

ICCCFO Spring Conference

Borrowing Alternatives for Community Colleges

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Review: What are municipal bonds?

- A debt security issued by a Community College District to finance its capital expenditures or operations or for other authorized purposes
- Community College Bonds may be issued to:
 - Finance Capital Projects: purchase and build new buildings, renovate, improve and equip existing buildings, purchase equipment
 - Finance Operating Expenses
 - Refinance existing debt for savings or restructuring

How Much Can I Borrow?

- **Debt Limit**

- 2.875% of District's Equalized Assessed Valuation (EAV)
- Subtract outstanding Referendum Bonds, Non-Referendum (Limited) Bonds, Installment Contracts and Debt Certificates to arrive at debt limit margin
- Alternate Bonds do not count against the debt limit, unless taxes are extended to pay them

- Borrowings may include funds to pay costs of issuance and certain capitalized interest

Financing Capitalized Interest

- Sometimes possible to include interest due on the bonds in the principal amount borrowed
- Funds may be borrowed to finance capitalized interest for a period not to exceed the greater of:
 - (i) two years or
 - (ii) a period ending six months after the estimated date* of:
 - (a) completion of the acquisition and construction of the project or
 - (b) accomplishment of the purpose for which the bonds were issued.

*reasonable expectation as of the date of issuance

How Can the Community College Borrow Money?

Long-Term v. Short-Term Borrowing Options

- Long-Term Options:
 - Building Bonds
 - Funding Bonds
 - Protection, Health and Safety Bonds
 - Installment Contract and Lease/Debt Certificates
 - Alternate Bonds
 - Refunding Bonds
- Tax Anticipation Warrants
- Working Cash Fund Bonds
- Short-Term Options

Long-Term Borrowing Options

	Working Cash Fund Bonds	Debt / Lease Certificates	Funding Bonds	Building Bonds	Alternate Revenue Bonds
Repaid from Separate Levy	Yes	No	Yes	Yes	Yes (as backup)
Issued under DSEB	Yes	No	Yes	No	No
Voter Approval Required	No	No	No	Yes	No
Subject to Backdoor Referendum	No	No	Yes	No	Yes
BINA Hearing	Yes	No	Yes	No	Yes
Max Final Payment (yrs)	20	20	20	20	40
Count Toward Debt Limit	Yes*	Yes	Yes*	Yes	No

** Bonds can be issued in excess of the debt limit at the time of closing but no other bonds may be issued until the total debt falls below the debt limit*

Full Faith and Credit General Obligation Bonds

- Payable from a separate property tax levy unlimited as to rate or amount
- Provides the best security for investors
- Examples:
 - Building Bonds
 - Funding Bonds (voted if tax capped)

Referendum Bonds

- Public question posed to the registered voters of the district as to whether the bonds should be issued
 - Majority vote is necessary to authorize the bonds
- Timeline
 - Substantial length of time needed to pass a referendum
 - Election Code requires action several months before election
 - Must wait for expiration of election contest period before issuing bonds
- Ballot language limits use of bond funds

Non-Referendum Limited Bonds

- For tax-capped districts, payable from a separate property tax levy unlimited as to rate but limited as to amount
- Amount of levy is limited to the “debt service extension base”
- Examples:
 - Working Cash Fund Bonds
 - Funding Bonds

A Popular Option: Debt Certificates to Funding Bonds

- **Debt Certificates:** issued to evidence the payment obligation of a district under an installment contract or lease
 - 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
 - Expectation of annual appropriation to pay principal and interest
 - Count against debt limit
 - Payment period cannot exceed 20 years
 - No direct referendum, backdoor referendum or public hearing required

A Popular Option: Debt Certificates to Funding Bonds (cont'd)

- **Funding Bonds:** issued to pay a claim against the district - Examples of possible claims: Teachers' Orders, ERO, contracted services, leases, installment contracts, Alternate Bonds, Debt Certificates
 - Authorized by Section 3A-6 of the Public Community College Act
 - 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
 - May be issued in excess of debt limit but count against debt limit once issued
 - The payment source is a bond and interest levy (for districts subject to PTELL, up to the district's DSEB)

Debt Certificates/Funding Bonds

- District issues debt certificates to finance capital projects. Debt certificates are structured with an early redemption provision so that they can be paid off with the proceeds of funding bonds at any time.
- After Debt Certificates are issued, a district will begin the proceedings for the funding bonds, which include a petition period and a public hearing.
- Funding bonds are issued to pay off the Debt Certificates in full. Levies are filed with the County Clerk(s).
- If funding bonds are not issued then Debt Certificates must be paid.

Alternate Revenue Bonds

- May be issued for capital projects or for operating expenses
- Secured by two sources of revenues:
 - Designated Pledged Revenues
 - Pledged revenues have to be used first for debt service
 - 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

- 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 30-day 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 debt limit, unless the bond and interest tax levy is extended.

Refunding Bonds

- Issued to refinance outstanding debt, either for savings or to restructure current debt service payments.
- Refunding bonds do not require a new petition period, BINA Hearing or voter approval.
- Refunding bonds replace refunded bonds and count against debt limit in the same manner as the refunded bonds.
- Refunding bonds are secured by same repayment pledge as refunded bonds.

DSEB Example

<u>Bonds Issued</u>	<u>1994 Levy</u>	<u>1995 Extension</u>	<u>Does This Count Toward DSEB?</u>
1989 Referendum Bonds	\$540,340	\$545,743	No Because it was a referendum bond
1991 Alternate Revenue	944,079	0	No Levy was abated
1990 G.O. Bonds	360,330	363,933	Yes Because it was a non-referendum Bond
1991 G.O. Bonds	<u>172,270</u>	<u>173,993</u>	Yes Because it was a non-referendum Bond
<i>Counts toward DSEB</i>	<i>\$532,600</i>	<i>\$537,926</i>	

YOUR DSEB WOULD BE \$532,600

What is a Petition Period?

- Sometimes called a “Backdoor Referendum”
- Adopt a resolution setting forth the District’s intent to issue working cash fund bonds, funding bonds or alternate bonds
- Publish the notice of intent to issue the bonds in a newspaper of general circulation within the District
 - Publication commences the “Petition Period”
 - 30 day period during which a petition containing the requisite number of voter signatures may be submitted to the Secretary of the Board to request a referendum on issuing the bonds
- Secretary is required to provide a petition form to anyone requesting one.
- If a petition is signed by the requisite number of voters, the District may challenge the petition, opt not to proceed with the issuance or proceed to referendum
- If no petition is filed, or there are not enough valid signatures, the District can proceed with the issuance of the bonds (after BINA hearing)

What is a BINA Public Hearing?

- Applicable to non-referendum bonds and alternate bonds other than refundings
- Hearing can be called by the Chairperson alone or by resolution of the Board of Trustees
- Notice of hearing published in a local newspaper 7-30 days before hearing
- Notice of hearing posted 48 hours before hearing
 - Must be continuously available for public review during the entire 48-hour period preceding the meeting
 - Posting on the District's website satisfies this requirement
- Hearing held at least 7 days before bond sale
- Advisory only

Who Can Assist the College with Issuing Bonds?

- Municipal Advisor
- Underwriter
- Lawyers: Bond Counsel, Disclosure Counsel, Underwriter's Counsel, Issuer's Counsel
- Bond Registrar/Paying Agent/Escrow Agent
- Rating Agencies
- Municipal Bond Insurers

Questions?

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