

ANCHORAGE SCHOOL DISTRICT  
ANCHORAGE, ALASKA

ASD MEMORANDUM #162 (2009-2010)

November 23, 2009

TO: SCHOOL BOARD

FROM: OFFICE OF THE SUPERINTENDENT

SUBJECT: DISCUSSION ON USE OF INTEREST EARNINGS AND  
UNSPENT BOND PROCEEDS

ASD Goal: *The Business Management Division supports the mission of the district and will be highly effective, efficient and responsive to internal and external customers by ensuring public accountability and financial health through public planning and adherence to long-term strategic goals via timely, relevant and accurate financial reporting consistent with generally accepted accounting principles.*

PERTINENT FACTS:

The intent of this memorandum is to initiate discussion on the benefits and drawbacks of using remaining capital bond proceeds and interest earnings to support the current priority capital improvement needs of the district. Bond proceeds remain available from past voter-approved propositions that finished under budget and/or had sufficient changes to the scope of project that all funds were not used. Capital interest earnings are available from the investing of bond proceeds while projects are ongoing. The choices of how the funds can be used are described with the major considerations for each option listed below.

**Option #1 -Use bond proceeds to support high priority capital projects from the Capital Request Advisory Committee [CRAC] list of recommended projects.**

1. The amount of capital improvement needs for the district is significant. The ASD Ten-Year Capital Improvement Plan, as of July 1, 2009, identifies over \$800 million in capital needs to address the aging facilities over the next decade in order to support the student population over the same time frame. **Using funds currently on hand and available provides the least expensive way to address the district's capital improvement needs for the district and taxpayers.**

- a. Current unused bond proceeds have state approved debt reimbursement for 60 – 70 percent. This means voters receive 100 percent value for as little as 30 percent cost of the project.
  - b. Using unused bond proceeds and interest earnings will not increase taxes and it will reduce the district’s capital improvement needs, thus ultimately reducing the future amount of tax appropriation requests.
2. The facilities staff is in the process of identifying existing high priority projects on the CRAC recommended list that can be completed within timelines discussed with municipal staff to effectively balance IRS guidelines and project efficiencies. The current funds are available immediately and can be allocated to those priority projects now. The immediacy of funds benefits the projects by not incurring further inflationary costs and additional deterioration from waiting for a different funding source. Further costs such as bond issuance, election and interest expense would be included if future funding alternatively came from a bond sale.

**Option #2 -Use bond proceeds and interest earnings to pay existing debt.**

1. Using bond proceeds and interest earnings to pay existing capital debt will/will not benefit taxpayers by reducing the FY 2010-2011 debt service tax appropriation.
  - a. Interest earnings will reduce taxpayer debt on a 1:1 ratio, i.e. a transfer of \$1 million of capital interest earnings would reduce the FY 2010-2011 district tax appropriation by \$1 million.
  - b. State debt reimbursement will be lost if bond proceeds are used to pay off debt, therefore doing so would actually *increase taxes* by the amount of the lost state debt reimbursement.**
2. As mentioned under option #1, the district has significant capital improvement needs. Paying off existing debt with interest earnings and unused bond proceeds does not address these needs. **Any future funding for current project needs will cost taxpayers more than using existing bond proceeds and interest earnings.**
  - a. By not addressing high priority projects now, costs will increase as project statuses continue to deteriorate, thus increasing the eventual scope and cost of projects.

- b. Ultimately, projects will be necessary to complete. Therefore the district will submit projects to voters for approval. Assuming approval at some point in the future, additional costs will occur for the election and bond sale. Interest expense and principal payments for future bond sales will also increase taxes, at a greater amount than the reduced amount of taxes in the FY 2010-2011.
  - c. The current state debt reimbursement program sunsets in November 2010, potentially reducing our future capital state aid for construction.
3. The district will also continue to pay interest and principal amounts on the original bond sales from which the unused bond proceeds come from, regardless of whether the district uses these proceeds to pay debt service or to fund projects. If unused bond proceeds are used to pay debt service, rather than funding capital needs, the district will end up paying interest on funds a second time when projects are funded by a future bond sale.

The use of unused bond proceeds and interest earnings being brought forward to the board in December are from the period of 2002 through 2006. The recent bond sales for the district from 2007 and 2008 as well as all future bond sales will not have similar unused bond proceeds and interest earnings for consideration in use. The district had previously changed practices to sell smaller amounts in more frequent bond sales to ensure that only funds needed within the subsequent two years were made available.

CC/JS/CS

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