



PMA[™]
SECURITIES

CHAPMAN
Focused on Finance[®]

ICCCFO Fall Conference 2023

Community College Working Cash Fund Bonds
after House Bill 1133
(Public Act 103-0278)

Tammie Beckwith Schallmo

Senior Vice President/Managing Director
PMA Securities, LLC

Erin Bartholomy

Partner
Chapman and Cutler, LLP

October 12, 2023



Working Cash Fund Bonds

- ▶ Authorized by Section 3-33.2 of the Public Community College Act
- ▶ Proceeds of Working Cash Bonds are deposited into the Working Cash Fund
- ▶ Subject to limitation as to the lesser of the amount of Working Cash Bonds outstanding and Working Cash Fund size
- ▶ Not subject to 30-day petition period (backdoor referendum)
- ▶ Subject to Bond Issue Notification Act (BINA) and (PTELL for tax-capped districts)
- ▶ May be issued in excess of debt limit but once issued count against debt limit



Working Cash Fund Bond Limit

- ▶ Maximum amount of Working Cash Fund Bonds outstanding
 - ▶ 75% of the max Ed and O&M Fund tax collections
 - ▶ May include TIF and EPZ values in calculations
 - ▶ Plus 75% of CPPRT
 - ▶ Less Working Cash Fund Bonds outstanding at closing



Working Cash Fund Limit

- ▶ 90% of the maximum Ed and O&M fund tax collections
 - ▶ May include TIF and EPZ values in calculation
- ▶ Plus 90% of CPPRT
- ▶ Less the amount presently to the credit of the Working Cash Fund



Working Cash Fund Bond Limit Example

I. MAXIMUM AMOUNT OF WORKING CASH FUND BONDS OUTSTANDING

Current equalized assessed valuation (Including TIF)			\$2,167,039,858
Times the maximum educational fund and O&M fund tax rates	\$0.3550	x	0.00355
Equals			<u>\$7,692,991</u>
Plus the lesser of the actual amount of replacement taxes received by the District during 2022 or the estimated amount of replacement taxes to be received by the District during 2023.		+	\$1,198,193
Equals			<u>\$8,891,185</u>
Times 75%		x	75%
Equals			<u>\$6,668,388</u>
Less the amount of working cash fund bonds outstanding		-	\$0.00
			[Balance of Principal Outstanding]
TOTAL (Authorized Issue Size) (1)			<u>\$6,668,388</u>

(1) The District is authorized to issue the lesser of the final "Total" figure determined under Part I and under Part II. If the bonds are to be tax-exempt, this amount may be reduced by the provisions of the federal arbitrage regulations.



Working Cash Fund Limit Example

II. MAXIMUM SIZE OF WORKING CASH FUND

Current equalized assessed valuation (Including TIF)			\$2,167,039,858
Times the maximum educational fund and O&M fund tax rates	\$0.3550	x	0.00355
Equals			<u>\$7,692,991</u>
Plus the lesser of the actual amount of replacement taxes received by the District during 2022 or the estimated amount of replacement taxes to be received by the District during 2023.		+	\$1,198,193
Equals			<u>\$8,891,185</u>
Times 90%		x	90%
Equals			<u>\$8,002,066</u>
Plus the amount of monies to be received by the District in the current year for educational or operations and maintenance purposes from the State or Federal government or other sources (except property or replacement taxes)		+	\$2,390,134
Less the amount presently to the credit of the working cash fund (including amounts loaned to the educational or operations and maintenance funds)		-	\$10,338,287
TOTAL (Authorized Fund Size) (1)			<u>\$53,913</u>

(1) The District is authorized to issue the lesser of the final "Total" figure determined under Part I and under Part II. If the bonds are to be tax-exempt, this amount may be reduced by the provisions of the federal arbitrage regulations.

Life Before House Bill 1133 (Public Act 103-0278)



Before House Bill 1133 (Public Act 103-0278)...

- ▶ A Community College Board of Trustees was authorized to create a working cash fund and to fund it with working cash fund bond proceeds
- ▶ Interfund loans were authorized by Section 3-34 of the Public Community College Act
- ▶ Loans from the Working Cash Fund could only be made to the Education or O&M Funds in anticipation of taxes
 - ▶ Amounts loaned had to be reimbursed upon receipt of those taxes

Life After House Bill 1133 (Public Act 103-0278)



House Bill 1133 (Public Act 103-0278)

- ▶ The provisions of the bill gives community colleges similar authority to Illinois K-12 school districts with respect to the use and flexibility of their working cash funds and clarifies that working cash fund bond proceeds may be used for any purpose (including capital projects) rather than just cash flow management.



House Bill 1133 (Public Act 103-0278)

- ▶ Clarifies that monies in the working cash fund may be used for any and all community college purposes
- ▶ Does not change the bonding provisions for working cash bonds
 - ▶ They do not require a direct or backdoor referendum
 - ▶ They are subject to a BINA hearing
 - ▶ They will be limited tax bonds if issued by a tax-capped community college



House Bill 1133 (Public Act 103-0278)

- ▶ Also permits the abatement of the working cash fund
 - ▶ A community college may abate the working cash fund — to make a partial, permanent transfer of working cash fund moneys to the generating funds of the College at any time during the fiscal year and the moneys will not need to be reimbursed



House Bill 1133 (Public Act 103-0278)

- ▶ Also allows the working cash fund to be recreated after abolishment at the end of the fiscal year without referendum approval
 - ▶ Under prior law, the only way to permanently transfer funds from the working cash fund to other funds was by abolishing the fund, which could only occur at the end of the fiscal year, and the working cash fund could only be recreated with referendum approval
 - ▶ House Bill 1133 (Public Act 103-0278) eliminates the referendum requirement for recreation of the working cash fund after it is abolished

Non-Referendum Borrowing Alternatives for Capital Projects



A. Debt Certificates

- ▶ Authorized by Section 17(b) of the Local Government Debt Reform Act
- ▶ May be issued to purchase real or personal property
- ▶ No separate property tax levy
- ▶ Payable from any lawfully available funds
- ▶ Count against debt limit



B. Alternate Bonds

- ▶ Authorized by Section 15 of the Local Government Debt Reform Act
- ▶ G.O. Bonds payable from a “pledged revenue source”
- ▶ Examples of pledged revenue sources
 - tuition
 - state aid
 - student fees
 - operating taxes
 - personal property replacement taxes
- ▶ May be issued for any lawful corporate purpose, including operating expenses
- ▶ Coverage requirements
- ▶ BINA hearing required
- ▶ Subject to 30-day petition period
- ▶ Not subject to debt limit unless property taxes are extended



C. Funding Bonds

- ▶ Authorized by Section 3A-6 of the Public Community College Act
- ▶ Used to pay “claims” against the College
 - ▶ Examples of possible claims: Teachers’ Orders, ERO, contracted services, leases, installment contracts, **Alternate Bonds, Debt Certificates**
- ▶ Subject to 30-day petition period
- ▶ Subject to BINA (and PTELL for tax-capped districts)
- ▶ May be issued in excess of debt limit but count against debt limit once issued



Non-Referendum Funding Option for Capital Projects – How It Works

Step 1: Issue Debt Certificates

- ✓ Depending upon the size of the financing, the College may sell the obligation directly to a bank or perhaps another unit of government
- ✓ Provides the proceeds to pay for capital projects
- ✗ Would be payable from operating dollars instead of a separate property tax levy if not for Step 2
 - ▶ Establishes a claim against which the College may issue funding bonds



Step 2: Issue Non-Referendum Funding Bonds

- ✓ After the completion of a 30-day petition period and a BINA hearing, the College sells non-referendum funding bonds to payoff the debt certificates
- ✓ Proceeds from initial financing transfer to funding bonds for tax law purposes
- ✓ Paid from separate property tax levy



D. Working Cash Fund Bonds

- ▶ Working Cash Fund Bonds
 - ▶ Authorized by Section 3-33.2 of the Public Community College Act
 - ▶ Proceeds of WCF Bonds are deposited to WCF
 - ▶ Subject to limitation as to WCF Bonds outstanding
 - ▶ Subject to limitation as to WCF size
 - ▶ Not subject to 30-day petition period
 - ▶ Subject to BINA (and PTELL for tax-capped districts)
 - ▶ May be issued in excess of debt limit but once issued count against debt limit
 - ▶ Can now be issued to finance capital projects, within site limitations



Working Cash Fund Bond Limit

Maximum amount of WCF Bonds that may be outstanding

- ▶ 75% of the max Ed and O&M fund tax collections
 - ▶ May include TIF and EPZ values in calculation
- ▶ Plus 75% of CPPRT
- ▶ Less WCF Bonds outstanding at closing



Working Cash Fund Bond Limit

- ▶ 90% of the maximum Ed and O&M fund tax collections
 - ▶ May include TIF and EPZ values in calculation
- ▶ Plus 90% of CPPRT
- ▶ Plus State and Federal monies to be received in the Ed and O&M funds to be received in the current year (excluding CPPRT)
- ▶ Plus other monies to be received in the Ed and O&M funds (tuition, fees, etc.)
- ▶ Less the amount presently to the credit of the WCF

House Bill 1133 (Public Act 103-0278) Considerations



House Bill 1133 (Public Act 103-0278) Considerations

- ▶ Still no petition period for working cash bonds
- ▶ Perception that transferred working cash funds are available for other purposes?
- ▶ Revisit Board policies (fund balance and debt management)
 - ▶ Establish a working cash fund policy?
- ▶ Depending on a community college's working cash formula, it may eliminate the need to implement a two-step financing process for capital projects (debt certificates-to-funding bonds)



Additional Questions?

Tammie Beckwith Schallmo
tschallmo@pmanetwork.com
630.657.6446

Erin Bartholomy
bartholo@chapman.com
312.845.3893



Disclosure

This presentation has been prepared by PMA Securities, LLC for informational and educational purposes to units of local government without regard to any particular entity's investment objectives, financial situation or means. The content of this presentation is not to be construed as a recommendation, solicitation or offer to engage in an issuance, or to buy or sell any security, financial product or instrument, or to participate in any particular trading strategy in any jurisdiction in which such an offer or solicitation, or trading strategy would be illegal. Nor does it constitute any legal, tax, accounting or investment advice or services regarding the suitability or profitability of any security or investment. PMA and its employees do not offer tax or legal advice and any entity should consult with its own tax and/or legal advisors before making any tax or legal related investment decisions.

Although the information contained in this presentation has been obtained from third-party sources believed to be reliable, PMA cannot guarantee the accuracy or completeness of such information. It is understood that PMA is not responsible for any errors or omissions in the content in this document and the information is being provided to you on an "as is" basis without warranties or representations of any kind. The analysis or information presented in this presentation is based upon current market conditions which are subject to change. There is no guarantee that the projected yield will be realized and the actual yield will depend on the available investment product and market conditions at the time of investment.

This presentation is solely intended to suggest/discuss potentially applicable financing applications or investment strategies. Any terms discussed herein are preliminary until confirmed in a definitive written agreement. Although market value, market analytics and other information contained in this presentation have been obtained from third-party sources believed to be reliable, PMA cannot guarantee the accuracy or completeness of such information. No representation is made that any results indicated herein will be achieved. Changes to any prices, levels, or assumptions contained herein may have a material impact on results. Any estimates or assumptions contained herein represent our best judgment as of the date indicated and are subject to change without notice. Examples are merely representative and are not meant to be all-inclusive. All investments mentioned herein may have varying levels of risk, and may not be suitable for every investor. Investment in securities involves risks, including the possible loss of the amount invested. In addition, past performance is no indication of future results and the price or value of investments may fluctuate. Asset allocation does not assure or guarantee better performance and cannot eliminate the risk of investment losses.

Securities, public finance services and institutional and municipal advisory brokerage services are offered through PMA Securities, LLC. PMA Securities, LLC is a broker-dealer and municipal advisor registered with the SEC and MSRB, and is a member of FINRA and SIPC. PMA Asset Management, LLC, an SEC registered investment adviser, provides investment advisory services to local government investment pools and separate accounts. All other products and services are provided by PMA Financial Network, LLC. PMA Financial Network, LLC, PMA Securities, LLC, and PMA Asset Management, LLC (collectively "PMA") are under common ownership.