

**IASBO ANNUAL CONFERENCE  
BORROWING FOR THE NOVICE  
PRINCIPLES OF SCHOOL FINANCE COMMITTEE**

**Thursday, May 20, 2010**

Nora S. Joyce  
Vice President  
William Blair & Company

*William Blair & Company®*

Stephen W. Miller CPA  
Senior Financial Advisor  
PMA Securities, Inc.



# Contents

---

- I. Interfund Transactions
- II. Cash Flow Borrowing- Short Term
  - i. Tax Anticipation Warrants (“TAWs”), State Aid Anticipation Certificates
  - ii. Teacher’s Orders
  - iii. Lines of Credit
- III. Long Term Borrowing- Non Referendum
  - i. Cash Flow
    - i. Working Cash Bonds
    - ii. Teacher’s Orders – Funding Bonds
  - ii. Capital Projects
    - i. Working Cash Bonds
    - ii. Health Life Safety Bonds
    - iii. Alternate Revenue Bonds
    - iv. Debt Certificates
- IV. Other Topics
  - i. American Recovery and Reinvestment Act
  - ii. Bond Ratings

# Interfund Transactions

## Borrowing for the Novice | Interfund Transactions

- Interfund Loans
  - Permissible loans
    - Education to O&M, Transportation or Life Safety (105 ILCS 5/10-22.33)
    - O&M to Education, Transportation or Life Safety (105 ILCS 5/10-22.33)
    - Transportation to Education, O&M or Life Safety (105 ILCS 5/10-22.33)
    - Working Cash to any fund of the district for which taxes are levied (105 ILCS 5/20-4)
  - Loans must be repaid with three years.
  - Working Cash loans must be repaid upon the collection of property taxes.
  - All loans must be authorized by the Board of Education

## Borrowing for the Novice | Interfund Transactions

- Interfund Transfers
  - Permanent Transfers Between Operating Funds (105 ILCS5/17-2A)
    - Transfers may be made between the Education, O&M and Transportation Funds for any reason.
    - Requires a published notice and public hearing before Board approval
    - As of June 30, 2010 reverts to old language requiring that the transfer be for “the purpose of meeting one-time, non-recurring expenses.”
    - SB3117 (Passed Both Houses) proposes extending the ability to transfer for any reason through June 30, 2013.

## Borrowing for the Novice | Interfund Transactions

- Interfund Transfers
  - Transfers of Interest
    - Interest may be transferred to the fund determined by the School Board as being most in need (105 ILCS 5/10-22.44; Working Cash 105 ILCS 5/20-5).
    - Interest ***may not*** be transferred from the IMRF, Tort, Capital Projects or Life Safety Funds.
    - Illinois Administrative Code states that unless specified by a Board resolution, interest earnings are added to and become a part of principal as of June 30. (23 IAC 100.500 (a-4))

## Borrowing for the Novice | Interfund Transactions

- Interfund Transfers
  - Excess Capital Funds – Interest Earnings
    - Interest on bonds issued for non-Life Safety capital projects may be transferred to the fund most in need (105 ILCS 5/10-22.44)
      - Keep in mind though that this may not align with promises made during a referendum campaign.
    - The Board shall determine if interest on Life Safety Bonds will fund the projects the bonds were issued for or for the principal and interest repayment on those bonds. If the interest is transferred to the Debt Service Fund to offset debt repayment, a corresponding tax abatement should be filed with the County Clerk(s).

## Borrowing for the Novice | Interfund Transactions

- Interfund Transfers
  - Excess Capital Funds – Bond Proceeds
    - Upon completion of approved projects, remaining bond proceeds from non-Life Safety Bonds may be transferred by Board resolution to the Operations and Maintenance Fund.
    - Upon completion of approved projects, remaining Life Safety Bond proceeds may be used on other approved Life Safety projects or transferred to the Debt Service Fund with a corresponding tax abatement.
  - Excess Capital Funds – Life Safety Tax Levy
    - Upon completion of approved projects, remaining Life Safety property tax receipts may be used on other approved Life Safety projects or transferred to the Operations and Maintenance Fund with a corresponding tax abatement.

## Borrowing for the Novice | Interfund Transactions

- Interfund Transfers
  - Working Cash Fund Abolishment
    - The Board may approve a resolution abolishing the Working Cash Fund and transferring its entire balance to the Education Fund as of June 30. Any future collections of Working Cash Fund property taxes must be placed in the Education Fund (105 ILCS 5/20-8)
  - Working Cash Fund Abatement
    - While not explicitly in the School Code, it has been interpreted that 105 ILCS 5/20-9's allowance of the reestablishment of a Working Cash Fund thereby creates the ability to abate a portion of the Fund. This abatement can only be made to the Education Fund.

# Cash Flow Borrowing- Short Term

## Borrowing for the Novice | Short-Term Borrowing

- Tax Anticipation Warrants/Notes (105 ILCS5/17-16)
  - Approved by the Board of Education.
  - Permissible for the Education, O&M, Transportation, IMRF (but not Social Security) and Life Safety Funds.
  - Cannot exceed 85% of the tax extension for each fund issuing warrants (less any taxes already collected for that year and any funds available in the Working Cash Fund)
  - Have a specified due date
  - Does not impact your statutory debt limit
  - Can be issued tax exempt with evidence of cash flow need
  - Can be issued taxable without presenting a projected cash flow

## Borrowing for the Novice | Short-Term Borrowing

- State Aid Anticipation Certificates (105 ILCS 5/18-18)
  - May not exceed 75% of the annual GSA allotment (less any funds available in the Working Cash Fund).
  - May not be outstanding for more than 13 months.
  - The amount of certificates plus outstanding TAWs plus available Working Cash Fund balances may not exceed 85% of property taxes levied.
- Revenue Anticipation Notes
- Personal Property Replacement Notes

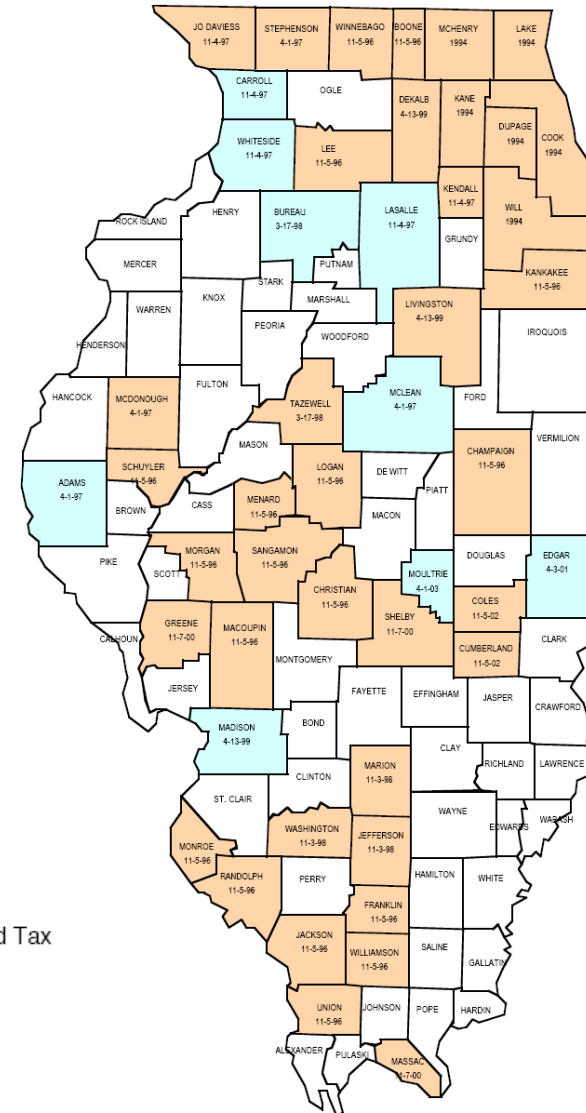
## Borrowing for the Novice | Short-Term Borrowing

- Teacher's Orders (105 ILCS 5/8-16)
  - Promissory note for wages due.
  - The School Board issues the orders to the District Treasurer who signs them "not paid for want of funds." The orders then become negotiable and bear an interest rate.
- Lines of Credit (PA 96-0019)
  - The same borrowing limits as TAWs and GSA Certificates apply.
  - The line has an established interest rate and due date.
  - Authorized by the Board of Education

# Long Term Borrowing-Non Referendum

# Borrowing for the Novice | Long Term Non Referendum

- In 1995 Senate Bill 368 was approved in IL which authorized all school districts (and other) in Cook and collar counties to issue limited tax bonds where non-referendum debt service levies would not exceed the 1994/1995 tax extension for non referendum debt service.
- The amount of debt service that a district may pay in any one year is commonly referred to as the “Debt Service Extension Base”
- Out of 102 counties in Illinois, 39 counties have adopted Tax Caps which restrict a district’s debt service payments on Limited Tax Bonds to the amount of debt service the District levied and collected during the year that the Tax Cap was adopted.



Counties with tax caps
  Counties which have defeated Tax Cap Referenda

# Borrowing for the Novice | Cash Flow-Working Cash Bonds

## Working Cash Fund Bonds

Working Cash Bonds may be issued to establish or increase the working cash fund of the District. Proceeds of these bonds may be used by the District to provide money for ordinary and necessary disbursement of funds such as salaries and other school purposes.

Amount is subject to the working cash limit. Requires public hearing pursuant to Bond Issue Notification Act. Bonds are subject to a petition period procedure.

*\*The petition period procedure requires notice of the District's intention to issue the bonds. If a petition is signed by at least 10% of the registered voters, within 30 days notice of issuance, the school board may be required to bring the proposition to referendum.*

	Approvals Required	Debt Limit	Working Cash Limit	BINA Hearing	Petition Period (Referendum)
<i>Description</i>		6.9% of EAV or 13.8% of EAV for Unit District	(EAV * Max Ed Rate + PPRT)* 85% - Greater of Working Cash Bonds or Working Cash Balance Outstanding	Public Hearing pursuant to Bond Issue Notification Act	Notice of Intent, 30 day petition period, requires signatures of 10% of registered voters
<b>Working Cash Bonds</b>		<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>

## Borrowing for the Novice | Cash Flow-Working Cash Bonds

<b>Benefits</b>	<b>Disadvantages</b>
New source of revenue paid from a new B&I levy.	Not a permanent solution for structural deficits.
WC may be loaned to Education Fund when cash flow problems exist	WC often spent earlier than repayment of the bonds. May have to issue on a taxable basis if not repaid 5 years.
Interest earnings on WC may be directed to other funds for purposes unrelated to WC.	May reduce the District's ability to borrow for capital projects on a non-referendum basis.
WC is included in the ISBEs financial profile score	

# Borrowing for the Novice | Cash Flow- Working Cash Bonds

## Ex.: \$2.9mm Taxable WC Bonds

<u>Tax Year</u>	<u>Equalized Assessed Valuation</u>	<u>% Change</u>	<u>Debt Service Extension Base</u>	<u>CPI Factor for DSEB</u>	<u>Current Outstanding Referendum Debt Service</u>	<u>Outstanding Non-Referendum Debt Service</u>	<u>\$2.9mm Series 2011 Taxable Debt Service</u>	<u>Remaining Debt Service Capacity</u>	<u>Proposed Total Debt Service</u>	<u>Debt Tax Rate</u>
2007	1,537,939,260	2%	3,086,538		4,455,450	3,087,070		(532)	7,542,520	0.49
2008	1,722,491,971	12%	3,086,538		4,458,550	3,081,814		4,724	7,540,364	0.44
2009	1,636,367,373	-5%	3,089,625	0.1%	4,453,900	3,086,065		3,560	7,539,965	0.46
2010	1,669,094,720	2%	3,173,044	2.7%	4,454,400	339,188	2,823,555	10,302	7,617,143	0.46
2011	1,869,386,087	12%	3,220,640	1.5%	4,458,250		220,913	2,999,728	4,679,163	0.25
2012	1,850,692,226	-1%	3,268,950	1.5%	4,453,650			3,268,950	4,453,650	0.24
2013	1,887,706,070	2%	3,317,984	1.5%	4,454,700			3,317,984	4,454,700	0.24
2014	2,114,230,799	12%	3,367,754	1.5%	4,454,150			3,367,754	4,454,150	0.21
2015	2,093,088,491	-1%	3,418,270	1.5%	4,455,200			3,418,270	4,455,200	0.21
2016	2,134,950,260	2%	3,469,544	1.5%	4,455,600			3,469,544	4,455,600	0.21
2017	2,391,144,292	12%	3,521,587	1.5%	4,458,100			3,521,587	4,458,100	0.19
2018	2,367,232,849	-1%	3,574,411	1.5%				3,574,411	0	0.00
2019	2,414,577,506	2%	3,628,027	1.5%				3,628,027	0	0.00
2020	2,704,326,806	12%	3,682,448	1.5%				3,682,448	0	0.00
2021	2,677,283,538	-1%	3,737,684	1.5%				3,737,684	0	0.00
2022	2,730,829,209	2%	3,793,750	1.5%				3,793,750	0	0.00
2023	3,058,528,714	12%	3,850,656	1.5%				3,850,656	0	0.00
2024	3,027,943,427	-1%	3,908,416	1.5%				3,908,416	0	0.00
2025	2,997,663,993	-1%	3,967,042	1.5%				3,967,042	0	0.00
2026	3,357,383,672	12%	4,026,547	1.5%				4,026,547	0	0.00
2027	3,323,809,835	-1%	4,086,946	1.5%				4,086,946	0	0.00
2028	3,290,571,737	-1%	4,148,250	1.5%				4,148,250	0	0.00
2029	3,685,440,345	12%	4,210,474	1.5%				4,210,474	0	0.00
2030	3,648,585,942	-1%	4,273,631	1.5%				4,273,631	0	0.00
<b>Total:</b>					<b>\$40,097,950</b>	<b>\$3,425,252</b>	<b>\$3,044,468</b>		<b>\$46,567,670</b>	

The District's debt service extension base is \$3,086,538. The Series 2011 Bonds were proposed in the amount of \$2,900,000 , to be paid back over two levy years- 2010 and 2011.

HB 242- Debt Service Extension Base: provides that, starting in the year 2009, the debt service extension base must be increased each year by the lesser of 5% or the CPI for the prior calendar year.

# Borrowing for the Novice | Cash Flow- Teacher's Orders/ Funding Bonds

## Funding Bonds

finance any claim against the District including teachers' salaries, technology, retirement obligations or any "claim" or invoice that can not be paid for with current revenue.

- District arranges for a Bank to pay teachers salaries for a specified period of time
- Bank pays teachers and charges the District an interest rate on the loan as it accumulates.
- Typically after three or four months of issuing teacher's orders, a school district will issue funding bonds to repay the principal and interest on the teachers' orders
- Funding bonds are repaid from the **debt service fund** of the District (Debt Service Extension Base for District's under Tax Caps) , not the **operating funds**, thereby making the teachers orders a one time source of new revenue

Approvals Required	Debt Limit	Working Cash Limit	BINA Hearing	Petition Period (Referendum)
<i>Description</i>	<i>6.9% of EAV or 13.8% of EAV for Unit District</i>	<i>(EAV * Max Ed Rate + PPRT)* 85% - Greater of Working Cash Bonds or Working Cash Balance Outstanding</i>	<i>Public Hearing pursuant to Bond Issue Notification Act</i>	<i>Notice of Intent, 30 day petition period, requires signatures of 10% of registered voters</i>
<b>Funding Bonds</b>	-	-	<b>Yes</b>	<b>Yes</b>

# Borrowing for the Novice | Cash Flow- Teacher's Orders Example

The District had borrowed \$1,500,000 in Teacher's Orders to pay salaries. The District borrowed at a rate of 4.25% over an 11 month period from a local bank to pay Teacher's Orders. (*Market conditions from 2007/2008*).

- This created a liability or claim against the District.
- The District issued Funding Bonds to pay off the bank. The Funding Bonds would be repaid with a separate B&I levy instead of out of the operating funds of the District.

Levy Year	Total EAV	% Increase Total EAV	Operating Tax Rate	Outstanding Debt Service	\$1.5M* Funding Bonds( Repay Teachers' Orders)	Total Debt Service	Bond and Interest Tax Rate	Total Blended Tax Rate
					<b>TAXABLE</b>			
2008	113,385,725	4%	4.6795	813,443	117,813	931,255	0.82	5.50
2009	116,765,210	3%	4.6795	866,205	117,813	984,018	0.84	5.52
2010	120,246,079	3%	4.6795	891,860	117,813	1,009,673	0.84	5.52
2011	123,831,375	3%	4.6795	926,045	117,813	1,043,858	0.84	5.52
2012	128,755,181	4%	4.6795	953,328	117,813	1,071,140	0.83	5.51
2013	133,875,939	4%	4.6795	983,933	117,813	1,101,745	0.82	5.50
2014	139,201,527	4%	4.6795	1,017,373	117,813	1,135,185	0.82	5.50
2015	144,740,139	4%	4.6795	1,048,690	117,813	1,166,503	0.81	5.49
2016	150,500,295	4%	4.6795	1,078,978	117,813	1,196,790	0.80	5.47
2017	156,490,858	4%	4.6795	1,082,190	117,813	1,200,003	0.77	5.45
2018	162,721,043	4%	4.6795	1,079,690	117,813	1,197,503	0.74	5.42
2019	169,200,436	4%	4.6795	1,080,015	117,813	1,197,828	0.71	5.39
2020	175,939,004	4%	4.6795	1,077,580	117,813	1,195,393	0.68	5.36
2021	182,947,115	4%	4.6795	1,082,385	117,813	1,200,198	0.66	5.34
2022	190,235,550	4%	4.6795	1,178,740	117,813	1,296,553	0.68	5.36
2023	197,815,523	4%	4.6795	1,277,240	117,813	1,395,053	0.71	5.38
2024	205,698,695	4%	4.6795	1,262,195	117,813	1,380,008	0.67	5.35
2025	213,897,194	4%	4.6795	923,700	117,813	1,041,513	0.49	5.17
2026	222,423,632	4%	4.6795	1,446,413	117,813	1,564,225	0.70	5.38
2027	231,291,128	4%	4.6795	827,525	1,683,906	2,511,431	1.09	5.77
TOTAL:					<b>\$2,238,438</b>	<b>\$23,218,453</b>		Total

**Issue:** Borrowed for short term cash flow and amortized over a 20 year period.  
 -Not a recurring revenue source.  
 -Debt service is paid off more than 15 years after money is used.  
 -Financing is taxable. Significantly higher cost than tax-exempt options.

\* Estimate, subject to change.

# Borrowing for the Novice | Cash Flow-Teachers Orders/ Funding Bonds

Benefits	Disadvantages
Funding Bonds paid out of a separate B&I levy. New revenue source.	Not a permanent solution for structural deficits.
Neither Funding Bonds nor Teacher's Orders are subject to the debt limit. Funding bonds are subject to the debt limit post issuance.	Taxable financing if not repaid within 5 years.
May help preserve future working cash authority.	Funding bonds are subject to petition period procedures. Petition process begins after Teacher's Orders are issued.

# Borrowing for the Novice | Capital Projects-Working Cash Bonds

Working Cash Fund Bonds –Proceeds of these bonds may be used by the District to provide money for ordinary and necessary disbursement of funds such as salaries and other school purposes. Subject to Working Cash limit.

- Working Cash bonds are often used for capital projects.
  - Proceeds of WC Bonds are issued and deposited into the Working Cash Fund.
  - Money is abated from the WC Fund to the Educational Fund. Further permanent transfers must be done pursuant to a public hearing.
  - Legislation (passed by House and Senate) clarifying the use of Working Cash Bond proceeds from “ordinary and necessary” use to “any and all school purposes”, is pending signature by the Governor (HB 6041 and SB 3544).*

Approvals Required	Debt Limit	Working Cash Limit	BINA Hearing	Petition Period (Referendum)
<i>Description</i>	6.9% of EAV or 13.8% of EAV for Unit District	(EAV * Max Ed Rate + PPRT)* 85% - Greater of Working Cash Bonds or Working Cash Balance Outstanding	Public Hearing pursuant to Bond Issue Notification Act	Notice of Intent, 30 day petition period, requires signatures of 10% of registered voters
<b>Working Cash Bonds</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>

# Borrowing for the Novice | Capital Projects- Working Cash Bonds

<b>Benefits</b>	<b>Disadvantages</b>
New source of revenue paid from a new B&I levy.	Repayment schedule is limited by debt service extension base (tax-capped)
Capital projects are tax-exempt.	May reduce the District's ability to borrow working cash for cash flow needs.
Non-Referendum option for capital project needs.	Counts against the District's debt limit.

# Borrowing for the Novice | Health Life Safety Bonds

## Life Safety Bonds

are issued to alter and repair existing school buildings and equipment for fire prevention and safety purposes.

- Must have architect or engineer survey and cost estimate.
- Work and estimate of cost must be approved by the ROE and the State Superintendent.
- The work must be done pursuant to an order issued by the ROE.
- Used for buildings that house students.
- Health Life Safety Bonds may be issued to replace an existing building if the cost of replacement is less than the cost to repair (and location certifies the requirements)

	Approvals Required	Debt Limit	Health Life Safety Approvals	Working Cash Limit	BINA Hearing	Petition Period (Referendum)
<i>Description</i>		6.9% of EAV or 13.8% of EAV for Unit District	Architect, ROE and State Superintendent	(EAV * Max Ed Rate + PPRT) * 85% - Greater of Working Cash Bonds or Working Cash Balance Outstanding	Public Hearing pursuant to Bond Issue Notification Act	Notice of Intent, 30 day petition period, requires signatures of 10% of registered voters
<b>Life Safety Bonds</b>		<b>Yes</b>	<b>Yes</b>	-	<b>Yes</b>	-

\*\*Note that once you receive the Order from the ROE- the District MUST proceed with the Health Life Safety Work (not optional).



# Borrowing for the Novice | Alternate Revenue Bonds

## Alternate Bonds

are a debt repayment secured by 2 sources of revenues including pledge of revenues and a general obligation tax levy.

- Pledged revenues include one or more sources of funds
  - General fund revenue- any tax levy or combination of tax levies
  - O&M levy, CPPRT, TIF monies, Developer donations, Lease levy, State Aid, User fees, County School Facility Tax
- Bond and interest fund levy
  - a levy is filed with the County Clerk equal to the total annual debt service payment.
  - Levy is abated annually as debt is paid with pledged revenues
- Alternate Bonds have additional security features because of the B&I levy back-up. Traditionally cheaper form of financing than Debt Certificates.

# Borrowing for the Novice | Alternate Revenue Bonds

continued

- Final maturity cannot exceed 40 years.
- Must be capital projects or purchases of property (not operating expenditures).
- Must show Pledged Revenues covering debt service 1.25 times coverage demonstrated by feasibility report or audit history.
- No tax increase unless pledged revenues become unavailable.
- Petition Period Procedure required involving: (1) publishing notice of intent in local paper, starting backdoor period; (2) if in 30 days 7.5% of registered voters present a petition then referendum vote required prior to issuance.
- Public notice and public hearing required prior to issuance of alternate bonds.

Approvals Required	Debt Limit	Working Cash Limit	BINA Hearing	Petition Period (Referendum)
<i>Description</i>	<i>6.9% of EAV or 13.8% of EAV for Unit District</i>	<i>(EAV * Max Ed Rate + PPRT)* 85% - Greater of Working Cash Bonds or Working Cash Balance Outstanding</i>	<i>Public Hearing pursuant to Bond Issue Notification Act</i>	<i>Notice of Intent, 30 day petition period, requires signatures of 7.5% of registered voters</i>
<b>Alternate Revenue Bonds</b>	-	-	<b>Yes</b>	<b>Yes</b>

## Borrowing for the Novice | Alternate Revenue Bonds

The District pledged Developer Donations & the O&M Fund to repay \$1.65mm in Alternate Revenue Bonds. Coverage from Pledged Revenues is over 1.25x. There will be an annual abatement of the B&I fund levy.

### \$1,650,000 Alternate Revenue Bonds

<u>Fiscal Year</u>	<u>Levy Year</u>	<u>Equalized Assessed Valuation</u>	<u>10 Year Debt Service Payments</u>	<u>Developer Donations in S&amp;C Fund</u>	<u>Coverage</u>	<u>Annual Levy</u>	<u>B&amp;I Tax Rate</u>
6/30/2009	2007	563,774,275					
6/30/2010	2008	591,962,989	\$200,772	300,000	1.49	0	0.00
6/30/2011	2009	621,561,138	197,655	300,000	1.52	0	0.00
6/30/2012	2010	652,639,195	199,160	300,000	1.51	0	0.00
6/30/2013	2011	685,271,155	199,810	300,000	1.50	0	0.00
6/30/2014	2012	719,534,713	199,928	300,000	1.50	0	0.00
6/30/2015	2013	755,511,448	199,408	300,000	1.50	0	0.00
6/30/2016	2014	793,287,021	198,550	300,000	1.51	0	0.00
6/30/2017	2015	832,951,372	197,090	300,000	1.52	0	0.00
6/30/2018	2016	874,598,940	200,265	300,000	1.50	0	0.00
6/30/2019	2017	918,328,887	197,828	300,000	1.52	0	0.00
Total			\$1,990,465				

The levy is abated annually. No B&I tax rate.

# Borrowing for the Novice | Debt Certificates

## Debt certificates

are paid from general operating funds of the District. The District annually budgets amounts to pay the principal and interest on the debt certificates. There is no separate bond and interest tax levy dedicated to the repayment of debt certificates.

- Projects financed must be capital projects or purchases of real property (not operating expenditures).
- Subject to debt limit.
- Available revenues include
  - Any tax levy or combination of tax levies, O&M Levy, Special Service Tax, CPPRT, TIF monies, Developer Donations, Lease Levy, State Aid, User Fees, other

*\*Neither public hearing nor petition period procedure is required.*

# Borrowing for the Novice | Debt Certificates Example

<b>Fiscal Year</b>	<b>\$4.5mm</b>	<b>\$2.25mm</b>	<b>\$6.75mm Total</b>	<b>Less TIF Settlement Revenues</b>	<b>Less Community Pledges</b>	<b>Total Net Debt Service to be Paid from Operating Funds</b>
2010	\$371,097	\$499,696	\$870,792	(300,000)	(266,667)	\$304,126
2011	364,680	497,400	862,080	(300,000)	(266,667)	295,413
2012	362,880	500,400	863,280	(300,000)	(266,667)	296,613
2013	365,880	497,600	863,480	(300,000)		563,480
2014	363,480	499,200	862,680	(300,000)		562,680
2015	360,880		360,880			360,880
2016	363,080		363,080			363,080
2017	364,880		364,880			364,880
2018	361,280		361,280			361,280
2019	361,930		361,930			361,930
2020	362,500		362,500			362,500
2021	362,300		362,300			362,300
2022	361,425		361,425			361,425
2023	364,985		364,985			364,985
2024	362,610		362,610			362,610
2025	364,500		364,500			364,500
2026	364,500		364,500			364,500
2027	363,750		363,750			363,750
2028	362,250		362,250			362,250
<b>TOTAL</b>	<b>\$6,908,887</b>	<b>\$2,494,296</b>	<b>\$9,403,182</b>	<b>(\$1,500,000)</b>	<b>(\$800,000)</b>	<b>\$7,103,182</b>



## Other Topics

## Borrowing for the Novice | Bond Ratings

- Throughout the economic downturn bond insurers were downgraded, eliminating the ability to pay a small fee and put an insured AAA rating on your debt.
- The interest rate spreads between the various bond ratings have widened considerably, increasing borrowing costs for lower rated entities.
- At a time when many districts' finances are in peril, the underlying credit has become much more important when issuing debt. Just like buying a car, the better your credit, the lower your interest rate.

## Borrowing for the Novice | Bond Ratings

- Three primary rating agencies: Moody's, Standard and Poor's and Fitch
- Ratings below BBB/Baa are considered junk

<b>Moody's</b>	<b>S&amp;P</b>
Aaa	AAA
Aa1	AA+
Aa2	AA
Aa3	AA-
A1	A+
A2	A
A3	A-
Baa1	BBB+
Baa2	BBB
Baa3	BBB-

## Borrowing for the Novice | Bond Ratings

- Key Factors affecting your bond rating
  - Economy
    - National
    - State
    - Local
  - Financial Performance
    - Audits
    - Budget
    - Financial Ratio Analysis
  - Debt Load
  - Management

## Borrowing for the Novice | Bond Ratings

- Standard and Poor's Financial Management Assessment (FMA)
  - A metric created to rate issuers' management
  - Components
    - Revenue and expenditure assumptions
    - Budget amendments and updates
    - Long-term financial planning
    - Long-term capital planning
    - Investment management policies
    - Debt management policies
    - Reserve and liquidity policies
  - Scores: Strong, Good, Standard, Vulnerable

# Borrowing for the Novice | American Recovery and Reinvestment Act “ARRA”

Under the American Recovery and Reinvestment Act of 2009, the Federal Government enacted legislation to benefit local governments, schools and other borrowing types seeking access to capital.

## **Build America Bonds “BABs”:**

- Taxable Bonds with an election to direct a subsidy from the Federal Government equal to 35% of the interest payment the issuer or direct a 35% tax credit to the investor.
- Must be used for new projects.
- Tax Exempt borrowing rules generally apply.
- Have demonstrated considerably lower costs of financing when the 35% subsidy is received by the issuer and used to pay debt service on the bonds vs. traditional tax exempt borrowing
- De minimus premium allowed.
- Must be issued in 2009 or 2010
- An issuer may use the 35% subsidy for operating purposes.

## Borrowing for the Novice | ARRA cont'd

### **Qualified School Construction Bonds “QSCBs”**

- \$11 billion allocated by the Federal Government for 2009 and 2010.
- Illinois has received approximately \$244mm in QSCB funding (outside of Chicago Public Schools) for 2010 and 2011.
- Interest free to the issuer.
- Tax credit to the investor. The credit amount varies as determined by the Federal Government
- Maximum maturity may be limited (14-15 years) and varies as determined by Federal Government.
- Projects must be for school construction, rehabilitation, or repair of school facility or purchase of land for new school.
- Application procedures for Illinois school district pending. ISBE and Governor's Office.

### **Qualified Zone Academy Bonds “QZABs”**

- QZABs are not a new bond type. The Federal Government has increased QZAB funding to \$1.4 billion for 2009 and 2010.
- Illinois has received approximately \$52 million for 2009 and has \$14mm remaining from 2008.
- Tax credit to the investor. The credit amount varies as determined by the Federal Government
- Maximum maturity may be limited (14-15 years) and varies as determined by Federal Government.
- Projects must be for renovation and repair, educational materials, equipment, training.
- Eligibility is based on schools with 35% students eligible to receive Free and Reduced Lunch or school located in empowerment zone.
- Must receive contribution from private entity equal to 10% of the proceeds.

# Borrowing for the Novice | Build America Bond Benefit– 20 Year (AA Rated)

## Tax-Exempt vs. BABs Pricing Analysis AA Rated IL School District G.O. Bonds (January 7, 2010)

Maturity	T.E. Scale	Taxable Scale	Net Scale	Result
1/15/2011	0.90	1.73	1.12	Tax-Exempt
1/15/2012	1.21	2.73	1.77	Tax-Exempt
1/15/2013	1.62	2.88	1.87	Tax-Exempt
1/15/2014	2.01	3.41	2.22	Tax-Exempt
1/15/2015	2.40	3.81	2.48	Tax-Exempt
1/15/2016	2.64	4.33	2.81	Tax-Exempt
1/15/2017	2.88	4.48	2.91	Tax-Exempt
1/15/2018	3.13	4.73	3.07	BABs
1/15/2019	3.28	4.88	3.17	BABs
1/15/2020	3.43	5.03	3.27	BABs
1/15/2021	3.59	5.13	3.33	BABs
1/15/2022	3.71	5.23	3.40	BABs
1/15/2023	3.78	5.33	3.46	BABs
1/15/2024	3.85	5.43	3.53	BABs
1/15/2025	3.92	4.93	3.20	BABs
1/15/2026	4.00	5.99	3.89	BABs
1/15/2027	4.08	6.09	3.96	BABs
1/15/2028	4.16	6.09	3.96	BABs
1/15/2029	4.25	6.19	4.02	BABs
1/15/2030	4.36	6.29	4.09	BABs

Both Scales Assume AA category rating, 10-Year Par Call