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Short-Term Borrowing Alternatives for Illinois School Districts

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Outline

- 1) Options other than external borrowing
- 2) Short-term borrowings: Tax Anticipation Warrants (TAWs) and Lines of Credit



Options other than External Borrowings

- 1) Interfund loans
- 2) Use of Working Cash Fund
- 3) Interfund Transfers
- 4) Transfer of Interest Earnings

Interfund Loans

- ▶ Power of the School Board under the School Code
- ▶ Allows Loans:
 - ▷ From Ed to O&M, Transportation or Life Safety
 - ▷ From O&M to Ed, Transportation or Life Safety
 - ▷ From Transportation to Ed, O&M or Life Safety
- ▶ Must be repaid within 3 years
 - ▷ ROE (ISC) required to withhold certain payments if repayment not made



Use of Working Cash Fund

- ▶ Working Cash Fund Loans
- ▶ Working Cash Fund Abatement
- ▶ Working Cash Fund Abolishment

Use of Working Cash Loans

- ▶ Requires Resolution of the School Board
- ▶ Issued in anticipation of (i) property taxes, (ii) CPPRT or (iii) State Aid (EBF)
 - ▷ Up to 85% of amount extended or to be received
 - ▷ Repaid upon receipt of the property taxes, CPPRT or State Aid (EBF)

Abatements and Abolishment

- ▶ Working Cash Fund Abatements
 - ▷ Requires resolution of the School Board
 - ▷ Constitutes a permanent transfer
 - > Must be made to the fund “most in need”
 - ▷ Must leave an amount in the fund equal to 0.05% of current EAV
- ▶ Working Cash Fund Abolishment
 - ▷ Requires resolution of the School Board
 - ▷ Money is sent to the Ed Fund (effectuated at June 30th)
 - ▷ District can re-create the Working Cash Fund in the next fiscal year

Interfund Transfers

- ▶ Authorized by the School Code
- ▶ Permanent Transfers
 - ▷ Among Ed, O&M and Transportation
 - ▷ From Tort Immunity to O&M
- ▶ Requirements
 - ▷ Resolution Approved by the School Board
 - ▷ Public Hearing
 - > Preceded by newspaper publication 7-30 days prior to hearing
- ▶ Until June 30, 2026, transferred funds do not need to be used for one-time, non-recurring expenditures
 - ▷ “One-time, non-recurring” was an original requirement of section, but this exception (allowing transfers for ordinary, recurring expenditures) has been in place for many years and is likely to be extended beyond June 30, 2026

Transfers of Interest Earnings

- ▶ Authorized by School Code and Local Government Debt Reform Act
- ▶ Requires Board authorization
- ▶ Interest is transferred to the fund most in need
- ▶ Does not apply to:
 - Interest that has been earmarked or restricted by the School Board for a designated purpose
 - Interest on IMRF, Tort Immunity, Life Safety or Social Security Fund investments

Transfers of Interest Earnings (continued)

- ▶ 2009 ISBE rule limits statutory authority to transfer interest
- ▶ The rule—23 Ill. Admin. Code 100.50(a)(4)—provides that, unless a statute or school board resolution provides otherwise, interest earnings become principal as of June 30 of each fiscal year
- ▶ To retain the option of later transferring interest earned during each fiscal year, many school boards annually adopt a resolution designating interest as interest

Short-Term Cash Flow Borrowing Alternatives

- 1) Tax Anticipation Warrants – most frequently used
- 2) Lines of Credit



Issuance process

- Reach out to your financial consultant, local banks or institutional investors and perhaps other school districts
- No school districts borrowed under the Cook County Property Tax Bridge Loan Program (required a bond rating of Baa1 (Moody's) / BBB+ (S&P) or lower to be eligible)
- Consider upcoming Board meeting dates at which Board action may be taken
 - Board may adopt a “parameters” resolution with up to 6 months of authorization to issue debt
- Approximately 30-45 day lead time



Required Documentation

- Minutes Approving Budget and Tax Levy
- Tax Levy Certificate
- Certification of Compliance with Truth in Taxation Act
- Status of Working Cash Fund
 - How much to the credit of the Working Cash Fund?
 - How much loaned, and to what funds?
- Amount of property taxes already received

Tax Anticipation Warrants

- ▶ Issued in anticipation of taxes levied for a specific fund that have not yet collected
 - ▷ Can issue against multiple funds, but will be a separate TAW for each fund
- ▶ State Law Formula determines the maximum borrowing amount

Lesser of : (a) Equalized Assessed Valuation x Fund's Maximum Tax Rate or
(b) Actual amount levied for Fund
(taxes received to date)
x 85%

(Outstanding TAWs)
(Cash in WCF)
(\$ loaned to fund from WCF)
Authorized Issue Size
- ▶ At closing, the district receives the TAW proceeds and interest begins to accrue
- ▶ Paid from anticipated taxes when collected, but a fixed maturity date is permissible (and typical)
 - ▷ Optional call/prepayment at any time is beneficial to save interest costs

Lines of Credit

- ▶ “In lieu of issuing tax anticipation warrants...”
- ▶ Authorizes issuance of “notes, bonds or other obligations” (and in connection with that issuance establish a line of credit)
- ▶ Maximum borrowing amount is determined by TAW statutory formula
- ▶ Interest accrues on amounts advanced, from the date advanced
- ▶ Must be repaid from property tax revenue within 60 days of receipt
- ▶ Only an option if a financial institution is the lender



Tax Matters

- ▶ TAWs and LOC Notes are usually issued on a taxable basis
- ▶ To borrow for working capital on a tax-exempt basis, the district must anticipate an actual deficit within the next 13 months and the issue size is limited to the amount of such deficit

TAW and LOC – Certain Bank Provisions

The purchaser of the TAW or LOC Note may request certain provisions be included in the financing, including:

- 1) Property tax intercept
- 2) Additional bonds test or restriction on further TAW issues without bank consent

The bank offering the line of credit may also charge a non-usage fee during the draw period to defray the cost of maintaining liquidity for possible draws

First Installment of 2025 Taxes

- ▶ Senate Bill 642
- ▶ Passed both houses and sent to the Governor
- ▶ Due date no sooner than April 1, 2026 (pushed back one month)

Other Considerations (Legislation Proposal)

- ▶ Counties, park districts and municipalities can all issue short-term promissory notes for any corporate purpose
- ▶ Such promissory notes are general obligations, but there is no authority to levy an additional tax for repayment
- ▶ School Code would need to be amended to provide similar borrowing authority for school districts

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