

MEMO

To: School Board
Bill Gronseth, Superintendent

From: Douglas A. Hasler, CFO *DH*

Date: June 9, 2017

Re: Proposed Resolution on Long Range Facilities Plan Debt

I have reviewed the proposed resolution on Long Range Facilities Plan ("LRFP") Debt, and I wanted to share my thoughts with you.

This resolution advocates for the refunding of all existing LRFP bond issues to achieve savings on future debt payments, and to shift debt payments for all refunded bonds to the Debt Service levy. Achieving cost savings through a bond refunding is a goal I agree with, and one I have pursued in my past experience as a school business official. Further, ISD 709 has recent experience of approving refundings, one each in 2015 and 2016, which generated net cost savings of \$8,669,502. As a result of these two refundings, property tax levies paid by Duluth taxpayers will be reduced in an amount equal to this savings amount.

Full consideration of the proposed resolution should include recognition of the legal and contractual constraints associated with a plan to refund all existing LRFP bond issues, with all future debt payments shifted to the Debt Service levy, and, secondly, an assessment of the potential savings that such a refunding would generate.

Legal/Contractual Limitations

The plan to refund all LRFP bond issues, and shift future debt payments to the Debt Service levy is subject to a number of legal, and contractual restrictions which limit our authority to do such a refunding, make it more expensive, or restrict our authority to shift debt payments to the Debt Service levy. Included among, but not limited to, those restrictions are the following:

- Minnesota statutory restrictions
 - Requirement that an advance refunding must achieve at least 3% net present value savings;

- Requirement that three of our Certificates of Participation bond series be paid out of General Fund revenues
- These restrictions may, or may not be, subject to change by the Minnesota legislature with assistance from local legislators
- Federal law/subsidy
 - After a municipal bond issue has been refunded once, any subsequent refunding of that bond issue loses its tax exemption under federal law, which would result in higher interest rates on the taxable bond issue (two of our existing bond issues are refundings)
 - One of our bond issues qualifies for a federal tax subsidy, which reduces our debt payment costs. This federal reimbursement which will total \$6,400,000 from now to the retirement of these bonds in 2028 would be lost if these bonds were refunded
 - Securing changes in federal law to address our circumstances is unlikely
- Contractual limitations
 - Bond holders who have purchased our bonds have contractual rights, including the right to hold the bond, and receive agreed upon interest payments, at least until the specified “call date” when the bond may be redeemed
 - The call dates for existing LRFP debt issues ranges from as early as February 2019 to February 2027
 - Bond interest payments due prior to the call date are not subject to change, even if an advance refunding was completed
 - There is no means to alter the contractual rights that bond holders have with respect to the call date on bonds that they own

Debt Costs for a Full Refunding

Before seeking legislative action to remove any legal obstacles to the plan to refund all LRFP bond issues, it is important that we understand what cost savings potential such a plan promises. I requested that Steve Pumper from PMA Financial prepare an analysis of debt payments for a 20-year refunding bond issue.

For the purposes of this analysis, I asked Mr. Pumper to assume that there was no Minnesota statutory restriction requiring that an advance refunding generate at least 3% net present value savings, to assume that all bonds could be refunded immediately and are not subject to call dates, and to not take into account that refundings of our existing refunding bond issues would lose their tax-exempt status under federal tax law. These are simplifying, though not realistic assumptions which allow for a simpler analysis of a proposed refunding. These assumptions



Independent School District No. 709 (Duluth), Minnesota

Issue Series Dated Par Amount Call Date Maturity	Debt Service										Total D/S Levy		
	G.O. Alt Facilities 2008A		Taxable COPs Build America Bonds 2009A		Certificates of Participation 2010C		Capital Appreciation COP 2012A		G.O. Refunding Bonds 2015B			Refunding Full Term COPs (2008B) 2016A	
Pay Year	Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest	Maturity Value	Interest	Principal	Interest	Principal	Interest
2017	2018	\$3,435,000	\$137,400	\$3,610,000	\$949,745	\$2,713,558	\$275,000	\$120,400	\$35,000	\$1,698,250	\$3,268,500	\$4,860,000	\$3,268,500
2018	2019	\$1,620,000	\$1,109,556	\$3,810,000	\$892,888	\$2,551,108	\$280,000	\$112,150	\$3,605,000	\$1,697,200	\$3,122,700	\$5,200,000	\$19,750,380
2019	2020	\$59,235,000	\$71,170,000	\$4,020,000	\$832,880	\$2,379,638	\$285,000	\$103,750	\$3,735,000	\$1,553,000	\$2,966,700	\$5,560,000	\$19,750,380
2020	2021	\$1,765,000	\$977,156	\$4,945,000	\$768,158	\$2,194,738	\$295,000	\$95,200	\$3,880,000	\$1,403,600	\$2,799,900	\$5,935,000	\$20,034,627
2021	2022	\$1,850,000	\$966,566	\$4,985,000	\$697,585	\$1,993,100	\$305,000	\$86,350	\$3,880,000	\$1,403,600	\$2,799,900	\$5,935,000	\$21,079,459
2022	2023	\$1,935,000	\$852,556	\$4,740,000	\$616,743	\$1,762,123	\$315,000	\$77,200	\$4,275,000	\$1,005,850	\$2,621,850	\$6,330,000	\$22,457,545
2023	2024	\$1,690,000	\$1,044,756	\$5,015,000	\$331,304	\$1,518,013	\$325,000	\$792,100	\$4,490,000	\$792,100	\$1,962,100	\$7,440,000	\$22,992,822
2024	2025	\$2,135,000	\$671,419	\$5,300,000	\$440,909	\$1,259,740	\$335,000	\$56,400	\$4,675,000	\$612,500	\$1,590,100	\$8,065,000	\$23,341,976
2025	2026	\$2,245,000	\$580,681	\$5,600,000	\$342,594	\$978,840	\$345,000	\$43,000	\$4,870,000	\$425,500	\$1,186,850	\$8,665,000	\$24,202,206
2026	2027	\$2,490,000	\$381,800	\$5,920,000	\$236,754	\$676,440	\$360,000	\$29,200	\$3,908,880	\$1,926,120	\$753,600	\$9,315,000	\$26,010,924
2027	2028	\$2,770,000	\$138,500	\$6,265,000	\$122,794	\$350,840	\$370,000	\$14,800	\$5,135,000	\$154,050	\$381,000	\$9,900,000	\$27,152,349
Total		\$3,435,000	\$137,400	\$5,410,000	\$6,432,354	\$18,378,155	\$3,490,000	\$805,413	\$12,800,424	\$8,899,576	\$43,765,000	\$78,135,000	\$22,958,650

Total Debt Service Levy

100% Eligible	105% Eligible	Federal Reimbursement	Total D/S Levy
\$14,847,458	\$5,570,933	\$949,745	\$19,468,146
\$15,075,958	\$5,567,310	\$892,888	\$19,750,380
\$15,315,108	\$5,552,400	\$832,880	\$20,034,627
\$16,299,838	\$5,547,780	\$768,158	\$21,079,459
\$17,606,300	\$5,548,830	\$697,585	\$22,457,545
\$18,064,673	\$5,544,893	\$616,743	\$22,992,822
\$18,327,075	\$5,546,205	\$531,304	\$23,341,976
\$19,091,240	\$5,551,875	\$440,909	\$24,202,206
\$20,838,690	\$5,560,275	\$342,594	\$26,010,924
\$21,289,240	\$5,558,438	\$236,754	\$27,152,349
\$21,721,640	\$5,553,503	\$122,794	\$27,152,349

100% Eligible	105% Eligible	Federal Reimbursement	Total D/S Levy
\$198,477,218	\$61,102,440	\$6,432,354	\$253,147,303

Refunding Analysis
 20 Year Bonds
 All Outstanding Debt
 Retired as of 8/1/17
 Accrued Value of 2012A CABs as of 8/1/17

FY	Debt Service Portion	General Fund Portion (+150 Bps)	Total
Outstanding Principal	\$197,546,697	\$33,475,000	\$231,021,697
2018	\$15,786,453	\$2,625,265	\$16,411,718
2019	\$13,786,080	\$2,626,722	\$16,412,802
2020	\$13,787,715	\$2,622,107	\$16,409,822
2021	\$13,789,003	\$2,624,583	\$16,413,585
2022	\$13,787,465	\$2,624,201	\$16,411,666
2023	\$13,786,890	\$2,624,219	\$16,411,109
2024	\$13,790,228	\$2,625,673	\$16,415,900
2025	\$13,786,362	\$2,623,234	\$16,409,596
2026	\$13,789,641	\$2,621,753	\$16,411,394
2027	\$13,788,662	\$2,625,871	\$16,414,533
2028	\$13,787,373	\$2,624,991	\$16,412,364
2029	\$13,789,506	\$2,623,918	\$16,413,424
2030	\$13,788,421	\$2,622,226	\$16,410,647
2031	\$13,787,652	\$2,624,467	\$16,412,118
2032	\$13,785,406	\$2,624,923	\$16,410,329
2033	\$13,789,899	\$2,623,086	\$16,412,985
2034	\$13,788,616	\$2,623,425	\$16,412,041
2035	\$13,789,513	\$2,625,118	\$16,414,631
2036	\$13,789,907	\$2,622,298	\$16,412,204
2037	\$13,786,954	\$2,624,336	\$16,411,290
Total	\$275,761,747	\$52,482,410	\$328,244,157

Net Levy Increase	General Fund Contribution Increase	Total
\$22,614,444	\$7,018,257	\$29,632,700

Refunding Analysis
 20 year Bonds
 All Outstanding Debt
 Rates as of 6/9/17

Accreted Value of 2012A CABs as of 8/1/17

Debt Service

General Fund

FY	Current Debt Service Levy	Refunding Debt Service Portion	Difference	Current General Fund Contributions	Refunding General Fund Portion	Difference
2018	\$19,468,645	\$13,786,453	(\$5,682,192)	\$3,371,085	\$2,625,265	(\$745,820)
2019	\$19,750,380	\$13,786,080	(\$5,964,300)	\$3,370,435	\$2,626,722	(\$743,714)
2020	\$20,034,627	\$13,787,715	(\$6,246,912)	\$3,371,785	\$2,622,107	(\$749,679)
2021	\$21,079,459	\$13,789,003	(\$7,290,457)	\$3,374,585	\$2,624,583	(\$750,003)
2022	\$22,457,545	\$13,787,465	(\$8,670,080)	\$3,388,985	\$2,624,201	(\$764,785)
2023	\$22,992,822	\$13,786,890	(\$9,205,932)	\$3,393,610	\$2,624,219	(\$769,392)
2024	\$23,341,976	\$13,790,228	(\$9,551,748)	\$3,408,610	\$2,625,673	(\$782,938)
2025	\$24,202,206	\$13,786,362	(\$10,415,844)	\$3,425,585	\$2,623,234	(\$802,351)
2026	\$26,056,371	\$13,789,641	(\$12,266,730)	\$3,439,023	\$2,621,753	(\$817,270)
2027	\$26,610,924	\$13,788,662	(\$12,822,262)	\$3,461,810	\$2,625,871	(\$835,939)
2028	\$27,152,349	\$13,787,373	(\$13,364,975)	\$3,480,566	\$2,624,991	(\$855,575)
2029	\$0	\$13,789,506	\$13,789,506	\$3,499,285	\$2,623,918	(\$875,367)
2030	\$0	\$13,788,421	\$13,788,421	\$3,512,653	\$2,622,226	(\$890,427)
2031	\$0	\$13,787,652	\$13,787,652	\$481,988	\$2,624,467	\$2,142,479
2032	\$0	\$13,785,406	\$13,785,406	\$484,150	\$2,624,923	\$2,140,773
2033	\$0	\$13,789,899	\$13,789,899	\$0	\$2,623,086	\$2,623,086
2034	\$0	\$13,788,616	\$13,788,616	\$0	\$2,623,425	\$2,623,425
2035	\$0	\$13,789,513	\$13,789,513	\$0	\$2,625,118	\$2,625,118
2036	\$0	\$13,789,907	\$13,789,907	\$0	\$2,622,298	\$2,622,298
2037	\$0	\$13,786,954	\$13,786,954	\$0	\$2,624,336	\$2,624,336
Total	\$253,147,303	\$275,761,747	\$22,614,444	\$45,464,154	\$52,482,410	\$7,018,257