Minutes

Meeting: **Community Bond Oversight Committee**

Location: **In-person at South Salem High School (face coverings required)**

In the Rose Auditorium lobby.

Date: **Monday, 11/01/21 at 5:30 p.m.**

Present: Ashley Carson Cottingham, Lisa Harnisch, Nancy MacMorris-Adix, Mark Shipman

Olga Cobb, Iton Udosenata, Mike Wolfe, Joel Smallwood, David Hughes, Bob Collins, Karma Krause, Kyle Beaty, Sarah Head, Danielle Rutledge, Lara Tiffin

Absent: Adriana Miranda, Jay Mundo, Chelsea Anderson, Chuck Woodard, Debbie Gregg, Michelle Vlach-Ing, Danielle Bethell, Tom Hoffert, Marty Heyen

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Bond program update

Program Delivery Overview – The current approved program totals $758.7 million, which includes nearly $140 million in additional work that was not included in the original base bond ($619.7 million) program. Some examples of additional work include increased scopes identified during the boundary adjustment process, system replacements instead of upgrades such as HVAC at McKay, and additional non-routine maintenance work that was originally removed from the bond when the package was revised prior to the May 2018 election. Currently, 90% of design work in the program is complete and construction is substantially complete at 63% of sites. In just over three years, $455 million has been spent. The average monthly expenditure is around $15.5 million.

Adjustments – Gubser, Eyre, Scott, Miller and Hayesville budgets are in closeout and will be balanced when final invoices are received. High School Success Act grant funds were applied to McKay's new CTE building, Claggett Creek Middle School HVAC system controls were obsolete and were replaced. The salvaged parts from Claggett are being used to repair other systems in the district that use the same controls. At Sumpter, the solar project was incorporated into the contractor's scope and a budget adjustment will be made from the solar requirement reserve. Interest earned on investment is expected to remain flat with an estimated $1 million in additional earnings projected in the future. Energy incentives increased by $118,568. There are no changes to the R Cubed program at this time. Mike Wolfe shared a defeasance analysis from Piper Sandler*. The analysis shows that if additional funds were used to pay down bond debt on the 2018 issue, the savings to the taxpayer would be minimal (averaging approximately five to nine dollars per year). Because the 2020 issue was deferred interest bonds, there would be no savings until the last year of the issuance, nearly twenty years from now. Compared to the cost escalation of postponing needed work (about six to eight percent annually) the more fiscally responsible approach is to address work now with available funds and reduce the amount of work deferred. CBOC Co-chairs were previously briefed and agree with this approach.

Look ahead – Energy incentives will continue to come in years after the bond program ends. Future energy reimbursements won't come into the current bond program but will instead be placed in funds for preventative and deferred maintenance needs that are outside the scope of the bond like replacing turf fields. Nancy MacMorris-Adix commented that this is a protection for the community because it funds needed work in the future when bond funds aren't available. The City's code requirements for planned work at the Reprographics building require more investment in the building than planned or desired at that facility. The alternate plan presented to CBOC is to relocate Reprographics to the Central Services campus shifting those funds to renovate the campus to include an additional loading dock, additional parking, a warehouse expansion and additional space for the Roberts Middle School program. In the future, an alternative use for the Reprographics building would be determined, or the Board may consider the building for liquidation. Mike Wolfe thanked the team for the hard work to get the program to this point and acknowledged many challenges along the way. CBOC members and the staff team thanked Mike for his leadership and vision to build and execute an aggressive program that is fulfilling promises to the voters, improving environments for students, and accomplishing it during unprecedented and historic challenges.

*Email from Carol Samuels at Piper Sandler regarding defeasance:

Hi Mike –

Per your request, we evaluated the potential outcome of defeasing $45 million of your outstanding general obligation bonds with proceeds. The results are attached. To summarize:

- We evaluated the possibility of defeasing either the final maturities of the Series 2018 bonds or of the Series 2020 bonds. There is no legal requirement to use the proceeds directly on the bonds from which they derive.
- Both have extremely limited impact on the levy rate that we project would otherwise be paid by your taxpayers in the near term. For the Series 2018 bonds, the impact between 2022 and 2038 ranges from a low of $0.05/$1,000 to $0.09/$1,000 (between $5 and $9 per year on a property with an AV of $100,000). In 2039, it reduces the levy by approximately $1.08/$1,000.
- For the Series 2020 bonds, because we would defease the deferred interest bonds maturing in 2039 and 2040, there is no impact on the levy rate until those years, when the levy would be reduced by $0.44 and $1.41/$1,000, respectively.
- There would also be considerable negative arbitrage in the escrow that would be established to defease these bonds given the mismatch between the interest rate paid on the bond and the potential interest earnings in the escrow. Specifically, the negative arbitrage on the 2018 GO would be approximately $3.3 million; on the Series 2020 GO, it's nearly double that at approximately $6 million.

I hope this is useful. Let me know if you have questions or need anything further.

Best,
Carol

Carol Samuels
Managing Director | Public Finance

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