MEMO

To: School Board
Bill Gronseth, Superintendent

From: Doug Hasler, CFO DH

Date: May 25, 2017

Re: Ten-Year LTFM Plan and Bond Financing

Over the course of the current fiscal year, priority has been given to two projects – Playground Fall Protection, and Rockridge School Improvements – which were not incorporated into our budgets. The costs of these two priority projects, in addition to those projects which were planned for this year, exceed the available Long Term Facilities Maintenance (LTFM) revenue, which is the primary source of funding for capital improvement projects. Further, some of the improvements planned for Rockridge School are not eligible LTFM expenses, and would need to be paid through our General Fund.

I have investigated financing options that would allow us to undertake and complete the Rockridge School Improvements project, with additional capacity to move forward with the planned replacement of the Lakewood School roof system during the upcoming fiscal year. The Playground Fall Protection project would be paid through existing LTFM revenues. The financing option that I am proposing is to issue general obligation bonds to pay for these capital improvement projects. This bonding would be structured into two separate bond issues -- $3.64 million in Facilities Maintenance bonds (LTFM), and $615,000 in Capital Facilities bonds (General Fund).

There are a number of process requirements necessary for Duluth Public Schools to issue such bonds:

(1) A Ten-Year LTFM Plan (FY 2018 – FY 2027) identifying the Rockridge School and Playground Fall Protection projects must be reviewed, and approved by the School Board;

(2) A resolution to issue General Obligation Facilities Maintenance Bonds must be approved by the School Board;

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(3) A resolution to issue General Obligation Capital Facilities Bonds must be approved by the Board;

(4) Legal notices of the intent to issue such bonds must be published; and

(5) The Ten-Year LTFM Plan, and the proposed financing must be submitted to the Minnesota Department of Education for approval by the Commissioner.

Bond financing would add expense to these projects in the form of interest costs and costs of issuance. Those costs are currently estimated to be $222,500 for LTFM, and $43,500 for Capital Facilities (General Fund). These additional costs would be spread over a 5-year repayment period. While such increased costs are problematic for all of our budgets, it would be necessary to eliminate, or delay one or more of the priority or planned LTFM projects, or identify deeper budget reductions (for General Fund) absent the proposed financing.

A bond issuance process can be a complicated endeavor. In order to initiate and complete this proposed bond issue, I have called upon a team of professionals to advise and assist us in this process. That team includes Steve Pumper (PMA Financial), Bob Toftey (Fryberger, Buchanan, Smith & Frederick), and Michael Hart (Northland Securities). All of these individuals will be attending the Special Board Meeting on Tuesday, May 30th.

The agenda for the Special Board Meeting will include presentations by Dave Spooner on the 10-Year LTFM Plan, and by Steve Pumper on the proposed financing. Upon the conclusion of these presentations, I am recommending that the Board approve three resolutions concerning the LTFM Plan and the two bond issues. Subsequent to consideration of the 10-Year LTFM Plan, and the proposed financing, there is a separate agenda item for approval of a bid on the Stowe Playground Replacement Project.

Thank you for your consideration of these issues during the May 30th Special Board Meeting.

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