**PURPOSE OF SCHOOL FINANCE CORPORATIONS**

School Boards in the Commonwealth of Kentucky constitutionally are prohibited from incurring debt that cannot be handled within the fiscal year. Therefore, for many years all long term debt for school construction in the state had to be issued by cities or counties in which the school district was located.

In the late eighties, statutes were created that allowed the creation of independent school finance corporations that could issue debt. The boards of directors of each of these corporations are the same people as the board of education within a given school district.

These independent self-standing corporations can issue debt both long and short term. Then through a lease agreement with the school board, it provides the financing for a project with the board of education making lease payments that will provide for the payment of the debt issued by the finance corporation. The transaction is secured by a lease and a mortgage between the finance corporation and the board of education. There is also a “state intercept” provision in the law that will allow the Department of Education to intercept a district’s SEEK payment to make a debt payment should a district fail to make a debt payment. This provision allows for additional security to the investor.

Therefore, when a school project needs financing, the board of education must:

1. Pass a resolution authorizing a contract and lease with the school district finance corporation for financing of a certain project.
2. The finance corporation for the school district must authorize a municipal advisor firm to then issue bonds (debt) on its behalf.

At the closing of the bond issue, documents are executed that formally creates this transaction on behalf of the two corporations.