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COMMUNITY UNIT SCHOOL DISTRICT NUMBER 8
Christian, Shelby and Montgomery Counties, Illinois
(Pana)

PRELIMINARY REPORT III

Prepared By

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306 N. Main St., Suite 3
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Board of Education
Community Unit School District Number 8
Christian, Shelby and Montgomery Counties, Illinois
(Pana)

It is our understanding you are considering issuing Bonds for a capital project within the District. We appreciate the opportunity to be of service to you as you explore these types of financing.

The following is a brief review of some of the questions you may have in regard to your financing options. We hope you find this report a useful tool as you proceed with your project.

1. Who and What is First Midstate?

First Midstate is an investment banking firm located in central Illinois with over 50 years of experience and specialization in the customizing, formulating, voting and marketing of Illinois municipal Bonds. Our location in Bloomington, Illinois, makes us easily accessible to all Illinois locations while keeping us attuned to specific Illinois financing trends and needs.

Throughout our 50+ years of specializing in municipal Bond issues we have assisted a variety of units of local government including Schools, Community Colleges, Colleges, Cities, Villages, Hospitals, Airport Authorities, Park Districts, Road Districts, County Boards, Public Building Commissions and 501(c)(3) entities, most of which have their own unique circumstances. Over 350 units of local government, including over 200 school districts, throughout Illinois have used our services. Our enclosed client list represents many of these units of local government.

We have had extensive experience with many different types of municipal Bond issues and financing methods, i.e., Working Cash Fund Bonds, Life-Safety Bonds, Advanced Refunding Bonds, School Building Bonds, Teachers Orders, Funding Bonds, Insurance Reserve Bonds, etc.

Some of the areas which our clients have found our services helpful are:

- Exploration of various financing methods to best solve the client's need
- Preliminary planning and structuring of debt and proposed maturity schedules
- Preparation of factual information to the public should the Administration and Board of Education so desire
- Assist Bond Attorneys and District representatives in formulating the Bond transaction

2. How might Tax Caps affect Bond Issues?

On Thursday, July 11, 1996, the Governor signed Senate Bill 1511, which permits all downstate counties to authorize a binding referendum on implementing property tax caps. This referendum can be held on any consolidated referendum date as early as **March 20, 2018**.

We would encourage school administrators and board members to visit with their county board representatives with the hope of explaining the damaging consequences of this type of legislation and possibly keeping it off the ballot.

It would seem to be appropriate for all school districts to evaluate both their operating levies and non-referendum authorized bond levies. According to Chapman and Cutler LLP, bond attorneys, the property tax caps would become effective the year a successful referendum(s) is held. For Districts in more than one county, the referendum **does not** necessarily have to pass in all counties. This legislation would become effective when the referendum is held in all counties of the District and passed in a county or counties that comprise over 50% of the District's Equalized Assessed Valuation.

The deadline to complete a non-referendum, unlimited tax rate bond issue is the date of successful passage of the tax cap referendum. Any Bond issue would have to be completed by that date, however it appears that Districts may still have until the last Tuesday in December of that year to file uncapped operating levies.

If tax caps are imposed, schools will be able to issue non-referendum Limited Tax Bonds only within the levy amounts established prior to the caps. Referendum-authorized Bonds are not applicable. **The structure of your outstanding Bonds is significant going into tax caps.** Districts without a non-referendum Bond levy will need direct referendum authorization on all future bond issues.

3. What is a Working Cash Fund?

A Working Cash Fund increases the District's ability to meet its financial obligations. Once the Fund is established, it can be used as an "internal bank account" by the District. In other words, the District can borrow from the Fund to meet its cash flow needs. Borrowing from the fund can be accomplished in different ways.

- Money can be <u>temporarily</u> loaned to any fund which has cash flow needs. Most commonly, these loans are made to the Education Fund, Operations & Maintenance Fund and Transportation Fund. These loans are then repaid with the next funds (tax collections) received by the District.

- Interest earned on the Fund can be <u>permanently</u> transferred to any of the District's other funds.

- The Fund can be completely abolished and the balance <u>permanently</u> transferred to the Education Fund.

- The Fund can be partially abolished (abated) and that amount can be <u>permanently</u> transferred to the Education Fund and from there further transferred to the Transportation or Operations and Maintenance Funds.

The limitation on this fund is a showing balance of 85% of the legally extendable amount for the Education Fund plus 85% of the District's Corporate Personal Property Replacement Tax funds.

4. How is a Working Cash Fund Established?

A District can legally establish a Working Cash Fund with an annual maximum 5¢ levy and/or issuing Working Cash Fund Bonds.

<u>Option 1 - 5¢ Levy</u>

A District is allowed to levy without referendum up to 5¢ per $100 Equalized Assessed Valuation (E.A.V.). This is calculated using the current E.A.V. of the District which does not include any Tax Increment Financing (T.I.F.) valuation. For your District this levy would generate approximately $51,412 per year. As the District's E.A.V. increases or decreases each year the amount of this levy would also change.

<u>Option 2 - Working Cash Fund Bonds</u>

A District can issue Working Cash Fund Bonds which would be repaid from a separate Bond and Interest levy calculated annually based on the District's annual E.A.V. figure. The Working Cash Fund Bonds must mature within 20 years.

5. How many Working Cash Fund Bonds can be Issued?

A District is limited in the number of Bonds they can issue for Working Cash Fund by a combination of 85% of the maximum Education Fund extension, plus 85% of the District's Corporate Replacement Tax annual entitlement, less the greater of the District's current Working Cash Fund balance or currently outstanding Working Cash Fund bonds.

The following are your District's E.A.V. figures for the last three years:

2013	2014	2015	
$96,831,284	$98,993,564	$103,836,154	w/ TIF & EZ
$96,098,534	$98,252,554	$102,824,101	

In the case of your District this limitation would be approximately figured as follows:

Working Cash Fund Potential

2015 E.A.V.		$103,836,154	
Education Rate @ $2.55 per $100 of E.A.V.		$2,647,822	
2017 Estimated Corporate Personal Property Replacement Tax		$253,256	
		$2,901,078	
EST. MAXIMUM WORKING CASH FUND (85% Limitation of Education Fund and CPPRT)			$2,465,916
Less the greater of:	WCF Bonds Outstanding	$0	
	or		
	Balance on Hand in WCF*	$51,918	($51,918)
TOTAL NET WORKING CASH FUND POTENTIAL			**$2,413,998**

***Assumes abatement down to the nickel levy amount.**

The District's statutory debt limit is 13.8% of the District's last certified E.A.V. Bonds issued for Working Cash Fund purposes may be issued, by statutory authority, in amounts which exceed the District's statutory debt-incurring capacity.

Any increase or decrease in the District's E.A.V. will also affect your debt limit. The following shows your District's current debt limit.

Debt Limit

2015 E.A.V.	$103,836,154
13.8% of E.A.V.	$14,329,389
Less Bonds & Certificates (QZAB) Outstanding	$3,334,000
POTENTIAL BONDING CAPACITY	**$10,995,389**

Note that for debt limit and bonding capacity calculations a District's total E.A.V. figures are taken into consideration including any T.I.F. or Enterprise Zone (EPZ) value a District may have. However, for purposes of calculating the tax rate, any E.A.V. directly attributed to the T.I.F. district or EPZ is not included.

6. Why do Districts Issue Working Cash Fund Bonds?

Districts issue Working Cash Fund Bonds due to a current or anticipated deficit financing problem. The two main components that lead to deficit financing are that annual expenses are greater than annual income and that a District has issued Tax Anticipation Warrants (T.A.W.'s) to pay the current year's expenses against the following year's income.

When the County Treasurer(s) distributes the taxes to the District the following year, part of the money has to be used to pay off the T.A.W.'s plus interest (used for the previous fiscal year's expenses) thus leaving a shortage of funds for the current year.

This borrowing against future income to pay past expenses often compounds and creates a larger deficit. When a District issues Working Cash Fund Bonds the new money derived from the issue is intended to cover the current deficit instead of compounding the problem for subsequent years. Most districts in this area have not been successful in retiring T.A.W. indebtedness unless they have built up a Working Cash Fund or have voted a substantial increase in the levy. The issuance of T.A.W.'s in contrast to the Working Cash Fund Bonds, does not have an accompanying increase in the income of the District, which is really the whole problem. In other words, a new additional separate tax levy will be made to liquidate and fully retire the Working Cash Fund Bonds. T.A.W.'s do not have an additional or separate method of retirement from added income and there is also a yearly interest expense attached to them.

Money which does not need to be immediately loaned to another fund can be earning interest for the District and therefore creating additional revenue beyond the original issuance amount. Many Districts refer to Working Cash Fund Bonds as interest free Bonds because the reinvestment earnings and the interest saved from T.A.W.'s can potentially offset interest expense on the Bond issue.

Districts may find that if the accumulated deficit is taken care of, a smaller increase in the Education Fund could more likely be voted. The solvency and programs of the District are at least assured for the time being.

7. How are Working Cash Fund Bonds Issued and Retired?

The Bonds for Working Cash Fund purposes can be issued only after the Board has adopted a proper resolution stating the need to create a Working Cash Fund as well as its intention to issue the Working Cash Fund Bonds. Furthermore, the notice of intention to issue Working Cash Fund Bonds must be published within ten days after adoption by the Board in the newspaper customarily used for publication purposes by the District. If there is no petition signed and filed with the Secretary of the Board by at least 10% of the legal registered voters within thirty days after publication of the notice, then the Bonds may be issued without referendum.

The **next general election at which this question could be voted will be held March 20, 2018.** In the case of Working Cash Fund Bonds which have the potential for petition, the District **would need to adopt a Resolution of Intention and publish a Notice of Intent at least 122 days prior to this election (no later than November 18, 2017) to insure that the question could be voted at this next election.** Therefore, **petitions would need to be received by the District at least 92 days prior to that date (no later than December 18, 2017)**. In addition, the elections of public officials as well as all special purposes including your proposed issue, should it be petitioned, will be held at the same polling places on the same date as all other necessary referenda for any other public body in your county, area or precinct.

Upon the issuance of the Bonds, a resolution is filed with the County Clerk of the Counties in which the District lies and they will, in each and every year while Bonds and Interest are to be paid, levy an additional tax rate upon the taxable property within the District. It shall go into a new, separate Bond and Interest redemption account and it shall pay off the Bonds and Interest as they mature. These Bonds will be part of the legal indebtedness of the District, just the same as School Building Bonds and will have the aforementioned additional tax levy over and beyond the Education Rate, Operations & Maintenance Fund or other legally allowable operating levies of the District.

8. What are Life Safety Projects?

In 1967, all districts in Illinois were required to file a Life Safety survey on each of their buildings with the State. Since that time districts have been required to have a resurvey done once every ten years. Projects are limited to certified architects' estimates and approval by the State. State guidelines determine the scope of the work which can be included in these projects.

9. How are Funds Obtained to Complete Life Safety Projects?

There are currently two methods by which a District can provide the funds for these projects. These methods are no longer mutually exclusive and a District may use both options at the same time.

Option 1 - 5¢ Levy

A District is allowed to levy without referendum up to 5¢ per $100 E.A.V. For your District this levy would generate approximately $51,412 per year. Based on your current and/or projected projects this would not allow the District the opportunity to complete the entire improvement project at one time but would require several small projects over a period of years. The risk involved with this "pay-as-you-go" method is that project costs could increase depending on current construction costs from the originally approved estimates. As the District's E.A.V. increases or decreases each year the amount of this levy would also change.

Option 2 - Life Safety Bonds

A District can issue Life Safety Bonds which would be repaid from a separate Bond and Interest levy calculated annually based on the District's annual E.A.V. figure. The Life Safety Bonds must mature within 20 years.

10. How many Life Safety Bonds can be Issued?

The following computations basically determine the authority of the District to make the levy or issue Bonds.

$+ Total amount of survey estimates (original 1967 plus resurvey additions for energy savings and new safety/health improvements) which have been approved by the Regional Superintendent and the State office for all District buildings.

$- Subtract the amount of yearly Life Safety levies since 1967 and prior Life Safety Bonds issued.

$+ Additions may be made for work completed which cost more than originally estimated if copies of contracts or verifications can be made.

=

$ Remaining authority for additional levies or Life Safety Bonds.

The District is not required to include all approved items in a proposed current project. Recent legislation was enacted which allows districts to levy the 5¢ Life Safety levy while Life Safety Bonds are outstanding.

11. Why do Districts Issue Life Safety Bonds?

Districts issue Life Safety Bonds to complete improvements to school facilities as mandated by law. New legislation requires a district to complete items identified as "urgent" or "necessary" within three years. Some of the advantages to issuing Life Safety Bonds instead of doing projects on a "pay-as-you-go" basis are as follows:

- The buildings of the District will be safe for the pupils attending them sooner. The "pay-as-you-go" method could take years to accomplish.
- The cost of making the improvements could be reduced since contractors usually prefer larger jobs rather than the small yearly contracts presently possible.
- It could prove to be more economical to accomplish the work at present day construction costs should a price increase occur in future years.

- Substantial accomplishment of these improvements could reduce future expenses from the Operations & Maintenance Fund.
- Bond issue monies could be temporarily invested so that interest would be earned during the construction period.

12. How are Life Safety Bonds Issued and Retired?

The Bonds for Life Safety purposes may be issued after the Board of Education has adopted a proper resolution. Prior to the adoption of the resolution, certain necessary facts and showings must be established such as:

1. A ***certified copy of the order*** directing the school district to alter or reconstruct the school building so that it will meet the applicable fire and safety regulations.

2. A ***certified copy of the tax levy resolution***, together with certified minutes to show its adoption.

3. A ***certificate by the school district officials*** to show that there were ***not sufficient funds available in the operations and maintenance fund*** to make the alterations or reconstruction so ordered.

4. The ***certified estimate of the licensed architect or engineer stating the estimated amount needed*** to make the alterations or repairs, together with certified copies of the approvals by the Superintendent of the Educational Service Region (Home County) and the State Superintendent of Education.

5. A ***certificate by the County Clerk*** acknowledging receipt of a certified copy of the tax levy resolution, a certified copy of the order, a certified copy of the architect's or engineer's estimate, and certified copies of the certificates of approval issued by the Superintendent of the Educational Service Region and by the State Superintendent of Education.

6. A ***certificate by the County Clerk of prior years' extensions for Life Safety***. The amount levied together with the amount of past extensions, the amount of prior Life Safety Bond issues, and the amount of the Bond issue may not exceed the amount of Life Safety work approved by the Regional Superintendent and State Superintendent of Education. ***The District must have made a Life Safety levy prior to issuing Bonds.***

Upon the issuance of the Bonds, a resolution is filed with the County Clerks of the Counties in which the District lies and they will, in each and every year while the Bonds and Interest are to be paid, levy an additional tax rate without limitation as to rate or amount which shall go into a separate Bond and Interest redemption account to pay off the Bonds and Interest as they come due and mature. These Bonds will be part of the legal indebtedness of the District, just the same as School Building Bonds are and will have the aforementioned additional tax levy over and beyond the educational rate, building fund or other legally allowable operating levies of the District.

The ***Bonds for Life Safety purposes must mature within 20 years***. This means that one of the questions which a Board is faced with once it decides that it needs to issue or may need to issue Bonds is what length of time the indebtedness should be liquidated over. There is a consideration of tax rates which may affect this decision.

13. What are Alternate Bonds?

Enactment of Public Act 85-1419 provides taxing bodies with another type of Bond issue which combines many of the advantages of Revenue Bonds and General Obligation Bonds. Alternate Bonds or "*double-barreled*" Bonds are General Obligation Bonds that are payable from enterprise system revenues or another revenue source, or both. In addition, the general obligation (property tax) acts as a back-up security for the Bonds if revenues are insufficient. These Bonds do not have to mature within 20 years as do General Obligation Bonds.

Unlike traditional Revenue Bonds, Alternate Bonds do not require the establishment and regular funding of restricted use reserve accounts.

The following conditions must be met before Alternate Bonds may be issued:

a) The Bonds must be issued for a lawful purpose.

b) Alternate Bonds are subject to a backdoor referendum. The District must adopt a resolution stating its intention to issue the Bonds and publish that resolution in the newspaper customarily used for publication purposes. If there is no petition signed by at least 7-1/2% of the registered voters of the District and filed with the Secretary within 30 days after publication, then the Bonds may be issued without referendum.

c) It must be determined that there will be sufficient revenues to pay the maximum annual debt service plus an additional 25% coverage factor at the time the Bonds are issued.

d) The District must pledge to use the indicated revenues for the payment of the Bonds. Alternate Bonds do not count against your General Obligation debt limit as long as they are retired from the pledged revenues and no property tax is extended to repay the Bonds.

14. How will the Bond Issue Notification Act affect the proposed issue?

House Bill 2695 which passed the Legislature during the 1996 session and was updated by Senate Bill 932 during the 1999 session, requires that a public hearing be held for most non-referendum Bond issues prior to adopting the final Bond resolution. Some of the highlights of the Bond Issue Notification Act, as amended, include:

- The hearing required under the Act may be set by the Board or by the Board President.
- The notice of the hearing must be published at least 7 days but no more than 30 days ahead of the date of the hearing.
- The notice of the hearing must be posted at least 48 hours before the hearing at the principal office of the District.
- The hearing may be at a regular or special meeting of the Board.
- The final Bond resolution may not be acted on for at least 7 days following the conclusion of the hearing.

15. How will a Bond Issue Affect the Tax Rate?

In order to have a clear picture of what a Bond issue might do to your District's tax rate, it might be helpful to review the District's previous years' tax rates.

TAX RATE BY FUND	2015/16	2014/15	2013/14
Education	$2.47997	$2.55000	$2.55000
Bonds & Interest	0.66955	0.69926	0.71576
Building	0.48627	0.50000	0.50000
I.M.R.F.	0.21883	0.22901	0.27576
Transportation	0.19451	0.20000	0.20000
Working Cash	0.04863	0.05000	0.05000
Fire Prevention & Safety	0.04863	0.05000	0.05000
Special Education	0.03891	0.04000	0.04000
Liability Insurance	0.60298	0.51908	0.48388
Social Security	0.21883	0.22901	0.27576
Lease	0.04863	0.05000	0.05000
TOTAL	**$5.05574**	**$5.11636**	**$5.19116**

In determining the structure of your District's potential Bond issue project it might be helpful to consider the answers to these questions as they reflect your District's needs.

1. Would the District prefer to retire the debt within a particular time frame? (Bonds must mature within 20 years.)

2. Would the District prefer to maintain, increase or decrease its current Bond and Interest tax rate?

3. How does the proposed Bond issue coordinate with the District's currently outstanding debt and any future debt and/or fund balances?

4. How soon do you need to recover bonding capacity in light of future potential financing?

We wish to be engaged to assist you and your representatives in regard to your proposed project. Our 50+ years of experience and specialization in the formulating, voting and marketing of Illinois school Bonds give us certain advantages which we would like to make available to you. We shall appreciate the opportunity to be of service to you as we have in the past.

Respectfully submitted,

FIRST MIDSTATE INCORPORATED
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Rule G-17 of the Municipal Securities Rulemaking Board ("Rule G-17") requires that we (the "Underwriter") disclose certain information regarding the nature of our relationship with you (the "Issuer") as follows: (A) Rule G-17 requires the Underwriter to deal fairly at all times with both municipal issuers and investors; (B) The Underwriter's primary role is to purchase securities with a view to distribution in an arm's-length commercial transaction with the Issuer, and the Underwriter has financial and other interests that differ from those of the Issuer; (C) Unlike a municipal advisor, the Underwriter does not have a fiduciary duty to the Issuer under the federal securities laws and the Underwriter is, therefore, not required by federal law to act in the best interests of the Issuer without regard to the Underwriter's own financial or other interests; (D) The Underwriter has a duty to purchase securities from the Issuer at a fair and reasonable price, but must balance that duty with the Underwriter's duty to sell municipal securities to investors at prices that are fair and reasonable; and (E) The Underwriter will review the official statement for the Issuer's securities in accordance with, and as part of, the Underwriter's responsibilities to investors under the federal securities laws, as applied to the facts and circumstances of the transaction.