



Randy L. Brown, Business Administrator
131 West Nittany Avenue
State College, PA 16801
814-231-1021
rlb21@scasd.org

IV

To: Board of Directors

From: Robert O'Donnell
Randy Brown

Date: November 14, 2013

Subject: State High Project Financing

The discussion of the State High Project financing at the November 11, 2013, board meeting included a wide variety of scenarios and considerations. Following further consideration, administration has narrowed down the list of financing opportunities for discussion purposes.

The selected opportunities fund the project at \$115 million with the district committing \$10 million in resources upfront as well as through an annual general budget allocation. Assuming an interest rate of 5.3%, the 25 year historical average for bonds of our current rating AA-, the rate of tax increase required to fund the debt service on the referendum debt ranges from 6.44% to 7.22%. The lowest rate of increase requires an initial district annual allocation of approximately 75% of a mill of tax revenue, while the highest rate requires only 50% or one-half of a mill.

The administration recommends the board set a maximum parameter for an initial district millage allocation of 75% or three-quarter of a mill of tax revenue, \$1,560,000. The district's millage allocation will increase as current debt service requirements decrease thus providing additional capacity.

This recommendation includes an increased level of district allocation from the 50% or one-half mills previously discussed. At this level of debt service for the State High project we project the capital reserve fund would have sufficient resources to fund \$4 million in annual debt service by 2021 for additional district capital facilities projects.

Scenarios using similar district allocations at the 4.75% interest are also shown as points of comparison. Since the interest rates for the actual bond offerings will not be known until the transactions are completed between one to three years from now, the lower interest rate shows a potentially lower referendum debt tax increase. Additionally, we should be mindful of the

potential effect an improved bond rating will have on our interest rate. Administration is working diligently to obtain an improved bond rating and will share updates as appropriate.

As further cost estimates are refined, setting a guide for the district annual allocation amount provides direction for the administration in regards to future general and capital budget planning and should support the board's framework for setting the amount of the referendum.

State College Area School District

State High Project Financing

	Project Cost	Referendum Debt	SCASD Contribution Debt	Total Debt	SCASD Upfront Contribution	SCASD Annual Allocation	SCASD Annual Millage	Interest Rate	Referendum Millage	Referendum % Increase (1)
D 2	115,000,000	85,675,000	19,325,000	105,000,000	10,000,000	1,040,000	0.50	5.30%	2.80	7.22
I 4	115,000,000	76,300,000	28,700,000	105,000,000	10,000,000	1,560,000	0.75	5.30%	2.50	6.44
I 3	115,000,000	72,035,000	32,965,000	105,000,000	10,000,000	1,560,000	0.75	4.75%	2.23	5.76
I 2	115,000,000	74,570,000	30,430,000	105,000,000	10,000,000	1,440,732	0.69	4.75%	2.31	5.95

Note:

The referendum debt will be borrowed over a period of years from design through construction, following a successful referendum election. The tax millage necessary to fund the debt service (principal and interest) for the referendum debt will be assessed to taxpayers over a period of years. In the scenarios discussed to this point borrowings occur in each of the next three fiscal years. A portion of the tax millage (increase) will be added or charged on the district real estate tax bills to taxpayers over these years, only in the amount necessary to pay the debt service due in those respective years. The final total millage for the referendum debt is estimated to equal those included above once the full debt service payment is in approximately three years. The millage and percentage increase is calculated as in relation to the current assessed value and tax rate.