Community College Districts
Financing Options to Supplement Operating Revenue
Update on the State’s Finances

- Very low AA- Bond Rating from S&P
  - Only California A and Louisiana A+ are lower than Illinois
  - Kentucky and Michigan only other AA-’s
- Revenues running well behind budget
  - Income tax 8% behind
  - Sales tax 12% behind
No ARRA Money for FY2010
We will start the FY 2011 year with at least $3.5B in unpaid bills from FY 2010
Questions surround the State’s ability to make timely payments to Schools, Counties and Community Colleges
How can you prepare for delayed State payments?

- Short Term Solutions
  - Interfund Loans
  - Tax Anticipation Warrants
  - Teachers’ Orders
Interfund Loans

- Authorized by the Community College Act
- May be made from any fund to any other fund
- Must be repaid within one year
- Working Cash Fund (WCF) can only loan to Education Fund or O&M Fund and must be repaid when the funds that were anticipated (taxes, etc.) are received
Tax Anticipation Warrants

- May be issued up to 85% of the taxes levied but not collected in a given fund
- Need to subtract from the above amount any money loaned from the WCF to the given fund
- Must be repaid when the taxes warranted against are received
- Don’t count against debt limit
Teachers’ Orders

- Used to pay wages of teaching staff
- Interest rate is 6% or alternate rate set by the Board of Trustees
- Need to negotiate a financial institution to hold the order until it can be paid
- Often repaid through the issuance of Funding Bonds
Long Term Solutions

- Working Cash Fund Bonds
- Funding Bonds
- Alternate Bonds
Working Cash Fund Bonds

- Subject to limits as to bonds outstanding
- Subject to limits as to fund size
- May be issued in excess of debt limit but once issued count against debt limit
- Subject to BINA and PTELL
WCF Bond Size Limit

- 75% of the max Ed and O&M fund tax collections
  - May include TIF and EPZ values in calculation
- Plus 75% of CPPRT
Senate Bill 2615 (passed both Houses)

- Increase WCF Bond size limit for 3 years
- 150% of the max Ed and O&M fund tax collections
- Plus 75% of CPPRT
Senate Bill 2615

- Lines of Credit with bank or financial institution to anticipate State Aid
- Anticipate up to 85% of State revenues due in current fiscal year
- May anticipate State revenues due in the next subsequent fiscal year, in amount up to 50% of State Revenues due in current fiscal year
Working Cash Fund Size Limit

- 90% of the maximum Education Fund and O&M Fund tax collections
  - May include TIF and EPZ values in calculation
- Plus 90% of CPPRT
- Plus State and Federal 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 Fund (tuition, fees, etc.)
Funding Bonds

- Used to pay “Claims” the district has a want of funds to pay
  - Teachers’ Orders, ERO, contracted services, leases, installment contracts, Alternate Bonds, etc.
- Subject to 30 day petition period
- Subject to BINA and PTELL
- May be issued in excess of debt limit but counts against debt limit once issued
Alternate Bonds

- Issued to for any lawful corporate purpose
- “Corporate Purposes” include operating expenses
Alternate Bonds

- “Double Barreled Bonds” payable from (1) a “revenue source” and (2) a general obligation property tax levy
- Examples of Revenue Sources
  - tuition
  - student fees
  - state aid
  - operating taxes
  - personal property replacement taxes
Time is Ticking

- Prepare now for the possibility of cash shortages
- Remember some solutions may take several months to implement
- Could this be an opportunity in disguise to improve your financial stability and credit rating?
Thank you!
This document has been prepared by Chapman and Cutler LLP attorneys for informational purposes only. It is general in nature and based on authorities that are subject to change. It is not intended as legal advice. Accordingly, readers should consult with, and seek the advice of, their own counsel with respect to any individual situation that involves the material contained in this document, the application of such material to their specific circumstances, or any questions relating to their own affairs that may be raised by such material.

© Chapman and Cutler LLP, 2010