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To: Robert J. O'Donnell

From: Randy L. Brown and Donna Watson

RE: District Financing

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The district financing discussion will cross multiple areas including the results from the recent bond sale, State High Project financing, and financing future capital projects. NW Financial Group representatives, Tom Beckett and Dave Eckhart, will assist with the discussion.

- Bond Sale Results: The results of the recent bond sale, a refinancing of 2009 and Series C of 2010 General Bonds, are completed. This was the district's first competitive bond sale is several years, as well as the first since the bond credit rating returned to AA following Standard & Poor's most recent review.

- State High Project Financing: Analysis regarding the timing and term of the borrowings for the project, referendum and non-referendum, continues. Scenarios 8, 9 and 10 have been provided to complement the analysis reviewed previously. Appendix A includes the scenarios distributed during previous discussions. The memo from NW Financial includes updated scenarios and present value calculations.
  The significant decision points at this juncture remain: amount, timing and term of borrowings.
  The administration has been evaluating a recommendation regarding these decision points with input from the CAC and the financial advisors. Factors taken into consideration when determining this recommendation include:
  - Current interest rate market and potential for increases until borrowing is completed
  - Borrowings can occur over several years
  - Cost of borrowing now at lower interest rates versus borrowing later at unknown interest rates
  - Reducing costs for future borrowing by changing amortization if rates remain level
  - Potential for refinancing in the future if fiscally prudent

- Borrowing for costs in excess of project budget of $115 million
  The Delta middle level expansion is estimated at a cost of $4.5 million. This program change was not included in the original project budget of $115 million. Analysis of the capital reserve fund is included in Appendix C. The capital reserve transfer was

approximately $4 million more than budgeted in 2013-2014 and results in capacity to pay for these costs. An alternative would be to borrow the funds. Estimated annual debt service expenses for $5 million in borrowings equal $309,000 and $358,000 for 20 and 25 year amortization, respectively.
These cost estimates are provided for informational purposes in order to evaluate project overruns on bid day.

- ***Recommendation:***
  The administration recommends borrowings in scenario 9 with the initial referendum borrowing in the amount of $50 million and the second of $35 million. The term of the initial borrowing is recommended at 30 years. This allows for the greatest amount of flexibility resulting from the current interest rate market. This flexibility allows the district to allocate district resources to other capital projects with lower annual debt service costs on this project. Additional flexibility in the scenario allows for the term in the second borrowing to be evaluated pending the interest rates at issuance.

- Capital Reserve Fund Balance and Estimated Capital Project Costs
  The updated feasibility study shows an estimate of capital project costs for the next thirty years in the district. The district's transfer of resources to the capital reserve fund in recent years will allow for funding of capital projects through upfront or annual debt service payment over the foreseeable future. Appendix C shows estimated costs for district facilities based upon the 2014 Feasibility Study.

  Several Capital Reserve Fund Summaries have been included showing capacity for funding projects through 2023-2024 in Appendix D. The differences between the summaries are as follows:
    - Scenario 1
        - High School Project $10 million plus ½ mill tax revenue
        - Elementary Project in 2017-2018 through debt service
        - Elementary Project in 2021-22 through debt service
        - Elementary Project in 2022-23 through debt service
    - Scenario 2
        - Same as Scenario 1
        - $5 million for Delta Middle level
    - Scenario 3
        - Same as Scenario 1
        - $358,000 annual debt service for $5 million borrowing for Delta Middle level
    - Scenario 4
        - Same as Scenario 3
        - $5 million for additional State High project expenses

The purpose of these analyzes is to show that the district has capacity to use additional resources, either upfront or through annual debt service for the high school project, while maintaining it's commitment to the remaining district facilities over the next 10 years. While a decision is not necessary at this time, given the current interest rate environment, the administration would recommend borrowing an additional $5 million for the Delta Middle level expenses in order to maintain resource flexibility for ongoing capital needs, especially until a thorough district-wide facility masterplan is completed in late 2015.

Capital Project Fund Balance summary shows an ending balance of $3.1 million from capital project transfers (deferred maintenance). This balance can be used to fund the Panorama Building renovations as well as remaining deferred maintenance needs.