



Act 72 and Prospective Project Financing

Danville Advisory Group 9-28-22

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What is Act 72 and How Might it Affect This Project?

- ▶ H.426 (Act 72 of 2021) required the Agency of Education to do a building inventory of all public schools in the State of Vermont
 - ▶ Inventory is essential complete
 - ▶ [Facility Dashboard](#)
- ▶ Act 72 also called for two additional activities:
 - ▶ Sec 2 School Construction; facility standards, etc. requires AOE and the State Board of Education to update school construction facility standards. The deadline for submission of this work is Jan 15, 2023
 - ▶ Also due on Jan 15, 2023 is a recommendation from the State Board to update and adopt a Capital Outlay Financing Formula



What is Act 72 and How Might it Affect This Project?

- Changes to the School Construction standards are relevant in terms of the project design for a new or renovated school
- An updated and adopted Capital Outlay Financing Formula is a roadmap for spending money. The roadmap is not funding, it is a concept for how to spend money that is not allocated yet
- These two tasks are intended to inform the Legislature as to what they might be facing in terms of a restart of the State Aid to School Construction



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- Regarding the construction standards revisions:
- According to Secretary French, the AOE is likely going to ask for an extension of their January 15th deadline
- While no one knows yet what the changes eventually will be, there is no reason to believe the existing classrooms will meet those standards – we know they are too small
 - E.g., the renovation/new wing conceptual design reflect 21st century space-usage standards, not 1996 State standards



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- Regarding the Capital Outlay Financing Formula:
- At present, the Legislature has not determined how the State would pay for any construction aid based on the revised formula, either from State or federal sources
- It could be a long and unnecessary delay to wait for this aid, because any future grant of State Aid can be used to offset costs in a (partially) completed construction project
 - If we wait for additional State funding and it doesn't materialize, we are left where we are today
 - If additional State funding does materialize, we can apply it to reduce local project costs



Let's Talk About How These Projects are Funded


- Two *potential* lenders: Vermont Bond Bank and USDA
- Financing is typically executed in yearly phases – money is borrowed according to a financing plan in partnership with a bank
 - Think “home construction loan” or “line of credit”
- District pays during the construction period only on the money actually borrowed to date, not the full amount
 - Incremental interest costs
- At the end of construction, major lender (Bond Bank or USDA) executes the full note, pays off the incremental financing, and the District starts [aying major lender
 - 30 years is the payoff period, not 20



Hypothetical Financing Model

The hypothetical model builds off from the FY'23 approved spending

- Assumptions:
 - Capital Costs (\$70M versus \$77M)
 - Interest Rate (4%)
 - Construction Period (short-term borrowing cycle)
- Changes to any or all of these will change the model up or down
- This is a snapshot based on assumptions. It is not interactive in real time



How Danville School District Education is Funded

- ▶ Danville is a “receiving” town and **local residential taxes** only contribute ~32% towards the total DSD school budget.
- ▶ The other ~68% comes from:
 - ▶ Non-Residential Property Taxes (35%)
 - ▶ The VT State Education Fund (33%)
 - ▶ Sales & Use Tax
 - ▶ Purchase & Use Tax
 - ▶ Meals & Room Tax
 - ▶ Vermont Lottery

DSD Borrowing Assumptions

\$70 M Renovation w/ New Wing

Fiscal Year	Est. Borrowing
Apr-Jun. '24 (FY24)	Minimal
Jul '24 (FY25)	\$35 M
Jul '25 (FY26)	\$20 M
Jul '26 (FY27)	\$ 15 M

\$77 M Entire New Building

Fiscal Year	Est. Borrowing
Apr-Jun. '24 (FY24)	Minimal
Jul '24 (FY25)	\$35 M
Jul '25 (FY26)	\$25 M
Jul '26 (FY27)	\$ 12 M

Actual annual borrowing will vary but the bulk of the borrowing is expected to start in July 2024 (FY25) & end in August '26 (FY27).

All Scenarios assume a 30 yr. bond @ 4% Interest

DSD Projected Debt Impact on Budget

\$70 M Renovation w/ New Wing

Fiscal Year	Increase in Debt Service
FY24	Minimal
FY25	\$1.4 M
FY26	\$2.2 M
FY27	\$2.8 M
FY28 - FY57	\$3.9 M

\$77 M Entire New Building

Fiscal Year	Increase in Debt Service
FY24	Minimal
FY25	\$1.4 M
FY26	\$2.4 M
FY27	\$3.1 M
FY28 - FY57	\$4.3 M

Figures reflect rounding. These estimates are the additional Annual Debt Service resulting from the composite \$70 or \$77 million borrowing for the Project.

Interest Payments on the Debt Service only from FY24 thru FY27.....FY28 is when we expect Loan principal to start to be paid back.

DSD Debt Impact on Residential Tax Payer

\$70M Renovation w/ New Wing

Fiscal Year	Residential Tax Rate Impact	Property Tax Impact per \$100K of Home Value
FY'24	Minimal	Minimal
FY'25	\$0.11	\$109
FY'26	\$0.17	\$171
FY'27	\$0.22	\$218
FY'28-FY'57	\$0.30	\$302

\$77M Entire New Building

Fiscal Year	Residential Tax Rate Impact	Property Tax Impact per \$100K of Home Value
FY'24	Minimal	Minimal
FY'25	\$0.11	\$109
FY'26	\$0.19	\$186
FY'27	\$0.24	\$239
FY'28-FY'57	\$0.33	\$333

This is the additional impact resulting from inclusion of \$70M of bonded debt. It does NOT reflect the total tax bill as that is a function of total school spending. Year to Year numbers reflect increase over the FY'23 Approved Tax rate. Example – Me. I have a home in Danville valued at \$200K, In FY'25 I would pay an additional tax of \$218; starting in year FY'28, I would pay and additional tax of either \$604 or \$666 depending on what we agree to build.



Income Sensitivity

- ▶ The costs arising from the construction project will have some impact on those who are eligible for paying their education tax based on Income Sensitivity. Those residents know who they are
 - ▶ Everyone reports Homestead value and income to the State every year
 - ▶ The State determines what their tax rate will be based on those values and a formula
 - ▶ Residential taxpayers who qualify for Income Sensitivity will pay a smaller share of the tax increase (shown before) resulting from the construction project