Back to the Basics

A Review of Community College Borrowing Alternatives
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.
Today, the tax-exempt bond market is a $2.0 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 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 through bonds. (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).
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.
Investors willing to give or accept lower interest rates, because interest earnings are not subject to federal income tax.

\[ \text{Taxable Equivalent Yield} = \frac{\text{Tax-Fee Yield}}{100\% - \text{Tax Bracket}} \]

**Example**

\[ 8.28\% = \frac{5.00\%}{100\% - 39.6\%*} \]

*2013 Federal max rate (39.6%)
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.
The following are examples of the revenue stream and bond type associated with each:

<table>
<thead>
<tr>
<th>Revenue Pledged</th>
<th>Type of Bond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax (ad valorem property tax unlimited as to rate and amount)</td>
<td>General Obligation Unlimited Tax</td>
</tr>
<tr>
<td>General Operating Revenues</td>
<td>Non-GO Limited Tax Bond</td>
</tr>
<tr>
<td>Specific Revenues such as Tuition and/or Fees</td>
<td>Alternate Revenue Bond</td>
</tr>
</tbody>
</table>
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 District No. 5XX (Hometown Community College)  
Many Counties, Illinois  
### Debt Statistics

#### EAV History

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

#### Debt Capacity

- **2012 EAV**: 3,869,565,219
- **Debt Limit**: 111,250,000
- **Outstanding Debt**: $57,000,000
- **Remaining Debt Capacity**: 54,250,000
Community College Bond Basics

Types of General Obligation Bonds

**Protection, Health and Safety Bonds**
- For alterations and repairs to facilities for the protection, health and safety of students, staff or visitors
- **Not** subject to backdoor referendum
- Subject to ICCB Executive Director’s approval of the architect’s estimates
- Bond Issue Notification Act ("BINA") hearing required
- Maximum amount outstanding is $4,500,000 ($20,000,000 for 522 and 536)
- Maximum Financing Term = 20 years
- Repaid from bond and interest levy (subject to Debt Service Extension Base)

**Building Bonds**
- Must be approved by vote 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
Types of General Obligation Bonds (Continued)

**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
- 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 existing “claims” of the District
- Maximum financing term = 20
- 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

<table>
<thead>
<tr>
<th>Levy Year</th>
<th>FAV</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>3,869,565,219</td>
</tr>
</tbody>
</table>

### Part I Working Cash Fund Bond Limit

2011 Equalized Assessed Value: $3,869,565,219
Maximum Education Fund and O&M Fund Tax Rate: 0.2500

$9,673,913

**PLUS**

CPPRT (FY 2013 Est. per IDOR website) $575,651

<table>
<thead>
<tr>
<th></th>
<th>Subtotal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$10,249,564</td>
</tr>
<tr>
<td>x 75%</td>
<td>$7,687,173</td>
</tr>
</tbody>
</table>

Outstanding Working Cash Bonds (Assumes all of 2001 WCF bonds have been retired) $0

**Maximum Working Cash Fund Bonds Outstanding** $7,687,173
Part II Working Cash Fund Balance Limit

Maximum Education and Operations and Maintenance Tax Extension $9,673,913

Plus CPPRT Lesser of FY 2012 actual or Est. FY 2013 $0

Equals $9,673,913

Times ninety percent $8,706,522

Monies to be received by the District in the current FY for educational or operations and maintenance purposes from the State or Federal government or

Plus other sources (except CPPRT) from FY 2012 Audit pg. 83 $47,858,900

Equals Maximum Working Cash Fund balance $56,565,422

the amount presently to the credit of the Working Cash Fund (including

Less amounts loaned to the Education and O&M Funds) from FY 12 Audit $15,000,000

Net Working Cash Fund Balance Limit $41,565,422

Lesser of Part I or Part II is Net Working Cash Fund Bond Limit $7,687,173
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 7-1/2% of Registered Voters
- Does not count toward debt service extension base
- BINA hearing required
Types of Non-General Obligation Bonds

Debt Certificates

- No voter approval required
- Must have sufficient revenue stream to support debt
- More difficult credit rating process, compared to G.O. Bonds or Alternate Revenue Bonds
- Generally rated one notch lower that G.O. Bonds which means slightly higher 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

<table>
<thead>
<tr>
<th></th>
<th>Protection Health &amp; Safety Bonds</th>
<th>Working Cash Fund Bonds</th>
<th>Debt Certificates</th>
<th>Funding Bonds (Requires a District Claim)</th>
<th>General Obligation Building Bonds</th>
<th>Alternate Revenue Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Count Toward Debt Limit</td>
<td>Yes</td>
<td>Yes (can go over)</td>
<td>Yes</td>
<td>Yes (can go over)</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Max Final Payment (yrs)</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>ICCB Approval Required</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Voter Approval Required</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Subject to Backdoor Referendum</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Issued under DSEB</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Repaid from Separate Levy</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes (as backup)</td>
</tr>
<tr>
<td>BINA</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>
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
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. Cook and the Collar Counties were subjected to PTELL by state legislation. Other Counties can vote to be under PTELL

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.

Nine counties voted and defeated the issue.
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
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 levy for non-voted bonds for the year the district became subject to PTELL. DSEB is the amount of money a PTELL district can levy per year to repay non-voted G.O. Bonds.

If the district had no non-voted debt - they have no DSEB. If they had lots of non-voted debt, they have a high DSEB. Luck of the draw or good planning.
Short Term Borrowing Options

➢ Tax Anticipation Warrants

➢ Most common type of Short-Term borrowing method used by Community College Districts

➢ Issued in anticipation of taxes levied but not yet collected

➢ May be issued up to 85% of total taxes levied

➢ Not included in calculation of bonded indebtedness or debt limit

➢ Fixed maturity date possible
PER THE COMMUNITY COLLEGE ACT, MAXIMUM AMOUNT OF TAX ANTICIPATION WARRANTS THAT CAN BE ISSUED IS THE LESSER OF:

- EQUALIZED ASSESSED VALUATION
  \[ \times \]
  \[ \times \]
  \[ \times \]
  85%

LESS:

OUTSTANDING TANs OR TAWs OR $$ LOANED FROM THE WCF
Short Term Borrowing Options

- Lines of Credit
  - Can be established in anticipation of State Aid
  - Limited to 85% of the unpaid State Aid due in the current fiscal year
  - Can borrow up to 50% of the State Aid to be received in the following fiscal year
  - Must be repaid within 60 days of receipt of property taxes
Short Term Borrowing Options

Teachers Orders

- Promissory Notes for wages due – paid in lieu of cash or check to teaching staff when insufficient Education Fund monies available

- Often repaid by the issuance of Funding Bonds

- District agrees with bank to accept Orders at interest rate established by the Board of Education

- No fixed maturity date
Questions?

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