

To: Board of Education
 Superintendent Laurie Heinz, Superintendent
 From: Luann Kolstad, Chief School Business Official
 Date: November 5, 2015
 Re: Discussion on Funding Health Life Safety & Master Facility Plan Projects

At the September 21, 2015 Board of Education meeting, Managing Director Elizabeth Hennessy from William Blair presented to the Board different funding options for upcoming Health Life Safety (HLS) and Master Facility Plan (MFP) projects. Since that time, the Board has discussed a report on October 5, 2015 from FGM outlining the administration's recommendations to move forward with essential "safe, warm and dry" projects. This includes secure vestibules, roofs, mechanical, and various plumbing and electrical projects that have been identified as high priority, meaning to be completed during summer 2016 and summer 2017. This work includes HLS projects and critical infrastructure work in the MFP that needs to be completed to both maintain the integrity of our facilities and to provide a safe, warm and dry environment for both staff and students. Many of the critical infrastructure issues have been reiterated back to administration from the staff in the buildings as areas that urgently need to be addressed.

At tonight's Board of Education meeting, the projects identified as HLS and critical infrastructure projects are being further fleshed out by the administration and FGM. The first year -- summer 2016 -- includes an estimated \$8M in HLS/infrastructure and an estimated \$6M in secure vestibules; the second year -- summer 2017 -- includes an estimated almost \$7M in additional HLS and critical infrastructure.

These two years of work represent approximately \$22M in projects that need to be completed in our facilities. To eventually complete all remaining HLS projects in the future, the total cost rises to an estimated \$32M. To complete all HLS and infrastructure work, the total is an estimated \$46M. This total does not include addressing any programmatic changes, 21st century classroom environments, or enrollment-driven facility needs.

FGM continues to work to refine costs; updated estimates will be discussed on November 5 as part of a separate agenda item.

Updated Funding Scenarios

Based on these estimated numbers, the administration had Elizabeth Hennessy go back to the drawing board regarding the funding of the projects. We had Ms. Hennessy develop four scenarios and include the impact on the taxpayer of a \$400,000 home:

- **Option I:** Use \$10M of Fund Balance plus \$20M Limited Bonds issued 2016-2018. Impact on Taxpayer = \$0.
- **Option II:** Use \$10M of Fund Balance plus Maximum Limited Bonds issued 2016-2017. This scenario yields \$23.9M, for a total of \$33.9M including \$10M from fund balance. Impact on Taxpayer = \$0.
- **Option IIIA:** Use \$10M of Fund Balance plus \$5M Limited Bonds 2016 and referendum bonds 2017 maximizing the amount available keeping the Debt Payments at the current level of \$3.2M per year. The burden on the taxpayer remains the same as right now in terms of Debt Service. This scenario yields \$34.6M, for a total of \$44.6M including \$10M from the fund balance. Impact on Taxpayer = \$46

- **Option IIIB:** Use \$10M of Fund Balance plus \$5M Limited Bonds 2016 and referendum bonds 2017-2021 maximizing the amount available keeping the Debt Payments at the current level of \$3.2M per year. This scenario yields \$43M, for a total of \$53.0M including \$10M from the fund balance. Impact on Taxpayer = \$31.

Please note, in Option IIIA and IIIB, the impact is higher, because the tax rate drops in 2016. If debt level were held at \$3.2M in 2016, there would have been a very *insignificant* increase in Option IIIB. The increase in IIIA is larger due to when bonds are issued.

Option IIIA and IIIB both involve going to referendum and asking local taxpayers to increase our maximum allowable debt payment (Debt Service Extension Base) to \$3.2M per year. The District has been paying approximately \$3.2M per year with non-referendum debt and referendum debt (Emerson School). The District will pay off the referendum debt for Emerson in Tax Year 2016. There would be very little impact, if any, on taxpayers since they have already been paying taxes based on a Debt Service payment of approximately \$3.2M per year. This equates to .224 per \$100 in the 2014 Tax Levy and .226 per \$100 in the 2016 Tax Levy if we pass a referendum and issue the debt as outlined in IIIB. Please refer to the "Current Situation" slide in Ms. Hennessy's presentation (Attachment 1).

Next Steps

To get the District through the summer 2016 work, the Board could look at using the \$10M from fund balance and issuing in spring 2016 a small non-referendum bond issue of \$5M - \$10M. The amount of a spring 2016 bond issue would be related to the total amount of work being done in summer 2016. It may end up being less than \$10M in total work. FGM will have more refined estimates at the November 5 meeting.

If the Board is looking longer term to encompass the remaining facilities improvements, the decision to go to referendum should begin very soon. Based on a recent presentation administration attended on successful referendums, the administration would be recommending that we go to referendum in November 2016. If the Board is leaning toward a referendum option, we can bring in a consultant to meet with the Board and review the process. Please note, even if we pass the referendum in Fall 2016 that does not mean that we need to issue bonds all at once, or at all. It gives the Board the *ability* to issue debt up to the new Debt Service Extension Base payment per year of \$3.2M.

However, the first question to be answered is *what are we going to do in terms of projects*. Once this is known, the financing answers become much simpler. Please refer to the Five-Year Financial Projections, which are included in the separate Tax Levy memo. The Projections show moving \$10M from Working Cash into the Capital Projects Fund. The Transfer would occur in two increments, \$1M this fiscal year and the remaining \$9M in 2016-17.

Elizabeth Hennessy's full presentation is attached; please focus on the four options outlined above. We will review the first four options in detail at the Board meeting.