Additional Information Regarding Referendum Bond Repayment

Q: What was the question asked of voters at the 2020 referendum?

BE IT RESOLVED by the School Board of the Wrightstown Community School District, Brown, Outagamie, and Calumet Counties, Wisconsin, that there shall be issued, pursuant to Chapter 67, Wisconsin Statutes, General Obligation Bonds in an amount not to exceed $28,700,000 for the purpose of paying the costs of district-wide improvements to all school buildings and grounds including secure entrances and Americans with Disabilities Act (ADA) enhancements; site improvements; replacements and upgrades to building systems and infrastructure; an addition and renovations to the elementary school and middle school and acquisition of related furnishings, fixtures and equipment.

Question

Shall the foregoing resolution of the School Board of the Wrightstown Community School District be approved?

Q: What were the terms of the bond repayment?

Voters approved the sale of the bonds through the referendum. The District, with guidance from its financial advisors, determines the payment schedule based on financial information at the time of the sale of bonds. The District works with financial advisors and bond counsel to develop the debt schedule for bond repayment. Once the debt is callable, the District could choose to refinance the bonds if that makes sense financially. The decision to refinance would be approved at a Board of Education meeting and would not need voter approval to do so.

The initial bond sale occurred on May 7, 2020. General obligation bonds in the amount of $28,700,000 were scheduled to be repaid over 20 years through 2040 at an interest rate of 2.01%. The total amount to be repaid including interest was $34,228,117. The debt is callable after 2028.

Q: What does it mean that the debt is callable?

Callable or redeemable bonds are bonds that can be redeemed or paid off by the issuer prior to the bonds' maturity date. When an issuer calls its bonds, it pays investors the call price (usually the face value of the bonds) together with accrued interest to date and, at that point, stops making interest payments.

Generally, callable bonds are good for the issuer (District) and bad for the bondholder (Investor). This is because when interest rates fall, the issuer chooses to call the bonds and refinance its debt at a lower rate leaving the investor to find a new place to invest.

Q: Can the terms of the bond repayment be changed?

Following 2028, the debt is callable and could be refinanced at that time. Prior 2028, the District can defease (prepay) portions of the debt. The decision to prepay referendum debt would be approved at a Board of Education meeting and would not need voter approval to do so.

Q: Is this legal under Wisconsin state law?

Yes, Wisconsin State Statute 67.12.1(e) authorizes a school district to collect funds by taxation for the purpose of making all principal and interest payments due in any year; but the governing body may, in its discretion, levy and collect larger sums than the scheduled payments in order to speed the payment of municipal obligations.

Q: How does a debt defeasance work?

Dollars are paid into an escrow account until 2028 when the debt is callable. Once the dollars are placed in escrow, a new debt schedule is created. Typically the dollars are applied to the latest years of the bond.

Q: The interest rate on the original bond was very low (2.01%), why are we pre-paying?

Yes, the interest rate is low, but it is not 0%. The initial schedule called for $7,708,117 in interest payments. A defeasance allows the District to keep a stable mill rate, reduce the referendum liability to taxpayers, and maximizes the state aid for the next fiscal year which provides general fund dollars.

Q: What are the benefits of a defeasance?

First, a defeasance reduces the total debt liability and can also reduce the term of the debt. The initial debt liability was $34,228,117 and due to prepayment, the total liability now is $32,659,557, a savings of $1,568,560 over the life of the debt. The debt will be paid off in 2037 as opposed to 2040 as initially scheduled.

Second, the payment into the escrow account counts as a state aid eligible expense. This means that the District will collect state aid on that amount in the next fiscal year. State Aid is general fund revenue that can be used for any expense such as salaries and benefits.

Q: How does prepaying debt benefit students?

In the short-term, the debt counts as a state aidable expense. This means the District will collect dollars from the state in the next fiscal year in general state aid. These dollars are used in the regular operating budget for the District and can be used to help provide staffing and resources for students.

In the long term, managing the debt liability appropriately will make a potential future project more palatable thus helping to make sure our future students continue to have quality facilities and programs.