

Elizabethtown Area School District

Financing Discussion

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Elizabethtown Area School District

Topics for Discussion

I) New Money

- District is considering facility additions/renovations
 - For illustrative purposes only, handout shows four scenarios
 - \$23.5 million initial project, \$80 million second project
 - \$23.5 million initial project, \$50 million second project
 - \$28.7million initial project, \$80 million second project
 - \$28.7million initial project, \$50 million second project
 - Note: All projects are term limited by the useful life of the project. Projects procured under Act 39 (Esco projects) are further limited to the shorter of the useful life of the project or 20 years

II) Approaches to New Money Financing

- **Current Funding** – wait for construction bids
- **Advance Funding** – borrow all (or a portion) prior to construction bids
- **Multiple Financing** – spread borrowings over different calendar years, taking advantage of IRS limits and staggering impact vs. increased costs of issuance

III) Reimbursement Resolution

- A reimbursement resolution allows the issuer to pay itself back from the bond proceeds for costs related to the project
- A project may incur significant expenses prior to the financing
 - Feasibility studies
 - Traffic studies
 - Architect Fees
 - Legal Fees

IV) Borrowing Laws-Federal Tax Laws

The Internal Revenue Code (the “Code”) permits the Issuer to borrow funds at a tax-exempt interest rate and invest the proceeds at an unlimited yield during the period of project construction, but not more than 3 years, if the reasonable expectations of the Issuer are to meet the following 3 tests:

1. Expenditure Test – spend 85% of the proceeds within 3 years;
2. Time Test – incur within 6 months a substantial binding obligation to expend at least 5% of the proceeds;
3. Due Diligence Test – proceed with due diligence to complete the capital project and expend the proceeds for the capital project

V) Borrowing Laws-Federal Tax Laws

- Local Government Unit Debt Act (LGUDA)
 - Borrowing limits (225% of average revenues for last 3 years ~\$135 million)
 - Advertising requirements
 - DCED approval

V) Bank Qualification Considerations

- Current IRS tax law states that a tax exempt issuer (like the District) can issue \$10 million of Bank Qualified (“BQ”) bonds per calendar year
 - Holders of BQ bonds enjoy certain tax benefits, resulting in higher demand
 - Lower interest rates (5-25 bps)
 - Shorter call feature (5 yrs vs 7-10 years)

ELIZABETHTOWN AREA SCHOOL DISTRICT

Ungrandfathered Millage Strategies

- 1. Fit millage impact under Act 1 Allowable Index Increase (the "Index")**
 - a. Increase up to the Index every year starting in 2019-2020 to phase in ungrandfathered millage gradually*
 - b. The District's 2019-2020 estimated Allowable Index Increase = 2.90% (0.48 mills)*
 - c. Seek exceptions and increase beyond the Index if possible*
- 2. Use estimated interest earnings from construction fund toward project**
 - a. Input needed from architect to determine approximate interest earnings which would then be used to downsize the bond issue*
- 3. Operating savings**
 - a. Custodial Supplies, Fuel and Utilities, Contracted Maintenance & Repairs, Transportation, Insurance Premiums, Personnel*
- 4. Contribute cash towards Project**
 - b. Either temporarily borrow or permanently contribute a portion of existing reserves to help phase in borrowing capacity and millage impact*
- 5. Break borrowing into smaller portions**
 - a. The District will have the ability to phase debt service into the budget more slowly*
 - b. \$10,000,000 per calendar will allow for bank qualified borrowings (i.e. lower interest rates) and 5 year call features*
- 6. Consider wrap around payment structure for borrowing(s)**
- 7. Interest Rate Hedge**
 - a. Opportunity to preserve current interest rate environment for future borrowings within 12-18 month time frame*
 - b. Other local districts have utilized this strategy*
- 8. Capitalize Interest**
 - a. The use of bond proceeds to phase the millage impact into the budget gradually*
 - b. Increases the size of the bond issue*
- 9. Debt Restructuring**
 - a. Restructure a portion of outstanding debt to create capacity for new ungrandfathered debt*
 - b. EASD has utilized this strategy in the past*
- 10. Consider using Capital Appreciation Bonds to reduce millage impact**
 - a. Tends to increase interest expense (compound interest)*
- 11. Debt Act Referendum (Electoral Debt)**
 - a. Voters vote on debt service millage for specific project*
- 12. Act 1 Referendum**
 - a. Voters vote on property tax increase beyond the Index – not specific project*

**ELIZABETHTOWN AREA SCHOOL DISTRICT
SUMMARY OF OUTSTANDING INDEBTEDNESS**

Debt Service Requirements								
1	2	3	4	5	6	7	8	9
Fiscal Year Ended	G.O. Bonds Series of 2012	G.O. Bonds Series of 2013	G.O. Bonds Series of 2015	G.O. Bonds Series A of 2015	G.O. Bonds Series of 2016	G.O. Bonds Series A of 2016	G.O. Bonds Series of 2017	Total Debt Service
6/30/2019	1,436,008	930,960	318,699	280,998	174,315	204,010	383,120	3,728,109
6/30/2020	1,390,408	976,360	317,740	280,023	174,131	208,425	383,064	3,730,150
6/30/2021	1,345,208	1,030,460	316,570	283,835	173,921	197,788	382,993	3,730,774
6/30/2022	1,295,408	1,081,810	315,270	282,435	173,700	202,038	382,908	3,733,568
6/30/2023	1,248,678	1,128,850	318,885	280,948	173,419	196,138	382,813	3,729,729
6/30/2024	1,166,790	1,219,890	317,275	279,285	173,081	195,238	382,694	3,734,253
6/30/2025		2,477,540	315,525	282,473	172,744	159,731	382,556	3,790,569
6/30/2026		1,360,770	452,025	1,252,755	172,406	169,506	382,419	3,789,881
6/30/2027			1,771,075	1,352,613	172,069	159,281	382,281	3,837,319
6/30/2028			1,773,675	1,343,025	176,600	159,150	382,144	3,834,594
6/30/2029			1,774,775	1,345,975	176,000	159,000	381,997	3,837,747
6/30/2030			1,774,375	1,347,725	175,400	158,850	381,841	3,838,191
6/30/2031			1,481,900	1,126,650	667,300	158,700	381,684	3,816,234
6/30/2032					2,439,475	227,500	470,122	3,137,097
6/30/2033					2,349,725	308,975	481,919	3,140,619
6/30/2034						658,775	1,516,800	2,175,575
6/30/2035						653,025	1,519,000	2,172,025
6/30/2036						650,538	1,519,200	2,169,738
6/30/2037						649,700	1,517,400	2,167,100
6/30/2038						651,600	1,513,600	2,165,200
6/30/2039						647,600	1,512,700	2,160,300
6/30/2040						647,700	1,509,600	2,157,300
6/30/2041								
6/30/2042								
6/30/2043								
6/30/2044								
6/30/2045								
Totals	7,882,498	10,206,640	11,247,789	9,738,738	7,544,286	7,423,266	16,532,853	70,576,069

Local Effort Requirements								
10	11	12	13	14	15	16	17	18
Fiscal Year Ended	G.O. Bonds Series of 2012	G.O. Bonds Series of 2013	G.O. Bonds Series of 2015	G.O. Bonds Series A of 2015	G.O. Bonds Series of 2016	G.O. Bonds Series A of 2016	G.O. Bonds Series of 2017	Total Local Effort
6/30/2019	1,218,677	790,065	271,553	239,129	172,225	191,105	369,666	3,252,420
6/30/2020	1,179,978	828,594	270,736	238,299	172,043	195,241	369,611	3,254,503
6/30/2021	1,141,619	874,506	269,739	241,544	171,836	185,276	369,543	3,254,063
6/30/2022	1,099,356	918,085	268,631	240,353	171,617	189,258	369,461	3,256,760
6/30/2023	1,059,698	958,006	271,711	239,087	171,339	183,731	369,369	3,252,941
6/30/2024	990,204	1,035,267	270,340	237,672	171,006	182,888	369,254	3,256,631
6/30/2025		2,102,580	268,848	240,384	170,673	149,627	369,122	3,301,235
6/30/2026		1,154,826	385,156	1,066,096	170,339	158,784	368,989	3,304,190
6/30/2027			1,509,074	1,151,075	170,006	149,206	368,856	3,348,217
6/30/2028			1,511,290	1,142,916	174,483	149,083	368,724	3,346,495
6/30/2029			1,512,227	1,145,426	173,890	148,942	368,582	3,349,067
6/30/2030			1,511,886	1,146,916	173,297	148,802	368,431	3,349,332
6/30/2031			1,262,678	958,780	659,299	148,661	368,280	3,397,699
6/30/2032					2,410,225	213,109	453,612	3,076,947
6/30/2033					2,321,551	289,431	464,995	3,075,977
6/30/2034						617,104	1,463,533	2,080,637
6/30/2035						611,718	1,465,656	2,077,373
6/30/2036						609,388	1,465,849	2,075,236
6/30/2037						608,603	1,464,112	2,072,715
6/30/2038						610,383	1,460,445	2,070,828
6/30/2039						606,636	1,459,577	2,066,213
6/30/2040						606,730	1,456,586	2,063,315
6/30/2041								
6/30/2042								
6/30/2043								
6/30/2044								
6/30/2045								
Totals	6,689,532	8,661,930	9,583,869	8,287,677	7,453,828	6,953,706	15,952,250	63,582,793

Principal*:	7,330,000	8,990,000	8,745,000	7,760,000	5,350,000	4,490,000	9,525,000	52,190,000
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PE%:	28.40%	28.40%	27.76%	27.96%	2.25%	11.87%	6.59%
PE% Status:	Temp	Temp	Temp	Temp	Temp	Temp	Temp
AR% (2018 - 2019):	53.29%	53.29%	53.29%	53.29%	53.29%	53.29%	53.29%
Call Date:	3/1/2017	11/15/2018	5/15/2020	11/15/2020	3/1/2022	3/1/2022	5/15/2022
Purpose:	Cur Ref 2007	Adv Ref 2009A	Adv Ref 2010	Cur Ref 2010	Cur Ref 2011	New Money	New Money
Average Rates:	2.13	2.50	2.43	2.43	2.40	2.84	2.96

* Outstanding as of November 5, 2018



Scenario 1



Scenario 2



Scenario 3



Scenario 4