Primer
House Appropriations Committee (D)

JOE MARKOSEK, DEMOCRATIC CHAIRMAN October 20, 2016

PlanCon

What is PlanCon?

PlanCon is an acronym for Planning and Construction Workbook. It is the commonwealth's school construction and renovation reimbursement program administered by PA's Department of Education. According to ***PDE's website***, PlanCon is currently an 11-step process for major construction projects "designed to:

1. Document a local school district's planning process;
2. Provide justification for a project to the public;
3. Ascertain compliance with state laws and regulations; and
4. Establish the level of state participation in the cost of the project."

Participation in PlanCon is only required if the local education agency is seeking reimbursement from the state.

Table 1: The 11-Step PlanCon Process	
Part A	Project Justification
Part B	Schematic Design
Part C	Site Acquisition
Part D	Project Accounting Based on Estimates
Part E	Design Development
Part F	Construction Documents
Part G	Project Accounting Based on Bids
Part H*	Project Financing
Part I	Interim Reporting
Part J	Project Accounting Based on Final Costs
Part K	Project Refinancing

*Projects become eligible for state reimbursement after obtaining Part H approval

PlanCon Funding

The funding source for PlanCon is in the process of shifting from solely the state's General Fund to a combination of General Fund support and proceeds from bonds issued by the Commonwealth Financing Authority. The last state appropriation for PlanCon was $306.2 million in 2014/15.

The final 2015/16 and 2016/17 budgets did not appropriate any funding in the traditional General Fund PlanCon appropriation ("authority rentals and sinking fund requirements"). Instead, the 2015/16 Fiscal Code amendments, which became Act 25 of 2016 in April 2016, authorized CFA to issue up to $2.5 billion in bonds over the next several fiscal years for all projects in the PlanCon pipeline. Further details on the bond financing plan are provided in a later section.

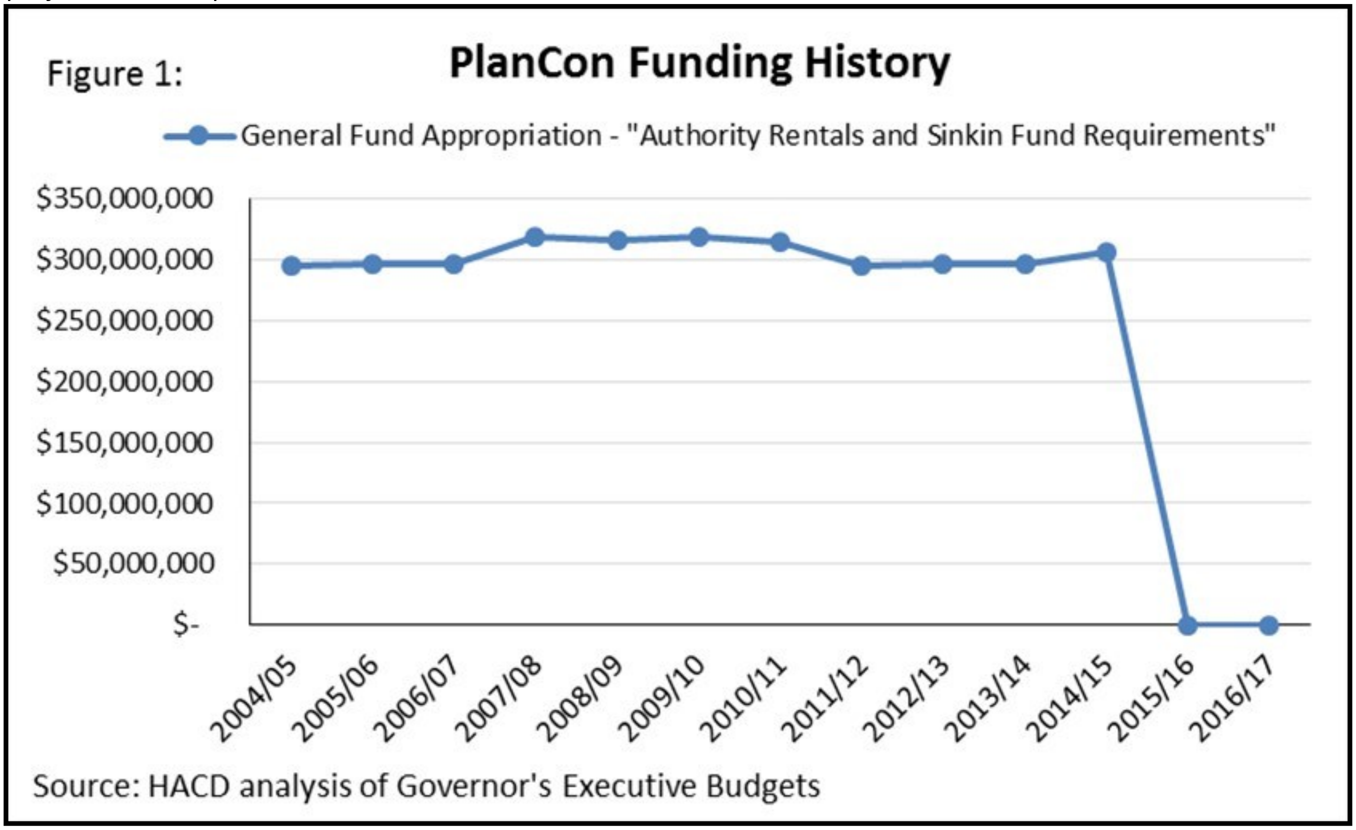
PlanCon Program Information

The General Fund appropriation is distributed to school districts as a grant. A school district's market value aid ratio factors into the reimbursement calculation, meaning, all else being equal, the state reimburses a higher share of the costs for poorer school districts than for wealthier districts. Total project cost, type of school (elementary or secondary), and number of students in each classroom also factor into the reimbursement formula.

Altogether, the current Part A through Part K PlanCon cost is an estimated $5.3 billion. The total costs are broken out in the next paragraph, but remember, the figures are only estimates due to the speculative timing of paperwork submissions, refinancing that can occur, and school districts' annually updated aid ratios.

According to PDE, as of spring 2016, there are 356 projects in Part A through Part G with an estimated $1.6 billion in reimbursable costs. The estimated obligation for projects with at least pending Part H approval (project financing step where state makes financial commitment upon approval) is $3.7 billion. Many of the projects at pending Part H status have all the requisite paperwork submitted but have remained unapproved at Part H due to a lack of state funding.

As an example, Figure 2 shows the commonwealth's obligation to what are being called "legacy" projects. These funds are for school districts receiving regular reimbursements that stopped after 2014/15 due to the absence of funding. Figure 2 does not include school districts that have never received funding and have been waiting. The estimated total amount owed for legacy projects is $3.1 billion. The amount owed gradually decreases as projects become paid off.



Bond Financing Plan

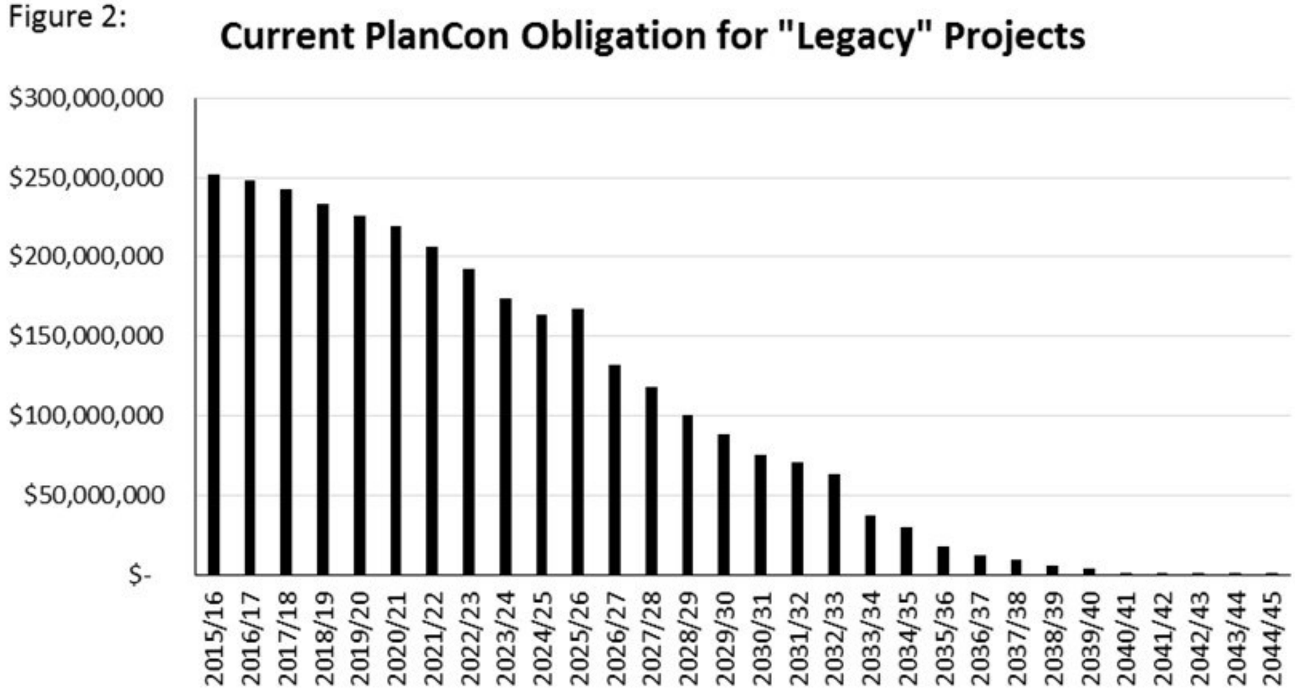
Concept:

The goal of the PlanCon bond financing plan is to provide the state's complete share of funding, the aforementioned $5.3 billion estimate, by 2044/45 for all projects currently in the PlanCon process. This will be accomplished through bonds and a return of a commitment from the General Fund.

Act 25 of 2016, which authorized the $2.5 billion bond plan, instituted a moratorium on new projects entering the PlanCon process between May 15, 2016, and July 1, 2017. All projects for which there is a completed application prior to the moratorium cut-off will be eligible for either payments in the form of reimbursements or one-time grants as long as the school district votes to proceed with construction and awards bids on the construction contracts no later than July 1, 2019.

One of the virtues of the PlanCon bond financing plan is the flexibility it affords the state in making annual budget decisions. Therefore, it is important to note that the following summary is based on estimates and is subject to change. These estimates are the result of analysis performed by Public Financial Management, Inc. using data from the Department of Education.

Figure 2:



Source: HACD analysis of data provided by Governor's Budget Office

Details of PlanCon Financing Plan:

The net proceeds from the PlanCon bonds issued by the Commonwealth Financing Authority will be deposited into the state treasurer's restricted PlanCon account. Here, the funds will become available for PDE requisitions.

The current plan is for CFA to go to the bond market at least three times. After the initial $772 million bond issue, the remaining taxable bond issues, whether accomplished in one tranche or two or three, will amount to roughly $690 million for a total of $1.46 billion of taxable bonds. The second bond issue will most likely occur in fall 2017.

A $511 million tax-exempt bond issue is planned to support projects for which financing has not been issued yet (Parts A through F) in spring 2020. These projects will be eligible for a one-time grant instead of ongoing reimbursement payments from the state. All other projects will continue to receive annual reimbursement payments. The state reimbursement formula calculation remains the same for all projects.

The total bond amount is $2 billion between the planned issuances. The $500 million leftover in cap space from the $2.5 billion authorization will allow for changing assumptions; it may also be used for new capacity to fund new project applications submitted after the current moratorium ends on July 1, 2017. Under Act 25 of 2016, no PlanCon bonds (except refunding bonds) may be issued after June 30, 2025.

Taxable vs. Tax-Exempt Bonds –

Federal laws stipulate that taxable bonds must be issued when the proceeds are being used for a current obligation or as working capital. The state, through CFA, can take advantage of the typically more cost-effective tax-exempt bonds to pay for the future obligations of the current PlanCon Part A through Part F projects.

A breakdown of the first bond issuance can be found on page 7.

The 2016/17 budget package moved the debt service for CFA to a restricted revenue account within the General Fund. The funds for CFA debt service restricted revenue account will be transferred from the commonwealth's sales and use tax revenues. In previous years, CFA's debt service was paid through an annual appropriation in the state's General Fund budget. The appropriation was $88.8 million in 2015/16. Ratings agencies view debt service through a dedicated funding source as more stable, which can result in a more favorable rating.

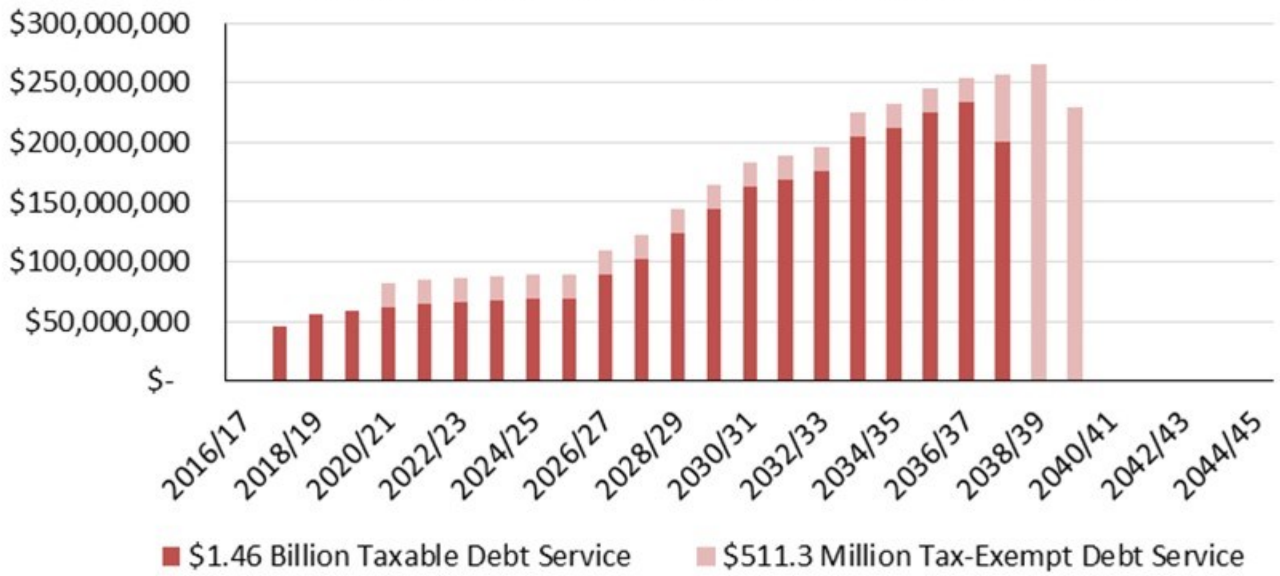
Since it is a CFA obligation, the debt service for the PlanCon bonds will be paid using CFA's debt service restricted revenue account. Figure 3 below depicts the debt service payments. The debt payments will be back-loaded in later years to balance the decreasing obligations of the legacy projects (recall Figure 2). The debt service (principal and interest) on the $1.97 billion in taxable and tax-exempt bonds will total $3.5 billion.

Figure 4 combines the PlanCon expenses for "legacy" projects and debt service as well as the projected amount to be used to reduce the Part G and Part H backlog. The 2016/17 amount includes the missed 2015/16 payment.

Figure 5 shows where the funding will come from to pay for the expenses outlined in Figure 4. The taxable bond revenue will be used as working capital in the near term to reduce the reliance on a General Fund appropriation.

Figures 4 and 5 do not depict the Part A through Part F projects because they will receive the entirety, net costs of issuance, of the estimated $511 million tax-exempt bond issue scheduled for 2020. These tax-exempt bond funds will be disbursed as one-time grants to the current Part A through Part F projects as they move through the PlanCon process and gain Part H approval. It is too early to predict the timing of application demand for the tax-exempt bond revenue – it may be $50 million per year for 10 years beginning in 2020 or $300 million in 2020 and $50 million for the next four years, whatever the project demand dictates.

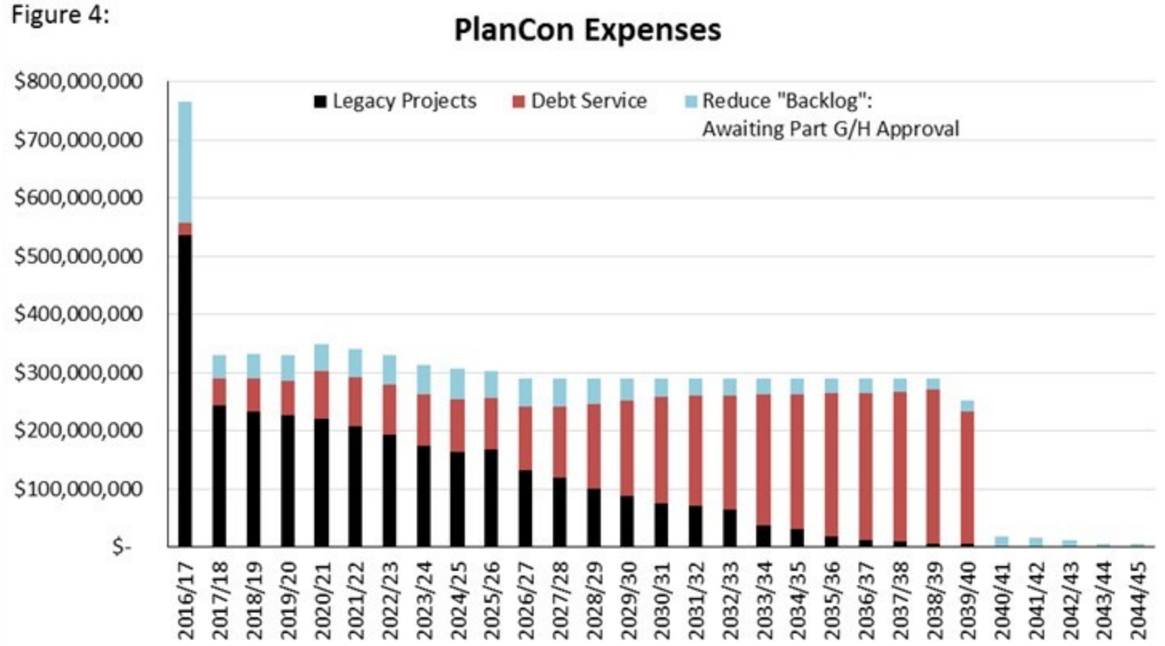
Figure 3: **PlanCon Bond Debt Service Paid Out of the CFA Debt Service Restricted Revenue Account**



Source: HACD analysis of data provided by Governor's Budget Office

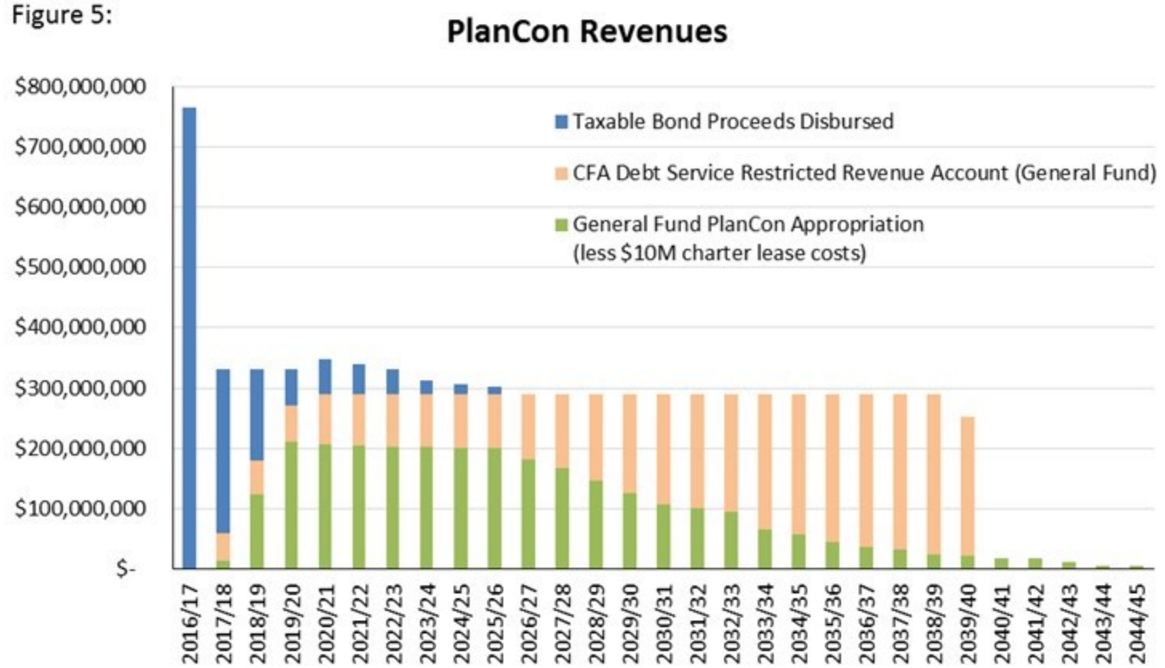
Figures 4 and 5, along with the tax-exempt bonds for Parts A to F, represent everything currently in the PlanCon process. Any funding for new projects after the moratorium (often called new capacity) would alter the expenses and revenue breakdown. Adding more PlanCon projects would create additional expense obligations for the state. These expenses could be covered by revenues from an increased General Fund appropriation or by utilizing the remaining cap space in the bond authorization. The latter would necessitate additional ongoing small debt service payments with balloon payments at the end similar to the tax-exempt payments outlined in Figure 3 (page 4).

Figure 4:



Source: HACD analysis of data provided by the Governor's Budget Office

Figure 5:



Source: HACD analysis of data provided by the Governor's Budget Office

Charter School Lease Reimbursements

Section 2574.3 of the Public School Code allows annual lease reimbursements for charter schools. The state will continue to incur these costs, which are about $10 million annually. The bond refinancing plan does not affect the charter school lease reimbursements. Please note, the General Fund appropriation in Figure 5 does not include the charter lease reimbursements.

Future of PlanCon

In addition to authorizing PlanCon bonds, Act 25 of 2016 established the Public School Building Construction and Reconstruction Advisory Committee to review and make recommendations about the future of state reimbursement for school construction after the moratorium ends on July 1, 2017. The committee is required to submit a report to the governor and leaders of the General Assembly by May 15, 2017. The committee will hold hearings across the state and consider such issues as:

- Should the state continue to provide construction reimbursement to school districts?
- If so, what should the application process and reimbursement formula look like?
- Should reimbursement payments be made in a lump sum?
- Should the state encourage sustainability components (e.g. LEED certifications)?
- What should the state funding source be – appropriation, restricted revenue, etc.?
- Should the state provide funding for regular maintenance instead of just renovation and construction? Is the 20 year time horizon appropriate?
- Should reimbursements be made on a first-come, first-served basis, based on financial need, based on building assessments, or some other measure?
- How can the state accurately assess the building needs of school districts (e.g. self-reporting by districts or engineer surveys)?
- Should there be a set-aside for emergency needs?
- Should construction be added to the Act 1 index exemptions?

The committee will deliberate over these questions and other issues over the coming months.

First Bond Issue:

- When?
  - The Commonwealth Financing Authority anticipates issuing PlanCon bonds in late October, early November 2016;
- How much?
  - The first bond issue will be $772 million.
    - $745.1 million available for PlanCon projects;
    - $21.2 million for capitalized interest (first debt service payment); and
    - $5.5 million for costs of issuance, etc.
- Which school districts will receive funding?
  - It is helpful to categorize projects into two groups:
    - "Legacy" projects – those that had been receiving regular reimbursements that stopped after 2014/15 due to the absence of funding; and
    - "Backlog" projects – those that have never received state reimbursements
  - $536.9 million will cover the state's missed 2015/16 obligation (including adjustments to previous years) and the owed amount for 2016/17. These funds are for "legacy" projects – for school districts that had been receiving regular reimbursements that stopped after 2014/15 due to the absence of funding;
    - The Excel spreadsheet (emailed to members) includes the "legacy" payments for 2015/16 and previous year adjustments. The listed amounts will be released to school districts as soon as the Office of Comptroller Operations processes the payments after the bonds are issued. The spreadsheet does not include the 2016/17 payments as the information needed to calculate those amounts is not available yet.
    - Philadelphia, Chester-Upland, Steelton-Highspire and Wilkinsburg Borough school districts are NOT on this list. PDE is aware that these districts are due reimbursements for 2015/16 or prior. However, they have not submitted their invoices to the comptroller. Members who are in a position to do so could urge appropriate officials in those districts to submit their paperwork as soon as possible.
  - $189.9 million will be for back-pay reimbursement for Parts H, J, and K projects that have never received state reimbursements; and
    - A list of these payments is not available at this time because it depends on the timing of paperwork submissions by school districts;
    - Information will be shared once finalized; and
    - "Backlog" projects that do not receive funding in 2016/17 will have an opportunity to begin receiving reimbursements in 2017/18.
  - $18.2 million is a built-in contingency amount.
- What can members of the General Assembly do?
  - Encourage school districts waiting for PlanCon funding to make sure all PlanCon paperwork due to the Department of Education or the Office of Comptroller Operations is submitted and up to date;
  - Check the Excel spreadsheet (emailed to members) that PDE has shared regarding reimbursement payments currently approved and awaiting payment by the Comptroller's Office. The list includes payments for fiscal years 2015/16, 2014/15 and other adjustments as necessary; and
  - Wait for additional information about which "backlog" projects will receive funding in 2016/17 and the final 2016/17 payments for "legacy" projects.