

**TYPE:** DISCUSSION **SUBMITTED BY:** Administration **DATE:** April 5, 2010

**DESCRIPTION:** Consider a Report Back from the Village manager Regarding the Proposed District 15 Bond Issue

**BACKGROUND:**

On March 15, 2010, the Village Council requested the Village Manager to research the proposed District 15 bond issue to determine whether there could be any adverse impact on the Village of Palatine and its upcoming bonds and/or bond rating.

**KEY ISSUES:**

My research has come through a lot of reading as well as the following:

- Review of District 15 Budget
- Review of Presentation by William Blair made to the District 15 School Board
- Discussion with Village of Palatine Financial Advisor
- Attendance at two community forums
- Meeting with District 15 Environmental Service Manager
- Meeting with District 15 Superintendent, Assistant Superintendent for Business and District 15 Bond Representative from William Blair

The fundamental questions I sought answers to were as follows:

- What are the different bond proposals being considered by District 15?
- How will they impact our ability to bond for projects and/or impact our bond rating?
- Is the District 15 bond issue consistent with our bonding practices?

A detailed memo has been prepared summarizing my research. The most basic answer following all the discussion and review is that the impact on the Village of Palatine as a municipal government will be negligible in the worst case. The bond practices do not appear to closely follow our practices although the financing of school services is also very different than the financing of municipal government.

**RECOMMENDATION:** Staff recommends the Village Manager present his findings.

**ACTION REQUIRED:** Action is at the discretion of the Council.

**VILLAGE MANAGER'S OFFICE  
MEMORANDUM**

TO: Mayor and Village Council  
FROM: Reid Ottesen, Village Manager *RO*  
DATE: April 5, 2010  
RE: **DISTRICT 15 BOND ISSUE**

On March 31, 2010 I was able to meet with Superintendent Lukich from District 15 as well as his facilities manager, Assistant Superintendent for Business and their bond advisor. As you know, prior to this time, I had met with our Financial Advisor, done significant research into the proposed District 15 bond issues, and attended two forums that were put on by residents (although they were also attended by a School Board member that spoke on the proposal).

The entire process has been enlightening and makes me appreciate the financial condition and flexibility of the Village of Palatine.

For the purpose of reporting back to you, I have attempted to address several questions:

- What are the different bond proposals being considered by District 15?
- How will or could the District 15 proposal impact our ability to bond for the police headquarters?
- Could the District 15 proposal adversely impact our bond rating?
- Is the proposed District 15 bond issue consistent with our bonding practices?

**What Bond Proposals are Being Considered?**

Through my meeting with the District staff, there is one overriding bond issue (\$27 million) that is recommended to have several components. While they title the issue a Working Cash Bond, approximately \$16 million would be in the form of Build America bonds and restricted to capital improvements. Build America bonds provide significantly discounted interest rates over traditional bonding alternatives for local units of government. As you are aware, the Village has completed three Build America issues which have resulted in interest savings in excess of \$500,000 as compared to traditional tax exempt bonds. An additional

\$10 million to \$11 million would be for working cash. Additionally there is a refunding being considered.

### Build America (Capital Bonds)

The two significant questions I had related to the Build America component were:

- Do you have identified capital needs you are funding?
- Are you going to impose a gross or net tax levy for the bonds?

At my meeting on March 30<sup>th</sup>, the District staff did present me with a Capital Improvement Projects Summary (see attached) that identifies \$17.28 million in capital projects.

As you know, I originally could not find a capital budget for the district. I have come to learn that they do not adopt a five year capital plan as we do. They are required to file a Ten Year Safety Survey Report with the State of Illinois. This identifies needed improvements and categorizes them for completion timeframes. This document was completed in 2006 and has served as their plan. They did indicate that at least last year, they had no capital budget. They simply had no money for capital.

The 2006 Plan has recently been updated to reflect current identified needs which total \$17.28 million – thus supporting the requested bond issue.

As for the levy, the fundamental question is whether you levy the full amount of debt service excluding what the federal government reimburses or do you only levy the net amount – which added to the federal subsidy provides enough money for debt service payments. This question had not yet been answered and has a significant impact on the debt service – over \$500,000.

The District staff and Bond Advisor both indicated that they would be recommending a net levy. This provides the lowest cost to the tax payer.

I believe that utilizing the Build America bond program is the fiscally responsible bonding option and consistent with our practice. This is predicated upon only doing a net bond levy and having capital projects.

### Working Cash Bonds

A second component to the bond proposal is the issuance of \$10 million to \$11 million of working cash bonds. This is a **taxable** bond issue. The best analogy I can provide is that this is the equivalent of our general fund balance. Both the

Village and School District have general targets of cash balances equal to 3 to 4 months expenses. The issuance of working cash bonds would aid the district in maintaining these ratios into the future.

The debt service on these bonds is paid through the debt extension levy of the District's property tax. They would be financed over 20 years although the bond advisor indicated that she would be placing a 10 year call provision in the bond allowing for full payment at that time.

As school finances are so different than our finances, I do not believe it is fair for me to try and critique the need for working cash bonds one way or the other. That is a policy issue that needs to be made by the school board.

I did learn the difference between working cash bonds and tax anticipation notes. If the district were to run short on cash at year end due to County property tax payment delays, they could do short term borrowing through a tax anticipation note. The repayment of this lending instrument comes from the education fund (their equivalent of our operating fund) and not the debt extension levy. In essence, working cash becomes new money and tax anticipation notes cover already budgeted monies.

### Refunding Bonds

The third component is a refunding issue. This was explained as a restructuring of existing debt to make room within the tax levy. There is no savings as a result of this refunding. It simply lowers current payments to allow for new borrowing (i.e. Build America or Working Cash) by extending the duration.

Our upcoming refunding will not be extending our debt timeframe. Ours will lower rates, maintain the same retirement schedule and reduce our annual payments.

### **How Will or Could the District 15 Proposal Impact our Ability to Bond for the Police Headquarters? Could the District 15 Proposal Adversely Impact our Bond Rating?**

Based upon discussions with our financial advisor at Speer Financial as well as research done and discussions with District 15, I do not see the District 15 Proposal having an impact on our ability to bond for the police headquarters. We are an outstanding credit risk out in the market with our rating.

As to whether the District 15 proposed bond could adversely impact our rating, I would have to characterize the chances as very remote.

Through my discussion with District staff, I learned that Palatine only makes up 50% of their assessed valuation due to their boundaries expanding into Schaumburg, Hoffman Estates, Inverness, Arlington Heights and Rolling Meadows. They have some significant properties within the valuation area including Arlington Park Race Course, a portion of the Motorola Headquarters, and a number of office buildings and large property tax generators in Rolling Meadows. This will spread the debt around a number of communities and not just our corporate limits. Had Palatine been a significantly higher percentage of their assessed valuation, I would have a concern.

### **Is the Proposed District 15 Bond Issue Consistent with Our Bonding Practices?**

This area becomes much more subjective. The general answer is not really.

The main difference between the schools and municipality is the creation of a dynamic 5 year capital budget. We are updating our 5 year plan at a minimum of every year. From a capital standpoint, we generally bond for significant expenses with long life expectancies such as buildings that will stand for 50+ years and infrastructure that will be around for nearly 100 years. We are fortunate to have pledged within our budget several dedicated revenue sources to pay for ongoing capital expenses so smaller projects do not require bonding. The school district does not appear to have any dedicated capital revenue at this time and thus are looking at bonds to pay for things we fund on an annual basis.

They have developed a capital fund moving forward that is actually proposed to be funded through a sharing of the Dundee TIF increment. They are projecting the equivalent of a 50% surplus declaration each year which would provide them approximately \$500,000 per year for capital purposes. I am not aware of any commitments that the funds would have to remain in capital but that is where the staff is placing them. The ongoing surplus distribution is a policy matter that the Village Council will be considering over the summer once staff completes our analysis of the Dundee corridor.

I have struggled to come up with any type of commentary on the working cash portion of the proposal. Fortunately for us, this is a very foreign concept.

We maintain fund balance levels generally in line with what District 15 targets (3 to 4 months). When the economy is strong, we have a policy of transferring all excess revenue to either general fund balance or capital reserves. Many of our revenue sources (building permits, sales taxes, income tax distributions) perform well when the economy is strong. This has allowed balances that are supporting our organization and bond rating.

I still do not understand the borrowing at a taxable interest rate (5%+) to build your cash balances which will earn interest at a lower rate when tax anticipation notes are available. Our financial advisor has indicated that this is not necessarily uncommon within the school finance arena.

Clearly, this is a policy issue for the school board.

The last area of consistency I would compare is the negotiated versus competitive sale of bonds.

There is definitely a role for both types of issues. We have used the negotiated sale for some TIF projects where we are applying the revenues from the project to support the debt. A negotiated sale allows the parties (borrower and lender) to review the project financials and have a comprehensive understanding of the financial risk to set the interest rate. We generally use an independent financial advisor to assist us in placing the debt which allows some comparative pricing.

Additionally, we have used a negotiated sale on some refinancing. Under this scenario we would traditionally set a minimum savings benchmark that must be achieved. Our financial advisor then "shops" the issue and must achieve the target. He also compares the proposal to what the current bond market is paying for a competitive bid sale of a comparably rated community. This provides good parameters to make sure we are still achieving the best deal possible.

I am not aware of whether there is any additional comparative analysis taking place on their proposal. It would be easy to at least compare what the bond market is paying on comparably rated districts borrowing for similar purposes.

Negotiated sales are appropriate with established targets and/or benchmarking.

### **Other Issues**

This process has not only allowed me to become better educated in school finance but I believe it could possibly lead to some efficiencies and savings for our constituents. There were several items identified within the Capital Improvement Project Summary that the Village may be able to provide some assistance leading to possible cost savings. The District has identified some sewer work and repaving work that could be considered as an addition to our annual bids and lead to economy of scale savings. We competitively bid more than \$2 million each year in paving work. The school district should be able to achieve better pricing through this bid than a small \$85,000 project on its own. Should the School Board approve the Build America bonds, I will arrange a coordination meeting to identify areas of potential savings.

## **Capital Improvement Projects Summary**

**April 2010**

---

The Capital Improvement Projects list attached has been reviewed and agreed upon by Cabinet members, as generated by the Environmental Services Department. (Please note that all monetary values are estimates.)

The primary source of the tentative projects comes from the 10-Year Safety Survey Report of October 2005 by Gilfillan Callahan Architects. Also included in the tentative list are the Board reviewed projects for Summer 2010 (i.e. Winston Campus parking lot, Lake Louise curtain walls, etc.).

The purpose of this communication is to disseminate the information to the Board before putting it on the District's website on Thursday, April 1, 2010. The list is subject to change, pending Board discussion at the April 14, 2010, Board of Education meeting. No feedback to administration from the Board is suggested via phone or e-mail. No e-mail between Board members should take place with this subject before the meeting.

This item has been placed on the April 14, 2010, Board of Education meeting agenda for Board discussion. In addition, a 3 – 5 year timeline outlining individual projects will be included in the board packet preparation of this document to be delivered on Thursday, April 8, 2010.

## Capital Improvement Projects Summary

April 2010

Carl Sandburg	\$1,440,400.00
Central Road	2,500.00
Conyers Learning Academy	1,253,050.00
Frank C. Whiteley	86,705.00
Gray M. Sanborn	1,089,500.00
Hunting Ridge	1,590,000.00
Jane Addams	518,500.00
Kimball Hill	100,430.00
Lake Louise	1,887,850.00
Lincoln	519,500.00
Marion Jordan	1,483,270.00
Pleasant Hill	682,500.00
Plum Grove	1,342,500.00
Stuart R. Paddock	571,790.00
Thomas Jefferson	386,023.00
Virginia Lake	300,000.00
Walter R. Sundling	2,025,500.00
Willow Bend	380,300.00
Winston Campus	<u>1,619,694.00</u>
	\$17,280,012.00



### Capital Improvement Projects

SPECIFICATION(S)	ESTIMATED COST
<b>Carl Sandburg</b>	
Roof replacement.	887,900.00
Upgrade mechanical system to improve indoor air quality.	15,000.00
Provide exhaust fans in shower rooms.	5,500.00
Upgrade aged plumbing	307,000.00
Update lighting with new energy efficient fixtures.	225,000.00
Sub Total	\$ 1,440,400.00
<b>Central Road</b>	
Masonry tuck pointing.	2,500.00
Sub Total	\$ 2,500.00
<b>Conyers Learning Academy</b>	
Upgrade fire alarm system.	153,800.00
Update lighting with new energy efficient fixtures.	7,600.00
Replace door knobs with code compliant handles.	221,650.00
Roof replacement (partial).	400,000.00
Replace floor tile public areas.	250,000.00
Replace mechanical system gym.	220,000.00
Sub Total	\$ 1,253,050.00
<b>Frank C. Whiteley</b>	
Masonry tuck pointing.	15,000.00
Upgrade mechanical system to improve indoor air quality.	13,000.00
Carpet replacement public corridors.	58,705.00 *
Sub Total	\$ 86,705.00
<b>Gray M. Sanborn</b>	
Roof replacement.	610,500.00
Upgrade mechanical system to improve indoor air quality.	47,000.00
Upgrade aged plumbing.	212,000.00
Update lighting with new energy efficient fixtures.	45,000.00
Provide additional distribution for electrical panels and to provide space for future electrical needs.	175,000.00
Sub Total	\$ 1,089,500.00

SPECIFICATION(S)	ESTIMATED COST
<b>Hunting Ridge</b>	
Replace curtain walls front of building - phase 2.	401,500.00
Update lighting with new energy efficient fixtures.	128,000.00 *
Upgrade ventilation system and mechanical equipment for indoor air quality.	116,500.00
Replace existing uni-vents.	248,000.00 *
Upgrade aged plumbing.	286,800.00
Roof replacement.	409,200.00
Sub Total	\$ 1,590,000.00
<b>Jane Addams</b>	
Upgrade aged plumbing.	318,500.00
Update lighting with new energy efficient fixtures.	97,000.00
Upgrade electrical system.	18,000.00
Parking lot pavement.	85,000.00 *
Sub Total	\$ 518,500.00
<b>Kimball Hill</b>	
Upgrade ventilation system for indoor air quality.	15,430.00
Carpet replacement public corridors.	85,000.00
Sub Total	\$ 100,430.00
<b>Lake Louise</b>	
Replace curtain walls with new.	600,000.00 **
Roof replacement.	528,000.00
Upgrade ventilation system for indoor air quality.	94,000.00
Replace existing radiators.	6,000.00
Upgrade aged plumbing.	241,500.00
Update lighting with new energy efficient fixtures.	134,600.00 *
Replace door knobs with code compliant handles.	8,750.00
Replace carpeting throughout building.	275,000.00
Sub Total	\$ 1,887,850.00
<b>Lincoln</b>	
Roof replacement.	361,000.00
Upgrade ventilation system for indoor air quality.	120,500.00
Upgrade aged plumbing.	21,000.00
Update lighting with new energy efficient fixtures.	17,000.00
Sub Total	\$ 519,500.00

Regardless

SPECIFICATION(S)	ESTIMATED COST
<b>Marion Jordan</b>	
Roof replacement.	667,500.00
Upgrade ventilation system for indoor air quality.	74,370.00
Replace aged plumbing.	194,320.00
Update lighting with new energy efficient fixtures.	152,080.00
Replace carpeting/flooring.	285,000.00
Parking lot pavement.	110,000.00 *
Sub Total	\$ 1,483,270.00
<b>Pleasant Hill</b>	
Upgrade aged plumbing.	251,000.00
Upgrade ventilation system for indoor air quality.	46,500.00
Update lighting with new energy efficient fixtures.	140,000.00
Carpet replacement.	245,000.00
Sub Total	\$ 682,500.00
<b>Plum Grove</b>	
Replace curtain walls with new.	148,500.00
Roof replacement.	805,400.00
Upgrade ventilation system for indoor air quality.	12,500.00
Upgrade aged plumbing.	231,500.00
Upgrade electrical panel.	144,600.00
Sub Total	\$ 1,342,500.00
<b>Stuart R. Paddock</b>	
Upgrade aged plumbing.	238,000.00
Upgrade ventilation system for indoor air quality.	186,500.00
Update lighting with new energy efficient fixtures.	147,290.00 *
Carpet and floor tile replacement.	240,860.00 *
Sub Total	\$ 571,790.00
<b>Thomas Jefferson</b>	
Upgrade aged plumbing.	150,845.00
Replace all carpeting in original building.	235,178.00 *
Sub Total	\$ 386,023.00
<b>Virginia Lake</b>	
Replace floor tile and carpet.	300,000.00
Sub Total	\$ 300,000.00

SPECIFICATION(S)	ESTIMATED COST
<b>Walter R. Sundling</b>	
Upgrade ventilation system for indoor air quality.	47,000.00
Upgrade aged plumbing.	267,000.00
Upgrade electrical panel.	126,500.00
Transportation - Parking lot pavement.	85,000.00 *
Roof replacement.	1,500,000.00
Sub Total	\$ 2,025,500.00
<b>Willow Bend</b>	
Upgrade ventilation system for indoor air quality.	7,300.00
Upgrade electrical panel.	8,000.00
Roof replacement.	300,000.00
Parking lot pavement.	65,000.00 *
Sub Total	\$ 380,300.00
<b>Winston Campus</b>	
Roof replacement.	723,500.00
Upgrade aged plumbing.	375,000.00
Upgrade electrical panel.	6,500.00
Replace carpet in all public corridors.	189,694.00 *
Parking lot pavement.	250,000.00 *
Update lighting with new energy efficient fixtures in G wing.	75,000.00 *
Sub Total	1,619,694.00
Total Cost	17,280,012.00

\* Reviewed by the Board of Education for completion in Summer of 2010 if funds are available.

\*\* Funds for completion in Summer 2010 previously allocated.