PROSPECT HEIGHTS DISTRICT 23
FINANCE COMMITTEE
MEMORANDUM

Date: November 2, 2020

Title: Update on Potential Financing Options

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Background

In accordance with our Strategic Plan, the development of a long-range financial plan that includes instruction, professional growth, technology, and facilities remains a priority for the Business Office.

By maximizing the annual revenues and closely monitoring the expenditures, the Business Office can set in place a plan to address the needs of the district well into the future that include providing spaces that support collaborative learning opportunities and ensuring the safety and security of our learning environments.

District expenditures typically fall into four categories:

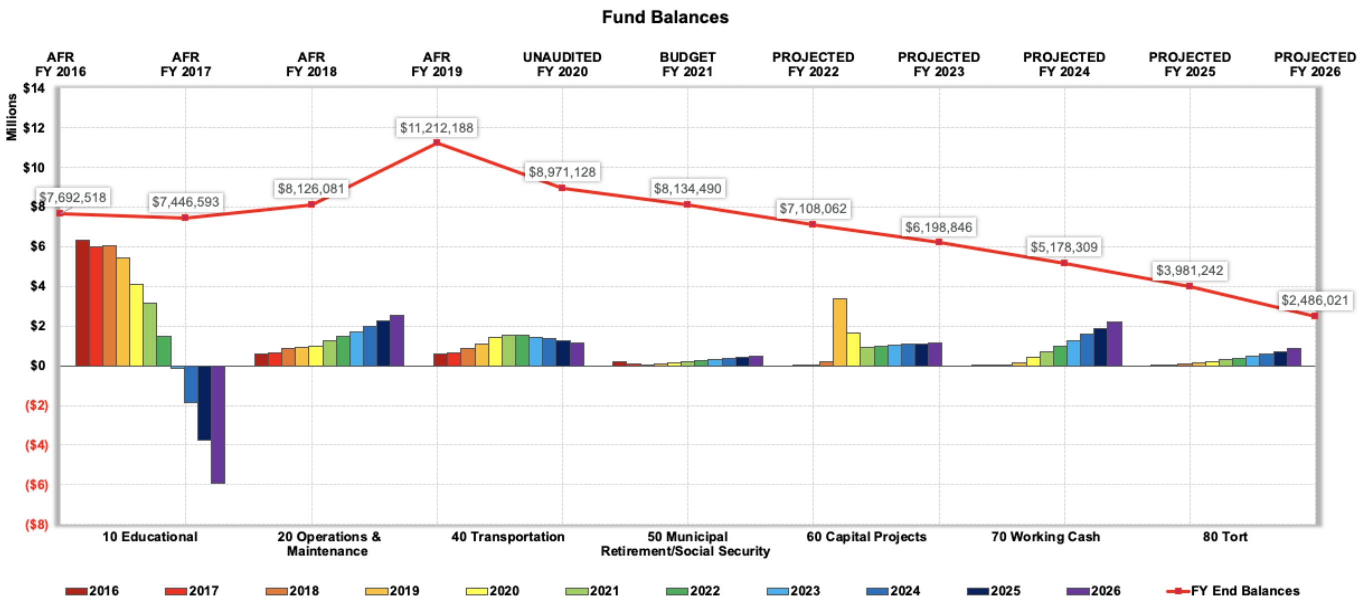
1. Maintenance of Current Programs and Services
2. Maintenance of Current Facilities and Operations
3. Enhancement of Current Programs and Services
4. Expansion of Facilities and Operations

Within the annual budget process, we strive to maintain our current level of programming and services. We can ensure that our staff members have the curricular resources and professional development they need to challenge our students to succeed at a higher level. We can also make certain to address the ever-changing technological needs of the district through a plan for hardware replacements, license renewals and network improvements.

However, as costs involved with the improvement and maintenance of our facilities continue to escalate, it becomes more difficult to provide updated and innovative learning spaces that enhance our current student experiences.

Current Scenario

As we have discussed, the District is faced with declining fund balances and increasing obligations in our Education Fund and as a public school district, our options for increasing revenues and overcoming any deficits without further obligating our taxpayers are extremely limited. Our staffing costs (salaries & benefits) continue to increase, as do the costs associated with maintaining our facilities. Current projections have shown the potential for significant declines in the Education Fund, even as the other funds may increase or hold steady.



By adjusting our levy strategy, we can make some gains to the Education Fund in the short term that will slow down the projected deficit in the fund.

2020 Levy Strategy

There are some steps we can take now that will maximize our current revenues and better position us in the short term to address some of our longer term needs. Like most public school districts, our main source of funding remains local taxes. As we move into Levy Year 2020, Fiscal Year 2021, we will shift our levy to increase our funding to the Education Fund by making a few adjustments. I have reduced the extension to Working Cash. The Working Cash Fund largely serves as a "savings account" for the district, as it does not have specific expenditures that are tied to it. We can also consider the option of fully abating the fund. However at this point, I believe it's best to adjust the flow of revenue to Working Cash, shifting revenue to the Ed. Fund.

Based on the reduction in transportation services in 2019-20 and now in 2020-21, I have lowered the extension to the Transportation Fund for this year. I will also be cutting the extension to the Tort Fund. The Tort Fund recognized a $98k surplus last year and the fund balance is 200% of annual expenditures. This reduction alone will add approximately $140,000. to the Education Fund. While we may need to increase both Tort and Transportation slightly based on budget next year, these adjustments will help us to improve the outlook in the Education Fund in the short-term.

Considerations for Future Capital Projects

The Director of Buildings and Grounds, Brian Rominski, has been asked to prepare a plan for the prioritization of the district's facility needs (attached). In doing so, he has included a conservative estimate for each project as well as the targeted fiscal year for completion. Fund 60 (Capital Projects) work projected over the next three years currently total approximately $5.6M, including deferred projects. Fund 20 (Operations & Maintenance) work will continue to be budgeted for in the annual budget process.

Some items to keep in mind as we review these numbers and related projects:

- All estimated costs are construction costs only and do not include architectural or engineering costs or fees for consultants, etc.
- The typical annual allocation for Fund 20 (Operations & Maintenance) priorities is $130,250. This year (FY21) we have allocated $100,250 due to a $30,000 set aside for COVID mitigation materials and supplies.
- Fund 20 projects typically include work relating to the ongoing maintenance of the existing facilities, consumables and utilities. They are typically less than $10,000 in value, may be completed or procured in-house and don't require a formalized public bid process.
- Fund 60 work often involves a change in structure or footprint of a facility. Improvements may affect the overall value of the asset and/or add to the facilities' lifespan. They often exceed $10,000 in value and typically involve a formalized bid process when the value of work exceeds $25,000.
- "Deferred" projects are projects that were not completed in the identified fiscal year, but still need to be completed.

In reviewing the expenditures related to the ongoing HVAC retrofit work, we have identified $1,833,292 in remaining work still to be completed. With no additional revenue, we would currently have just enough in our Fund 60 balances (remaining from the FY19 bond issuance) to cover the identified remaining HVAC work <u>only</u>. Completion of this work would completely exhaust the Fund 60 (Capital Projects) balances.

<u>Future Options for Financing</u>

While we have prioritized the capital projects that need to be completed within the next few years, we know that we will not be able to borrow funds to adequately address the potential need for the future expansion of our Early Childhood and Kindergarten programming. It will be important to engage stakeholders in the development of the effective use of resources and the determination of the goals and desires of the community for its students and facilities moving forward.

Following our discussions with Elizabeth Hennessey, we have some options with regard to accelerating our bonding capacity that will allow us to take advantage of our Debt Service Extension Base (DSEB) and favorable interest rates in the current market environment. Elizabeth proposed three options for the Board's consideration:

1. Adhere to prior schedule for bond issuance, taking advantage of bonding opportunities in 2023 and 2026 and continue to prioritize HVAC retrofits and critical facility work as necessary.

2. Bonding Option 1: $7M Total Limited Bonds with accelerated issuance in June of 2021, 2023 and 2026.
    a. Debt repayment within 10 years
    b. More flexibility for future bond issuances
    c. No taxable refunding
    d. Preserves operating funds
3. Bonding Option 2: $11M Total Limited Bonds with issuance in 2021 and 2023.
    a. Debt repayment is 18 years
    b. Leaves very little flexibility for further bonding opportunities
    c. Requires taxable refunding
    d. Does not require the use of operating funds for capital projects

Administration's Recommendation:

Our original plan for bonding included issuances in 2019 for $3M, 2023 for $3M and 2026 for $4M. The current bonding opportunity allows us to accelerate the proposed 2023 issuance at significantly lower interest rates with the same $3M issuance in 2019 and subsequent issues for $3M in 2021 at 2.33%, $2M in 2023 at 2.67% and another $2M in 2026 at 2.91%. At this point, the Administration believes the best course of action is to pursue adjustments to the current levy as well as further analysis of the pros and cons of Bonding Option 1.

Next Steps and Timeline:

With careful management of expenditures, the District can complete all HVAC retrofit work and accomplish the identified capital projects per the attached schedule, while taking advantage of the fund availability in its Debt Service Extension Base for bonding in Option 1. Should the Board decide to proceed with Option 1, the timeline would mirror the following:

DATE	ACTIVITY
February BOE Meeting	Discuss Financing Plan
March BOE Meeting	Approve Resolution of Intent to Issue Bonds
March, 2021	Publish Notice of Intent - 30 Day Petition Period
April BOE Meeting	Hold Public Hearing on Bond Issuance
May BOE Meeting	Approve Parameters - Bond Resolution
May-June, 2021	Sell Bonds and Close Bond Issue

We realize this can be a longer, more detailed process and welcome the opportunity for discussion and questions from the Committee and Board of Education, as a whole.