Illinois Community College Chief Financial Officer’s Spring Conference

Strategies to Lower the Cost of Borrowing Given Current Market Conditions

PMA Securities, Inc.
April 16, 2008
Understand the Current Credit Market Situation

- Obtain an underlying credit rating
  - Even if bonds will be sold with Aaa insurance
  - Volatility in bond insurance sector
  - Some investors may not otherwise consider your issue

- Weigh economic benefit of insurance with an underlying rating against the cost of the insurance premium
  - Downgrade of bond insurers; fewer participants
  - Increased cost of bond insurance
  - Wider range of premiums
  - Differentiate market impact (eg: FSA versus Assured)
Bank Qualification

- Federal tax law encourages banks to buy bank qualified ("BQ") bonds
  - Banks receive additional tax breaks
- Depending on market conditions at the time of issuance, the College may receive interest rates that are lower than if sold without BQ
- Up to $10 million of tax-exempt debt in a calendar year may be designated BQ
- Currently, the benefit of BQ is dependent upon placement on the yield curve
Bank Qualification – April 8, 2008
Arbitrage

- The IRS limits the amount of interest an issuer of tax-exempt debt may earn on its bond proceeds

Exceptions:
- A College sells less than $10 million of tax-exempt debt in a calendar year or
- College spends its bond proceeds and interest earnings pursuant to the following schedule:

<table>
<thead>
<tr>
<th>Date</th>
<th>% of Project &amp; Interest Spent</th>
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<tbody>
<tr>
<td>6 months after bond issue</td>
<td>10</td>
</tr>
<tr>
<td>12 months after bond issue</td>
<td>45</td>
</tr>
<tr>
<td>18 months after bond issue</td>
<td>75</td>
</tr>
<tr>
<td>24 months after bond issue</td>
<td>100</td>
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</tbody>
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- Note: All four spending targets must be met
Potential Arbitrage Analysis Outcome

- Delay a portion of the bond sale:
  - Shorter debt service period
  - Loss of interest earnings
  - Additional costs of issuance, although typically minimal
Method of Sale

- More volatility in the market
  - Negotiated sale
    - Flexibility with pricing date
    - Ability to pre-market the sale
    - Respond to investor appetite
  - Competitive sale
    - Absence of pre-marketing
    - Stable market conditions

- Considerations
  - Debt structure/length of maturity
  - Credit rating

- Understand the present bond market
Historical Interest Rate Graph

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