

## **DSEB Bond Plan of Finance**

**Sarah Lager (D220 Assistant Superintendent of Business Services):** We have for many years issued DSEB to cover our capital projects, but we've had a lapse in doing so over the last three fiscal years and the way that we were issuing our DSEB in the past has changed a bit with the market. So I thought this would be a great opportunity, especially with some new Board members who haven't been exposed quite as much to DSEB that we talk a little bit about the history of DSEB, the history of how we've issued DSEB, what we've used it for, as well as recapping the conversation that we had with the Finance Committee about a couple of options. So I'd like to introduce Bob Lewis with PTMA (Public Treasury Management and Advisory Financial Solutions). Bob has helped us through many, many, many things over the last several years. So we appreciate his partnership and his guidance. So I will let him get started with borrowing options for schools.

**Bob Lewis (SVP, Managing Director, PMS Securities):** Well, thank you for having me here tonight. And just to begin with, your ability to issue debt, that authority is derived from the Illinois School Code and it prescribes very specific ways in how you go about accessing and selling municipal bonds. So you have general obligations school bonds. The word general obligation just means there's a separate property tax that's used to pay back the bonds, which was illustrated earlier in your tax levy presentation how that's separate from the rest of the tax levy. You have those bonds which are authorized via referendum. Building bonds, which is all your bonds right now are authorized via referendum. And then you have certain non-referendum bonding authority as well that are also paid from a separate property tax. You have life safety bonds, you currently have none of those outstanding. And then you have bonds payable from the debt service extension base. And those are that type of bond will be the subject of tonight's presentation. And there are other borrowing mechanisms that are available which are not paid from a separate property tax levy. Of those three listed there, the one that you currently utilize are capital leases and you use them for technology, buses, things of that nature, smaller scale financings. You currently do not have any alternate revenue bonds, debt or lease certificates outstanding. So this concept called DSEB, which stands for the debt service extension base, is derived from the tax cap law. So it not only applies to school districts, it applies to many different types of non-home rule units of government, including park districts, community colleges, non-home rules, cities and villages that curtails their ability to borrow on a non-referendum basis. And the way the tax cap went about doing that is it set forth this concept called the DSEB which was determined in the year tax caps applied to the county widely, that was in 1994, or not the county, the School District in 1994. And it was whatever you levied that year to pay the principal and interest on your non referendum bonds. Well, that amount was tied to CPI about a decade and a half ago and today it stands at just under 2.7 million. So that limits your annual levy that you can extend to repay those bonds.

**Lager:** So to be clear, just like, oh, another if we had borrowed a different amount in that year, then our number would be different today.

**Lewis:** Yes. Yeah. It's not totally arbitrary. I mean it was based off a decision the prior School Board made, but it's not tied to the size of the District's budget, tax base or anything like that. And that's why you have several school districts in the Chicago metro area don't even have a DSEB to utilize.

**Lager:** And some have a much greater. Significantly larger.

**Lewis:** Yeah, exactly right.

**Lager:** And of course, when they were issuing debt in that year, they likely didn't know that this was going to be a piece of that puzzle. So historical DSEB for the District. So, between 2001 and 2022, the District had 16 issuances of DSEB. One of those was a five year issuance, which is the maximum amount that our policy allows, and that was for the early learning center. So that is reflecting DSEB issuance every year from 21 to 22.

Historically, these dollars were used for some summer capital projects. And as I mentioned, there's a number of years that we did not do that. And that is attributed to opportunity to take a look at our budget, take a look at our fund balance, take a look at the financials of the District and make decisions. So, over the last several years, specifically this has not been, for lack of a better term, a rubber stamp for the administration to make a recommendation to the Board of Education or for the Board of Education to make that decision for the District.

So, we're going to take a little journey over the last couple of years on our annual building reinvestment. So, in December of 2021, Dr. Bein shared a memo with the Board of Education in the facilities committee. And you have probably seen it a number of times over the last couple of years talking about a model of recommended reinvestment into our buildings based on the dollar value of our buildings and a percentage. So, at that time you saw a chart that looks very similar to this. It was shared that if we are to continue on the 2.5 to \$3 million investment in our buildings, that we would be outpaced by the recommended investment in our building.

That led us to additional ongoing conversations which were continued at the facilities committee meetings as well as the Board of Education. And we determined that we needed an additional tool for us to take a look at what were the needs for the buildings in the entire District over a long-range plan. So, we did a lot of this work in preparation of Build 220. But we knew that we needed to take that information and expand on it and make it more of a living document for us to use long term.

During those years, as I mentioned, we did not issue DSEB. We were able to fund our summer capital projects. So, in addition to our financial choices, we also benefited from interest earnings. We benefited from increased CPPRT, which is Corporate Personal Property Replacement Taxes, which was unexpected. We benefited from reduced spending during COVID when we weren't in person full-time for that period. We did hybrid, we did remote. So that changed our fund balance in those years. And the other item was for a couple of years during COVID it was pretty uncertain of what we'd be receiving in property taxes. We budgeted for lower receipt. We didn't believe that we would get the 99% that we traditionally budget for, but then we did. So there were a couple of years that our surplus exceeded our budget, which allowed us to fund our summer projects.

In December of 2024, we completed our long-range capital planning tool. And then in January of this year, Nicole Cetera and I shared this with the Board at our committee of the whole meeting, we shared the information and we talked more about our long-range planning strategy and talked about ways that we were going to be able to fund that. And then we saw a chart that said we are able to meet our investment in our buildings, which was a huge celebration. And we talked about what that would look like for us. So, the recommendation to meet those needs included DSEB \$500,000 commitment from our operations and maintenance fund, the additional capital investment that we put into our buildings all of the time, which includes repairs and maintenance.

And as a part of the total puzzle, our referendum is included in here as well. But this is just exclusive to what would be coming out of our capital funds and our operating budget. So, for the summer of 2026 we were fully funded. We will be fully funded for the summer of 2027. And then you can see the at least projection at this point for some Future years. Of some years we may be able to accommodate that rather easy in our operating budget. Of course that will be determined each year. But as I mentioned, DSEB has always been part of the funding process.

In March of 2025 this year, our 2026 summer projects were approved by the Facilities Committee. Here is a little snippet for you of some of the work that we're doing. So, we often do or you will often see playgrounds, roofing, paving, maybe some sprinkler or piping work. So that's very consistent with what we're seeing. And then we also have a large lighting project. You'll remember that fluorescent lighting is going to be banned, no longer be purchased and no longer be able to be disposed of. So, we have switched a lot of our buildings and spaces in our buildings over to LED. So, this would complete that project over multiple years. And this is right in line with the \$4.6 million that's recommended for us to invest in our buildings for this summer. | 00:03:47.330 - 00:10:04.040

**Sandra:** I'm sorry, did you say that that lighting will. Will complete the...

**Lager:** It's over two summers. But then we will be in compliance. Then in 25/26 the budget was approved by the Board of Education which did include DSEB. So, we have talked about the history of why we issued DSEB, so, let's talk a little bit about the how we've issued DSEB. As I mentioned, market conditions have changed over the last several years. And since we haven't done this in some time, I'm going to turn it over to Bob to tell us all about DSEB history. Borrowing in the District.

**Lewis:** Yeah, you have a pretty robust debt policy compared to most school districts I work with. In that policy it states that your DSEB borrowings will not extend more than for a period longer than five years, which I think is commendable to restrict yourself in that way because it allows you to get more bang for your buck and because what you pay out your DSEB is not just the principal. When you pay the bonds back, you also have to pay the interest on that. Well, the shorter your financing, the less interest you would pay.

The last time I think it was mentioned earlier that you did a financing of that length was in 2008 and that was financed Early Learning Center. And since then you saw this series of one year borrowings as we've already mentioned, to finance your summer projects. Well, when you first started doing this it was at a time where interest rates were considerably lower from one year and less. We were just coming off The Great Recession, and you may recall the Federal Reserve policy was zero to a quarter percent for over eight years. It was unprecedented.

A little bit other information is when you sell your bonds, when you sell the referendum bonds recently, those are designated tax exempt, which means the interest you pay to your investors, they don't have to pay taxes on it. And that translates to you in an interest rate subsidy that ranges from 1-1/2% less than if you didn't have that tax exemption. Well, when interest rates are at very low levels, the benefit tax exemption compresses and gets very narrow. So, when you are doing the one year borrowings, the difference between taxable and tax exempt on one year borrowing was probably 5 basis points, 0.05%. So, it was very negligible.

So, the strategy that was put in place then was to have the District buy its own bonds. And we were even able to demonstrate that there is a value in doing that at that time because of that compressed value tax exemption. Well, in today's market the yields are much higher and consequently because they're higher, the difference between taxable and tax exempt is wide all across the yield curve. And, when we estimate what would happen if you bought your own bonds today, you would actually not benefit from doing that because you would be giving up the value of the tax exemption. We quantified that in a great detail for the Finance Committee.

So, we explored that and then we also explored doing a direct bank purchase slash public offering, so where you actually get a third party who's going to buy your bonds and they'll benefit from the tax exemption, which means you'll get a lower interest rate. And we believe that's the path you should follow if the Board chooses to proceed with the issuance of the DSEB bonds.

Then secondly, we explored, whenever you're thinking about doing a short term borrowing like this, you should always look at, okay, should we do two 1 year borrowings or one 2 year borrowing? Because every time you issue the bonds you have to pay cost of issuance. So, if you can do 12 year borrowing, you eliminate some of the cost of issuance in that process. And in doing the math, these are all math problems. And when you do the math it shows that it's more efficient to do a single two year borrowing than to do two one year borrowings. You'll still spend it over two years because you have up to three years to spend the money. You'll just reserve the next year's for the and just invest it to that point in time for in either case you have to do a bond hearing which is similar to the tax levy hearing that you'll be doing here soon and also the budget hearing that you just did a couple months ago.

And since if you do decide proceed, you're going to see these documentations. I do want to just clear up some of the vernacular. We say DSEB bonds all the time, but under school code what you're really issuing is a working cash bond payable from the DSEB. So we just kind of shorten it to call it DSEB bonds. You see the documentation. If you proceed, don't be surprised to see bonds.

**Lager:** So as Bob mentioned, we shared a couple of options for the method of sale with the Finance Committee. We went over the financials of those choices. We also shared the options for one issuing of two years, two issuing of one separate year or two issues of separate years. And the recommendation that came from the Finance Committee was to do a direct bank purchase public offering so not to purchase our own bonds so we can take advantage of the tax exempt and to do one issuance for two years instead of two one-year issuances which we have done in the past. So the timeline from here, here of course we talked on October 31st about the financing options and then we're here this evening, December 2nd, the Board would consider a resolution for DSEB.

On the 4th we would publish the publish the notice to intend to issue as well as the intent for the hearing. We would host a hearing at the second meeting in December and then the Board would consider a resolution to approve the bonds in January, which would give us the opportunity to do a bond see sale in January, February and close in February, March.

One of the important elements of issuing DSEB is knowing what CPI is for the year that we're issuing it. So that's the reason that we don't do it in a prior year. We're waiting until the very beginning of the following year so that we truly know what our issuance amount would be. What questions can be answered?

**Lewis:** I'd just add one thing to that timeline is the operating levy you have until the last Tuesday in December to file that with the bond levy. You you're given a couple more months. You have to file with the counties by February 28th. So that's again why it's set up in this timeline. You can't go any further than that if the Board chooses to proceed. So sweet spot is between CPI's release in January and February 28th. Somewhere in there.

**Sandra:** Questions?

**Barry:** So the DSEB that we want to issue is going to help pay for our 2026 summer projects.

**Sandra/Leah:** And 2027

**Lewis:** Correct.

**Leah:** Is it fair to ask the dollar amount difference between the 2 year versus the 1 year and another 1 year money, the savings, because the optics are different to the public. If we do, if we, you know, commit to a one year and then consider next year.

**Lewis:** Yeah, we quantified the benefit to be \$18,000. Now that's, I explained the Finance Committee. That's an estimate because what's factored into that analysis is not just what you borrow at, it's also what you invest the proceeds at. When you borrow, it's fixed. The investment, the proceeds is going to vary on how much of it's left liquid. Ideally, you put it in fixed term rates, but then when you spend it mature, those investments mature. Then you have to spend the money which for a while is going to be invested. So the investment component is variable. You won't know that for sure until it's all done.

**Erin:** That's a benefit for the one issue over two years.

**Lewis:** Yes.

**Erin:** 18,000.

**Lager:** Yes. You would have the option to not issue DSEB if you didn't do two years. My recommendation would still be that we would need those dollars to fund our summer capital projects for future years as well.

**Leah:** Does it also mean that we expect that the rates and the, the borrowing we would do right now, we're projecting into the future that we don't know is going to be better than if we do January and then the next January. Is that a fair question?

**Lewis:** Yeah. We're holding the interest rates constant. And, but you know, if interest rates went down, let's say half a percent, that means you're going to, you borrow half a percent less, but you also invest a half percent. You know, it just depends on what they move. So as long as they move in tandem, your investment rate and your municipal borrowing rate, it should be similar outcome.

**Leah:** Because you're experts.

**Lewis:** Yeah.

**Steve:** Well, and Leah, I would say the other side, you know, Bob articulated well, but it's the, it's the time value. Right? Because I mean, we have that time risk too. So if we wait, you know,

interest rates probably won't go up. They might go down, they might not. We don't really know. The Fed policy is very, you know, to put it lightly, it's very, very unpredictable. And so sometimes it's. I don't know, Bob. I don't know about you, but I. My where my head is at with a lot of these types of things is you. Do you deal with what you know versus what you, you know, be able to project?

**Lewis:** Yeah, for sure. The key thing for the math to work out is once you borrow the money, the rate, if you proceed the rates locked in, you close three weeks later that then those dollars get invested pursuant to your expected expense schedule. If those are left just liquid, well, then you are at risk of the plan working because if rates go down, then your liquid investment rate will go down and then it kind of break. Have a break in this. So it's important to lock up those investments for the map to work out.

**Leah:** Okay, that's helpful.

**Steve:** So, I think we have the recommendation. I think the question is just what does the Board want to do with respect to, you know, how to fund these? Is this the method or is there an alternative that we want to consider or do we want to give the administration a little more leeway with, you know, they took it down. But all the investments that we have planned, can we delay? Can we, you know, reconsider that kind of stuff?

**Sandra:** Is that the. Is that what you're looking for from us tonight?

**Lager:** I am looking for a thumbs up to move forward on DSEB as presented. And if that's not the case, then I'm looking for direction on how to proceed.

**Barry:** Does everybody feel comfortable?

**Sandra:** Four thumbs up. One, two. Looks like you have your direction.

**Lager:** Great. Thank you. So, at our December 2nd meeting, we'll have a resolution for you to review. Thank you.