

Special School Board Meeting

Duluth Public Schools, ISD 709

Agenda

Monday, August 14, 2017

District Services Center

709 Portia Johnson Dr.

Duluth, MN 55811

4:00 PM

1. Call to Order
 2. Roll Call
 3. Audience - Related to agenda items listed below
 4. **Resolution B-8-17-3471 Amending Resolution B-5-17-3450 Regarding the Issuance of General Obligation Facilities Maintenance Bonds, Series 2017A** **2**
- Recommendation: It is recommended that the Duluth School Board approve Resolution B-8-17-3471.
5. **Resolution B-8-17-3472 Amending Resolution B-5-17-3451 Regarding the Issuance of General Obligation Capital Facilities Bonds, Series 2017B** **6**
- Recommendation: It is recommended that the Duluth School Board approve Resolution B-8-17-3472.
6. **Informational Report on the Debt Restructuring Resolution from June 2017 Board Meeting** **10**
 7. Adjournment

To: School Board
William Gronseth, Superintendent

From: Douglas A. Hasler, CFO *DH*

Date: August 9, 2017

Subject: Bond Resolution Amendments

As you recall, the School Board approved resolutions during a special meeting of the School Board on May 30th to authorize the issuance of \$4.255 million General Obligation Facilities Maintenance/General Obligation Capital Facilities bonds. This bond financing is to pay for improvements to Rockridge School, and replacement of the Lakewood School roof. By the terms of these resolutions, the authorization to issue bonds would expire if bonds were not sold by August 15, 2017.

Following the May 30th meeting, I forwarded this proposed financing to the Minnesota Department of Education (MDE) for their review and approval. On July 19th, MDE approved our Long Term Facilities Maintenance Plan, and authorized the two bond issues.

The current zoning for the Rockridge School property does not allow the building to be operated as a school. Dave Spooner and I have been working with City of Duluth Community Planning staff to modify the zoning to allow for school use. Our request, which was approved by the Planning Commission during their August 8th meeting, will require approval from the Duluth City Council. I am anticipating that the City Council will consider our request to modify the zoning on August 14th and August 28th.

Until the zoning has been changed to allow for “school use” for the Rockridge School property, no bonds will be issued. The earliest date for such zoning change is August 28th. Since this date falls after the expiration date specified in the May 30th resolutions, it is necessary to amend these resolutions to extend the authorization. Draft amending resolutions have been prepared to extend the authorization to October 31, 2017. These resolutions are proposed to the School Board for your consideration, with the recommendation that you approve them during the Special Board meeting on August 14th.

RESOLUTION**Amending Resolution B-5-17-3450 Regarding the Issuance of General
Obligation Facilities Maintenance Bonds, Series 2017A**

WHEREAS, the School Board (the "Board") of Independent School District No. 709 (Duluth), located in St. Louis County, Minnesota (the "District") approved on May 30, 2017 Resolution B-5-17-3450 Regarding the Issuance of General Obligation Facilities Maintenance Bonds, Series 2017A (the "Resolution"); and

WHEREAS, Section 3 of the Resolution established the process for the sale of General Obligation Facilities Maintenance Bonds, Series 2017A (the "Bonds") in the maximum amount of \$3,640,000; and

WHEREAS, District staff has progressed the Project defined in the Resolution in that the Commissioner of Education has approved the District's Ten-Year Facilities Plan – FY2018 Update and the District's issuance of the Bonds; and

WHEREAS, Section 3.05 of the Resolution provided as follows:

3.05 If the Pricing Committee has not approved the sale of the Bonds to Northland and executed the related bond purchase agreement by August 15, 2017, this resolution shall expire.

WHEREAS, the District is still in the process of resolving zoning issues for the Project and thus the District will not sell the Bonds prior to August 15, 2017; and

WHEREAS, the District desires to proceed with the Bond sale as provided in the Resolution, except that the expiration date set forth in Section 3.05 be extended to October 31, 2017.

NOW, THEREFORE, BE IT RESOLVED, by the Board of the District that Section 3.05 of the Resolution be amended in its entirety to provide as follows:

3.05 If the Pricing Committee has not approved the sale of the Bonds to Northland and executed the related bond purchase agreement by October 31, 2017, this resolution shall expire.

RESOLUTION
ISSUANCE OF GENERAL OBLIGATION FACILITIES MAINTENANCE
BONDS, SERIES 2017A

BE IT RESOLVED, by the School Board (the “Board”) of Independent School District No. 709 (Duluth), located in St. Louis County, Minnesota (the “District”), as follows:

Section 1. Authority. Under and pursuant to the authority contained in Minnesota Statutes, Section 123B.595 (the “Act”), and Minnesota Statutes, Chapter 475, the District is authorized to issue general obligation bonds to provide funds to finance repairs and replacements contained in the District’s ten-year facility plan under the Act, as updated for FY2018 (the “Plan”), as approved by the School Board. The Plan and the authorization to issue general obligation bonds to finance elements of the Plan shall be submitted to the Commissioner of Education for approval. The Plan is incorporated in this resolution as though fully specified herein.

Section 2. The Bonds. The Board hereby determines that it is necessary, expedient and in the best educational interest of the District’s pupils and residents that the District issue, sell and deliver its General Obligation Facilities Maintenance Bonds, Series 2017A (the “Bonds”), in the maximum principal amount of \$3,640,000, pursuant to Minnesota Statutes, Section 123B.595, and Chapter 475, for the purpose of providing funds to (i) renovate the Rockridge Elementary building; (ii) replace the Lakewood Elementary School roof; and (iii) pay costs associated with issuance of the Bonds (the “Project”).

Section 3. Sale of the Bonds.

3.01 The District’s administrative staff is hereby authorized and directed to work with Northland Securities, Inc. (“Northland”), as Underwriter for the Bonds. Northland will purchase the Bonds in an arms-length commercial transaction with the District. The Board has determined to retain PMA Securities, Inc. (“PMA”), to act as an independent financial advisor to provide bond pricing opinion services for the purposes set forth in Minnesota Statutes, Section 475.60, Subdivision 2(9), as amended. Fryberger, Buchanan, Smith & Frederick, P.A., will serve as bond counsel to arrange for the sale of the Bonds.

3.02 Subject to receipt of approval of the Plan and the issuance of the Bonds from the Commissioner of Education, any officer of the District and the Superintendent or CFO/Executive Director of Business Services (the “Pricing Committee”), are hereby authorized to approve the sale of the Bonds and to execute a bond purchase agreement for the purchase of the Bonds with Northland, provided the principal amount of the Bonds does not exceed \$3,640,000 and the TIC does not exceed 3.5% on the Bonds.

3.03 Upon approval of the sale of the Bonds by the Pricing Committee, the School Board will take action at a regular or special meeting to adopt the necessary approving resolution prepared by the District’s bond counsel.

3.04 PMA is authorized to prepare and Northland is authorized to distribute an Official Statement related to the sale of the Bonds.

3.05 If the Pricing Committee has not approved the sale of the Bonds to Northland and executed the related bond purchase agreement by August 15, 2017, this resolution shall expire.

Section 4. Repayment of Bonds. The form, specifications and provisions for repayment of the Bonds shall be set forth in a subsequent resolution of the School Board (the “Resolution”).

Section 5. Minnesota School District Credit Enhancement Program.

5.01 The District hereby covenants and obligates itself to notify the Commissioner of Education of a potential default in the payment of principal and interest on the Bonds and to use the provisions of Minnesota Statutes, Section 126C.55 to guarantee payment of the principal and interest on the Bonds when due. The District further covenants to deposit with the bond registrar and paying agent for the Bonds to be designated in the Resolution or any successor paying agent (the “Bond Registrar”) three days prior to the date on which a payment is due an amount sufficient to make that payment or to notify the Commissioner of Education that it will be unable to make all or a portion of that payment. The Bond Registrar for the Bonds is authorized and directed to notify the Commissioner of Education if it becomes aware of a potential default in the payment of principal or interest on the Bonds or if, on the day two business days prior to the date a payment is due on the Bonds, there are insufficient funds to make that payment on deposit with the Bond Registrar. The District understands that as a result of its covenant to be bound by the provisions of Minnesota Statutes, Section 126C.55, the provisions of that section shall be binding as long as any Bonds of this issue remain outstanding.

5.02 The District further covenants to comply with all procedures now or hereafter established pursuant to Minnesota Statutes, Section 126C.55, Subdivision 2(c) by the Minnesota Department of Management and Budget and the Minnesota Department of Education and otherwise to take such actions as necessary to comply with that section. The Chair, Clerk, Superintendent or CFO/Executive Director of Business Services is authorized to execute any applicable Minnesota Department of Education forms.

Section 6. Notice of Intent to Issue Bonds. Pursuant to the requirements of the Act, the CEO/Executive Director of Business Services shall cause the publication in the official newspaper of the District a notice of intent to issue the Bonds for the Project.

Section 7. Declaration of Official Intent. This resolution constitutes a declaration of official intent under Treasury Regulations Section 1.150-2. The District reasonably expects to construct all or a portion of the Project prior to the issuance of the Bonds and to reimburse expenditures incurred with respect to such Project with the proceeds of the Bonds.

RESOLUTION

Amending Resolution B-5-17-3451 Regarding the Issuance of General
Obligation Capital Facilities Bonds, Series 2017B

WHEREAS, the School Board (the “Board”) of Independent School District No. 709 (Duluth), located in St. Louis County, Minnesota (the “District”) approved on May 30, 2017 Resolution #B-5-17-3451 Regarding the Issuance of General Obligation Capital Facilities Bonds, Series 2017B (the “Resolution”); and

WHEREAS, Section 3 of the Resolution established the process for the sale of General Obligation Capital Facilities Bonds, Series 2017B (the “Bonds”) in the maximum amount of \$615,000; and

WHEREAS, District staff has progressed the Project defined in the Resolution in that the Commissioner of Education has approved the District’s issuance of the Bonds and no petition for referendum was filed with the Board calling for a vote on the issuance of the Bonds; and

WHEREAS, Section 3.05 of the Resolution provided as follows:

3.05 If the Pricing Committee has not approved the sale of the Bonds to Northland and executed the related bond purchase agreement by August 15, 2017, this resolution shall expire.

WHEREAS, the District is still in the process of resolving zoning issues for the Project and thus the District will not sell the Bonds prior to August 15, 2017; and

WHEREAS, the District desires to proceed with the Bond sale as provided in the Resolution, except that the expiration date set forth in Section 3.05 be extended to October 31, 2017. NOW, THEREFORE, BE IT RESOLVED, by the Board of the District that Section 3.05 of the Resolution be amended in its entirety to provide as follows:

3.05 If the Pricing Committee has not approved the sale of the Bonds to Northland and executed the related bond purchase agreement by October 31, 2017, this resolution shall expire.

RESOLUTION
ISSUANCE OF GENERAL OBLIGATION CAPITAL FACILITIES BONDS,
SERIES 2017B

BE IT RESOLVED, by the School Board (the “Board”) of Independent School District No. 709 (Duluth), located in St. Louis County, Minnesota (the “District”), as follows:

Section 1. Authority. Under and pursuant to the authority contained in Minnesota Statutes, Section 123B.62 (the “Act”), and Minnesota Statutes, Chapter 475, the District is authorized to issue general obligation bonds to provide funds to finance capital improvements, including improvements and repairs to school sites and buildings, as approved by the School Board and the Commissioner of Education.

Section 2. The Bonds. The Board hereby determines that it is necessary, expedient and in the best educational interest of the District’s pupils and residents that the District issue, sell and deliver its General Obligation Capital Facilities Bonds, Series 2017B (the “Bonds”), in the maximum principal amount of \$615,000, pursuant to Minnesota Statutes, Section 123B.62, and Chapter 475, for the purpose of providing funds to (i) repair and renovate the Rockridge Elementary building and (ii) pay costs associated with issuance of the Bonds (the “Project”).

Section 3. Sale of the Bonds.

3.01 The District’s administrative staff is hereby authorized and directed to work with Northland Securities, Inc. (“Northland”), as underwriter for the Bonds. Northland will purchase the Bonds in an arms-length commercial transaction with the District. The Board has determined to retain PMA Securities, Inc. (“PMA”), to act as an independent financial advisor to provide bond pricing opinion services for the purposes set forth in Minnesota Statutes, Section 475.60, Subdivision 2(9), as amended. Fryberger, Buchanan, Smith & Frederick, P.A., will serve as bond counsel to arrange for the sale of the Bonds.

3.02 Subject to approval of the issuance of the Bonds by the Commissioner of Education and subject to no petition for referendum being filed, as described in Section 6.02, any officer of the District and the Superintendent or CFO/Executive Director of Business Services (the “Pricing Committee”), are hereby authorized to approve the sale of the Bonds and to execute a bond purchase agreement for the purchase of the Bonds with Northland, provided the principal amount of the Bonds does not exceed \$615,000 and the TIC does not exceed 3.5% on the Bonds.

3.03 Upon approval of the sale of the Bonds by the Pricing Committee, the School Board will take action at a regular or special meeting to adopt the necessary approving resolution prepared by the District’s bond counsel.

3.04 PMA is authorized to prepare and Northland is authorized to distribute an Official Statement related to the sale of the Bonds.

3.05 If the Pricing Committee has not approved the sale of the Bonds to Northland and executed the related bond purchase agreement by August 15, 2017, this resolution shall expire.

Section 4. Repayment of Bonds. The form, specifications and provisions for repayment of the Bonds shall be set forth in a subsequent resolution of the School Board (the “Resolution”).

Section 5. Minnesota School District Credit Enhancement Program.

5.01 The District hereby covenants and obligates itself to notify the Commissioner of Education of a potential default in the payment of principal and interest on the Bonds and to use the provisions of Minnesota Statutes, Section 126C.55 to guarantee payment of the principal and interest on the Bonds when due. The District further covenants to deposit with the bond registrar and paying agent for the Bonds to be designated in the Resolution or any successor paying agent (the “Bond Registrar”) three days prior to the date on which a payment is due an amount sufficient to make that payment or to notify the Commissioner of Education that it will be unable to make all or a portion of that payment. The Bond Registrar for the Bonds is authorized and directed to notify the Commissioner of Education if it becomes aware of a potential default in the payment of principal or interest on the Bonds or if, on the day two business days prior to the date a payment is due on the Bonds, there are insufficient funds to make that payment on deposit with the Bond Registrar. The District understands that as a result of its covenant to be bound by the provisions of Minnesota Statutes, Section 126C.55, the provisions of that section shall be binding as long as any Bonds of this issue remain outstanding.

5.02 The District further covenants to comply with all procedures now or hereafter established pursuant to Minnesota Statutes, Section 126C.55, Subdivision 2(c) by the Minnesota Department of Management and Budget and the Minnesota Department of Education and otherwise to take such actions as necessary to comply with that section. The Chair, Clerk, Superintendent or CFO/Executive Director of Business Services is authorized to execute any applicable Minnesota Department of Education forms.

Section 6. Notice to Voters; Referendum.

6.01 The Clerk shall publish a notice of intent to issue the Bonds in substantially the form attached hereto as Exhibit A as soon as practicable in the official newspaper of the District.

6.02. If, within 30 days after May 30, 2017, a petition is filed with the Board calling for a vote on the proposition of issuing the Bonds, signed by more than 15% of the registered voters of the District, the Bonds shall not be issued until the question of their issuance has been authorized by a majority of the voters voting on the question at a general or special election called to decide the question. The percentage set forth above shall be determined with reference to the number of registered voters of the District on the last day before the petition is filed with the Board.

Section 7. Declaration of Official Intent. This resolution constitutes a declaration of official intent under Treasury Regulations Section 1.150-2. The District reasonably expects to construct all or a portion of the Project prior to the issuance of the Bonds and to reimburse expenditures incurred with respect to such Project with the proceeds of the Bonds.

EXHIBIT A**NOTICE OF INTENT TO ISSUE CAPITAL FACILITIES BONDS
PURSUANT TO MINNESOTA STATUTES, SECTION 123B.62
INDEPENDENT SCHOOL DISTRICT NO. 709
(DULUTH)**

NOTICE IS HEREBY GIVEN that under and pursuant to the authority contained in Minnesota Statutes, Section 123B.62, and Minnesota Statutes, Chapter 475, the School Board (the "Board") of Independent School District No. 709 (Duluth) (the "District"), is authorized to issue general obligation capital facilities bonds to provide funds for capital improvements, including improvements and repairs to school sites and buildings. The Board by resolution adopted May 30, 2017, determined that it is necessary, expedient, and in the best educational interest of the District's pupils and residents that the District issue, sell and deliver its general obligation capital facilities bonds (the "Bonds") in an amount not to exceed \$615,000 to provide funds to repair and renovate the Rockridge Elementary building (the "Project").

If, within 30 days after May 30, 2017, a petition is filed with the Board calling for a referendum on the question of whether the District should issue the Bonds for the Project, signed by more than 15% of the registered voters of the District, the Bonds shall not be issued until the question of their issuance has been authorized by a majority of the voters voting on the question at the next general or special election called to decide the question. The percentage is to be determined with reference to the number of registered voters of the District on the last day before the petition is filed with the Board.

Dated May 30, 2017

/s/ Annie Harala, Clerk
Independent School District No. 709

To: School Board
William Gronseth, Superintendent

From: Douglas A. Hasler, CFO *DH*

Date: August 9, 2017

Subject: Update on LRFP Debt Restructuring Resolution

The Long Range Facilities Plan (LRFP) Debt Restructuring resolution approved by the Board at the June Board meeting expressed the Board's support for legislation permitting payment of specified certificates of participation (COPs) (2009B, 2010D, and 2012B) from sources other than the General Fund, and requested that the Administration and its advisors seek out alternatives to the existing debt repayment structure to conserve district resources.

Since the Board approved this LRFP resolution, I have been in communication with PFM, a financial advisor to school districts and other public entities on matters relating to bond financing. I have requested assistance from PFM on the two objectives established in the Board's resolution. I will summarize our progress on the resolution's two objectives below.

Goal – Payments for Specified COPs from source other than General Fund

The available funding sources for a Minnesota school district are limited, and each source of funding is generally subject to statutory (state or federal) restrictions. The only potential funding source (other than General Fund) for COP payments that we have been able to identify is the Debt Service Fund. Current law does not allow Duluth Public Schools to pay the COPs (which are paid out of the General Fund) out of the Debt Service Fund at our own initiative. A shift of these payments to the Debt Service Fund would require either (1) a successful referendum in which local taxpayers would approve such a shift; or (2) a change in state law authorizing such a shift without a referendum.

Both of these available options present significant challenges and/or risks. No referendum is a sure thing, especially one focused on a completed building project that would require taxpayers to absorb increased property tax costs. Further, it is not clear that there would be legislative support necessary to change Minnesota statute to allow for a shift of the COP payments to the Debt Service Fund without the referendum requirement. A final consideration that the Board needs to consider is whether either of these options would conflict with the School District's future needs for an operational levy referendum upon the expiration of the current operational levy in 2018.

Goal – Alternatives to Existing Debt Repayment Structure to Conserve District Resources

The primary means to restructure existing debt payments is through a refunding process. Such refundings are generally undertaken when current, prevailing market interest rates have fallen below those interest rates which are incorporated into existing debt issues. Duluth Public Schools has taken advantage of refunding opportunities in the past -- refunding bonds were issued to retire prior debt in 2015 and 2016 resulting in total debt payment savings of \$8.6 million. Future refundings can/should be pursued, when market interest rates drop to levels that would generate sufficient savings through a refunding process.

One limitation associated with refundings is that existing debt issues have established “call dates” that prevent an issuer from paying off debt issues prior to a specified call date. At present, all existing debt issues have call dates that range from February 2019 to February 2027. Minnesota statute authorizes the refunding of a debt issue prior to a call date (an “advance refunding”) only when the net present value of savings produced by a refunding is three percent or greater.

In an effort to provide the Board with the potential savings that could be generated through a refunding of all existing bond issues (as an earlier version of the resolution suggested), I requested that PMA prepare an analysis on this issue. The results of that analysis were shared with the Board in June. That analysis incorporated a number of simplifying assumptions including the following: the three percent net present value savings requirement did not exist, all debt issues could be refunded immediately unrestricted by call dates, and that the federal tax exemption for municipal interest payments would not be lost with the refunding of an existing refunding debt issue. These assumptions are not realistic, but did allow for a comprehensive analysis of all existing debt issues to be conducted. The result of such assumptions would be to understate the resulting debt payments resulting from the analysis. As you recall, the PMA analysis predicted that Debt Service payments would not go down as a result of a refunding, but would actually increase by over \$20 million (for those debt issues currently paid out of the Debt Service Fund).

I have asked that PFM do an analysis similar to that done by PMA. At present, that analysis is not yet complete. I will share the results of this analysis with the Board when it is available.

I hope that the information included in this memorandum is helpful. I will continue to work with PFM on these issues. If any Board member knows of any individual or firm that they believe has ideas or proposals that would allow Duluth Public Schools to shift its COP payments out of the General Fund, and/or restructure our existing debt payments to create cost savings, please pass this information on to me so that I can evaluate these options.

RESOLUTION

Reassessment of Debt Load for Duluth Public Schools

~~WHEREAS, the \$315 million Long Range Facilities Plan was financed by eight debt obligations; and,~~

~~WHEREAS, one of these debt obligations is a Bond and seven are Certificates of Participation (COP); and,~~

~~WHEREAS, COPs have higher interest rates than bonds; and,~~

~~WHEREAS, the remaining principal is about \$240 million; and,~~

~~WHEREAS, the debt obligations were set up to have low payments at the start and then increase in payment amount (and interest rates) until they are paid off; and,~~

~~WHEREAS, the effective annual interest rate on all the debt obligations is 4.0%; and,~~

~~WHEREAS, the current bond market interest rates are hovering around 2%; and,~~

~~WHEREAS, total annual payments are \$23 million and will increase to \$31 million in ten years; and,~~

~~WHEREAS, if the debt obligations were refunded (refinanced) at 2% for 20 years, the annual payments would be only \$15 million (versus the current \$23 million to \$31 million); and,~~

~~WHEREAS, during refunding, there will be defeasement and re-issuance costs, depending on the authority that they were issued under, that need further investigation; and,~~

~~WHEREAS, COP 2009A, issued under Minn. Stat. § 126C.40 (Capital Levies), can be paid out of tax levy or General Fund revenue, with \$13 million paid out of the General Fund from 2010 to 2013; and,~~

~~WHEREAS, COPs 2009B, 2010D, and 2012B were issued under Minn. Stat. § 465.71 (Installment, Lease Purchase; City, County, Town, School) and MUST be paid out of the General Fund, with \$24 million having been paid out of the General Fund through 2018; and,~~

~~WHEREAS, in 2018 \$3.3 million will be pulled from the General Fund; and,~~

~~WHEREAS, if an alternative to paying out of the General Fund isn't found for these COPs, \$80 million will have been extracted from the General Fund over the next 15 years; and,~~

~~WHEREAS, the District has been running about \$3 million in budget deficits (totaling \$24 million for the last 8 years), has nearly eliminated reserve funds, is having a difficult time meeting basic conditions requiring money, and must take out loans to do basic improvement work; and,~~

~~WHEREAS, it is necessary to eliminate the General Fund transfer to free up money to reduce class size, eliminate the achievement gap, and increase our attractiveness to parents by reinstating seven period days; and,~~

~~WHEREAS, refunding our debts can eliminate the General Fund transfer and if done promptly, can reduce the property tax levy.~~

~~NOW, THEREFORE, BE IT RESOLVED that the Duluth School Board form a committee with staff from Administration to investigate and determine alternatives to the current funding scheme to take advantage of low interest rates by refunding the COPs and bond as their authority allows. This committee will report back to the School Board by the August regular meeting.~~

~~BE IT FURTHER RESOLVED that the Duluth School Board request assistance from the State legislative delegation to explore legislative fixes and research subsidies to eliminate any further General Fund transfers.~~

~~BE IT FURTHER RESOLVED that the Duluth School Board requests legal advice and financial counsel to get second opinions on legal and financial ramifications to carry out the objectives of this resolution.~~

WHEREAS, Certificates of Participation (COPs) 2009B, 2010D and 2012B must be paid out of the General Fund without legislative change, and

WHEREAS, the School Board of ISD 709, St. Louis County, Minnesota, wishes to eliminate payment of these COPs to free up funds to invest in classrooms to eliminate the achievement gap, reduce class size, and invest in early childhood education,

NOW, THEREFORE, BE IT RESOLVED that the School Board of ISD 709 supports legislation permitting payment of the aforementioned COPs from sources other than the general fund.

BE IT FURTHER RESOLVED that the School Board strongly encourages our administration and advisers to seek out alternatives to the present debt repayment structure to conserve District resources.