



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.



Limited
Use

Debt Service Fund

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



Limited
Use

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

Limited
Use



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

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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%

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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

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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

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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

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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

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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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