



## District Debt Below Seven-County Metro Average

The District has been asked to provide additional clarity regarding long-term debt, and we are pleased to do so. Minnetonka takes pride in its fiscal responsibility and prudent budget management. This outstanding management has led to the **Aaa rating by Moody's Investor's Service** which on September 8, 2011 cited "healthy reserves, strong enrollment increases and affordable debt levels" as reasons for affirming the very-rarely-awarded Aaa rating—the best rating possible for any corporation or government entity.

A flier being circulated by a private citizen and postings to online news sites have accused the District of "massive expansion" of debt, without acknowledging the context of the District's strategic long-term financial management.

The plain truth is:

- District debt per student is **four percent below** the latest Seven-County Metro Area average.
- The District debt total is **lower than neighboring districts**.
- The District's Bond Ratio to Operating Budget **is lower today at 1.49x than it was in the late 1950's at 2.78x**. (*See the history of facilities construction by decade*).
- The District's **property tax levy has been held flat** for three of the last five years and is lower than it was in 1996.
- Due to historically low interest rates, the **outstanding debt that the District does have will rapidly decline in fiscal year 2012** and beyond as principal is paid-off.

Contrary to a misrepresentation being circulated in various mailbox stuffers, the Minnetonka School District has not used long-term debt to balance the budget. In fact, Minnesota Statutes prohibit the use of long-term debt to balance budgets, and the District's recent [Independent Audit Report](#) (a clean audit) confirmed the **Minnetonka School District is in compliance with state statutes related to public school district funding**. Minnetonka has also not faced a budget crisis in the last five years, due to the District's prudent financial practices.

### Understanding District Debt

The District's debt consists of five areas:

<a href="#">Long Term Maintenance Projects</a> :	\$63,229,563	
<a href="#">New Construction</a> (non-classrooms):	\$38,160,000	
<a href="#">New Construction</a> (classrooms):	\$16,000,000	
<a href="#">Post-Employment Benefits Bonds</a> :	\$22,210,000	
<a href="#">Accrued Sick Leave</a> :	\$3,325,428	(required accrual based on labor agreements)
Total*	\$142,924,991	
Less escrow for upcoming call date	(\$11,357,285)	
<b>Net</b>	<b>\$131,567,706</b>	

*\*The total debt includes \$10,927,270 in refinancing bond proceeds and \$430,015 in net bond premiums set aside in escrow to retire that amount of debt on their upcoming call date. Therefore, the **District's net long-term debt is \$131,567,706** as of July 30, 2011.*

**Long-Term Maintenance: Taking advantage of competitive construction climate and low interest rates**

Two-thirds of the District's total square footage is 45+ years old. [\[See graph of square footage added by decade.\]](#) These public buildings were in need of roof repair, window replacement, parking lot resurfacing, air-handling system upgrades, and a host of energy efficiency improvements. Projects have also focused on sustainability and improving school entrances for enhanced safety and security.

During the last decade, the District has taken advantage of historically low interest rates and a competitive construction climate to upgrade facilities so they are available for the next 50 years. The District uses debt, like a mortgage, to spread the total cost over time. This way, families who move into our community five, ten or fifteen years from now will shoulder their fair share of the cost of the facilities they will use, instead of placing the entire burden on today's residents. Using debt for long-term capital projects is a responsible and common practice for schools, businesses and homeowners. The costs are spread over the life of the improvement.

### **New Construction**

The District's total debt due to new construction of non-classroom facilities is \$38,160,000 of which approximately half was issued before 2000. The new construction supports the fine arts, Community Education and activities programs.

Another \$16,000,000 has been used to very carefully provide additional classroom capacity for student growth. In 2008, the District made a decision to add some new classrooms to each elementary school and the High School to support future enrollment growth that would generate revenue to more than off-set the cost of the construction. During the five years including this year, the District gained \$36 million in revenue for Open Enrollment students and another \$10 million for new resident students. Finance models presented to the Board in 2008 show a new classroom pays for itself with new student enrollment in about 2.5 years, yet the classroom will be a community asset for 50-75 years. The District has used enrollment management as a critical strategy to avoiding budget cuts during the State's financial crisis. Education finance is more favorable for growing enrollment districts than declining enrollment districts. [\[See the District's Open Enrollment Report for additional detail.\]](#)

The construction of Minnetonka Theatre's Arts Center on 7 was a joint project with the City of Minnetonka, yet is included in the District's debt. Likewise, the MME tennis courts funded, in part, with a \$100,000 grant from Hennepin County Youth Sports Commission required some matching funds from the District. The construction was paid for with bonds initially, and grant funds are in assigned reserve accounts, collecting interest until the payment on the bonds is due. Other partner projects include the Minnetonka Aquatics Center supported, in part, by the Anchor Club and Veteran's Field and Legacy Fields, being paid for by the Diamond Club. Private community groups make donations to repay the debt. Yet, the District and the community own these outstanding facilities. Partnerships help District dollars go farther without increasing property taxes.

### **Post-Employment Benefits and Accrued Sick Leave**

Both of these employment related obligations must be accounted for as long-term liabilities and are included in the debt section of the Annual Audit Report.

Until 2002, collective bargaining agreements included retiree health benefits that obligated school districts and many other government entities to substantial long-term costs for retirees. The Minnetonka School Board ended that practice in 2002; however, some employees were grandfathered in and obligations to previous retirees are still in effect. In 2009, a change in Government Accounting Standards (GASB 34) required school districts, cities and counties to account for these long-term obligations. In 2008, the Minnesota Legislature provided a one-time opportunity for school districts to sell bonds to cover the long-term liability, instead of holding aside general operating funds (classroom dollars) to cover the liability. At that time, Minnetonka School District issued \$22,210,000 in bonds to have funds on hand to cover the long-term retiree costs. Those funds are in an OPEB trust fund within District reserves, earning interest, and are metered out on an annual basis to cover the cost of retiree benefits, (approximately \$700,000 annually). The alternative would have been to begin cutting programs and services for today's students to cover the obligations incurred decades ago for retirees.

Accrued sick leave must also be accounted for as a liability, in the event that it is not used and must be paid-out in accordance with collective bargaining agreements. If the sick leave is used before retirement, the District does not expend the funds; however, Government Accounting Standards require school districts to book the liability in case a pay-out is needed. The District's debt includes \$3,325,428 for accrued sick leave.

## **Looking Forward**

Minnetonka has strategically structured debt payments to assure that property taxes do not increase. With many of the major construction projects completed in the last four years and the one-time bond issue for post-retirement benefits, the close of fiscal year 2011 represents Minnetonka's the peak of debt for this decade, [with outstanding debt rapidly declining in fiscal year 2012](#) and later years when principal is paid off. The very low interest rates secured by wise School Board action enable most of the payments to go toward principal.

Minnetonka School District's outstanding debt is not out of the ordinary.

*November, 2011*