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To: Robert J. O'Donnell
From: Randy L. Brown and Donna Watson
RE: High School Project Financing Update
Date: August 23, 2013

Since the last board meeting, we have moved forward significantly with closing the financial books for 2012-2013. This updated information has direct implications on not only the financial projections for the district, but also the high school project financing. The 2012-2013 budget was approved with revenues equal to expenses. During the past year, a significant liability was incurred, namely the legal settlement. With this settlement came a payment due of \$6 million in February 2013, leaving an expected deficit for the year.

A review of the financial records thus far results in a conservative deficit estimate of \$2.6 million, including the \$6 million legal expense. Higher than expected earned income tax and tuition /other fee revenue in the amounts of \$1.4 million and \$400,000, respectively, contributed to this result. Lower benefit costs in excess of \$1.6 million including medical insurance, unemployment, and worker's compensation resulted in significantly reduced expenses compared to budget.

In speaking with our tax collector, the increase in earned income tax revenue collections is consistent across the other political subdivisions in the county. Revenue projections for future years have been updated to reflect an increase in collections. The current year increase may be an anomaly; therefore the increase has been adjusted accordingly for the 2013-14 year, and future years reflect an increase to closer approximate average historical increases.

The reductions in unemployment and worker's compensation expense are a direct result of fewer claims. The district expected a savings in medical insurance expense due to the healthcare provider and plan design changes as estimated by our actuarial consultant, in addition to the change in employee contribution rates. Expenses were lower than

expected due to higher than budgeted employee contribution rates for certain employee groups, and a reduced number of employees covered by our insurance plan.

In order to assist the board members in planning for the high school project from a financial perspective, not only have the five year projections been updated to reflect the estimated results of the 2012-2013 fiscal year, but also for two financing scenarios and recognition of the K-8 facility needs. Fund balance analysis for the general and capital reserve funds have been prepared as well. Included in the fund balance for the general fund are the assignments for retirement costs and legal expenses. The capital reserve fund balance has been designated for the K-8 facility needs thus far.

Regarding the high school project, the updated cost estimates for the B and D2 concepts total \$105 to \$115 million. The five year projections have been updated for ten years, through 2024. These projections reflect our best estimates for the district's financial outlook. Revenue and expenses have been projected at either known contractual levels, historical trends, or based upon recent financial results. As we have found when reviewing five year projections in the past, the district's retirement expenses have the potential for resulting in large deficits. More recently, business decisions and financial planning have projected these deficits to occur further in the out years.

Our projections include a significant district contribution to the capital reserve fund for the purpose of funding the K-8 capital needs. Debt service requirements are scheduled to decrease in 2014-2015 by \$1 million. This \$1 million of cash flow has been assigned to the anticipated debt service expense to fund the high school capital needs. The fund balance assigned for future retirement expenses is projected to last until approximately year 2025.

A large portion of the high school project costs are scheduled to be paid for by an increase in real estate taxes. Projections have been calculated at different amounts of referendum debt. Real estate tax increases range from 5.1% to 7.2% for referendum debt service expense to borrow \$62 to \$88 million of the total project cost. These increases assume an interest rate of 4.75%, which is a rate our financial advisor believes is reasonable assuming a 2015 borrowing. The range of borrowing results after the district commits an additional \$10 million from the capital reserve fund and ½ mill to 1 mill of tax revenue from the district budget.

Future capital reserve fund transfers have been thus far designated to fund the K-8 capital needs. Borrowings in the amount of \$17 and \$15 million for K-8 facility projects in future years can be funded with debt service of approximately \$2.5 million annually. In each of the projected scenarios there are funds in the capital reserve fund which could fund these projects.

Attached are four scenarios showing the impact on the general fund and capital fund of funding projects of \$104 million and \$114 million. We've included a projection assuming a \$1 million and \$2 million annual district contribution at each project level. The

estimated percentage increase in real estate taxes is footnoted on the bottom of each scenario at three levels of interest rates.

Based upon these projections, in the event the board desires to set a budget limit for the high school project, the administration recommends a range for \$104 to 114 million at this time. As a final concept is selected and moves through a design process, this budget limit can be refined.

- Factors resulting from and used in determining this recommendation include:

High School – begin construction in 2015 with 30 year debt payoff

Budget limit	\$104 to 114 million
Annual district contribution	\$1 or 2 million (approx. \$16 to \$32 million borrowing capacity)
One-time contribution	up to \$10 million (from capital reserve fund)
Referendum Borrowing	\$62 to \$88 million (depending upon amount of one-time contribution and project cost)
Real estate tax increase	5.1% to 7.2%

K-8 projects – 2019 and 2021

Annual district contribution	\$2 million to \$3 million (funds debt service for initial projects, with additional funds remaining)
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The administration remains committed to operating the district fiscally conservative while providing excellent educational opportunities to the students of the district. This financial plan should allow the district to provide appropriate facilities to provide this education. Achieving these goals and objectives will not be without constant review of district operations, looking for efficiencies, effectiveness, and new opportunities for funding public education.

**State College Area School District
Fund Balance Analysis**

Scenario 1

8.20.2013 \$114 million Project Cost/\$88 million Referendum Bond Issue/\$1 million District Contribution Per Year (1/2 tax mill)

**General Fund
Unassigned**

	Beginning Balance	Operations (1)	Existing Debt Service	1/2 Tax Mill - High School	Additional Debt Service - High School	Additional Tax Revenue - High School (2)	Capital Reserve Transfer	Ending Balance
2012-2013	10,100,000	6,164,427	(6,132,255)				(2,656,582)	7,475,590
2013-2014	7,475,590	11,608,893	(6,350,000)				(5,209,282)	7,525,201
2014-2015	7,525,201	11,578,869	(5,350,000)	(1,000,000)			(4,390,374)	8,363,695
2015-2016	8,363,695	11,444,268	(5,361,000)	(1,000,000)	(1,887,314)	1,887,314	(2,839,186)	10,607,777
2016-2017	10,607,777	10,946,950	(5,341,000)	(1,000,000)	(4,464,787)	4,464,787	(2,915,970)	12,297,756
2017-2018	12,297,756	10,270,749	(5,109,000)	(1,000,000)	(4,742,494)	4,742,494	(2,994,290)	13,465,216
2018-2019	13,465,216	9,914,611	(5,102,000)	(1,000,000)	(4,741,404)	4,741,404	(3,000,000)	14,277,826
2019-2020	14,277,826	9,384,212	(5,012,000)	(1,000,000)	(4,743,751)	4,743,751	(3,000,000)	14,650,038
2020-2021	14,650,038	9,311,185	(4,993,000)	(1,000,000)	(4,740,546)	4,740,546	(3,000,000)	14,968,223
2021-2022	14,968,223	8,982,801	(4,970,000)	(1,000,000)	(4,740,613)	4,740,613	(3,000,000)	14,981,024
2022-2023	14,981,024	8,360,686	(4,881,000)	(1,000,000)	(4,824,760)	4,824,760	(3,000,000)	14,460,710
2023-2024	14,460,710	7,514,479	(4,893,000)	(1,000,000)	(4,812,690)	4,812,690	(3,000,000)	13,082,189

(1) Excludes debt service, new high school impact, and capital reserve transfers; includes routine maintenance.

(2) Estimated % tax increase at various assumed interest rates:

Rate as of April, 2013 (3.57%)	6.3%
Estimated 2015 rate (4.75%)	7.2%
25 year average for AA- PA school district general obligations (5.1%)	7.8%

**State College Area School District
Fund Balance Analysis**

Scenario 1

8.20.2013 \$114 million Project Cost/\$88 million Referendum Bond Issue/\$1 million District Contribution Per Year (1/2 tax mill)

Capital Reserve

Assigned	Beginning Balance	Additions	Uses	Ending Balance
2012-2013	8,900,000	2,656,582	(3,000,000)	8,556,582
2013-2014	8,556,582	5,209,282		13,765,864
2014-2015	13,765,864	4,390,374	(10,000,000)	8,156,238
2015-2016	8,156,238	2,839,186		10,995,425
2016-2017	10,995,425	2,915,970		13,911,395
2017-2018	13,911,395	2,994,290		16,905,684
2018-2019	16,905,684	3,000,000		19,905,684
2019-2020	19,905,684	3,000,000		22,905,684
2020-2021	22,905,684	3,000,000		25,905,684
2021-2022	25,905,684	3,000,000		28,905,684
2022-2023	28,905,684	3,000,000		31,905,684
2023-2024	31,905,684	3,000,000		34,905,684

**State College Area School District
Fund Balance Analysis**

Scenario 2

8.20.2013 \$114 million Project Cost/\$72 million Referendum Bond Issue/\$2 million District Contribution Per Year (1 Tax Mill)

**General Fund
Unassigned**

	Beginning Balance	Operations (1)	Existing Debt Service	1 Tax Mill - High School	Additional Debt Service - High School	Additional Tax Revenue - High School (2)	Capital Reserve Transfer	Ending Balance
2012-2013	10,100,000	6,164,427	(6,132,255)				(2,656,582)	7,475,590
2013-2014	7,475,590	11,608,893	(6,350,000)				(5,209,282)	7,525,201
2014-2015	7,525,201	11,578,869	(5,350,000)	(1,000,000)		-	(4,390,374)	8,363,695
2015-2016	8,363,695	11,444,268	(5,361,000)	(2,000,000)	(887,314)	887,314	(1,839,186)	10,607,777
2016-2017	10,607,777	10,946,950	(5,341,000)	(2,000,000)	(3,464,787)	3,464,787	(1,915,970)	12,297,756
2017-2018	12,297,756	10,270,749	(5,109,000)	(2,000,000)	(3,742,494)	3,742,494	(1,994,290)	13,465,216
2018-2019	13,465,216	9,914,611	(5,102,000)	(2,000,000)	(3,741,404)	3,741,404	(2,000,000)	14,277,826
2019-2020	14,277,826	9,384,212	(5,012,000)	(2,000,000)	(3,743,751)	3,743,751	(2,000,000)	14,650,038
2020-2021	14,650,038	9,311,185	(4,993,000)	(2,000,000)	(3,740,546)	3,740,546	(2,000,000)	14,968,223
2021-2022	14,968,223	8,982,801	(4,970,000)	(2,000,000)	(3,740,613)	3,740,613	(2,000,000)	14,981,024
2022-2023	14,981,024	8,360,686	(4,881,000)	(2,000,000)	(3,824,760)	3,824,760	(2,000,000)	14,460,710
2023-2024	14,460,710	7,514,479	(4,893,000)	(2,000,000)	(3,812,690)	3,812,690	(2,000,000)	13,082,189

(1) Excludes debt service, new high school impact, and capital reserve transfers; includes routine maintenance.

(2) Estimated % tax increase at various assumed interest rates:

Rate as of April, 2013 (3.57%)	5.2%
Estimated 2015 rate (4.75%)	5.9%
25 year average for AA- PA school district general obligations (5.1%)	6.3%

**State College Area School District
Fund Balance Analysis**

Scenario 2

8.20.2013 \$114 million Project Cost/\$72 million Referendum Bond Issue/\$2 million District Contribution Per Year (1 Tax Mill)

Capital Reserve

Assigned	Beginning Balance	Additions	Uses	Ending Balance
2012-2013	8,900,000	2,656,582	(3,000,000)	8,556,582
2013-2014	8,556,582	5,209,282		13,765,864
2014-2015	13,765,864	4,390,374	(10,000,000)	8,156,238
2015-2016	8,156,238	1,839,186		9,995,425
2016-2017	9,995,425	1,915,970		11,911,395
2017-2018	11,911,395	1,994,290		13,905,684
2018-2019	13,905,684	2,000,000		15,905,684
2019-2020	15,905,684	2,000,000		17,905,684
2020-2021	17,905,684	2,000,000		19,905,684
2021-2022	19,905,684	2,000,000		21,905,684
2022-2023	21,905,684	2,000,000		23,905,684
2023-2024	23,905,684	2,000,000		25,905,684

**State College Area School District
Fund Balance Analysis**

Scenario 3

8.20.2013 \$104 million Project Cost/\$78 million Referendum Bond Issue/\$1 million District Contribution Per Year (1/2 Tax Mill)

**General Fund
Unassigned**

	Beginning Balance	Operations (1)	Existing Debt Service	1/2 Tax Mill - High School	Additional Debt Service - High School	Additional Tax Revenue - High School (2)	Capital Reserve Transfer	Ending Balance
2012-2013	10,100,000	6,164,427	(6,132,255)				(2,656,582)	7,475,590
2013-2014	7,475,590	11,608,893	(6,350,000)				(5,209,282)	7,525,201
2014-2015	7,525,201	11,578,869	(5,350,000)	(1,000,000)		-	(4,390,374)	8,363,695
2015-2016	8,363,695	11,444,268	(5,361,000)	(1,000,000)	(1,650,353)	1,650,353	(2,839,186)	10,607,777
2016-2017	10,607,777	10,946,950	(5,341,000)	(1,000,000)	(3,958,298)	3,958,298	(2,915,970)	12,297,756
2017-2018	12,297,756	10,270,749	(5,109,000)	(1,000,000)	(4,201,606)	4,201,606	(2,994,290)	13,465,216
2018-2019	13,465,216	9,914,611	(5,102,000)	(1,000,000)	(4,200,516)	4,200,516	(3,000,000)	14,277,826
2019-2020	14,277,826	9,384,212	(5,012,000)	(1,000,000)	(4,202,864)	4,202,864	(3,000,000)	14,650,038
2020-2021	14,650,038	9,311,185	(4,993,000)	(1,000,000)	(4,199,659)	4,199,659	(3,000,000)	14,968,223
2021-2022	14,968,223	8,982,801	(4,970,000)	(1,000,000)	(4,199,725)	4,199,725	(3,000,000)	14,981,024
2022-2023	14,981,024	8,360,686	(4,881,000)	(1,000,000)	(4,283,872)	4,283,872	(3,000,000)	14,460,710
2023-2024	14,460,710	7,514,479	(4,893,000)	(1,000,000)	(4,271,802)	4,271,802	(3,000,000)	13,082,189

(1) Excludes debt service, new high school impact, and capital reserve transfers; includes routine maintenance.

(2) Estimated % tax increase at various assumed interest rates:

Rate as of April, 2013 (3.57%)	5.6%
Estimated 2015 rate (4.75%)	6.4%
25 year average for AA- PA school district general obligations (5.1%)	6.9%

**State College Area School District
Fund Balance Analysis**

Scenario 3

8.20.2013 \$104 million Project Cost/\$78 million Referendum Bond Issue/\$1 million District Contribution Per Year (1/2 Tax Mill)

Capital Reserve

Assigned	Beginning Balance	Additions	Uses	Ending Balance
2012-2013	8,900,000	2,656,582	(3,000,000)	8,556,582
2013-2014	8,556,582	5,209,282		13,765,864
2014-2015	13,765,864	4,390,374	(10,000,000)	8,156,238
2015-2016	8,156,238	2,839,186		10,995,425
2016-2017	10,995,425	2,915,970		13,911,395
2017-2018	13,911,395	2,994,290		16,905,684
2018-2019	16,905,684	3,000,000		19,905,684
2019-2020	19,905,684	3,000,000		22,905,684
2020-2021	22,905,684	3,000,000		25,905,684
2021-2022	25,905,684	3,000,000		28,905,684
2022-2023	28,905,684	3,000,000		31,905,684
2023-2024	31,905,684	3,000,000		34,905,684

**State College Area School District
Fund Balance Analysis**

Scenario 4

8.20.2013 \$104 million Project Cost/ \$62 million Referendum Bond Issue/\$2 million District Contribution Per Year (1 Tax Mill)

**General Fund
Unassigned**

	Beginning Balance	Operations (1)	Existing Debt Service	1 Tax Mill - High School	Additional Debt Service - High School	Additional Tax Revenue - High School (2)	Capital Reserve Transfer	Ending Balance
2012-2013	10,100,000	6,164,427	(6,132,255)				(2,656,582)	7,475,590
2013-2014	7,475,590	11,608,893	(6,350,000)				(5,209,282)	7,525,201
2014-2015	7,525,201	11,578,869	(5,350,000)	(1,000,000)		-	(4,390,374)	8,363,695
2015-2016	8,363,695	11,444,268	(5,361,000)	(2,000,000)	(650,353)	650,353	(1,839,186)	10,607,777
2016-2017	10,607,777	10,946,950	(5,341,000)	(2,000,000)	(2,958,298)	2,958,298	(1,915,970)	12,297,756
2017-2018	12,297,756	10,270,749	(5,109,000)	(2,000,000)	(3,201,606)	3,201,606	(1,994,290)	13,465,216
2018-2019	13,465,216	9,914,611	(5,102,000)	(2,000,000)	(3,200,516)	3,200,516	(2,000,000)	14,277,826
2019-2020	14,277,826	9,384,212	(5,012,000)	(2,000,000)	(3,202,864)	3,202,864	(2,000,000)	14,650,038
2020-2021	14,650,038	9,311,185	(4,993,000)	(2,000,000)	(3,199,659)	3,199,659	(2,000,000)	14,968,223
2021-2022	14,968,223	8,982,801	(4,970,000)	(2,000,000)	(3,199,725)	3,199,725	(2,000,000)	14,981,024
2022-2023	14,981,024	8,360,686	(4,881,000)	(2,000,000)	(3,283,872)	3,283,872	(2,000,000)	14,460,710
2023-2024	14,460,710	7,514,479	(4,893,000)	(2,000,000)	(3,271,802)	3,271,802	(2,000,000)	13,082,189

(1) Excludes debt service, new high school impact, and capital reserve transfers; includes routine maintenance.

(2) Estimated % tax increase at various assumed interest rates:

Rate as of April, 2013 (3.57%)	4.4%
Estimated 2015 rate (4.75%)	5.1%
25 year average for AA- PA school district general obligations (5.1%)	5.5%

**State College Area School District
Fund Balance Analysis**

Scenario 4

8.20.2013 \$104 million Project Cost/ \$62 million Referendum Bond Issue/\$2 million District Contribution Per Year (1 Tax Mill)

Capital Reserve

Assigned	Beginning	Additions	Uses	Ending
2012-2013	8,900,000	2,656,582	(3,000,000)	8,556,582
2013-2014	8,556,582	5,209,282		13,765,864
2014-2015	13,765,864	4,390,374	(10,000,000)	8,156,238
2015-2016	8,156,238	1,839,186		9,995,425
2016-2017	9,995,425	1,915,970		11,911,395
2017-2018	11,911,395	1,994,290		13,905,684
2018-2019	13,905,684	2,000,000		15,905,684
2019-2020	15,905,684	2,000,000		17,905,684
2020-2021	17,905,684	2,000,000		19,905,684
2021-2022	19,905,684	2,000,000		21,905,684
2022-2023	21,905,684	2,000,000		23,905,684
2023-2024	23,905,684	2,000,000		25,905,684

State College Area School District
Assigned Fund Balance Analysis - PSERS and Legal
8.20.2013

Assigned

	Beginning Balance	Additions	Uses	Ending Balance
PSERS				
2012-2013	11,000,000	515,818	(3,000,000)	8,515,818
2013-2014	8,515,818	56,407		8,572,225
2014-2015	8,572,225		(581,924)	7,990,301
2015-2016	7,990,301		(1,290,544)	6,699,757
2016-2017	6,699,757		(1,464,205)	5,235,552
2017-2018	5,235,552		(1,152,857)	4,082,695
2018-2019	4,082,695		(883,558)	3,199,137
2019-2020	3,199,137		(533,567)	2,665,570
2020-2021	2,665,570		(500,000)	2,165,570
2021-2022	2,165,570		(500,000)	1,665,570
2022-2023	1,665,570		(500,000)	1,165,570
2023-2024	1,165,570		(500,000)	665,570

Legal Liability	Beginning Balance	Additions	Uses	Ending Balance
2012-2013	-	3,000,000		3,000,000
2013-2014	3,000,000	(800,000)		2,200,000
2014-2015	2,200,000	(550,000)		1,650,000
2015-2016	1,650,000	(550,000)		1,100,000
2016-2017	1,100,000	(550,000)		550,000
2017-2018	550,000	(550,000)		-
2018-2019				
2019-2020				
2020-2021				
2021-2022				
2022-2023				
2023-2024				