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

The capital expenditures and debt service components of the District's overall budget should represent an effective and efficient long-term financial plan that reflects the educational priorities of the community. The Board and/or its designee will solicit input from community, staff, and administration in developing 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 use it in developing the capital expenditure and debt services components of its budget as appropriate.

The Board directs the Superintendent to periodically advise the Board of 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 and 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. completion of the State-required ten-year life safety reviews of District school buildings.
    b. projected or actual enrollment 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. successful or failed referendum related to capital expenditures.
    e. 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 be made at least every three years, and also:
    a. three tax years prior to the completed payoff of any referendum debt.
    b. in the event of 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. in the event of changes to the state laws regarding debt service, including debt capacity.
    d. in the event of changes in either direction to the district's bond rating.
    e. in the event of changes to the state's financial profile scoring methodology.
    f. following a successful or failed referendum related to debt service.
    g. upon variance from any of the debt service and total indebtedness boundary conditions.

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 used in implementing 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, which 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 estimated 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 for 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, the District will annually calculate its
        - outstanding principal to debt limit ratio as compared with those of districts in its peer group for the last three years,
        - its current rank among the peer group, and
        - its projected rank among districts in the peer group 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, the District will annually calculate its
    - ratio between annual debt service payments (principal and interest) to its total operating expenses as compared with those of districts in its peer group for the last three years, and

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

C. Boundary Conditions for Debt Service and Total Indebtedness

1. Long-term indebtedness
   a. The District is projected to be below the 25th percentile or above the 75th percentile of peer group districts in any of the next five years.
   b. The District has received a State financial profile long-term debt component score of "one" or "four" for the past year or the current budget year.

2. Annual debt service ratio is below the 25th percentile or above the 75th percentile of peer districts in any of the next five years.

3. Current or projected maturity dates for outstanding limited board issued against the District's DSEB are more than five years into the future.

4. The District's credit rating falls below a Moody's Aa2 or its equivalent rating by other agencies

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

D. List of Possible Actions

The actions to consider that are identified below are not listed in priority order. Actions to address a boundary condition may be contra-indicated by proximity to or violation of another boundary condition. The actions to be taken should be evaluated in the 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.

1. Long-term indebtedness
   a. high level (above 75th percentile of peer group districts or a 1 on profile) – actions to consider
      i. Using cash reserves to pay off some debt.
      ii. Re-prioritizing, delaying, or cancelling planned capital projects, so as to reduce, delay, or cancel sale of additional debt.
      iii. Refinancing existing debt to repay larger amounts of principal indebtedness sooner.
   b. low level (below 25th percentile of peer group or a 4 on profile) – actions to consider
      i. Re-prioritizing or accelerating existing planned capital projects.
      ii. Examining which facilities fail to meet current standards, but as to which changes are not mandated because of their "grandfathered" status.
      iii. Examining which 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 planned capital projects so as to reduce, delay, or cancel sale of additional debt.
      iii. Using cash reserves to reduce 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. Examining which facilities fail to meet current standards, but as to which changes are not mandated because of their "grandfathered" status.
      iii. Examining which 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 limited bond 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 issuance of new limited bonds issued against the District DSEB 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