

MIDDLEBURY COMMUNITY SCHOOLS

1028 and Preliminary Determination Hearing For Classrooms Option 2

- Current Jefferson, York, Middlebury and Orchard View become kindergarten through grade 3 buildings.
- Grades 4 and 5 move to current Heritage.
- Grades 6,7,8 move to current Northridge building. Renovate classrooms for science and music.
- Construct a new academic High School, with physical education gym, for grades 9,10,11,12.

1028 and Preliminary Determination Hearing is a Legal Process

As a result of public work sessions Middlebury Community Schools Board of School Trustees has determined Classrooms Option 2 to have educational value for students and the project the community will support. A required step to achieve Classrooms Option 2 is a legal process called a 1028 and Preliminary Determination Hearing. Middlebury Community Schools' taxpayers will be given information about the proposed project and the financing required for Classrooms Option 2 in the 1028 and Preliminary Determination Hearing scheduled for June 6, 2005.

1028 and Preliminary Determination Hearing is a First Step to Secure Financing

Public financing is required to achieve Classrooms Option 2. Public notice must be given to taxpayers for the many steps required to secure financing of the project. A Building Corporation comprised of Middlebury Community Schools taxpayers will be formed. The Building Corporation will authorize the execution of a financing lease to build the Classrooms Option 2 project. The Building Corporation will sell municipal tax-free bonds to investors in the first quarter of 2006. The proceeds from the sale of the bonds will be placed in a trustee bank construction account and used to pay for the classroom construction costs. In 2008 when the classrooms are ready for use, Middlebury Community Schools can levy (tax) for an annual lease rental of principal and interest each year until the project investors are repaid. At the conclusion of the lease Middlebury Community Schools taxpayers will become the owner of the classroom facilities.

Assumptions of the Estimated Tax Impact Presented March 7 and March 21, 2005 – The Estimated Increase to a Taxpayer for Classrooms Option 2 Over the 2005 Taxpayer Cost for Existing Debt

The Estimated Tax Impact Presentation of March 7 and March 21, 2005 have been based on an assumed 5% annual growth of Middlebury's assessed value, historically 5.44%, to determine the tax rate of the classroom project over the existing 2004 pay 2005 debt service rate of \$.3566. The tax impact of the Classroom Option 2 project financing has been structured to take advantage of Middlebury Community Schools declining debt. The goal is to minimize the yearly taxpayer cost required for existing debt and the new classroom debt in the first years of the Classroom Option 2 lease until existing debt drops off.

1028 and Preliminary Determination Hearing Will Contain The Estimated Bond Principal to be Issued and the Projected Estimated Total Interest to be repaid for the Bonds – All Principal and All Interest for Classrooms Option 2

The Preliminary Determination Hearing financing information for Classrooms Options 2 will include the soft and hard construction costs estimated for Classrooms Option 2 along with capitalized interest. The hard and soft construction costs and capitalized interest is the budget or bond principal to be issued. Hard construction cost is actual classrooms, soft construction costs are furniture, architect fees, etc. Capitalized interest is the interest cost for the period from the sale of the bonds in the first quarter of 2006 until the first payment of the bonds using tax revenue in 2008. The capitalized interest period is three years. Tax revenue cannot be used to repay the bonds until the building project is ready for student occupancy.

The Preliminary Determination Hearing will also include an estimate of interest to be repaid to investors over the life of the loan.

The 1028 and Preliminary Determination Hearing Information Will Present Total Tax Impact of Classrooms Option 2 And a Cushion for Market Bond Interest Rates

The 1028 and Preliminary Determination Hearing information for Classrooms Option 2 will contain total project tax impact costs, not the increase tax impact over 2005 given in the March 7 and March 21 presentations.

The assumptions used in the March 7 and March 21 presentations remain the same with the exception that the bond interest rate used will be 1.50% over the current market rate versus the .5% over market rate used in the March 7 and March 21 presentations. The reason for using 1.50% bond interest rate over current market is to create flexibility for the economic conditions that may occur by the time the bonds are sold in the first quarter of 2006. The Bonds issued can be less than the amount stated in the Preliminary Determination Hearing but it cannot be more. Middlebury Community Schools will strive to market the bonds for the lowest, most favorable rates available when the bonds are sold; however, future bond interest rates are difficult to project and it is prudent to plan for higher bond interest rates.

The 1028 and Preliminary Determination Hearing Information will contain an amount for the operation of the new classrooms – A General Fund New Facility Appeal Excessive Levy

A General Fund New Facility Appeal to increase local property tax revenue for the operation of the new classroom spaces will be requested when the classrooms are completed. A “rule of thumb” is the square feet of new construction multiplied by operation costs of \$3.50 - \$3.75 per square feet, which is a high estimate. The estimated tax impact for a new facility appeal is in addition to the financing costs. A General Fund New Facility Appeal will give needed flexibility to the General Fund.

In Summary

Classrooms Options 2 has focus on real needs, real solutions, and real estimates. The 1028 Preliminary Determination Hearing is a legal process that sets absolute maximums. The Preliminary Determination Hearing will contain a cushion for unknown future lease financing costs.