To:	Laurie Heinz, Superintendent Board of Education	Appendix 2
From:	Luann Kolstad, Chief School Business Official	
Subject:	Illinois State Board of Education (ISBE) Qualified School Construction Bonds (QSCBs) and Update on Projections	
Date:	December 14, 2015	

On November 20, 2015, the Illinois State Board of Education (ISBE) approved allocation guidelines and an application process for Qualified School Construction Bonds (QSCBs).

Background Information:
In 2009 as part of the American Recovery and Reinvestment Act (ARRA), the federal government created QSCBs. The nationwide volume limitation of $22 billion was allocated among the states and certain, large educational agencies within states. In the state of Illinois, Chicago Public Schools received $500 million in QSCBs volume limitation at that time. Recently the Governor's office of Management and Budget returned the Illinois' QSCBs allocation to ISBE. The amount available for all other school districts is $495,602,000.

As part of the Hiring Incentives to Restore Employment (HIRE) Act, passed in March 2010, issuers of QSCBs receive a subsidy from the U.S. Treasury. This subsidy offsets all or a portion of the interest cost for a bond financing. Due to sequestration, the subsidy is currently set at 93% reimbursement of interest costs to the district.

What are QSCBs?
QSCBs are taxable bonds that may be issued by state or local governments to finance, new construction, land acquisition, renovating/rehabbing of school buildings and to purchase equipment to be used in these facilities. Shovel ready projects will be funded first. Our District qualifies for this since we have available debt capacity and the ability to start our projects within six months. However, if they receive more applications than there are funds available, ISBE will use criteria such as low income population and property tax rates to prioritize which schools will receive the QSCBs. Unfortunately, if this is the case, there is a strong possibility the District will not qualify.

School districts must reasonably expect to incur a binding commitment with a third party (contractor) within six months of the date of issuance to spend at least 10% of QSCBs proceeds. In addition, the district must spend 100% of the proceeds of the issue within three years of the date of the issuance of QSCBs.

What Does the Board Need to Do?
At tonight's meeting we will be reviewing the attached bonding scenario prepared by Elizabeth Hennessey at William Blair. If the board agrees to move forward, the administration will prepare the application. At the January 11, 2016 Board of Education meeting, the board would take action by approving a resolution approving the QSCB application. Applications are due to ISBE by January 15, 2016.

What is the Potential Savings to the Taxpayer?

Based on the issuance of $24.35M in non-referendum debt, the District could expect to receive a subsidy of $10.55M back from the federal government. This represents a repayment of 93% of the interest costs for the bond issue from the federal government. The attached bonding scenario shows the savings along with the Projected Debt Service Tax Rate.

What if we Receive Authority and Board Does Not Want to Move Forward?

The board has up to 18 months to issue the QSCBs and three years from the award date to spend the funds. The board is under no obligation to issue the bonds.

Update on Financial Projections:

The administration has updated the financial projections based on current conditions in the economy and the possibility of a two year property tax freeze for the 2017 and 2018 tax levy years. Low gas prices are great for consumers, but play havoc with the CPI-U that is used to determine the amount of new money the District will be able to access with the 2016 tax levy.

The financial projections have been adjusted to reflect new CPI amounts of 0.5% in 2016 and 0.0% in both 2017 and 2018 tax levies. Governor Rauner's proposal to the Democrats includes a two-year property tax freeze, which would hit Cook County with the 2017 and 2018 tax levies. New property percentages have not been changed. It should be noted that the only new money that would be received in 2017 and 2018 is from the new construction estimates.

The following chart shows the amount of new money that could be expected with the adjustment in CPI:

Tax Levy Year	Original CPI Estimate	Estimate of New Money	New CPI Estimate	Estimate of New Money	Variance in New Money
2016	1.00%	$ 920,432	0.50%	$ 605,689	-$ 314,743
2017	1.00%	$ 931,669	0.00%	$ 291,508	-$ 640,161
2018	1.00%	$ 943,022	0.00%	$ 290,608	-$ 652,414
Total New Money		**$2,795,123**		**$ 1,187,805**	**-$ 1,607,318**

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If this scenario comes to fruition, the District will lose approximately $1.6M. This is only approximate since we do not know what new construction will be over the next three years. The Estimate of New Money represents the total funds that would be available for any increases in expenditures for the next three years. If the District's increase in expenditures exceeds this amount, the fund balance will decrease accordingly. The Estimate of New Money represents my proposal to live within our means to continue to push off a rate increase referendum in the Operations Funds.

The following chart and graph reflects the projected Fund Balance and Days Cash on Hand taking into account that the board will designate the $10M in Working Cash for future capital projects. Based on the board's decision to maintain a 33% or 120 Days Cash on Hand, the District could potentially make it to 2020. This is also predicated on the assumptions made in the Financial Projections regarding future expenditures. Based on living within our means, we will need to make adjustments in future expenditures to continue to push off a referendum for operations. However, I caution the board, that future revenue and expenditures are only estimates in some cases. The District has many unknowns at this time in terms of both revenue and expenditures.

Fiscal Year	Original Projected Fund Balance	Original % Fund Balance	Original Days Cash on Hand	Updated Projected Fund Balance	Updated % Fund Balance	Updated Days Cash on Hand
2016	$ 50,567,162	72.28%	264	$ 50,567,162	72.28%	264
2017	$ 41,109,016	56.41%	206	$ 41,097,050	56.40%	206
2018	$ 40,204,195	53.96%	197	$ 39,711,749	53.30%	195
2019	$ 37,172,917	48.17%	176	$ 35,411,175	45.89%	167
2020	$ 33,356,999	42.28%	154	$ 29,698,918	37.64%	137
2021	$ 28,981,763	35.68%	130	$ 23,700,990	29.18%	107