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TO: Superintendents of Public School Districts (or Official Designee)
District Superintendents (For Information)

FROM: Arthur B. Porter, Director of Education Finance
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SUBJECT: 2002-2003 Building Aid Data

Chapter 383 of the Laws of 2001, enacted on October 29, 2001, established a new method of apportioning aid for debt service on capital projects based on the concept of assumed amortization. For projects associated with any existing bonds, bond anticipation notes or lease-purchase agreements that have principal remaining as of July 1, 2002, the Commissioner is directed by statute to apply an assumed amortization to determine the amount of building aid and reorganization incentive building aid that will be payable on such debt service in the 2002-03 school year and thereafter. To make that computation possible, Part F of Chapter 383 directs the Commissioner to determine the "remaining maximum useful life" of the project or projects associated with any bonds, bond anticipation notes or lease-purchase agreements that were entered into in order to fund projects approved by the Commissioner prior to December 1, 2001 where the obligation was first issued prior to July 1, 2002 and there will be outstanding principal as of July 1, 2002.

While most of the data necessary to estimate payments under assumed amortization can be extracted from existing district data, complete information as to the maximum useful life of the projects is not on file with the Department.

As a result, the Department has developed a methodology to impute the maximum remaining useful life of a project, based on the types of expenditures reported by districts as being associated with specific projects. We have used that methodology to estimate the blended maximum useful life to be associated with debt still outstanding as of July 1, 2002 and the assumed amortization that would be the basis for apportionment of aid. That data for your district can be accessed through the State Aid Unit website at <http://stateaid.nysed.gov/>, and a description of the methodology used to arrive at the imputed maximum remaining useful life is included in Attachment A below.

ATTACHMENT A

1. To determine the blended maximum useful life of a given project:

- a. If the project is new construction or if there are no costs allocated for additions or for alterations and reconstruction, it is assigned a maximum useful life of 30 years.
- b. If the project is an addition and the total costs for alterations and reconstruction are less than 10% of the total costs for additions, it is assigned a maximum useful life of 20 years.
- c. For all other projects, a weighted average maximum useful life is calculated in accordance with Section 11.00 of the Local Finance Law, by adding the following:
 - (1) 15 years multiplied by the dollar amount allocated to alteration and reconstruction, and
 - (2) 20 years multiplied by the dollar amount allocated to additions.

This sum is then divided by the total dollar amount allocated to all purposes and rounded to the nearest half year.

EXAMPLE: A project has \$2.5 million allocated for alteration/reconstruction and \$6 million allocated for an addition. The weighted maximum useful life is $((2,500,000 * 15) + (6,000,000 * 20)) / (2,500,000 + 6,000,000)$, or $157,500,000 / 8,500,000 = 18.529$ or, rounded to the nearest half year, 18½ years.

2. To determine the blended maximum useful life of a given debt issuance, the same methodology is used.

- a. For each project associated with a debt issue, a weighted maximum useful life is calculated by multiplying the allowable cost of that project to be funded with the proceeds of that issuance by the maximum useful life associated with that particular project.
- b. The weighted maximum useful lives for all the associated projects are summed and the sum is divided by the total allowable costs for all the associated projects, rounded to the nearest half year.
- c. If this calculated life is less than the original term of the bonds, the original term is considered the maximum useful life of the debt. Otherwise, the blended maximum useful life is used.

EXAMPLE: A \$3.5 million bond with 3 projects associated with it was issued 10 years ago, for a term of 15 years.

	Allowable Cost	New Construction Costs	Additions Cost	Alteration/Reconstr. Cost	Est. Max Useful Life	Weighted Useful Life
Project 1	2,658,285	0	2,271,296	386,989	19.5	51,836,558
Project 2	56,003	0	0	56,003	15.0	840,045
Project 3	282,597	282,597	0	0	30.0	8,477,910
Total for All Proj.	2,996,885					61,154,513

The estimated maximum useful life for the bond is the sum of the weighted useful lives of the projects divided by the sum of the allowable costs for the projects, or $((2,658,285 * 19.5) + (56,003 * 15.0) + (282,597 * 30.0)) / (2,658,285 + 56,003 + 282,597) = 61,154,513 / 2,996,885 = 20.406$. Rounded to the nearest half year, this is 20½ years, so the remaining maximum life for the bond is this calculation, rounded to the nearest half year less the period that has elapsed since the bond was issued, or $20\frac{1}{2}$ years – 10 years = $10\frac{1}{2}$ years.

3. Once the maximum remaining term is established, it is used in conjunction with a statewide average interest rate (or, in the case of the Big Five, an average interest rate for the city) as determined by the Commissioner and the principal outstanding as of July 1, 2002 to calculate the assumed annual debt service cost. Assuming that in the example above, the average interest rate is 4.5% and the bond has outstanding principal of \$3.5 million, the district's aid would be allocated based on two assumed payments of debt service per year that, over 10½ years, would retire the \$3.5 million of outstanding principal at an interest rate of 4.5%. Under these conditions, the assumed annual debt service cost would total \$421,930.
4. This assumed annual debt service is then multiplied by the bond percent assigned to that debt issuance to compute aidable debt service. If the bond percent is 85.62%, in the above example, the aidable debt service would be $\$421,930 * 85.62\% = \$361,256$.
5. The aidable debt service is then multiplied by the district's aid ratio previously assigned to that particular bond issue to compute the actual aid apportionment for that debt. If the district's aid ratio in the above example is 57.9%, the aid apportionment would be $\$361,256 * 57.9\% = \$209,167$.