

Key Things to Know About Your District's Debt

2024 BOOKKEEPERS CONFERENCE

March 15, 2024 | Rolling Meadows, Illinois



Introductions

Matt Shipley, Moderator

- *Chief School Business Official, Indian Prairie 204*



Nate Fretz, Speaker

- *Vice President, Stifel*



Andy Mace, CPA, CFE, Speaker

- *Vice President, Meristem Advisors, LLC*



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Agenda:

- Debt limits
- Major types of debt
- Debt Service Fund
- Lease & Bond & Interest levies
- Payment/bookkeeping guidelines
- Debt map / debt service schedules
- Lease reporting
- Audit implications

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Debt Limits:

Statutory Debt Capacity:

The maximum legal borrowing limit according to Illinois statutory provisions.

Elementary/High School Districts

EAV	\$1,000,000,000
<i>Multiplied by</i>	6.9%
Debt Limit	\$69,000,000
<i>Minus Outstanding Debt</i>	\$10,000,000
Remaining Capacity	\$59,000,000

Unit School Districts

EAV	\$1,000,000,000
<i>Multiplied by</i>	13.8%
Debt Limit	\$138,000,000
<i>Minus Outstanding Debt</i>	\$10,000,000
Remaining Capacity	\$128,000,000

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Debt Limits - Continued:

Working Cash Issuance:

The maximum legal borrowing limit for working cash bonds.

Equalized Assessed Value	\$200,000,000
<i>Multiplied by Maximum Educational Fund Tax Rate</i>	2.00%
	\$4,000,000
<i>Plus Lesser of Last Year's Actual or this Year's Estimated Corporate Personal Property Replacement Tax (CPPRT)</i>	\$2,000,000
	\$6,000,000
<i>Plus Most Recent Amount of Evidence Based Funding Received</i>	\$20,000,000
	\$26,000,000
<i>Multiplied by 85%</i>	85%
Equals Maximum Working Cash Fund Balance	\$22,100,000
<i>***Minus Greater of Dollars to the Credit of the Working Cash Fund or Working Cash Fund Bonds Outstanding***</i>	\$5,000,000
Available Working Cash Fund Bond Capacity	\$17,100,000



Debt Limits - Continued:

Debt Service Extension Base (PTELL Districts Only):

- If you are a district subject to PTELL (aka “Property Tax Capped”), then your DSEB is the amount of debt service (principal plus interest) you can levy in a given year to pay unvoted (aka non-referendum) bonds
- DSEB is determined on a district-by-district basis
 - DSEB is the dollar amount of principal and interest that the district levied to pay non-voted bonds in the year that the district became subject to PTELL
- Beginning in levy year 2009 and thereafter, DSEB increases annually by the lesser of 5% or the Consumer Price Index (unless the DSEB is voted)

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Debt Limits - Continued:

Debt Service Extension Base Example:

Levy Year	CPI	DSEB
Original	-	\$1,461,933
2009	0.1%	\$1,463,395
2010	2.7%	\$1,502,906
2011	1.5%	\$1,525,450
2012	3.0%	\$1,571,213
2013	1.7%	\$1,597,924
2014	1.5%	\$1,621,893
2015	0.8%	\$1,634,868
2016	0.7%	\$1,646,312
2017	2.1%	\$1,680,885
2018	2.1%	\$1,716,183
2019	1.9%	\$1,748,791
2020	2.3%	\$1,789,013
2021	1.4%	\$1,814,059
2022	5.0%	\$1,904,762
2023	5.0%	\$2,000,000

Year	DSEB	Debt Service on All Unvoted Bonds Subject to DSEB	Excess DSEB
1	\$2,000,000	\$1,000,000	\$1,000,000
2	\$2,000,000	\$900,000	\$1,100,000
3	\$2,000,000	\$800,000	\$1,200,000
4	\$2,000,000	\$500,000	\$1,500,000
5	\$2,000,000	\$100,000	\$1,900,000



Major Debt Types:

Short-Term:

- Interfund loans
- Tax anticipation warrants
- Lines of credit

Long-Term:

- Bonds
- Debt Certificates
- Leases

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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 3 years
- Board action only

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Interfund Loans - Continued:

- 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

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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
Less taxes received to date
x 85%
Less Outstanding TAWs
Less Cash in WCF
Less \$ 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

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Bonds & Debt Certificates:

A promise by a borrower to pay a lender principal and interest

- Certain Date
- Certain Amount
- Specific Rate
- Specific Revenues

A tool for converting small amounts of future money into a large, accessible amount today

- **Municipal Bonds**

A debt security issued by a municipality to pay a lender principal and interest for a public-purpose project

- Federal Law – Securities and Exchange Commission and Internal Revenue Service
- State Law – Illinois School Code and Local Government Reform Act

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Recording Bond Related Proceeds and Payments With Levy

Summary of Closing Statement			Journal Entries		
				DR	CR
Bonds Sold - at Par	4,460,000.00	(1)	Cash (2)	60-111	4,503,112.46
Premium on Bonds Sold	195,927.80	(4)	Other Support Services (3)	60-2900-300	127,760.24
Discount on Bonds Sold	(25,055.10)	(5)	Discount on Bonds Sold (5)		25,055.10
Underwriter's Discount	(44,600.00)	(3)	Bonds Sold - at Par (1)		4,460,000.00
Other Expenses	<u>(2,427.00)</u>	(3)	Premium on Bonds Sold (4)		195,927.80
Net Proceeds	<u>4,583,845.70</u>			<u>4,655,927.80</u>	<u>4,655,927.80</u>
Deposit to Project Fund	4,503,112.46	(2)			
Bond Insurance Premium	26,433.24	(3)			
Bond Counsel Fees	31,500.00	(3)			
Other Fees	15,000.00	(3)			
Underwriter's Counsel Fees	7,500.00	(3)			
Paying Agent Fees	<u>300.00</u>	(3)			
Net Uses	<u>4,583,845.70</u>				
Sum of all expenses (3)'s	<u>127,760.24</u>				

Recording Bond Related Proceeds and Payments Without a Levy

Summary of Closing Statement			Journal Entries		
				DR	CR
			At Closing		
Bonds Sold - at Par	33,305,000.00	(1)	Cash (2)	60-111	33,802,886.70
Premium on Bonds Sold	950,436.70	(4)	Other Support Services (3)	60-2900-300	452,550.00
			Bonds Sold - at Par (1)	60-7210	33,305,000.00
			Premium on Bonds Sold (4)	60-7220	950,436.70
Net Proceeds	<u>34,255,436.70</u>			<u>34,255,436.70</u>	<u>34,255,436.70</u>
Deposit to Project Fund	33,802,886.70	(2)	1st Interest Date 7/1/24		
Undwewriter's Discount	219,700.00	(3)	Other Uses	20-8990	1,058,166.81
Issuance Costs	232,850.00	(3)	Cash	20-111	1,058,166.81
Net Uses	<u>34,255,436.70</u>		Cash	30-111	1,058,166.81
			Other Sources	30-7990	1,058,166.81
Sum of all expenses (3)'s	<u>452,550.00</u>				
			Interest on Long-Term Debt	30-5200-600	1,058,166.81
			Cash	30-111	1,058,166.81
			P&I 1/1/25		
			Other Uses	20-8990	1,729,075.00
			Cash	20-111	1,729,075.00
			Cash	30-111	1,729,075.00
			Other Sources	30-7990	1,729,075.00
			Principal on Long-Term Debt	30-5300-600	890,000.00
			Interest on Long-Term Debt	30-5200-600	839,075.00
			Cash	30-111	1,729,075.00



Leases

GASB Statement 87 requires special treatment of leases – see AFR form

Subscription Based Information Technology Arrangements – SBITA Same concept applied to non-capital contracts

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Debt Service Fund (Fund 30):

30 - Debt Service Fund - Bonds are generally issued to finance the construction of buildings, but may also be issued for other purposes. Taxes are levied to provide cash to retire these bonds and to pay related interest. To protect the bondholders, these tax collections must be accounted for in the Debt Service Fund and maintained in separate bond and interest accounts for each bond issue. If the school board pledges other revenue to pay principal, interest, or service charges on long-term debt, a separate set of accounts shall also be established for each additional debt issue (not applicable to pledged revenue in the Transportation Fund).

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Debt Map Example:

Issuer Name		Example Illinois School District											
Deal Name		2020 Working Cash Fund Bonds				2021 Debt Certificates				2022 Alternate Revenue Bonds			
Original Issue Amount		\$10,000,000				\$10,000,000				\$10,000,000			
Outstanding Principal Amount		\$5,000,000				\$5,325,000				\$5,000,000			
Issuance Date		2/1/2020				2/1/2021				2/1/2022			
Call Date		6/1/2030				6/1/2031				6/1/2032			
Original Rating		A1 (Moody's)				A2 (Moody's)				A1 (Moody's)			
Payment Dates		June 1 and December 1				June 15 and December 15				June 1 and December 1			
Tax Year	Fiscal Year	Principal	Coupon	Interest	Debt Service	Principal	Coupon	Interest	Debt Service	Principal	Coupon	Interest	Debt Service
2023	2024			\$75,000	\$75,000	\$325,000	4.00%	\$200,000	\$525,000			\$125,000	\$125,000
2024	2025			150,000	150,000	330,000	4.00%	193,400	523,400			250,000	250,000
2025	2026			150,000	150,000	345,000	4.00%	179,900	524,900			250,000	250,000
2026	2027			150,000	150,000	360,000	4.00%	165,800	525,800			250,000	250,000
2027	2028			150,000	150,000	375,000	4.00%	151,100	526,100			250,000	250,000
2028	2029			150,000	150,000	390,000	4.00%	135,800	525,800			250,000	250,000
2029	2030			150,000	150,000	405,000	4.00%	119,900	524,900			250,000	250,000
2030	2031			150,000	150,000	420,000	4.00%	103,400	523,400			250,000	250,000
2031	2032	\$700,000	3.00%	139,500	839,500	435,000	4.00%	86,300	521,300	\$600,000	5.00%	235,000	835,000
2032	2033	850,000	3.00%	116,250	966,250	455,000	4.00%	68,500	523,500	800,000	5.00%	200,000	1,000,000
2033	2034	1,000,000	3.00%	88,500	1,088,500	475,000	4.00%	49,900	524,900	1,000,000	5.00%	155,000	1,155,000
2034	2035	1,150,000	3.00%	56,250	1,206,250	495,000	4.00%	30,500	525,500	1,200,000	5.00%	100,000	1,300,000
2035	2036	1,300,000	3.00%	19,500	1,319,500	515,000	4.00%	10,300	525,300	1,400,000	5.00%	35,000	1,435,000
Totals		\$5,000,000		\$1,545,000	\$6,545,000	\$5,325,000		\$1,494,800	\$6,819,800	\$5,000,000		\$2,600,000	\$7,600,000



Debt Service Schedule Example:

<i>Payment Date</i>	<i>Principal</i>	<i>Coupon</i>	<i>Interest</i>	<i>Debt Service</i>	<i>Calendar Year Debt Service</i>	<i>Fiscal Year Debt Service</i>
6/1/2024	-	-	\$125,000	\$125,000	-	\$125,000
12/1/2024	-	-	125,000	125,000	\$250,000	-
6/1/2025	-	-	125,000	125,000	-	250,000
12/1/2025	-	-	125,000	125,000	250,000	-
6/1/2026	-	-	125,000	125,000	-	250,000
12/1/2026	-	-	125,000	125,000	250,000	-
6/1/2027	-	-	125,000	125,000	-	250,000
12/1/2027	-	-	125,000	125,000	250,000	-
6/1/2028	-	-	125,000	125,000	-	250,000
12/1/2028	-	-	125,000	125,000	250,000	-
6/1/2029	-	-	125,000	125,000	-	250,000
12/1/2029	-	-	125,000	125,000	250,000	-
6/1/2030	-	-	125,000	125,000	-	250,000
12/1/2030	-	-	125,000	125,000	250,000	-
6/1/2031	-	-	125,000	125,000	-	250,000
12/1/2031	\$600,000	5.00%	125,000	725,000	850,000	-
6/1/2032	-	-	110,000	110,000	-	835,000
12/1/2032	800,000	5.00%	110,000	910,000	1,020,000	-
6/1/2033	-	-	90,000	90,000	-	1,000,000
12/1/2033	1,000,000	5.00%	90,000	1,090,000	1,180,000	-
6/1/2034	-	-	65,000	65,000	-	1,155,000
12/1/2034	1,200,000	5.00%	65,000	1,265,000	1,330,000	-
6/1/2035	-	-	35,000	35,000	-	1,300,000
12/1/2035	1,400,000	5.00%	35,000	1,435,000	1,470,000	1,435,000
Totals	\$5,000,000		\$2,600,000	\$7,600,000	\$7,600,000	\$7,600,000



Levy Example:

<i>EAV Year</i>	<i>Tax Year</i>	<i>Fiscal Year</i>	<i>EAV</i>	<i>EAV Growth</i>	<i>Series 2020A</i>	<i>Series 2020B</i>	<i>Series 2022</i>	<i>Total</i>	<i>Required Tax Rate</i>
2022	2023	2024	\$500,000,000	1.00%	\$8,000,000	\$1,000,000	\$500,000	\$9,500,000	1.900
2023	2024	2025	505,000,000	1.00%	8,000,000	1,000,000	500,000	9,500,000	1.881
2024	2025	2026	510,050,000	1.00%	8,000,000	1,000,000	500,000	9,500,000	1.863
2025	2026	2027	515,150,500	1.00%	8,000,000	1,000,000	500,000	9,500,000	1.844
2026	2027	2028	520,302,005	1.00%	8,000,000	1,000,000	500,000	9,500,000	1.826
2027	2028	2029	525,505,025	1.00%	8,000,000	1,000,000	500,000	9,500,000	1.808
2028	2029	2030	530,760,075	0.00%	2,000,000	250,000	500,000	2,750,000	0.518
2029	2030	2031	530,760,075	0.00%	2,000,000	250,000	500,000	2,750,000	0.518
2030	2031	2032	530,760,075	0.00%	2,000,000	250,000	500,000	2,750,000	0.518
2031	2032	2033	530,760,075	0.00%	2,000,000	250,000	500,000	2,750,000	0.518
2032	2033	2034	530,760,075	0.00%	2,000,000	250,000	500,000	2,750,000	0.518
2033	2034	2035	530,760,075	0.00%	2,000,000	250,000	500,000	2,750,000	0.518
2034	2035	2036	530,760,075	0.00%	2,000,000	250,000	500,000	2,750,000	0.518
					\$62,000,000	\$7,750,000	\$6,500,000	\$76,250,000	

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Final Debt Takeaways:

- The amount of your debt outstanding will likely change from year to year and the type of debt outstanding matters for calculating the various types of capacity limits.
- Your debt payments will likely be twice a year and the amounts coming due annually may or may not change significantly depending on the structure of your debt.
- Your bond and interest tax extension will likely change from year to year – at least by small amount – because of changes to your EAV and the amount of debt payments due in that particular year.
- A drop in your bond and interest levy can be identified by looking at your outstanding payments and such drop may be an opportunity to undertake a financing without increasing the tax rate.
- Generally, bond issues are sold with a “call date”, which enables you to refinance. The time period between the present day and your call date is an important determinant of savings.

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Questions and Answers

We thank you for your time!

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