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ICCCFO Conference – Fall, 2018
Best Western Premier
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Issuing Bonds: Communicating with the Public

October 17, 2018

Two Basic Questions

1) Why does the district need to borrow?

2) How much will it cost?

Presentation Goal

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Understanding legal and economic factors which may impact

1) Demonstration of “Need”
2) Explanation of “Cost”

and developing communication strategies related thereto.

I. **Post-Great Recession Public Finance**

II. **Demonstration of Need**

III. **Explanation of Cost**

I. Post-Great Recession Public Finance

Post-Great Recession Public Finance

- 2009-2014 EAVs declined
- Tax rates (and taxpayer dissatisfaction) increased
- State reaction:
  - Possible property tax “freeze”
  - Possible pension reform local cost shift
  - State funding reductions from lack of full state budgets in FY 2016 FY 2017
  - State funding level still below FY 2015
- Local reaction:
  - College district costs rising faster than state revenue
  - Pressure on districts to reduce taxes and/or make cuts
  - **The B&I levy is the only significant levy that can be modified without compromising operating revenues**
- Federal Tax Reform:
  - Corporate tax rate lowered from 35% to 21%
  - No more tax-exempt advance refundings

Reality

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State financial support insufficient or prorated

- State Support by FY 2015 – 2018[1]

FY 2015	FY 2016	FY 2017	FY 2018
$343,346,800	$74,142,300	$389,064,900*	$308,995,200**

*$168,026,400 of FY 2017 was for FY 2016

- FY 2018 funding is roughly 90% of FY 2015 funding
- Most colleges have also seen enrollment declines
- The original goal of 1/3 each from the State, the local taxpayers and the students is no longer close to being met

[1] Source ICCB Fiscal Publications

Reality (continued)

- State law imposes restrictions on ability of community college districts to raise operating funds, such as tax rate ceilings (for non tax-capped districts) and a limiting rate (for tax-capped districts)
- Relatively low CPI in recent years (2008-2017 average: 1.62%; 1998-2007 average: 2.69% has further restricted operating fund levies for tax-capped districts
- Reduced EAV (primarily between 2009-2014) negatively impacted operating fund levies for non tax-capped districts
- State law imposes restrictions on ability of school districts to borrow, such as statutory debt limits, statutory borrowing ceilings (such as relates to Working Cash Fund Bonds) or showing requirements (such as relates to Life Safety Bonds) [More to come in "Cost" section]
- State law imposes restrictions on structure of borrowings, such as maturity and levy limitations

II. Demonstrating “Need”

Demonstrating "Need"

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- Purposes for which college district may borrow include:
    1) Capital Project Finance
    2) Working Capital Need
    3) Interest Savings
    4) Debt Restructuring
- Purposes are not mutually exclusive; *e.g.* a capital project financing may include a restructuring component for tax rate management or to comply with Debt Service Extension Base limitations

Capital Project Finance

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<u>Context/Background</u>

- Existing facilities are inadequate or insufficient because of age/condition/purpose and programs served
- Proposed Capital Projects needed for adequacy or sufficiency
- Proposed Capital Projects provide an opportunity for:
    1. More efficient use of facilities from classroom instruction perspective (*e.g.* technology)
    2. Operating cost savings from facilities management perspective
    3. Community benefits
- Proposed Capital Projects fit within district's long-term facilities plan <u>OR</u> explain what has changed and why (*e.g.* unexpected decrease in enrollment provides opportunity to consolidate attendance centers).

Capital Project Finance (continued)

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Proposed Solution

- Borrow
- Spread cost over taxpayers that will benefit from the Proposed Capital Project, typically for period of time not exceeding useful life of the Proposed Capital Project

Cost of Inaction

- Delayed implementation more efficient use of facilities from classroom instruction perspective
- Failure to realize operating cost savings from facilities management perspective
- Construction costs may continue to increase, requiring larger share of available funds for “pay-as-you-go” or necessitating larger financing in future

Working Capital Financing

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Context/Background

- Describe revenue challenge and factors which caused (or exacerbated) the problem
- Proposed Working Capital financing is necessary to address revenue challenge
- Proposed Working Capital financing fits within long-term financial plan

Proposed Solution

- Borrow
- Look to taxpayers to bear additional costs for recovery

Cost of Inaction

- Program/service cuts or reductions
- Further deterioration of finances
- Future working capital financings may need to be larger or could be more expensive, if district finances further deteriorate

Refunding Bonds

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Context/Background

- B&I Levies (for each bond) are set at the time the bond is sold and are filed with the county clerk(s) prior to closing

Proposed Solution

- Borrow (issue new bonds and use the sale proceeds to refund existing bonds)
- Refundings allow the issuer to change B&I Levies:
  - Lower interest rates may allow savings from a refinancing (new, lower B&I Levies replace existing B&I Levies)
  - Restructure existing debt service levies based on lower EAV projections for a targeted tax rate over time (lower B&I Levies in the short term)
  - A combination that captures savings and restructures debt service with a targeted tax levy

Refunding Bonds (continued)

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Cost of Inaction:

Savings Refunding: failure to decrease debt service burden; such opportunity may continue to exist, subject to market movements

Restructuring Refunding: failure to impact existing B&I Levies, result may be higher B&I Levies in short term but lower debt service overall; such opportunity will continue to exist but borrowing costs may increase (or decrease) as a result of market movements

III. Explaining “Cost”

Explaining "Cost"

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There are many factors that impact cost of any borrowing, including:

1) State Law Structuring Limitations
2) Federal Tax Law Treatment of Interest
3) Existing Debt
4) Market Conditions

State Law Structuring Limitations

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- Security for the Bonds
  - Property Tax Supported (Building Bonds, Working Cash Fund Bonds, Funding Bonds, Protection-Health-Safety Bonds, and Alternate Bonds)
  - "Unsecured" General Obligation (Debt Certificate, Capital Lease)
  - Special Obligation (Warrants)
- Debt Limit
  - Premium Bonds
  - Capital Appreciation Bonds
- Max Maturity
  - Typically, 20 years

Federal Tax Law

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- Purchasers demand lower interest rate for bonds if interest thereon is excluded from gross income for federal income tax purposes
- Interest on obligations validly issued by a unit of local government is presumed to be tax-exempt; *provided, however,* that the district can demonstrate need (to prevent abuses)
- <u>Capital Project Financings</u>
  - Reasonable expectations
  - Sale and investment proceeds
  - Tests:
    - Expenditure Test: 85% within 3 years
    - Time Test: 5% within 6 months
    - Due Diligence Test
  - Maturity cannot be later than 120% useful of financial assets
- <u>Working Capital Financings</u>
  - Generally, not tax-exempt
- Bank Qualification
  - No more than $10,000,000 of tax-exempt bonds in the calendar year

Existing Debt

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- If a District has existing B&I levy debt, the communication with the community must explain how the proposed debt option(s) will impact current levies and rates.
- Options include:
  - New money only
  - New money plus refunding bonds with savings
  - New money plus refunding bonds with restructuring
  - Timeframe of payback period on all options

Market Conditions

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- The Municipal Market Data (MMD) Index is a daily index of AAA-rated municipal bond rates
- Issuers’ bond yields are priced relative to the MMD
  - At a “spread” to the MMD
  - The spread varies due to the following:
    - Credit rating
    - Bank qualification
    - Length of maturity

2, 10 and 30-Year Municipal Market Data (MMD) Yields

The "Illinois Effect"

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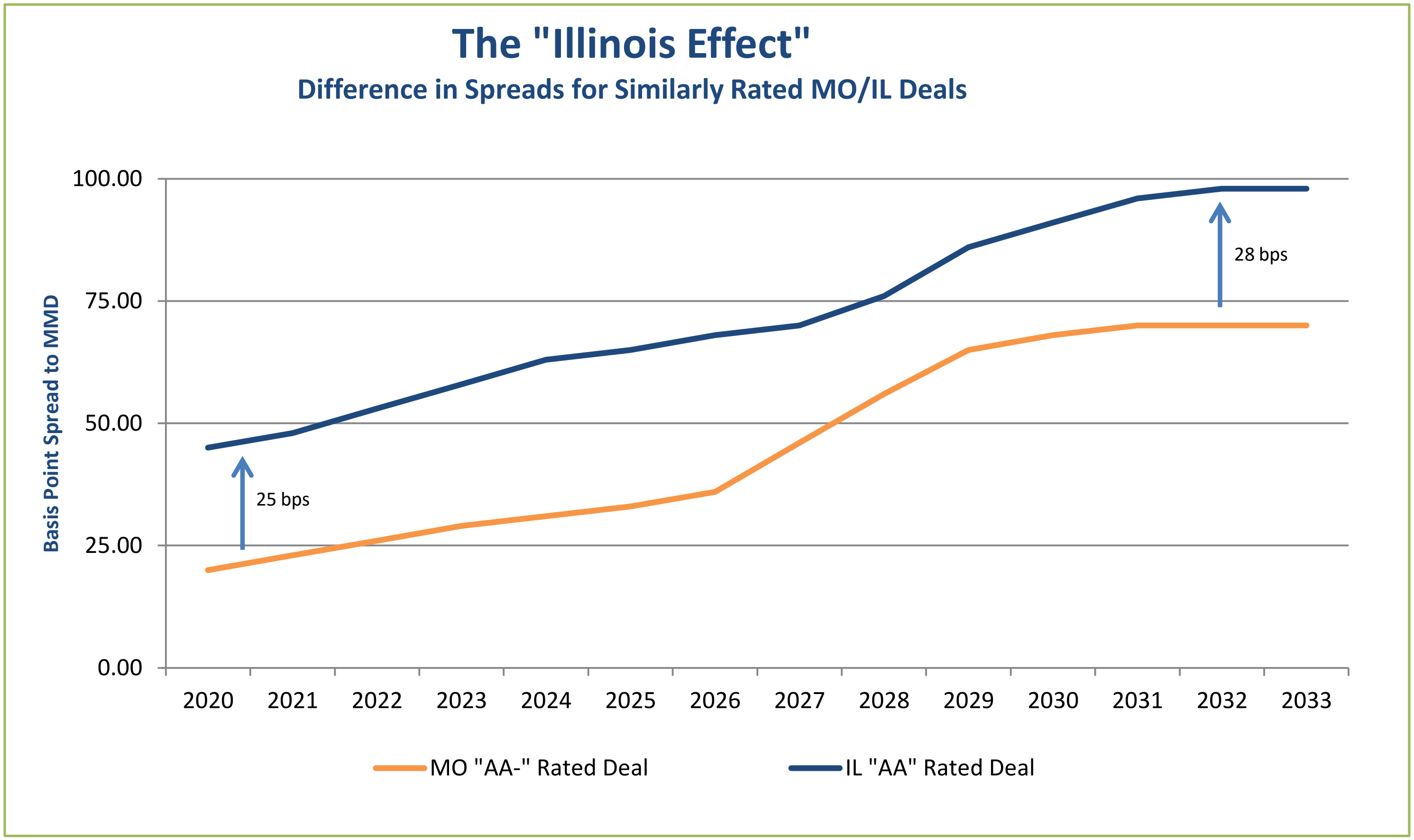
- Market penalty on Illinois issuers for historic poor fiscal management of state funds
  - Pattonville R-III School District, St. Louis County, MO. Priced: 8/13/2018 Non-BQ, AA-
  - Quincy School District #172, Adams County, IL Priced: 6/14/2018 Non-BQ, AA, Underlying: A2



Giving Context to Your Debt Issuance

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- The average community member will care about:
  - What will this cost them?
  - What you will do with the funds?
  - How long will they have to pay for it?

- Make the focus of your board presentation or referendum discussion about the benefits to the students and community.

- Don’t make your board presentation or referendum discussion just about the estimated impact on an average home or increase in the tax rate, but have that data available because the public WILL ask

Giving Context to Your Debt Issuance

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- Don't discuss the new issuance in a vacuum
  - Explain how it fits into an your overall debt (and potentially long term facility plan)
  - Discuss how your debt levels compare to state guidelines
    - Statutory Debt Limit
  - Discuss how your debt compares to your peer districts and why it may be different
    - Annual debt service as percent of operating expenses
    - Outstanding long-term debt per student
    - Outstanding long-term debt per capita
    - Bond and Interest tax rate
    - EAV per student

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