



## **PLANCON**

### **PART K: PROJECT REFINANCING**

COMMONWEALTH OF PENNSYLVANIA  
Department of Education  
Bureau of Budget and Fiscal Management  
Division of School Facilities  
333 Market Street  
Harrisburg, PA 17126-0333

## PART K: PROJECT REFINANCING

If there are any questions regarding the completion of these materials, contact the Division of School Facilities at (717) 787-5480.

### CHANGES AND CLARIFICATIONS

**Interest Rate Swaps** - The Public School Code of 1949, as amended, provides for reimbursement on approved sinking fund charges on indebtedness for school buildings, or on approved rental payments for leases entered into with the State Public School Building Authority, any municipality authority, or nonprofit corporation under Section 758, or any profit or nonprofit corporation, partnership, association or person under Section 791. The School Code also provides that reimbursable rental or sinking fund charges on indebtedness include costs for building construction, site acquisition, rough grading and sanitary sewage disposal, and the interest on such costs.

Payments made by a school district to a swap counterparty are not eligible for reimbursement since they are neither included in the project costs listed above, nor are they interest on indebtedness. Therefore, if a school district enters into an agreement to swap interest rates from either fixed to variable or vice versa with a swap counterparty on any of its reimbursable bond issues, the Commonwealth can not, under current law, participate in any payments made under such an agreement.

If, however, an authority enters into an interest rate swap agreement on a school district's behalf, and the swap payment is a component of the interest charge made by the school district to the authority on the indebtedness, these payments, net of any administrative fees, would be eligible for reimbursement.

The Commonwealth will share in any upfront amount/premium related to an interest rate swap agreement and reported as a source of funds on Page K03, Summary of Sources and Uses of Funds. Any swap termination amount reported as a use of funds on Page K03, Summary of Sources and Uses of Funds, will be processed as new money non-reimbursable.

**State Intercept** - The School Code authorizes the Secretary of Education to pay state funds withheld from a school district defaulting on payments for indebtedness under Section 633, any rentals or payments due the State Public School Building Authority under Section 785, any rentals due to any municipality authority under Section 790, or any rentals due to a profit or nonprofit corporation, partnership, association or person under Section 791. On the advice of our legal office, the state intercept applies to an appropriation-based lease through an authority under the aforesaid provisions.

### GENERAL INSTRUCTIONS

Significant savings in debt service, lease rental and other related costs can be realized when market conditions permit a restructuring (escrow or debt), refinancing, refunding or interest rate swap (collectively referred to as refunding) of existing indebtedness. The Commonwealth and the local school entity should share in these savings in the same proportion as they share in debt service costs.

School Building Standard 349.20 (Title 22) provides the general rules governing refundings:

(c) **Refunding of Bond Issues.** When in its judgment, the refunding of school bond issues is in the best interest of the Commonwealth or the school district, or both, and consistent with the purposes of the Local Government Unit Debt Act (53P.S. §6780-1--6780-608) (reenacted, amended and revised by the Act of April 28, 1978(P.L. 124, No. 52)), the Department will approve and adjust to such refundings provided that the Commonwealth will share, in

appropriate proportion, any savings realized by the refunding; and under no circumstances will the Commonwealth's remaining fiscal commitment be increased because of an approved refunding. Any bond fund accumulations for any issues which are to be included in a refunding bond issue must be used to reduce the total amount of the refunding issue.

Attachment A gives the calculations used to determine the reimbursable percent for a refunding with no new money. Outstanding debt, etc. for all refunded issues, reimbursable and non-reimbursable, should be reported in the top section.

Note the requirement that the sum of all accumulated fund balances must be used to reduce the principal required for the new refunding issue. Where the proceeds of a refunded bond issue were used to fund a project which is still under construction and has not been accepted or occupied, gross outstanding debt service and net outstanding debt service shall be the same.

**Note that when a refunding includes a component issue which has not been subject to final accounting, i.e., the permanent percent has not been processed, the reimbursable percentage of the refunding issue shall be fully recalculated at the time of the approval of PlanCon Part J "Project Accounting Based on Final Costs."**

If two or more refunding series of bonds are issued simultaneously, each series of bonds must have its own separate escrow account. For example, if a school district issues Series A and B of 2005, the verification report must provide information on a separate escrow account for Series A of 2005 and a separate escrow account for Series B of 2005.

Note that PlanCon Part K "Project Refinancing" must be submitted as soon as possible after settlement takes place and final costs are known. School districts may submit PDE-2071, "Application for Reimbursement for School Construction Project," to the PDE Comptroller's Office after the issuance of PlanCon Part K approval. Questions concerning this application should be directed to Maria Wagner, Comptroller's Office, at [marwagner@state.pa.us](mailto:marwagner@state.pa.us) or (717) 425-6567.

#### **MULTI-PURPOSE BOND ISSUES**

The following policies and procedures apply to calculating the reimbursable percent on multiple purpose bond issues, e.g., refunding outstanding bond issues, funding new construction or unfunded debt, etc.:

1. The proration of the debt service attributable to each component part of the bond issue is determined by dividing each component part by the sum of the component parts according to information shown on the sources and uses of funds (Page K03).
2. The following are examples of possible components:
  - a. Refunding amount - Investment purchases and cash from bond proceeds placed into escrow for the outstanding bonds.
  - b. New money (reimbursable) - Structure costs, architect's fee, movable fixtures and equipment, site costs, project supervision and other construction-related costs. Estimated interest earnings, local funds and other sources of funds as shown in PlanCon should be subtracted from this amount.
  - c. New money (non-reimbursable) - Costs for various non-reimbursable projects.

- d. Unfunded debt - Principal amount required.
- e. Capitalized Interest - treated as non-reimbursable new money.
3. Issuance costs are prorated according to the percentages arrived at in (1) above.
4. Maturity schedules that apply to a particular component are not considered in the reimbursement calculation.

The calculations for refundings with new money used to fund PlanCon projects are given in Attachment B.

#### **EXTRA DEBT SERVICE PAYMENT IN A FISCAL YEAR**

The following conditions must be met prior to PDE approval of reimbursement for any payment beyond those scheduled to be paid in a fiscal year:

1. The Department must receive and approve requests for reimbursement of any extra debt service payments.
2. The Department must be successful in gaining a budget allocation to cover the fiscal demands of such payments.

A school district must submit a written request expressing its intent to accelerate the redemption of or defease outstanding debt on a reimbursable bond issue. The Department will then respond in writing. If the Department approves the school district's request, Part K "Project Refinancing," with the appropriate attachments, must be submitted following adoption of the board resolution. The documents include:

- 1) K01-K03;
- 2) Board Resolution or signed board minutes authorizing accelerated redemption or defeasance;
- 3) Certification of Call Requirement from Paying Agent/Trustee;
- 4) Payment Schedule for Outstanding Debt;
- 5) Payment Schedules for Redeemed and Non-Redeemed Debt.

Note that it is the Department's policy to reimburse with respect to accelerated payments when the debt service is actually called in accordance with the above conditions; **reimbursement will not be made on advance deposits to a sinking fund or forward supply contracts entered into for this purpose until redemption takes place.** For this reason, a proof of publication for the redemption notice or a copy of the letter notifying bondholders must be submitted to the Comptroller's Office with the application for reimbursement before reimbursement will be processed.

#### **DRAFT PROPOSALS**

The Department is frequently asked to respond to innovative or unusual refunding concepts. Settlement on the bonds must not occur until the Department gives a formal decision on the draft proposal. Failure to adhere to these requirements may result in the denial of reimbursement on the refunding bond issue.

School districts must submit the following for each refunding proposal to be reviewed by the Department:

1. A list of all assumptions used in structuring the financing, including specifically those assumptions used in calculating the Commonwealth's share of the financing costs or savings;
2. A report which addresses the sharing of benefits of the refunding including whether the Commonwealth is sharing in the savings in

appropriate proportion to the statutory and regulatory sharing of costs of the financing;

3. A copy of the "Verification Report," if available, prepared by an independent accounting firm (or other qualified firm).

#### COMMON PLANS OF FINANCE

Traditionally, the Department has required that each bond issue to be refunded be viewed as separate and distinct from any other bond issue. Separate series of bonds, even if sold simultaneously, are treated as separate bond issues, unless an exception is approved by the Department prior to the settlement date. We recognize that there are some conditions where it will be mutually advantageous for us to view two or more issues as a common plan of finance. The Department is willing to review drafts for unusual or unique financing proposals. However, sufficient time must be provided to allow the Department to review the documents to ensure their compliance with established departmental policies and procedures. Settlement on the bonds must not occur until the Department gives a formal decision on the draft proposal. Failure to adhere to these requirements may result in the denial of reimbursement on the refunding bond issue.

The Department will consider requests to view such common plans of finance. The plans must clearly demonstrate that:

1. Both the school district and the Commonwealth will experience a savings;
2. Savings will be shared equitably;
3. No Commonwealth payments will be increased over that amount originally agreed upon; and
4. Savings due the Commonwealth must be enjoyed within a time frame acceptable to the Commonwealth.

In general, the Department will calculate reimbursement on a common plan of finance by comparing the debt service on the new bond issue to the debt service on the refunded bond issue(s) on a fiscal year basis. For each fiscal year, the eligible debt on the new (refunding) bond issue is limited to the eligible debt on the original (refunded) bond issue(s). With the approval of PlanCon Part K, a separate reimbursable percent will be calculated for each fiscal year on the new (refunding) bond issue.

#### PART K BOARD TRANSMITTAL, PAGE K01

Page K01 is to be completed in order to formally submit PlanCon Part K. Note the following:

**FINANCING NAME:** Enter the name of the financing, identifying the type (general obligation or school revenue bonds), series and year of issue. Example: General Obligation Bonds, Series A and AA of 2005.

Enter a check mark or "N/A" for each item listed on the page. Although this page lists the attachments normally required, additions may be added to the list of attachments.

#### REFINANCING TRANSACTION EXPLANATION, K02

Briefly describe the transactions related to this refinancing using the columnar format provided:

- issues/notes/loans refunded, refinanced or restructured;

- PDE lease numbers for the issues/notes/loans refunded, refinanced or restructured;
- partial or full refunding of outstanding debt;
- current or advance refunding of outstanding debt;
- new money in the amount of \$10,000 or greater - indicate yes or no; and
- name of the school building and the PlanCon Project Number for any reimbursable projects funded by these monies.

#### **SUMMARY OF SOURCES AND USES OF FUNDS, K03**

Itemize the final closing costs to the penny for this refinancing transaction. Total sources must equal total uses for each series. This information should be prepared following the bond closing and the payment of all related closing costs.

**Surplus funds less than \$10,000, estimated or miscellaneous costs, and accrued interest reported under "Uses" will be deducted by the Comptroller's Office from the first debt service payment submitted for reimbursement.** Surplus funds of \$10,000 or greater will be treated as new money except in the case of escrow or invested sinking fund restructurings or common plans of finance. In these cases, these monies will be treated as "savings" and deducted as described above.

For refundings with accrued interest and surplus funds, if no accrued interest is reported on Page K03 under "Uses," but surplus funds are greater than accrued interest, accrued interest will be subtracted from surplus funds to determine the total amount of new money, as per the multi-purpose rule.

School district cash contributions should be reported if the funds were needed to offset financing costs or reduce the size of the new bond issue. Cash contributions are eligible for reimbursement in the fiscal year in which PlanCon Part K is approved, subject to the availability of funds in the Department's budget allocation. Note that swap premium and subsidy contributions from authorities are not considered school district cash contributions and are not eligible for reimbursement.

For refundings of two or more issues, if the cash contribution is not allocated between the refunded issues by the school district, the funds will be prorated based on the principal outstanding of the refunded issues.

If a bond series has both original issue discount and original issue premium, report the net amount on K03.

For refinancings that include an interest rate swap through an authority, report all sources and uses of funds related to the interest rate swap. This includes swaption premiums received by a school district and all swap transaction costs, even if the swap was executed prior to the settlement date. Dollar amounts should only be reported if the loan payments made pursuant to the interest rate swap are eligible for state reimbursement. Swap termination payments and all related costs will be processed as new money non-reimbursable.

#### **BOARD RESOLUTION**

A signed copy of the board resolution authorizing this refinancing transaction must be submitted. All blanks must be completed.

### **BOND/NOTE PURCHASE CONTRACT**

A signed copy of the bond purchase contract must be submitted for negotiated bond sales or a signed bid form from only the successful bidder for competitive bond sales.

### **LEASE AGREEMENT OR LOAN AGREEMENT**

A signed copy of the lease agreement or loan agreement with an authority, bank or other financial entity must be submitted.

### **SWAP TRANSACTION CONFIRMATION**

A signed copy of the interest rate swap transaction confirmation must be submitted if the interest rate swap payments are reimbursable. Documents reassigning a swap from a school district to an authority, or from one financing to another must also be submitted.

### **UNALLOCATED FUNDS**

Provide information on the outstanding balance of unallocated funds on deposit for all issues/notes being refinanced as of the settlement date. Funds committed but not yet expended for school construction projects should be excluded. This information must be prepared by the paying agent or trustee.

### **VERIFICATION REPORT FOR ADVANCE REFUNDINGS CERTIFICATION FOR CURRENT REFUNDINGS**

A signed copy of an opinion from a certified public accountant relative to the mathematical accuracy of the financial materials must be submitted for advance refundings. A certification by the underwriter, financial advisor, paying agent or trustee must be submitted for current refundings; the certification must include the following:

- (1.) principal amount called;
- (2.) interest due on call date;
- (3.) call date;
- (4.) amount deposited by school district/CTC; and
- (5.) date of deposit.

Funds remaining in the escrow account after all bonds have been paid off must be shared with the Commonwealth.

If multiple series of bonds are refunded or refinanced with one escrow account, for PlanCon Part K purposes, separate escrow information must be provided on each series of bonds. This information should be developed as part of the refunding analysis and should be provided in the verification report.

### **CASH FLOW STATEMENT FOR CURRENT REFUNDING CALL REQUIREMENT**

Provide a cash flow statement for a current refunding call requirement if the call requirement is not gross funded at settlement.

### **PAYMENT SCHEDULE FOR NEW ISSUE/NOTE**

Attachment C gives the standardized format to be used for payment schedules for current interest bonds. A debt service payment schedule must be submitted for each series to be reimbursed. Accrued interest must be included in the first payment as well as in the fiscal year totals. Payments must be reported to the penny. The principal outstanding represents the principal remaining after each payment. As such, the principal outstanding for the last scheduled payment must equal zero. Payment schedules that do not conform to the standardized format will not be accepted.

If an authority enters into an interest rate swap agreement on a school district's behalf and the swap payment is a component of the interest charge made by the school district to the authority on the indebtedness, the "interest" reported on the payment schedule should reflect the terms of the interest rate swap. Additional columns for all payments paid/received by the swap parties must be reported on the payment schedule. The payment schedule may list either semi-annual or quarterly payments on a fiscal year basis (July 1 - June 30). An updated payment schedule must be submitted as payments are determined either quarterly or semi-annually. Documentation to substantiate the quarterly or semi-annual amounts reported on the payment schedule must be submitted to the Division of School Facilities (i.e., weekly/monthly rate and weekly/monthly payment). The Comptroller's Office is not authorized to process applications for reimbursement until a payment schedule with the applicable payments is approved by the Division of School Facilities. Note that remarketing fees, liquidity facility or letter of credit fees are non-reimbursable and should not be reported on the payment schedule for bond issues or notes with reimbursable interest rate swaps.

If a bond issue/note bears interest at a variable interest rate, the payment schedule must list all of the principal payments as well as the actual interest amounts updated for applicable principal payments. The payment schedule may list either semi-annual or quarterly payments on a fiscal year basis (July 1 - June 30). An updated payment schedule must be submitted as interest payments are determined either quarterly or semi-annually. Documentation to substantiate the quarterly or semi-annual interest amounts reported on the payment schedule must be submitted to the Division of School Facilities (i.e., weekly/monthly rate and weekly/monthly interest payment). The Comptroller's Office is not authorized to process applications for reimbursement until a payment schedule with the applicable interest payments is approved by the Division of School Facilities. Note that remarketing fees, liquidity facility or letter of credit fees are non-reimbursable and should not be reported on the payment schedule for variable rate bond issues or notes.

Attachment D gives the standardized format to be used for payment schedules for capital appreciation bonds. Attachment E gives the standardized format to be used for payment schedules if the bond issue is composed of a combination of current interest bonds and capital appreciation bonds. If the bond issue is composed of capital appreciation bonds, the principal outstanding and principal should be the par amount of the bonds, not the initial proceeds.

Also note that the "STATE FISCAL TOTAL" should only be filled in one time for each fiscal year; in other words, do not provide an annual total for each semi-annual or quarterly payment. The state fiscal year is July 1 to June 30. All payments on an approved payment schedule will be reimbursed; reimbursement status is not dependent on the Part K approval date.

#### **PAYMENT SCHEDULE FOR ORIGINAL ISSUE/NOTE REFUNDED**

A debt service payment schedule must be submitted for the issue or note refunded or refinanced. Only payments refunded must appear on this debt service schedule.

#### **PAYMENT SCHEDULE FOR ORIGINAL ISSUE/NOTE NOT REFUNDED**

A debt service payment schedule must be submitted for the issue or note not refunded or refinanced. All payments not refunded by the new issue or note must appear on this debt service schedule. Refer to Attachment C for the standardized format. Payment schedules that do not conform to the standardized format will not be accepted.



**REIMBURSABLE PERCENT - REFINANCING WITH NO NEW MONEY  
SAMPLE WORKSHEET - DO NOT SUBMIT WITH PART K MATERIALS**

<u>LEASE #</u>	<u>OUTSTANDING DEBT</u>	<u>AVAILABLE FUNDS* OR CASH CONTRIBUTION</u>	<u>NET OUTSTANDING DEBT</u>	<u>REIMBURSABLE PERCENT</u>	<u>T or P</u>	<u>ELIGIBLE DEBT</u>
#: _____	\$ _____	- \$ _____	= \$ _____	x . _____	( )	= \$ _____
# _____	\$ _____	- \$ _____	= \$ _____	x . _____	( )	= \$ _____
#: _____	\$ _____	- \$ _____	= \$ _____	x . _____	( )	= \$ _____
#: _____	\$ _____	- \$ _____	= \$ _____	x . _____	( )	= \$ _____
# _____	\$ _____	- \$ _____	= \$ _____	x . _____	( )	= \$ _____
#: _____	\$ _____	- \$ _____	= \$ _____	x . _____	( )	= \$ _____
#: _____	\$ _____	- \$ _____	= \$ _____	x . _____	( )	= \$ _____
# _____	\$ _____	- \$ _____	= \$ _____	x . _____	( )	= \$ _____
#: _____	\$ _____	- \$ _____	= \$ _____	x . _____	( )	= \$ _____
<b>TOTAL:</b>			\$ _____			\$ _____

  

A. TOTAL ELIGIBLE DEBT - REFINANCING	\$ _____
B. TOTAL NET OUTSTANDING DEBT	\$ _____
C. TOTAL NEW DEBT SERVICE (See Payment Schedule)	\$ _____
D. REIMBURSABLE PERCENT (Temporary or Permanent) (Total Eligible Debt Service divided by the greater of the Total Net Outstanding Debt <u>or</u> the Total New Debt Service)	_____ . _____ ( )

\* - Available funds include, but are not limited to, accumulated balances in accounts for municipal authorities

**REIMBURSABLE PERCENT - REFINANCING WITH NEW MONEY  
SAMPLE WORKSHEET - DO NOT SUBMIT WITH PART K MATERIALS**

LEASE #	OUTSTANDING DEBT	AVAILABLE FUNDS OR CASH CONTRIBUTION	NET OUTSTANDING DEBT	REIMBURSABLE PERCENT	T or P	ELIGIBLE DEBT
#: _____	\$ _____	- \$ _____	= \$ _____	x . _____	( ) =	\$ _____
# _____	\$ _____	- \$ _____	= \$ _____	x . _____	( ) =	\$ _____
#: _____	\$ _____	- \$ _____	= \$ _____	x . _____	( ) =	\$ _____
TOTAL:			\$ _____			\$ _____
A. REIMBURSABLE PERCENT - ALL LEASE NUMBERS				. _____	( )	
(Total Eligible Debt divided by Total Net Outstanding Debt)						
<b>ESCROW</b>						
B-1. ESCROW				\$ _____		
2. NEW MONEY - REIMBURSABLE (ATTACHMENT B, PAGE 2, LINE M)				\$ _____		
3. NEW MONEY-NON REIMBURSABLE				\$ _____		
4. TOTAL-ESCROW & NEW MONEY				\$ _____		
C. ESCROW DIVIDED BY TOTAL-ESCROW & NEW MONEY (B-1 divided by B-4)						_____
D. TOTAL DEBT SERVICE (See Payment Schedule)						\$ _____
E. DEBT ASSIGNABLE TO ESCROW (C times D)						\$ _____
F. ELIGIBLE DEBT - REFINANCING						\$ _____
(If the Debt Assignable to the Escrow (Line E) is greater than or equal to the Total Net Outstanding Debt, the Eligible Debt - Refinancing (Line F) equals the Total Eligible Debt; however, if Line E is less than the Total Net Outstanding Debt, Line F equals the Debt Assignable to the Escrow times the Reimbursable Percent - All Lease Numbers (A times E).						
<b>NEW MONEY-REIMBURSABLE</b>						
G-1. AMOUNT FINANCED - THIS ISSUE						\$ _____
2. TOTAL AMOUNT FINANCED						\$ _____
3. AMOUNT FINANCED-THIS ISSUE AS PERCENT OF TOTAL AMOUNT FINANCED (G-1 divided by G-2)						_____
H-1. TOTAL REIMBURSEMENT FOR THIS PROJECT						\$ _____
2. REIMBURSEMENT ASSIGNED TO THIS BOND ISSUE (G-3 times H-1)						\$ _____
I-1. TOTAL PROJECT COSTS						\$ _____
2. PROJECT COSTS ASSIGNED TO THIS BOND ISSUE (G-3 times I-1)						\$ _____
J. NEW MONEY REIMBURSABLE DIVIDED BY TOTAL ESCROW & NEW MONEY (B-2 divided BY B-4)						_____
K-1. REIMBURSABLE PERCENT-NEW MONEY-REIMBURSABLE (H-2 divided by I-2)						_____
2. REDUCTION FOR PROJECT ASSIGNED TEMPORARY PERCENT (0.005)						_____
3. APPLICABLE REIMBURSABLE PERCENT (K-1 minus K-2)						_____
L. DEBT ASSIGNABLE TO NEW MONEY-REIMBURSABLE (D times J)						\$ _____
M. ELIGIBLE DEBT-NEW MONEY (K-3 times L)						\$ _____
<b>REIMBURSABLE PERCENT</b>						
N. ELIGIBLE DEBT - TOTAL (F plus M)						\$ _____
O. REIMBURSABLE PERCENT (Temporary or Permanent) (N divided by D)						_____ ( )

**REIMBURSABLE PERCENT - REFINANCING WITH NEW MONEY**  
**SAMPLE WORKSHEET - DO NOT SUBMIT WITH PART K MATERIALS**

NEW MONEY - REIMBURSABLE CALCULATION	
PROJECT #:	PROJECT BUILDING NAME:
A. STRUCTURE COSTS, ARCHITECT'S FEE, MOVABLE FIXTURES AND EQUIPMENT, AND SITE COSTS - TOTAL (G02, Line F)	\$ _____
B. ADDITIONAL CONSTRUCTION-RELATED COSTS (G03, Line G-Total)	\$ _____
C. TOTAL CONSTRUCTION COSTS (A plus B)	\$ _____
D. LESS: REVENUE SOURCES EXCLUDING AMOUNT FINANCED-TOTAL, OID/OIP AND INTEREST EARNINGS-TOTAL (G03, Lines M through P)	\$ _____
E. CONSTRUCTION COSTS FINANCED BY BOND PROCEEDS, OID/OIP AND INTEREST EARNINGS (C minus D)	\$ _____
F. AMOUNT FINANCED-THIS ISSUE (G03, Line J for this issue)	\$ _____
G. AMOUNT FINANCED-TOTAL (G03, Line J-Total)	\$ _____
H. PRORATION FACTOR (F divided by G)	_____ . _____
I. CONSTRUCTION COSTS ASSIGNED TO THIS ISSUE (E times H)	\$ _____
J. OID/OIP AND INTEREST EARNINGS FOR THIS ISSUE (G03, Lines K plus L for this issue)	\$ _____
K. CALCULATED NEW MONEY-REIMBURSABLE FOR THIS PROJECT (I minus J)	\$ _____
L. NEW MONEY FOR THIS PROJECT REPORTED ON SETTLEMENT SHEET	\$ _____
M. NEW MONEY-REIMBURSABLE (Lesser of K <u>or</u> L)	\$ _____





