



STATE COLLEGE AREA SCHOOL DISTRICT

VI-A1

Finance and Operations Office

240 VILLA CREST DRIVE • STATE COLLEGE PENNSYLVANIA • 16801

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To: Board of Directors
From: Randy Brown and Donna Watson
Date: June 27, 2019
Re: Capital Financing Plan

This memo provides information to continue to the capital financing discussion from the most recent board meeting. The desired outcome from this discussion would be selection of the proposed financing options.

Financing Options

The financing options have been updated based upon the prior board meeting discussion. This update reflects increased borrowing in the amount of \$3 million for upcoming North building renovations. These renovations were scheduled to be completed outside of the State High renovations and additions project with funding coming from the general fund deferred maintenance budget.

The recommendation to include funds needed for this project in this borrowing relates to the low interest rate environment, where rates are estimated to be 2.80-3.00% for 25 year financing. The markets continue to rally as interest rates have continued to decrease since the beginning of the year.

In order to incur debt, the district expects the capital project to be viable in the next three years. In reviewing viable capital projects during this period, no other financing needs exist aside from scheduled deferred maintenance projects.

A comparison of the revised financial option with that of the prior board meeting is included in Chart A below.

Chart A

Project	Borrowing 6/17/19	Revised 7/1/19
High School	\$10,000,000	\$6,123,392
Elementary Buildings	\$0	\$2,202,681
Memorial Field	\$11,705,650	\$13,379,577
Playgrounds	\$900,000	\$900,000
North Building	\$0	\$3,000,000
Total	\$22,605,650	\$25,605,650

The differences in Chart A between the borrowing at 6/17/19 and 7/1/19 relate to expected use of funds versus original projections from prior capital financing/project discussion and presentations. This revision more effectively allocates expected use of funds to a specific or expected project.

Refunding Opportunity

As noted in the financial advisors memo attached, the estimated savings of refunding 2012 and 2013 bonds have been revised to \$440,000. An additional \$50,000 savings is possible if this refunding occurs in combination with this bond issuance. Based upon the additional savings potential, the administration recommends including the bond refunding in the new bond issuance, which also provides an opportunity for better recordkeeping.

Method of Sale

The attached memo reviews the available methods of sale. The administration affirms the recommendation of the financial advisor to pursue a negotiated sale for this transaction based upon the market conditions and experience from most recent bond issuances.

Action needed from this meeting:

- Amount of bond issuance should be determined whether to include funds for North building and refunding.
- Method of sale to be selected: Negotiated or Competitive.
- If Negotiated sale transaction is used: selection of Bank of America Merrill Lynch (BoAML) should be confirmed. BoAML has been used successfully in most recent negotiated sale transactions with the district.

- Inclusion of the 2012 and 2013 bond refunding opportunities in this transaction or processing separately.

Next steps

The attachment provided includes the proposed dates of action steps. The parameters resolution would be presented for approval at the next board meeting.

Additional Considerations

- Included in the attachment is capital reserve projections with and without the funding for the North project.
- An additional consideration which has not been included in the projections is proceeds from the upcoming sale of the Lemont building. These resources could then increase the capital reserve fund balance.
- The proposed 7-year call in the bonds would provide flexibility for redemption in 2026-27, although the final decision regarding length of non-call period would be made on bond market conditions at the time of sale.



MEMORANDUM

To: Randy Brown
Donna Watson

From: Tom Beckett, NW Financial Group, LLC.

Date: July 1, 2019

Re: Preliminary Financing Analysis for Memorial Field Project/High School Completion
Preliminary Refunding Analysis, Series of 2012 and 2013.

This memo outlines several options for a 2019 Bond Issue which would finance 1) the Memorial Field Project, 2) the remaining project costs of the State High Project 3) remaining cost of the Elementary School projects and possibly 4) the North Building project costs. We also review and update the economics of refunding the District’s 2012 and 2013 Bonds and discuss timing and method of sale.

Preliminary Financing Analysis for Memorial Field/State High/North Building

For the purposes of this analysis, we have made the following assumptions:

1. The construction requirements, net of previous financings, earnings on project funds, grant funds and donations for each component are shown below.

<i>Purpose</i>	Memorial Field/Playgrounds	Elementary Schools	North Building	High School
Total Project Cost	\$ 13,962,485	\$ 65,120,069	\$ 3,000,000	\$ 142,988,054
Playgrounds (3)	\$ 900,000	\$ -	\$ -	\$ -
Available Funds	\$ (582,908)	\$ (5,497,178)	\$ -	\$ (4,163,753)
Previous Financing & Earnings	\$ -	\$ (57,420,210)	\$ -	\$ (132,700,909)
Total Financing Required	\$ 14,279,577	\$ 2,202,681	\$ 3,000,000	\$ 6,123,392

2. District maintains its ratings at Aa1/AA.
3. Bonds are issued on August 15, 2019 with first interest payment and first principal amortization on June 15, 2020.
4. All components are amortized to produce equal annual debt service.
5. For the purposes of this analysis, bonds are issued with a 7-year call at 100% (Par).

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6. Construction is gross funded, e.g., we have not reduced the amount of financing by estimating interest earned on construction funds. This is a simplifying assumption. The District will earn interest in a construction fund.

The following chart summarizes each component and the projects overall in terms of issue size, proceeds available to spend on the project, All-In Cost, total interest cost to term and Average Annual Debt Service.

	1	2	3	4	5	6
	<i>Component</i>				<i>Overall</i>	
<i>Purpose</i>	Memorial Field/Playgrounds	Elementary Schools	North Building	High School	With North Building	Without North Building
Par Amount	\$ 13,370,000	\$ 2,065,000	\$ 2,810,000	\$ 5,735,000	\$ 23,980,000	\$ 21,170,000
Net Proceeds	\$ 14,400,715	\$ 2,221,400	\$ 3,024,948	\$ 6,174,894	\$ 25,821,957	\$ 22,797,009
Construction Fund Deposit	\$ 14,279,577	\$ 2,202,681	\$ 3,000,000	\$ 6,123,392	\$ 25,605,650	\$ 22,605,650
Term (Years)	25	25	\$ 25	25	25	25
Maturity	2044	2044	2044	2044	2044	2044
All-InTIC	2.99%	2.99%	2.99%	2.99%	2.99%	2.99%
Average Annual Debt Service	\$ 823,175	\$ 126,890	\$ 172,741	\$ 352,960	\$ 1,475,766	\$ 1,303,025
Interest Cost To Term	\$ 6,046,407	\$ 930,494	\$ 1,265,856	\$ 2,592,410	\$ 10,835,167	\$ 9,569,311

Including a potential refunding

The District's 2012 and 2013 Bonds are available for a current refunding this year. The refunding savings on these (in the aggregate) is approx. \$440,000 or 3.43% of the refunded bonds. This assumes a stand-alone refunding issue. By combining this financing with the new borrowing, the District would add at least \$50K to the savings.

Method of Sale Considerations

As we have discussed in the past, there are two ways to sell municipal bonds. In a competitive sale, the District sets the terms of the financing and a sale date and invites interested bidders to provide a single price at which they will purchase the bonds. The highest price bid wins the obligation to buy the bonds. Factors supporting a competitive sale are:

- The District is a strong "Aa1" credit.
- The municipal bond markets are strong with a secular trend of declining interest rates since the beginning of 2019. (See graph below.)
- The size of the transaction is big enough to command the attention of the market.
- The transaction is simple.

In a negotiated sale of bonds, the District would hire one or more underwriting firms, naming one as the lead, or "book running", manager and over a period of a day or two negotiate the terms and

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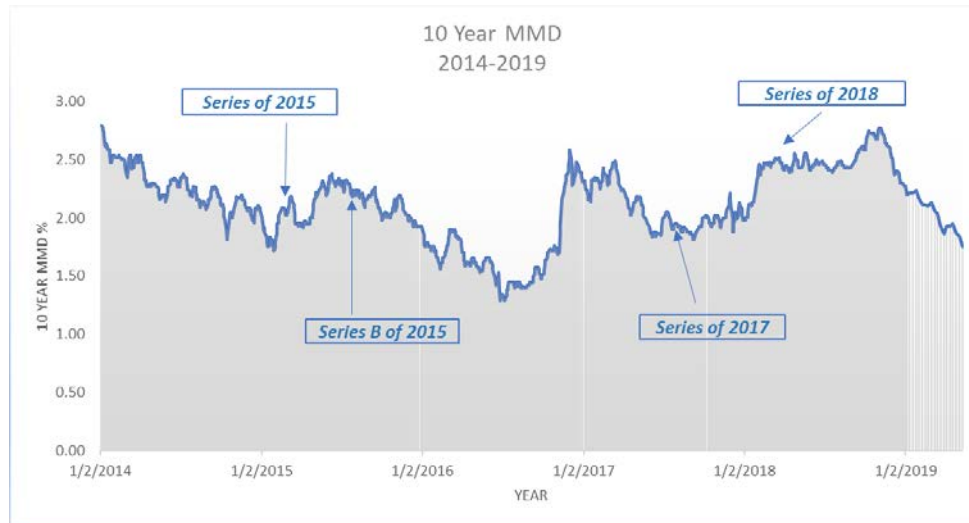
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pricing of your bonds. The District would negotiate a single underwriting discount with the underwriter prior to the sale date. Some advantages of negotiated sales are:

- **Institutional Participation** - For larger issues, a negotiated sale may make it more likely that institutional buyers participate. Institutional buyers must spend time researching your credit and can only ensure that this effort pays off if they know that their orders will be filled by a known underwriter.
- **Local Retail Sales** – Issuers often set a policy goal to ensure maximum local distribution of their bonds to accommodate local investors. In order to do this, the District could have what is known as a “retail only order period”. If the District wants to afford local residents the opportunity to purchase the bonds during a special “retail” order period, a negotiated sale is the only manner in which this can be done.
- **Timing** – With a pre-selected underwriter, an issuer may be able to enter the market one or more weeks sooner than with a competitive sale and can choose not to enter the market if the tone of the market is weak on the day of sale.



Based on recent sales of both competitive and negotiated bonds, credit spreads have narrowed since the last time the District was in the market. Since each transaction has its own credit profile, market timing, amortization, coupon structure, redemption feature, costs of issue and underwriting discount, it is often hard to determine which method of sale is “best”. The District will achieve attractive rates via either method of sale and the non-quantitative aspects discussed above are likely to be important in your decision making. In the event the District elects to continue to use a negotiated sale, our recommendation is to continue with Bank America Merrill Lynch as sole manager.

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Schedule

JULY						
SU	MO	TU	WE	TH	FR	SA
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

AUGUST						
SU	MO	TU	WE	TH	FR	SA
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

SEPTEMBER						
SU	MO	TU	WE	TH	FR	SA
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

Week of	Task	Responsibility
July 1		
	7/1 Board meeting to review plan of finance	I, FA
	7/2 Circulate 2018-19 Projected Financials and 2019-2020 Budget	I
	7/2 Working Group Conference Call	All
July 8		
	7/8 First Draft POS Circulated	UC/FA
	Draft Parameters Resolution Circulated	BC
July 15		
	7/15 Board meeting to approve Parameters Resolution	
	7/17 Comments on First Draft POS due	All
	7/17 Second Draft of POS sent to Rating Agency	FA, I
	7/18 Due Diligence questions circulated	UC
July 22		
	7/25 Rating Agency Calls/ Due Diligence Call	I, FA, U
	First draft of Bond Purchase Agreement (“BPA”) circulated	U, UC
	Financing analysis distributed to Board leadership	FA
August 5		
	8/7 Receive Ratings	I, FA
	8/7 Post POS	UC
August 12		
	8/12 Retail Pre-Marketing	U
	8/12 Pre-Pricing Call	FA, I, U
	8/13 Price and Sell Bonds	I, U, FA
	8/13 Sign BPA	I, U
	8/15 Final Draft of Official Statement Circulated for comment	All
	8/14 Conditional Call Notice Issued	BC
August 12		
	8/15 BPA filed with DCED	BC
	8/16 Official Statement Posted	FA, UC
Sept 9		
	9/18 Bond Closing	All

Legend:

I	Issuer – State College Area School District	U	Underwriters –
S	Solicitor	PA	Paying Agent
FA	Financial Advisor – NW Financial	UC	Underwriter’s Counsel –
BC	Bond Counsel – Clark Hill		

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Note: Includes North Building

	B	C	Q	R	S	T	U	V	W	X	Y	Z	AA	AB	AC
49	State College Area School District														
50	Capital Reserve Fund														
51	6/26/19														
52															
53			Actual	Budget	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected
54			<u>2017-2018</u>	<u>2018-2019</u>	<u>2018-2019</u>	<u>2019-2020</u>	<u>2020-2021</u>	<u>2021-2022</u>	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>	<u>2027-2028</u>	<u>2028-2029</u>
55															
56	Beginning Balance		\$53,956,685	\$59,460,685	\$62,683,123	\$62,775,791	\$59,227,936	\$54,330,946	\$49,395,765	\$44,232,481	\$41,121,965	\$38,156,788	\$32,391,308	\$27,368,218	\$22,062,616
57															
58	Additions:														
59	Transfer		7,963,300	1,640,000	4,809,000	1,783,500	1,372,000	1,432,000	1,302,500	1,126,200	1,331,500	995,000	1,853,500	1,668,500	3,785,000
60															
61	Donation/Net Investment Earnings		763,138	989,214	1,100,000	1,055,516	984,559	886,619	787,915	684,650	622,439	563,136	447,826	347,364	241,252
62	Total Additions		8,726,438	2,629,214	5,909,000	2,839,016	2,356,559	2,318,619	2,090,415	1,810,850	1,953,939	1,558,136	2,301,326	2,015,864	4,026,252
63															
64	Uses:														
66	Elementary (1)			(3,444,319)	(3,444,319)	(3,441,200)	(3,444,450)	(3,444,700)	(3,444,600)	(3,445,600)	(3,443,350)	(3,442,850)	(3,443,850)	(3,441,100)	(3,439,600)
67	High School (2)					(352,960)	(352,960)	(352,960)	(352,960)	(352,960)	(352,960)	(352,960)	(352,960)	(352,960)	(352,960)
68	Elementary (3)					(126,890)	(126,890)	(126,890)	(126,890)	(126,890)	(126,890)	(126,890)	(126,890)	(126,890)	(126,890)
69	Nittany Ave/Fairmount/Memorial Field/Playgrounds (4)					(823,175)	(823,175)	(823,175)	(823,175)	(823,175)	(823,175)	(823,175)	(823,175)	(823,175)	(823,175)
70	North Building (5)					(172,741)	(172,741)	(172,741)	(172,741)	(172,741)	(172,741)	(172,741)	(172,741)	(172,741)	(172,741)
71	Middle School (6)					-	-	-	-	-	-	(2,405,000)	(2,404,800)	(2,404,600)	(2,404,400)
72	Athletic/Recreation Facilities (7)					-	-	(2,333,333)	(2,333,333)	(2,333,333)	-	-	-	-	-
73	MNMS HVAC					(879,750)	(879,750)								
74	South Track Lighting					(220,605)	(220,605)								
75	North Field Lighting					(441,209)									
76	North Field Turf					(830,450)	(369,550)								
77	Total Uses		-	(3,444,319)	(5,816,332)	(6,386,871)	(7,253,549)	(7,253,799)	(7,253,699)	(4,921,366)	(4,919,116)	(7,323,616)	(7,324,416)	(7,321,466)	(7,319,766)
78															
79	Net Change		8,726,438	(815,105)	92,668	(3,547,855)	(4,896,991)	(4,935,180)	(5,163,284)	(3,110,516)	(2,965,177)	(5,765,480)	(5,023,090)	(5,305,602)	(3,293,514)
80															
81	Ending Fund Balance		\$62,683,123	\$58,645,580	\$62,775,791	\$59,227,936	\$54,330,946	\$49,395,765	\$44,232,481	\$41,121,965	\$38,156,788	\$32,391,308	\$27,368,218	\$22,062,616	\$18,769,103
82															
84	<i>(1) Elementary: Series 2018 Bonds - debt service for 25 years to fund \$56.9 MM @ 3.72%. Debt service for the Series 2018 Bonds is to be paid from the Capital Reserve Fund.</i>														
85	<i>(2) High School Funding: Includes \$6.1 MM financed over 25 years. Assumed All-in TIC of 2.99%, which reflects estimated rates as of June 2019.</i>														
86	<i>(3) Additional borrowing in 2019-20 of \$2.2 million. Original borrowing assumed use of a portion of the 2017 bonds.</i>														
87	<i>(4) Memorial Field/playgrounds(3) - assumes \$13.4 MM over 25 years. Assumes All-in TIC of 2.99%, which reflects estimated rates as of June 2019.</i>														
88	<i>(5) North building: Assumes \$3 million over 25 years. Assumed All-in TIC of 2.99%, which reflects estimated rates as of June 2019.</i>														
89	<i>(6) Middle School: Wrapped debt service for 25 years to fund \$60 MM @ 4%.</i>														
90	<i>(7) Assumes estimated \$7.6 million for Athletic/Recreation Facilities is funded from Capital Reserve.</i>														
91															
92															
93	Assumptions:														
94	<i>Debt service calculation from NW Financial.</i>														
95	<i>Borrowing potential may change as a result of interest rate movement.</i>														
96	<i>Debt service based upon level repayment with the exception of (6).</i>														

Note: Does not include North Building

	B	C	Q	R	S	T	U	V	W	X	Y	Z	AA	AB	AC
49	State College Area School District														
50	Capital Reserve Fund														
51	6/26/19														
52															
53		Actual	Budget	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected
54		<u>2017-2018</u>	<u>2018-2019</u>	<u>2018-2019</u>	<u>2019-2020</u>	<u>2020-2021</u>	<u>2021-2022</u>	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>	<u>2025-2026</u>	<u>2026-2027</u>	<u>2027-2028</u>	<u>2028-2029</u>	
55															
56	Beginning Balance	\$53,956,685	\$59,460,685	\$62,683,123	\$62,775,791	\$59,400,677	\$54,679,882	\$49,924,422	\$44,944,452	\$42,020,916	\$39,246,459	\$33,675,513	\$28,850,849	\$23,747,641	
57															
58	Additions:														
59	Transfer	7,963,300	1,640,000	4,809,000	1,783,500	1,372,000	1,432,000	1,302,500	1,126,200	1,331,500	995,000	1,853,500	1,668,500	3,785,000	
60															
61	Donation/Net Investment Earnings	763,138	989,214	1,100,000	1,055,516	988,014	893,598	798,488	698,889	640,418	584,929	473,510	377,017	274,953	
62	Total Additions	8,726,438	2,629,214	5,909,000	2,839,016	2,360,014	2,325,598	2,100,988	1,825,089	1,971,918	1,579,929	2,327,010	2,045,517	4,059,953	
63															
64	Uses:														
66	Elementary (1)		(3,444,319)	(3,444,319)	(3,441,200)	(3,444,450)	(3,444,700)	(3,444,600)	(3,445,600)	(3,443,350)	(3,442,850)	(3,443,850)	(3,441,100)	(3,439,600)	
67	High School (2)				(352,960)	(352,960)	(352,960)	(352,960)	(352,960)	(352,960)	(352,960)	(352,960)	(352,960)	(352,960)	
68	Elementary (3)				(126,890)	(126,890)	(126,890)	(126,890)	(126,890)	(126,890)	(126,890)	(126,890)	(126,890)	(126,890)	
69	Nittany Ave/Fairmount/Memorial Field/Playgrounds (4)				(823,175)	(823,175)	(823,175)	(823,175)	(823,175)	(823,175)	(823,175)	(823,175)	(823,175)	(823,175)	
70	Middle School (5)		-	-	-	-	-	-	-	-	(2,405,000)	(2,404,800)	(2,404,600)	(2,404,400)	
71	Athletic/Recreation Facilities (6)		-	-	-	(2,333,333)	(2,333,333)	(2,333,333)	-	-	-	-	-	-	
72	MNMS HVAC			(879,750)	(879,750)										
73	South Track Lighting			(220,605)	(220,605)										
74	North Field Lighting			(441,209)											
75	North Field Turf			(830,450)	(369,550)										
76	Total Uses	-	(3,444,319)	(5,816,332)	(6,214,130)	(7,080,808)	(7,081,058)	(7,080,958)	(4,748,625)	(4,746,375)	(7,150,875)	(7,151,675)	(7,148,725)	(7,147,025)	
77															
78	Net Change	8,726,438	(815,105)	92,668	(3,375,114)	(4,720,795)	(4,755,461)	(4,979,970)	(2,923,536)	(2,774,457)	(5,570,946)	(4,824,665)	(5,103,208)	(3,087,072)	
79															
80	Ending Fund Balance	\$62,683,123	\$58,645,580	\$62,775,791	\$59,400,677	\$54,679,882	\$49,924,422	\$44,944,452	\$42,020,916	\$39,246,459	\$33,675,513	\$28,850,849	\$23,747,641	\$20,660,568	
81															
83	<i>(1) Elementary: Series 2018 Bonds - debt service for 25 years to fund \$56.9 MM @ 3.72%. Debt service for the Series 2018 Bonds is to be paid from the Capital Reserve Fund.</i>														
84	<i>(2) High School Funding: Includes \$6.1 MM financed over 25 years. Assumed All-in TIC of 2.99%, which reflects estimated rates as of June 2019.</i>														
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