

NRSD Building Project Bond Discussion - Friday, January 17, 2020 at 3pm

Orleans Finance Committee Chairman Lynn Bruneau (“LB”) meeting w/ NRSD Accounting Manager Jim Nowack at the NRSD Admin Building with Orleans Finance Director Cathy Doane participating via conference call.

The meeting was triggered in part by a question/suggestion sent to NRSD Superintendent Tom Conrad by LB prior to last Thursday’s (1/16/20) Orleans Citizens Forum-sponsored NRSD Building Project session for Orleans residents:

“There is (still) some confusion about the bonding process. Who issues the debt and when? When do the 4 towns have to “commit” to a particular bonding strategy? And is such a “commitment” for the full cost of the project (\$132mm) - or the full cost minus the state reimbursement (approximately \$97mm)? Does the bonding “commitment” have to be made “up front” - or can it be made in stages or phases, as the project proceeds? What are the MSBA “rules” about the bonding process? I think it would be very helpful to understand the MSBA process for bonding these big projects (the “it is what it is” understanding - “this is how they do it” - therefore, this is how we will do it....”).”

LB was suggesting that Mr. Conrad and/or someone from the School district and/or the Building Project Committee address the bonding topic at the OCF event; however, we ran out of time at the OCF meeting so the topic wasn’t presented and there were no specific questions asked about the topic. Thus the meeting w/ Mr. Nowack was arranged to provide more insight with regard to the bonding process for the Project.

Mr. Nowack confirmed that the MSBA is scheduled to vote on the NRSD Building Project on February 13. The NRSD Building Project Committee does not anticipate any further significant changes between now and then, although there were some minor changes at a meeting w/ the MSBA on Thursday, 1/16/20 (more arithmetic than design).

Mr. Nowack said that bonding approval is the responsibility of the School Committee per Chapter 71, Section D or N (two different sections, depending on the specific strategy pursued). The Committee will vote to borrow for the Project at their regularly-scheduled Committee meeting in mid-March (voting is based on weighted averages - likely based on town enrollment populations). A two-thirds vote of the Committee is required to approve. Then within 7 days of the Committee vote, they must inform the 4 towns within the Region of their vote. Then, per Mr. Nowack, the 4 towns have 60 business days to respond (to act upon the Committee vote). This should give the towns time to schedule and conduct their respective Town Meetings, and their local election/voting procedures.

The “rules” require that all 4 towns in the region must approve the borrowing at their respective Town Meetings. Each town will have a warrant article to authorize the District to borrow the full amount for the project (as of 1/16/20 - \$131,825,665). The article must pass at each Town Meeting by a simple majority. If it fails at any Town Meeting, then the District cannot borrow for the Project.

Then, each of the 4 towns must have a ballot question for the Project, again authorizing the District to borrow the full amount of the Project. The ballot question must pass in each town by a simple majority. If it fails in any of the towns, then the District cannot borrow for the Project.

However, if the Project borrowing approval fails at any of the Town Meetings or at any of the town elections, then the School Committee has additional options to pursue. They could try again, through the Town Meeting and local election process, or the School District could sponsor a District-wide balloting process (which is what Cape Tech did to simplify their process of getting approval from 13 Cape towns). A simple majority vote (of those voting) at such an election would approve the project. Mr. Nowack indicated that the School Committee hoped not to have to pursue this option.

Mr. Nowack confirmed that this is an MSBA “core” project. It is expected that construction will take 3 years or so. It was noted that the Cape Tech project has been faster, in part because they were building a new building on land adjacent to the old building, with school continuing in the old building. They likely bonded 80% of their project costs when construction began, with some funding through BANs initially for start-up costs (bond anticipation notes).

Mr. Nowack and Ms. Doane talked about cash flow projections as important input for the bonding strategy. Mr. Nowack expected to receive cash flow information from Unibank (bonding agent) fairly soon. The District has received bond strategy input from Brewster and Wellfleet (the latter following Brewster’s lead); however, Brewster may reconsider their initial interest in 20-year bonding. Mr. Nowack suggested that perhaps Orleans could contact Superintendent Tom Conrad to encourage a meeting of the 4 towns for a discussion of bonding strategies. Alternatively, Orleans may communicate directly with the towns to organize such a discussion.

Although Mr. Nowack feels that the towns could decide now on bonding strategies, Ms. Doane would prefer to wait until after the MSBA vote on February 13 - to be sure that the Project numbers are as accurate as possible. There w/be plenty of time before the mid-March School Committee vote.

Mr. Nowack noted that an earlier MSBA “base reimbursement rate” of 37.95% had changed to 37.32%. This is the rate based on factors such as local real estate values, local income and participants in free lunch programs. The current reimbursement rate of eligible building components is 43.39% (subtracting out things that the MSBA won’t pay for at all, or will pay only partially - but with points added for good maintenance, planned energy efficiency, and planned reconstruction). The current effective reimbursement rate is 27.81%. Multiplying that last number times the new total Project cost gives the amount of the “discount”. Subtracting the “discount” from the total Project cost leaves the amount that the towns will be responsible for: \$95,164,360.

Ms. Doane confirmed that the draft FY21 town Budget (the Financial Plan on pg. 2.2 of the Orleans Budget binders) does not yet include any debt for this Project. The \$25mm noted in the draft Orleans Capital Budget is not included in the Financial Plan numbers. There could be some minor BAN interest in the FY21 budget once the numbers are established, but the first actual debt service would be in FY22. The numbers would be shown in the Nauset Regional School District section of the Orleans Financial Plan page - under Debt - Excluded.

Ms. Doane also noted that in considering the bonding strategy for this Project, Orleans has other long-term debt considerations, such as wastewater, the Nauset Beach retreat, and other infrastructure projects.

Mr. Nowack provided a copy of the Unibank bond offering yields from November and December 2019, which show some examples of municipal bonds sold in those months with the bond terms and interest

rates. In November, there were several in the 20, 25 and 30-year range, with interest rates from 1.86% to 2.68%. In December, there were several 20-year bonds and 1 28-year with interest rates from 1.79% to 2.31%. Rates of course depend on ratings (triple A, etc.) and many other factors. But - these recent examples were all at rates half of the rate examples used previously to show the potential impact of the Project on town taxpayers.

Documents shared:

1. Bulletin 11-04: MSBA Project Scope and Budget - Vote Bulletins for Regional School Districts and Their Member Communities (LB Note - this provides sample Warrant Articles, Motions, Orders and Votes to support approval process) (not uploaded to Fin Comm Drop Box)
2. Updated NRSD Building Project Budget - from MSBA meeting 1/16/20 (Drop Box)
3. NRSD Project Financing Scenarios for 20, 25 and 30-year bonds for the 4 towns (not uploaded - still uses \$97mm as amount to be financed; still uses 4+% as financing rates)
4. Unibank Bond Offerings for November and December 2019 (Drop Box)

Notes drafted by Lynn Bruneau / Orleans Finance Committee Chairman / 1/18/20