

## **Overview of State Building Aid Changes with Questions and Answers**

March 2002

### **Overview of Building Aid Changes (§ 1 of Part F of Chapter 383 of the Laws of 2001)**

The recently enacted "assumed amortization" process for building aid works as follows:

#### **New Projects Subject to Prospective Assumed Amortization**

- Projects subject to prospective assumed amortization are projects approved on or after December 1, 2001 by the Office of Facilities Planning or projects approved prior to December 1, 2001 but for which no debt (bonds, bond anticipation notes or capital notes) was issued prior to such date.
- Building aid is based on an assumed debt service using:
  - ✓ A statewide average interest rate (There will be a separate interest rate for each of the Big Five Cities and the actual interest rate will be used for projects financed through the Dormitory Authority of the State of New York -- See, Q&A No. 8),
  - ✓ Terms of 15, 20 or 30 years for reconstruction, additions and new buildings respectively, and
  - ✓ The approved cost of the project less any portion of the project financed through a means other than issuance of debt.
- The first assumed principal and interest payment is made the later of:
  - ✓ 18 months after approval by the Office of Facilities Planning, or,
  - ✓ on the date that a general construction contract award is certified to the Education Department.
- The amortization period begins at the time of the first assumed payment.
- For the purpose of computing State building aid, debt service payments are assumed to be made every six months and the payments are assumed to be equal (level debt service).
- The interest that accrues before the first assumed payment is an aidable expense and may be capitalized (i.e., added into the principal amount to be financed).
- State building aid will be based on the amount of assumed debt service that occurs in a given school year.

- State building aid will continue to be paid out based on the payment schedule in Education Law § 3609-a.
- All school districts can utilize the Dormitory Authority of the State of New York (DASNY), including those districts at or below the statewide average interest rate, and if financing is obtained through DASNY the actual interest rate allocable to the borrowing for the school district will be used in the aid calculation. School districts unable to borrow at or below the statewide average interest rate may find it advantageous to borrow through DASNY.
- School districts may finance their projects in any manner they choose and the former early borrowing penalty is eliminated for projects subject to prospective assumed amortization.
- School districts may align their new debt service to the assumed amortization rules, but are not required to do so.
- The assumed amortization process for projects subject to prospective assumed amortization will allow the State Education Department (SED) to quickly calculate building aid for each project as soon as the project is approved. SED can more accurately estimate building aid for future years and there is less paperwork for districts.
- SED has been conducting workshops on assumed amortization and school managers are working with their financial advisors to align project financing with the new building aid methodology.

### **Existing Projects Subject to Retroactive Assumed Amortization**

- Existing projects subject to retroactive assumed amortization are projects approved prior to December 1, 2001 by the Office of Facilities Planning and for which debt (bonds, bond anticipation notes or capital notes) was issued prior to such date.
- The assumed amortization methodology for existing projects subject to retroactive assumed amortization applies to building aid beginning in the 2002-03 school year.
- The assumed amortization methodology is applied to the existing debt and building aid is stretched out over the same period as if district had financed for the blended maximum useful life of the projects associated with the debt, as determined by the Commissioner, less the number of years the project has already been financed. See Q&A No. 14 for a discussion of how new debt issued on projects already subject to retroactive assumed amortization will be aided.
- Building aid is based on an assumed debt service using:
  - ✓ A statewide average interest rate for the 2001-02 school year (There will be a separate interest rate for each of the Big Five Cities and the actual interest rate will be used for projects financed through DASNY--See, Q&A No. 8),
  - ✓ The remaining useful life of projects,

- ✓ Reasonable approved refinancing fees and charges and additional principal necessary to advance refund bonds,
- ✓ The outstanding principal for each project as of July 1, 2002, and
- ✓ Any other approved project costs that are to be funded through the issuance of debt (see Q&A No. 14 for a discussion of how new debt issued on projects already subject to retroactive assumed amortization will be aided).
- The first assumed principal and interest payment is assumed to be made by school districts on July 1, 2002.
- For the purpose of computing State building aid, debt service payments are assumed to be made every six months and the payments are assumed equal (level debt service).
- State building aid will be based on the amount of assumed debt service that occurs in a given school year.
- State building aid will continue to be paid out based on the payment schedule in Education Law § 3609-a.
- Districts will have a range of choices for managing the change in building aid for existing projects. These include:
  - ✓ Refinancing just the State share of the existing debt. State building aid covers the entire cost of refinancing the State share. The district pays off the local share under the same terms and schedule as the existing debt.
  - ✓ Refinancing the State and local shares of the existing debt. State building aid covers the entire cost of refinancing the State share. The district pays off the local share under the same terms and schedule as the State share.
  - ✓ Not refinancing. Some districts will see a minor change in annual building aid payments and will decide it is not necessary to refinance.
  - ✓ Requesting a waiver where the district can demonstrate to the satisfaction of the Commissioner extenuating circumstances warranting a waiver consistent with guidelines developed in consultation with the Director of the Budget. Districts may find information regarding submitting waivers at [stateaid.nysed.gov](http://stateaid.nysed.gov).
  - ✓ For information on how the additional financing costs associated with refinancing existing debt, see Q&A No. 3.
- The refinancing/refunding process is complex and may require districts to consult local financial advisors and/or DASNY at [www.dasny.org](http://www.dasny.org).
- The following Questions and Answers section addresses technical issues in more detail:

## Questions and Answers about Assumed Amortization

1. Can a school district refinance just the State share of an existing project subject to retroactive assumed amortization?
  - A. Yes, in most cases partial refinancing of the State share (or any other portion of the outstanding principal) is an option. If structured properly, this can align the district's debt service costs with its building aid payments. However, a school district should check with bond counsel to determine which maturities must be refunded or refinanced first and whether there are restrictions that preclude partial refinancing of a particular bond issuance.
2. Does the 18 months before an assumed debt service payment is made apply to existing projects subject to retroactive assumed amortization?
  - A. No.
3. Is State Aid apportioned for the additional costs incurred when refinancing or refunding existing debt? If so, how?
  - A. Reasonable refinancing fees and charges are eligible for State Aid. The additional costs may either be paid directly by the district as a capital outlay , or may be incorporated into the principal of the new bonds issued.

If the charges and fees are paid directly, they are aided as capital outlay in the school year following the year in which the expenditure was made.

- The charges and fees paid directly as a capital outlay for the project will be fully reimbursed by the State, provided that the project meets the following criteria:
  - ✓ The project or projects were approved before December 1, 2001, and the debt was incurred before such date;
  - ✓ The district cannot demonstrate net present value savings for refinancing the debt.
  - ✓ The State aid for debt service would be reduced in the 2002-03 and/or 2003-04 school years as a result of the application of assumed amortization to the unpaid principal outstanding as of July 1, 2002; and,
- Where the additional costs are incorporated into the new bonds, that portion of the costs attributable to the State share of the obligations being retired will be fully reimbursed by the State, and the costs attributable to the local share of those obligations will continue to be aidable as an approved cost, provided that the project meets the criteria delineated above.
- For new projects that are approved by the Commissioner on or after December 1, 2001, or for projects approved before that date, where debt is first issued after such date, no additional aid is apportioned for the charges and fees associated with refinancings and the district must demonstrate a net present value savings before refinancing.

4. Is the cost of additional principal that is not necessary to cover issuance costs, but is borrowed to advance refund the State share of existing debt service aidable?
  - Yes. The term “assumed or actual unpaid principal” in subparagraph (4) of paragraph e of subdivision 6 of section 3602 of the education law is defined to include any additional principal issued by the Dormitory Authority of the State of New York to insure that a refunded obligation can be paid at its maturity. Additional principal for refunding bonds issued by the school district are included through the provisions of paragraphs g and h as amended. Paragraph g. defines the approved expenditures for refunding of bonds as including any additional principal that represents the unmatured interest on the bonds to be refunded, redemption premiums, if any, and approved fees and other charges of refinancing. See Q&A #3 for an explanation of how these expenditures will be aided.
  
5. When is the net present value savings test for refinancing debt required?
  - A. Districts must demonstrate net present value savings unless the proposed refinancing meets the following criteria.
    - The project or projects were approved by the Office of Facilities Planning before December 1, 2001, *and* the debt was incurred before such date; *and*
    - The State aid attributable to the debt to be refinanced would have been reduced in the 2002-03 and/or 2003-04 school years as a result of the application of assumed amortization to the unpaid principal outstanding as of July 1, 2002.
  
6. How will State building aid be projected in the future?
  - A. State building aid will continue to be projected on the basis of data provided by the school districts. Since most data will be for projects that are already approved, there will be a reduced need for estimated data such as that now submitted on Schedule O.
  
7. My district’s technology project only has a maximum useful life of ten years. Will it be amortized over fifteen years?
  - A. Not for projects that have already been financed. If the district can provide the Department with documentation by an architect or other appropriate professional that the maximum useful life of the project is less than fifteen years, the Department will use the documented maximum useful life in calculating the blended maximum useful life of the obligations funding that project.  
  
For projects approved by the Commissioner on or after December 1, 2001 or for projects for which debt is first issued after that date, the lowest possible maximum useful life is fifteen years.
  
8. How is the statewide average interest rate calculated? Are bonds on mixed terms averaged together or will there be separate rates for 15 year, 20 year and 30 year bonds?
  - A. For projects subject to prospective assumed amortization the statewide average interest rate initially used to calculate assumed amortization estimates for projects

other than projects financed through DASNY will be the average of the interest rates for bonds issued in the year *before* the year in which the project receives Commissioner's approval. A single statewide average interest rate will be computed that will not vary by the term of the amortization and will be the basis for computing assumed debt service for ten years after it is established. It will be based on the interest rates provided to the Commissioner by school districts on or before September 1 of the current year.

In the following year, the average interest rate will be updated to reflect the data provided for the year in which the project was approved, and that the updated rate will be used to calculate State Aid apportionments thereafter. In the case of projects financed through DASNY, the actual interest rates will be used.

For retroactive assumed amortization, a single interest rate for all terms based on data for the 2001-02 school year will be applied to all debt with principal outstanding as of July 1, 2002.

For each new project subject to assumed amortization, an interest rate will be calculated for the year in which the project is approved, and will be the basis for computing assumed debt service for at least ten years after it is established

9. What interest rate will the State be using to estimate building aid for 2002-2003 for prospective and retroactive amortizations?

A. The most recent estimates for the interest rates are as follows:

New York City:	5.000%
Buffalo:	4.500%
Rochester:	4.250%
Syracuse:	5.375%
Yonkers:	4.625%
Rest of State:	4.500%

The Department will periodically provide updates on the latest year-to-date statewide average interest rate to assist school districts in estimating their State Building Aid for coming school year. A final rate for the 2002-03 school year will be computed following receipt by the Department in September 2003 of data on actual interest rates for debt issued for school building purposes in the 2002-03 school year.

10. If an amount larger than the outstanding unpaid principal must be borrowed in order to assure sufficient revenue to retire the State share does a district need to get voter approval for any amounts over the original voter authorization? Does the increased amount count against the constitutional debt limit?

A. In general, under Local Finance Law §§ 90.00(g)(2) and 90.10(j)(2), a revote is not required for the issuance of refunding bonds. However, school administrators should check with their bond counsel and school attorney to make sure there are no circumstances requiring a revote. The increased amount in excess of the amount of the outstanding principal to be refunded is indebtedness and would count against the constitutional debt limit.

11. What is the amortization period for a reconstruction -- addition project, 15 years, 20 years or a blended combination of the two?
  - A. For new projects (i.e. those approved by the Commissioner on or after December 1, 2001), either the projects will need to be submitted separately, or the blended project will be assigned an amortization period of either 15 or 20 years. That decision will be based on the relative cost of the two components.
  
12. How will the Department determine the “date of receipt by the commissioner of a certification by the district that a general construction contract has been awarded?”
  - A. This shall be the date upon which the State Education Department receives a modified form 139, with evidence of the award of the general construction contract. Such certification must be filed with the State Aid Unit on or after the date upon which the contract is awarded.
  
13. Once the aid on a new project starts, will that new project be aided over the PPU less the eighteen months or over the full PPU from the date aid begins?
  - A. The new project is assigned a period of 15, 20, or 30 years, based on the type of project. That period of assumed amortization begins eighteen months after the date of Commissioner’s approval, unless the first general construction contract is awarded at a later date. If that is the case, then the period of assumed amortization will commence on the date upon which the district certifies to the Department that such contract has been awarded. The district does not have to issue debt at the same time as Commissioner’s approval, and the district is responsible for issuing and structuring its debt in such a way as to maximize the benefit to the district.
  
14. Do BANS affect how the State determines when the PPU starts on existing debt?
  - A. Yes, the maximum useful life of each project funded by debt will begin on the date of the first debt (bond, BAN or capital note) issued to finance that project. The remaining maximum useful life of each project will be the maximum useful life less the period elapsed between the date of first debt issuance and July 1, 2002. The State Aid Unit web site will reflect data submitted by school districts with BANs and/or capital notes.
  
15. How will new debt issued after July 1, 2002 against an authorization which has had debt issued and SED approval before December 1, 2001 be handled?
  - A. This situation is addressed in the first subclause (ii) of clause (a) of subparagraph (4) of paragraph e of subdivision 6 of section 3602, which treats new debt issued on a project subject to retroactive amortization as part of the retroactive amortization. For calculating the assumed amortization for these projects, the dollar value of the project that is to be funded through debt issued on or after December 1, 2001 will be added to the principal outstanding as of July 1, 2002 for the *last* bond issued prior to that date for such project.
  
16. Will the 2001-02 Refinanced BANS/Bonds be aided in July 2002 as 2002-03 Building Aid?

A. Yes.

17. Does prospective assumed amortization apply to projects approved and BANs issued prior to December 1, 2001 if the BAN is rolled into a Bond after December 1, 2001?

A. No. The language establishing project-specific assumed amortization stipulates that it applies only to projects approved after December 1, 2001 or to projects approved prior to that date where a bond, capital note or *bond anticipation note* is first issued on or after that date. Thus, if a BAN is issued prior to December 1, 2001, the assumed amortization would be applied to the principal of that BAN (or of debt issued to retire that BAN) outstanding as of July 1, 2002.

18. When will information on applying for waiver be available?

A. Information on waivers will be posted on the State Aid Unit Web Site. The web address is listed below.

19. How is the blended useful life of existing projects subject to retroactive assumed amortization computed?

A. A weighted average maximum useful life is calculated using the methodology set forth in section 11.00 of the Local Finance Law. For a more detailed explanation, with examples, see the State Aid Unit web site. The web address is listed below.

20. Where can I find additional information?

A. State Aid Unit Web Site: [stateaid.nysed.gov](http://stateaid.nysed.gov)  
518-474-2977

Office of Facilities Planning: [www.p12.nysed.gov/facplan](http://www.p12.nysed.gov/facplan)  
518-474-3906

Dormitory Authority of the State of New York: [www.dasny.org](http://www.dasny.org)  
518-257-3375