

**Minutes of the Special Meeting of the Board of Education
Ridgeland School District 122, Cook County, Illinois
Held at District Office, Board Room
6500 West 95th Street, Oak Lawn, IL 60453**

July 27, 2011

1.) The meeting was called to order by the President at 6:45 p.m.

2.) The Pledge of Allegiance was said and the Mission Statement was read.

It was moved by Member Wendt and seconded by Member Sawicki that Member Niceforo be elected Secretary Pro Tempore. There being no objection to the motion, all members present voted "AYE". The motion carried 4-0-0-3.

3.) Roll Call

Present: President Sodaro, Member Sawicki, Member Wendt, Member Niceforo

Absent: Vice President Landingham, Secretary Werner, Member Pulver

Also Present: Tom Smyth, Superintendent

Eric Trimberger, Assistant Superintendent

4.) Comments from Visitors Regarding School or Agenda Items and Petitions

No visitors requested to address the Board.

5.) Unfinished Business ▶

a.) Options for Restructuring Referendum Bond Payments

The Board of Education heard a presentation from John Repsholdt, Financial Advisor, Tom Chapman, Managing Director for Public Finance at Raymond James & Associates, Inc., and Erin Bartholomy, Partner at Chapman & Cutler LLP regarding the options available to the Board of Education to restructure the bond payments issued from the 2000 Building Bond Referendum.

Attached to the minutes is a copy of the presentation.

6.) Comments from Visitors on New Business

No visitors requested to address the Board.

7.) Comments from Board Members

No comments from Board Members.

8.) Closed Session Topic(s) Allowed Under the Illinois Open Meetings Act* (if needed)

N/A

9.) Possible Action After Closed Session

N/A

10.) Future Business

- August 3,4,5 Registration
- August 9 New Teacher Orientation
- August 11 Policy/ Finance Committee Meetings
- August 16 Teacher Institute
- August 17 Student 1st Day – 1 Hour
- August 18 Student 2nd Day – Half Day
Board of Education Meeting – District Office
- August 19 Student 3rd Day – Full Day

11.) Adjournment

It was moved by President Sodaro and seconded by Member Wendt that the meeting be adjourned. There being no objection to the motion, all members present voted “AYE”. The motion carried 4-0-0-3. The meeting adjourned at 9:04 p.m.

► Routine business/ action items in these categories will be taken up under the consent agenda unless a member of the Board requests that a particular item(s) be removed from the consent agenda for further discussion and/or to record a dissenting vote.

* A concise Closed Session for topic(s) allowed under the Illinois Open Meetings Act may be held prior to action on the remainder of the agenda. The topic(s) to be discussed will be included in the motion to go into Closed Session. No votes or other business will be discussed while in Closed Session. When the Board comes out of Closed Session, action can and may be taken.

President, Board of Education

Secretary, Board of Education

School District Number 122 Cook County, IL (Ridgeland Elementary)

Presentation on
Debt Refunding

Prepared by:
John V. Repsholdt
Raymond James &
Chapman & Cutler
July 27, 2011

Introduction

- BOE identified \$36 Million in projects in 2000
- BOE had only \$24 Million on bonding authority
- BOE had two choices
 - Relief from General Assembly
 - Sell Capital Appreciation Bonds at 9% interest to generate extra \$12 Million

Current Situation

- BOE sold non-callable Capital Appreciation Bonds in 2000, 2001, and 2003
- Bond payments were structured at a level tax rate of 57 cents
- Bond Underwriter assumed EAV increase of 12% every three years
- Payments increase significantly every three years
- 2001 Bonds have been paid off

Other Considerations

- It is expensive relative to debt that can be issued today.
- There is no optional early retirement option available to the District.
- A principle owner of the debt does not wish to sell it back to the District.

Options for BOE

- Refund existing debt for a savings
- Refund existing debt to restructure payments
- Take no action

What is a Refunding?

- A refunding is like a mortgage refinancing.
- A refunding can reduce the District's interest cost.
- A refunding can restructure the District's payments.
- A refunding does not eliminate the old debt. Rather, it provides for the payments of the old debt.

How is a Refunding Accomplished?

- Like in a mortgage refinancing, a new debt is created.
- In a mortgage refinancing, the money from the new debt retires the old debt and pays expenses.
- In a refunding the money goes into an annuity to provide for the payments of the old debt on their payment dates in the future, and pays expenses. We call this annuity an Escrow Account.

What Assets go into an Escrow Account?

- Typically the assets are U.S. Treasury Securities that are issued specifically for State and Local Governments – only, and for this purpose (SLGs) that yield about 3% overall.
- Another option is U.S. Treasury Securities or certain “Agencies” of the U.S.A., that are traded in the market on a daily basis.
- A third option is obligations of any State or Local Government such as, municipal bonds.

How does the Safety of U.S. Treasuries and Municipal Bonds compare?

- Both have very low default risk.
- Both make “fixed” payments of interest and principal.
- Treasuries are guaranteed by the Federal Government. Municipals are guaranteed by a State or Local Government.
- State guarantees are like Federal guarantees in that they are backed up by an annual appropriation.
- Local guarantees can be backed up by a property tax that is automatic and separate from the annual appropriation.

How the Markets Compare?

- The Treasury Market is large, liquid and fluid.
 - Any amount of Treasury obligations can be acquired on any banking day.
 - Although liquidity is not a factor, trading spreads for Treasuries are very low and calibrated as $1/16^{\text{th}}$ of 1%. Sometimes as $1/32^{\text{nd}}$ of 1%.
- The subset of the Municipal Market of interest is the antithesis of the Treasury Market.
 - Only about \$4 million of suitable municipals are traded weekly. Of that we expect to acquire \$1 million or less on a weekly basis.
 - Liquidity could be a factor in the future. Trading spreads for municipals are as high as 1%.

What Are Other Considerations For An Escrow Account?

- Cash Flow and Payment Date Matching.
 - Cash Adequacy
 - Idle Cash
 - Perfect Fits
- Yield and Relationship to Cost.
 - Municipals offer higher yield/lower cost than Treasuries, maybe \$4 to \$5 million less in cost
 - Treasuries in Escrow are also subject to yield IRS limitations
- Maintaining a high level of assurance.
 - With Treasuries a high level of assurance has always been assumed
 - Municipals must be reviewed and changes in the future may be advantageous or necessary

What Are the Process Considerations?

- Treasury Escrow Process (Unlimited Amounts):
 - Sell the Refunding Bond Issues.
 - Buy the Treasuries through subscription (SLGs)

What Are the Process Considerations?

- **Municipal Bond Escrow Process**
 - Buy the Municipals through solicitation
 - Use 3 or 4 different municipal dealers
 - Buy in small (\$25K) or large (\$1 mil) trades
 - Buy in Initial Public Offering (IPO)
 - Sell Series C bonds (mini temporary bonds) to the Education Fund
 - Each Series C bond will cover the cost of the day's purchases and expenses
 - Each Series C bond will have new tax levies and abate old tax levies
 - Sell Series D bonds (permanent refunding bonds) to the Market for cash and to replace the "many - mini" Series C bonds
 - Once the amount of Series C bonds accumulates to \$3 million or so
 - Approximately when the "oldest" Series C bond in the Education Fund is 30 days old, more or less depending on the stability of the bond market.

Resolution #1
District issues Refunding Bonds,
Series 2011C ("Mini-Bonds").
District uses Educational Fund
Monies to purchase these bonds.

District is BUYER/INVESTOR of Fixed Income
Securities in the Open Market with its
Series 2011C "Mini-Bonds" creating a
"Security Purchase Portfolio" which is an Asset
of District placed in a separate Escrow Account
and pledged to the payment of the refunded
maturities of The Series 2000 and 2003 Bonds

District Issued Ser. 2000 and Ser.
2003 GO ULT Bonds
Ser. 2000 -- Non-Callable CABS
Ser. 2003 -- Non-Callable CABS

Resolution #2
District issues \$3 million Tranches to the
Market of Current Refunding Bonds, Series
2011D that refunds the District's Series 2011C
"Mini-Bonds"

What are the Risk Considerations?

- There is no interest rate risk for the Treasury Escrow Process since all interest rates are locked in at the same time.
- Using Treasury Bonds locks in a much higher cost / lower yield compared to what is visible for the Municipal Escrow Process. Maybe \$4 to \$5 million more.
- The ratings risk associated with Treasuries is not important to the plan.

Municipal Interest Rate Risk

- Rates could rise while the Education Fund accumulates the Series C bonds and before they can be taken out with the Series D bonds.
- Should this unfavorable circumstance arise, it could reduce the “apparent” savings of the Municipal method
- It could also temporarily halt the continuation of the Municipal process and restrict the \$3 million loan from the Education Fund to the Escrow Fund.

What is the Plan?

- Two Refunding Issues:
 - Issue \$7 million in 2011
 - Issue \$33 million (Treasury Escrow) or \$28 million (Muni Escrow) in 2012
- Attempt to Establish a Favorable Municipal Bond Escrow
 - Buy the Municipals through solicitation Process
 - Attempt to Participate in an IPO
 - Sell Series C bonds (mini temporary bonds) to the Education Fund
 - Sell Series D bonds (permanent refunding bonds) to the Market for cash and to replace the Series C bonds as quickly as possible

What is the Plan?

- Continue to Evaluate and Assess the Process Alternatives
 - Can have a municipal bond escrow and a treasury escrow funded by separate bond issues sold for cash.
 - Report results and compare cost to alternatives based on actual market data

What are the Next Steps?

- Decide on which Escrow should be used
- Decide on the parameters of the first \$7 million Refunding issue
 - Length of Term
 - Debt Service Structure
 - Optional Call Provisions
- Pass resolutions on August 18th BOE meeting
- Begin the marketing process

Questions?

Refunding Issues Combined Repayment Schedule Options

- Within the existing footprint terminating in 2023.
 - Lowest cost of funds
 - Call Option
 - Potential Savings with muni escrow only
 - Interest rate risk to re-structure at the call, one bite on the apple
- Extended to 2031
 - Higher cost of funds
 - Call Option
 - Break even with muni escrow, cost of treasury escrow