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A Community of Learners

Debt Refinancing; Update and Approval

TO: School Board
Trisha Kocanda, Superintendent

FROM: Greg Kurr, Chief Financial Officer

December 13, 2016

Overview & Background

A debt restructuring plan has been in place for implementation on June 1, 2017. The current plan involves the refunding of up to \$30 million of outstanding callable Series 2007 bonds. The remaining bond obligations of approximately \$10 million would be refinanced concurrently at the then current interest rate, assumed to be lower than the stated interest rates of the existing bonds. A concurrent refunding and refinancing transaction provides the most cost savings and property tax relief due to the refinancing at an earlier date and the ability to gain funds from the interest savings related to the refunding that could be used to shorten the payment term of the refinanced bonds and thereby provide additional interest cost savings.,.

As with any financing plan, the final effect is subject to changes in interest rates and other operational assumptions. In this case, the relatively stable slow growth interest rate consistently telegraphed by the federal government and used in the debt restructuring plan has been disrupted since the presidential election. As of December 2 the 10 year Municipal Market Data Index (MMD) for AAA rated bonds interest rate increased by 0.83% (eighty-three basis points) from a pre-election rate of 1.70%. Future rates through the planned redemption date of June 1, 2017 are expected to be volatile. At this point it is difficult to predict whether they will level, decrease or continue to rise.

In consideration of the changes and volatility of interest rates, Administration has worked with its bond underwriter firm, William Blair, to reevaluate the existing debt restructuring plan. The attached presentation material provides a financial analysis of the current situation and alternatives that are available regarding the refinancing of approximately \$10 million of outstanding bonds. A representative of William Blair will be present at the December 13, 2016 Board meeting to present these results and answer questions.

While there is no clear answer in a volatile environment, Administration believes that it would be advantageous to refinance the approximate \$10 million of outstanding bonds in the near term, as early as January 2017. This approach is expected to preserve a reasonable savings while protecting against the risk of increasing interest rates. Greater savings could be realized if interest rates decline, however, that situation is uncertain. Waiting until a bond redemption amount is approved could also provide additional savings, however, volatility risk is also expected through the February or March time frame when the Board is scheduled to approve the amount of bond redemption.

In order to effect a potential refinancing in January 2017, a resolution of the Board is required to authorize CFO to work with William Blair to evaluate market conditions with the objective of determining the most reasonable time to refinance the \$10+ million of bonds. The resolution also requires that the refinancing would be subject to the approval of the Board president and a Board member of the finance committee of the Board. The preferred vehicle of the refinancing would be a quicker and less expensive Private Offering or alternatively a Public Offering would be pursued.

The District's bond counsel, Chapman Cutler, has prepared in consideration of the above objectives, the attached Resolution for consideration and approval by the Board at the December 13, 2016 Board Meeting. A general concept and parameters are embedded in the Resolution document.

The general concept is that the Board is providing three individuals the collective authority to, within certain defined parameters, proceed with a sale of new bonds and refunding of existing bonds (refinancing) at a time deemed most advantageous in consult with the District's underwriter, William Blair. These individuals are the Board president, a Board member from the finance committee and the CFO. Upon completion of the sale of the bonds the Board, without additional approval, is informed of the completed transaction.

The general authority to sell the bonds terminates on April 4, 2017 in consideration of a change in the membership of the Board. A new Resolution, as approved by the new Board, would be required to provide any similar authority to refinance bonds.

Transaction parameters are also included in the document. Maximum limits related to a new bond issue are \$11.0 million of debt; a 5% interest (coupon) rate; a 5 year term; and an annual principal payment of no more than \$4.0 million. The savings on the refinancing transaction must be a minimum of 3% net present value of principal cost savings, and the new bonds cannot be sold at more than a 2% discount.

The terms of this Resolution will have been reviewed by the Finance Committee in advance of the December 13, 2016 Board meeting. A report of the results of the December 12, 2016 Finance Committee meeting will be provided to the Board for consideration in evaluation of the proposed Resolution.

Recommendation:

The recommendation is that the Board; Adopt a Resolution providing for the issue of not to exceed \$11,000,000 General Obligation Refunding School Bonds, Series 2017, for the purpose of refunding (refinancing) certain outstanding bonds of the School District at a lower rate of interest, and for the levy of a direct annual tax sufficient to pay the principal and reduced interest on said bonds, and authorizing the sale of said bonds to the purchaser or purchasers thereof.

Attachments:

Financing Update, William Blair Report

Bond Refinancing Resolution