Interpreting Bonds in Illinois Schools

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School finance in Illinois can be difficult to manage especially if you are a new superintendent or you have a declining enrollment and have inherited an annual deficit budget spending. There are some key strategies that superintendents can utilize to financially get their districts through difficult times. In this paper I am going to discuss and explain bonds that are available to use in Illinois Schools, more specifically as it relates to schools outside of Cook County.

The first step is for superintendents to realize how much money they can actually borrow through bonding. “Limitations on school-district-bonded indebtedness are determined in relationship to a district's equalized assessed valuation (EAV) of real property. Section 19-1 of the School Code contains the general debt limits for elementary and high school districts (6.9% of EAV) and unit districts (13.8% of EAV).” (pg. 120, ISBE). At Donovan CUSD #3 for Fiscal Year 20, our EAV was $44,894,409 meaning, as a unit district, if we multiplied our EAV by 13.8% our maximum legal debt limitation is $6,195,428.

The second step is once you figure out how much your district can borrow you need to figure out how much money you are in debt. To do this you should check you annual financial report. You can search your district’s annual financial report on the ISBE website at: ftp://ftpfinance.isbe.net/AFR/2019/School%20Districts%2019/. Once you locate and open your districts annual financial report if you click on the “Short-Term Long-Term Debt 24” tab you are able to see your districts indebtedness. Or you could also call your independent auditor and they could easily pull the amount for you as well or if you have an experienced bookkeeper they would be able to report that number to you as well.

In school finance there are four key funds that you need to be more focused on and those funds are the education fund, operations and maintenance, transportation, and tort. Making sure that you are positive in these accounts is vital and I'm going to discuss some strategies through bonding that will help you increase monies in your individual funds.

One of the more popular bonds that schools use is the working cash bond. According to (Fritts, pg. 81), "working cash fund bonds are issued to create or increase that fund, after which the money can be loaned to any fund for which taxes are levied to avoid the need to issue warrants or notes, or transferred to any other fund determined to be most in need. These bonds are subject to a petitioned referendum. Money may be transferred from the working cash fund to any other fund, so long s a school district adopts a resolution abating its working cash fund to any other fund, and retains a balance in the fund of at least 0.05 percent of its EAV. If the working cash fund is abolished completely, the balance must be transferred to the Education Fund." Generating monies to your working cash fund through levies and bonding is important for two reasons 1. You are allowed to abate and transfer funds out of the working cash fund to any other fund that is in need and 2. The working cash fund is the only fund that you can transfer monies out of without board approval, public notice and a public hearing. All of the other funds if you attempt to transfer funds you must get board approval, public notice, and a public hearing which makes it much more difficult and it also draws more attention to your school district and board members.

In this paragraph I'm going to discuss some long term borrowing options for buildings and other capital expenditures for superintendents and Illinois School Boards. **Building bonds** are bonds that you can use to fund building, land, equipment costs for new schools, additions, and repairs. These bonds must be passed by a referendum put forth to the voters. Typically, schools that are looking to complete major renovations will put together an information committee and present to the public to gain support for the referendum. **Life safety bonds** include fire prevention and safety, school security, environmental protection and energy conservation and must be approved by the regional and state superintendents. Life safety bonds do not have to be passed by a referendum. **Debt certificates** are issued to fund capital or real estate property. This would be a good route to go if the district wanted to purchase more land as long as you don't exceed your debt limit of 13.8% for the district. **Alternate bonds,** "are subject to a petitioned referendum and public hearing, are repaid by pledging an operating revenue source equal to at least 1.25 times the amount of the borrowing. Typical pledged revenue sources include operations and maintenance fund taxes, county school facility sales taxes, general state aid, corporate personal property replacement taxes, developer donations, and revenues from tax increment financing districts. A backup tax levy is provided for if the pledged revenues fall short of the amount required to repay the bonds." (Fritts, pg. 81). I have not seen any school use these bonds and would advise schools to always check with your school attorney before actively pursuing bonds or bringing it before your school board and tax payers.

Long term planning is key for superintendents and school boards if they are going to issue bonds. A bond referendum can only be held during general primary and general election dates. You need to be a couple of years ahead when it comes to planning so you can submit your referendum on the ballet and have all of your finances and details lined up. Here are some important steps that you should consider when attempting to sell a referendum for your school.

1. Make sure you have data on your current, past, and future enrollment data and projections and how that will affect your school financially moving forward.
2. Review your school board policies where it relates to borrowing and bonding and also consult with your school attorney and financial manager.
3. Ensure that you have all the documents you need legally to put the referendum onto the ballet and have your attorney review the process.
4. Make sure to have a campaign for the school to market the referendum and to get the information out to the public. Also, make sure to setup the public hearing if required by the bond regulations.
5. Make sure to submit an application to a credit agency for a rating on the debt. Your attorney will walk you through this process.
6. Ensure that you are able to close the deal with your post-sale documents and also make sure to develop a post-sale disclosure plan.

How the rating process works for Illinois schools in regards to bonds. According to Fritts, "A district's bond rating reflects the rating agency's assessment of its ability to repay the debt. Each issue carries a separate rating. The agency typically reviews several years' audit reports, the current year's budget, trends in the property tax base, local populations and employment statistics, and the outstanding debt of overlapping taxing agencies. Submission of the information is typically followed by a meeting or telephone call during which questions are answered and opinion formed on the strength of the district's financial management as well as its fiscal outlook. An analyst queries the district on the purposes to which the borrowed funds will be put and on its plans for future borrowing. The outcome is one of several ratings on a scale measuring the relative risk to buyers of the debt issue. The higher the rating, the lower will be the interest rate paid on the bond." (Fritts, pg. 83). As you can see there are many factors that go into a districts rating process. The key is to run and operate the district as you would your own personal finances. The longer you are in debt and the more debt you incur the worse off you are going to be when it comes to a rating. Also, the history of the district and their spending will also come into play. If the districts EAV has a steady historical incline and employment in the area has been holding steady you are more likely to get a better bond rating.

Why is it important to get a good bond rating? This is important because the higher your bond rating the lower the interest you will have to pay back on your bond. Another reason is if the interest is high on the bond you will have to levy more from your local tax payers. Taxpayers will see their taxes go up higher than usual from the school and could potentially be upset, whereas if you could keep that interest rate low and have a good bond repayment rate over a set amount of years you will be able to manipulate the levy so the taxpayers won't see a lot of change in their taxes. One way to do this is when you are not levying money you can build up your tort fund and working cash fund. Then when you need to do a bond to get more money for one of your funds you can do that and lower your levy for your ed fund and transfer/abate your working cash fund to offset the levy difference on the tax bill. This way the levy will be close to the same for your taxpayers and they won't realize a big difference on their tax bill.

In conclusion, being well educated with bonding and working with your attorney, financial manager, and school board will be key in successfully navigating bonds. Having a financial plan for your district and having a short term and long term financial plan are crucial to running a good district financially.

Reference Page

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