Issues Impacting Financings in the Current Market

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2022 ANNUAL CONFERENCE
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Introductions

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Overview

- Bond Market Conditions
- Refunding Basics
- Valuing Potential Refundings and Alternatives
- Forward Settlement Current Refundings
- Leveraging ESSER Funds
- Short-Term Borrowing Alternatives
- Recent SEC Municipal Enforcement Actions

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BOND MARKET CONDITIONS

The MMD "AAA" Index

- The Municipal Market Data (MMD) Index is a daily index of AAA-rated municipal bond rates
- Issuers' bond yields are priced relative to the MMD
  - The relative difference is called the "spread" to the MMD
  - The spread varies due to the following:
    - Credit rating
    - Bank qualification
    - Length of maturity
    - Coupon or interest rates

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Variables that Impact the Municipal Bond Market

FED Reserve Policy
Fed Funds Rate

Global Political Events -
Ukraine

Inflation Expectations

Health of National, State and
Local Economies

State of Illinois Political
Challenges

Bank Qualification

Municipal Bond
Supply and
Demand

Europe

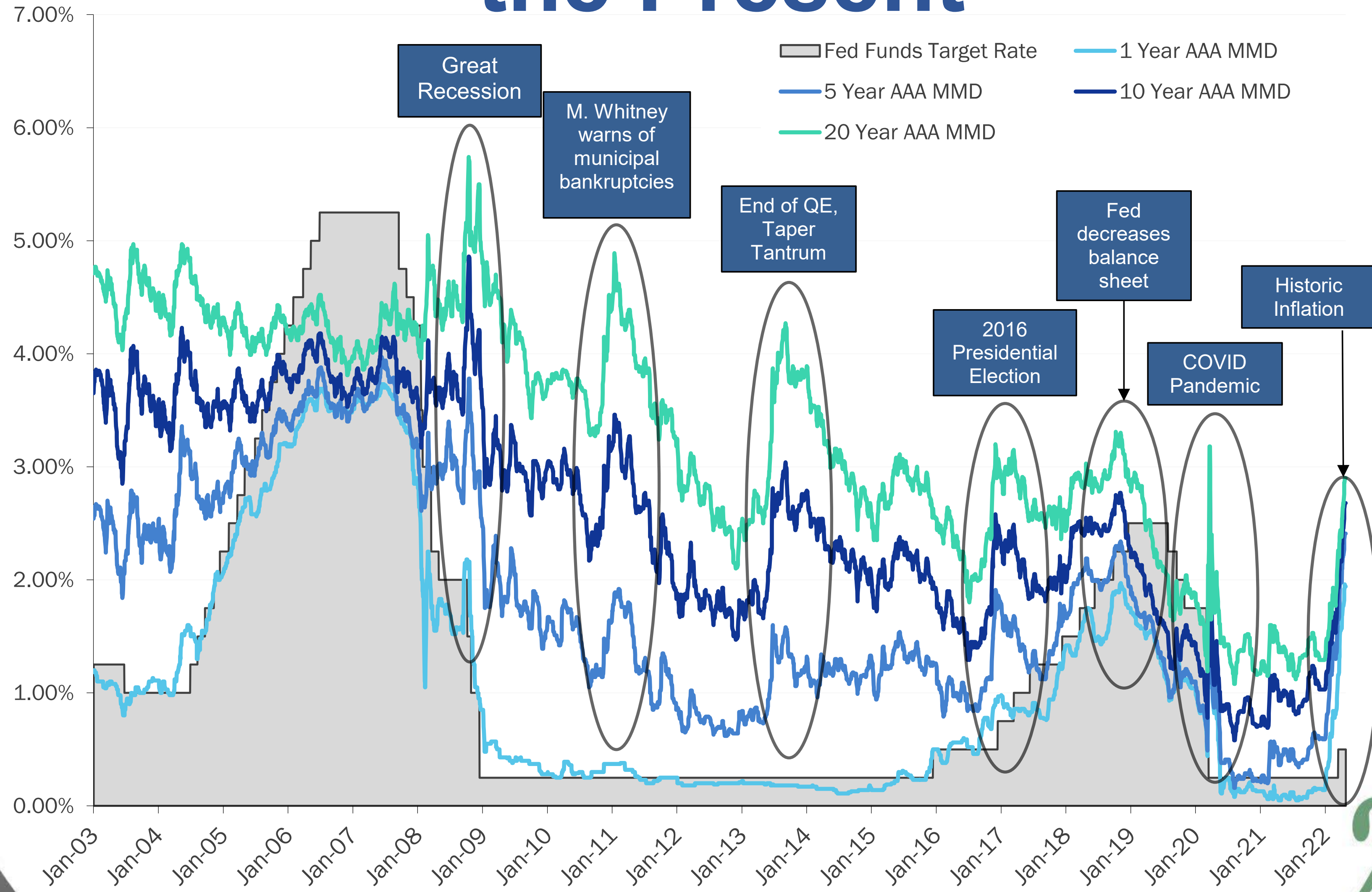
Chicago's Fiscal Challenges
– Pension Issues

Municipal
Bankruptcies
(e.g. Detroit, Puerto
Rico)

Credit Ratings of State
and Local Governments

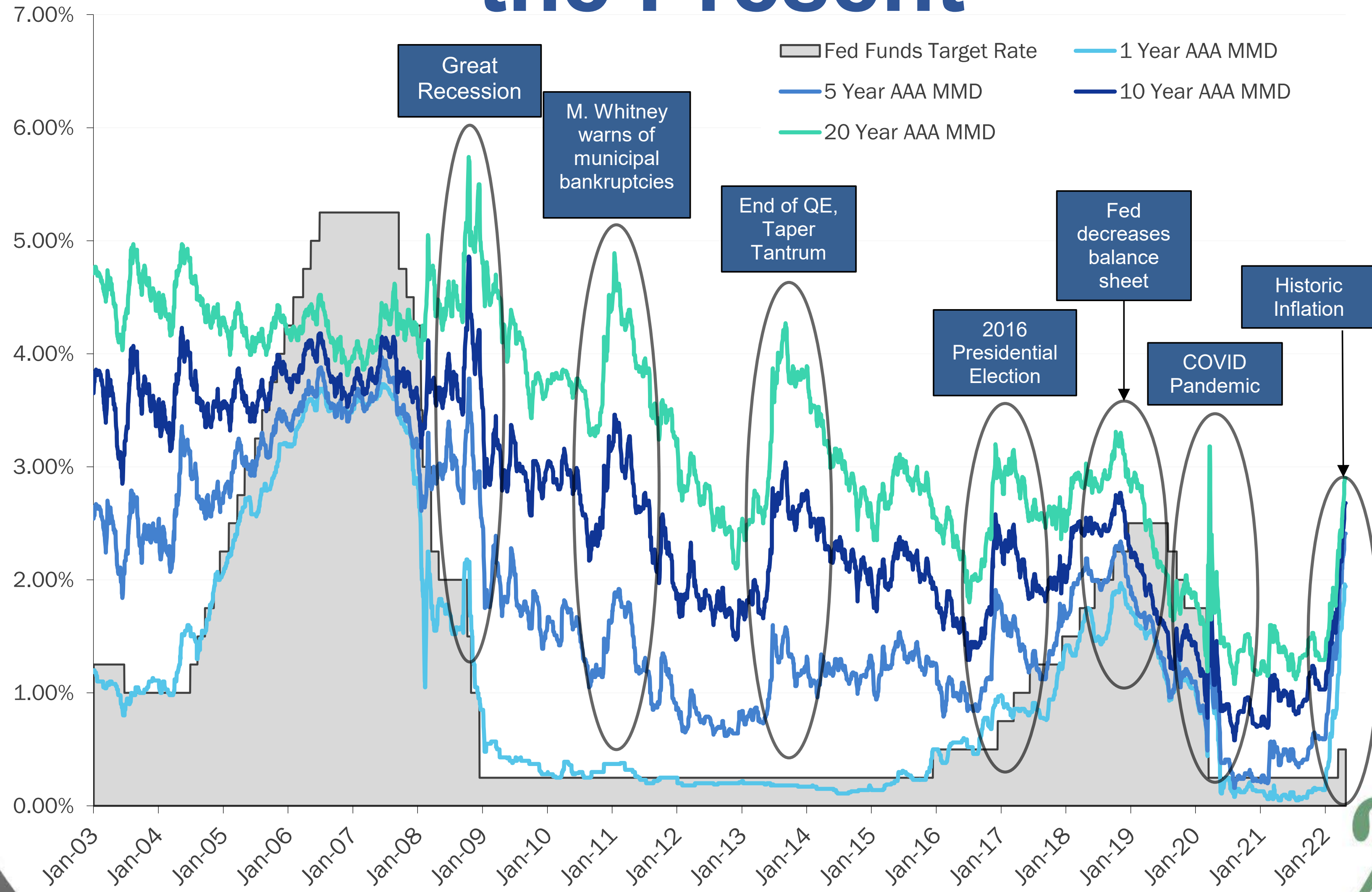
Level of Federal and
State Income Taxes

Historical MMD January 2003 to the Present



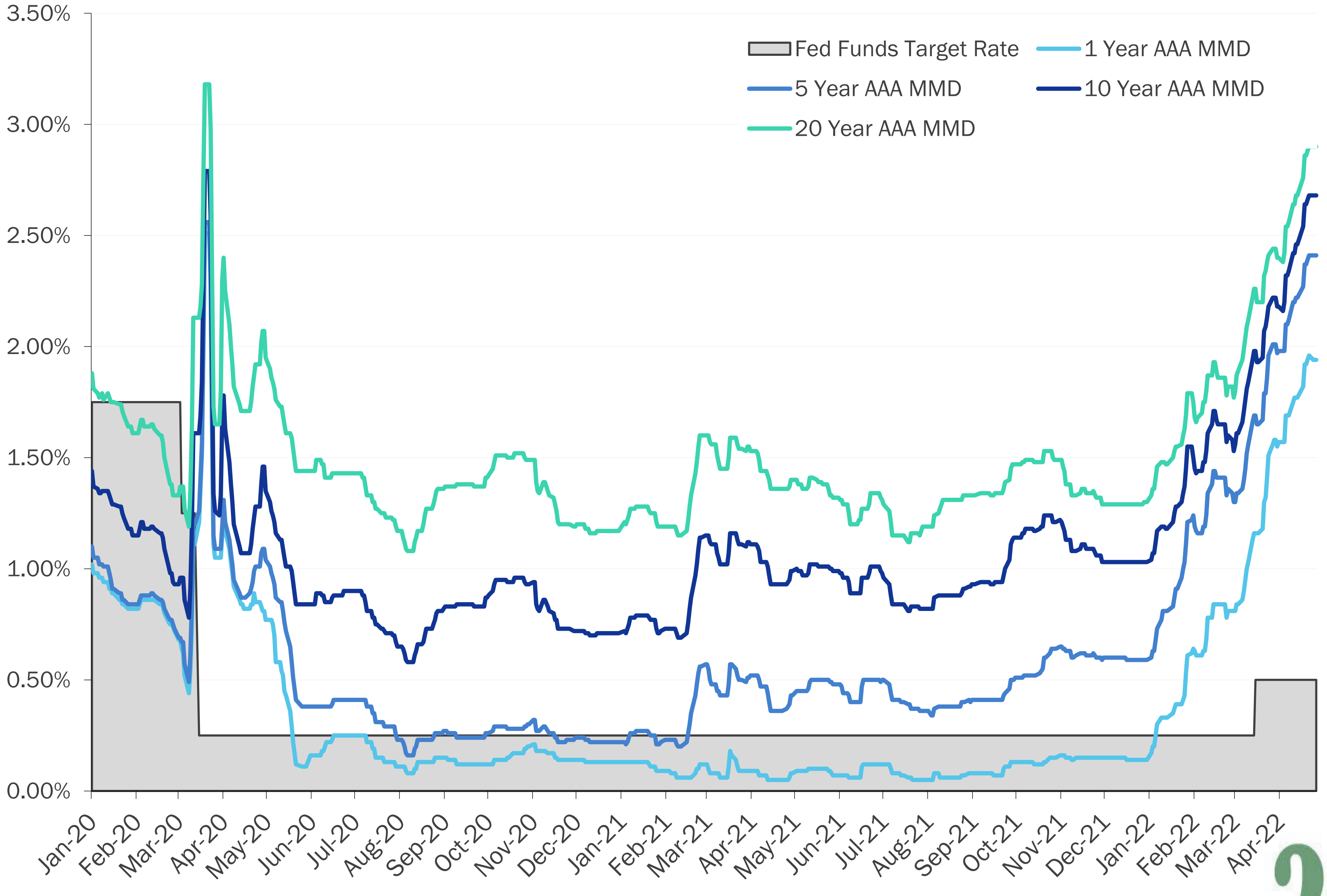
Municipal Market Data as of April 28, 2022

Historical MMD January 2003 to the Present



Municipal Market Data as of April 28, 2022

Current 10-Year MMD



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REFUNDING BASICS

State Law Authorization

- Refunding Bonds are authorized under Section 19-15 of the School Code
- Refunding Bonds may be issued to pay outstanding bonds in order to:
  - Realize interest savings
  - Restructure debt burden
    - State law: max term of refunding bonds is 20 years
    - Tax law: if refunding bonds are tax-exempt, average life of refunding bonds cannot exceed 120% of useful life of asset financed (or refinanced) with refunded bonds
- Tax levies for Refunded Bonds must be abated
- No BINA Hearing required
- No 30-day Petition Period required

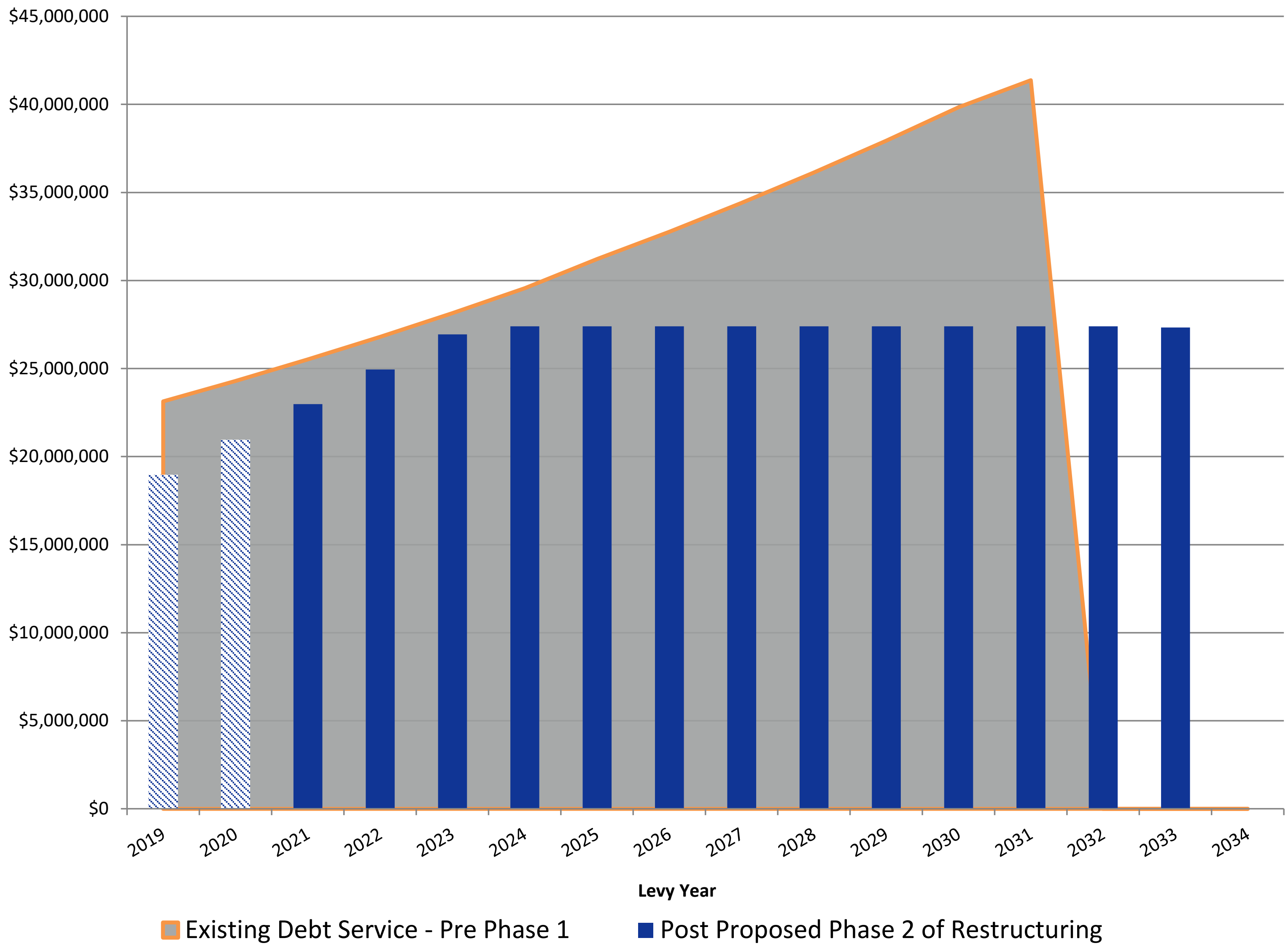
Basic Types of Refundings

- The call date is the date at which the issuer can payoff its bond issue
- Advance refunding
  - Refunding bond issue that closes 91 or more days in advance of the call date
  - Refunding proceeds invested in an escrow until the call date
  - **AT THIS TIME, THE U.S. TAX CODE DOES NOT ALLOW FOR ONE TAX-EXEMPT ADVANCE REFUNDING IN THE "LIFE" OF A BOND ISSUE**
- Current refunding
  - Current refunding bonds need to close within 90 days of the call date
  - At this time, U.S. tax code allows for multiple current refundings

How Refunding Bonds Might Help A School District

- B&I levies (for each bond) are set at the time the bond is sold and are filed with the county clerk(s) prior to closing
- Refundings allow the issuer to change B&I levies:
  - Lower interest rates may allow savings from a refinancing (new, lower B&I levies replace existing B&I levies)
  - Restructure existing debt service levies based on lower EAV projections for a targeted tax rate over time (lower B&I levies in the short term)
  - Restructure to accommodate a new money financing to meet an actual constraint (*e.g.* DSEB) or self-imposed (B&I levy objective)
  - A combination that captures savings and restructures debt service with a targeted tax levy

EXAMPLE:
Restructure existing debt service levies based on lower EAV



EXAMPLE:
Restructure existing debt service levies based on lower EAV

		Existing Debt Structure		Public Offering Two Year Ext (1/18/22)			Final Structure		
					$300,000 Home			$300,000 Home	
Levy Year	Fiscal Year	Current Debt Service Levy	B&I Tax Bill Before Restruct.	Estimated Levy Change [Phase 2 Only]	B&I Tax Bill	Change in B&I Tax Bill	Estimated Levy Change [Phase 2 Only]	B&I Tax Bill	Change in B&I Tax Bill
2020	2022	$ 20,948,875	$ 484	$ -	$ 484	$ -	$ -	$ 484	$ -
2021	2023	25,776,475	590	(2,800,000)	526	(64)	(2,800,000)	526	(64)
2022	2024	27,056,475	614	(2,106,175)	567	(48)	(2,107,443)	567	(48)
2023	2025	28,411,475	640	(1,466,175)	607	(33)	(1,465,515)	607	(33)
2024	2026	29,821,475	666	(1,976,175)	622	(44)	(2,425,379)	612	(54)
2025	2027	31,471,475	696	(3,726,175)	614	(82)	(4,074,051)	606	(90)
2026	2028	33,031,475	725	(5,283,575)	609	(116)	(5,636,203)	601	(124)
2027	2029	34,671,475	754	(6,922,325)	604	(151)	(7,275,339)	596	(158)
2028	2030	36,391,475	785	(8,642,575)	598	(186)	(8,994,435)	591	(194)
2029	2031	38,197,725	816	(10,451,825)	593	(223)	(10,798,949)	586	(231)
2030	2032	40,097,725	850	(12,348,325)	588	(262)	(12,701,541)	580	(269)
2031	2033	41,630,725	874	(13,884,325)	583	(292)	(14,235,229)	575	(299)
2032	2034	6,734,000	140	21,015,200	578	437	20,661,920	570	430
2033	2035	-	-	27,632,800	570	570	27,332,736	564	564
2034	2036	-	-	-	-	-	-	-	-
		$ 394,240,850	Increase / (Decrease)	$ (20,959,650)		$ (493)	$ (24,519,428)		$ (570)
Present Value Savings ($) @2%:				**$ (21,556,809)**		**$ (499)**	**$ (24,581,191)**		**$ (564)**

(1) Actual B&I tax rates and B&I payments may vary based on EAV growth rates, composition of EAV growth, actual reassessment rates, State Law changes, property tax rate initiatives and other factors. Assumes 3.0% EAV growth each year.
(2) Taxpayer analysis assumes the value of a $300,000 home in Levy Year 2020 is reassessed at 2.0% each year, accounting for 1.0% new property growth.
(3) Rates provided by Raymond James based upon market conditions as of January 13, 2022. The PO was re-un to eliminate reimbursement of the abatement.

VALUING POTENTIAL REFUNDINGS & ALTERNATIVES

Valuing Potential Refundings

- Traditionally, the value is measured by the minimum PV savings as a percent of the refunded bonds par amount
- Effectiveness of minimum PV savings % as a measuring tool depends upon other factors
  - Time to the call date (is it already a current refunding?)
  - Current interest rates relative to historical interest rates and interest rate expectations
  - Shape of the yield curve which impacts the cost of the escrow
  - Impact of tax law
- Some practitioners recommend that PV savings should at least exceed the inefficiency of the escrow
- Complex call option valuation model to compute a refunding efficiency percentage which is not as useful with the tax law change

Valuing Potential Refundings
(cont'd.)

- It is not necessary to refund all the callable bonds
  - Bonds closer to the call sometimes save little or not at all
  - Identify the relative value versus the current yield curve (i.e. where does bank qualification provide the most value)
- Lastly, a refunding should consider future borrowing plans
  - If the district has potential new money plans in the next few years, it may want to consider a restructuring of outstanding bonds to minimize the impact of the new money issue
  - If the bonds are refunded today for cash flow savings, the cost of the restructuring may increase eliminating the savings
    - Due to lengthening of the issue
    - Eligibility for tax-exempt refunding not available
    - If your finance team recommends a taxable refunding make sure they explain why it is taxable and how does that benefit the District

Transactions to Replace Advance Refundings

1. **Wait for Current Refunding**
2. **Forward Settlement Current Refunding**
3. Taxable Advance Refunding
4. Secondary Market Purchase Refunding
5. Cinderella Bonds (Taxable Convertible Bonds)
6. Derivative Products (forward starting swaps and swaptions)

Waiting for Current Refunding

- Bond maturity shortens for better yield
- Negative escrow arbitrage eliminated
- Risk of interest rate increase exists
- Delayed savings until bond issuance

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Forward Settlement Current Refundings

- Bonds are priced based on current market rates
- Bonds are not issued until a future date (the same being within 90 days of the call date of the refunded bonds)
- Investor/purchaser of the Bonds guarantees a rate for the Bonds; investor/purchaser typically charges a yield premium due to the illiquidity of the investment (prior to closing)
- Issuer is able to lock in savings
- There are two closings: one shortly after the sale date and the other on the actual date of delivery. (The "two closings" approach is necessary to confirm no change in law or facts since pricing that would make delivery of the bonds impossible.)

Forward Settlement Current Refundings (cont'd)

- Valuing Forward Settlement Current Refundings Opportunities
- Special Legal Considerations
  - Typically, the school district will be required to execute a rate lock agreement
  - School districts with at least $10 million of outstanding debt may execute a rate lock agreement
  - A rate lock agreement is hedging agreement. It provides that, at the expected forward delivery date, if the bonds are not issued *and* interest rates are lower at that time than today, the district will need to make a payment to the bank. (If interest rates are higher at that time, no payment is required.)
  - District officials should carefully review the terms of the proposed rate lock agreement

LEVERAGING ESSER FUNDS

ESSER Funds and Borrowing

- ESSER funds disbursed by State reimbursement
- District must make expenditures with funds on hand
- Funds on hand could be raised by debt issuance
- ESSER funds may also be used to supplement or expand scope of ESSER-eligible capital projects financed by debt issuance

ESSER and Legislation

- Purchase or construction of a new building to be used for instructional purposes requires referendum (generally)
- Collinsville 10

  Notwithstanding the provisions of subsection (a), for any school district: (i) that is a tier 1 school, (ii) that has a population of less than 50,000 inhabitants, (iii) whose student population is between 5,800 and 6,300, (iv) in which 57% to 62% of students are low-income, and (v) whose average district spending is between $10,000 to $12,000 per pupil, until July 1, 2025, no referendum shall be required if at least 70% of the cost of the purchase, construction, or building of any such building is paid, or will be paid, with funds received or expected to be received as part of, or otherwise derived from, the federal Consolidated Appropriations Act and the federal American Rescue Plan Act of 2021. *105 ILCS 5/10-22.36(b); Public Act 102-16, effective June 17, 2021*.

- Decatur 61
- Notwithstanding any of the foregoing, for Decatur School District Number 61, no referendum shall be required if at least 50% of the cost of the purchase, construction, or building of any such building is paid, or will be paid, with funds received or expected to be received as part of, or otherwise derived from, any COVID-19 pandemic relief program or funding source, including, but not limited to, Elementary and Secondary School Emergency Relief Fund grant proceeds. *105 ILCS 5/10-22.36(a); Public Act 102-0699, effective April 19, 2022*.

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SHORT-TERM BORROWING ALTERNATIVES

“Cook County property tax bills will likely be 6 months late. Whose fault is that? Assessor Fritz Kaegi and the chair of the Board of Review trade charges on a developing big mess for local governments.”

- Crain’s Chicago Business
- March 30, 2022

Options other than External Borrowings

1) Interfund loans
2) Use of Working Cash Fund
3) Interfund Transfers
4) Transfer of Interest Earnings

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Interfund Loans

- School Code Section 10-22.33
- From Ed to O&M, Transportation or Life Safety
- From O&M to Ed, Transportation or Life Safety
- From Transportation to Ed, O&M or Life Safety
- Must be repaid within three years

Use of Working Cash Fund

- Working Cash Fund Loans
  - By Board resolution
  - In anticipation of property taxes, CPPRT or State Aid
  - Up to 85% of amount extended or to be received
  - Repaid upon receipt of the property taxes, CPPRT or State Aid

Use of Working Cash Fund (cont'd)

- Working Cash Fund Abatements
  - By Board resolution
  - To the Fund "most in need"
  - A permanent transfer
  - Remaining balance in the WCF must be at least equal to $.05 of current Equalized Assessed Valuation
- Working Cash Fund Abolishment
  - To the Ed Fund
  - At June 30
  - Can re-create the next fiscal year

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Interfund Transfers

- School Code Section 17-2A
- A permanent transfer among the Ed, O&M and Transportation funds; and from Tort Immunity to O&M
- by Board resolution, after a Public hearing
  - 7-30 days published notice in newspaper of general circulation
  - 48 hour posted notice at principal office of the School Board
  - Set forth date, time, place and subject matter of the hearing
- Under current law, after June 30, 2024, transfers may only be for one-time, non-recurring expenditures

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Transfers of Interest Earnings

- Section 9(c) of the Local Government Debt Reform Act and Section 10-22.44 of the School Code
- By Board authorization to fund most in need of the interest
- Does not apply to:
  - Interest that has been earmarked or restricted by the School Board for a designated purpose
  - Interest on IMRF, Tort Immunity, Life Safety or Social Security Fund investments
  - Interest on tort immunity levy, tort immunity bonds or debt service levy to pay tort immunity bonds

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Short-Term Cash Flow Borrowing Alternatives

1) Tax Anticipation Warrants – most frequently used
2) Lines of Credit

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Tax Anticipation Warrants

- School Code Section 17-16
- Issued in anticipation of taxes levied but not yet collected, for a specific fund
- State Law Formula determines the maximum borrowing amount

Lesser of : (a) Equalized Assessed Valuation x Fund's Maximum Tax Rate or

(b) Actual amount levied for Fund

(taxes received to date)

x 85%

(Outstanding TAWs)

(Cash in WCF)

($ loaned to fund from WCF)

Authorized Issue Size

- At closing, the district receives the TAW proceeds and interest begins to accrue
- Paid from anticipated taxes when collected, but a fixed maturity date is permissible (and typical)

Lines of Credit

- School Code Section 17-17
- "In lieu of issuing tax anticipation warrants…"
- Authorizes issuance of "notes, bonds or other obligations" (and in connection with that issuance establish a line of credit)
- Maximum borrowing amount is determined by TAW statutory formula
- Interest accrues on amounts advanced, from the date advanced
- Must be repaid from property tax revenue within 60 days of receipt
- Only an option if a financial institution is the lender

RECENT SEC MUNICIPAL ENFORCEMENT ACTIONS

Primary Market Disclosure

- The official statement is a document prepared by, or on behalf of, the school district in connection with a primary offering of its bonds.
- The official statement discloses all material information on the offering for potential investors.

Recent SEC Municipal Enforcement Actions

- Sweetwater Union High School District

  Chula Vista, California (September 16, 2021)

  - The SEC charged the District and its former Chief Financial Officer with making material misstatements and omissions in connection with the District's April 2018 $28 million bond issue.
  - The alleged material misstatements and omissions related to the District's fiscal year 2018 budget projections.
  - According to the SEC, the District's fiscal year 2018 budget, which was included in materials provided to investors, the rating agency and others involved in the Bond transaction, failed to accurately account for an approved 3.75% salary increase for its employees and instead anticipated a less than 1% increase in salaries based on year-end estimates for the prior fiscal year.
  - The adopted fiscal year 2018 budget further projected that the District would end the year with an operating surplus and a positive general fund balance of over $22.2 million. The District actually ended fiscal year 2018 with a negative general fund balance of $7.2 million based on total deficit spending of approximately $28.7 million.
  - The SEC further alleged that although mid-year budget monitoring reports showed that the District's actual expenses were trending significantly higher than its budgeted projections, the District made no effort to bring its budget into line with actual expenses and continued to use misleading budget projections.
  - Without admitting or denying the allegations in the complaint, the District agreed to settle with the SEC and consented to the entry of an SEC order finding that it violated Sections 17(a)(2) and 17(a)(3) of the Act and agreed to engage an independent consultant to evaluate its policies and procedures related to its municipal securities disclosures.
  - The former CFO agreed to settle with the SEC, without admitting or denying the allegations in the complaint, and consented to the entry of an SEC order enjoining her from participating in any future municipal securities offerings. The former CFO also agreed to pay a $28,000 penalty.

Recent SEC Municipal Enforcement Actions(cont'd)

- Crosby Independent School District
  Crosby, Texas (March 16, 2022)
  - The SEC charged the District and its former Chief Financial Officer with misleading investors in the sale of $20 million of municipal bonds in January 2018 in order to fund capital projects.
  - The SEC alleged that the District failed to report $11.7 million in payroll and construction liabilities and falsely reported having $5.4 million in general fund reserves in its audited 2017 fiscal year financial statements.
  - In August of 2018, seven months after the offering, the District disclosed that it was experiencing significant financial issues, including that it had a negative general fund balance. The following month, ratings agencies downgraded the District's bonds.
  - The District agreed to settle the SEC's charges by consenting, without admitting or denying any findings, to the entry of an order finding that it violated the antifraud provisions. Without admitting or denying the allegations in the complaint, the CFO agreed to pay a $30,000 penalty and not participate in any future municipal securities offerings.

General Principles Re: Disclosure

- All participants in the disclosure process should be encouraged to raise additional potential disclosure items at all times in the process
- Disclosure questions should be discussed with appropriate management team members
- The process of revising and updating disclosure should not be viewed as a mechanical insertion of more current numbers. While it is not anticipated that there necessarily will be major changes in the form and content of the disclosure at the time of each update, everyone involved in the process should consider the need for revisions in the form and content of the sections for which they are responsible at the time of each update.

Questions and Answers

We thank you for your time!

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