

MEMORANDUM

TO: Charles J. Murphy, Ed.D.
Superintendent of Schools
FROM: Bruce H. Singer
Assistant Superintendent for Business
DATE: October 11, 2007
RE: FINANCIAL OVERVIEW OF THE EXCEL BOND PROJECT

FINANCIAL GAME PLAN

<u>Proposed Projects</u>		<u>Funding Sources</u>	
Aidable	\$29.4 million	Excel Aid	\$ 5.0 million
Non-Aidable	3.7 million	Reserves	13.0 million*
		20 Year Bond	<u>15.1 million</u>
Total:	<u>\$33.1 million</u>	Total:	\$33.1 million

*(BANs repaid by using reserves)

Excel Aid

Excel Aid \$5,006,867

We have confirmed that the intent of Excel Aid is to allow districts to complete projects with minimal impact on the local taxpayers. Our intent is to use the Excel Aid and Reserves to pay for all of the local share costs the community would have had to incur. There will be no long term tax impact.

For the first year of construction we have an option to issue a \$5 million Excel note or to utilize the \$3.5 million of remaining capital funds plus a \$1.5 million loan from the General Fund to pay for the completed project. The New York State Dormitory Authority should issue the \$5.0 million Excel Aid within the same school year.

BAN Issuance

We plan to issue 2 (two) one year notes for \$6.5 million each. We anticipate issuing the notes July 1 and will repay them June 30th. It is anticipated that the interest income of the invested reserves will exceed the interest expense of the BANs.

	<u>Year 2</u>	<u>Year 3</u>
Interest Income	\$689,580	\$525,394
Interest Expense	<u>(348,330)</u>	<u>(265,395)</u>
Income over Expenses	\$341,250	\$259,999

This will finance the second and third years of construction.

Building Aid

Total Project	\$33.1 million
Less non-aidable portion	<u>-3.7 million</u>
Assumed Borrowing	\$29.4 million
Bond Percentage	<u>x.95%</u>
Building Aidable Portion	\$27.93 million
Building Aid Ratio	<u>76.6%</u>
Building Aid	\$21.41 million

The current laws assume that the total project would be financed with a 20 year bond. The aid is paid based upon an assumed amortization schedule. Currently the New York State Education Department is using a 4.25% assumed interest rate.

Assumed Borrowing	29.4 million
State Aid paid over 20 years on principal & interest	32.0 million

Summary of Financial Overview of the Excel Bond Issue

<u>Expense</u>		<u>Revenue</u>	
Debt Service on			
\$15 million Bond	\$23.8 million	Building Aid	\$32.0 million
Excel Projects	5.0 million	Excel Aid	5.0 million
Use of Reserves	13.0 million	Reserves	13.0 million
Note Interest Payment	<u>.90 million</u>	BAN Interest income	<u>1.0 million</u>
Total Expense	\$42.7 million	Total Revenue	\$51.0 million

Revenue will exceed expense by \$8.3 million.

The District share of debt service on the entire project is \$4.6 million, shown on the attached schedule, is exclusive of the use of \$13 million in available funds to repay the principal on the BANs. The net effect of the above transactions to the District is an \$8.3 million positive cash flow. This is by virtue of the District receiving state aid on the interest expense over 20 years that it never incurs. We will be using \$13,000,000 reserves as a funding source.

General Fund Long Term Considerations

We have a unique opportunity to fund the proposed EXCEL Bond Project at this time. EXCEL Aid is a newly created aid category to assist school districts. Building Aid formulas remain in place to provide aid on the entire project. As of today, this is the law and practice.

In the above calculation I have calculated building aid on the aidable portion of the project.

The June 30, 2007 balance sheet is extremely healthy and reflects a very strong financial position. We have never been at this level of reserves. The positives and negatives of voter authorization of EXCEL are as follows:

Approval of EXCEL Bond Issue

- A. If the EXCEL Bond Project is approved, it is recommended that we utilize \$13,000,000 in reserves to offset the non-aidable portion of the projects. By using the reserves to pay for this portion, we will not be incurring debt service of several million dollars on the proposed bond. We will have voter authorization to proceed with certain capital improvements which might be difficult to accomplish in future budgets. (i.e. District Office, Facilities Office, and East High School Drainage) We must remain sensitive to

future annual tax increases. If these facilities are not repaired then we will continue to incur deterioration of the existing buildings and the cost of construction will escalate by cost of living each year. It has been determined by our architects and construction managers that these projects must be done. These 3 projects under current law will not be generating any building aid.

Our attorney's are currently litigating against the former architect and former construction manager for errors and omissions on change orders within the Reconfiguration Bond Issue. When the lawsuit is finalized (currently we do not have a time frame for this) the monies received will be revenue in future budgets. If we wait until the litigation money is received to complete the non-aidable projects, the cost of the projects will have increased. It is also possible that the courts may not rule in our favor.

Defeat of the Excel Bond Issue

- B. If in the event the Excel Bond Project is defeated, then we have several options:
 - 1. Establish a re-vote. Retain the \$13,000,000 reserves to fund a portion of projects. The same financial plan as described earlier, however, we need voter authorization to make the needed repairs.
 - 2. Increase the capital line within future budgets. We can increase the future capital line and increase the appropriated fund balance. We would utilize reserves equal to the amount of the capital budgetary line so taxes would not be increased. This is exactly how we funded the 2006-2007 capital projects, i.e. Wenonah Roof Replacement, Samoset Septic System, etc. We used capital funds as a revenue source to offset the expenditure increase. As we learned from the Wenonah Roof Replacement project, this project was incorporated into the defeated 2005-2006 budget. We needed to wait one year for voter authorization to make the necessary repairs. During that year we received numerous complaints from the Wenonah Elementary School occupants, staff, students, and parents on the leaking roof. This caused a potentially hazardous situation.

- C. We can utilize \$13,000,000 in reserves to lower taxes and propose a new bond issue without the use of reserves. As previously stated, if we fund the non-aidable portion of the projects with long term debt this would cost millions of dollars more than the original plan. We would not receive building aid on the principal nor interest on the non-aidable portion. The community would receive the short term benefit of lower taxes through the infusion of reserves; however, the community will pay much greater taxes for the following twenty years.

Summary of General Fund Long Term Considerations

The future cannot be accurately predicted. However, we have our track record and it has been proven that we are conservative in our estimates and we have been outstanding stalwarts of tax dollars. This has been verified by the External and Internal Auditors, Audit Committee, Standard and Poors, Fitch Ratings, Fiscal Advisors, Bond Counsel, and the New York State Education Department. All independent agencies have acknowledged that our finance game plan as described in this memo is an extremely cost effective method for financing this bond issue. This is only one option. There are many options. I believe that by using the reserves to pay for the non-aidable portion of the Excel Bond Project will not have a negative effect on the long term financial condition of the Sachem Central School District. Through the issuance of notes and bonds we will be maintaining our excellent credit rating. If we use the reserves to lower taxes today, it would have a negative impact on our credit rating which would result in higher long term interest costs. In consideration of utilizing the \$13,000,000 in reserves for this bond issue we will develop a plan to replenish the reserves and prove to the community and Board of Education that this is the most cost effective method for the financial future for the Sachem Central School District. I firmly believe that incorporating the reserves is the most viable cost effective financial solution as a source of revenue to fund the Excel Bond Issue.

If in the event you have any questions or concerns, please do not hesitate to contact me.

BHS:clp

Financial overview-Excel Bond issue-10-10-07