

Operational Services

DEBT MANAGEMENT

The policies set forth in this Debt Management Policy (the “Policy”) have been developed to provide guidelines relative to the issuance, sale, statutory compliance and investment, of bond proceeds by Mundelein Elementary School District 75 Board of Education. The Board of Education recognizes that the foundation of any well-managed debt program is a comprehensive debt policy. “Debt” is defined as any short-term or long-term obligation to repay principal and interest on a loan whether for operating purposes or capital expenditures and including but not limited to general obligation bonds, notes, warrants, leases, alternate bonds, limited tax bonds, debt certificates, installment contract certificates and any other forms of indebtedness. While the issuance of debt can be an appropriate method of financing for capital projects, careful and consistent monitoring of such debt issuance is required to preserve the district’s credit strength, budget, and financial flexibility. This policy will serve the Board of Education in determining the appropriate uses for debt financing and debt structures as well as establishing prudent debt management goals.

Section I. Purpose and Goals:

The purpose of the Policy is to provide a functional tool for debt management and to enhance the Board of Education’s ability to manage its debt in a conservative and prudent manner. The Policy will establish standards regarding the timing and purposes for which debt may be issued, types and amounts of permissible debt and structural features that may be incorporated. These standards constitute realistic goals that the Board of Education can expect to meet, and will guide, but not bind, debt management decisions. In following this Policy, the Board of Education shall consider the following goals:

- The purpose for which debt can be issued shall be in accordance with applicable State of Illinois and Federal Statutes. The Board of Education shall not issue debt in excess of the statutory limit.
- The Board of Education will avoid issuing debt for payment of operating expenses unless needed to meet short-term cash flow needs.
- The Board of Education shall endeavor to attain the lowest cost debt in order to reduce interest costs within the context of preserving financial flexibility and meeting capital funding requirements.
- The Board of Education shall consider all practical precautions and proactive measures to avoid any financial decision which will negatively impact current credit ratings on existing or future debt issues.
- The Board of Education shall remain mindful of debt limits in relation to assessed value growth within the school district and the tax burden needed to meet long-term capital requirements.
- The Board of Education shall, when planning for the issuance of new debt, consider the impact of such new debt on overlapping debt and the financing plans of local, state and other governments which overlap with the district.

Section II. Authorization:

Illinois laws authorize the issuance of debt by the Board of Education and confer upon it the power and authority to make lease payments, contract debt, borrow money, and issue bonds for public improvement projects. Under these provisions, the Board of Education may contract debt to pay for the cost of acquiring, constructing, reconstructing, rehabilitating, replacing, improving, extending, enlarging, and equipping such projects, or to refund existing debt or to provide for cash flow needs.

A. *Periodic Review:*

The Policy shall be reviewed and updated periodically and presented to the Board for approval as necessary. At a minimum, the Board of Education will review this policy prior to the submission of a bond referendum to the electorate. The Treasurer is the designated administrator of the Policy and has overall responsibility, with the Board's approval, for decisions related to the structuring of all district debt issues. The Board is the obligated issuer of all district debt and awards all purchase contracts for any debt issuances.

Section III. Structure of Debt Issues and Guidelines:**A. *Maturity of Debt:***

The duration of a debt issue shall be consistent, to the extent possible, with the economic or useful life of the improvement or asset that the issue is financing. The length of maturity of any debt instrument to the extent possible, and within IRS Guidelines, shall be equal to or less than the useful life of the asset(s) being financed.

B. *Debt Service Structure:*

The Board of Education or its designee shall design the financing schedule and repayment of debt so as to take best advantage of market conditions, provide flexibility, and as practical, to recapture or maximize its credit for future use. Annual debt service payments will generally be amortized to meet debt repayment goals established by the board such as level tax rate, level payment or rapid principal amortization may occur where permissible.

C. *Capitalized Interest:*

Unless required for structuring purposes (e.g. first interest payment due before levy dollars are received and to achieve stated tax rate goals), the Board of Education will minimize the use of capitalized interest in order to avoid unnecessarily increasing the bond size and interest expense.

D. *Impact on Operating Budget:*

When considering any debt issuance, the potential impact of debt service and additional operating costs induced by new projects on the operating budget of the district, both short and long-term, will be evaluated.

E. *Debt Limitation:*

Limitations on school district bonded indebtedness are determined in relationship to a district's equalized assessed value (EAV) of real property. Section 19-1 of the Illinois School Code limits the district's total outstanding debt to 6.9% of the assessed valuation of the taxable property of the district.

F. *Reporting of Debt:*

The Annual Audit of the District's Financial Statements will serve as the repository for statements of indebtedness.

G. *Monitoring Outstanding Debt:*

1. The Board of Education's designee will monitor all forms of debt annually and include an analysis in the district's financial planning program. Concerns and recommended remedies will be reported to the Board of Education as necessary.
2. The Board of Education and designee will monitor bond covenants and federal regulations concerning debt, and adhere to those covenants and regulations at all times.

H. *Arbitrage:*

All issuances and funds subject to arbitrage constraints shall be monitored by the Treasurer and have arbitrage liability calculations performed in a timely manner.

I. *Investment of Bond Proceeds:*

Investment of bond proceeds shall at all times be in compliance with the district's adopted investment policy, comply with federal arbitrage regulations and meet all requirements of bond proceed covenants.

Section IV. Financing Team Members:

The Board of Education may use the services of professional service providers, such as Bond Counsel, Legal Counsel, Independent Financial Advisors, Bond Rating Analysts, or other debt management advisors in order to assist the district with the effective management of its debt.

All financing team members will be required to provide full and complete disclosure, under penalty of perjury, relative to any and all agreements with other financing team members and outside parties. The extent of the disclosure may vary depending on the nature of the transaction. However, in general terms, no agreements will be permitted which would compromise a firm's ability to provide independent advice which is solely in the best interests of the district, or which could reasonably be perceived as a conflict of interest. All financing team members shall abide by the Board's code of ethics as well as State and Federal laws.

Section V. Related Issues:*A. Financial Disclosure:*

The district will follow a policy of full disclosure on every financial report and official statement, voluntarily following disclosure guidelines provided by the Government Finance Officers Association for financial reporting and budget presentation, the disclosure requirements of the Securities and Exchange Commission, and arbitrage and rebate restrictions imposed by the Internal Revenue Service. To the extent necessary, professional service providers will be used to insure compliance with continuing disclosure requirements, SEC Rule 15c2-12, as amended from time to time.

B. Review of Financing Proposals:

All capital financing proposals involving a pledge of the district's credit through the sale of securities, execution of loans or lease agreements or otherwise directly or indirectly the lending or pledging of the District's credit initially shall be referred to the Treasurer who shall determine the financial feasibility of such proposal and make recommendations accordingly to the Board.

C. Establishing Financing Priorities:

The Treasurer shall administer and coordinate the Policy and the district's debt issuance program and activities, including timing of issuance, method of sale, structuring the issue and marketing strategies. The Treasurer shall, as appropriate, report to the Superintendent and the Board regarding the status of the current and future year programs and make specific recommendations.

D. Rating Agency, Credit Enhancer, and Investment Community Relations:

The district shall endeavor to maintain a positive relationship with the investment community. The Treasurer along with the district's financial advisors shall meet with, make presentations to, or otherwise communicate with the rating agencies, bond insurers and credit enhancers on a consistent and regular basis in order to keep the agencies informed concerning the district's capital plans, debt issuance program, and other appropriate financial information.

The district will make every reasonable effort to maintain high quality credit ratings and will specifically discuss with the Board of Education any proposal which might cause that rating to be lowered.

The Treasurer shall, as necessary, prepare reports and other forms of communication regarding the district's indebtedness, as well as its future financing plans. This includes information presented to the media and other public sources of information. To the extent applicable, such communications shall be posted on the district's website.

E. Call Provisions:

The Board of Education will seek to minimize the cost from optional redemption call provisions, consistent with its desire to obtain the flexibilities of call provision on bonds when compared to

obtaining the lowest possible interest rates on its bonds. The Treasurer and its financial advisor will evaluate optional redemption provisions for each issue to assure that the district does not pay unacceptably higher interest rates to obtain advantageous calls and report these provisions to the Board.

F. *Credit Enhancement:*

For competitive sales the Board of Education will provide the option for the purchaser to obtain credit enhancement, such as municipal bond insurance, at the purchaser's option and cost. In the event of a negotiated sale, the Board of Education will consider credit enhancement when necessary for marketing purposes or to make the financing more cost effective.

G. *Competitive versus Negotiated Debt Issuance:*

The Board of Education will generally conduct bond sales on a competitive basis in which the Treasurer and its financial advisor will set the terms of the sale to encourage as many bidders as possible. However, a negotiated financing may be used where market volatility, refunding sensitivity or the use of an unusual or complex financing or security structure causes a concern with regard to marketability. Such determination may be made on an issue-by-issue basis for a series of issues or for part or all of a specific financing program. The underwriting team is selected through a competitive process, but the ultimate decision will be based upon the team's qualifications.

H. *Refunding and Restructuring Policy:*

Whenever deemed to be in the best interest of the district, the Board of Education shall consider refunding or restructuring outstanding debt when financially advantageous or beneficial for structuring. The Treasurer shall review a net present value analysis of any proposed refunding in order to make a determination regarding the cost-effectiveness of the proposed refunding.

I. *Tax Anticipation Notes or Warrants:*

The District may issue Tax Anticipation Notes or Warrants in a situation beyond the District's control or ability to forecast when the revenue source will be received subsequent to the timing of funds needed.

J. *Variable Rate Debt:*

To maintain a predictable debt service burden, the Board of Education gives preference to debt that carries a fixed interest rate. The Board of Education, however, may consider variable rate debt to diversify its debt portfolio, reduce interest costs, increase repayment flexibility and match the durations of assets and liabilities. Prior to issuing variable rate instruments, the Treasurer and the financial advisor will analyze the savings available in comparison to fixed rate instruments and evaluate and quantify the risks associated with the variable rate debt. The recommendation will be brought to the Board of Education for approval. The most recent ten-year average of the BMA Index may be used as a benchmark for determining the variable rate debt cost. Ancillary costs for remarketing, liquidity, or broker-deal and tender agent fees should also be reflected in

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the analysis.

1. As long as variable rate debt is outstanding, the district will actively monitor and evaluate market conditions and will determine if it is appropriate and cost efficient to convert the variable rate debt to fixed interest rates.
2. Consistent with rating agency guidelines, the percentage of unhedged variable rate debt outstanding at the time of any debt issuance shall not exceed the upper limit for such debt specified by the rating agencies. Unhedged variable rate debt representing 15 percent of district's total outstanding debt is an acceptable upper limit.
3. For purposes of this limitation, variable rate debt is considered hedged if it is subject to an interest cap, has been synthetically converted to a fixed rate, or if short-term investments offset variable rate debt exposure. Short-term district investments for purposes of this limitation shall include monies invested and maintained for working capital and liquidity purposes.

K. Transaction Records:

The Treasurer or designee shall maintain complete records of decisions made in connection with each financing, including the selection of the financing team members, the structuring of the financing, and selection of investment products. The Treasurer shall timely provide a summary of each financing to the Board.

L. Special Situations:

Changes in capital markets, district programs and other unforeseen circumstances may from time to time produce situations that are not covered by the Policy. These situations may require modifications or exceptions to achieve policy goals. Management flexibility is appropriate and necessary in such situations, provided specific authorization is received from the Board of Education.

LEGAL REF.: 30 ILCS 305/2.
50 ILCS 420/5.
105 ILCS 5/17-16, 5/18-18, 5/19-1 et seq.

ADOPTED: October 27, 1997

REVISED: January 28, 2008