Construction Financing

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Introductions

Name: Mohsin Dada. Role: Speaker and Moderator
- Chief Financial Officer, Hinsdale SD 181

Name: Luann Kolstad. Role: Speaker
- Chief School Business Official, Park Ridge-Niles CCSD 64

Name: Elizabeth Hennessy. Role: Speaker
- Managing Director, Raymond James & Associates, Inc.

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- Partner, Chapman and Cutler LLP

Outline

- Introduction
- Referendum Bonds
  - Case Study: North Shore SD 112
  - Community Engagement Process
- Non-referendum Bonds
  - Case Study: Park Ridge CCSD 64
- Timing of Bond Sale
- After the Bonds are Issued

Capital Funding Options

- 1) Use Fund Balance
- 2) Seek referendum approval and issue bonds
- 3) Issue non-referendum bonds

Statutory Debt Limit

- 6.9% of EAV for elementary and high school districts
- 13.8% of EAV for unit school districts
- Exceptions:
  - 15% of EAV if either occurs:
    - Certain enrollment projections or increases which the regional and state superintendents concur with and a majority of voters approve, or
    - School board determines that additional facilities are needed to provide quality educational programs and 2/3 of the voters approve.
  - Other district-specific exceptions
  - Working Cash Fund Bonds and Funding Bonds, when issued, may lawfully exceed the statutory debt limit

Referendum Bonding Options

- School Building Bonds
- Life Safety Bonds, Working Cash Fund Bonds, Funding Bonds, Insurance Reserve Bonds
- Payable from a separate property tax levy unlimited as to rate or amount
- Authorization lasts for 5 years
- Other referenda options:
  - Referendum to Create or Increase DSEB
  - Operating Tax Rate (or, if tax-capped, Limiting Rate) Increase
    - New money generated from rate increase can make principal and interest payments on Debt Certificates or Alternate Revenue Bonds

Sample Ballot Question – Referendum Bonds

- Shall the Board of Education of School District Number 1, DuPage County, Illinois, build and equip a school building to replace the Elementary School Building, improve the sites of, building and equip additions to and alter, repair and equip existing school buildings and issue bonds of said School District to the amount of $24,000,000 for the purpose of paying the costs thereof?

Referenda Calendar

- November 6, 2018 General Election
  (Board Resolution deadline is August 20, 2018)
- April 2, 2019 Consolidated Election
  (Board Resolution deadline is January 14, 2019)
- March 17, 2020 General Primary Election
  (Board Resolution deadline is December 30, 2019)

Note: Excludes February 26, 2019 Consolidated Election. February election dates are only available if a local election for candidates is occurring in an overlapping governmental entity.

Community Engagement– A Case Study of North Shore SD 112

- Starting the Conversation:
  - Current situation – Unsustainable path
  - District class size – Number/State of current buildings
  - Staffing
  - Building Design
  - Educational Opportunities
  - Extra-Curricular, Athletic and Co-Curricular Opportunities
  - Construction/Design/Remodel Timeline

Community Engagement

- Current Situation – Unsustainable Path
- Expenses rise faster than revenues
  - Local revenues capped by rate of Consumer Price Index
  - Salaries and benefits rise faster than CPI
- Buildings are in need of significant and costly repairs
- Buildings lack essential features
  - Air-conditioning
  - Security Entrances
  - ADA compliance
  - Fire sprinkler systems
- District operates 12 buildings: a high number relative to its student population
- No capacity in budget to make repairs and sustain 12 buildings
- If current financial patterns continue, it will entail severe cuts to educational programs

Community Engagement

Annual Projected Savings Comparison

Model	12 Building Staffing	Middle School Campus Staffing	*Annual Savings Range
Middle School Campus	600	554	$4.0 to $4.8 million
Current	600	600	$0

*To be realized upon project completion

Community Engagement

Comparison – Expenditures/Enhancements

30 Year Cycle	12 Buildings	Middle School Campus Model
Projected Capital Expenditures	$119,696,415*	$198,000,000**
Escalation over 30 years	$86,271,898	Included in the above
Additional anticipated expenditures for duplicate capital & HLS outlay over a 30 year-period	Same in both models	Same in both models
Interest (based on current rates)	$27,000,000	$161,364,565 (borrowing of $198 million)****
Cost of Full Day Kindergarten (30 years compounded)***	$57,090,499	Included in Projected Savings below
Number of Referendums Needed	6	1
Facility Enhancements	None: Only Repairs	Air Conditioning - Fire Sprinkler Systems Security Vestibules - ADA (American Disability Act) Compliance
Educational Enhancements	Full Day Kindergarten	Full Day Kindergarten STEM/ CMA Chorus/ World Language (5th Grade)
Average age of Schools after 30 years	105 years average	67.5 years average
Total Expenditures	$290,058,812	$359,364,565 (borrowing of $198 million)
Projected Savings	$0	$190,301,663*****
Expenditures (inclusive of interest, escalation, enhancements) less savings	$290,058,812	$169,062,902 (borrowing of $198 million)
Savings achieved with middle school model with $198 million borrowing		$120,995,910 (savings)
* The projected capital expenditures for the 12 buildings would be spent over 30 years. The dollar figure does not include escalation costs to cover anticipated inflation.		
** The projected capital expenditures for the middle school campus model would be spent over a period of five years, and includes escalation costs to cover anticipated inflation over this period.		
*** $1.2 Million compounding at 3% for 30 years		
**** Assumes 30 year structure, Level Rate		
***** Assuming $4 Million annual savings in staffing, compounding at 3% for 30 years. These savings continue to compound even after 30 years.		
		As of December 29, 2015-ms

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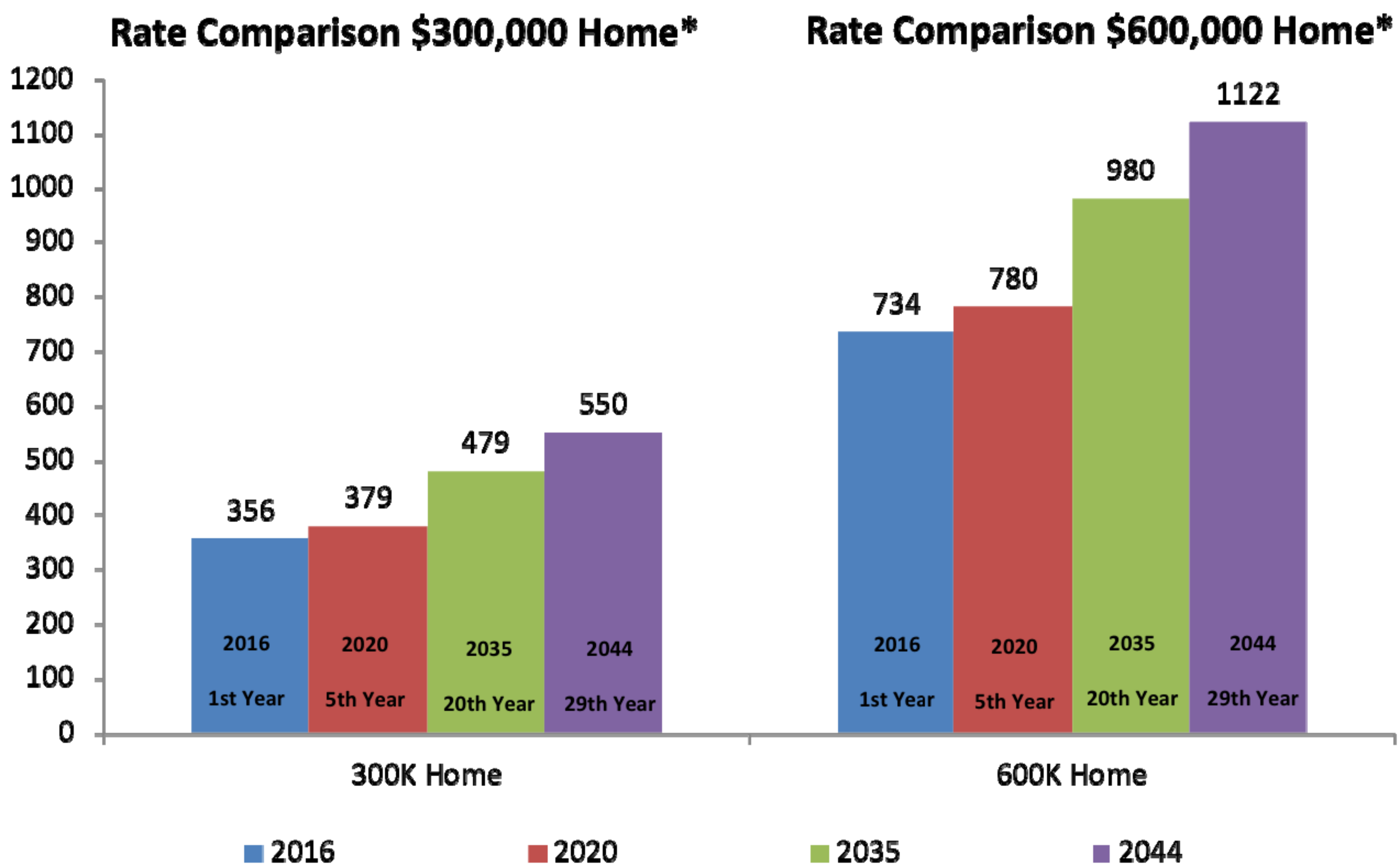
$198 Million 2016 Referendum at Current Market
30 Year Payment Schedule – Level Tax Rate



*Assumes 1.5% appreciation in existing property values
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Community Engagement

Change is Coming

Reactive Plan

- Program Cuts
- Increased Class Sizes
- Building Closures
- Boundary Changes
- No improvements
- No long-term financial sustainability

Referendum

Proactive Plan

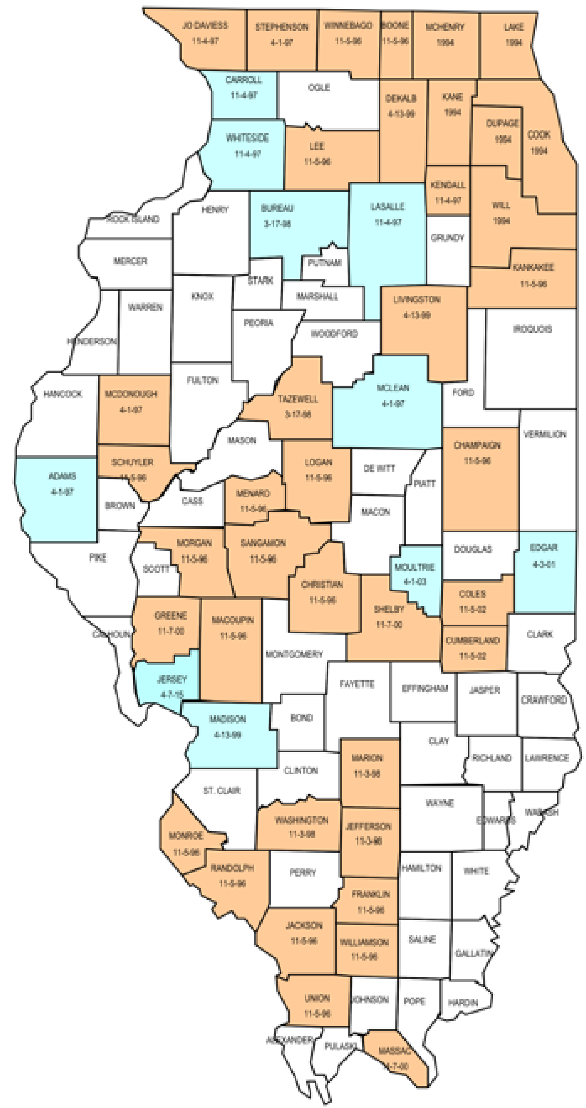
- Six-year thoughtful reconfiguration plan
- New middle school for all students
- Financial sustainability
- Educational improvements

Non-Referendum Bonding Options

- Applies only to tax-capped districts
- Payable from a separate property tax levy unlimited as to rate but limited as to amount
- Examples:
  - Working Cash Fund Bonds
  - Funding Bonds
  - School Fire Prevention and Safety Bonds
- Annual tax levy cannot exceed the "debt service extension base" or DSEB
- What is a "debt service extension base"?

PTELL and Limited Bonds

- School districts subject to the Property Tax Extension Limitation Law of the State of Illinois, as amended (*"PTELL"*), are permitted to issue limited bonds payable from a separate property tax levy that is unlimited as to rate, but limited as to amount.
- The amount of debt service that a district can levy in any given levy year is commonly referred to as the "Debt Service Extension Base."
- In levy year 2009 and thereafter, the DSEB may be increased by the lesser of 5% or CPI (unless the DSEB is voted).



BINA and Petition Period

BINA

- Bond Issue Notification Act of the State of Illinois, as amended (*"BINA"*), requires a district selling non-referendum general obligation bonds (other than refunding bonds) to hold a public hearing concerning the district's intent to sell the bonds
- Must publish notice of the public hearing in a local newspaper not less than 7 nor more than 30 days before the date of the public hearing and post notice at least 48 hours before the public hearing
- At the public hearing, school board must explain reason for the proposed bond issue and permit persons to present written or oral testimony
- Must wait at least 7 days after the public hearing to adopt resolution providing for sale of the bonds
- Authorization lasts for 3 years from the date of the hearing.

Petition Period

- District adopts a Resolution of Intent (or Authorizing Resolution for Alternate Bonds)
- Must publish Notice of Intent (and the Authorizing Resolution for Alternate Bonds) in a local newspaper, which starts the "petition period"
  - 30 day period during which petition containing the requisite number of voter signatures may be submitted to the secretary of the school board to request that bonds be issued pursuant to referendum
  - Secretary must make a petition form available to anyone that requests it
- If no petition is filed, bonds are authorized.
- If petitioned, referendum approval is required.
- Authorization lasts for 3 years from the end of the petition period.
- Applies to Working Cash, Funding and Alternate Bonds.

Types of Obligations – Purpose and How Repaid

• Working Cash Fund Bonds	Separate Tax Levy
• Life Safety Bonds	Separate Tax Levy
• Lease Certificates	Operating Funds
• Debt Certificates	Operating Funds
• Funding Bonds	Separate Tax Levy
• Alternate Revenue Bonds	Operating Funds/Separate Tax Levy
• School Building Bonds	Separate Tax Levy

Working Cash Fund Bonds

- Purpose: to create or increase the working cash fund. Bond Proceeds are deposited to the WCF at closing; must be abated to capital projects fund.
- Amount which can be issued is limited by a statutory formula.
- Subject to a petition period. A valid petition signed by at least 10% of the registered voters within the District would require referendum approval in order to issue the Working Cash Fund Bonds.
- Requires BINA public hearing.
- Bonds count against the statutory (6.9% and 13.8%) debt limits, but may be issued in excess of such limits.
- The payment source is a bond and interest levy (for districts subject to PTELL, up to the district's DSEB).

School Fire Prevention and Safety Bonds

- Purpose: to alter and repair existing school buildings and equipment for fire prevention and safety purposes. May be issued to replace an existing building if the cost of replacement is less than the cost to repair (and *meets certain other requirements*).
- Must have architect or engineer survey and cost estimate.
- Work and estimate of cost must be approved by the ROE and the State Superintendent. ROE issues an Order that the work be completed.
- Subject to the statutory (6.9% and 13.8%) debt limits.
- Requires BINA public hearing, but no petition period.
- The payment source is a bond and interest levy (for districts subject to PTELL, up to the district's DSEB).

Debt Certificates

- May only be issued for capital projects.
- Paid from general operating funds of the district. The district annually budgets amounts to pay the principal and interest on the debt certificates.
- There is no separate bond and interest tax levy for the repayment of debt certificates.
- Subject to statutory (6.9% or 13.8%) debt limits.
- *Neither a public hearing nor a petition period is required.*

Funding Bonds

- Purpose: to pay claims against the district (for example, Debt Certificates).
- Requires BINA public hearing.
- Subject to a petition period. A valid petition signed by at least 10% of the registered voters within the District would require referendum approval in order to issue Funding Bonds.
- Subject to the statutory (6.9% and 13.8%) debt limits, but may be issued in excess of such limits.
- The payment source is a bond and interest levy (for districts subject to PTELL, up to the district's DSEB).

Alternate Revenue Bonds

- May be issued for any corporate purpose
- Secured by two sources of revenues:
  - Designated Pledged Revenues:
- O&M revenues, Educational Fund revenues, CPPRT, State Aid, County School Facility Tax
  - Bond and interest fund levy
- a levy is filed with the County Clerk(s) equal to the total annual debt service payment.
- levy is abated annually as debt is paid with pledged revenues
  - Alternate Bonds generally carry a higher credit rating (than Debt Certificates); have additional security features because of the B&I tax levy back-up.

Alternate Revenue Bonds (cont.)

- Must show Pledged Revenues covering debt service with 1.25 times coverage from an audit or feasibility report.
- No tax increase unless pledged revenues are unavailable.
- Subject to a Petition Period. A valid petition signed by a required number of registered voters (typically 7.5%) within the District would require referendum approval in order to issue the Alternate Bonds.
- Requires BINA public hearing.
- Not subject to the statutory (6.9% or 13.8%) debt limits, unless the bond and interest tax levy is extended.

Park Ridge Niles CCSD 64 Case Study: Five Year Capital Plan

	Summer 2017	Summer 2018	Summer 2019	Summer 2020	Summer 2021	Additional Projects	Total
Construction Projects:							
Priority: B	937,264	635,512	1,572,054	1,329,623	1,117,380		5,591,833
2	1,004,225	5,390,945	948,133	936,842	2,878,228		11,158,373
3	350,658	98,180					448,838
Capital SV	2,231,160	2,352,438	1,621,122	1,624,373	2,206,405		10,035,498
Capital LRC							-
Capital SV R							-
Capital HVAC		1,200,000					1,200,000
Capital SV E							-
Capital SV F							-
Capital SV J							-
Flooring							-
Other*						3,565,458	
Total	4,523,307	9,677,075	4,141,309	3,890,838	6,202,013	3,565,458	32,000,000
Cumulative Total	4,523,307	14,200,382	18,341,691	22,232,529	28,434,542	32,000,000	

* Other could include k-5 auditorium renovations, flooring replacement, Energy Saving initiatives, PA clock system, Future ready classrooms and Jefferson School.

Funding Plan

Cash: The District has utilized $13.75MM of working cash designated for capital projects

Debt Certificates:

- The District issued $9,250,000 of Debt Certificates in Spring of 2017
- Debt certificates are paid from the operating funds-there is no separate tax levy for these bonds and were issued in February of 2017
- The District will realize operational savings from retirements and cost containment resulting in an estimated annual savings in the operating funds – pledging $800,000 to repayment of debt certificates over 15 years

Limited Bonds Paid from Debt Service Extension Base (DSEB):

- In Spring of 2017 the District authorized the issue of $20,750,000 of working cash fund bonds to complete the financing of the capital plan
- The limited bonds will be issued in Spring of 2019 and 2020.
- Each bond issue is under $10M to maintain bank qualification, which affords the District interest rates lower than general market tax-exempt interest rates
- The debt plan also makes use of the $2M accumulated fund balance in the bond and interest fund to pay debt service on currently outstanding bonds in excess of the DSEB and a large amount of the new bonds issued in 2020;
- Accumulated debt service fund balances can ONLY be used to pay debt service

Five Year Capital Plan with Funding Options

	Summer 2017	Summer 2018	Summer 2019	Summer 2020	Summer 2021	Additional Projects	Total
Funding Sources:							
Cash		3,750,383					3,750,383
Debt Certificates	9,250,000	-					9,250,000
Limited Bonds (DSEB)			9,700,000	9,299,617			18,999,617
Total	9,250,000	3,750,383	9,700,000	9,299,617	-		32,000,000
Cumulative Total	9,250,000	13,000,383	22,700,383	32,000,000	32,000,000		
Construction Projects:							
Priority: B	937,264	635,512	1,572,054	1,329,623	1,117,380		5,591,833
2	1,004,225	5,390,945	948,133	936,842	2,878,228		11,158,373
3	350,658	98,180					448,838
Capital SV	2,231,160	2,352,438	1,621,122	1,624,373	2,206,405		10,035,498
Capital LRC							-
Capital SV R							-
Capital HVAC		1,200,000					1,200,000
Capital SV E							-
Capital SV F							-
Capital SV J							-
Flooring							-
Other*						3,565,458	
Total	4,523,307	9,677,075	4,141,309	3,890,838	6,202,013	3,565,458	32,000,000
Cumulative Total	4,523,307	14,200,382	18,341,691	22,232,529	28,434,542	32,000,000	

Discussion

- Debt Certificates fit within operating fund cash flow projection; budget $785,000 annually
- Debt Certificates paid off over 15 years
- District fund balance adequate to afford $13.7M cash contribution to Capital Plan ($10M in 2016 and $3.75M in 2018)
- DSEB Bonds not issued until necessary
- DSEB Bonds repaid over 10-12 years Limited Bonds leave "room" in the DSEB for additional capital projects in 2024 without refunding or restructuring debt which under the Tax Reform Act would need to be issued on a taxable basis
- Bonds are bank qualified resulting in lower interest rates than non-bank qualified bonds

Series 2017 Debt Certificates

Fiscal Year	Series 2017 Debt Certificates
06/30/18	786,631.81
06/30/19	786,925.00
06/30/20	788,325.00
06/30/21	783,925.00
06/30/22	783,925.00
06/30/23	783,325.00
06/30/24	786,925.00
06/30/25	784,525.00
06/30/26	786,325.00
06/30/27	787,125.00
06/30/28	784,800.00
06/30/29	784,000.00
06/30/30	787,200.00
06/30/31	784,200.00
06/30/32	785,200.00
	11,783,356.81

Proceeds from Debt Certificates	$9,250,000
All In True Interest Cost	3.15%

Limited Bonds (DSEB): $9.7M Series 2019 and $9.3M Series 2020

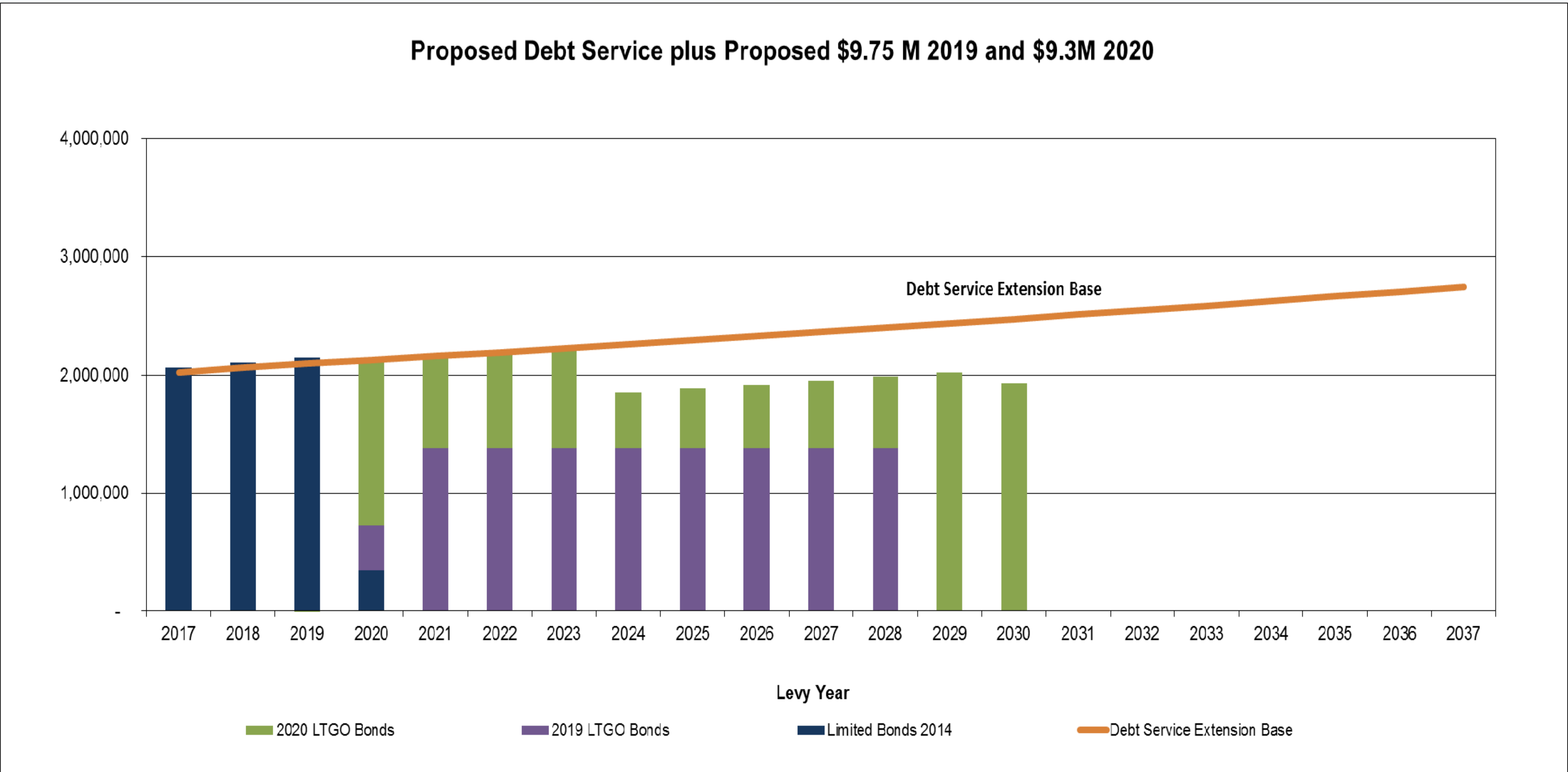
Tax Year	Equalized Assessed Valuation**	% Change	Debt Service Ext. Base **	(CPI) DSEB % Change	Current Non-Ref Debt Service	2019 Financing: PLUS 2019 DSEB New Money Debt Service*	2019 Financing: LESS Funds on Hand in DS	2020 Financing: PLUS 2020 DSEB New Money Debt Service*	2020 Financing: LESS Funds on Hand in DS	Projected DSEB Debt Service	Remaining DSEB Capacity	Referendum Debt Service	Projected Debt Service	Projected Debt Service Tax Rate
2017	1,638,658,393	0.00%	2,023,300	2.10%	2,063,800					2,063,800	(40,500)	-	2,063,800	0.126
2018	1,638,658,393	0.00%	2,065,789	2.10%	2,105,600	279,000	(279,000)			2,105,600	(39,811)	-	2,105,600	0.128
2019	1,638,658,393	0.00%	2,096,776	1.50%	2,147,800	372,000	(372,000)	1,294,950	(1,349,000)	2,093,750	3,026	-	2,093,750	0.128
2020	1,638,658,393	0.00%	2,128,228	1.50%	350,200	372,000		1,405,800		2,128,000	228	-	2,128,000	0.130
2021	1,638,658,393	0.00%	2,160,151	1.50%	-	1,382,000		777,600		2,159,600	551	-	2,159,600	0.132
2022	1,638,658,393	0.00%	2,192,553	1.50%	-	1,381,600		807,800		2,189,400	3,153	-	2,189,400	0.134
2023	1,638,658,393	0.00%	2,225,442	1.50%	-	1,379,600		841,000		2,220,600	4,842	-	2,220,600	0.136
2024	1,638,658,393	0.00%	2,258,823	1.50%	-	1,381,000		467,000		1,848,000	410,823	-	1,848,000	0.113
2025	1,638,658,393	0.00%	2,292,706	1.50%	-	1,380,600		502,000		1,882,600	410,106	-	1,882,600	0.115
2026	1,638,658,393	0.00%	2,327,096	1.50%	-	1,383,400		530,200		1,913,600	413,496	-	1,913,600	0.117
2027	1,638,658,393	0.00%	2,362,003	1.50%	-	1,379,200		571,800		1,951,000	411,003	-	1,951,000	0.119
2028	1,638,658,393	0.00%	2,397,433	1.50%	-	1,383,200		601,200		1,984,400	413,033	-	1,984,400	0.121
2029	1,638,658,393	0.00%	2,433,394	1.50%	-			2,018,800		2,018,800	414,594	-	2,018,800	0.123
2030	1,638,658,393	0.00%	2,469,895	1.50%	-			1,924,000		1,924,000	545,895	-	1,924,000	0.117
2031	1,638,658,393	0.00%	2,506,943	1.50%	-					-	2,506,943	-	-	0.000
2032	1,638,658,393	0.00%	2,544,548	1.50%	-					-	2,544,548	-	-	0.000
2033	1,638,658,393	0.00%	2,582,716	1.50%	-					-	2,582,716	-	-	0.000
2034	1,638,658,393	0.00%	2,621,457	1.50%	-					-	2,621,457	-	-	0.000
2035	1,638,658,393	0.00%	2,660,778	1.50%	-					-	2,660,778	-	-	0.00
2036	1,638,658,393	0.00%	2,700,690	1.50%	-					-	2,700,690	-	-	0.00
2037	1,638,658,393	0.00%	2,741,200	1.50%	-					-	2,741,200	-	-	0.00
					$ 6,667,400	$ 12,073,600	$ (651,000)	$ 11,742,150	$ (1,349,000)	$ 28,483,150		$ -	$ 28,483,150	

	2019 Financing	2020 Financing
Bond Proceeds	**$9,700,000**	**$9,300,000**
All -In True Interest Cost as of January 17, 2018	**3.33%**	**3.75%**
Total Funds on Hand in Debt Service Fund		**(2,000,000)**

*Rates used are based on current MMD rates with market spreads for similar rated transactions, plus 0.50% cushion for Series 2019 and 0.75% for Series 2020.

**Uses District EAV and CPI Assumptions as of January 2018.

Limited Bonds (DSEB): $9.7M Series 2019 and $9.3M Series 2020



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Timing Considerations For the Bond Sale

- For longer construction projects, it may be more advantageous to issue bonds in stages.
- Referendum approved bonds may be issued over a 5 year period
- In order to designate the Bonds as Bank-Qualified, the district cannot issue more than $10M of tax-exempt debt in a calendar year.
- Issuers of tax-exempt bonds must expect to spend sale and investment proceeds as follows:
    - *Expenditure Test—85% within 3 years*
    - *Time Test—5% within 6 months*
    - *Due Diligence Test*
  - Based on reasonable expectations at the time of issuance
  - This establishes a 3-Year Temporary Period

After the Bonds are Issued

- Monitoring of Construction Projects
- Investment of Bond Proceeds
  - Arbitrage Rebate: Anything above bond yield gets paid to the US Treasury, unless you meet one or more exceptions
  - After 3 years from the closing date (upon expiration of the Temporary Period), tax-exempt bond proceeds:
    - must be yield restricted
    - may not be invested in investments guaranteed by the federal government (such as FDIC-insured CDs).
    - Exception: may invest in U.S. Treasury Securities

Questions and Answers

We thank you for your time!

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