

\$27M Bond Authorization

Question & Answer

March 19, 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?

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.

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

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.

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

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.

4. WHAT ARE BUILD AMERICA BONDS?

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.

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

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.

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

TAX ANTICIPATION WARRANTS	WORKING CASH BONDS (OPERATIONS)
<ul style="list-style-type: none">• Temporary source of funds	<ul style="list-style-type: none">• New and permanent source of funds
<ul style="list-style-type: none">• Issued annually	<ul style="list-style-type: none">• Issued one time
<ul style="list-style-type: none">• Interest and issuance cost paid from Education Fund annually, adding to deficit	<ul style="list-style-type: none">• Issuance and interest cost paid from Debt Service Fund, using Service Extension Base
<ul style="list-style-type: none">• No tax increase to taxpayers	<ul style="list-style-type: none">• Debt Service tax is extended to taxpayers in future years
<ul style="list-style-type: none">• Lower interest cost—short term	<ul style="list-style-type: none">• Higher interest cost—medium to long term
<ul style="list-style-type: none">• No interest earnings on proceeds	<ul style="list-style-type: none">• Interest earnings on proceeds when not loaned to other funds

7. WHY IS THE DISTRICT CONSIDERING ISSUING REFUNDING BONDS?

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.

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

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.

9. WHEN WILL THE BOND ISSUE BE DISCUSSED AGAIN?

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

10. 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?

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.