

MEMO

To: School Board Members

From: Cathy Erickson, CFO

Date: March 14, 2019

Re: Bond Refunding

At Tuesday's Business Committee meeting, members were presented with options to consider refunding current debt service obligations. These options will have impacts on our Fiscal Year 20 (FY20) budget considerations.

The first option was a "traditional" refunding of existing debt service with more favorable interest rates in order to lower our debt service payments and future levy obligations. Market conditions are more favorable right now to meet the Board's goal of saving at least \$1,000,000. These savings will be spread over the life of the existing bond payments with no change in the borrowing term.

An additional option to consider is a refunding/restructuring of the Series 2009B Certificates of Participation (COP). While these were part of the long-range facilities plan, they are not included as a component of the annual debt service levy. The district pays these certificate obligations from our general fund each year, which coupled with other general fund COP's has been averaging approximately \$3.4 million per year.

As we have been discussing the FY20 budget and the budget considerations we need to consider, spreading out these yearly COP payments would lower the burden on the general fund for the next 10 years. There is a cost, and it does spread out debt into future years, but it accounts for less than 20% of our current annual general fund debt service bond payment obligations, and the current proposal would allow the district to retain at least \$700,000 per year into the general fund.

The district needs time to stabilize the budget, to assess critical needs and requirements, and to start working towards district goals. This restructuring opportunity will be a very important first step in the budget stabilization process. This is only one of many decisions the district needs to consider in order for us to strive for a balanced

budget and address critical needs, including those items that have been deferred for several years.

Administration is recommending that the Duluth School Board approve all three resolutions to lower the impact on local taxes and on the general fund.

By approving these resolutions, we allow the process to refund and restructure to start. Should at any time the district or the market indicate that we should not move forward, the district can put the process on hold.

Please email me with any questions that I can help answer.

