

MINUTES OF THE  
FINANCE COMMITTEE MEETING  
Of the Board of Education  
Riverside School District 96  
Held on Tuesday, March 16, 2010  
Hollywood Elementary School  
Riverside, Illinois

Present: Mr. Giles McCarthy and Mrs. Mary Ellen Meindl

Absent: Mr. Jim Schraidt, Chair

Also Present: Supt. Jon Lamberson; Board President Nancy Jensen; Board members Jennifer Leimberer, Mary Stimming and Hareena Wakely; PMA Securities Director, Tammie Beckwith; and approximately 5 District 96 staff, parents and interested citizens of the community.

The Finance Committee meeting was called to order by Committee member Giles McCarthy at 6:00 p.m.

The purpose of the meeting was to review and discuss the following:

- Fiscal Planning/Projections by PMA Advisor (Presentation).
- 2010-11 Student Fees.
- 2010-11 Detailed Budget Template.
- Tentative Year-End Fiscal Projections.
- Fiscal Rating by ISBE.

Committee member Giles McCarthy opened the meeting by providing an opportunity for public comment.

There were no comments from the public.

For several months, the Board has been discussing the need to address capital improvement projects in District 96 schools. Supt. Lamberson introduced guest speaker Tammie Beckwith, Managing Director, Public Finance, of PMA Securities, Inc. who presented information concerning capital project financing.

A presentation summary is noted below:

**Credit Rating**

- A credit rating is defined as "an opinion about credit risk".
- To acquire funding, District 96 will need to obtain a credit rating from a credit rating company.

Standard and Poor's (S&P) considers the following variables when issuing credit ratings for school districts:

- **Local Economy** - What events are happening in the community that might impact the local economy, such as, a large employer leaving the area, etc.

- **Management** - How long has District management been in place?  
Will there be little change in the future?
- **Financial Position** - What is the District's fund balance?  
What policies does the Board have in place to promote strong fiscal stewardship?
- **Debt Position** - How much debt does the District carry?  
(Currently District 96 carries no debt.)

### S&P Credit Rating Scale

AAA - Highest rating.

AA+

AA

AA-

A+ - Most Illinois school districts receive an A+ rating

A

A-

BBB

BBB-

*A credit rating of AAA through BBB- is considered "investment grade"*

*A credit rating below BBB- is considered "speculative grade"*

### Financing Mechanisms

#### 1. Debt Certificates (Tax-Exempt)

- Debt service payments can be made from any of the District's operating funds.
- Maximum length of maturity is 20 years.
- Factored into the District's debt limit.
- No public hearing or backdoor referendum requirements.
- Financing timeframe is approximately 6 to 8 weeks.
- Rating agencies may assign a credit rating one step lower than other debt.
- Title transfer to the District is simultaneous with the closing of purchase contract.

#### 2. Alternate Revenue Bonds (Tax-Exempt)

- An operating fund revenue source must be identified and pledged to bond repayment. Must demonstrate 1.25 times debt service coverage.
- Levied Education Fund dollars cannot be pledged as a revenue source.
- Bond & Interest Levy serves as a back-up revenue source if the pledged source doesn't materialize.
- Slightly better interest rate due to backing of the B & I Levy.
- Requires public hearing and backdoor referendum:  
If at least 7.5% of the District's registered voters sign a petition within 30 days after the Board notifies the public of its intent to issue ARB's, the matter must be presented on the next election ballot.
- Financing timeframe is approximately 10 to 12 weeks.
- Not factored into the District's debt limit unless taxes are extended.
- Maximum length of maturity is 40 years.

*Note: Currently, interest rates for tax-exempt bonds are at historically low levels.*

#### 3. Taxable Build America Bonds (BABs)

- Part of the American Recovery and Reinvestment Act of 2009 (ARRA).

- The District would sell taxable municipal bonds for a project that would ordinarily qualify as a tax-exempt borrowing.
- The U.S. Treasury will subsidize 35% of each interest payment making the net borrowing rate less than it would be from selling tax-exempt bonds.
- No dollar limit other than state imposed limits.
- Bonds can only be issued for new construction/repair/renovation.
- Interest income earned from bond proceeds has to be spent on the project first and then any additional capital projects.
- BABs may be issued only through December 2010 at the 35% subsidy rate.
- Benefit to issuing BABs currently exists for long-term debt structures. Not advantageous to issue these taxable bonds if the District plans to pay-off the debt in less than 6 years.

**Principal Debt Capacity**

“Principal Debt Limitation Formula” applicable to all Illinois K-8<sup>th</sup> grade school districts:

- 6.9% of current Equalized Assessed Valuation (EAV) times 6.9%, less any principal on outstanding debt.

**District 96: \$690,253,240 x 6.9% = \$47,627,473**

**Debt Cost Comparison (Example: Funding \$10M in Capital Projects)**

<b>DEBT CERTIFICATES</b>						
	<b>Option 1</b>	<b>Option 2</b>	<b>Option 3</b>	<b>Option 4</b>	<b>Option 5</b>	<b>Option 6</b>
<b>Term</b>	<b>10 Years</b>	<b>10 Years</b>	<b>15 Years</b>	<b>15 Years</b>	<b>20 years</b>	<b>20 years</b>
<b>Tax Status</b>	Tax Exempt	Taxable (BABs)	Tax Exempt	Taxable (BABs)	Tax Exempt	Taxable (BABs)
<b>Net Avg. Yrly. Debt Svc.</b>	\$1,174,645	\$1,169,534	\$873,550	\$859,009	\$736,866	\$713,011
<b>Total Debt Svc. Cost</b>	\$11,746,451	\$12,538,220	\$13,103,246	\$14,368,664	\$14,737,313	\$16,484,178
<b>Less BAB's Subsidy</b>	NA	(\$842,877)	NA	(\$1,483,532)	NA	(\$2,223,962)
<b>Total Net Debt Svc. Cost</b>	\$11,746,451	\$11,695,343	\$13,103,246	\$12,885,132	\$14,737,313	\$14,260,216
<b>Net True Interest Cost</b>	2.88%	2.79%	3.48%	3.24%	3.94%	3.57%

*Notes: Rates based on the Municipal Data “AAA” yield index for 2/23/10  
Benefit of BABs realized on long-term debt*

**Arbitrage**

- “Arbitrage” is defined as the rate the District pays on a bond issue.
- IRS does not want the District to earn interest on bond proceeds at a rate higher than the arbitrage rate.
- “Arbitrage rebate” is defined as the difference between the arbitrage yield and the District’s investment rate on bond proceeds. Any difference must be sent to the IRS.
- Arbitrage rebate exceptions:
  1. The District issues \$15M or less of debt in a calendar year (Effective 1/2011 the \$15M may be reduced to a lower limit).
  2. The District spends bond proceeds per one of the following scenarios:

- All within 6 months.
  - 15% within 6 months, 60% within 12 months, 100% within 18 months.
  - 10% within 6 months, 45% within 12 months, 75% within 18 months, 100% within 24 months.
3. The District does not expect to spend 85% of the bond proceeds within 3 years  
**AND**
- Over 50% of the proceeds are in non-purpose investments that have a substantially guaranteed yield for 4 or more years (i.e.: Treasuries)
- AND**
- The District expects to spend 10% in year 1, 30% in year 2, 60% in year 3 and 85% in year 5.

*Note: IRS arbitrage rebate penalties are applicable if spending benchmarks are not met*

Dr. Lamberson and the Committee thanked Ms. Beckwith for the valuable information presented this evening. Supt. Lamberson remarked that the last tax-exempt bond issue in District 96 took place via referendum in 1997 for \$3.2M over a 10 year term. He noted that this debt service was paid-off in FY2008.

Supt. Lamberson remarked that a \$10M figure is being discussed because that was the estimated non-life safety capital projects cost provided by the District’s architect following a facilities review 3 years ago. Dr. Lamberson will ask the architect to “age” the \$10M figure to 2012-2013 levels – the anticipated project start date. Dr. Lamberson also suggested a “blended” funding approach consisting of a variety of revenue sources such as: existing fund balance; future revenue stream; potential debt service; potential performance contracting for energy savings (small portion); and a small amount of funding from Springfield.

Committee members noted the importance of developing an accurate capital projects list so that appropriate funding instruments can be chosen allowing the District to take advantage of historically low interest rates.

Supt. Lamberson estimated annual carrying cost for a \$10M bond issue to be approximately \$1.2M.

Discussion transpired regarding the importance of being transparent with the community about the financing options being considered to upgrade District 96 schools.

Dialogue occurred regarding the need to build excitement in the community regarding the prospect of improving District facilities.

Conversation took place regarding the pro’s and con’s of Alternate Revenue Bonds.

Ms. Beckwith offered to assist the District in developing a Fund Balance Policy.

Dr. Lamberson will bring an update of his conversation with District’s architect to the April Board meeting.

**2010-11 Student Fees**

Supt. Lamberson recommended and by consensus the Committee agreed not to increase student fees for the upcoming school year:

KA                \$70.00

Grade 1	\$80.00
Grades 2 & 3	\$85.00
Grades 4 & 5	\$95.00
Grades 6-8	\$115.00

*Note: School Fees cover textbook and consumable workbook costs*

Dr. Lamberson remarked that, starting in 2010-11, parents will have the option to pay school fees via the Illinois Treasurer’s ePay Program. Through ePay, fees can be paid by credit card (Visa; Mastercard; Discover) or by electronic check. He noted there is a slight fee for ePay service that will not be passed-on to parents. Dr. Lamberson anticipates the District will realize sufficient savings as a result of fewer NSF charges to cover ePay service fees.

Discussion transpired regarding the approach to paying fees for *Encore* (\$15.00 for all students) classes at Hauser. Committee members expressed interest in incorporating payment for *Encore* classes into the yearly school fee to make the process easier for parents. If this approach is taken, it was noted that separate 6<sup>th</sup> Grade, 7<sup>th</sup> Grade, and 8<sup>th</sup> Grade fees may result.

Supt. Lamberson will bring a revised Hauser fee structure to the April Board meeting for further discussion.

**Detailed Budget Template**

Dr. Lamberson remarked that he is working with the Township School Treasurer’s Office to develop a budget template that will provide a greater level of detail than current reports. He noted that the Treasurer’s Office uses very old software and developing a detailed template has proven to be more difficult than anticipated. He expects to bring a template to the April meeting for the Board’s consideration.

**Tentative Year-End Fiscal Projections**

Supt. Lamberson noted there will be a less than 1% adjustment (in June 2010) made to fiscal projections in the area of Special Education costs. He anticipates that approximately 70% of the adjusted amount will be reimbursed next year. He was pleased to note that all other costs are within budget expectations.

**Fiscal Rating by ISBE**

Dr. Lamberson remarked that District 96 received the highest financial rating possible from the state of Illinois. He commented that five years ago this was not the case. He noted the 2004 tax referendum and strong fiscal stewardship by the Board as factors contributing to the District’s strong financial position.

Supt. Lamberson commented that because the state is not sending timely payments, there is a shortfall in the District’s Transportation Fund due to increased Special Education transportation costs. Per new procedures mandated by the Proviso Township Treasurer’s Office, official Board authorization is now required to transfer monies across funds to cover this type of shortfall. In the past, “cash flow” loans between funds did not require Board approval as long as year-end balances were maintained. To comply with the new procedure, Dr. Lamberson asked the Committee to add a \$300,000 Inter-Fund Loan from the Education Fund to the Transportation Fund to tonight’s *Consent Agenda*. This is intended to be a short-term loan for cash flow purposes. Dr. Lamberson noted however that the transfer could become permanent if the state does not meet its obligation to the District.

By consensus the Committee agreed to add this item to this evening’s *Consent Agenda*.

There being no further items to discuss, a motion was made by Mr. McCarthy, supported by Mrs. Meindl, and the Committee approved to adjourn the Finance Committee meeting at 7:29 p.m.

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Susan Moorhead, Board Secretary

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Giles McCarthy, Committee Member

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Mary Ellen Meindl, Committee Member