



## Capital Improvement Financing Questions You May Hear

**Q. Why does the district need to secure financing for some of its Capital improvement projects?**

A. District officials made a conscientious decision to present taxpayers with a Capital Improvement levy that would not raise taxes. They also knew that revenue to be generated by the May 2009 Capital Improvement levy (\$42.9 million) would not fully fund the \$64.6 million in identified projects scheduled to be completed from 2010-2014. Due to the slumping economy, the decision to stick with a no-new-taxes issue outweighed the alternative of adding millage to make up this \$21.7 million difference. Since the issue was approved for a continuing period of time, the district has the flexibility to borrow against future revenues to complete some of these projects. The Board has worked diligently to balance borrowing and future debt repayment obligations with the need to complete its identified Capital Improvement projects over the next five years.

**Q. Will the district have to borrow against future revenues for projects that will be scheduled in the subsequent five-year facilities plan?**

A. Facilities repairs and maintenance beyond the current five-year plan would be developed according to the annual revenue stream provided by this issue. However, it is difficult to predict what projects may need to be completed in the future and whether or not additional borrowing would be necessary. If the district should again need to borrow against future revenues, it will be able to do so without an increase to Capital Improvement millage.

**Q. How is the current financing of projects structured?**

A. The district will use a financing mechanism called "Tax Anticipation Notes," or TANs. This is a very common borrowing tool used by municipalities across the country and offers interest rates comparable to general obligation bonds. The district will not know the actual interest rate until the notes are sold in March 2010, but it is expected to be around 3.5% to 4%. These notes will then be paid off over the next 10 years.

**Q. I heard there may be changes to projects that were included as part of the Capital Improvements levy. Is this true?**

A. Yes, but it is important to note that all of the major projects that people are expecting to see will be completed. As the local, state and national economies continue their slow recovery, the WCSD Board of Education determined that it is in the best interest of the district and community to pursue the use of TANs for financing, even though it would require slight modifications to the Capital Improvements plan. Compared to other financing options examined by the Board, these modifications will minimize the district's need to borrow against future Capital Improvement revenue, which in turn decreases the time over which debt service would be repaid and saves up to \$28 million in interest. Changes to the plan are primarily in the scope, sequence and deferral of some projects.

**Q. What do you mean by the "scope, sequence and deferral" of a project?**

A. The "scope" refers to how much of a particular project can be completed. For example, suppose a project called for the replacement of 100 ceiling tiles in a school. Given budgetary constraints, the number that can be replaced is reduced to 75. That is considered a reduction in the scope of a project. The "sequence" refers to when a project is scheduled for completion in the five-year cycle. In some cases we've moved projects up in the cycle, and we've also moved some projects back in the cycle. The "deferral" of a project means it has been removed from the current five-year cycle. Projects that have been deferred primarily are cosmetic in nature.

**Q. How did the Board of Education arrive at this financing solution?**

A. The Board of Education was considering another financing proposal but decided to delay the approval of this item until they could hold a work session on the topic. Board members had additional questions about the original funding mechanism presented for consideration, and they also wanted additional time to gather feedback from their constituents. The Board's primary reason in taking these actions was to seek another responsible solution in an uncertain economy. The result of the work session was a modification to the original financing mechanism, which will shorten the district's repayment schedule and save million of dollars in interest. This particular process represents the latest step in an ongoing effort to remain transparent and fiscally responsible to the community.