PROPOSED BOARD POLICY
TO REPLACE POLICY 4:40 ENTITLED OPERATIONAL SERVICES-INCURRING DEBT

Operational Services 4:40

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 Crete Monee School District 201-U, (the "District"). The District 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 District in determining the appropriate uses for debt financing and debt structures as well as establishing prudent debt management goals.

Key financial management tools and goals that are linked to the Policy include the Finance Goals and Objectives (see 4:12).

Section I. Purpose and Goals:

The purpose of the Policy is to provide a functional tool for debt management and to enhance the District's ability to manage its debt in a 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 District can expect to meet, and will guide, but not bind, debt management decisions. In following this Policy, the District shall adhere to the following goals:

- The Board of Education (Board) will avoid issuing debt for payment of operating expenses unless needed to meet necessary cash flow needs pursuant to Section IV, subsection H entitled *Tax Anticipation Notes and Warrants.*
- The District shall endeavor to attain the highest possible credit rating for each debt issue in order to reduce interest costs, within the context of preserving financial flexibility and meeting capital funding requirements. The District shall structure new bonds so that the aggregate bonded debt is consistent with a level total debt service payment structure.
- The District 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 District shall comply with statutory debt limits in relation to the equalized assessed value growth within the school district and the tax burden needed to meet long-term capital requirements.
- The District 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 governmental units which overlap with the District.

Section II. Authorization:

Illinois laws authorize the issuance of debt by the District 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 District 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. The Assistant Superintendent for Business 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. <u>Structure of Debt Issues and Guidelines:</u>

A. *Debt Service Structure* The District 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 on an aggregate level or when combined with other outstanding debt total level debt service basis; however, more rapid principal amortization may occur where permissible to meet debt repayment goals.

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

C. *Capitalized Interest* Unless required for structuring purposes (e.g. first interest payment due before levy dollars are received), the District will avoid the use of capitalized interest in order to avoid unnecessarily increasing the bond size and interest expense.

D. *Derivatives* The District shall not employ derivative products as approved by the State of Illinois such as swaps and swaptions unless the financial results achievable through the use of these products are substantially better than the results that could be attained through the issue of traditional fixed rate debt. If derivative products are used, the District shall use a competitive process to select providers of such products to the extent applicable. All risks will be evaluated prior to entering into a derivative transaction, including but not limited to, basis risk, tax risk, counter-party risk, termination risk, liquidity renewal risk, remarketing risk, and credit risk. The District will adopt a separate swap policy when, and if, it enters into a swap.

E. *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.

F. *Capital Appreciation Bonds (CABs)* Prior to the issuance of CABs, the Board of Education will have a thorough discussion of the costs and benefits of issuing CABs versus current interest bonds at a public meeting.

G. *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 with certain statutory exceptions.

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

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. 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. The District will maintain a post-issuance compliance and record-keeping policy addressing: Continuing Disclosure requirements, IRS Arbitrage and Rebate Disclosure, as well as Use of Facilities requirements to maintain IRS tax status.

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 Assistant Superintendent for Business who shall determine the financial feasibility of such proposal and make recommendations accordingly to the Board.

C. *Rating Agency, Credit Enhancer, and Investment Community Relations* The District shall endeavor to maintain a positive relationship with the investment community. The Assistant Superintendent for Business along with the District's financial advisors and underwriters shall meet with, make presentations to, or otherwise communicate with the rating agencies, bond insurers and credit enhancers as requested or required 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 establish or maintain its high quality credit ratings. The Assistant Superintendent for Business 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.

D. *Call Provisions* The District will seek to optimize the cost/benefit trade-off 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 District 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.

E. *Credit Enhancement* For competitive sales the District 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 District will seek credit enhancement when necessary for marketing purposes or to make the financing more cost effective.

F. *Competitive versus Negotiated Debt Issuance* The District may conduct bond sales on either a Competitive or Negotiated basis. Competitive sales entail the use of a financial advisor to set the terms of the sale to encourage as many Underwriter bidders as possible. Negotiated financing allows the District to sell the initial offering to an Underwriter or Underwriting Syndicate. 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.

G. *Refunding and Restructuring Policy* Whenever deemed to be in the best interest of the District, the District shall consider refunding or restructuring outstanding debt when financially advantageous or beneficial for structuring.

H. *Tax Anticipation Notes or Warrants* The District's Fund Balance Policy is designed to provide adequate cash flow to avoid the need for Tax Anticipation Notes or Warrants through the establishment of designated and undesignated fund balances sufficient to maintain required cash flows and provide reserves for unanticipated expenditures, revenue shortfalls and other specific uses. 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.

I. *Variable Rate Debt* To maintain a predictable debt service burden, the District gives preference to debt that carries a fixed interest rate. The District, 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, District staff 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 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 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 fifteen percent (15%) 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.

J. *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.