: Financial History of the District

What can we learn from the District's Financial History?

FINANCIAL HISTORY

Where do we find the data?

- Audited Financial Statements
- ISFIS Fact Tool / Mapping Data
- Department of Education Certified Annual Report (CAR)

What are we looking at? Typically, we start with trend lines of:

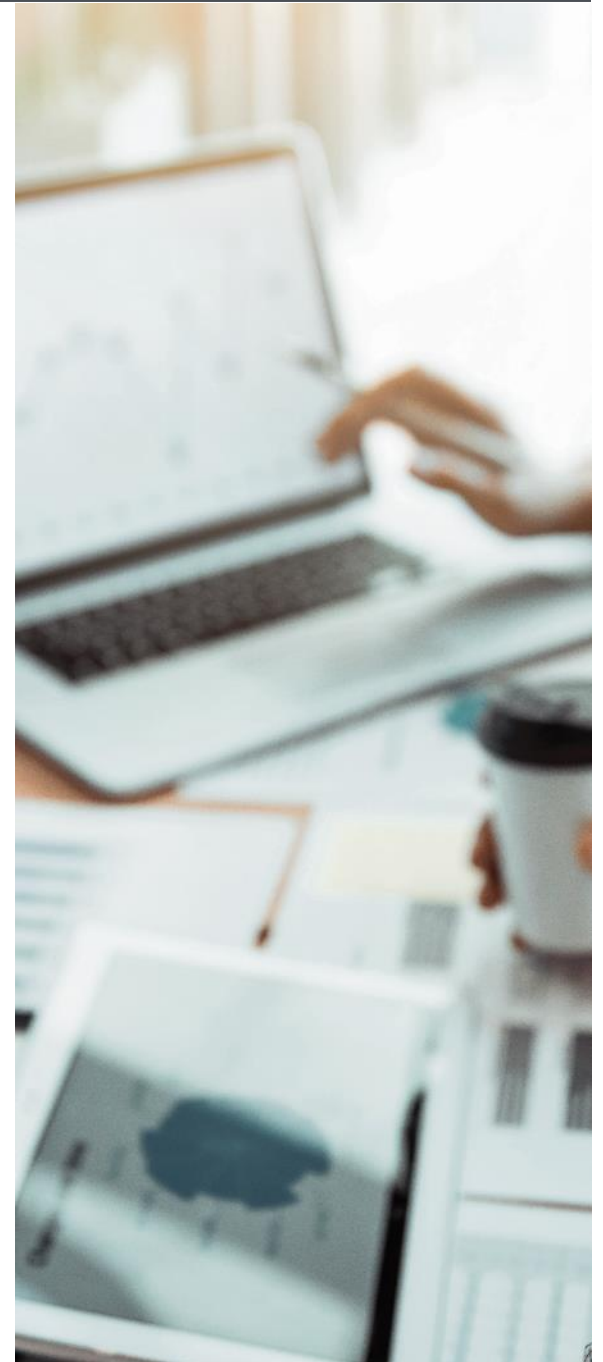
- Expenditures
- Unspent Authorized Budget
- Solvency
- Tax Rates

How do you evaluate health?

- There are some “rules of thumb” that have driven practices throughout the state on Unspent Authorized Budget and Solvency Ratio. However, each District's scenario is a little different and fact dependent.
- For discussion purposes let's assume we are looking at 10-15% as healthy for solvency ratio
- For discussion purposes let's assume we are looking at 15-25% as healthy for unspent authorized budget ratio

Are there legitimate reasons that the District may fall outside of those ranges?

- Yes, but... we need to understand the “why” and the “trendline”



Valuation History and Breakout for the District

Valuation Year	Actual Valuation w/ Utilities	% Change in Actual Valuation	Taxable Valuation w/ Utilities	% Change in Taxable Valuation
2019	631,708,852	-1.40%	397,234,576	7.44%
2018	640,652,489	2.03%	369,736,877	1.97%
2017	627,875,672	-0.74%	362,593,914	3.04%
2016	632,533,387	1.53%	351,885,303	1.94%
2015	622,978,857	2.42%	345,184,025	4.17%
2014	608,242,938	-0.32%	331,351,875	-0.33%
2013	610,190,090	13.81%	332,437,651	1.35%
2012	536,127,540	2.24%	328,014,224	5.54%
2011	524,400,067	8.14%	310,800,086	2.94%
2010	484,922,315	1.55%	301,915,584	2.68%
2009	477,540,864	10.90%	294,037,650	0.14%
2008	430,595,534		293,630,291	

Average Historical Growth (since 2008): 3.65% 2.81%

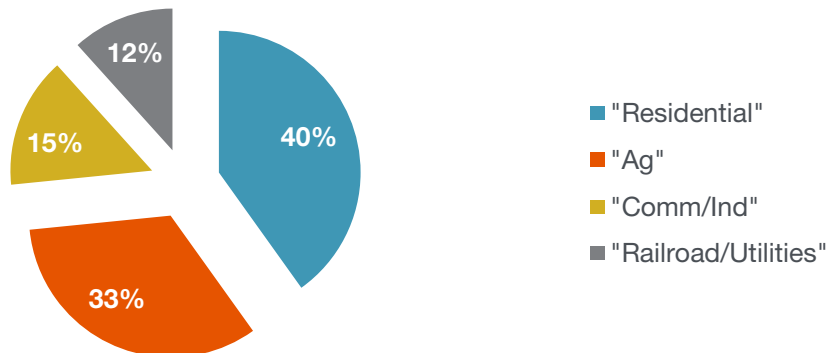
Actual Valuations

- Before Rollback applied
- Utilized for calculation of debt limit

Taxable Valuation

- After Rollback applied, included TIF
- Utilized for calculation of PPEL/Debt Service Levy

Breakdown of Taxable Valuation for Debt Payments



Breakout of Taxable Valuation

- Illustration of who pays the property taxes within the District

Funding The District's Operating Budget

“School Finance 101”

HOW IS THE DISTRICT'S BUDGET FUNDED? “HIGH LEVEL”

Property Tax

- “Operating” Expenses/Cash Reserves (General Fund)
- Insurance/Early Retirement (Management Fund)
- Capital (PPEL, Debt Service, etc.)
- FY2020: \$5,619,153

State Aid

- Based on valuation per pupil and the school funding formulas, a portion of the district's operating fund (General Fund) is funded via state aid dollars
- FY2020: \$11,419,148

Income Surtax (in lieu of property taxes)

- Can fund a portion of the District's capital (part of a voter approved PPEL) and/or a portion of the district's operating levy (instruction support levy)
- District has utilized income surtax for both purposes in the past to provide property tax relief
- FY2016 – 2020 average: \$442,000

Other

- Sales Tax Revenues can be utilized for capital projects of property tax relief, FY2020 estimate: approximately \$1.6 million
- Federal Sources: TBD

DRIVERS FOR BUDGET

Valuation Growth

- Valuation growth per pupil at a rate faster than the statewide average typically results in less state aid funding, but does not have a real impact on the size of the district's operating budget.
- Strong valuation growth often results in lower property tax rates over time

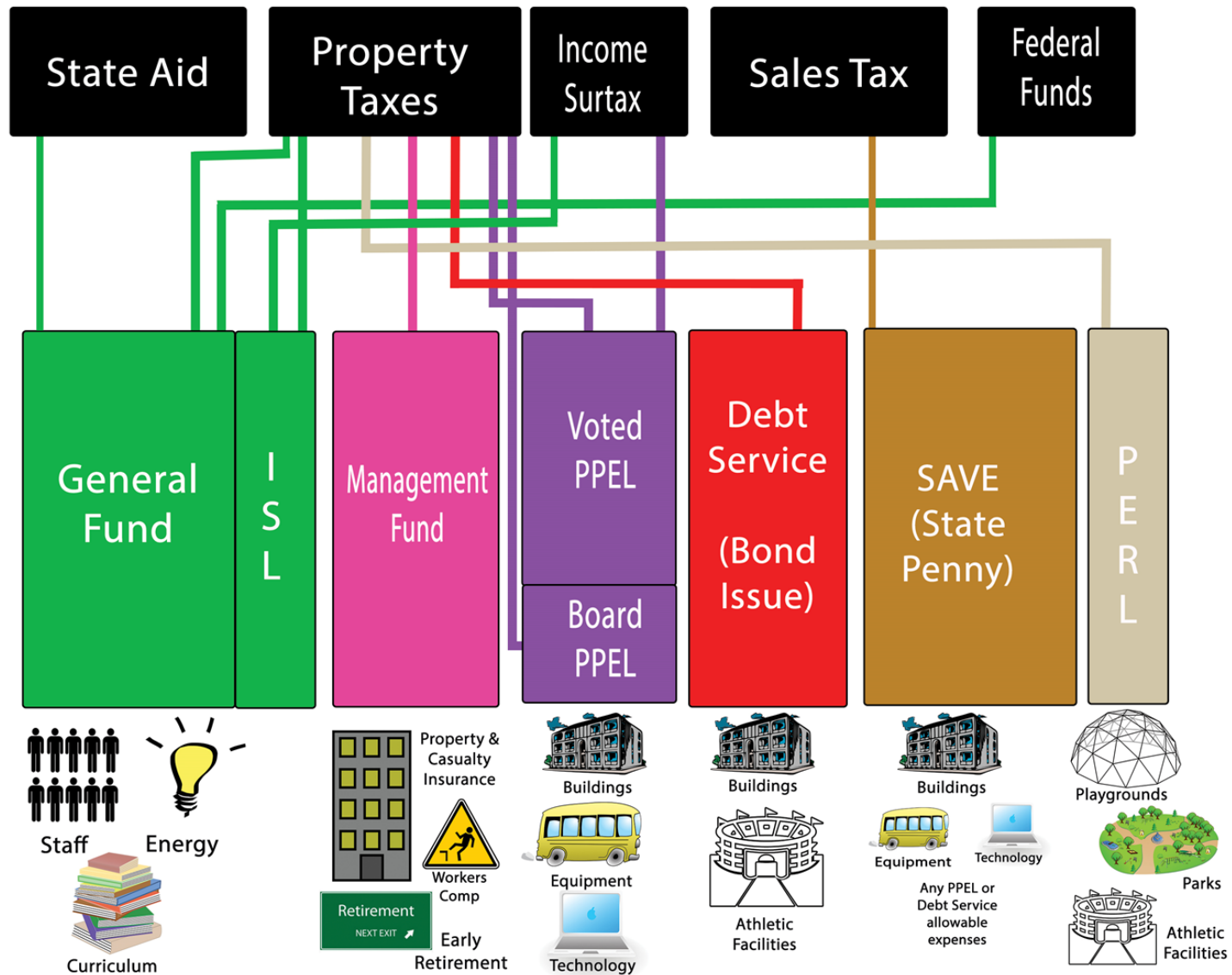
Enrollment

- Increasing enrollment results in more dollars available for the District's education programming. The District does not have the ability to simply raise property taxes to fund the operating budget at will. The operating budget is controlled by a concept commonly termed “spending authority”. District's often carry a reserve of “spending authority” known as the District's Unspent Authorized Budget”.

SSA Rates

- The state legislature sets the State Supplemental Assistance rate of growth for budgets on an annual basis. Last year (FY2020) was 2.06%. Therefore if the District's enrollment stayed stable, they would have had the ability to grow general fund expenses by 2.06% without dipping into or adding to the unspent authorized budget.

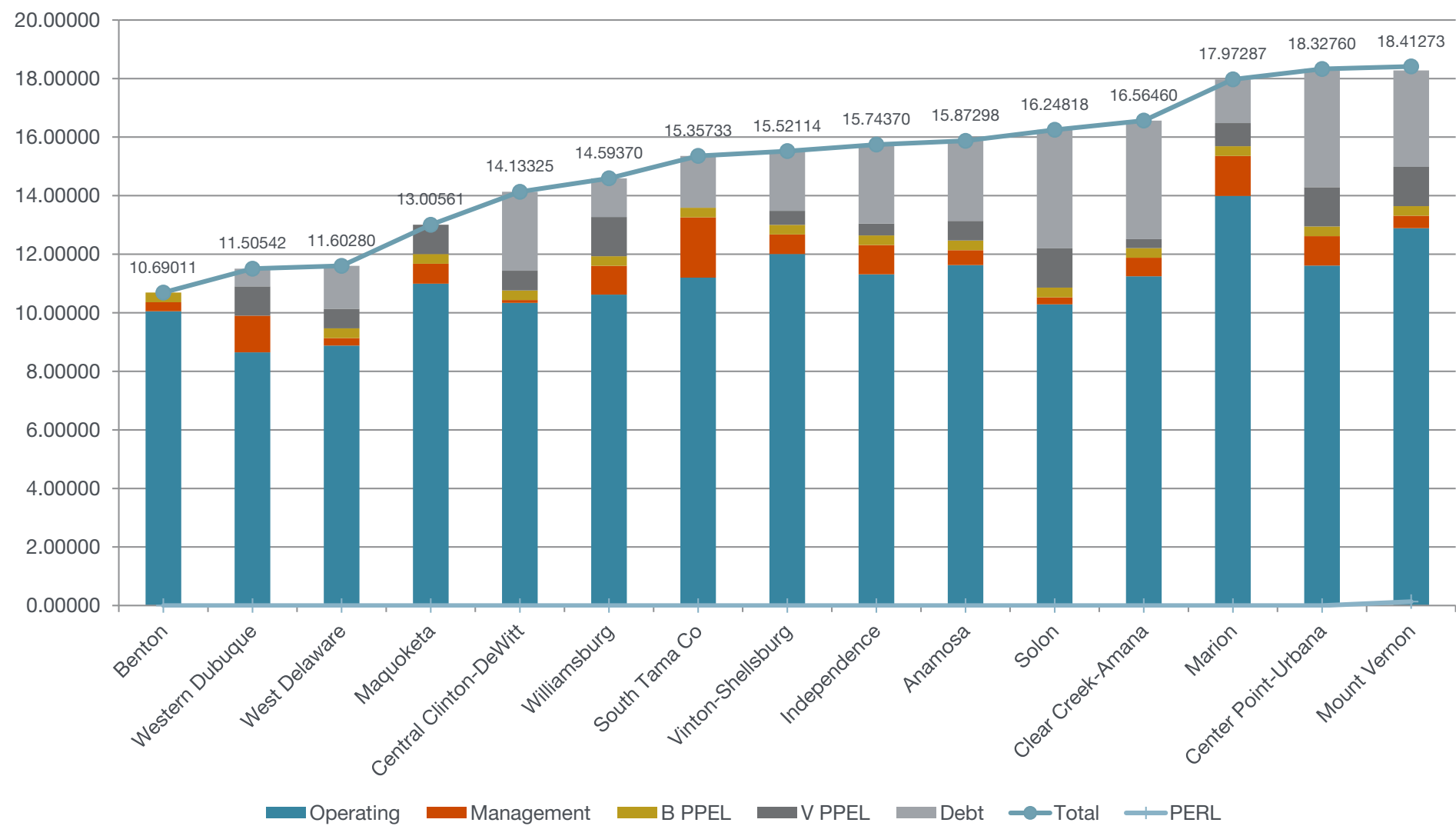
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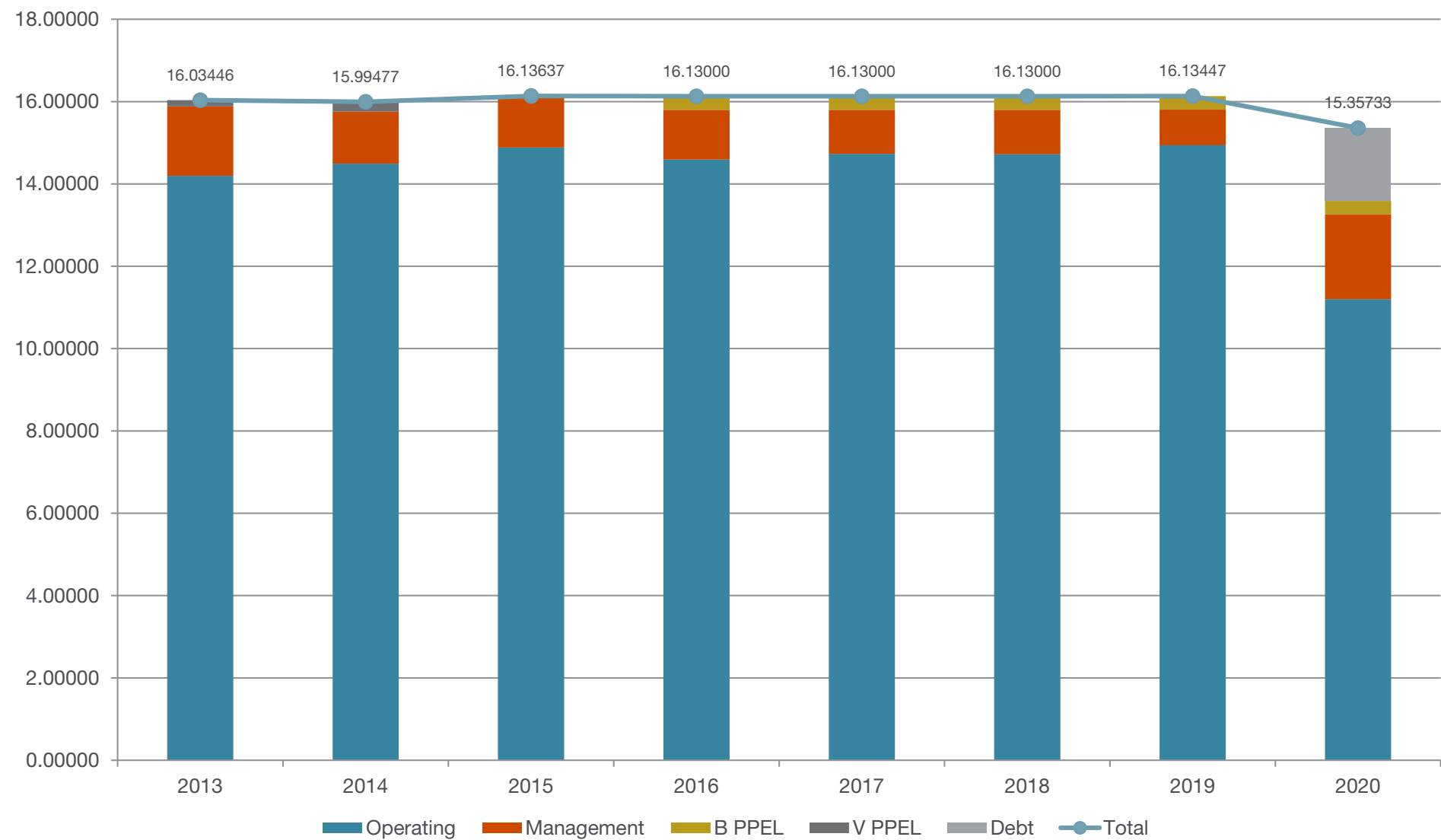
Tax Rate Comparison to Conference Schools

Tax Levy Rate Comparison FY2020 (Total Levy)

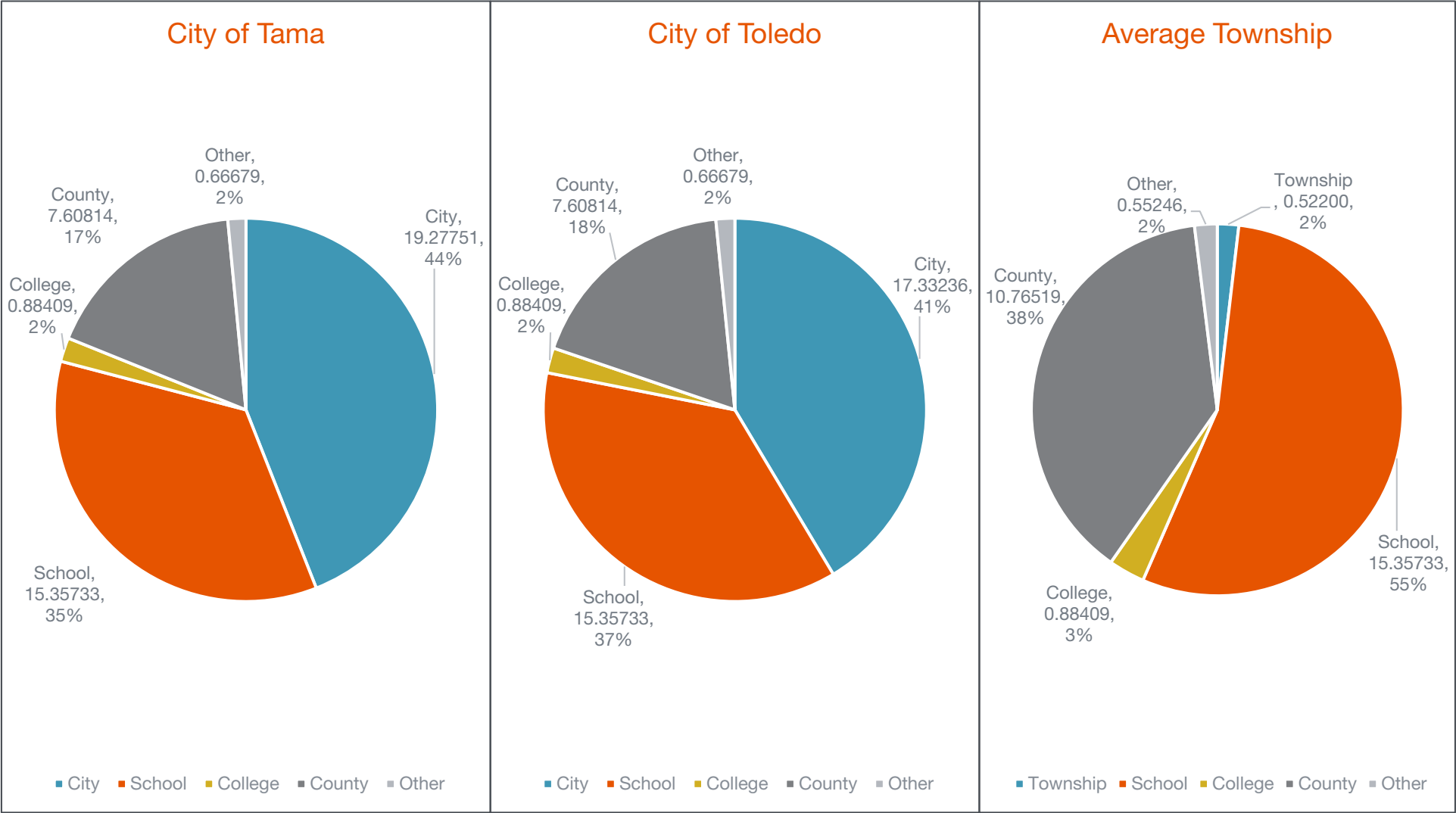


Historical Tax Rates (South Tama County Schools)

Tax Levy Rate Comparison FY2013 - 2020

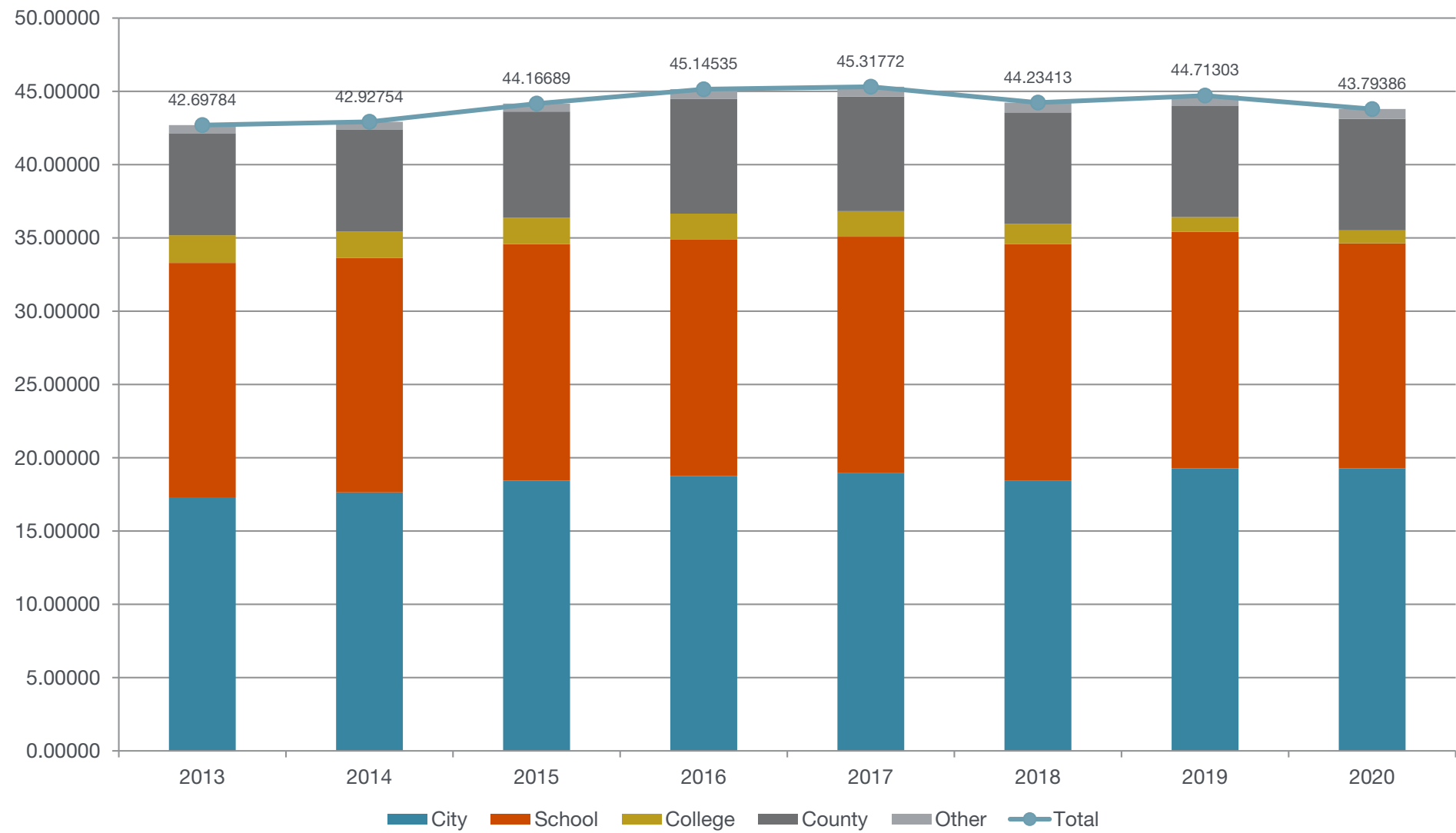


FY2020 Levy Rate Breakout by Various Taxing Entities



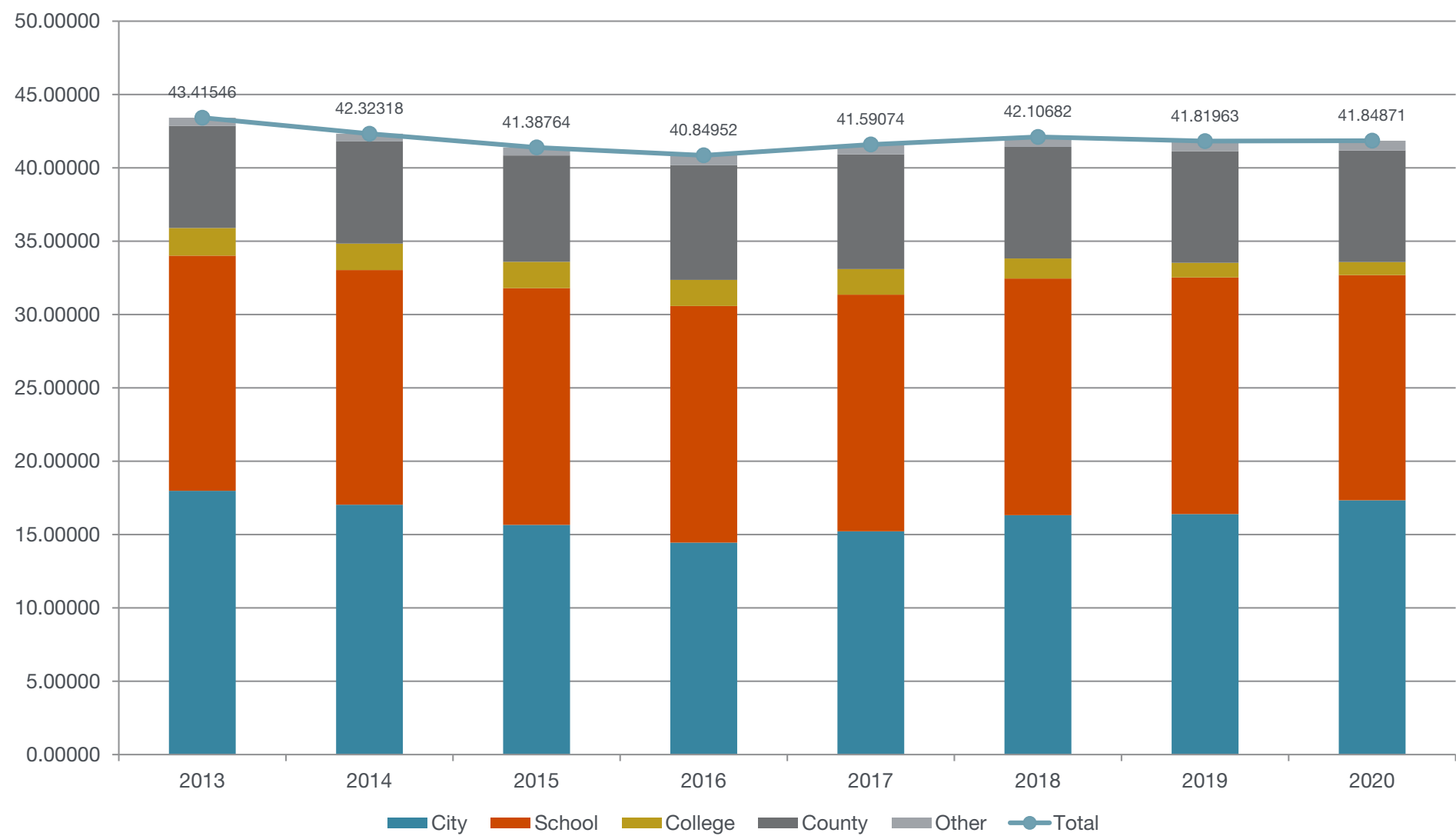
Historical Tax Rates (Overall Levy Rate – City of Tama)

Tax Levy Rate Comparison FY2013 - 2020



Historical Tax Rates (Overall Levy Rate – City of Toledo)

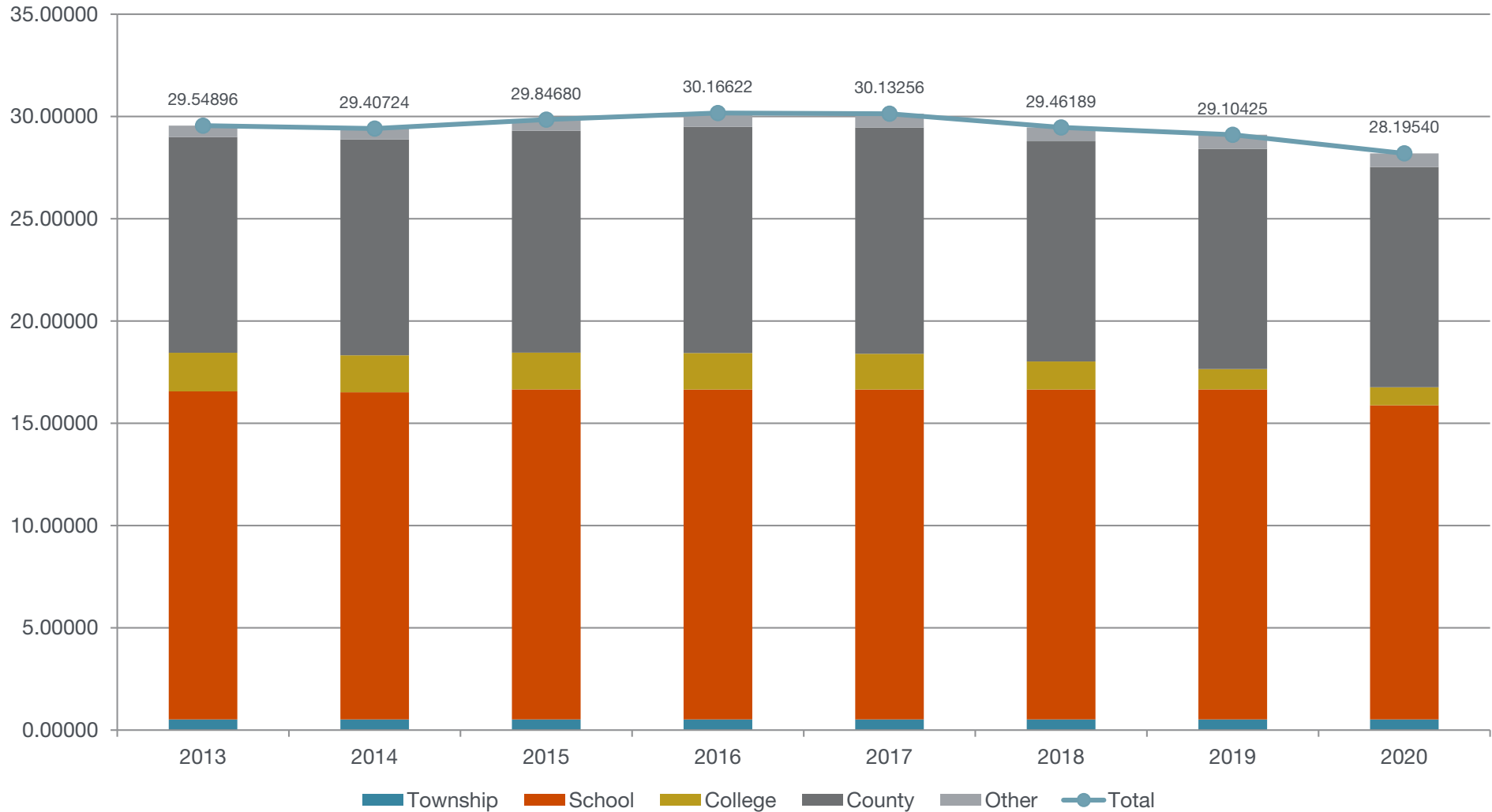
Tax Levy Rate Comparison FY2013 - 2020



Historical Tax Rates (Overall Levy Rate – Outside City Limits)

*ignoring individual township levies, using average of \$0.522

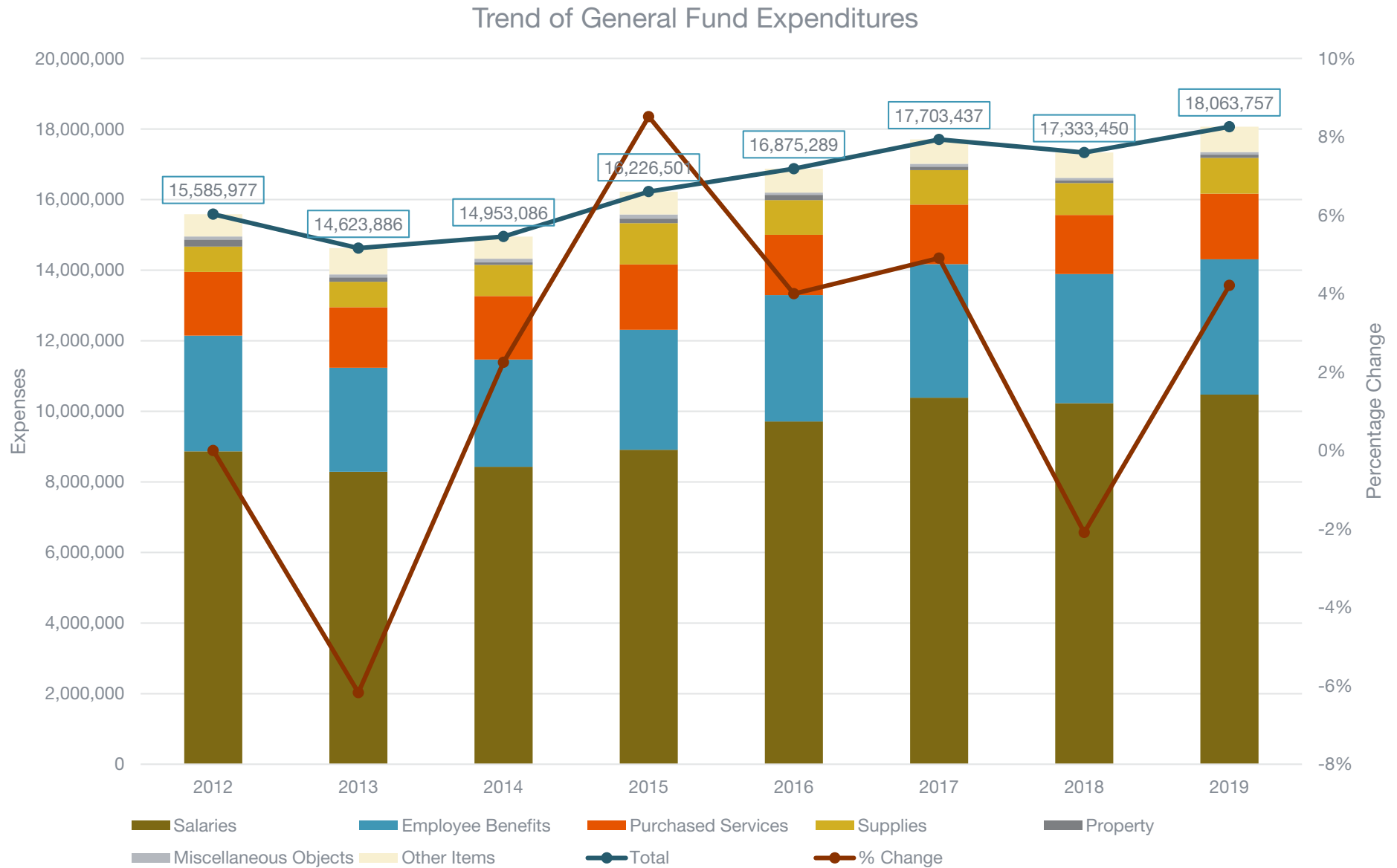
Tax Levy Rate Comparison FY2013 - 2020



Enrollment History

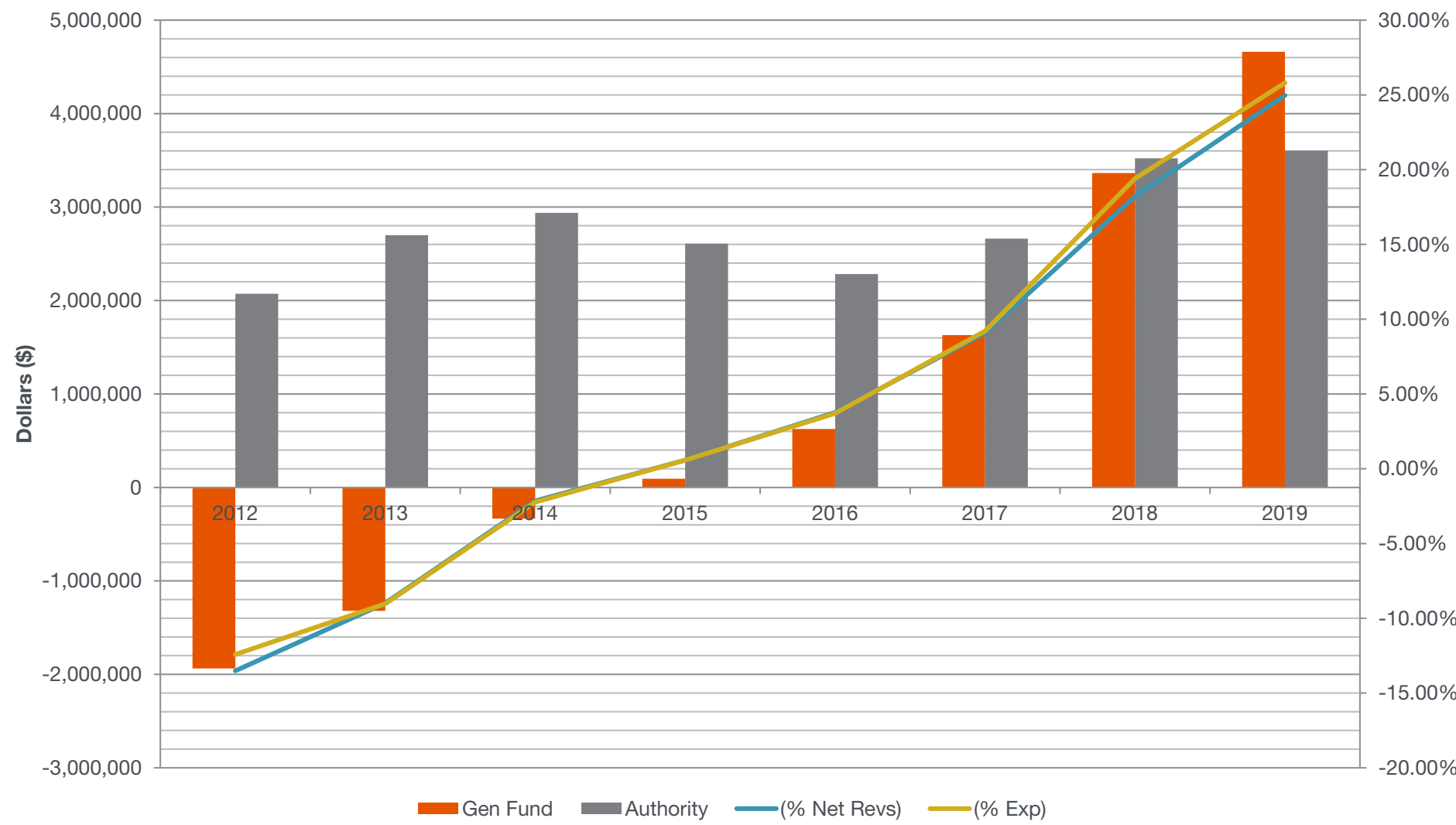
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Count Date:	10/1/12	10/1/13	10/1/14	10/1/15	10/1/16	10/1/17	10/1/18	10/1/19
Resident Students In-District	1,342.6	1,346.1	1,407.0	1,422.1	1,436.0	1,424.0	1,439.1	1,424.1
Open Enrollment Out	111.0	111.0	111.0	116.0	125.0	114.0	99.0	101.0
Tuition Out	8.0	9.0	5.0	6.0	4.0	3.0	3.0	3.0
Nonpublic Shared Time	-	-	-	-	-	-	-	0.4
Public HS CPI	0.4	0.4	-	-	-	-	-	0.0
→ Certified Enrollment	1,462.0	1,466.5	1,523.0	1,544.1	1,565.0	1,541.0	1,541.1	1,528.5
Open Enrollment In	15.0	17.0	16.0	17.0	20.0	33.0	27.0	38.0
Tuition In	2.0	4.0	3.0	2.0	2.0	5.0	2.0	2.0
Statewide Voluntary Preschool	46.5	42.0	44.5	45.5	42.5	42.5	47.0	43.5
→ Total Served Enrollment	1,360.0	1,367.5	1,426.0	1,441.1	1,458.0	1,462.0	1,468.1	1,464.5
LEP Weighting	23.3	25.3	28.8	36.7	37.6	31.7	30.6	31.2
% Change in CE		0.31%	3.85%	1.39%	1.35%	-1.53%	0.01%	-0.82%
Net Open Enrollment	(96.0)	(94.0)	(95.0)	(99.0)	(105.0)	(81.0)	(72.0)	(63.0)

Historical General Fund Expenses



Historical Solvency and Unspent Authorized Budget

Trends in Undesignated / Unreserved General Fund Balance



Section III: Goals of 5 Year Forecasting

What are we trying to accomplish with the CFPM Model?

FORECASTING

Goal is to forecast for a 5 year period of time the following key components:

- Spending Authority or the District's Unspent Authorized Budget (UAB)
- General Fund Expenses
- Solvency Ratio
- Tax Rates or Levy Rates

VARIABLES

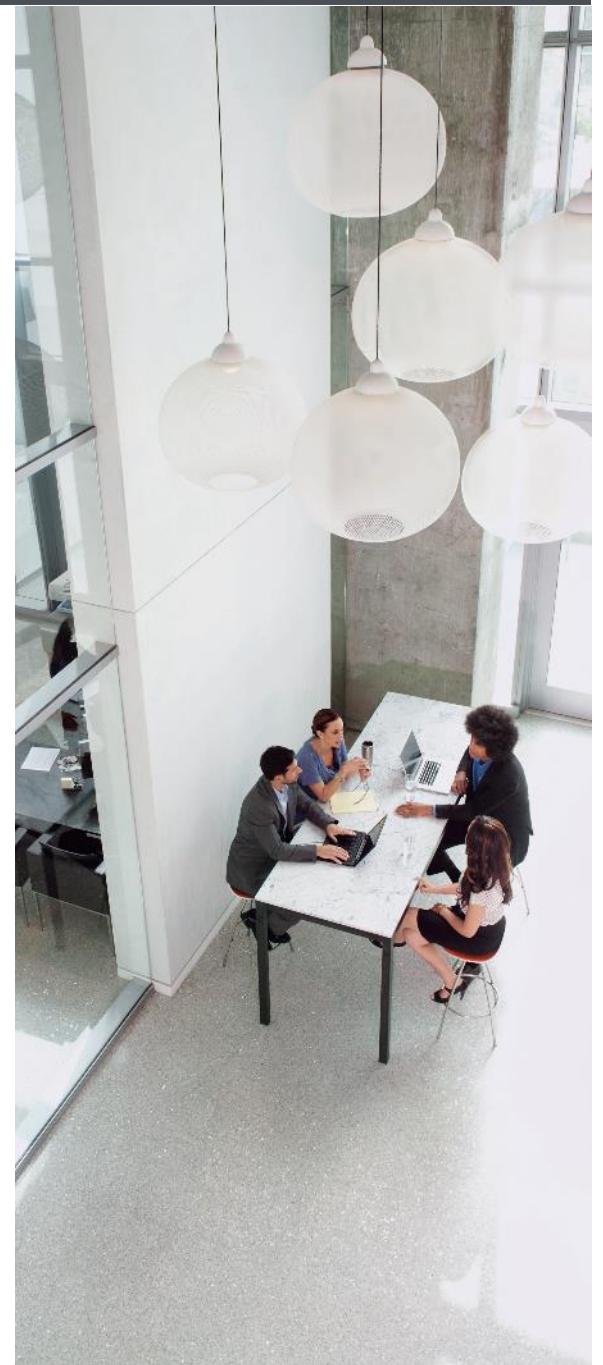
District inputs on forecast (among other items):

- Enrollment
- SSA Rate (State Supplemental Assistance)
- Spending Authority components (Operating Sharing, Instructional Support, etc.)
- Valuations
- Expenses
- Goals for Unspent Authorized Budget and Solvency Ratio

LIMITATIONS

Are there model limitations? Yes, for example:

- Missing forecasted variables in year one has a ripple effect, therefore, each subsequent year could be impacted by a missed assumption. This would be true of any forecasting model.
- It is a 5 year forecast that you do each year. You can't complete the forecast once and simply ignore the model in future year (auto pilot approach)



Putting Together the Financial Options for the District

Is there a hierarchy of importance for addressing the items that need attention?

HIERARCHY OF DECISION MAKING

1A: Unspent Authorized Balance

- Resources are driven by Certified Enrollment and a few other “enrollment based” metrics
- Widely considered the most important metric in school finance
- How Districts are held accountable to that state
- Focus on expenses and preserving authority

1B: Solvency Ratio

- Healthy ratios allow the District to avoid interfund loans or cash flow borrow
- Increasing ratios are due to cash reserve levies or cutting expenses
- Decreasing ratios could be due to inability to cash reserve levy (due to state limits) or increasing expenses

2: Tax Rates

- District has flexibility on certain portions of the budget (i.e. cash reserve, management, capital levies), but majority of levy is largely driven by property valuations, enrollment, and SSA rates

CONSIDERATION #1

Enrollment

- Will the District’s enrollment continue to be relatively stable

CONSIDERATION #2

Operating Expenses

- Can the District commit to managing expenses within the District “new” annual spending authority (within a margin)?

NOTE #1

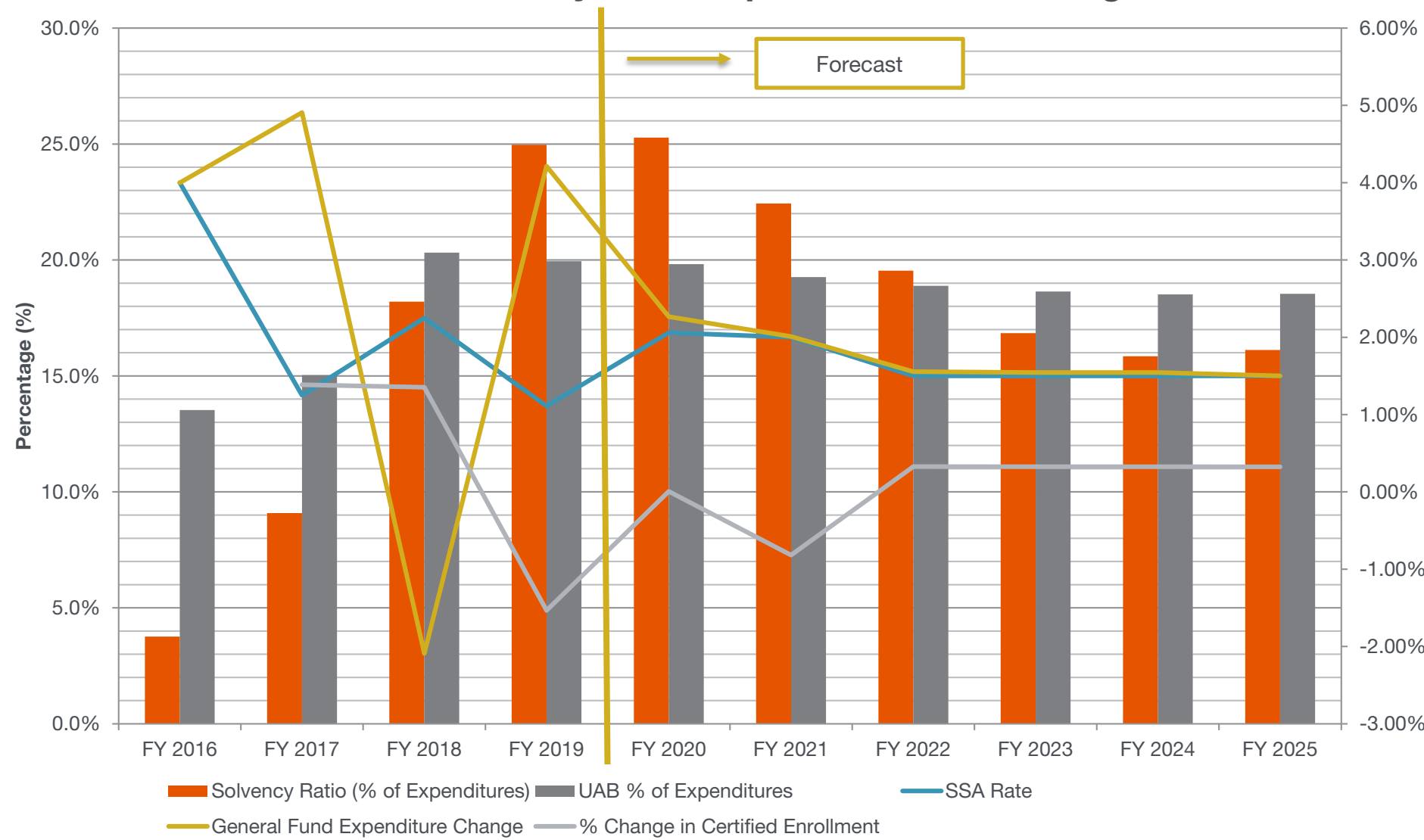
While the District’s cumulative spending authority is healthy. The District needs to carefully consider any intentional “overspending” (spending more than current year authority and lowering fund balance). While overspending may be an option for a short period of time, failing to adjust expenditures and ballooning the amount of overspending will make it difficult for the District to move to a balanced budget.

NOTE #2

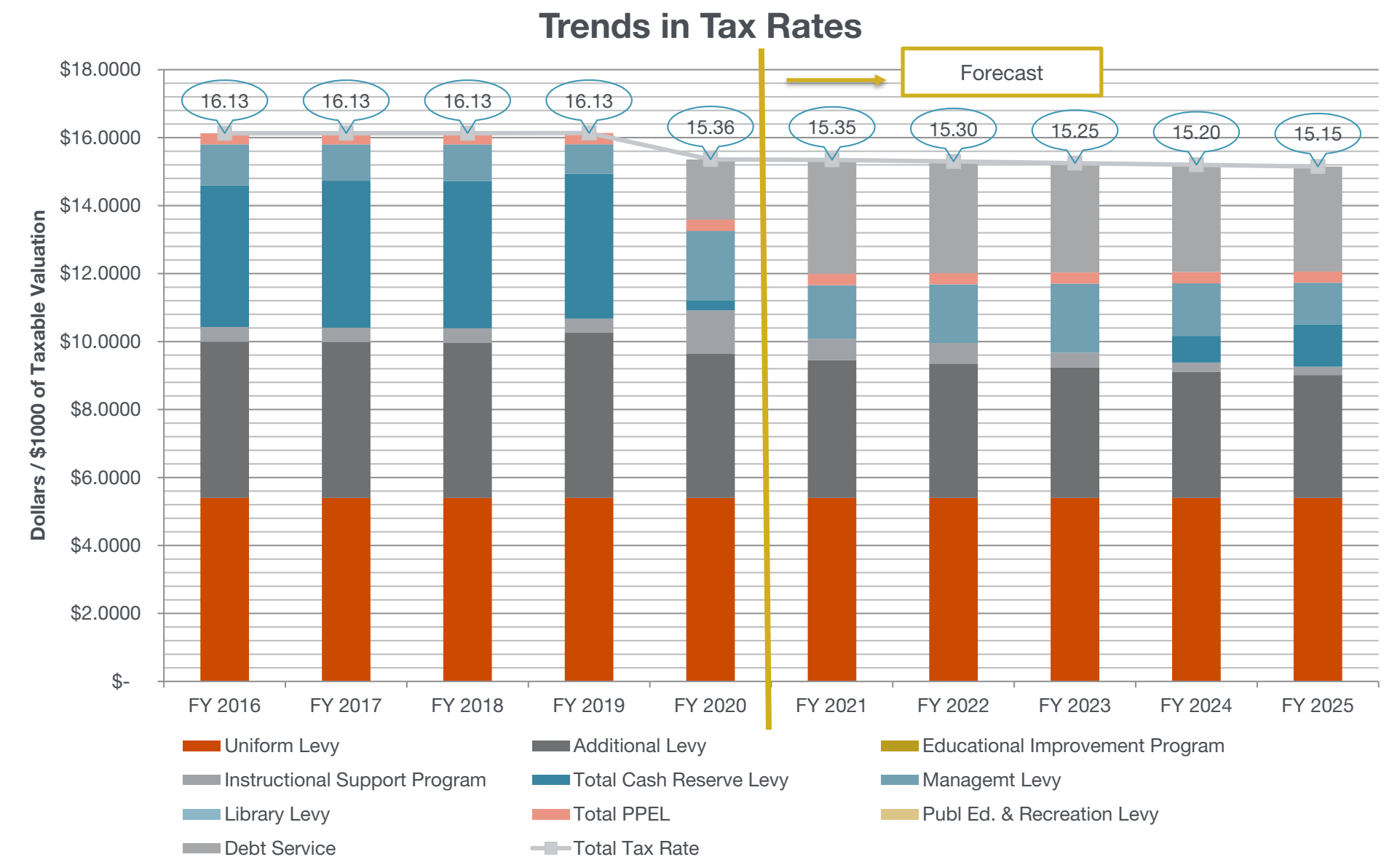
“overspending” the current year’s authority puts additional pressure on tax rates if trying to maintain a solvency ratio in a healthy range

UAB and Solvency Ratio Summary (assumes Project approval)

Trends in Solvency and Unspent Authorized Budget



Tax Rate Summary (assumes Project approval)



Section IV

Financial Options for the District

Putting Together the Financial Options for the District

Is there a hierarchy of importance for addressing the items that need attention?

HIERARCHY OF DECISION MAKING

Financing the Project

- There is a circular argument between available resources and desired capital project improvements.

Surplus Capital Project Revenues

- The District has limited ability to generate annual capital project revenues. Currently the District expects to continue to receive Sales Tax Revenues from the State, received a \$0.33 / \$1000 regular PPEL levy, but does not have an existing voter approval PPEL levy (maximum authority would be the equivalent of \$1.34 / \$1000).
- Within these capital project revenues the District already has debt payments associated with prior projects (HS Project) and a commitment to provide property tax relief on another (Elementary Project)

Property Tax Rates

- The District has remained committed in attempting to limit the actual property tax increase that would occur with the approval of a potential bond referendum.

CONSIDERATION #1

What options were considered?

- What is the maximum voter authority within current levy limitations (\$2.70)?
- What additional project funds could be generated by increasing the levy limit to the statewide maximum (\$4.05). How much Sales Tax debt could be issued?
- How much Sales Tax revenues are available for additional debt payments?
- Does the District need to consider re-implementing the voter approved PPEL levy (having had since 2015)?

CONSIDERATION #2

How long should debt payments be committed for a project?

- While borrowing for 30 years against the statewide sales tax was a potential option, the estimated additional interest cost (approximately \$4 million) led the District to look at 20 year financings instead of 30 years to be prudent with District resources

Financial Options Matrix Considered by the District

Reviewed by Administration Team on December 16, 2019 (with board)

Summary of Scenarios													
Option	Total	Estimated Project Funds			Max Debt Levy Rate	PPEL	Revenue Purpose*	Est. Levy Increase	2020 Ballot Questions	Estimated SAVE/PPEL Cash Balance			
		GO Bonds	Cash	SAVE						2019	2031	2040	2051
Base	0	0	0	0	\$ 2.70	\$ -	1/1/31	\$ -	0	3,088,980	13,254,858	27,503,683	47,647,969
1A	15,158,065	12,158,065	3,000,000	0	\$ 2.70	\$ -	1/1/31	\$ 0.50	1	3,088,980	10,254,858	24,503,683	44,647,969
1B	22,501,392	19,501,392	3,000,000	0	\$ 4.05	\$ -	1/1/31	\$ 0.50	2	3,088,980	10,254,858	24,503,683	44,647,969
2A	21,830,840	12,158,065	3,000,000	6,672,775	\$ 2.70	\$ 0.85	1/1/31	\$ -	2	3,088,980	6,371,560	24,508,368	51,041,343
2B	29,174,167	19,501,392	3,000,000	6,672,775	\$ 4.05	\$ 0.67	1/1/31	\$ 1.17	3	3,088,980	5,545,502	22,858,973	48,039,049
3A	22,501,392	19,501,392	3,000,000	0	\$ 4.05	\$ 0.67	1/1/51	\$ -	3	3,088,980	11,255,403	26,871,782	52,051,858
3B	29,043,549	19,501,392	3,000,000	6,542,157	\$ 4.05	\$ -	1/1/51	\$ -	3	3,088,980	4,873,469	9,511,312	28,776,697
4A	29,174,167	19,501,392	3,000,000	6,672,775	\$ 4.05	\$ 0.67	1/1/31	\$ 1.00	3	3,088,980	4,840,266	21,576,726	46,756,801
4B	29,174,167	19,501,392	3,000,000	6,672,775	\$ 4.05	\$ 0.67	1/1/51	\$ 1.00	4	3,088,980	4,840,266	21,576,726	46,756,801
3B**	29,000,000	20,760,469	2,282,439	5,957,092	\$ 4.05	\$ -	1/1/51	\$ -	3	3,088,980	6,913,519	12,125,602	31,125,412

*If not voting Revenue Purpose Statement now, will need to vote before 1/1/2031

** Modified GO Borrowing Scenario to reflect current interest rates, multi-year financing approach, smaller Sales Tax Borrowing

Assumes 1% increase in annual SAVE revenues, \$420,000 of regular annual needs, plus property tax relief (as applicable for each scenario)

Project Funding Breakout

Not reflective of ultimate repayment sources for which GO Bonds will include Sales Tax Revenues for repayment

NOTES FOR AUTHORIZATION

Project Budget

- Scope was reviewed by the Board
- Project will ultimately be awarded to lowest responsible bidder

General Obligation Debt

- Requires Voter Authority (60% approval)
- Bonds are expected to be sold to conventional markets in effort to attain lowest interest rates
- Currently at some of the lowest interest rates we have seen for 20 year debt in Iowa

Sales Tax Revenue Debt

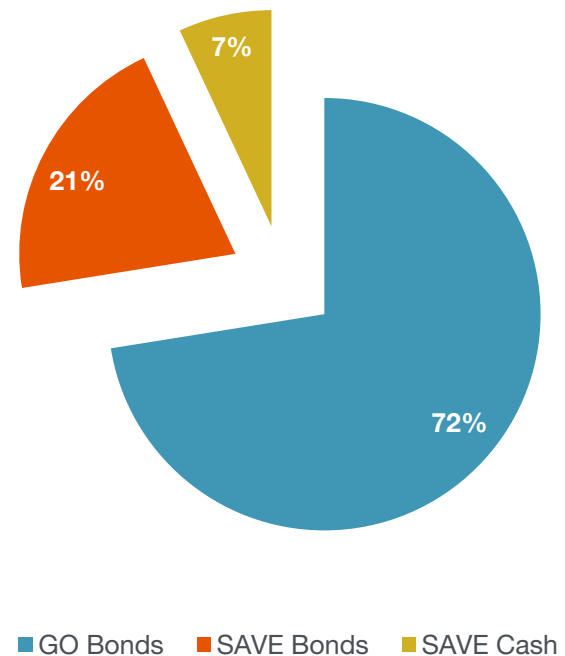
- Authorization to spend revenues beyond January 1, 2031 requires revenue purpose statement (50% + 1 vote approval)
- Authorization to borrow for projects required public hearing process (similar to annual budget)

Use of Sales Tax Revenues on hand

- Board can authorize the use of capital project funds on hand (public hearing required for “athletic complex improvements” not attached to attendance center)

Breakdown	Budget	
	Amount	% of Total
GO Bonds	20,800,000	72.474%
SAVE Bonds	5,900,000	20.557%
SAVE Cash	2,000,000	6.969%
Total:	28,700,000	100.000%

Breakdown of Up-Front Project Funding



Adopted Financing Plan

What is the adopted financing plan?

COMPONENTS

Project Budget

- Approximately \$28.7 million (total costs)

General Obligation Debt

- \$20.8 million of General Obligation School Bonds
- 20 year debt issued in one or multiple series
- Will be repaid with a combination of property taxes and sales tax revenues

Sales Tax Revenue Debt

- Approximately \$5.9 million of project funds via Sales Tax Revenue Bonds in the Spring of 2021
- Plan for restructuring existing 2016 debt to create equal annual payment for 20 budget years (FY2022 to FY2041)
- Can only be repaid with Sales Tax revenues
- Anticipate obligating 50% of revenues to Sales Tax debt payments, with the remaining available for ongoing needs (buses, technology, maintenance) and property tax relief

Use of Sales Tax Revenues on hand

- Approximately \$3.0 million on hand at start of current fiscal year
- Committing approximately \$2.0 million up front to reduce borrowing amounts while leaving an adequate balance to cover ongoing maintenance of District facilities

NOTE #1

One of the key messages from the District has been that even with the passage of the bond issue and the authorization of the increase in the maximum debt levy limitation from \$2.70 to \$4.05, the District does not anticipate needing to increase the overall property tax levy rate.

NOTE #2

Current projections, actually indicate that the District should have the ability to continue to lower property taxes from the FY2020 levels into the future.

NOTE #3

No one is saying (to my knowledge) that property taxes will not be utilized for the project; the message has consistently been that the District's overall property tax rate will not increase with the passage of the bond issue

Summary of Ballot Propositions / Questions

		Proposition A (#1)	Proposition B (#2)	Proposition C (#3)
Summary	Ballot Language ("summary")	Shall the Board of Directors of the South Tama County Community School District in the Counties of Tama and Poweshiek, State of Iowa, be authorized to contract indebtedness and issue General Obligation Bonds in an amount not to exceed \$20,800,000 to provide funds to construct, build, furnish and equip a middle school addition to the existing high school building, including related remodeling, and to improve the site	Shall the Board of Directors of the South Tama County Community School District in the Counties of Tama and Poweshiek, State of Iowa, be authorized to levy annually a tax exceeding Two Dollars and Seventy Cents (\$2.70) per Thousand Dollars (\$1,000), but not exceeding Four Dollars and Five Cents (\$4.05) per Thousand Dollars (\$1,000) of the assessed value of the taxable property within said school corporation to pay the principal of and interest on bonded indebtedness of said school corporation, it being understood that the approval of this proposition shall not limit the source of payment of the bonds and interest, but shall only operate to restrict the amount of bonds which may be issued?	To adopt a Revenue Purpose Statement specifying the use of revenues the South Tama County Community School District will receive from the State of Iowa Secure an Advanced Vision for Education Fund. In the South Tama County Community School District, the following Revenue Purpose Statement which specifies the use of revenues the South Tama County Community School District will receive from the State of Iowa Secure an Advanced Vision for Education Fund shall be adopted. {ballot list authorized uses}
	"Layman's" Terms	Can the District borrow money via General Obligation Bonds to complete a portion of the project (the remainder of the project will be financed with Sales Tax Revenues – borrowing and cash on hand)	Can the District increase the maximum amount of debt payment allowed from \$2.70 to \$4.05? The calculation of debt payment is made BEFORE utilizing Sales Tax revenues to reduce the property tax impact? Even though the District would have the authority to levy \$4.05, the District intends to utilize Sales Tax revenue to reduce the debt service levy to fit within the current overall levy rate (\$15.35 / \$1000).	While the prior District revenue purpose statement did not have an expiration date, the Sales Tax law extension requires District's to vote a new revenue purpose statement if planning to obligate revenues beyond January 1, 2031.
	Importance to the Financing Plan	Without the approval to borrow money via GO School Bonds, the District will not have enough Sales Tax Revenues or the ability to issue Sales Tax Revenue debt to complete the Middle School project. Without Proposition B also passing, the District could not issue \$20.8 million in General Obligation Bonds (limited to smaller number).	The passage of this proposition allows the District to structure the bonds over 20 years. Without this question the District would need to issue more Sales Tax debt to fund the project and extend the repayment on those bonds from 20 years to 30 years, resulting in additional interest costs of approximately \$4 million (conservatively).	Without the ability utilize Sales Tax revenue beyond January 1, 2031, the District would not have enough revenues available to provide the property tax relief necessary to avoid a levy rate increase, as the District would need to structure all planned payments with the new Sales Tax borrowing to occur on or before January 1, 2031.

Section V: Summary | Commentary | Questions

SUMMARY

Obviously, there is a lot of information to digest... as a Board member... what “nuggets” should I hold on to?

- Yes, you can complete this project and continue to operate the District at the current overall levy rate (which is approximately \$15.36 in FY2020), which should be noted was lower than the \$16.13 from FY2015 to FY2019
- While the financing plan is dependent upon certain assumptions with your operating budget, the District retains some flexibility surrounding the use of Sales Tax revenues in controlling your overall tax rate (i.e. could potentially use more Sales Tax \$\$\$ for property tax relief in certain years if necessary)

COMMENTARY

Are there items that need further understanding?

- we have attempted to be as exhaustive as possible on the topics
- The overall operating budget forecast, makes assumptions regarding the District’s spending levels, enrollment forecast, and statewide funding increases. While we have reviewed in detail with administration, the forecast will need to be reviewed and updated on an annual basis
- If at the end of the day, individuals continue to contend that the District is simply lying and attempting to “back-door” raise the overall tax rates through Proposition B (Question #2), then they are being dishonest and/or not understanding the facts surrounding the District’s financing plan (which has been provided in multiple forms).

QUESTIONS

Are there any specific questions remaining to be addressed?

-

Biography – Travis Squires

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Travis Squires joined the Des Moines office of Piper Jaffray in 2006 and is a managing director in the public finance group. He brings experience providing financial advisory, investment banking, and placement agent services to government entities throughout the state of Iowa. Squires primarily serves cities, community colleges, counties, and school districts in planning for and implementing capital project financing places. He is well-versed in all aspects of local government and school district finance, specializing in debt structuring, bond refinancing, bond elections, financial modeling, operating budget forecasting, and long range capital improvement planning. Squires primary experience is serving clients through the issuance of general obligation bonds, sales tax revenue bonds, lease issues, new jobs training programs, and essential utility revenue bonds, all of which have included new money issues, current refundings, advance refundings, on both a tax exempt and taxable basis.

Education:

University of Northern Iowa
Cedar Falls, IA
Bachelor's degree in Finance
Summa cum laude, 2006

Securities Licenses:

- Series 7 (general securities)
- Series 50 (municipal advisor),
- Series 54 (municipal principal)
- Series 63

Squires is involved with the Iowa Association of School Boards, Iowa Association of School Business Officials, Iowa League of Cities, and Iowa Municipal Finance Officers Association.

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