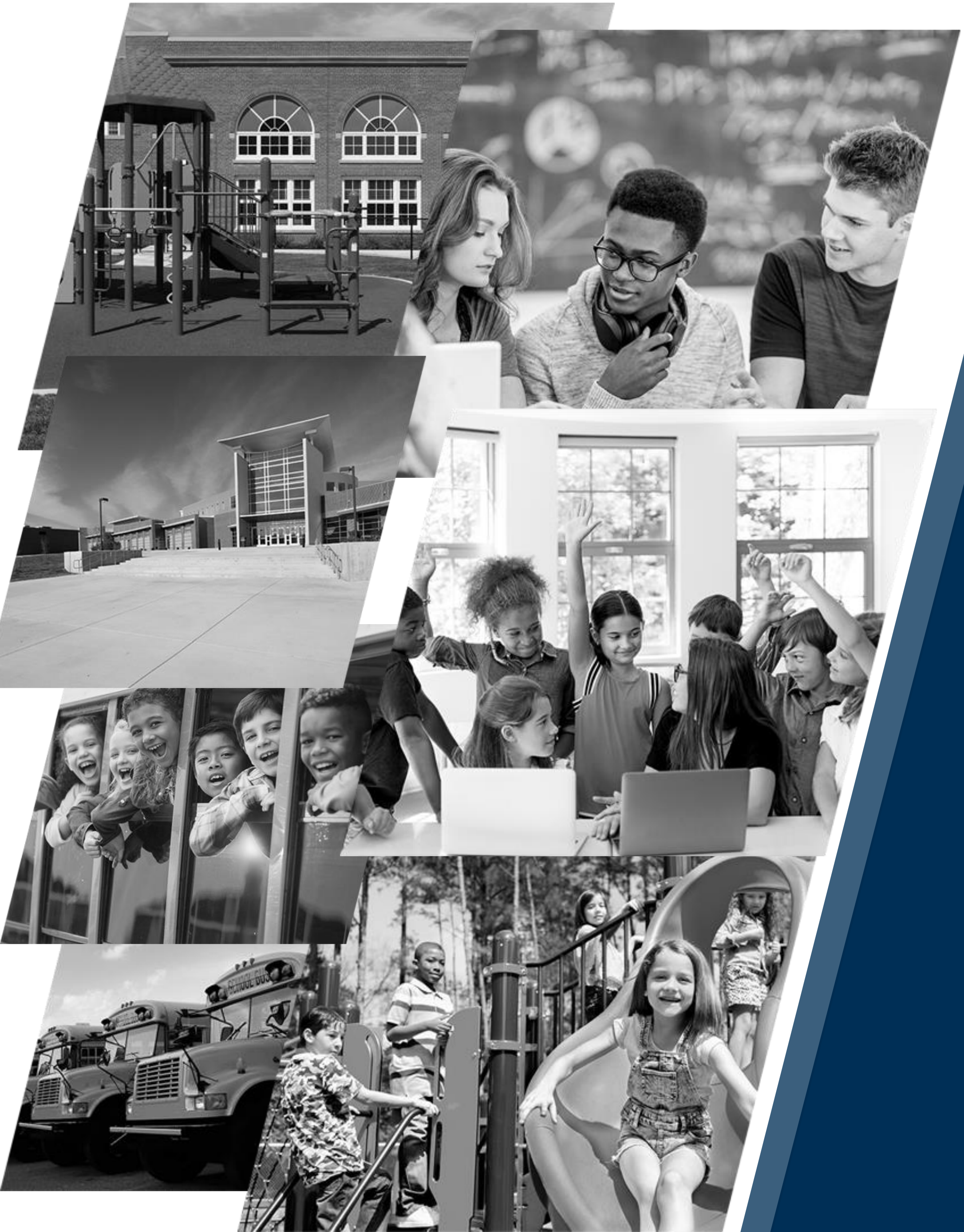

Bond Basics

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Bond Basics

- Bonds are loans. Like mortgages or car loans.
- They are paid back with property tax or other district revenue.
- The tax rates used to repay most bonds are limited by law and set by the County Clerk.
- Issuing bonds (getting the loan) may need the approval of the voters, may be subject to petition or may be permissible under law by Board authority.

Bond Basics

- Today, the tax-exempt bond market is a **$4.0 trillion dollar marketplace** where issues are bought, sold and traded much like stocks.

- A tax-exempt bond represents borrowed money which the borrower is then legally obligated to repay to investors at a certain time and with, in most cases, a fixed rate of interest.

- Tax-exempt bonds are issued to finance a variety of capital improvements that benefit the citizens of a particular area.

- Illinois Community College Act and the Local Government Debt Reform Act provide the legal basis for districts to borrow money. (Can't just take out a "loan" at local bank)

Investing in Bonds – The Basics

- Bonds represent a debt obligation of the District. The District promises to pay the investor a specified interest rate over a certain period of time. Upon maturity of the bond, the investor receives back all of the original principal.

- Generally issued in $1,000 or $5,000 denominations with annual principal and semi-annual interest payments

- Generally rated by one or more of the industry's respected rating agencies (Moody's, Standard & Poor's, Fitch).

Investing in Bonds – The Basics

- Municipal bonds tend to carry credit ratings of AAA, AA, A or BBB. Bonds rated below these levels are considered speculative (junk bonds).

- Bond prices fluctuate with the rise and fall of interest rates. You can lose money in bonds if interest rates rise and you sell before maturity or if the issuer defaults.

- Treasury bonds are considered the safest. Other categories of bonds include U.S. government agency bonds, corporate bonds and municipal bonds.

Bond Basics – Value of Tax-Exempt

- Investors willing to give or accept lower interest rates, because interest earnings are not subject to federal income tax.

$$\textbf{Taxable Equivalent Yield} = \frac{\underline{\textbf{Tax-Fee Yield}}}{\textbf{100\% - Tax Bracket}}$$

Example

$$\textbf{7.94\%} = \frac{\underline{\textbf{5.00\%}}}{\textbf{100\% - 37.0\%*}}$$

*2021 Federal max rate (37.0%)

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Tax-Exempt or Taxable Interest

- IRS Regulations determine the tax status of Municipal Bond interest payments

- Bonds issued for capital purposes are generally tax-exempt

- Bonds issued for working capital (operating) purposes are generally taxable

Community College Bond Basics – Repayment Sources

- The following are examples of the revenue stream and bond type associated with each:

Revenue Pledged		Type of Bond
Property Tax (ad valorem property tax unlimited as to rate and amount)	→	General Obligation Unlimited Tax
General Operating Revenues	→	Non-GO Limited Tax Bond
Sales and Use Tax (County School Facilities Sales Tax)	→	Alternate Revenue Bond

Community College Bond Basics Debt Limit

- 2.875% of EAV
  —Be sure to include TIF and EPZ

- Don’t count
  - Tax Anticipation Warrants/Notes
  - Revenue Anticipation Notes
  - Personal Property Replacement Tax Notes
  - Alternate Revenue Bonds (unless back-up property taxes were levied)

Community College Bond Basics Debt Limit

Community College District No. 5XX (Hometown Community College)
Many Counties, Illinois
Debt Statistics

EAV History

Levy Year	EAV	% Change
2007	3,406,640,993	
2008	3,529,828,912	3.62%
2009	3,594,517,566	1.83%
2010	3,589,355,702	-0.14%
2011	3,871,378,534	7.86%
2012	3,869,565,219	-0.05%

Debt Capacity

2012 EAV	3,869,565,219
	x
	2.875%
Debt Limit	111,250,000
	-
Outstanding Debt	$57,000,000
Remaining Debt Capacity	**$54,250,000**

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Community College Bond Basics – Types of General Obligation Bonds

Protection, Health and Safety Bonds

- For alterations and repairs to facilities for health, safety, environmental protection, accessibility or energy conservation
- **Not** subject to backdoor referendum
- Bond Issue Notification Act ("BINA") hearing required
- Maximum amount outstanding $4,500,000 ($20,000,000 for CCD #522 and CCD #536)
- Maximum Financing Term = 20 years
- Repaid from bond and interest levy (subject to Debt Service Extension Base)

Building Bonds

- Must be approved by voters at general election (3 elections every 2 years)
- Maximum amount determined by voted authorization
- Maximum financing term = 20 years
- Repaid from bond and interest levy

Community College Bond Basics – Types of General Obligation Bonds

Working Cash Bonds

- Bond Issue Notification Act ("BINA") hearing required
- Maximum amount determined by State formula
- Maximum financing term = 20 years
- Unless sold as federally taxable, must comply with cash-flow borrowing need calculations and repayment restrictions
- Repaid from bond and interest levy (subject to Debt Service Extension Base)

Funding Bonds

- Subject to Backdoor Referendum – 30-day Petition Period
- Bond Issue Notification Act ("BINA") hearing required
- Can only be issued to pay an existing "claims" of the District
- Maximum financing term = 20 years
- Repaid from bond and interest levy
- Subject to Debt Service Extension Base

Community College Bond Basics

Community College District No. 5XX (Hometown Community College)
Many Counties, Illinois
Working Cash Fund Calculations

Levy Year	EAV
2012	3,869,565,219

Part I Working Cash Fund Bond Limit

20__ Equalized Assessed Value:		$3,869,565,219	
Maximum Education Fund and O&M Fund Tax Rate:		0.2500	
		$9,673,913	
PLUS			
CPPRT (FY 20__ Est. per IDOR website)		$575,651	
	Subtotal	$10,249,564	
x 75%		$7,687,173	
Outsanding Working Cash Bonds (Assumes all of 2001 WCF bonds have been ret		$0	
Maximum Working Cash Fund Bonds Outstanding			**$7,687,173**

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Community College Bond Basics

Part II Working Cash Fund Balance Limit

	Maximum Education and Operations and Maitenance Tax Extension	$9,673,913	
Plus	CPPRT Lesser of FY 20__ actual or Est. FY 20__	$575,651	
Equals		$10,249,564	
Times	ninety percent	$9,224,608	
Plus	Monies to be received by the District in the current FY for educational or operations and maintence purposes from the State or Federal government or other sources (except CPPRT) from FY 20__ Audit pg. 83	$47,858,900	
Equals	Maximum Working Cash Fund balance	$57,083,508	
Less	the amount presently to the credit of the Working Cash Fund (including amounts loaned to the Education and O&M Funds) from FY 12 Audit	$15,000,000	
Net	**Working Cash Fun Balance Limit**		**$42,083,508**
	Lesser of Part I or Part II is Net Working Cash Fund Bond Limit		**$7,687,173**

Community College Bond Basics – Types of Non-General Obligation Bonds

Alternate Revenue Bonds

- No voter approval required
- 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
- Does 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 ½% of Registered Voters
- Does not count toward debt service extension base
- BINA hearing required

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Debt Certificates

- No voter approval required
- Must have sufficient revenue stream to support debt service
- More difficult credit rating process, compared to G.O. Bonds or Alternate Revenue Bonds
- Generally rated one notch lower than G.O. Bonds which means higher insurance costs and interest rates
- Debt counts against debt limit
- Does not count toward debt service extension base
- Title to property remains with the District

Community College Bond Basics - Summary

	Protection Health & Safety Bonds	Working Cash Fund Bonds	Debt Certificates	Funding Bonds (Requires a District Claim)	General Obligation Building Bonds	Alternate Revenue Bonds
Count Toward Debt Limit	Yes	Yes (can go over)	Yes	Yes (can go over)	Yes	No
Max Final Payment (yrs)	20	20	20	20	20	40
ICCB Approval Required	No	No	No	No	No	No
Voter Approval Required	No	No	No	No	Yes	No
Subject to Backdoor Referendum	No	Yes	No	Yes	No	Yes
Issued under DSEB	Yes	Yes	No	Yes	No	No
Repaid from Separate Levy	Yes	Yes	No	Yes	Yes	Yes (as backup)
BINA	Yes	Yes	No	Yes	No	Yes

Other Special Bond Types

- Refunding Bonds
  - Issued to refinance/restructure existing bonds
  - Done for savings or tax rate management
- Insurance Reserve Bonds
  - Issued to establish or increase a reserve for tort liability
  - Not subject to referendum or petition
  - Generally taxable
- Tort/Judgment Funding Bonds
  - Issued to pay for Tort judgment or settlement
  - Not subject to referendum, petition or debt limit

Illinois Bond Basics – PTELL Impact

- PTELL stands for the Property Tax Extension Limitation Law, or as it commonly called, the "Property Tax Cap"

- PTELL was created to slow the growth of property tax. County voters have to vote PTELL in.

- Currently 39 (out of 102) counties currently are under PTELL, with DuPage, Kane, Lake, McHenry and Will included with the original 1991 legislation, and Cook added in 1994.

- Ten counties voted and defeated the issue.

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Illinois Bond Basics – PTELL Impact

Here are the basic limitations of PTELL:

- A district's property tax extension can increase no more than the lower of 5% or the current CPI from one year to the next.

- Since its inception the 5% limit has only been used once.

- Exceptions: "New Growth" . New property or improvements can be added at full value the first year they are assessed.

- There are LOTS of quirks and restrictions under PTELL

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Illinois Bond Basics – PTELL Impact

- PTELL CONFUSES THE GAME AGAIN- Long Term Borrowing opportunities differ for PTELL districts.

- PTELL districts are blessed/cursed with something called the DEBT SERVICE EXTENSION BASE (DSEB)

- This is a number based on the **non-referendum** Bond and Interest Tax Extension the year prior to PTELL taking effect. DSEB is the amount of money a PTELL district may levy to repay **all non-voted** bonds and hence limits the amount of borrowings.

- If the district had no debt - they have no DSEB. If they had lots of debt, they have a high DSEB. Luck of the draw or good planning.

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