FORC Recommendation and Options Considered

The Finance Oversight and Review Committee spent nearly its entire two-hour meeting on November 21, 2017 reviewing Elizabeth Hennessey's (Raymond James) presentation and various options available, discussing the pros and cons, and coming to a consensus on a recommendation. The following charts capture, at a high-level, the options considered. It should be noted that FORC considered the options from three perspectives: financial implications, rating agencies' perception, and public perception, and, as expected, there was not a single option that all three perspectives would find the best. Priority was given to "financial implications", and option 2B was unanimously recommended, but it should be noted that it was not everyone's first choice on the initial ranking of options.

<table>
<tr><th colspan="3">Option 2 - Provide an additional $2.1M of 2017 Property Tax Relief
by NOT Issuing bonds by 2/28/2018</th></tr>
<tr><td>Description</td><td>2A - Plan to use $2.6M/year of overage to self-fund entire $10M Summer Capital (Holmes) 2018 work.</td><td>2B - Use $2.6M of overage collected in February and July of 2018 and then sell $7.4M in July to December of 2018</td></tr>
<tr><td>Pros</td><td>Net savings of about $500K of interest over five years (costs of bonds minus lost interest on reduced fund balance). Reduces big surplus in FY2018. DSEB available as "line of credit".</td><td>Net savings of about $150M of interest from deferred and smaller sale. Able to be closer to or exceed 25% fund balance target in district policy target.</td></tr>
<tr><td rowspan="2">Cons</td><td>Keeps fund balance below 25% target for an estimated additional three years. (15%, 19%, 22%..)</td><td>Commits almost all of remaining DSEB capacity for years two through five years to the bond sale and another mechanism for providing property tax relief would need to be identified.</td></tr>
<tr><td colspan="2">The anticipated 2017 tax year overage is about $2.6M, but the DSEB property tax relief is less than that amount. Another mechanism would need to be identified to fulfill the board's implicit commitment to return the entire overage.</td></tr>
<tr><td>Risks</td><td>Lower fund balance could result in a cash flow issue, if combined with an unexpected event.</td><td>Interest rates could rise enough during the first half of 2018 that the projected $150K savings could be reduced or negative.</td></tr>
<tr><td>Mitigations</td><td>Bond proceeds available 4 weeks after authorization through October 2019 and 2-3 months after that. Can easily fall back to Option 2B through 9/2018.</td><td>Create a mechanism to monitor interest rates and, if the savings diminishes, speed up the issuance or reconsider option 2A (as the interest savings would be increased).</td></tr>
<tr><td>Comments</td><td>Lower fund balance may impact bond rating for referendum sale, but more debt capacity may help.</td><td>Consensus Recommendation from FORC.</td></tr>
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Option 1 - Capture remaining $2.1M in 2017 DSEB levy

by issuing $10M in bonds by 2/28/2018

Description	1A - no Tax Relief	1B - Abate Bonds for 2018 levy	1C - Reduce Operate Levy for 2017
Pros	Maximizes Revenue and Fund Balance	Provides tax relief while not impacting the Operating extension capacity, and preserves options for later years.	The overage is in the operating levy, and this addresses it on the operating rate and with caps has some permanent elements to it.
Cons	Breaks implicit commitment to community	Incurs unneeded interest cost – by selling and then abating within a year.	Taking on extra interest while reducing taxes is not efficient. Operating levy reductions are hard to demonstrate on year-over-year county documents. Permanent reduction of tax capacity.
	Commits almost all remaining DSEB capacity for the next five years to bond sale.		
Risks	Community Trust	Confusing message	Operating rate is harder to control; over adjustment due to future events (property tax freeze, Madison TIF, new growth, etc.) is possible; resulting in shortfall.
Mitigations	Communications	Communications	Err on the side of less reduction.
Sub Option i	Sell $8.2M Bank-Qualified in December and $1.8M Non-Bank-Qualified in February - $688K of interest costs		
Sub Option ii	Sell $10M NBQ in February - $655K of interests cost, but accepts some interest rate risk		
Comments	Rating agencies prefer maximum revenue and fund balances. Elizabeth Hennessey's first choice.	More assurance of revenues and fund balances than any option except 1A.	Some part of the operating levy reduction is permanent - pro for tax-payer, con for rating agencies.