Hot Topics in the World of Community College Finance

September 29, 2010
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A. Short Term Solutions for Cash Flow Problems
B. Renewed Focus on Debt Certificates as a Borrowing Alternative
C. Financing Operations through Alternate Bonds/Funding Bonds
D. New Working Cash Fund Bond Legislation
E. Current Market Conditions
A. Short Term Solutions

- Interfund Loans
- Tax Anticipation Warrants
- Lines of Credit
Interfund Loans

- Authorized by Section 3-34 of the Public Community College Act
- May be made from any fund to any other fund
- Must be repaid within one year
- Loans from the Working Cash Fund (WCF) may only be made to the Ed Fund or the O&M Fund in anticipation of taxes (or other revenues to be deposited to the Ed Fund or the O&M Fund) and must be repaid when the taxes (or other revenues) that were anticipated are received
Tax Anticipation Warrants

- Authorized by Section 3-20.10 of the Public Community College Act
- Not a general obligation; payable solely from taxes being anticipated
- May be issued up to 85% of the taxes levied (and not yet collected) for a given fund
- Need to subtract from the authorized amount any money loaned from the WCF to the given fund
- Must be repaid when the taxes being anticipated are received
- Do not count against debt limit
**Line of Credit**

- Authorized by Section 3-33.7 of the Public Community College Act (Public Act 96-912, effective 6/9/2010)
- Lines of Credit with bank or financial institution to anticipate State Aid
- May anticipate up to 85% of State Aid due in the current fiscal year
- May anticipate State Aid due in the next succeeding fiscal year in amount up to 50% of State Aid due in current fiscal year
B. 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
C. Alternate Bonds/Funding Bonds

- Alternate Bonds
  - Authorized by Section 15 of the Local Government Debt Reform Act
  - G.O. Bonds payable from a “revenue source”
  - Examples of 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. Alternate Bonds/Funding Bonds (continued)

- Funding Bonds
  - Authorized by Section 3A-6 of the Public Community College Act
  - Used to pay "claims" against the district
    - 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
D. Working Cash Fund Bond Legislation

- 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
Working Cash Fund Bond Limit
(Prior to Public Act 96-0912)

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
(After Public Act 96-0912)

From June 9, 2010, until June 9, 2013, maximum amount of WCF Bonds that may be outstanding

- 150% of the max Ed and O&M fund tax collections
- Plus 150% of CPPRT
- Less WCF 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
- 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
• Current Market Conditions

- Historically low interest rates
- Ratings remain very important in marketing of Bonds
- Illinois Unit of Local Government penalty
- SEC Hearings on Municipal Securities
Historically low interest rates

- Bond Buyer 20 at 3.83% on September 23, 2010

Bond Buyer 20 1965 - 2010

Rate

11.5
9.5
7.5
5.5
3.5
1.5

Year

Ratings still very important

- Buyers are being more diligent today
- Insurance may open up some additional markets but often not necessary in double A credits
- Things you can do to help improve your rating
  - Provide Board regular financial data especially compared to budget
  - Have a fund balance goal even if it isn’t a formal policy
  - Be prepared to discuss how you are dealing with the State’s financial woes
Illinois Unit of Local Government Penalty

- Why Illinois is perceived as the worst credit risk of the 50 States
  - Friday Sept 24th Moody’s downgraded Illinois to A1 with a negative outlook
  - Elected officials failure to deal with budget deficit and pension problems
  - Some of the country’s least funded public pension plans
    - Northwestern University Professor Joshua Rauh estimates the funding gap at $219 billion three times what the states audit claims
SEC Municipal Market Hearings

- First hearing held this week in San Francisco
- 5 more hearings over the next few months
- Expect more regulations regarding disclosure both at the time of issuance and even more on a continuing basis
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