MADISON METROPOLITAN SCHOOL DISTRICT

West Dayton St. Madison, Wisconsin 53703-1995 608.663-1607 www.mmsd.org

Daniel A. Nerad, *Superintendent of Schools*

May 5, 2011

Appendix MMM-11-8
May 23, 2011

TO: Board of Education

FROM: Daniel A. Nerad, Superintendent

RE: Escrow to Pay Future Debt

I. Introduction

A. Title/topic – Escrow to Pay Future Debt

B. Presenter/contact person –
Erik Kass – Assistant Superintendent of Business Services

C. Background information –
Historically MMSD has levied for and paid for debt payments within revenue limits on an annual basis. Each year administration sends the funds received through the property tax levy to the holders of the bonds and they are expensed out on the districts books. Those expenditures then become a part of the districts shared cost for the following years calculation of how much equalization aid MMSD will receive.

The amount of equalization aid MMSD receives is directly balanced by the amount of property taxes necessary to be levied to support programs within our district. Unfortunately with the current aid formula we have here in Wisconsin, MMSD is positioned to be penalized for every dollar spent on an annual basis. What this means, is that for every extra dollar spent we lose approximately $.50 the following year, which forces a difficult decision to either increase taxes to make up for that amount or to reduce programs to account for that aid loss.

D. BOE action requested – There is no action being requested at this time, this is an informational item but will return for consideration of action in June.

II. Summary of Current Information

A. Provide summary –
Each year around this time the Business Office completes a projection for any possible shortfall or additional funds available at the end of the fiscal year. Currently the projection is showing a possible addition to Fund Balance in the range of $5.5 to $6.2 million. The major pieces identified for this addition are:

Docked pay: $1.3 million
Projected Utility Surplus: $1.4 million
Unused Contingency Surplus: $700,000
Substitute Teacher Budget Surplus: $500,000
Unexpected E-Rate Reimbursement: $300,000
Unused Salaries/Benefits and other small pieces: $1.3 to $2.0 million

The required calculation for an appropriate Fund Balance at the end of the 2010-11 school year per Board of Education Policy takes the total expenditures from the general fund and sets our funds balance as a minimum of 10% and a maximum of 15% of those expenditures. The projected calculation for the maximum and minimum amounts are:

Projected Expenditures: $310,840,068 (using the General Fund Budget)

Minimum: $310,840,068 x 10% = $31,084,007

Maximum: $310,840,068 x 15% = $46,626,010

The projected addition to Fund Balance at the end of the 2010-11 school year of $5.5 to $6.2 million is in addition to the end of year Fund Balance from the 2009-10 school year of $40,492,416. Administration is then projecting an end of year fund balance of $45,992,416 to $46,692,416, which are at or near the maximum allowable within Board of Education Policy. Per the policy stipulations, if the District is above the maximum, the Board shall develop a plan and timelines to budget increased expenditures to properly restore the fund balance to the maximum.

What administration intends to recommend in June, is for the Board of Education to create what is called a defeasance escrow. What this is, is a binding trust to be set up in order to set aside funds that will go towards paying future debt payments owed by the district. There are two major advantages to MMSD over the next 3 years to creating this defeasance escrow which are outlined below.

Advantage #1 – by creating this escrow in the 2010-11 school year, we are effectively setting aside funds to pay for future debt payments that are within revenue limits. This action will allow MMSD to free up future budget funds to avoid reducing programs in those specific years.

Advantage #2 – by creating this escrow in the 2010-11 school year, we are allowed to expense these future debt payments in the 2010-11 budget year. The advantage to doing this comes from the effect this will have on our shared cost, or what is used to calculate the amount of state aid we will receive in 2011-12. As part of the Governor's proposed budget, there is a one year shift from 15% to 10% for the amount of aid any school district is able to lose from one year to the next. Due to the fact that we are already projected to lose the maximum aid amount for 2011-12 due to the projected drastic reductions to state funding, by spending more in 2010-11 we technically can't lose any more than what we are currently projecting.

The secondary advantage to this piece, is that we would then not have these expenditures in the future years that would be counted against the district in the equalization aid formula.

The reason to complete this action in 2010-11, is due to the 10% rather than 15% hold harmless for aid loss, but we have to remember that it is set at 10% for only one year under the Governor's proposal. In the 2012-13 school year and beyond, the hold harmless for aid loss will again return to the 85% of the prior year or a maximum loss of 15%.

Administration will be bringing forward a recommendation to set up this escrow defeasance in June of 2011 for the School Boards consideration. The amount to be recommended (although this may change slightly by June) is $2,788,592. This amount is equal to the debt payments (interest only) for the WRS unfunded pension liability that we re-financed a year ago, for the 2012-13 and 2013-14 school years. This will reduce our budget needed to make these payments in those years by $1,394,296 per year, and further help to avoid projected aid loss of close to $700,000 as well.

B. **Recommendations and/or alternative recommendation(s)** – None at this time

III. Implications

A. **Budget** – This future recommendation is meant to expend projected unexpended budgeted funds from the 2010-11 school year as outlined. This recommendation will in effect decrease the addition to fund balance at the end of the 2010-11 school year by a projected $2,788,592.

B. **Strategic Plan** – N/A

C. **Equity Plan** – N/A

D. **Implications for other aspects of the organization** – N/A

IV. Supporting Documentation –