

RESOLUTION

Reassessment of Debt Load for Duluth Public Schools

WHEREAS, the \$315 million Long Range Facilities Plan was financed by eight debt obligations; and,

WHEREAS, one of these debt obligations is a Bond and seven are Certificates of Participation (COP); and,

WHEREAS, COPS have higher interest rates than bonds; and,

WHEREAS, the remaining principal is about \$240 million; and,

WHEREAS, the debt obligations were set up to have low payments at the start and then increase in payment amount (and interest rates) until they are paid off; and,

WHEREAS, the effective annual interest rate on all the debt obligations is 4.0%; and,

WHEREAS, the current bond market interest rates are hovering around 2%; and,

WHEREAS, total annual payments are \$23 million and will increase to \$31 million in ten years; and,

WHEREAS, if the debt obligations were refunded (refinanced) at 2% for 20 years, the annual payments would be only \$15 million (versus the current \$23 million to \$31 million); and,

WHEREAS, during refunding, there will be defeasement and re-issuance costs, depending on the authority that they were issued under, that need further investigation; and,

WHEREAS, COP 2009A, issued under Minn. Stat. § 126C.40 (Capital Levies), can be paid out of tax levy or General Fund revenue, with \$13 million paid out of the General Fund from 2010 to 2013; and,

WHEREAS, COPS 2009B, 2010D, and 2012B were issued under Minn. Stat. § 465.71 (Installment, Lease Purchase; City, County, Town, School) and MUST be paid out of the General Fund, with \$24 million having been paid out of the General Fund through 2018; and,

WHEREAS, in 2018 \$3.3 million will be pulled from the General Fund; and,

WHEREAS, if an alternative to paying out of the General Fund isn't found for these COPS, \$80 million will have been extracted from the General Fund over the next 15 years; and,

WHEREAS, the District has been running about \$3 million in budget deficits (totaling \$24 million for the last 8 years), has nearly eliminated reserve funds, is having a difficult time meeting basic conditions requiring money, and must take out loans to do basic improvement work; and,

WHEREAS, it is necessary to eliminate the General Fund transfer to free up money to reduce class size, eliminate the achievement gap, and increase our attractiveness to parents by reinstating seven period days; and,

WHEREAS, refunding our debts can eliminate the General Fund transfer and if done promptly, can reduce the property tax levy.

NOW, THEREFORE, BE IT RESOLVED that the Duluth School Board form a committee with staff from Administration to investigate and determine alternatives to the current funding scheme to take advantage of low interest rates by refunding the COPs and bond as their authority allows. This committee will report back to the School Board by the August regular meeting.

BE IT FURTHER RESOLVED that the Duluth School Board request assistance from the State legislative delegation to explore legislative fixes and research subsidies to eliminate any further General Fund transfers.

BE IT FURTHER RESOLVED that the Duluth School Board requests legal advice and financial counsel to get second opinions on legal and financial ramifications to carry out the objectives of this resolution.