

Master Facility Committee Meeting Minutes

July 13, 2020 3:30 PM

<https://www.youtube.com/EngageCRschools/>

Members Present: Dain Brunscheen, Lindsay Schumacher, Sue Shanklin, Pat Loeffler, Frank Rainbolt, and Dave Dvorak.

Members Absent: Steve Shupp and Tina Rusbult

Committee Support Present: David Nicholson, Sarah Brown, Justin Schaefer, and Jon Galbraith from the District.

Jeff Portman with Solum Lang. Chad Schumacher OPN. Tim Oswald with Piper Sandler.

Note taker: Jon Galbraith

Pat Loeffler convened the meeting at 3:30 PM

Minutes: The revised minutes from the June 1, 2020 Master Facility Plan Oversight Committee meeting were reviewed. Motion to pass revised meeting minutes made by Dain Brunscheen and seconded by Lindsay Schumacher.

Financial Report—Dave Nicholson

- Dave Nicholson explained the financial report SAVE summary of revenue and expenses through end of May. SAVE beginning balance of \$39,779,731, revenue balance of \$17,642,322, expenses totaling \$42,488,450. Page 6 notes show the overall budgets for both new schools at the sites of Coolidge and Jackson Elementary Schools.
- PPEL has an ending balance of \$8,416,769, with revenue in the amount of \$10,267,180, and expenses totaling \$11,586,019.
- Pages 10-14 of the financial report shows all expenses and encumbrances for all PPEL Projects. Budget amounts have been adjusted to show inflationary numbers.
- Page 14 shows the grand total of \$7,829,505 being spent, and a budget of \$17,408,481. (Inactive projects have been removed from this listing, so the dollar amounts have changed since last month's report.)
- Dave Dvorak inquired about adding in the inflationary budget numbers, and how that compares to the overall budget for all the years. Dave Nicholson stated that the inflationary numbers have not been applied to the entire PPEL Promise as of now.
- Jon Galbraith informed the committee that there are some new projects for baseball lighting at Kennedy and Jefferson High Schools. This ensures that the correct light levels would be reached. New poles, fixtures, and a 25-year warranty for both high school projects.
- Dave Nicholson introduced Tim Oswald who is with Piper Sandler. Piper Sandler is the firm that is used by the District when bonds are issued, and Tim is the consultant.
- Dave Nicholson discussed the page 15 SAVE Projection document. Items in black is what was there last year, and items in gold is what was added recently. \$25.185M in SAVE bonds were issued for Coolidge and have the ability to go up to \$25.945M for Jackson but the all-in budget for Jackson is \$25.750M. Yield for Coolidge is 2.33%, with the estimated coverage level at the time the bonds were issued was 1.36. For every dollar of committed SAVE fund expenditures, there needs to be committed revenues that are 20% higher (1.2). Tim Oswald

discussed committed revenues and how the District pledged the sales tax for the collateral. For every \$1 going out in debt service, there is \$1.20/\$1.25 of income coming in from sales tax.

- Tim Oswald stated that right now the District is at 1.2 until all existing bonds have been paid (they go through 2029), but there is nothing that states that number cannot be changed up or down for future bonds. S&P increased the rating on the District between 2010 and 2020 even though Piper Sandler did not change the coverage calculation. Regarding revenues (because of COVID) SAVE revenues were up over year end 2019. However, the State was using the assumption of a 6% growth in FY20 which was driven by expected internet sales taxes, not organic growth. A lot more will be known in a month (mid-August) when the state releases its estimates for FY21.
- Dave Nicholson stated that at Jackson, the District has the authority to issue \$25.94M in bonds if needed. However, when FY19 was closed with over \$14M in the bank in fund balance (including reinjection money). Dave Nicholson stated some of that fund balance may be used to reduce the amount being borrowed for Jackson which results in a bigger cushion on the coverage level since so much debt would not be issued. Another strategy would be to refinance the \$56M. Tim Oswald stated that the refinance may need to happen depending on how fast the District moves forward with building a third elementary. The goal is to get Jackson funded without feeling like it is necessary to refinance so the Board has more flexibility to refinance when they feel it is the right time.
- Dave Nicholson discussed pages 16-17, and the well reinjection reserve which is at \$1.9M during FY19, and goes up to \$2M in FY20, and \$2.1M in FY21. Dave Nicholson asked Jon Galbraith about the cost for reinjection wells if becomes necessary. Jon Galbraith responded that it is approximately \$300,000-\$350,000 per well, and the District has 3 wells. Jon Galbraith will contact Design Engineers to get a budget for the project. Dave Dvorak said that the State preferred the wells to be done this way at one time and feels that if money is taken out of the reserve that it would be a safe thing to do. Lindsay Schumacher added that he never advocated for having this reinjection reserve as it takes away from being able to spend the capital expenditures in an appropriate manner. Now that the penny tax is extended out so far, Lindsay Schumacher would support eliminating the reserve. Dave Nicholson stated that the reinjection well could be paid for from PPEL, it does not have to be SAVE funds.
- Jon Galbraith asked Dave Dvorak if the reinjection reserve originated from the concern of taking too much water from the aquifer or driven by the concern about storm runoff. Dave Dvorak responded that the concern was from the public that the District was taking water out and wasting it. The DNR didn't have any concerns about it as the amount of water being pulled from the aquifers in Cedar Rapids is substantially less than it was in the 1930's. Lindsay Schumacher stated that another driving factor was that the penny tax had a sunset provision and the District wanted to make sure they were being responsible.
- Dave Nicholson stated the spreadsheet provided in the meeting packet (pages 16-17) is what they use to project SAVE funds. The spreadsheet currently goes to 2030 currently but will extend out to 2050 due to the extension. In FY21, there was a listing for projected issuing of bonds in the amount of \$25.945M, but knowing there is a good reserve balance the

amount of borrowed money will be reduced to cashflow some of the Jackson ES Project. Dave Nicholson will keep the committee up to date on this.

- Lindsay Schumacher provided some observations regarding the SAVE bonds, and thanked Tim Oswald for his participation in the meeting. Lindsay Schumacher noted that when 1.2% was being referenced at the beginning of the discussion, that is really 120%. Also noted by Lindsay, is that he is uncomfortable with the District working in such a tight margin. Although he compliments the District on trying to reduce the amount of indebtedness that there would be for Jackson, in terms of coverage, Lindsay feels the appropriate target objective for coverage (as noted in last month's meeting minutes) would be 1.50 x which represents (150%). Lindsay gave the committee an example of the current uncertainty, stating that he also sits on the Cedar Rapids School Foundation Committee, which all they receive is contributions from individuals and companies. They are seeing some of their key contributors reducing or eliminating their contribution for this calendar year which coincides with the District's school year. Lindsay complimented Tim Oswald on his analysis, and Dave Nicholson and the District on doing the right thing regarding issuing the bonds in a prudent way.
- Lindsay Schumacher asked Tim Oswald what the penalty would be if the District breached the bond covenants. Tim Oswald wanted to clarify that the coverage number (120% or 125%) is not a contractual obligation of the District to maintain annually. For example, if it decreased to 120% and the enrollment declined by a few hundred students and the rate dropped down to 118%, there would not be a penalty and it would not be an event of default. 120% is solely a restriction put into place to limit the ability to sell additional debt at a later date. There is no contractual nature of it in terms of an annual testing. Lindsay Schumacher asked if there was potential in the existing or new issue bonds to downgrade. Tim Oswald stated there is a reasonable assumption that if the District is going below 1.2x coverage the ratings could be at risk. Lindsay Schumacher stated that in his professional opinion this would be a horrific outcome. Although there is a long-term revenue stream with the penny tax, the District needs to be careful not to breach the bond covenants. Tim Oswald responded he understands the concern, and that right now the way the District spends cash for non-bond related costs out of SAVE, (\$3.5M every year) and as a practical reality, it is that cash that creates the cushion with respect to the bonds. If revenue declines, the cash is also at risk which puts the PPEL/Operational costs at risk, reiterating Lindsay's point of being careful and cautious.
- Lindsay Schumacher brought up the computer rollout, and how critical it is for students to receive their education this year. The District is accelerating the cost to incur, and it is the right thing to do. There is not, however, a big buffer or cushion, but in a year, there will be more information. Reducing the amount of issuance for Jackson will reduce the amount of debt so that is a responsible thing to do. Another positive, is that the District can refinance in the future if there is interest rate savings. Eliminating the reserve will allow for more flexibility for the District to make the necessary expenditures to operate the schools in a safe manner and meet debt obligations.
- Lindsay Schumacher asked Tim Oswald if the bonds were issued today, what would the coupon go off at. Tim Oswald responded that if the bonds were issued today, the bond coupon (federally exempt but subject to state of Iowa income taxes) would be at 4%, and

priced to yield an average rate in the 270 range (max being 20/50 payoff which would be 30-years). Discussions have been had to shorten up from 30-years to something less than that. Lindsay Schumacher asked what this is priced off. Tim Oswald responded that this is priced off MMD. MMD has a spot rate for every year, and each year has its own spread/rate. Tim Oswald offered to get the MMD spread to Dave Nicholson to share with Lindsay Schumacher. Lindsay Schumacher asked why this was higher than the current borrowing rate at 2.3%. Tim Oswald responded that right now, most institutional buyers would prefer to price buy a bond that has a coupon higher than the yield and pay a price higher than par. This gives them protection in the event the District would call the bond. For example, we would reserve the right to prepay the bond in 2029, that gives the investors the assumption they would get called out in 2029 so they will buy (for example) a 10-year bond at 277, and if the bond is left outstanding until its final maturity, that 277 is not an attractive rate. A higher coupon gives downside protection if the bond is not called early as that rate works its way up (kicks up) over time. Lindsay Schumacher stated in the last meeting he asked about the callability of the bonds and if there was a prepayment premium and said that it sounds like there is a prepayment premium. Tim Oswald responded that of the existing 4 bonds, one is not callable but the other 3 are callable without premium. However, they are callable at different dates with 2 being currently callable and the third one is callable in 5 years. Tim stated that he would not phrase it as a premium to call but understands why Lindsay says that. He would phrase it more as a premium to not call, the kick will 'kick-in' and start paying the investor a better interest rate after the call date.

- Lindsay Schumacher asked if during the most recent issuance, if one of the local banks was more aggressive because of the incentive for all parties for them to buy the bond. Tim Oswald stated that happened 8 years ago, and that bond has been refinanced. If they can get an issue to stay \$10M or smaller, there is bank eligibility (and certain banks that are not partnerships) get a tax credit to buy a bank-eligible bond and that is typically passed on to the borrower (District) in the form of a lower rate than others would charge. Right now, that eligibility is worth somewhere between 30-50 basis points. Lindsay Schumacher asked if we could break up the issuance to try to pick that up. Tim Oswald said that is exactly what happened before, based on calendar year rules. Lindsay Schumacher asked what type of interest expense assumptions for debt is in the spreadsheet provided in the meeting packet. Dave Nicholson responded that what is built in is actual debt payments, but nothing is built in currently for Jackson at this time. Once Tim Oswald is done with his projections, which he is about halfway done, the Jackson information will be included. Lindsay Schumacher asked Dave Nicholson what he thought in terms of dollar amount for the Jackson debt. Dave Nicholson responded that he thought it would be anywhere from \$17M--\$18M, and that the District needs to hold back \$4M--\$6M of the fund balance to make sure needs are met for the following year. Lindsay Schumacher asked when more detailed analysis would be available. Dave Nicholson thought that this information would be available for the September meeting. Lindsay Schumacher proposed the detailed analysis is added to the agenda for that meeting, and that Piper Sandler sends the information well enough in advance that the committee receives it with plenty of time to review before the meeting. It was decided the information would be available for the October meeting to give all parties enough time to compile the information.

- Lindsay Schumacher asked Tim Oswald if there is anything he can do regarding additional discussions with the State about what their projections are for the next year, and why they made those projections. Tim Oswald responded that the State is unwilling to give any advanced information, everyone gets it at the same time. Once numbers are received, they are cross-checked and sent back to the State to verify their calculations. Within a few days of the State releasing their numbers, they will have confirmed with the State and it will be shared with the committee. Tim Oswald suggested meeting with Dave Nicholson before October in case something needed to be done for bonding. Dave Nicholson agreed.

Computer Rollout Update—Dave Nicholson

- Dave Nicholson explained that in FY20, there is \$4.154M coming out of the SAVE fund for the computer rollout. That money included the carryover but moving forward the allocation that we have in SAVE is \$2.6M. In this year and next year, the District is moving ahead with the 1:1 initiative. Middle School devices had already been ordered before COVID, and those units are on-site. The Elementary Schools were going to be 2:1 before COVID, but due to the pandemic the District approved the 1:1 initiative for Elementary at the June Board meeting. 6,100 additional Chromebook units were purchased at \$265 each, totaling \$1.6M total. Cases were also ordered, which added an additional \$105,000 approximately. This supports 1st--5th grade students, Pre-K and Kindergarten will be using iPads. The District also bid and purchased 2,100 iPads at \$617,000. GoGuardian software was also purchased to monitor and manage the devices, and 1,500 Hot Spots from T-Mobile at \$360,000 for a 1-year contract. The \$360,000 will come from the CARES act money, but the rest of the money comes from the SAVE fund.

New Elementary School at Coolidge ES Site Update—Jon Galbraith

- Jon Galbraith stated the foundation and block walls have started, and things are moving along according to schedule. 2 pay apps have been received, and \$720,000 has been paid to Garling to date on the original contract sum of \$21,135,000. No change orders currently, but code corrections were issued so we should be expecting one soon.
- Pat Loeffler asked if any sub-contractors needed changed. Jon Galbraith responded that he was not aware of any.
- Lindsay Schumacher requested that Jon Galbraith send out progress photos of the job to the committee periodically.

Future Meeting Discussion—Jon Galbraith

- Jon Galbraith suggested meeting again in September to discuss financials, and again in October to do a site visit at the new elementary school. The committee agreed. The next meeting will be held September 21st, 2020 at 5pm. Lindsay Schumacher requested that Tim Oswald be available for the meeting.

Comments and Recommendations

- The meeting was held virtually on July 13th, due to COVID19. Zoom was used to have the meeting, and it was broadcast through a YouTube channel for members of the public to participate.

Action Items

- Jon Galbraith to contact Design Engineers to put together a cost estimate for reinjection wells.
- Jon Galbraith to periodically send out progress photos of the new elementary school to the committee.
- Tim Oswald to provide the MMD spread to Dave Nicholson to share with Lindsay Schumacher.
- Dave Nicholson to provide the detailed SAVE analysis for the September meeting, and Piper Sandler to send the information in advance so the committee receives it with plenty of time to review before that meeting.

Meeting adjourned at 4:46 pm



Traci Rozek



Jon Galbraith