School Board Meeting: January 23, 2012

Subject: Resolution Providing For the Approval of the Sale of General Obligation School Building Refunding Bonds, Series 2012A and Use of the Credit Enhancement Program

Presenter: Gary Kawlewski, Dir. of Finance & Operations

SUGGESTED SCHOOL BOARD ACTION:

Recommend board approval

DESCRIPTION:

For some time now, we have been monitoring the potential of refunding the 2014-2024 maturities of our $42,400,000 General Obligation School Building Bonds, Series 2003B, dated November 1, 2003; and the 2014-2018 maturities of the $9,100,000 General Obligation Alternative Facilities Bonds, Series 2005A, dated December 1, 2005. The first bond issue was for the construction of Northwinds Elementary School. The second bond issue was for Alternative Facilities projects completed at Tatanka, Hanover, Discovery, and Montrose elementary schools.

The bond market is currently seeing rates at historic lows. Our initial plan for the refunding of these two bond issues was to refund them this fall as a current refunding (within 90 days of the call date of February 1, 2013). By issuing refunding bonds as a current issue rather than as an advance refunding issue, the costs of placing the refunding bonds in an escrow account for an extended time are minimized. In a normal interest rate environment, it usually makes the most sense to refund bonds as a current refunding as opposed to an advanced refunding.

However, with the current interest rate environment, the costs of the escrow account versus the potential increased interest costs due to the potential of rising interest rates between now and this fall may be significantly less. Therefore, it makes sense to consider issuing the refunding bonds as an advanced refunding issue rather than waiting until the fall.

We are asking the board to adopt the attached resolution which calls for the sale of refunding bonds for the two aforementioned issues. The resolution allows us to sell bonds and it also allows the school district to participate in the State of Minnesota's Credit Enhancement Program. The Credit Enhancement program allows us to issue the bonds with the State's guarantee of payment on the bonds and credit rating. This most often allows the district to get lower interest rates than if we were to issue simply using our own credit rating which is lower.

The attached sale resolution includes a provision to establish a minimum dollar savings on the refunding and a minimum present value savings percentage as well. We used a similar provision in the sale of the OPEB bonds. This provision gives authority to sell the bonds, before the next meeting, to the Board Chair and the Superintendent as long as the savings from the refunding meet the minimum thresholds that are established in the resolution. The provision is put in place to better facilitate the sale of the refunding bonds in the event that we see interest rates start to tick upward. The full Board would still adopt the necessary approval resolution at its next regularly scheduled meeting on February 27, 2012 if the bonds were sold between now and then. In the event that the rates change such that the minimum savings cannot be achieved, the sale will simply be postponed until such a time that the interest rates meet the threshold or the sale can be done as a current refunding, whichever comes first. We will review the financial information with you at the meeting on Monday and make a recommendation for the parameters at that time.

ATTACHMENT

Resolution Providing For The Approval Of The Sale Of General Obligation School Building Refunding Bonds, Series 2012a; Covenanting And Obligating The District To Be Bound By And To Use The Provisions Of Minnesota Statutes, Section 126c.55 To Guarantee The Payment Of The Principal And Interest On These Bonds