

Illinois Community College CFOs Spring 2016 Conference

Help! I need funds to operate!

A Review of Community College
Borrowing Alternatives for Operations

April 27, 2016

STIFEL



Disclosure

- **This presentation does not represent legal or municipal advice** – Stifel recommends that districts consult with their legal and other advisors as deemed appropriate



Short Term / Long Term Solutions

➤ Short Term Solutions:

- Provide funds for temporary cash flow needs
- Leverage future revenues
- Do not provide new dollars to the district

➤ Long Term Solutions:

- Provide dollars to fund structural deficits
- Are repaid from new/additional dollars via bond levies



Short Term Solutions

- Interfund Loans
- Tax Anticipation Warrants (TAWs)
- Personal Property Replacement Tax Notes (PPRT Notes)
- Revenue Anticipation Notes
- Teachers' Orders (or Teachers' Warrants)
- Lines of Credit



Interfund Loans

- Authorized by Section 3-34 of the Community College Act
 - Can be made from any fund to any other funds
 - Must be repaid within one year

- Loans from the Working Cash Fund (WCF)
 - Can be made to the Education Fund or O&M Fund
 - Made in anticipation of taxes levied for that fund
 - Made in anticipation of CPPRT
 - Made in anticipation of other State, Federal or other \$\$
 - Must be repaid when anticipated \$\$ is received
 - Loans from WCF count against TAW and PPRT Note limits



Tax Anticipation Warrants (TAWs)

- Issued in anticipation of taxes levied but not received
- May be issued up to 85% of the taxes levied (Fund)
 - Cannot exceed 85% of the Max Fund Rate times EAV
 - Any WCF Loans to the fund count against the 85% limit
- Payable solely from the taxes levied for that fund
- Payable in numerical order of the issuance
- May have a fixed maturity date
- Don't count against debt limit



General Obligation TAWs

- Same 85% limit as TAWs
- Must have a fixed Maturity Date
- Secured by separate tax levy
 - Unlimited as to rate or amount (unless subject to PTELL)
 - No additional taxes will be received as the county clerk will offset dollar for dollar this levy against the levy of the fund being warranted.
- Don't count against debt limit
- Subject to BINA and PTELL – rarely issued



Tax Anticipation Notes

- Similar to GO Tax Anticipation Warrants
- Have a fixed maturity date within 2 years
- The amount of warrants may not exceed the sum
 - The 85% limit equal to TAWs or GO TAWs
 - The amount of interest, and costs of issuance
- Secured by separate tax levy
 - No additional Funds received as fund levy is offset by TAW Levy
- Do Count Against Debt limit
- Subject to PTELL and BINA –rarely issued



Personal Property Replacement Tax Notes

- Issued in anticipation of CPPRT
- May not exceed 75% of the CPPRT entitlement
- Entitlement must be certified by the IDOR Director
- Any WCF transfers in anticipation of CPPRT reduce amount



Revenue Anticipation Notes

- Issued in anticipation of “**reliable**” revenue source
 - Federal Aid
 - State revenues – not “reliable” today
 - Local Fees
- Must mature within 1 year of issue
- Requires 2/3 vote of the board
- Cannot be issued if the revenue is delinquent
- Limited to 85% of the revenue being anticipated
- Payable only from the revenue being anticipated



Teachers' Orders (Warrants)

- Issued to pay net wages of teaching staff
- Treasurer endorses order “not paid for want of funds”
- Order bears interest at rate set by board
 - Rate should be negotiated with a bank willing to hold the orders – may be difficult to place
- Payable when treasurer has sufficient funds
 - No fixed maturity date or pledged tax receipts
- May be repaid by the issuance of Funding Bonds



Lines of Credit – Not now

- Established with bank/financial institution
- Done in anticipation of **State Aid** (no budget)
 - If anticipating current year - may be up to 85% of state revenues due this FY
 - If anticipating next FY May be up to 50% of state revenues due this FY
- Must be repaid within 60 days of receipt of revenues



Long Term Options to fund Operations

- Working Cash Fund Bonds
- Funding Bonds
- Alternate Revenue Bonds
- Tort Judgment Funding Bonds
- Insurance Reserve Bonds



Working Cash Fund Bonds

- Issued to increase the Working Cash Fund
- Can be issued up to 75% of sum of
 - Maximum Ed and O&M extension plus CPPRT
- Fund Balance cannot exceed the sum of
 - 90% of Maximum Ed and O&M extension plus CPPRT
 - 100% of monies derived from state (excluding CPPRT), federal or any other source



WCF Calculation Example (Part 1)

Community College District No. 5XX Working Cash Capacity

Levy Year

2015*

*includes TIF and EZ

EAV

\$ 4,500,000,000

Part 1 Working Cash Fund Bond Limit

2014 Equalized Assessed Value:	\$	4,500,000,000
Maximum Education Fund and O&M Fund Tax Rate:		0.2235
	\$	10,057,500
PLUS		
CPPRT lesser of prior FY actual or current FY estimate	\$	500,000
	Subtotal \$	10,557,500
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x 75%	\$	7,918,125
Outstanding Working Cash Bonds (Series 2010)	\$	1,000,000
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Maximum Working Cash Fund Bonds Outstanding	\$	6,918,125



WCF Calculation Example (Part 2)

Community College District No. 5XX Working Cash Capacity

Part 2 Working Cash Fund Balance Limit

Maximum Education and Operations and Maintenance Tax Extension	\$	10,057,500
Plus CPPRT lesser of prior FY actual or current FY estimate	\$	<u>500,000</u>
Equals	\$	10,557,500
Times 90%	\$	9,501,750

Plus Monies received by the District in the current FY for educational or operations and maintenance purposes from the State or Federal government or other sources (except CPPRT) from FY 2014 CAFR	\$	<u>34,500,000</u>
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Equals Maximum Working Cash Fund balance \$ 44,001,750

Less the amount presently to the credit of the Working Cash Fund (including amounts loaned to the Education and O&M Funds)	\$	<u>14,000,000</u>
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Working Cash Fund Balance Limit \$ **30,001,750**

Lesser of Part 1 or Part 2 is Net Working Cash Fund Bond Limit \$ **6,918,125**



Alternate Revenue Bonds

- No voter approval required
- Bond Issue Notification Act (BINA) hearing required
- Can be issued (taxably) to fund operations
- Backed by proven revenue stream, such as student tuition or fees, state grant/aid, etc.
- Secondarily backed by general obligation property tax pledge of the District should the pledged revenue source be insufficient at any time



Alternate Revenue Bonds (cont.)

- Do not count against debt limit unless G.O. levy is used, then all outstanding bonds are counted towards the debt limit
- Must demonstrate that the dedicated revenue covers 125% of annual debt service (Audit or Feasibility Report)
- 30 day back door referendum period, 7-1/2% of registered voters
- If tax-capped G.O. levy does not count against debt service extension base
- Maximum maturity length of 40 years



Funding Bonds

- Subject to Backdoor Referendum – 10 % of registered voters in 30 days
- Bond Issue Notification Act (BINA) hearing required
- Can only be issued to pay existing “claims” of the District
- Maximum financing term = 20 years
- Repaid from bond and interest levy
- If tax-capped, G.O. bond & interest levy is subject to Debt Service Extension Base



Tort Judgment Funding Bonds

- Issued to pay Tort judgment or settlement
- Issued without referendum
- Can be issued in any amount
- Do not count against statutory debt limit
- Subject to PTELL and BINA



Insurance Reserve Bonds

- Issued under the Tort Immunity Act
- Issued to fund a reserve for the payment of
 - Any cost, liability or loss under Section 9-103
 - Payments that can be levied under Section 9-107
- Must be reasonable in size
 - Size must be certified by independent auditor, actuary or insurance underwriter
 - Reserve plus anticipated interest can't exceed 125% of est. ultimate losses @ 95% confidence level



Insurance Reserve Bonds (cont.)

- Issued without referendum
- Federal Tax Code restrictions
 - Cannot be tax exempt unless reserve only invested in certain other tax exempt obligations
- Don't count against statutory debt limit
- Subject to BINA and PTELL



Resources

Questions?

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