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Madrid Community School District

Memo Regarding Financing Plan and Tax Rates

14 February, 2020

Purpose of the Memo

The District has previously provided information regarding the financing plan for the upcoming bond referendum. In doing so, the representation surrounding the District's ability to keep a stable overall property tax levy rate has been communicated to the public in general terms. This memo provides more of the details surrounding the development of the financing plan.

Understanding the Financial Plan

While there are many important components to the financing plan, the most important ones for consideration are an understanding of the debt payments and the impact on the District's overall levy rate. The District has proposed the ability to issue debt for $5.8 million of project, while keeping the District's overall property tax levy rate the same as it was in FY2019-20 ($17.056 / $1000 of taxable valuation).

Estimated Bond Payments:

In the fall of 2019, the District began planning for a bond issuance. While the District's existing debt has a final repayment of May 1, 2025, the plan would be to combine the existing debt and new debt into one new debt issue paid over 20 years. When combined with the District's existing bond payment, it was anticipated that total GO Bond payments would be approximately $450,000 annually. This would extend the bond repayment schedule by 15 years (not 20 more years) from May 1, 2025 to May 1, 2040. Combined, the debt in the structuring is currently estimated to save the District approximately $25,000 (due to lower interest rates). Based on the District's valuation at the time of developing the financing plan (fall of 2019), it was estimated that a debt levy rate of around $3.08 / $1000 would be necessary (assuming no additional valuation growth).

Debt Service Levy Rate Limitations (apologies for the long, but necessary, explanation):

School Districts in Iowa have the ability to levy $2.70 / $1000 of taxable valuation to repay GO Bond debt. School Districts also have the option of voting to approve a higher levy limitation, up to a maximum of $4.05 / $1000. It should be noted, that just because a higher limit is available, it does not mean that the District has to levy up to that amount, as they are only allowed to levy for the amount of debt that the District has outstanding. Briefly, the District considered putting the maximum authority on the ballot ($4.05), or simply the minimum amount necessary based on current valuations ($3.10). In reviewing the levy rate limit to utilize, the District performed sensitivity analysis to plan for the worst case scenario<u>. If valuations were not as expected or interest rate rose, and the District had utilized a $3.10 levy limitation, they would have been forced to reduce the size of the project due to the inability to issue the full $5.8 million of new debt</u>. The levy limitation compliance must be proven on the date the bonds are sold and based on current valuations (no valuation growth can be anticipated). As an example that was reviewed, if valuations dropped 1% and interest rates were 1% higher than estimated (i.e. rates had gone back up to 2018 levels), the District's levy rate would have needed to be closer to $3.40 / $1000. Therefore, given the uncertainty of future valuation growth and interest rates by the time the debt was supposed to be issued, the District chose to be a little cautious on the levy limitation, using $3.50 / $1000, recognizing that this decision had to be made before the debt is sold and new valuations were available. <u>*Note, even during this process, the District remained committed to keeping the overall levy rate impact to a minimum through their management of the overall tax levy rate*</u>.

Understanding Property Taxes in the State of Iowa

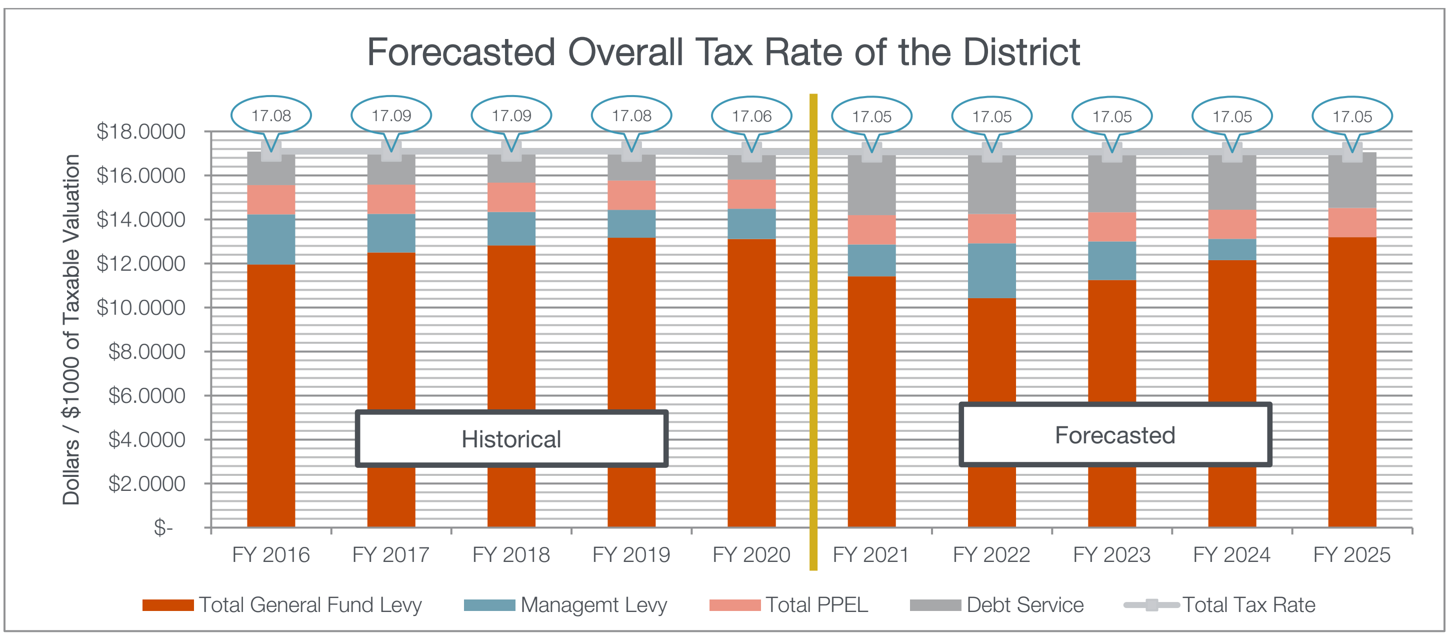
Over the past 10 years, the District has consistently kept a stable levy rate, including lowering the overall levy rate from $17.302 in FY2011 to $17.056 in FY2020. For residents of the City of Madrid, approximately 39.2% of the property taxes paid go the School District, with the remaining going to the City/County/Community College/etc. Property tax rates in the State of Iowa can be impacted by multiple items, a few of which are not within the District's control. First, the assessed valuation of the property is established by the County assessor's office. Second, the state determines the percentage of the assessed valuation that will be taxed ("rollback rates"). Third, the District uses the taxable valuation in establishing its budget and tax levy rate for the year. While the District has some control over the third variable (they make up a portion of the overall levy rate), the first and second variables are outside of the District's control. If taxable property valuations increase and the property tax levy rate of the District remains the same, the overall property taxes paid to the District would increase.

Financial Forecasting by the District

Over the past few years, the District has put itself in a stable financial position by increasing its financial reserves to recommended levels and carefully managing spending to be within state guidelines. The District implements a 5 year financial forecasting model with the assistance of other finance professionals within the State of Iowa. This past fall, in working through the Districts preliminary financial forecast for the upcoming year, the District identified the ability to complete the estimated capital projects without a significant increase to the District's overall levy rate using reasonable assumptions for financial variables. This led the District to be able to communicate that the $5.8 million referendum could be completed with minimal-to-no tax rate impact (subject to fine tuning the financial forecast in February prior to the bond vote).

Finalizing the Financial Forecast before the Bond Referendum Vote:

As the District has transitioned into planning for the current year, estimated borrowing rates for the District have continued to decrease and the District had a strong year of valuation growth (slightly above the District's 10-year average valuation growth rate). It is currently estimated that the levy rate will require approximately $2.86 / $1000 of taxable valuation. In utilizing the new assumptions in fine tuning the District financial model, it is estimated that **the District will be able to maintain the overall property tax levy rate at $17.05 during FY2021 through FY2025 (see forecast as outlined in the chart below)**. As the District currently utilizes a 5-year financial forecast, they do not have "official numbers" for forecasts beyond 5 years, but the expectation is that the District will continue to be able to maintain the overall tax rate into the future. Obviously, there are circumstances that could occur outside of the District's control. However, using reasonable assumptions, the District feels confident in its ability to execute the financial plan.



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