FINANCIAL S&LUTIONS

MEMORANDUM

TO:	STATE COLLEGE AREA SCHOOL DISTRICT BOARD OF DIRECTORS
FROM:	FINANCIAL S&LUTIONS LLC
SUBJECT:	LOCAL GOVERNMENT UNIT DEBT ACT (LGUDA) – DEBT ISSUANCE REGULATIONS
DATE:	OCTOBER 28, 2013
CC:	RANDY BROWN – BUSINESS MANAGER

In addition to the Federal laws regulating the issuance of tax-exempt debt, the Commonwealth of Pennsylvania (the 'State") regulates the issuance of debt by municipalities (including school districts). The State's regulations are detailed in the Local Government Unit Debt Act (the "LGUDA"). When the State College Area School District (the "School District") issues debt, the School District's bond counsel (Clark Hill Thorp Reed) and solicitor ensures that all Federal and State legal regulations are followed and provide legal opinions.

Below are some brief highlights of the State regulations contained in the LGUDA that we take into account when structuring debt for the School District.

- General Rule - No bonds or notes can be issued with a maturity date longer than 40 years.
    - No bonds or notes can have a maturity date longer than the useful life of the project or projects being financed – useful life of the project or projects is stated in the Ordinance authorizing the issuance of debt that is adopted by the School District.
- Principal must be amortized at least annually for every year the bonds are outstanding.
    - The School District can defer principal payments for debt issued for a maximum of 15 months from the date the bonds or notes are issued.
    - Example: The School District cannot issue bonds or notes where it only makes interest payments for 10 years and then principal begins to amortize (no balloon payments).
- Each series of bonds or notes issued by the School District must (i) amortize so that the annual debt service payments (principal and interest) are approximately level; OR (ii)

the annual debt service payments (principal and interest) made by the School District's entire debt portfolio will be "brought to more nearly into an overall level annual debt service plan" (wrapped debt service).

- Example: The School District cannot issue bonds or notes which makes the total annual debt service of the School District's entire debt portfolio fluctuate up and down – FY 2017 – total debt service $9,800,000, FY 2018 – total debt service $11,200,000, FY 2019 – total debt service $9,800,000.

In addition to the above, the LGUDA also provides for several other items worth noting with respect to the authorization and issuance of debt by municipalities (including school districts).

- The LGUDA dictates how an Ordinance authorizing the issuance of debt is advertised in the local paper and how may days it needs to be advertised for both prior to a Board meeting and following adoption of an Ordinance authorizing the issuance of debt.

- The LGUDA also specifies what needs to be filed with the Department of Community and Economic Development (DCED) in order for DCED to approve the issuance of debt by a municipality – proofs of pre and post enactment ads in the newspaper, a copy of the Ordinance authorizing the issuance of debt, maximum annual debt service requirements of the debt that was authorized, a schedule showing all of a municipalities outstanding debt service requirements including the maximum annual debt service requirements of the debt that was authorized, etc.

    - Once a filing is received by DCED, there is a mandatory waiting period of 20 days until DCED will approve the issuance of debt. The 20 day waiting period is time for a taxpayer to file an objection to the filing. **NOTE**: Objection can only be made on the procedure of how the Ordinance was adopted, not on the amount of debt or the project being financed by the debt.

- In a competitive bond offering the LGUDA specifies the determination of the highest and best bid.

    - "The highest responsible bidder shall be the one who, having complied with the terms of the official notice of sale, offers to take all of the bonds or notes or any separate lot thereof on which separate bids may be made at the lowest net interest cost to the local government unit…"

    - The net interest cost shall be computed in accordance with section 8169 (relating to the determination of net interest cost and net interest rate).

    - The LGUDA also requires that each bidder provide security in the amount of 2% of the principal amount of the bonds or notes – can be cash or certified bank check.