# Community Consolidated School District 15
# $27M Bond Authorization
# Question & Answer
# March 18, 2010

1. THE STATEMENT THAT THE DISTRICT WILL ISSUE $27M BONDS REPAID OVER 20 YEARS FOR DEFICIT SPENDING HAS BEEN MADE BY BOARD MEMBERS AND THE NEWSPAPER—IS THIS TRUE?

Administration Response: No, the option discussed with the Board of Education at the March 10 meeting was to issue $10M for the purpose of increasing the working cash fund balance; not to deficit spend. $15.9M of the bond issue is dedicated for capital projects.

Counterpoint: The actual language of the resolution to issue bonds states the district will issue bonds “of $27,000,000 for the purpose of increasing the Working Cash Fund” to enable “the District to have in its treasury at all time sufficient money to meet demands thereon for ordinary and necessary expenditures…” **There is no restriction to using these working cash bonds for capital projects.** On March 10, 2010, the administration gave financial projections that showed deficit spending for the next several years:

| **Year** | **2010-2011** | **2011-2012** |
|---|---|---|
| **Revenue** | $133.9M | $138.2M |
| **Expenditures** | $138.5M | $140.5M |
| **Deficit Spending** | -$4.6M | -$2.3M |
| **Total Operating Fund Balance** | $45.6M | $43.4M |

Over the next two years, the board is planning **on deficit spending $6.9M**, after **just borrowing $27M for “ordinary and necessary expenditures.”**

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2. HOW DO WE KNOW THAT THE DISTRICT WON'T SPEND THE FUNDS SET ASIDE FOR CAPITAL ON OPERATING EXPENDITURES?

Administration Response: Once funds are designated for capital projects and issued as either tax-exempt bonds or Build America Bonds, the funds must be spent on capital per federal tax law. It is a covenant in the bond resolution and tax certificate approved by the Board of Education.

Counterpoint: The right question to ask is "How do we know that the district won't spend the funds set aside for working cash bonds on operating expenditures?" The answer is: **they WILL spend the working cash bonds on operating expenditures.**

**Also: The board has not yet designated the bonds for capital projects.** The board will decide how to split the working cash bonds between operating expenditures and capital bonds only when the bonds are actually purchased. Once actual Build America Bonds or tax-exempt bonds are purchased, then the funds must be spent on capital projects **within 3 years**. On February 10, 2010, the administration proposed **capital projects for 2010-2011 totaling $3M. In order to spend $16M in 3 years, the administration will have to find $13M MORE in capital projects to spend, or pay penalties. This "use it or lose it" mentality will have us spending money we don't have for projects that are not necessary.** In addition, those funds will not be available for future capital expenditures, when we actually need them.

3. WHAT ARE THE $17M CAPITAL PROJECTS THE FUNDS WILL BE USED FOR?

Administration Response: The list of capital projects will be available and posted the week of March 22.

Counterpoint: *Translation:* By March 22nd, the administration will have found an additional $13M of projects that have suddenly become "necessary" to spend money on. Note **the board approved the borrowing before knowing what they needed to spend it on. UPDATE: The administration removed this item from their Q&A on 3/19/2010.**

4. THE STATEMENT HAS BEEN MADE THAT OVER THE NEXT 4 YEARS THAT THE DISTRICT PLANS TO DEFICIT SPEND BY $4M—IS THIS TRUE?

Administration Response: The Administration reviewed a financial projection assuming no reductions in operating expenditures and revenues which are affected by the reduction in state funding. The purpose of this projection was to show the Board and the community the difficult decisions the District faces in terms of expenditure reduction. The Board then directed the Administration to come back with proposed reductions for the next meeting.

Counterpoint: On March 10,2010, the administration showed projections for deficit spending of **$7M over 2 years** (not $4M over 4 years - see chart above). In fact, the administration projects that, unless budget reductions are made, **the district will spend down reserves from $49M to $1M in 5 years**. The administration has proposed **$2.4M in budget reductions for 2010-2011. Even with those budget reductions, the district will still deficit spend $4.6M next year.**

5. WHAT ARE BUILD AMERICA BONDS?

Administration Response: Build America Bonds are taxable bonds where the federal government pays 35% of the interest cost over the life of the bonds. This subsidy allows the District to access bonds at a net cost of approximately 3.80% versus traditional tax-exempt bonds with interest rates anywhere from .50% to .65% higher. Build America Bonds are available to any governmental unit with bonding authority but the use of the bond proceeds is restricted by law to capital projects.

Counterpoint: This is all true.

6. WHY WOULD THE DISTRICT ISSUE WORKING CASH FUND BONDS FOR OPERATING PURPOSES?

Administration Response: The Board of Education had a discussion at the March 10 Board meeting about issuing $10M of the $27M authorization for the purpose of increasing the working cash fund. $10M of the proceeds would be deposited to the working cash fund to provide the District with additional liquidity in order to avoid short term borrowing in between tax collections. The District almost had to borrow from a bank to make payroll in November 2009. Given late and reduced funding from the State and late property taxes from Cook County, cash flow shortages will be even more of a challenge in Fiscal 2011 and beyond.

Counterpoint: The district ALMOST had to borrow, but in the end did not, and thus incurred no additional costs. If we had already issued bonds to give the district extra liquidity, we would pay the cost of borrowing that money, whether we needed it or not. **If we use Tax Anticipation Warrants for Short Term borrowing, we only pay the costs of borrowing if we need it.**

7. WHAT IS THE DIFFERENCE BETWEEN BORROWING TAX ANTICIPATION WARRANTS AND WORKING CASH FUND BONDS FOR OPERATING?

| **TAX ANTICIPATION WARRANTS** | **WORKING CASH BONDS (OPERATIONS)** |
|---|---|
| Temporary source of funds<br>True | New and permanent source of funds<br>New and permanent tax increase |
| Issued annually<br>Issued only when needed, temporarily. The district has only issued TAW's once in the last 7 years. | Issued one time<br>Issued one time, and paid for every year for 20 years |
| Interest and issuance cost paid from Education Fund annually, adding to deficit<br>Costs paid only if used | Issuance and interest cost paid from Debt Service Fund, using Service Extension Base<br>Issuance and interest paid by tax increase |
| No tax increase to taxpayers<br>True | Debt Service tax is extended to taxpayers in future years<br>Tax increase lasts for term of bond – 20 years |
| Lower interest cost—short term<br>LOWER INTEREST RATE – and only if used | Higher interest cost—medium to long term<br>HIGHER INTEREST RATE – and costs are guaranteed. You pay whether you need the funds or not |
| No interest earnings on proceeds<br>True, because the funds are held for a short time | Interest earnings on proceeds when not loaned to other funds<br>Earn 0.5% interest on a loan that cost 5.5% to borrow – net loss of 5% guaranteed to the district. Also note: "when not loaned to other funds," as this is the true intent for these funds. |

8. WHY IS THE DISTRICT CONSIDERING ISSUING REFUNDING BONDS?

Administration Response: The District is proposing issuing some refunding bonds concurrently with the new money bonds in order to allow the issue to be completed within the constraints of the Tax Cap. Even though refunding the bonds results in additional interest cost, it is the most cost effective of the options available.

Counterpoint: No other options have been presented. Refunding is the same as refinancing your house for a longer term to lower your payments. The District wants to do this so that they can issue $27M in bonds. **Without refunding the District would only be able to issue $6-7M in bonds**. Refunding carries a substantial cost, because the refunded bonds are Capital Appreciation Bonds, which means all the interest must be paid, even if they are paid off early. This means that **the district is paying interest TWICE on these bonds. Refunding Capital Appreciation Bonds is fiscally irresponsible.**

9. HAS THE BOARD MADE A DECISION ON THE AMOUNT OF THE FINAL ISSUANCE?

Administration Response: The Board is not expected to approve the bond resolution specifying the final amount of the bond issue until May 2010. Per the resolution of intent, the amount cannot exceed $27M but may be any lesser amount.

Counterpoint: The board should reconsider the amendment made at the March 10, 2010 Board meeting, to only issue bonds for capital projects, without refunding. This would give the District the $6-7M in bonds needed to fund essential capital projects over the next 2-3 years.

10. WHEN WILL THE BOND ISSUE BE DISCUSSED AGAIN?

Administration Response: The District will have a public hearing on the bond issue on April 14, 2010.

Counterpoint: True.

11. IF THE COMMUNITY REQUIRES THAT THE ISSUE IS VOTED ON AT REFERENDUM ON NOVEMBER 2, 2010, COULD THE DISTRICT STILL ACCESS BUILD AMERICA BONDS WITH THE 35% SUBSIDY?

Administration Response: To access the 35% subsidy, the bonds must be issued and closed prior to December 31. Once the election occurs, the Cook County Clerk must canvass the vote within 21 days of the election. Once the votes are certified, a 30-day protest period commences. The bond issue cannot be closed prior to the expiration of the protest period. Assuming the County Clerk canvasses the vote prior to November 24, Build America Bonds at the 35% subsidy level should be accessible. However, if the election results are protested, the District would not be able to issue the Build America Bonds prior to the December 31 deadline.

Counterpoint: Build America Bonds will likely be extended beyond the December 31st deadline. If they are not, tax-exempt bonds are still available. **Tax-exempt bonds are currently 4.35% vs. Build America Bonds at 3.80%. This small difference in cost** for the capital projects bonds is dwarfed by the costs for issuing taxable bonds (5.52%) for working cash, which also requires expensive refunding of Capital Appreciation Bonds.

**The proper approach for the Board to take, to avoid this, and all other problematic issues above, is to only issue $6-7M in bonds for the capital projects.**