



MNTAAB
Minnesota Tax and Aid Anticipation Borrowing Pool
Cash Flow Borrowing Information Materials
Summer 2019 Aid Anticipation Certificates

SPONSORED BY:

Minnesota School Boards Association
Minnesota Service Cooperatives

This program provides a cash flow borrowing opportunity for all Minnesota school districts. Funds will be available in time for those who participated in last year's pool, as well as other qualifying Districts, to repay their Series 2018 certificate borrowings.

The online application link is located on our website, www.BakerTilly.com. Required supporting documents can also be submitted via the online application.

For questions or support, call 1-800-236-3033 or 651-223-3000 and ask for Kelly Smith or Jeff Solomon.

Series 2019

Completed application due

See calendar of events

Money received by District

September 5, 2019

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THE MINNESOTA TAX AND AID ANTICIPATION BORROWING (MNTAAB) POOL:

AID ANTICIPATION CERTIFICATES, SERIES 2019A

- The MNTAAB Pool is for all Districts that expect to experience a temporary cash flow shortfall in the upcoming fiscal year.
- It is an easy and reliable way to address cash flow problems at a low cost and with minimal administrative effort.
- It offers a safe and inexpensive way to borrow for cash flow needs.
- The MNTAAB Pool also offers an attractive investment option to leverage investment earnings.

Sponsorship

This program is sponsored by the **Minnesota School Boards Association** and your local **Service Cooperative**. These organizations believe that every District can benefit from group participation in the short-term debt market. They have combined their strengths to provide Districts with these quality services and they recommend participation in the pool if the District has cash flow borrowing needs.

A team of finance professionals has been selected with the expertise and professional standing to produce quality results for those who participate. This team has consistently delivered low-interest loans to borrowers under a variety of market conditions. Your finance professionals are:

- Baker Tilly—municipal advisor;
- Piper Jaffray—underwriter;
- Dorsey & Whitney—bond counsel;
- U.S. Bank—trustee; and
- Knutson, Flynn & Deans, P.A.—counsel to the sponsors.

Pool Facts

1. Pricing will take place on or about August 20, 2019. Funds will be available September 5, 2019.
2. Action on pool participation will need to be taken at your June or July board meeting and must occur prior to July 10, 2019. Applications are due three (3) weeks prior to the meeting at which your board will approve their participation resolution. This allows time for a borrowing amount to be calculated that falls within the federal and state rules and appropriate documentation to be provided for your board packet. If you do not have a board meeting prior to July 10, 2019 or if you need an exception from the timing stated above, please contact Kelly Smith at 651-223-3099 or kelly.smith@bakertilly.com. We will make every effort to accommodate your district.
3. **The online application is available on the Baker Tilly website at www.BakerTilly.com.** Call for technical assistance.
4. Districts borrowing over \$5 million in a calendar year should review arbitrage and rebate requirements (See "Arbitrage/Rebate Considerations" below.) Baker Tilly can assist with this and can also provide assistance in coordinating cash flow borrowing around any other district financing needs.

Interim Interest Payment

Pool borrowing will accommodate the summer school board meeting schedules. Because the term of the borrowing exceeds one year, the Summer 2019 Certificates include an interim interest payment. This makes the Certificates eligible for purchase by money market funds and assures the lowest possible borrowing cost to Districts.

The interim interest payment date is set at September 11, 2019. Since this payment is shortly after the delivery of Certificate proceeds to participating Districts, the Trustee will hold back a sufficient amount of Certificate proceeds from each District, as capitalized interest. The borrowing amount for each District will be adjusted upward to include an increase sufficient to make the interim interest payment.

This methodology of dealing with the interim interest payment is a cost-effective, District-friendly approach and should be essentially transparent to pool borrowers. Please feel free to call with any questions regarding the need for, and treatment of, this interim interest payment.

Reinvestment of Proceeds

MNTAAB Pool participants will need to decide how to invest Certificate proceeds.

There are two basic choices for Districts to invest Certificate proceeds:

- 1) the MSDLAF Liquid Asset Fund -- variable rate investment; and
- 2) other financial instruments (i.e., variable or fixed rate investment instruments that can be purchased through banks, broker/dealers, or with the assistance of your financial advisor).

Proceeds may be invested in one or all of the above choices. A fixed rate investment is a good choice if the District wants to match the term of their liability (the Certificates) with the term of their asset (reinvestment proceeds) and lock in a positive earning spread. A variable rate investment is a good choice if the District expects investment rates to remain the same or increase over the next year. Districts can invest in a combination of fixed and variable rate investments. A Guaranteed Investment Contract (GIC) will not be offered this year.

Borrowing Limits

Your District's issue size must comply with the following two legal requirements:

First, Minnesota law requires that your issue be no greater than 75% of school aids yet to be distributed by the Department of Education for the school year; and

Second, Federal law requires that your issue be no greater than the largest actual projected cumulative cash flow deficit in fund 1 (funds 2 and/or 4 can be included), plus 5% of the actual expenditures from these funds in the previous fiscal year.

Post Issuance Compliance

Federal arbitrage requirements may need to be considered for some borrowers. The Federal government does not allow Districts to keep the investment earnings on tax-exempt proceeds over and above the rate paid to Certificate holders unless either one of the following two rebate exceptions is met:

Small Issuer Exception - Your District will qualify for this exception if it does not issue more than \$5 million of tax-exempt obligations in the current calendar year, provided that if tax-exempt obligations are issued to finance the construction of public school facilities, an additional amount of tax-exempt obligations for such purpose, not to exceed \$10 million, may be issued.

90% Safe Harbor Exception - Your issue will qualify for this exception if, within 6 months of the delivery date, your District experiences a cumulative cash flow deficit that exceeds 90% of the sale proceeds of the issue (sale proceeds spent on costs of issuance are excluded for this purpose).

These exceptions are based on actual facts rather than reasonable expectations. The exceptions can be hard to meet and the consequences of not meeting the test can be substantial. Therefore, Districts should allow for a margin of error and should have arbitrage calculations performed or otherwise be able to demonstrate compliance.

If you have questions related to federal arbitrage requirements please contact Dr. Kelly Smith at Baker Tilly, 1-800-236-3033 or 651-223-3099.

Borrowing Costs

The MNTAAB Pool allows lower net borrowing costs due to economies of scale attainable from group borrowing and reinvesting. The examples on the below show the cost associated with borrowing in the MNTAAB Pool.

The pricing of this year's borrowing program remains unchanged from prior years.

	<u>Certificate Size</u>			
	<u>\$5,000 to \$300,000</u>	<u>\$300,001 to \$1 million</u>	<u>\$1,000,001 to \$5 million</u>	<u>Over \$5 million</u>
Costs of Issuance ^(a)	\$1,500 fee	.50% of borrowing size	\$5,000 fee	\$5,000 fee plus 0.035% over \$5,000,000
Transaction Cost ^(b)	.15%	.15%	.15%, capped at \$3,000	.075%
Underwriting ^(c)	.10%	.10%	.10%	.10%

Examples of actual certificate issues:

	<u>Certificate Size</u>			
	<u>\$225,000</u>	<u>\$800,000</u>	<u>\$4 million</u>	<u>\$10 million</u>
Costs of Issuance ^(a)	\$1,500	\$4,000	\$5,000	\$6,750
Transaction Costs ^(b)	<u>338</u>	<u>1,200</u>	<u>3,000</u>	<u>7,500</u>
	\$1,838	\$5,200	\$8,000	\$14,250
Underwriting ^(c)	<u>225</u>	<u>800</u>	<u>4,000</u>	<u>10,000</u>
Total Costs	\$2,063	\$6,000	\$12,000	\$24,250

^(a) Costs of issuance includes all legal fees, including Bond Counsel, printing costs, trustee/paying agent fees, bond record and advisory fee.

^(b) Transaction costs include fees paid to complete the issuance of the Certificates.

^(c) Includes brokers' commissions to market the Certificate. All underwriters receive compensation for their role in any bond transaction.

Participation in the MNTAAB Pool vs. Stand-Alone Issues

Would you like to see how the MNTAAB Pool can save your District money? Contact Kelly Smith or Jeff Solomon at Baker Tilly, 1-800-236-3033 or 651-223-3000, with inquiries.

Bridge Financings

Baker Tilly can also assist with bridge financing if your 2018 certificates mature prior to funds being available from the 2019 pool. Contact Baker Tilly at 1-800-236-3033 or 651-223-3000 for details.

MNTAAB Cash Flow Borrowing Pool Calendar of Events

Deadlines and Procedures for Participation Summer 2019 Aid Anticipation Certificates

	Actions	Date	Responsible Party
Step 1	School Districts return completed application materials to Baker Tilly. <ul style="list-style-type: none"> • June Board Meeting • July Board Meeting 	3 weeks prior to meeting or no later than June 20, 2019	District Staff
Step 2	Baker Tilly calculates District's borrowing limits and determines borrowing amount in consultation with District officials.	After Receipt of Application	Baker Tilly
Step 3	School Districts <ul style="list-style-type: none"> • Adopt resolution (sent directly to the District from Dorsey & Whitney). • Complete the MN School District Credit Enhancement Program Application. • School Districts return signed resolution and closing documents to Baker Tilly (within one week of meeting). 	From June 1, 2019 to July 10, 2019	District Staff Dorsey & Whitney
	<small>Board Action Required!</small>		
Step 4	Certificate Sale Day <ul style="list-style-type: none"> • Interest rate set. • Signatures required by one of the following: Superintendent, Business Manager, Chair or Clerk. • No formal Board action necessary. 	August 20, 2019	District Staff Baker Tilly Piper Jaffray
	<small>Signatures Required!</small>		
Step 5	2019 Certificate proceeds deposited into the District's designated account. <i>DISTRICT STAFF NEEDS TO BE AVAILABLE</i>	September 5, 2019	District Staff Baker Tilly Dorsey & Whitney
Step 6	2018 Certificate repayment funds due to U.S. Bank.	September 10, 2019	District Staff
Step 7	Interim interest payment due on 2018 Certificates. Proceeds will be retained by U.S. Bank to make this payment.	September 11, 2019	Baker Tilly U.S. Bank
Step 8	2018 Certificates mature.	September 13, 2019	
Step 9	Final 2019 Certificate documents delivered to Districts.	Prior to December 2019	Baker Tilly Dorsey & Whitney
Step 10	2019 Certificate repayment funds due to U.S. Bank.	September 10, 2020	District Staff
Step 11	2019 Certificates mature.	September 11, 2020	

If you have concerns about these dates, please contact Baker Tilly at (651) 223-3000.