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ASSOCIATE SUPERINTENDENT

TO: Board of Education
FROM: Chris Johnson
DATE: February 14, 2021
SUBJECT: Financing Winnetka Campus East Side Academic/Athletic Project

Introduction

During the February 16th, 2021 Board of Education meeting, the Board will consider the approval of the Winnetka Campus East Side Academic and Athletic Project and take the first actions to implement a financing plan to fund the work. The financing plan for this work has been carefully reviewed by the Finance Committee over the past year.

Total Project Cost

The projected total cost of the project is $75,269,550 based on the 90% Schematic Design phase cost estimate. The current cost estimate includes all direct costs (demolition, construction), indirect costs (contingency, insurance, construction management), and owners costs (furniture, fixtures and equipment, and architectural costs). The design, construction, and owner's contingencies total over $8MM.

Project Funding Plan

The funding plan uses three sources: alternate revenue bonds of $50.5MM with debt service paid from the district's existing revenue sources, bonds with debt service paid from the Debt Service Extension Base of $14.5MM, and District reserves estimated at $8MM-$12MM based on the final cost of the project.

Summary of Funding Sources		
Funding Source	**Proceeds**	**Notes**
Alternate Revenue Bonds	$50.5MM	$3.1MM in annual debt service paid by the existing operating revenues with a 21-year duration
Debt Service Extension Base (DSEB)	$14.5MM	Annual debt service paid through DSEB with a 10-13 year duration
District Reserves	$8MM - $12MM	One-time usage of reserves generated by surpluses through historically strong fiscal management
Total	**$75.3MM**	

Alternate Revenue Bonds
The primary funding source for the project will be $50.5MM in Alternate Revenue Bonds of a 21-year duration, with an annual fixed debt service of approximately $3.1MM paid from the District's operating budget and existing revenue sources each year. This payment represents approximately 2.7% of the District's annual expenditure budget, and it will remain level for the life of the debt service. The District and the Finance Committee have carefully analyzed the District's budget and financial projections and determined that with continued strong financial stewardship, it will be possible to pay this debt service on an annual basis within the existing projected funds.

Alternate Revenue Bonds funded by the existing revenue sources or similar financial instruments like debt certificates are a common means to fund facility improvements at neighboring school districts. They allow districts to access funds needed for immediate construction, which allows districts to complete projects that must be done in a timely manner and all at once, rather than gradual improvements that can be made each year. In recent years, Sunset Ridge School District has used this method to build their new school and North Shore 112 elementary district and Stevenson High School and Deerfield / Highland Park District 113 have also used this financing method, as well as dozens of other districts across the state. These bonds do not increase the community's tax burden beyond the customary and legally limited cost-of-living operating fund increase.

Alternate Revenue Bonds can have a final maturity greater than 20 years and have a back-up tax levy for debt service that is abated annually, similar to the District's Series 2008 and Series 2016B Bonds. The back-up tax levy in addition to the pledged operating fund revenues makes these bonds attractive to investors.

Debt Service Extension Base Bonds
Another component of the financing plan is bonds paid by the District's Debt Service Extension Base (DSEB) with proceeds of $14.5MM. A small portion of the District's tax levy is its DSEB. The DSEB allows the District to issue debt with the proceeds paid from this portion of the levy. The District has historically used this funding source to issue bonds, typically of a 10-year duration, to fund facility upgrades and perform important health-life safety improvements. Periodically, existing bond issues are paid off, which creates the capacity to issue new debt, with the new debt service payments replacing the debt that has sunset. The DSEB portion of the tax levy is capped in the same manner as the overall tax levy and increases by a small inflationary amount each year.

The District will issue $14.5MM in debt from the DSEB in two parts, the first of $10MM in Feb 2022 (10 years) and the second of $4.5M in Feb 2023 (11 years).

The District would maintain a channel to issue debt for future 15-Year Plan projects or other needs that emerge in the coming years, with the ability to issue $5MM in 2023 (planned for Duke Childs Field improvements if the Village portion of the project moves forward) and $4.8MM in 2026, $6.5MM in 2029, and $10MM in 2032 for other 15-Year Plan improvements. As with Alternative Revenue Bonds, the DSEB bonds do not increase the community's tax burden beyond the legally limited cost-of-living operating fund increase

Reserve Usage
The third component of the project funding is $8MM to $12MM in district reserve usage. The District has accumulated reserves in operating funds estimated at $78,958,270 at the conclusion of the FY 21 year. This represents approximately 8.31 months or 69.22% of annual expenditures. These reserves have been built through strong financial management of the school district. Over the past 5 years, the District has responsibly used its reserves to complete important facilities work. This includes a contribution of approximately $15MM to the Winnetka Campus West Side Project in FY 15 and FY 17. Additional transfers have been made each year from reserves for capital projects in FY 18 - FY 21. The capital projects fund has an approximately $12.3MM fund balance as of December 31, 2020, with a portion earmarked for paying for final costs from the 15-Year Plan Year 1 work that was completed in summer 2020 and for the reserve contribution to the 15-Year Plan Year 2 work that will occur in the summer of 2021.

Impact on the 15-Year Facility Plan
The proposed improvements on the east side of the Winnetka Campus are an important component of the District's 15-Year Facility Plan, which addresses some of the most serious deficiencies in District facilities. The 15-Year Plan also calls for other meaningful improvements and maintenance projects each year, including renovating classrooms to modern standards and replacing roofs, boilers, and other systems.

These projects will continue to be funded by the DSEB, debt certificates repaid by NTTEC revenue and reserves. Only limited maintenance projects will be completed during the summer of 2022 and 2023 while the East Side Academic and Athletic Project construction is in progress. The District's financial projections demonstrate that reserves can continue to be used for facility projects for the next five years while still maintaining a target reserve balance of over 50%. After five years, if the projected surpluses are not exceeded, other revenue sources or expenditure reductions may need to be considered to continue 15-Year Planning work at the same level that has occurred in FY 18 - FY 21 and is planned for FY 22 - FY 25. These 15-Year Plan projects are considered on an annual basis, and the Finance Committee and the Board will be charged each year with balancing available resources with educational and capital needs.

Bond Sale Process
During the February 16, 2021 Board of Education meeting, the Board will consider whether to approve the project. If the Board agrees to move forward, they will concurrently take the first step of issuing the debt for the project, which must occur at the February meeting. The initial step in the bond issuance process is the approval of the Notices of Intent. There is a notice for the Alternate Revenue Bonds and the DSEB (Working Cash Fund) bonds. At the March Board of Education meeting, the District will hold a public hearing. The final step of the process, a Bond Parameters Resolution, will be presented for approval at the April Board of Education meeting. This three-step process is

similar to the steps the District undertakes each fall to issue debt for other 15-Year Plan work.

The District will pursue a bond rating with Moody’s and plan for a public sale of the Alternate Revenue Bonds in April 2021. The $4.2M of bonds the Board previously authorized in December 2020 for 15-Year Plan Year 2 work scheduled for 2021 will also be sold concurrently to reduce issuance costs.

Bond Sale Process		
Month	**Alternate Revenue**	**Debt Service Extension Base**
Feb. ‘21	Notice of Intent to issue $50.5M in Alternate Revenue Bonds	Resolution of Intent to Issue $19.5M of Working Cash (DSEB) bonds ($14.5MM designated for Winnetka Campus East Side Project) with timing shown below.
March ‘21	Public Hearing on Issuance of Bonds	Public Hearing on Issuance of Bonds
April ‘21	Rating Agency Presentation to Moody’s Parameters Resolution on Issuance of bonds Bond sale of $50.5M in Alternate Revenue Bonds	Rating Agency Presentation to Moody’s Parameters Resolution on Issuance of bonds
Feb. ‘22		$10MM in DSEB bond sale
Feb. ‘23		$9.5MM in DSEB bond sale ($4.5MM designated for Winnetka Campus East Side Project)

It is expected that these bonds will be rated Aaa” by Moody’s the highest possible rating, and that the historically low interest rates will allow the District to both have reasonable annual payments and focus financial resources on directly benefiting our students and the community.

The Finance Committee will continue to review and monitor the debt issuance process as it is underway.

Conclusion

The Winnetka Campus East Side Academic and Athletic Project, if approved, would continue to judiciously use the resources provided by the taxpayers to maintain and improve our campus for the benefit of our students and the community. The funding plan is a careful balance of three key funding sources. The use of Alternate Revenue Bonds, funded by our existing tax levy, allows us to access the bulk of the funds required to complete the project. The annual debt service payment is manageable in our overall financial projections. The DSEB bonds continue to use this historical funding source in a balanced manner, while still leaving capacity for future facilities projects. The commitment of reserve funds demonstrates our practice of using these resources that the community has previously provided to us in a responsible manner for the benefit of current and future students, maintaining New Trier's reputation as the core of the community.