

4:42 – Capital Expenditures and Debt Service Goals and Objectives

The District capital expenditures and debt service components of the overall budget shall represent a translation of the education priorities of the community into an effective and efficient long term financial plan. The Board and/or its designee will solicit input from community, staff, and administration into the development of the capital expenditures and debt service plan as part of its annual budget adoption process. The Superintendent and Assistant Superintendent for Finance and Operations will review this input and utilize it in the development of the capital expenditure and debt services components of its budget as appropriate.

The Board directs the Superintendent to periodically advise the Board of the major decisions the Board will be required to make which will affect the expenditures and receipts of the annual budget and the effect of those decisions on the following guidelines and standards established to maintain a financially strong district over the long term.

A. General Best Practices

1. In the capital expenditure and debt service budgeting process, the District 97 Board of Education shall focus on one-year, rolling five-, ten-, and twenty- year time horizons. The multi-year projections should include high, low and expected cases. Budgets and five-year projections will be reviewed as part of the annual budgeting process and at least one other point during the year. Ten- and twenty-year projections will be reviewed at least biennially.
2. A more intensive and complete review of capital expenditures will happen within a year of:
 - a. the completion of the state required ten-year life safety reviews of the buildings.
 - b. projected or actual enrolment changes of more than 10% within a five year period OR 15% within a ten-year period.
 - c. changes to state or federal school facility codes or requirements.
 - d. A successful or failed referendum related to capital expenditures.
 - e. An exception to any of the debt service and total indebtedness boundary conditions.
3. A more intensive and complete review of the debt service plan will happen:
 - a. three tax years prior to the completed payoff of any referendum debt.
 - b. interest rate changes of more than 50% OR 200 basis points, evaluated each calendar quarter based on Municipal Market Data (MMD) five year bond benchmark
 - c. changes to the state laws regarding debt service, including debt capacity.
 - d. changes in either direction to the district's bond rating.
 - e. changes to the state's financial profile scoring methodology.
 - f. a successful or failed referendum related to debt service.
 - g. An exception to any of the debt service and total indebtedness boundary conditions

- h. At a minimum a review shall take place every three years.
4. The following best practices from Policy 4:12 also apply to capital expenditures and debt service:
- a. The District shall seek to measure its financial strength relative to both neighboring and comparable districts adjusting for factors as necessary. A list of comparable school districts, as called for in Policy 4:12, shall be also be utilized by this policy.
 - b. The District shall develop and track key project metrics and periodically report to the Board on these metrics for major capital and program investments the Board determines have material impact within a five-year financial forecast. The District shall develop and track key metrics for major capital projects and program investments. A periodic metrics report shall be submitted to the Board. The Board shall determine if the capital projects and/or program investments will have a material impact within a five-year financial forecast.
 - c. The District shall be able to estimate its Illinois State Board of Education financial score at any point in time and provide a five-year annual projected basis when five-year projections are performed.
 - d. When presenting five-year projections, the District shall be able to estimate its Illinois State Board of Education financial score at any point in time and provide that projected score when five-year projections are performed.

B. Standards and Measures

1. The Board will strive to find the appropriate balance among:
- investment in the school facilities (buildings and grounds) to ensure a safe environment of all students, staff, and visitors; a modern educational environment; and sufficient capacity.
 - Annual debt service expenses
 - Overall indebtedness (total outstanding principal)
 - Tax burden for District 97 and overall tax burden for the community.
2. Long-Term Indebtedness
- In order to determine its relative level of indebtedness, annually the District will calculate its
 - outstanding principal to debt limit ratio vs. that of its peer group for the last three years,
 - its current rank among the peer group, and
 - its projected rank over the next five years.
 - The district will also calculate its current and five years of projected Long-Term Debt as defined by the State's Financial Profile score (a.k.a. Percent of Long Term Debt Margin Remaining).
 - The District will also review its Percent of Long-Term Debt Margin Remaining according to the State's Financial Profile Score on an annual basis along with its current and its five year projections in this category
 - The projected ratio of long-term indebtedness is calculated based on the current EAV.
3. Annual Debt Service Level - In order to determine its relative level of annual debt service, annually the District will calculate its
- ratio between annual debt service payments (principal and interest) to its total operating expenses vs. that of its peer group for the last three years, and

- current rank among the peer group, and
- projected rank over the next five years.

C. Boundary Conditions for Debt Service and Total Indebtedness

1. Long-term indebtedness
 - a. The district is outside the 25th percentile and 75th percentile of our peer districts any year in the next five years.
 - b. The district has received a one or a four on its State's financial profile long-term debt component score for the past year or the current budget year.
2. Annual Debt service ratio is outside the 25th percentile and 75th percentile of our peer districts any year in the next five.
3. DSEB current or projected maturities are greater than five years
4. The District's credit rating falls below a Moody's Aa2 or its equivalent rating by other agencies

It should be noted that the first two boundary conditions are "two-sided," because too much debt or too little bonding capacity can be a leading indicator of future fiscal distress and too little debt can be a leading indicator of too little investment in the capital maintenance of district assets, primarily it facilities. The third and fourth boundary conditions are single-sided. It should also be noted that the measures of boundary conditions interact and need to be looked at holistically.

D. List of Possible Actions

All action listed below are actions to consider and are not listed in any priority order. It should be noted that actions to address a boundary condition may be contra-indicated by proximity to or violation of another boundary condition. It should also be noted that the actions to be taken should be viewed in context of the current bond market, including current interest rates relative to historic interest rates and the expected direction of interest rates, and with awareness of the community's overall economic health, level of indebtedness, and taxes. The subsequent actions itemized below are considerations that are not listed in any priority order. It should be noted that boundary condition actions may be contra-indicated by proximity to or violation of another boundary condition. However, all actions should give consideration to the current bond market, including current and historic interest rates, the expected direction of interest rates, and with attention to the community's overall economic health, level of indebtedness and taxes.

1. Long-term indebtedness
 - a. high level (above 75th percentile of peer group or a 1 on profile) – actions to consider
 - i. Using cash reserves to pay off some debt
 - ii. Re-prioritizing, delaying, or cancelling of planned capital projects resulting in reducing, delaying, or cancelling sale of additional debt
 - iii. Refinancing existing debt to pay more principal sooner
 - b. low level (below 25th percentile of peer group or a 4 on profile) – actions to consider
 - i. Re-prioritizing or accelerating of existing planned capital projects
 - ii. Examination of where facilities fail to meet current facility standards, but changes are not mandated because of a “grandfathered” status.
 - iii. Examination of where facilities fail to meet current community expectations.
 - iv. Investments in capital projects that will result in long-term operating cost savings.
 - v. A capital referendum to allow bonding capacity for any of the above.
2. Annual Debt service
 - a. high level (above 75th percentile of peer group) – actions to consider
 - i. Refinancing existing debt to pay less now and more later.
 - ii. Re-prioritizing, delaying, or cancelling of planned capital projects resulting in reducing, delaying, or cancelling sale of additional debt.
 - iii. Using cash reserves to reduce the debt service.
 - b. low level (below 25th percentile of peer group) – actions to consider
 - i. Refinancing existing debt to pay more now and less later.
 - ii. Examination of where facilities fail to meet current facility standards, but changes are not mandated because of a “grandfathered” status.
 - iii. Examination of where facilities fail to meet current community expectations.
 - iv. Investments in capital projects that will result in long-term operating cost savings.
 - v. A capital referendum to allow bonding capacity for any of the above.
3. Non-referendum Capacity ratio is less than the recommended ratio – action may include:
 - a. A referendum to increase DSEB limits
 - b. Refinancing existing debt to meet the boundary condition
 - c. A capital referendum to reduce the reliance on long maturity DSEB issues
 - d. Maintaining current and projected fund balances at levels sufficient to decrease the risk of lower than target non-referendum bonding capacity.
 - e. Restricting DSEB sales to certain maturities.
4. The District’s credit rating falls below a Moody’s Aa2 or its equivalent rating by other agencies.
 - a. Community is informed through various means of the cause and consequences of this change in credit rating.

ADOPTED: ????, 2016
OAK PARK ELEMENTARY SCHOOL DISTRICT 97