

Pittsford Central School District

Capital Project, Debt Service & State Building Aid Overview



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Intent

It is important to understand the *typical* progression of a capital project and the resultant impact on State Building Aid, Short and Long Term Borrowing and resultant net impact on the Tax Levy and NYS Property Tax Cap

This presentation will provide a brief education on the progression.

We will transition to the Debt Service Projection Presentation given in October 2012 and utilize the information from above to explain the estimates at that time and current status

It is important to recognize that the project is not complete and we have not issued long-term bonds, so various factors outside of the District's control, such as laws and the economy, could change the estimates.

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AGENDA

1. Education
 - a. Introduction
 - b. Seven Segments of a Capital Project
 - i. Pre-Referendum
 - ii. Referendum
 - iii. Post Referendum – Plans and Specifications Approval
 - iv. Bidding and State Aid
 - v. Construction
 - vi. Closeout and Reporting
 - vii. Financing and State Aid
 - c. Case Study – Example
 - d. Complications
2. 2012 Infrastructure and Athletic Field Project (application of above)

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The nature of most capital projects:

- **Multiyear** from inception to completion of construction, issuance of debt or cash payment and receipt of building aid
 - Process can take 5 to 30 years to complete (idea to payoff)
 - Process full of variables – **things are likely to change**
 - Best approach – **conservative and prudent planning**
 - District's **plan must be nimble** to react in timely manner to certain changes

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Phases of a Capital Project

1. Pre-referendum

- Using Building Condition Survey and Long Range Facilities Plan identify facility repairs, needs, enrollment or program drivers
- Develop an overarching plan and design
- Work with various stakeholders for input and prioritization of needs to drive plan
- Estimate costs/budget, state aid, financing and tax impact

2. Referendum

- Present proposed construction plan to voters
- Resolution provides district with authorization to **expend up to** a specified amount of money to construct or renovate a **scope of work**
- Resolution also specifies **how project will be financed** - tax levy, long-term obligations, budgetary appropriation, capital reserve utilization, other sources, or combination
 - If referendum does not receive approval of 50% +1 of voters present, referendum is defeated and cannot move forward
 - If referendum is successful, district moves to the next phase

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3. Approval of Plans and Specifications

- District now has authorization to expend funds on architects and engineers to develop pre-referendum design into very detailed plans and specifications for submission to NYSED Facilities Planning (FP), who is the **building code compliance** agency for NYS Public Schools
- Depending on complexity of project, and if a high-volume time for FP department, this can be a **long and arduous process**
 - FP will review plans, ask many questions, require changes, may delete scope but often adds scope to project, resulting in a tightening of the budget and need to reprioritize, redesign

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4. Bidding and State Aid

- Once NYSED Facilities Planning approves plans and specifications, they are compiled into Construction Bid Documents for primary trades to bid for the work
- Bids are opened, carefully reviewed, compared with budget and determined if the bids are within budget and scope of work
- If so, bids are presented to Board of Education for award of contracts
- Once contracts are signed, district files notification with NYSED State Aid to inform department that there is an approved project, amount of expenditure, funding and NYS should include this information in their database so they can plan to initiate state aid payments in the future

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5. Construction

- Construction commences
- Not uncommon for scope of work to be modified either nominally or significantly, based on field conditions, unknown items
- Change of scope is a Change Order to the contract and could be an addition or deletion of scope and cost
- Since Change Orders also include a change of design, they must be submitted to the NYS FP for approval

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6. Project Closeout and Reporting

- Construction draws to a completion
- Scope and quality of work performed receives final detailed review by architect/engineer (A/E)
- A/E in conjunction with the construction manager (CM) and district assure the requirements of contract were performed by contractor
- If substantially satisfied, a Certificate of Substantial Completion is filed with district and NYSED FP
- If not satisfied, district has withheld a portion of the contract and will refuse to process final payment application to contractor
- Once final payments have been let, district compiles all data in NYS format, Final Cost Report (FCR)
- A separate FCR is filed for each NYS approved and issued project number
- District works closely with the A/E, financial advisor and CM on maximizing the resultant Building Aid

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7. Financing and State Aid

- For Chapter 97 projects, NYSED will not initiate payment of State Aid until latter of eighteen months after issuance of Commissioner's project approval or when Final Cost Reports are filed
 - NYS review of FCR's can be another long, arduous process:
 - State Aid Department may have questions, request information or documents
 - may qualify or disqualify items for Aid Eligibility and district may disagree and seek remediation
 - Once process is complete, NYSED State Aid Department is notified and district receives various reports that explain the aid calculation
- Depending on how district intended to finance the project, it is likely at some point district will issue debt to provide cash flow to cover expenses since Building Aid will not be paid until later date and aid payments will be spread over 5 to 20 years
- To minimize Net Local Impact, which is the Debt Service (payments) minus the State Building Aid received, the district not only manages the construction, but tries to do so in a manner that will best match timing of aid payments to debt service expenses

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Example

In March 2012, district voters approved a \$1m capital project for roof and HVAC replacement at its high school. They also approved the funding using \$200,000 from the Capital Reserve and to issue obligations (debt).

- It is expected that the A/E design, SED approval (Feb 2013) of the plans and specifications and the award of construction bids will take 1 year (April 2013). It is also anticipated that the \$200,000 from the Capital Reserve will provide the cash flow to pay the expenses incurred during this time.
- Due to the nature of work, and to not disrupt instruction, the work is expected to be performed during the summer months of 2013 and 2014.
- The district has a strong aid ratio of 70% and it is believed that all the scope is eligible for aid.

Therefore, the quick thumbnail of the Cost to Aid analysis:

- \$1m cost less \$200,000 from Capital Reserve = Max Borrow Amount \$800,000
- \$1m cost less \$700,000 from State Aid = Net local cost or Tax Levy of \$100,000
- Unfortunately, the above financials are assuming everything is cash basis and happens at once. As previously discussed, State Aid is paid over 15 years for renovation work, and the district does not have the cash flow to front load or pre-pay the construction costs. They need a revenue/cash flow stream along the way.

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- This is where long and short term borrowing enter to provide cash flow to pay immediate expenses and attempt to synchronize long-term debt payments to coincide with state aid revenues.
- The State Aid is predicated on an “Assumed Amortization Schedule,” where the State virtually borrows funds equal to the approved project expenses and then applies the Building Aid and other factors to it to determine an annual long-term Building Aid payment.
 - As demonstrated above \$1m project is eligible for aid. NYS amortizes this amount at an assumed interest rate, (based on a NYS average) of 3.25%. Therefore, NYS will pay approximately \$58,500 per year for 15 years.
 - The aid will become payable the latter of:
 - SED approval (Feb 2013) of the project plus 18 months = Aug 2014, or
 - After the Final Cost reports are submitted Dec (2014) and reviewed by SED
 - Therefore, aid will be payable during the 2015-16 school year at best

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- The district will use the \$200,000 from the reserve to pay expenses through June 2013, but a cash flow source is needed to pay the contractors during the 2013-2015 construction and closeout work.
 - In June 2013, the district issues Bond Anticipation Notes (BAN) in the amount of \$800,000 for one year
 - In June 2014, the BAN becomes due and the district needs to repay \$820,000 for principal and interest on the first BAN. It issues a second BAN for six months, however, due to being a reissue a principal payment of \$80,000 is required. The second BAN is issued for \$720,000
 - This principal and interest payment (\$100,000) may either be built into the project under capitalized interest, and/or General Fund budgetary appropriation, and/or use of fund balance
 - In December 2015, the second BAN becomes due in the amount of \$727,000 for principal and interest. State Aid is not flowing, but the Final Cost Reports are submitted and aid will be paid next school year, so the district issues the Long-Term Capital Bonds in the amount of \$720,000 (the \$7,000 of interest on the second BAN was paid through capitalized interest)

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- The voters authorized up to \$800,000 in long-term debt, however the district managed the project in a manner that only \$720,000 was issued for a period of 15 years at 3% interest. This will yield an annual Debt Service payment of approximately, \$60,400 per year
- The net average annual Tax Levy Impact will therefore be:
 - Annual District Debt Service payments of \$60,400 for 15 years
 - Annual State Aid Assumed Amortization of \$58,500 for 15 years
 - Net Average Annual Tax Levy (local impact) of \$ 1,900 per year, 15 years

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- NYS Property Tax Cap implications:
 - The “Net Local Impact” of \$1,900 (Debt less State Aid) under the law is an “exclusion” from the Tax Levy Limit calculations and then is added to the limit to arrive at the Tax Cap.
 - The reason being, the voters have already voted on and approved the debt service payments, at the project referendum.
 - Our example district had a 2014-15 Tax Levy of \$2m. For simplicity, we will assume no debt service from prior projects or Payments In Lieu of Taxes implications.

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- The Tax Base Growth Factor for the community as determined by the NYS Comptroller was 1.0028 and the CPI is 1.5%. Therefore, the Tax Cap calculates as follows:

2014-15 Tax Levy	\$2,000,000	
Times Tax Base Growth Factor	x 1.0028	
Times CPI	<u>x 1.5%</u>	
Equals Tax Levy Limit	\$2,035,684	a 1.78% increase
Exclusion Items		
Debt Service	\$60,400	
Less Bldg Aid	<u>\$58,500</u>	
Total Exclusion Items	<u>\$1,900</u>	
2015-2016 Property Tax Cap	\$2,037,584	a 1.88% increase

- Based on the Taxable Assessed Value of the district, the tax rate impact of the \$1,900 local portion of the debt service would be \$0.0166 per thousand of assessed value, or for the average \$250,000 home owner (without STAR Exemptions or Credits), their tax invoice would increase \$4.15 due to the capital project

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- Some real-life items can complicate the above example:
 - Some projects are done in multiple phases due to the complexity and the amount of time needed for the total project. As one phase is completed, final cost reports may be filed while the rest of the project occurs. Therefore, Building Aid may flow early and a need for staggered debt issuances may be required to coordinate the timing of filing SED documents.
 - Finding unanticipated conditions (pipe or electrical in a wall, asbestos, etc.) that will delay work, drive up costs, change the schedule
 - Unfavorable issues with a contractor and need to fire and find replacement, litigation delays and costs
 - Supplies and products not delivered timely
 - NYSED takes much longer than anticipated to approve the project
 - Upon completion of project and review of Final Cost Reports, SED excludes or partially excludes various items from being eligible for aid, thereby reducing the State Aid to be received
 - Economy and interest rates can change drastically in the several years between planning a project and filing the final paperwork
 - NYS changes Capital Project and/or Building Aid laws and regulations
 - Building code changes during the project and district is required to implement unknown remedies

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Transition to October 2012 Debt Service Presentation
– This was an estimate based on the information at that time. The project is not complete and long-term borrowing has not been conducted at this time. Therefore numbers are estimates.



PITTSFORD CENTRAL SCHOOL DISTRICT

**Repairs, Renovations &
PE/Athletic Field Capital Project
October 2012**

**Estimated Debt Service,
Building Aid & Tax Levy
Impact Samples**

Example – Propositions 1 & 2

- **Assumes both Propositions are Approved by Voters**
 - **Cost** **\$43,131,786**
 - **Proposition #1** **\$35,567,898**
 - **Proposition #2** **\$ 7,563,888**
 - **Less Funding Sources** **(\$13,392,000)**
 - **Capital Reserve Fund** **\$12,500,000**
 - **Community Fundraising** **\$ 892,000**
 - **Balance to be borrowed** **\$29,739,786**
 - **15 yr Bonds to coincide with
NYS Building Aid payment schedule**

Sample Estimated Debt Service & Building Aid Impact

Fiscal Year		Balance	Principal Payment	Estimated Interest	Total Debt Service	Less State Aid	Est Net Tax Levy Impact
2014 -	2015	\$ 29,739,786	\$ -	\$ 594,796	\$ 594,796	\$ (594,796)	\$ -
2015 -	2016	\$ 29,739,786	\$ 424,786	\$ 594,796	\$ 1,019,582	\$ (594,796)	\$ 424,786
2016 -	2017	\$ 29,315,000	\$ 1,435,000	\$ 1,245,888	\$ 2,680,888	\$ (2,629,413)	\$ 51,475
2017 -	2018	\$ 27,880,000	\$ 1,500,000	\$ 1,184,900	\$ 2,684,900	\$ (2,629,413)	\$ 55,487
2018 -	2019	\$ 26,380,000	\$ 1,560,000	\$ 1,121,150	\$ 2,681,150	\$ (2,629,413)	\$ 51,737
2019 -	2020	\$ 24,820,000	\$ 1,630,000	\$ 1,054,850	\$ 2,684,850	\$ (2,629,413)	\$ 55,437
2020 -	2021	\$ 23,190,000	\$ 1,695,000	\$ 985,575	\$ 2,680,575	\$ (2,629,413)	\$ 51,162
2021 -	2022	\$ 21,495,000	\$ 1,770,000	\$ 913,538	\$ 2,683,538	\$ (2,629,413)	\$ 54,125
2022 -	2023	\$ 19,725,000	\$ 1,845,000	\$ 828,313	\$ 2,673,313	\$ (2,629,413)	\$ 43,900
2023 -	2024	\$ 17,880,000	\$ 1,925,000	\$ 759,900	\$ 2,684,900	\$ (2,629,413)	\$ 55,487
2024 -	2025	\$ 15,955,000	\$ 2,005,000	\$ 678,088	\$ 2,683,088	\$ (2,629,413)	\$ 53,675
2025 -	2026	\$ 13,950,000	\$ 2,090,000	\$ 592,875	\$ 2,682,875	\$ (2,629,413)	\$ 53,462
2026 -	2027	\$ 11,860,000	\$ 2,180,000	\$ 504,050	\$ 2,684,050	\$ (2,629,413)	\$ 54,637
2027 -	2028	\$ 9,680,000	\$ 2,270,000	\$ 411,400	\$ 2,681,400	\$ (2,629,413)	\$ 51,987
2028 -	2029	\$ 7,410,000	\$ 2,370,000	\$ 314,925	\$ 2,684,925	\$ (2,629,413)	\$ 55,512
2029 -	2030	\$ 5,040,000	\$ 2,470,000	\$ 214,200	\$ 2,684,200	\$ (2,629,413)	\$ 54,787
2030 -	2031	\$ 2,570,000	\$ 2,570,000	\$ 109,225	\$ 2,679,225	\$ (2,629,413)	\$ 49,812
TOTALS		\$ 29,739,786	\$ 29,739,786	\$ 12,108,469	\$ 41,848,255	\$ (40,630,787)	\$ 1,217,468

Cost Summary

• Maximum Authorized Construction Cost	\$43,131,786
• Less Initial Funding Sources	<u>(\$13,392,000)</u>
– Capital Reserve Funds	
– Community Fundraising	
• Amount to be borrowed for 15 yrs	\$29,739,786
• Est. Interest on Debt Service	<u>\$12,108,469</u>
• Total Debt Service Costs	\$41,848,255
• Less Est. NYS Building Aid Revenue	<u>-\$40,630,787</u>
– To be paid over the 15 year Bond Period	
• Est. Net Revenue needed from Tax Levy	\$ 1,217,468
– To be paid over the 15 year Bond Period = \$81,000 average per year	
– Cost to average PCSD homeowner is estimated to be \$4.99 per year for 15 years	
• \$250,000 assessed home less BASIC STAR Exemption	