Debt Service Reduction Plan

April 14, 2014

History

In the fall of 2013, the Geneva Board of Education began to develop a plan that would address the District's long term debt and better serve the interest of our community. The following objectives were outlined:

1. Achieve a reduction in overall indebtedness
2. Smooth debt service payments
3. Provide long term sustainable benefit to taxpayers
4. Continue to return excess reserves though abatement
5. Reduce reserve average to nearer to 30% as part of debt reduction process
6. Maintain flexibility and local control allowing Board to react to any changes

The School Board's Finance Committee held several meetings to review available data and to take testimony from the public on possible options that could achieve the objectives noted above. Based on the findings, the Finance Committee determined that it would be possible to achieve the desired objectives. The basis of the plan is a follows:

a. Level out annual debt payments to approximately $15M per year. This will allow future debt to remain near current annual debt levels.
b. Continue the current plan of abatement of Education Fund balances in excess of $15M on an annual basis. It was determined that abatements carry the least cost, and the benefits are immediate.
c. Any plan must pay down principle.
d. Extend debt beyond current scheduled end dates, but do not "kick the can down the road." The basis for this decision was centered around the original theme that this debt should be shared by those stakeholders moving into the district overtime, and not excessively burden current residents of the district. It is believed that if the debt is extended an additional 4 years, as the economy continues to improve from the 2007 downturn, additional homeowners will move into the district, share in the debt burden with current residents, but not excessively burden future generations of residents.
e. Accounts used for the temporary "storage" of funds to be utilized for the repayment of debt shall ensure transparency that the funds are "locked away" for the intended purpose of paying down the debt, however concern was also raised that some portion of these funds may need to be available to meet "catastrophic" capital needs in the future without unduly tying future Board's hands. It is recommended that the Board utilize both the Bond and Interest and Working Cash funds for this purpose. The Bond

and Interest fund is the most restrictive, but “locks” the funds for repayment, whereas the Working Cash fund gives the Board greater leeway in how the funds are invested but also allows future Boards access to the funds.

Based on these findings, the Finance Committee is proposing a plan consisting of Abatement, Transfer of allowable funds, Refunding of bonds, and Defeasance. This plan will manage the current debt of District 304, reduce the outstanding principal, and lower annual debt payment. The plan will include several processes to accomplish the final goal of debt reduction, and leveling of the annual debt payment and levy rate.

Abatement

Through the Abatement process, at the end of the fiscal year, June 30th, any amount over $15 million in the Education fund is permanently transferred to the Debt Service Fund for reduction of debt service payments in future years. An Abatement Resolution is approved by the Board of Education each year. The Resolution is then filed with the County Clerk. The County Clerk applies this amount to the annual debt service payment which in turns lowers the amount and lowers the debt service rate on the property tax bill.

With the approval of the abatement resolution for this year, the total abatement amount is as follows:

Resolution for Abatement FY 2012 $3,224,829

Resolution for Abatement FY 2013 $4,990,000

Resolution for Abatement FY 2014 $5,931,638

This is a total abatement amount of $14,146,467

The annual payment and rate was reduced:

Year	Debt Levy	Tax Rate	Reduced Levy	Reduced Rate
2011	15,951,903	1.20	14,731,008	1.11
2012	17,302,070	1.35	15,000,000	1.17
2013	18,730,973	1.50	15,500,000	1.24
2014	20,293,283	1.64*	16,300,000	1.32*
2015	22,013,633	1.76*	18,614,387	1.52*

*Estimated Rate

With continued abatements the annual payment and rate will continue to be reduced.

Transfer of Allowable Funds

The District would like to pay off debt when allowed to do so. At the end of the fiscal year each operation fund would be reviewed for additional dollars available for debt reduction. By transferring a dollar amount to the Working Cash Fund, designated specifically for debt reduction, these funds would be used to pay off bond debt when it becomes callable.

Refunding of Bonds

When bonds are issued they are given a call date. The call date is no less than 10 years after the bond is issued. On the call date, the callable bonds can be paid off or refinanced. The interest rate of the bonds could be lower or higher depending on economic conditions and the bond market. A refunding is not cost effective if the present value savings is under 3%. Currently, the District has two bond issues callable on January 1, 2017 and January 1, 2018. The District has refunded bond issues for savings in 2010, 2011, and 2012.

Defeasance

Defeasance is another way of refinancing a bond issue. Funds are placed in an escrow account for payment of the bonds at a future date. If a portion of a bond is not callable, the bond is refinanced at a lower rate and the funds are placed in the escrow account. The bond is usually extended additional years to lower the payment amount.

Debt Reduction Plan for 2014-2017

The abatement resolution approved in March includes a reduction of the debt service payment for 2015 from $22,013,633 to $18,614,387. With the continuation of abatement for levy year 2014, 2015, and 2016, the debt service payment will decrease from as high as $23,618,248 to $17,000,000. As discussed in previous Finance meetings, the target amount for debt service is $15,200,000. By combining abatement through 2016 with the transfer of allowable funds for 2014 to 2017 and refunding/defeasance of the callable bonds in 2017 and 2018, this target amount can be achieved. The debt originally to be paid off in 2025 would be extended to 2029. The rate would decrease and would be more manageable for the community. This plan would be reviewed and updated each year after the annual audit is completed.