

FINANCE COMMITTEE MEETING

November 24, 2014

5:30 p.m.

Members Present: Charles Hartmann, Todd Olig, Markus Ladd

Others Present: Dr. Louise Blankenheim, Sheila Lefebber, Ruthie Rumpff, Carol Wirth (via phone)

Unfunded Liability Members of the Finance Committee conferenced with Carol Wirth, the District's Financial Consultant, seeking ways to pay off the District's unfunded liability debt. Currently, the District makes monthly payments to the WRS which include 1.6% of the gross payroll for the unfunded liability. \$128,000 is built into the budget for these payments. The District is charged an interest rate of 7.2% on the remaining debt balance which the ETF accesses at the end of December. Some members expressed an interest in using fund balance to pay off the debt. Carol explained that using fund balance would not be in the District's best interest. She recommended applying for a State Trust Fund Loan, which is currently at 3.5% if the payback is 10 years or less or 4.25% if over 10 years. If the District is approved for a State Trust Fund Loan and pays off the debt by January 31, 2015, the District would save approximately \$80,000 in interest as it is charged backwards. Amortization schedules would be dated January 26, 2015 and the first payment would be made on March 15, 2016 with payoff by March 15, 2024. The committee reviewed different debt service schedules presented by Carol.

Member Olig inquired about the ability to pay off this debt using fund balance since there is no significant earnings on the current fund balance and then paying back to fund balance. Carol encouraged them to stay as close to budget as possible keeping the State Trust Fund Loan under 10 years. Ruthie expressed her concerns about reducing the cash flow. Member Olig asked about the option of going back to the State Trust Fund and borrowing if the District would incur a shortage in the fund balance and Carol indicated that we cannot borrow for something that is gone. You can only borrow for capital projects and equipment. Districts' cannot borrow for operating expenses and Carol indicated this will send up a red flag to rating agencies. Carol informed the committee that the interest rate for unfunded liability has been at 7-8% since 1989.

Carol reminded them that they have the flexibility to take out a loan and that the District would have the ability to make additional payments anytime which would impact the interest. Member Hartmann indicated that the Board has been willing to use fund balance in the past. Again, Carol cautioned about the

impact to the District's bond rating. She also reminded them that the District has been managing the WRS for years. Member Olig inquired about paying off with fund balance and then repaying fund balance. Carol explained that you need to have a plan in place and that rating companies will write a negative comment about paying self back.....that is not an acceptable explanation because district's are experiencing declining enrollment and the impact to the revenue limit. The District also needs enough fund balance to alleviate cash flow borrowing. Member Olig inquired about how many districts' have a fund balance of \$4.2 million. Carol shared that districts' carry a fund balance of 23-24% of their total expenditures as they need to continue to pay bills and operate. Does the District have the ability to obtain a loan through a local bank as interest rates are historically at an all-time low. Yes, the District can seek a loan from a local bank, but it would be considered a taxable obligation and those interest rates are not less than 3.5%.

Carol reviewed the different borrowing options available through the State Trust Fund Loan. The committee decided to go with the option of calling for a special meeting to approve the resolution authorizing the district to borrow followed by a 30-day notice to the public.

Adjourn

The meeting adjourned at 6:50 p.m.