



# Debt Restructuring

Board Meeting  
March 21, 2017

# Goal

Provide the School Board information  
needed to reach a Debt Restructure decision  
on March 21, 2017

# Debt Restructuring

## Driving forces:

- Callable Debt available for refunding; June 1, 2017
- High level of current Operating Fund reserves; 150% per 6/30/16 audited financials vs target 50%-60%
- Negative arbitrage; Paying ~5% interest on debt, available earnings on investments less than 1%
- Culmination of a refunding plan developed in 2013

# Fund Balances & School Board Policy 4:20

*“The Superintendent or designee shall maintain fund balances adequate to ensure the District's ability to maintain levels of service and pay its obligations in a prompt manner in spite of unforeseen events or unexpected expenses. The Superintendent or designee shall inform the Board whenever it should discuss drawing upon its reserves or borrowing money.*

*The School District seeks to maintain year-end fund balances between 50% and 60% of annual costs in each operating fund. The Board may choose to do abatements annually to achieve this goal.”*

*-Adopted April 29, 2014*

# Overview of Pertinent Funds



Operating Funds → Used for day-to-day expenses to educate students, such as teacher salary/benefits, learning materials, supplies, transportation, pensions, insurance (tort), and operations & maintenance.



Debt Service Fund  
proceeds from  
issuance of bonds  
and repayment of  
principal + interest  
(like a mortgage)  
**separate levy set by  
Cook County**



Capital Projects Fund  
comprised of transfers  
from debt service fund  
and other funds for  
significant facility  
projects (ex. life safety,  
facility upgrades, etc.)

# What is the current audited level of fund balance?



Operating Funds → \$53 million

*With \$35.3 million FY16 expenditures = ~150% fund balance*



Debt Service Fund

\$4.4 million

**Limited  
Use**



Capital Projects Fund

\$6.7 million earmarked for life safety projects through 2022

Totals ~\$64 million BUT  
~\$11 million is limited use and **not part of operating fund balance**

# What is the impact of refunding bonds this June?

Paying off bond debt reduces  
D36 Operating Fund balances

AND

reduces the community's property taxes

Estimated annual taxpayer savings for a \$30 million  
debt refund = ~\$319 per \$10,000 tax bill

# Debt Restructuring

## **Discussion of alternative use of reserves:**

- Review of Debt Restructuring alternatives; finance committee meetings, Board updates
- Recent Board workshops; 2/21/17 & 3/7/17
- Professional input; William Blair
- Financial impacts; maintaining Operating Fund reserve targets of 50%-60%

# Debt Restructuring

**Recent Alternatives discussed for consideration:**

- Refund \$30m as planned
- Refund \$22m, retain \$8m for HVAC upgrades
- Refund \$24m, retain \$6m for risk of 2yr Tax Freeze
- Primary decision

# Debt Restructuring

## Initial general reactions to alternatives:

- Refund \$30m-
  - Fulfilling expectation, where possible is important
  - After refunding normal operations achieve reserve target
- Refund \$22m, retain \$8m for HVAC upgrades
  - Not a prudent use of reserves
  - Similar view, although not universal, of creating more cooling centers in the elementary schools
  - Incorporate in a Long Term Facilities Plan; EBP phase 2

# Debt Restructuring

## Initial general reactions to alternatives (continued):

- Refund \$24m, retain \$6m for risk of 2yr Tax Freeze & potential loss of other revenue
  - Risks are not certain
- Reserve targets are met; though diminishing
- A structural deficit would need to be addressed; operational adjustments
- Approach provides; additional financial protection for unknown; 80% benefit for taxpayers with opportunity for later refunding if freeze does not happen

# Debt Restructuring

## Impacts of Refunding reduction approach:

- Reserves are reduced to a more reasonable level
- Significant taxpayer benefit remains; possible future benefit increase; timing difference
- More flexibility for new Board
- More time and insight to manage financial risk and financial performance

# Debt Restructuring

**Refinance Retained funds in April 2017?:**

- Likely maximizes interest savings
- Call provision eliminated; precludes opportunity for future refunding (when financial risks are known)
- Secondary decision to determination of amount of refunding & retained funds

# Resolutions

## Resolutions required:

- Refunding of debt of \$X
- Abating of tax levies scheduled to fund the payment of refunded bond obligations
- Transfer of \$X of funds from the Education Fund to the Debt Service Fund; to fund the refunding
- Authority to refinance remaining bonds, if needed
- 2016 Tax levy abatement & transfer from the Education Fund to the Debt Service Fund
- Authority to file proceed with a Tentative Amended FY17 Budget

# Follow Up

## Future follow up needs:

- Complete all resolutions as to amounts and decisions made; before leaving the meeting
- Filing of the Resolutions with the county on 3-22-17; by April 1, 2017
- Proceed document completion, due diligence, closing of refinancing by April 20, 2017, if needed

# Follow Up

## Future follow up needs:

- Proceed with documents, due diligence, bondholder notification, closing & cash transfers on June 1, 2017
- Hold hearing on, approve and file an Amended FY17 Budget

# Follow Up

Decisions needed tonight:

- **Primary** = Will there be a refunding of bonds on June 1, 2017 & if so, in what amount?
- **Secondary** = If the refunding is less than \$30 million;
  - What is the intended use of the retained funds?
  - Will the retained amount be refinanced in April 2017 ?
- **Third** = Will there be an abatement of taxes related to the 2016 bonds?



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