NORTHFIELD PUBLIC SCHOOLS
Office of the Superintendent
Memorandum

TO: Board of Education
FROM: Matt Hillmann Ed.D., Superintendent
RE: Table File Items for October 12, 2020, Regular School Board Meeting

VI. Consent Agenda

B. Personnel Items

a) Appointments

8. Laura Kay Allen, Test Proctor for 1 day at the High School, beginning 10/14/2020-10/14/2020.
9. Andrew Bealles, KidVentures Site Assistant for up to 23.5 hours/week at Bridgewater, beginning 10/12/2020; Step 1-$13.65/hr.
10. Ana Bravo Gatton, General Ed EA EL Program for 6.75 hours/day at the Middle School, beginning 10/19/2020-6/10/2021; Gen Ed Step 1-$15.45/hr.
11. Lynnsey Carlsen, Supervisory EA for 2 hours/day at Bridgewater, beginning 10/12/2020; Gen Ed Step 3-$16.17/hr.
12. Caleb Davidson, Targeted Services PLUS Teacher for up to 8 hours/week at Greenvale Park, beginning 10/15/2020-6/10/2021; Yr. 2-$27.11/hr.
13. Timothy Drake, 1.0 FTE Technology Specialist with the District, beginning 10/26/2020; 2020-2021 Tech Specialist base salary, Step 1 - prorated for the 2020-21 school year.
14. Brent Lothert, 1.0 FTE Technology Specialist with the District, beginning 10/26/2020; 2020-2021 Tech Specialist base salary, Step 4 - prorated for the 2020-21 school year.
15. Katrina Warner, Long Term Substitute Special Ed EA PCA for 6.5 hours/day at Bridgewater, beginning 10/12/2020-12/8/2020; Spec Ed Step 3-$16.75/hr.

b) Increase/Decrease/Change in Assignment

26. Zane Anway, General Ed EA for 6.75 hours/day at the Middle School, change to 1.0 FTE Portage Teacher, effective 9/21/2020-6/10/2021; Daily Licensed Sub Rate
27. Lynnsey Carlsen, Supervisory EA for 2 hours/day at Bridgewater, change to Special Ed EA PCA for 4 hours/day and Supervisory for 2 hours/day at Bridgewater, effective 10/12/2020; Special Ed EA Step 3-$16.75/hr.
28. Matt Crase, EA at the Middle School, add Targeted Services BLAST Site Leader for up to 2.5 hours/day Tues. and Thurs. at the Middle School, effective 10/19/2020-5/6/2021; Step 1-$16.85/hr.
29. Shari Karlsrud, FACS Teacher at the High School, add Head Student Council Advisor at the High School, effective 10/8/2020; Level G, Step 2
30. Jane Streitz, Special Ed EA PCA for 6.75 hours/day and Gen Ed Supervision for .5 hours/day at Greenvale Park, change to Special Ed EA PCA for 7.25 hours/day from 9/14/2020-10/7/2020. Jane will be returning to Special Ed EA PCA for 6.75 hours/day and Gen Ed Supervision for .5 hours/day at Greenvale Park, effective 10/8/2020.
31. Emy Torres, Special Ed EA PCA for 6.75 hours/day and Gen Ed Supervision for .5 hours/day at Greenvale Park, change to Special Ed EA PCA for 7.25 hours/day from 9/14/2020-10/7/2020. Emy will be returning to Special Ed EA PCA for 6.75 hours/day and Gen Ed Supervision for .5 hours/day at Greenvale Park, effective 10/8/2020.

c) Leave of Absence

5. Tyler Faust, Teacher at Bridgewater, Family/Medical Leave of Absence, effective 10/19/2020-11/24/2020.

C. Grant Application Approval

Val Mertesdorf, Director of Finance, is requesting School Board approval of a $20,000 grant request from HCI. If received, the funds will provide additional literacy supports for K-5 students on the Move 5 Kids priority lists and help move five students in each class to grade level proficiency.

VII. Superintendent's Report

A. Items for Individual Action

1. Resolution Ratifying the Award of the Sale, Determining the Form and Details, Authorizing the Execution, Delivery, and Registration, and Providing for the Payment of General Obligation

School Building and Alternative Facilities Refunding Bonds, Series 2020A. Enclosed is the Sale Day Report to be reviewed with the Board and Ehlers.

Grant Application Approval Form

Date______10/12/2020__________

Any proposal submitted to an external funding source that involves any entity within the Northfield Public Schools must be approved by the School Board before the proposal is submitted. This form will accompany all requests to the School Board and will be filed along with a copy of the completed grant proposal. All proposals must:

- **Support the District's mission and goals.**
- **Be financially feasible and supported by all affected District departments or buildings.**
- **Demonstrate collaboration and commitment from the District, if required.**

Grant Proposal Information	
Project Title	**Move 5**
Project Period	**From: 10/1/2020 To: 6/30/2021**
Funding Source	**HCI**
Application Deadline	**n/a**
List all Grant Applicants	
School/Department	**Elementary schools**
Contact Person	**Val Mertesdorf Phone No.**
Project Information	
Brief Proposal Description	**Provide additional literacy supports for K-5 students on the Move 5 Kids priority lists.**
Project Goal (in one Sentence)	**Help move 5 students in each class to grade level proficiency.**
List All Personnel Involved in Application	**Dr. Matt Hillmann, Sam Richardson, Nancy Antoine, Scott Sannes, Hope Langston**
Budget Information	
Amount Requested	**$20,000**
Matching Funds	**î Are Required X î Not Required**
Source of Matching Funds	

Required Documents Attached: **î Completed Application** **î Rough Draft** **î Summary of Application**

Valori Mertesdorf
Project Initiator Signature

Valori Mertesdorf
Building Principal or District Administrator Signature

î Approved by the School Board **î Not Approved by the School Board Date__________________**

October 8, 2020

SALE DAY REPORT FOR:

Independent School District No. 659 (Northfield Public Schools), Minnesota

$9,665,000 General Obligation School Building and Alternative Facilities Refunding Bonds, Series 2020A

EHLERS
PUBLIC FINANCE ADVISORS

Prepared by:

Ehlers
3060 Centre Pointe Drive
Roseville, MN 55113

Jeff Seeley,
Senior Municipal Advisor

Shelby McQuay,
Senior Municipal Advisor

BUILDING COMMUNITIES. IT'S WHAT WE DO.

COMPETITIVE SALE RESULTS

Purpose:	The issue will finance two purposes: 1) current refunding of the 2022 through 2024 maturities of the District's General Obligation School Building Refunding Bonds, 2011A; and 2) current refunding of the 2022 and 2025 maturities of the District's General Obligation Alternative Facility Refunding Bonds, 2012.
Rating:	**MN Credit Enhancement Rating:** S&P Global Ratings "AAA" **Underlying Rating:** S&P Global Ratings "AA+"
Number of Bids:	5
Low Bidder:	FHN Financial Capital Markets, Memphis, Tennessee

Comparison from Lowest to Highest Bid:
(TIC as bid)

Low Bid*	0.3712%
High Bid	0.4911%
Interest Difference	**$34,738**

Summary of Sale Results:

Principal Amount*:	$9,665,000
Underwriter's Discount:	$27,374
Reoffering Premium:	$1,198,211
True Interest Cost*:	0.3710%
Costs of Issuance:	$75,652
Yield:	0.21%-0.37%
Future Value Savings:	$367,681
Present Value Savings:	$364,734
Savings Percentage:	3.249%
Total Net P&I	$10,937,851

** The winning bidder submitted a bid with a premium that was higher than the estimate in the Pre-Sale Report. As a result, the principal amount of the Bonds was decreased from $10,385,000 (in the Pre-Sale Report and the Preliminary Official Statement) to $9,665,000. This also caused a slight change to the True Interest Cost.*

Notes:	The True Interest Cost of 0.37% is lower than the 0.67% estimated in the Pre-Sale Report. This resulted in an increase in the future value savings of the refunding of $89,534, from $277,847 in the Pre-Sale Report to $367,681, or 3.249% on a present value basis as a percent of refunded debt service.
Designated Official Action:	Adopt the resolution ratifying the award of the sale of $9,665,000 General Obligation School Building and Alternative Facilities Refunding Bonds, Series 2020A.

Supplementary Attachments

- ✓ Bid Tabulation
- ✓ Updated Sources and Uses of Funds
- ✓ Updated Debt Service Schedules- Callable Portion of 2011A & 2012 Bonds
- ✓ Updated Debt Service Schedule for Refunding Bonds
- ✓ Updated Refunding Savings Comparison
- ✓ Rating Report

BID TABULATION

$10,385,000* General Obligation School Building and Alternative Facilities Refunding Bonds, Series 2020A

Independent School District No. 659 (Northfield Public Schools), Minnesota

SALE: October 8, 2020

AWARD: FHN FINANCIAL CAPITAL MARKETS

MN Credit Enhancement Rating: S&P Global Ratings "AAA"
Underlying Rating: S&P Global Ratings "AA+"

Tax Exempt - Non-Bank Qualified

NAME OF BIDDER	MATURITY (February 1)	RATE	REOFFERING YIELD	PRICE	NET INTEREST COST	TRUE INTEREST RATE
FHN FINANCIAL CAPITAL MARKETS				$11,627,766.65	$108,468.77	0.3712%
Memphis, Tennessee	2022	5.000%	0.210%			
Morgan Stanley & Co. LLC	2023	5.000%	0.220%			
Raymond James & Associates, Inc.	2024	5.000%	0.270%			
Ramirez & Co., Inc.	2025	5.000%	0.370%			
UBS Financial Services Inc.						
Wiley Brother-Aintree Capital, LLC						
Ziegler						
Advisors Asset Management						
HILLTOP SECURITIES Dallas, Texas				$11,622,991.70	$113,243.72	0.3876%
BNY MELLON CAPITAL MANAGEMENT Pittsburgh, Pennsylvania				$11,621,885.20	$114,350.22	0.3915%
HUNTINGTON SECURITIES, INC Chicago, Illinois				$11,619,997.95	$116,237.47	0.3980%
BAIRD Milwaukee, Wisconsin				$11,593,029.15	$143,206.27	0.4911%

* Subsequent to bid opening the issue size was decreased to $9,665,000.
Adjusted Price - $10,835,836.77 Adjusted Net Interest Cost - $102,198.64 Adjusted TIC - 0.3710%

Northfield School District, MN (I.S.D #659)

$9,665,000 G.O. School Building and Alternative Facilities Refunding Bds, Series
Issue Summary
Dated: November 4, 2020 - Proposed Current Refunding of 2011A & 2012

Total Issue Sources And Uses

Dated 11/04/2020 | Delivered 11/04/2020

	CR 2011A Portion	CR 2012 Portion	Issue Summary
Sources Of Funds			
Par Amount of Bonds	$5,730,000.00	$3,935,000.00	$9,665,000.00
Reoffering Premium	663,558.60	534,652.55	1,198,211.15
Total Sources	**$6,393,558.60**	**$4,469,652.55**	**$10,863,211.15**
Uses Of Funds			
Total Underwriter's Discount (0.283%)	16,229.20	11,145.18	27,374.38
Costs of Issuance	44,851.10	30,800.90	75,652.00
Deposit to Current Refunding Fund	6,330,000.00	4,430,000.00	10,760,000.00
Rounding Amount	2,478.30	(2,293.53)	184.77
Total Uses	**$6,393,558.60**	**$4,469,652.55**	**$10,863,211.15**

Northfield School District, MN (I.S.D #659)

$9,750,000 G.O School Building Refunding Bonds, Series 2011A

Prior Original Debt Service

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
02/01/2021	-	-	-	-	-
08/01/2021	-	-	71,846.88	71,846.88	-
02/01/2022	1,455,000.00	2.125%	71,846.88	1,526,846.88	1,598,693.76
08/01/2022	-	-	56,387.50	56,387.50	-
02/01/2023	2,405,000.00	2.250%	56,387.50	2,461,387.50	2,517,775.00
08/01/2023	-	-	29,331.25	29,331.25	-
02/01/2024	2,470,000.00	2.375%	29,331.25	2,499,331.25	2,528,662.50
Total	**$6,330,000.00**	-	**$315,131.26**	**$6,645,131.26**	-

Yield Statistics

Base date for Avg. Life & Avg. Coupon Calculation	11/04/2020
Average Life	2.402 Years
Average Coupon	2.3009733%
Weighted Average Maturity (Par Basis)	2.402 Years
Weighted Average Maturity (Original Price Basis)	2.402 Years

Refunding Bond Information

Refunding Dated Date	11/04/2020
Refunding Delivery Date	11/04/2020

Northfield School District, MN (I.S.D #659)

$9,825,000 GO Alternative Facility Refunding Bonds, Series 2012

Prior Original Debt Service

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
02/01/2021	-	-	-	-	-
08/01/2021	-	-	44,300.00	44,300.00	-
02/01/2022	990,000.00	2.000%	44,300.00	1,034,300.00	1,078,600.00
08/01/2022	-	-	34,400.00	34,400.00	-
02/01/2023	1,055,000.00	2.000%	34,400.00	1,089,400.00	1,123,800.00
08/01/2023	-	-	23,850.00	23,850.00	-
02/01/2024	1,120,000.00	2.000%	23,850.00	1,143,850.00	1,167,700.00
08/01/2024	-	-	12,650.00	12,650.00	-
02/01/2025	1,265,000.00	2.000%	12,650.00	1,277,650.00	1,290,300.00
Total	**$4,430,000.00**	-	**$230,400.00**	**$4,660,400.00**	-

Yield Statistics

Base date for Avg. Life & Avg. Coupon Calculation	11/04/2020
Average Life	2.842 Years
Average Coupon	2.0000000%
Weighted Average Maturity (Par Basis)	2.842 Years
Weighted Average Maturity (Original Price Basis)	2.842 Years

Refunding Bond Information

Refunding Dated Date	11/04/2020
Refunding Delivery Date	11/04/2020

Northfield School District, MN (I.S.D #659)

$9,665,000 G.O. School Building and Alternative Facilities Refunding Bds, Series
Issue Summary
Dated: November 4, 2020 - Proposed Current Refunding of 2011A & 2012

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
11/04/2020	-	-	-	-	-
08/01/2021	-	-	358,410.42	358,410.42	-
02/01/2022	1,965,000.00	5.000%	241,625.00	2,206,625.00	2,565,035.42
08/01/2022	-	-	192,500.00	192,500.00	-
02/01/2023	3,145,000.00	5.000%	192,500.00	3,337,500.00	3,530,000.00
08/01/2023	-	-	113,875.00	113,875.00	-
02/01/2024	3,350,000.00	5.000%	113,875.00	3,463,875.00	3,577,750.00
08/01/2024	-	-	30,125.00	30,125.00	-
02/01/2025	1,205,000.00	5.000%	30,125.00	1,235,125.00	1,265,250.00
Total	**$9,665,000.00**	-	**$1,273,035.42**	**$10,938,035.42**	-

Yield Statistics

Bond Year Dollars	$25,460.71
Average Life	2.634 Years
Average Coupon	5.0000000%
Net Interest Cost (NIC)	0.4013975%
True Interest Cost (TIC)	0.3710868%
Bond Yield for Arbitrage Purposes	0.2712279%
All Inclusive Cost (AIC)	0.6488372%

IRS Form 8038

Net Interest Cost	0.2579235%
Weighted Average Maturity	2.671 Years

Northfield School District, MN (I.S.D #659)

$9,665,000 G.O. School Building and Alternative Facilities Refunding Bds, Series
Issue Summary
Dated: November 4, 2020 - Proposed Current Refunding of 2011A & 2012

Debt Service Comparison

Date	Total P+I	Net New D/S	Old Net D/S	Savings
02/01/2021	-	(184.77)	-	184.77
02/01/2022	2,565,035.42	2,565,035.42	2,677,293.76	112,258.34
02/01/2023	3,530,000.00	3,530,000.00	3,641,575.00	111,575.00
02/01/2024	3,577,750.00	3,577,750.00	3,696,362.50	118,612.50
02/01/2025	1,265,250.00	1,265,250.00	1,290,300.00	25,050.00
Total	**$10,938,035.42**	**$10,937,850.65**	**$11,305,531.26**	**$367,680.61**

PV Analysis Summary (Net to Net)

Gross PV Debt Service Savings.....................	364,549.30
Net PV Cashflow Savings @ 0.271%(Bond Yield).....	364,549.30
Contingency or Rounding Amount....................	184.77
Net Present Value Benefit	$364,734.07
Net PV Benefit / $11,227,760.45 PV Refunded Debt Service	3.249%
Net PV Benefit / $10,760,000 Refunded Principal...	3.390%
Net PV Benefit / $9,665,000 Refunding Principal..	3.774%

Refunding Bond Information

Refunding Dated Date	11/04/2020
Refunding Delivery Date	11/04/2020

S&P Global
Ratings

RatingsDirect®

Summary:

Northfield Independent School District No. 659, Minnesota; School State Program

Primary Credit Analyst:
Augustin Kazakevicius, Centennial + 1 (303) 721 4782; augustin.kazakevicius@spglobal.com

Secondary Contact:
Blake E Yocom, Chicago (1) 312-233-7056; blake.yocom@spglobal.com

Table Of Contents

Summary:

Northfield Independent School District No. 659, Minnesota; School State Program

Credit Profile		
US$10.385 mil GO sch bldg & alt facs rfdg bnds ser 2020A dtd 10/08/2020 due 02/01/2025		
Long Term Rating	AAA/Negative	New
Underlying Rating for Credit Program	AA+/Stable	New
Northfield Indpt Sch Dist #659 GO State Credit Enhancement		
Long Term Rating	AAA/Negative	Current
Underlying Rating for Credit Program	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating, with a negative outlook, and 'AA+' underlying rating, with a stable outlook, to Northfield Independent School District No. 659, Minn.'s $10.385 million general obligation (GO) school building and alternative facilities refunding bonds, series 2020A. At the same time, we affirmed our 'AA+' underlying rating on the district's outstanding GO debt.

Securing the bonds is the district's full faith, credit, and unlimited ad valorem taxing pledge. Proceeds from the bonds will be used to current refund the district's outstanding 2011A and 2012 bonds for interest cost savings.

The 'AAA' long term rating reflects the additional security provided by the district's eligibility for and participation in Minnesota's School District Credit Enhancement Program, a state standing appropriation program to prevent a default on the district's bond issues as authorized by Minnesota State Statutes, Section 126C.55. Under the program, the state will pay debt service on behalf of the district from the state's general fund if the district fails to meet its debt service obligations for the qualified debt. Payments from the state represent a standing appropriation from the state's general fund. We view this standing appropriation pledge as equivalent to a general fund pledge because the standing appropriation does not require adoption of a budget or any action of the legislature to make payment. Furthermore, the standing appropriation is not subject to executive unallotment authority. Additionally, the credit enhancement program supports projects that are central to the state of Minnesota's operations and purpose. In our opinion, there is no unusual political, timing, or administrative risk related to the debt payment. The rating on obligations that have received enhancement under the program is on par and moves in tandem with the rating on the state. The negative outlook on the long-term credit enhancement program rating reflects that of the state of Minnesota and moves in tandem with the state GO rating and outlook (see "Minnesota Credit Enhancement Program Outlooks Revised To Negative After State GO Outlook Revision," published Aug. 3, 2020, on RatingsDirect).

Credit overview

Impacts from the COVID-19 pandemic and the recession have remained relatively minimal on the district's local economy, which has mainly experienced some minor furloughs among its hospitals and nursing centers. With the occurrence of the pandemic and the recession, the district had enacted a budget freeze, which, according to latest estimates for fiscal 2020, have contributed to a surplus operating result. The district is planning a fund balance drawdown for fiscal 2021 given expected salary and benefits increases. However, we note that the district continues to maintain very strong reserves. Although recessionary impacts have remained relatively minimal overall, we believe additional pressures could still materialize in the next six to 12 months (See "Economic Research: The U.S. Economy Reboots, With Obstacles Ahead," published Sept. 24, 2020).

Credit factors include:

- Very strong reserves, supported by an estimated surplus operating result for fiscal 2020;
- Projections of a declining enrollment trend over the next few years, which could affect operating revenues; and
- Good management team, with sound budgeting practices and long-term financial plans.

Environmental, social, and governance (ESG) factors

We have analyzed the district's ESG factors with regard to its economy, financial profile, management team, and debt metrics, and have concluded that all are in line with sector peers.

Stable Outlook

Downside scenario

If the district were to incur additional expenditure increases without matching revenues, such that imbalanced financial performance were to result in declining reserves comparable with those of lower-rated peers, we could lower the rating.

Upside scenario

We could consider raising the rating if the district's local economy were to improve, demonstrated by higher income indicators, coupled with a strengthening of its debt profile.

Credit Opinion

A stable local economy, centered on private higher education institutions, with ongoing residential development

The district's market value has grown approximately 11.6% over the last three years, driven by a combination of new development and increases in existing property values. The tax base remains primarily residential (65.4%), followed by commercial and industrial properties (16.4%).

Impacts from the COVID-19 pandemic and the recession have remained relatively minimal so far. While hospitals and nursing centers in the area did experience some minor furloughs, operations currently appear to be in line with prepandemic levels. The local economy is centered on Carleton College (845 employees) and St. Olaf College (825 employees), both private liberal arts colleges. We believe income indicators for the district could be slightly understated, due to a significant college student population. With a combined enrollment of approximately 5,000 students, we believe college students represent approximately 17% of the district's total population. Management indicates that students of both colleges are back on campus and are subject to strong COVID-19 measures, including thorough testing. Some other employers in the area are also currently hiring.

After having peaked at 7.5% in May, the unemployment rate for Rice County has since lowered to 6.0% in July, which is better than the national (10.2%) and state (7.6%) averages. The district is also partially located in Goodhue and Dakota counties, for which unemployment rates are 6.3% and 7.9%, respectively.

The local economy continues to see strong residential development with multiple housing units currently being built. While impacts from the pandemic have remained relatively minimal, we believe the local economy could still experience slight slowdowns in the next few months.

Estimated surplus operating result for fiscal 2020, supporting very strong reserves

The state's basic general education revenue funding, which is determined by pupil count, is the primary source of operating revenue for Minnesota school districts. As a result, increases or decreases in enrollment can lead to increases or decreases, respectively, in revenue. In fiscal 2019, operating revenues were primarily composed of state sources (69.7%), followed by local property taxes (24.4%). While enrollment has remained grown approximately 1.4% over the last five years, management is projecting it to decline approximately 1.3% over the next three years. We note that the district loses students from open enrollment, particularly to charter schools, though management indicates that it sponsors these schools and manages good relationships with them.

Latest estimates for fiscal 2020 project a surplus operating result of approximately $392,000, driven primarily by a COVID-19-related budget freeze that was enacted in March and affected all nonpandemic or distance learning costs. Expenditures are believed to be approximately $1 million to $1.5 million less than budgeted. The district also received some one-time Coronavirus Aid, Relief, and Economic Security (CARES) Act money, totaling approximately $1.4 million, part of which was used to cover personal protective equipment and technology expenses.

For fiscal 2021, the district is currently budgeting a deficit operating result of approximately $2.4 million. Management indicates that this is a planned drawdown to increase staff salaries and benefits. The district is received a 2% increase in state funding this year, which is included in the state's biennial budget. The district is currently operating on a hybrid model for its secondary classes and in person for its elementary classes. Given the district's expected drawdown for the current fiscal year, management is committed to revisiting its program-based budgeting approach to ensure balanced results over the following three fiscal years.

Due to uncertainties regarding long-term effects from the pandemic and the recession, we believe budgetary variances could still materialize due to tax-based weaknesses or impacts to state aid. In addition to the declining enrollment trend, we believe the district may face some pressure to match revenues and expenditures. Despite the district's very strong reserves at 26.2% of operating expenditures, we believe pressures will have to be adequately addressed to maintain balanced operations. We note that the district approved a 10-year operating levy increase for which revenues were first received in fiscal 2019 and which is expected to increase operating revenues going forward.

Good management team with sound budgeting practices and some long-term financial planning

The district uses historical data and available outside sources of information when preparing budgetary forecasts. It has also recently incorporated a budget-to-actual report, in addition to its monthly cash balances. The district projects operating revenues and expenditures two years past the current budget year and usually updates the plan annually. It also maintains a detailed long-term facilities maintenance plan that projects capital needs over the next 10 years, and is updated annually. Investment reports are shared with the board monthly, in line with its formal investment policy. The district also maintains a fund balance policy, focusing on compliance with GASB 54 and a reserve target of 16% unassigned reserves. It does, however, lack a debt management policy, though it follows statutory guidelines.

Moderate debt levels with slightly faster-than-average amortization

With the issuance of the 2020A bonds, the district will have approximately $59.7 million debt outstanding, including lease purchases and other capital leases. We note that the district's 2019 lease purchase is privately placed, though we confirm it does not pose a liquidity risk for the district. We estimate the district's overall net debt burden to be moderate at $3,278 per capita. With 57% of the debt to be retired in 10 years, we believe amortization is slightly faster than average. Management has indicated additional debt plans of approximately $1 million, though the district will amortize more than that over the next two years.

Pension and other postemployment benefit (OPEB) obligations

In fiscal 2019, the district paid its full required contribution toward its pension obligations, representing approximately 3.7% of total governmental expenditures.

- We do not believe that pension and OPEB liabilities represent a medium-term credit pressure, given that contributions are only a modest share of the budget, though pension plan actuarial assumptions and methods and plan funding practices introduce long-term risk of cost acceleration.
- The district participates in two multiple-employer, defined-benefit pension plans that cover teachers and general employees. Both plans have seen recent improvements in funded status, though plan statutory contributions have regularly fallen short of actuarial recommendations. Along with certain plan-specific actuarial assumptions and methods, this introduces some long-term risk of funding volatility and cost acceleration.
- The district has an implicit OPEB liability that it pays for on a pay-as-you-go basis. We expect that medium-term costs will remain only a small share of total spending and, therefore, not a significant budgetary pressure.

The district participates in the following pension and OPEB plans:

- Teachers' Retirement Assn. of Minnesota (TRA): 78.2% funded (as of June 30, 2019), with a district proportionate share of the plan's net pension liability (NPL) of $27.5 million;
- Minnesota General Employees Retirement Fund (GERF): 80.2% funded (as of June 30, 2019), with a district proportionate share of the plan's NPL of $6.7 million; and
- An OPEB plan to which the district contributes on projected pay-as-you-go financing requirements, which currently has a liability of approximately $14.5 million.

Plan-level contributions to GERF were in excess of our static funding metric in the most recent year, though TRA contributions were not, and both fell well short of minimum funding progress. Annual contributions are based on a statutory formula that has typically produced contributions less than the actuarially determined contribution, which we think increases risk of underfunding over time if future funding shortfalls are not met with offsetting adjustments by the state legislature. The plans' 7.5% investment rate of return assumption introduces substantial market risk, and their use of a lengthy 30-year amortization period based on a level percentage of payroll significantly defers contributions into the future, which creates long-term risk of cost acceleration. Still, costs remain only a modest share of total spending and, we think, are unlikely to pressure the district's medium-term operational health. If pension contributions absorb a larger share of the district's budget or begin to pressure financial operations, our view of its debt and contingent liability profile could weaken.

In 2018, the state passed pension legislation that increased contributions for TRA, reduced the investment rate of return to 7.5% (from 8%), and reduced some employee benefits (primarily cost-of-living adjustments). The increased employer contributions were coupled with additional state aid such that it would have a neutral budgetary effect on the district. While we view these as positive changes for future plan funding levels, the lack of an actuarial funding policy remains a weakness in these plans. (For more information about the reforms included in the 2018 omnibus retirement bill and the potential for future cost increases, see our article, "Minnesota's New Pension Bill Is A Positive Step Toward Sustainable Funding," published June 7, 2018.)

Northfield Independent School District No. 659, Minnesota--Financial And Operating Statistics

	Characterization	Most recent	Historical information		
			2019	2018	2017
Economic indicators					
Population			29,146	28,875	28,723
Median household EBI % of U.S.	Strong		125	117	123
Per capita EBI % of U.S.	Good		99	92	98
MV per capita ($)	Extremely strong	115,063	115,063	108,776	105,957
Top 10 taxpayers as % of assessed value	Very diverse	7.5	7.6	8.1	8.1
Financial indicators					
Total adjusted available fund balance ($000)			14,898	14,893	16,916
Total adjusted available fund balance as % of operating expenditures	Very strong		26.2	28.5	31.4
Governmental funds cash as % of governmental fund expenditures			103.2	47.0	38.4
General fund operating result as % of general fund operating expenditures			0.53	(2.58)	0.91
Financial Management Assessment	Good				
Enrollment		3,951	4,050	3,993	3,948
Debt and long-term liabilities					
Overall net debt as % of MV	Low		2.5	1.6	1.6
Debt service as % of governmental funds expenditures	Moderate		9.9	9.8	9.8
Required pension contribution ($000)			2,552	2,380	2,427
OPEB contribution ($000)					845
Required pension plus OPEB contribution as % of governmental fund expenditures			3.7	3.8	5.0

EBI--Effective buying income. MV--Market value. OPEB--Other postemployment benefit.

Related Research

- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of October 2, 2020)		
Northfield Indpt Sch Dist #659 GO alternative facs rfdg bnds		
Long Term Rating	AAA/Negative	Current
Underlying Rating for Credit Program	AA+/Stable	Affirmed
Northfield Indpt Sch Dist #659 GO sch bldg bnds		
Long Term Rating	AAA/Negative	Current
Underlying Rating for Credit Program	AA+/Stable	Affirmed