

PERS UAL Reduction Task Force

Option Name: K-12 Potential Contributions to PERS UAL Pay down

Public Entities Affected: K-12

Option Description: K-12 budget for 2017-2019 established at \$8.2 billion, 11.2% higher than 2015-2017 budget. Potential for available funding to re-direct to paydown of PERS UAL was examined, considering K-12 system (1) surplus or unutilized/underutilized assets, and (2) available/unexpended funds at period end, including budgeted funds related to unfilled positions.

	<u>Biennia</u>			
	<u>2017 – 19</u>	<u>2019 – 2021</u>	<u>2021 – 2031</u>	<u>All Years</u>
Gross Capital Opportunity	?	?	?	?
Cost to Implement	?	?	?	?
Net PERS UAL reduction	?	?	?	?
Impact on other public budgets	-	-	-	-
Impact on non-public entities	?	?	?	?

Financial Considerations

- Polling of numerous (9) larger members representing the 197 districts in the system indicated:
 - All have issued PERS bonds and have side accounts
 - A total of \$1.1b in PERS bonds has been issued by the 9 members (from 2002 through 2015)
 - Approximately \$963m remains outstanding
 - All 9 have general obligation/capital construction bonds outstanding
 - A total of \$3.1b in GO/CC bonds has been issued by the 9 members (from 2002 through 2017)
 - Approximately \$2.5b remains outstanding
 - Of the 9 polled, 5 of 6 responding indicated they maintained real property declared as surplus property, and 2 of 6 responding indicated they maintained school buildings or facilities not in use
 - Of the 9 polled, 6 of 7 responding indicated they had plans to sell or lease surplus/unused property, and 1 of 7 responding indicated they had no plans to sell or lease surplus/unused property
 - Of 9 polled, 7 responding indicated their plans to sell property could generate between \$300k and \$1.5m; 1 of 7 responding indicated that a planned land swap would result in **negative cash flow of \$12m** to the district; and 2 of 7 responded that annual lease revenue ranged from \$4k to \$36k
 - Most respondents indicated that property sale proceeds were restricted due to bonding/board policy, and that most property is being held for future growth/development

- Available resources for K-12 participants to redirect to PERS UAL paydown complicated by reconciliation process
 - Reconciliation generally understood to represent a 30-month process
 - For 2015-16 school year, roughly 1/3 of districts owed, and 2/3 of districts received additional funds (generally totaling less than \$1 million per district)
 - For 2015-16 school year, reconciliation process resulted in approximately \$11m net positive cash flow for all districts

Conclusion

Consideration of current status of K-12 system, including historical budget pressures, bonding in place, available surplus/unutilized/underutilized assets, and impacts of reconciliation process suggests that participation by system members in a program to accelerate PERS UAL paydown likely is limited to voluntary contributions based on individual member financial capacity. A global program that provides positive incentive for participating may result in increased contributions toward PERS UAL, but such contributions cannot be estimated, or reasonably expected, with any degree of confidence.

K-2 System Requests

- Recognition that funded debt is relied upon to develop and maintain facilities
- Recognition that reductions in balance sheet strength (i.e., through the sale of assets and/or reduction in reserves) of system members (1) weakens their ability to obtain/service debt, and (2) potentially increases the cost of debt
- A global, voluntary system regarding participation in the accelerated paydown of PERS UAL is desirable
- A tool that enables K-12 participants to estimate/understand the direct benefits that potentially could be realized through participation in an accelerated PERS UAL paydown process
- Incentives in the form of matching contributions
- A nimble system that would facilitate expedited decision making with regard to potential action relating to the PERS UAL