

OCONOMOWOC AREA SCHOOL DISTRICT REFERENDUM INFORMATION



Understanding the Costs: Frequently Asked Questions

As of 9/6/2016

What is the total proposed project cost?

The total project cost is \$54.9 M and cannot, by state law, exceed that amount if approved by voters on Tuesday, November 8, 2016.

What is included in the costs?

The \$54.9M total project cost includes all new construction, renovations, identified updates to building infrastructure such as roofs, fire alarms, heating, ventilation, cooling and mechanical systems, land purchase, site access and infrastructure, removal of the existing Meadow View Elementary if needed, professional fees, furniture, fixtures, equipment and required testing and permits.

How does the total \$54.9M proposed project break down between schools?

Meadow View Elementary:	\$28,320,000
Ixonia Elementary:	\$8,172,000
Park Lawn Elementary:	\$3,444,000
Greenland Elementary:	\$3,689,000
Oconomowoc High School:	
<i>Main Campus:</i>	\$2,005,000
<i>East Campus:</i>	\$6,949,000 (Instructional Space)
	\$2,309,000 (District Office Space)

What is the tax increase associated with the proposed project?

Maximum Mill Rate Increase: \$0.40 (per \$1,000 of equalized home value)	ANNUAL INCREASE	MONTHLY INCREASE
\$100,000 home	\$40.00	\$3.33
\$250,000 home	\$100.00	\$8.33
\$350,000 home	\$140.00	\$11.67
\$500,000 home	\$200.00	\$16.67

Key Assumptions:

- Interest rates ranging from 3.25% to 3.75%.
 - Annual Equalized Property Growth: 1.7%
 - Phased borrowing approach over a 3 year period (2017-2019) with each borrowing paid back over a 20-year period.
- Source: Financial advisors with PMA Securities, Inc.

How would potential new debt be financed?

If voters approve a facilities referendum in November 2016, the proposed financing plan includes three distinct phases in 2017, 2018 and 2019. Each of the financings would be amortized, or repaid over a 20-year period, which is the maximum length of time the state allows school districts to repay long-term debt. Taxpayers would first note the approved increase on their December 2017 tax bills.

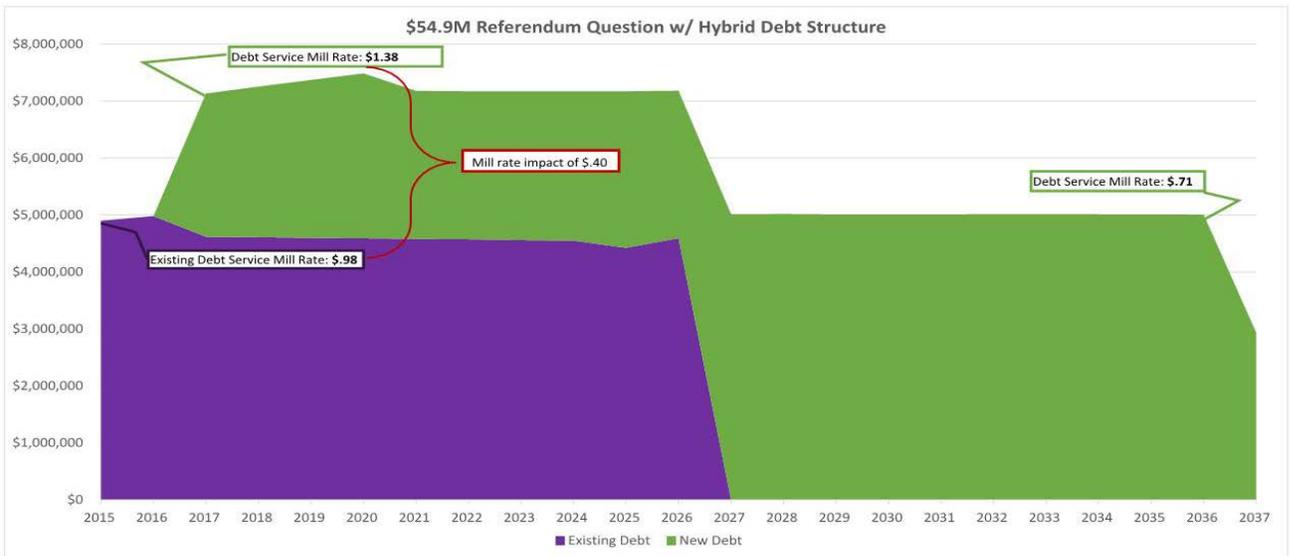
Borrowing the approved funds in three phases allows the district to match the construction timeline with the need for funds at key periods throughout the nearly three year construction schedule. Depending on the interest rate market, phasing is also a valuable means to manage interest costs.

Does this mean existing debt repayment is being extended?

No. Per state law, school districts cannot borrow funds for more than 20 years, nor can they refinance bonds to push repayment beyond 20 years. Starting in the early 2000's, OASD student enrollment growth was substantial (more than 1,000 students) and between 2003 and 2008, Summit Elementary and the two intermediate schools were built in response to this growth. The Oconomowoc Arts Center and fieldhouse projects were also completed at Oconomowoc High School. The majority of the district's existing debt is from these projects. In 2014 and 2015, the district refinanced portions of the existing debt, saving \$3.1M. Refinancing did not extend the life of the remaining debt. It did, however, lower the remaining interest costs by capitalizing on lower interest rates available in recent years.

If voters approve funding for new projects in November 2016, the proposed financing approach would not impact the existing debt, which will be paid in full in 2027. The structure of the new referendum debt allows some repayment for the first 10 years (through 2027), with more rapid payback after the existing debt has been fully retired.

This approach to structuring the debt allows new residents that move into our growing district in future years to support their share of facilities expansion and improvements, which will last far longer than the 20-year repayment of the financings.



What interest rates are being used in the proposed financing plan?

Currently, municipal bond interest rates are close to historic lows (see chart below). As of September 2016, current interest rates for general obligation municipal bonds was approximately 2.85%.

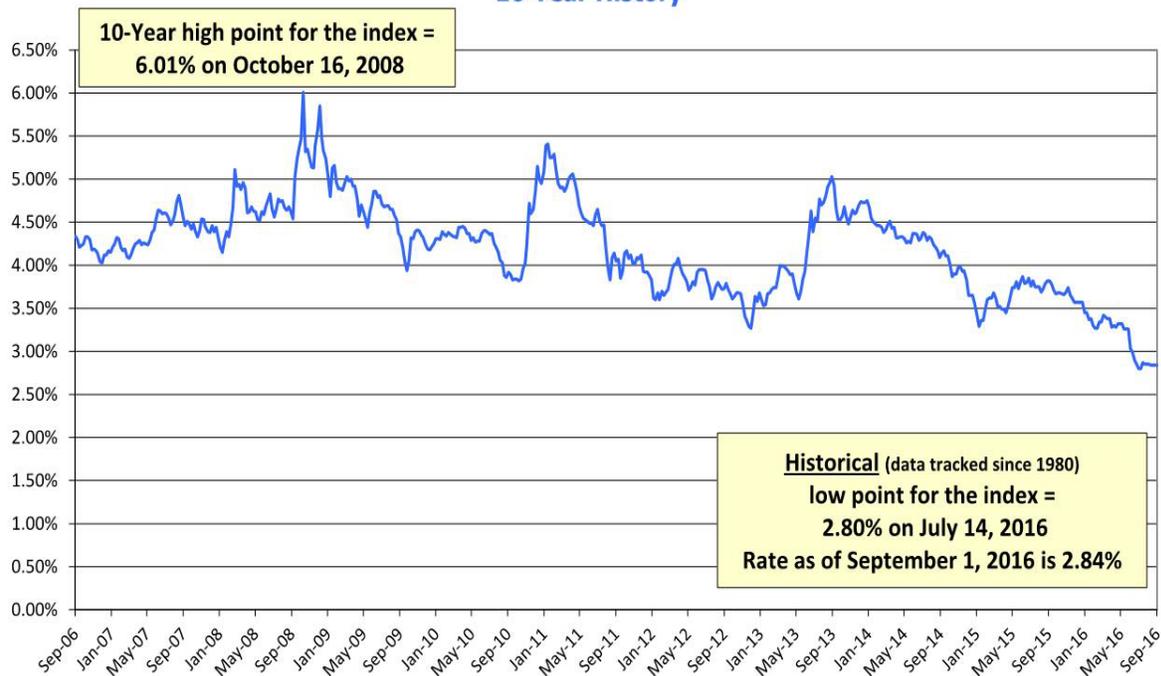
With three distinct phases of borrowing planned for 2017, 2018, and 2019, using conservative interest rates during the planning phase is fiscally responsible and provides flexibility in case interest rates change in the future.

Final interest rates are also directly impacted by the school district’s credit rating. Through conservative financial management, the District has achieved an Aa2 credit rating from Moody’s Investors Service. We are one of only 55 districts throughout the state to hold that high of a rating. In fact, only 16 of the state’s 424 school districts have higher credit rating than Oconomowoc. This positions the District to secure favorable interest rates when borrowing for facilities projects, helping to reduce total interest costs.

HISTORICAL INTEREST RATE COMPARISON

Bond Buyer 20-Year Bond Index

10 Year History



Source: The Bond Buyer. The 20-bond index has an average rating equivalent to Moody's Aa2 and S&P's AA.

Prepared by PMA Securities, Inc. S:\PHohhweck\Data\Market\mmd history and probability graphs.xlsx ph 09/01/16



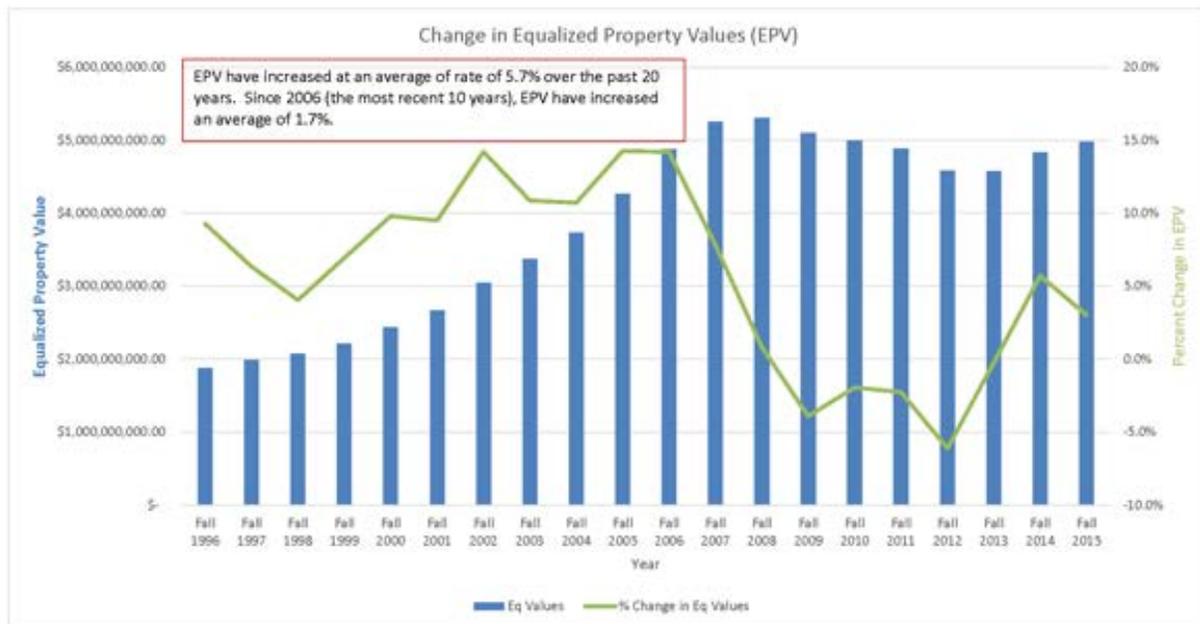
Would a change in total school district property value impact the estimated cost to taxpayers?

Yes. Tax impact estimates associated with potential facilities projects are directly affected by the assumed growth in property value of the entire school district, known as equalized property valuation. Of particular interest to taxpayers would not only be overall growth in the tax base, but the growth that is associated specifically with new construction. This data is available for individual municipalities, but not for the school district as a whole. As a point of reference, net new construction for the City of Oconomowoc increased by 1.89% in 2015 and 1.51% in 2016.

The preliminary tax impact estimates associated with a potential projects for a November 2016 referendum use a conservative assumption of total District annual equalized property value growth of **1.7%**. In the *last 20 years*, the average equalized property value in the District has grown by approximately 5% per year. However, our annual equalized value has varied in the *last 10 years* due to the Great Recession, with average growth since 2006 of approximately 1.7% per year.

Because we cannot guarantee the rate of growth for the full length of a new borrowing (maximum 20 years), the District believes the current tax impact assumption of 1.7% equalized

property value growth per year is appropriate and reasonable for future planning. If the equalized property growth rate is lower than 1.7%, the estimated tax impact would be more than projected. If the equalized property growth rate is greater than 1.7%, the estimated tax impact would be less.



Why can't maintenance needs be paid for out of the district's annual operating budget?

The district has an annual operating budget of \$500,000 to manage capital maintenance needs for all eight buildings and grounds around the district. The Building & Grounds budget, including capital and deferred maintenance projects, is balanced with the demands and needs of every department for staff, technology, curriculum, supplies, equipment, and student services. All of the identified needs combined for maintenance, capacity and modern learning environments exceed what the district can pay from its existing maintenance budget.

As part of the annual budget development process, the district identifies its key strategic initiatives, projects and needs. During this process, every program and staffing position is carefully reviewed to ensure that scarce financial resources are used wisely, and in accordance with the district's mission, initiatives, and financial policies.

In recent years, the state's budget has imposed tight restrictions with limited new funding on school district revenue. The key to understanding the district's budget lies in that the available revenue and funding determines how much can be spent. We must fit all operational expenditures within the revenue limit authority determined by the state's funding formula. With limited exceptions, only referendum-approved expenditures allow a school district to spend above or outside of the calculated revenue limit authority.

How much does the district budget for annual capital maintenance each year?

We dedicate \$500,000 annually to capital maintenance across the district in an effort to maintain our facilities and replace aging equipment. In 2014-2015, the District established Fund 46, a long-term capital improvement fund with an initial amount of \$500,000 allocated. This fund allows school districts to set aside dollars that must be used to support the cost of projects in an approved long-term capital improvement plan. By Wisconsin Department of Public Instruction guideline funds cannot be expended until an initial 5-year waiting period has lapsed.

The Board is committed to ongoing contributions to Fund 46 on an annual basis in a proactive attempt to minimize deferred maintenance in the future with a current balance of \$1.1 million.

We have done all of this while maintaining a tax rate that is almost \$20 per \$100,000 of home value below the state average! In fact, in the 2015-16 school year, only three K-12 districts in Waukesha County had a lower tax rate than Oconomowoc.

How do you determine the cost/benefit of remodeling versus building new?

Industry standards use both quantitative and qualitative measures to weigh the cost/benefit of remodeling old-outdated buildings against building new. Although there is not a strict formula, when the cost of remodeling approaches approximately 2/3 the cost to build new, it is reasonable and appropriate to consider the option of building new. For example, if a renovation/addition project is estimated at \$15 million dollars and a new build project may be obtained for \$22.5 million dollars, the decision to build new is typically advised based on quantitative as well as qualitative factors.

Questions to consider when evaluating qualitative factors for a renovation/remodel vs new building project include:

- Does the building have architectural or historic significance worth spending additional dollars to maintain and update?
- How easily will the building lend itself to support modern learning spaces?
- How easily will additions to support classrooms also accommodate expansion in common support spaces (gyms, cafeteria, etc.)
- Will a renovated building have the same life cycle life expectancy as a new facility or cost more in the long run to maintain?
- Will renovations costs to update for ADA code compliance or storm shelter codes be cost inefficient?
- Are their harmful materials in old buildings which will be costly to remove or abate?
- Can outdated mechanical systems (and available repair/replacement parts) be updated based on availability and/or structural constraints of older facilities to accommodate eventual replacement with new systems? Will maintaining old systems be energy inefficient?

General School District Funding and Fiscal Responsibility

As we address the district's facility needs, it is important that our parents and community members are aware of everything we have done, and continue to do, to deliver a great school system in a fiscally responsible way.

For the past decade, the Oconomowoc Area School District has worked tirelessly towards a high degree of fiscal responsibility and increased financial strength. Our School Board and administration has practiced conservative budgeting principles. These consistent practices took the district from what was at one time a negative fund balance, to one that currently allows us to significantly reduce the amount of short-term borrowing necessary to meet cash flow needs over the course of the year.

What is the district's credit rating?

Through conservative financial management, the District achieved an Aa2 credit rating from Moody's Investors Service. We are only one of 55 Districts throughout the state to hold that high a rating. In fact, only 16 districts across the state have higher credit rating than Oconomowoc.

What steps has the district taken to reduce debt?

The District has taken advantage of today's low interest rates and refinanced its current debt. In 2014 and 2015 we completed refinancing that will reduce our debt payments by \$3.1 million over the next 12 years. Because this is debt service, these savings do not shift into the operational budget. Rather, they result in a direct savings to taxpayers.

How has debt refinancing helped reduce taxes?

The 2014 and 2015 refinancing resulted in an average annual decrease in the debt service levy of \$260,000 per year. Based on current property values, this results in an annual decrease of \$5 per \$100,000 of home value.

How has the district worked to control costs in its operational budget?

The largest portion of public school district budgets is personnel costs. There are four areas where the OASD has been able to realize cost savings related to compensation, employee benefits and retirement obligations.

1. Since 2011, the district saved \$4.7 million in contributions to the Wisconsin Retirement System (WRS) by having employees contribute their portion of WRS contributions rather than the district.
2. The district changed insurance providers, which resulted in a savings of more than \$650,000. Since that move five years ago, we have held the district's share of premium costs flat through multiple plan design changes.
3. We restructured post-employment benefits in a way that steps down the benefit level over time, and eliminates new obligations altogether over the next 10 years.
4. We restructured our teacher compensation model to a system that recognizes effective classroom performance, teacher leadership, collaboration, and contributions to the profession, rather than compensation based solely on seniority and graduate credits.

End as of 9/6/16