

CAPITAL vs. OPERATIONAL FUNDS

Defined Uses

REVENUE

- Local 6000 (56.72%)- Earned Income Tax (EIT), Property Tax, Local Service Tax(LST), Student Fees, etc...
- State 7000 (40.97%)- Basic Education Funding (BEF), Accountability Block Grant (ABG), Property tax relief, PSERS & Social Security reimbursement, etc...
- Federal 8000 (2.05%)- Title I, Title IIA, Air Force Reimbursement, Medical Access, etc...
- Other 9000 (.26%)- Bond proceeds, fund balance contributions, or other sources not identified

USES OF REVENUE (IN GENERAL TERMS)

- Local Revenue uses are unrestricted
 - Operational or Capital expenses permitted
- State Revenue uses are somewhat restricted
 - Operational or Capital expenses **may be** permitted
- Federal Revenue uses are restricted
 - Operational or Capital expenses **may be** permitted as outlined by program implementation

EXPENDITURES

- Operational
- Capital
- Other - Redemption of Bond Principal

OPERATIONAL FUNDING

- Funds allocated to run the day-to-day activities of the School District
- Examples - salaries, health and fringe benefits, paper, software, electricity, gasoline, etc...

CAPITAL FUNDING

- Specific monies obtained via Bond Issuance or School Board allocation to a restricted fund, ie. Post War Capital Reserve Fund
- In general terms - Capital Funds are earmarked for long-term useful life items and infrastructure upgrades
- Items with a useful life typically greater than 5 years that comply with the Debt Act, IRS Tax Code & Rules, Generally Accepted Accounting Principles (GAAP), the PA School Code and Laws of the Commonwealth

SCHOOL DISTRICT WORKING CAPITAL FINANCING

- Use of long-term debt to pay operating expenses is subject to severe limitations under the Local Government Unit Debt Act and the Federal income tax rules applicable to tax-exempt bonds.

DEBT ACT

- Restrictions reflect prudent policy that dictate long-term debt be used for long-term assets, not regular annual operating expenses
- Three (3) operational uses:
 - Tax Revenue Anticipation Note (TRAN). Must mature (repayment) within the same fiscal year, so it does not permit long-term debt.
 - Funding of unfunded debt (ie. unforeseen liabilities)
 - Sale/leaseback financing (ie. bus lease)
- Funds earmarked for long term investments

DEBT ACT

- Under the Debt Act, no proceeds of the recent School District new money bond issues (Series of 2010, Series A of 2012 (portion), Series B of 2012 and Series E of 2013) can be used for operating expenses.

FEDERAL INCOME TAX RULES

- Use of (Bond Issuance) proceeds must comply with Federal income tax rules in order for debt to be tax-exempt.

FEDERAL INCOME TAX RULES

- Rules primarily reflect suspicion that purported long-term working capital financings can give rise to arbitrage abuses (investment of funds at a yield higher than the bond yield), and secondarily reflect the view that long-term financing of operating expenses is not a proper use of tax exempt debt.

TAX-EXEMPT LONG-TERM WORKING CAPITAL FINANCINGS MUST MEET SEVERAL REQUIREMENTS:

- Long-term fiscal distress
- Repayment as surplus amounts become available (above a reasonable reserve amount)
- Administratively burdensome accounting requirements

PBSD CAPITAL FINANCING

- The recent School District new money bond issues (Series of 2010, Series A of 2012 (portion), Series B of 2012 and Series E of 2013) were not structured as working capital financings, and so none of the proceeds can be used for operating expenses.

PBSD BOND SERIES ALLOCATIONS (CAPITAL MONEY)

- PBSB has an A+ Standard & Poor's Bond Rating as of May 2013

- Post War Fund - \$2,443,000

All are Restricted Funds

- Series A of 2012 - \$7,036,507

Balances as of
May 17, 2013

- Series B of 2012 - \$297,550

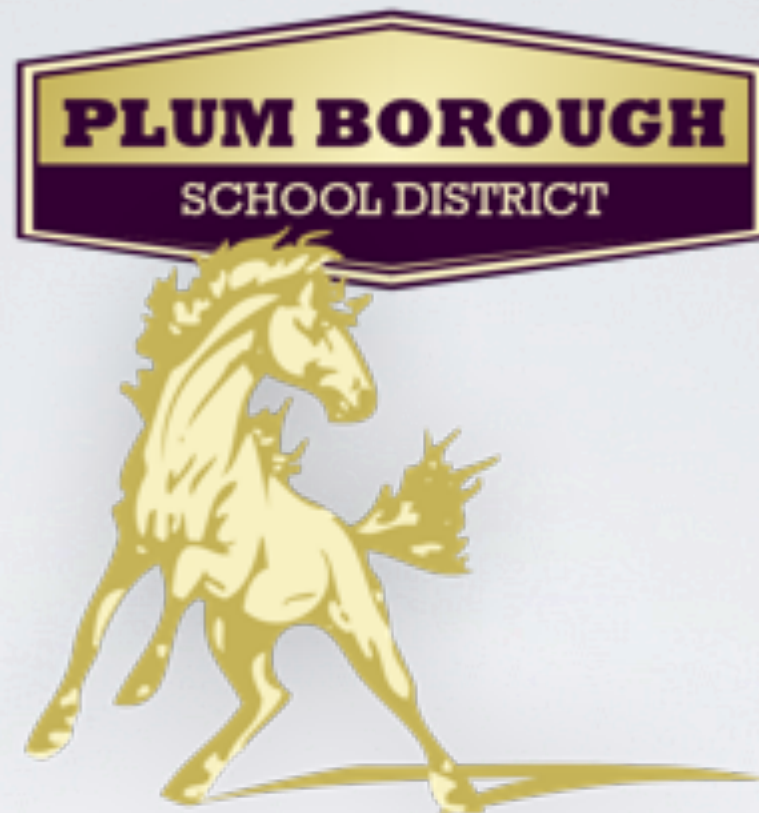
- Series 2010 (Build America Bonds) - \$1,994,102

- Series E of 2013 - \$15,178,000 (*estimate-final as of 6/26/13)

GENERAL FUND BALANCE

(FUND 10)

- Unrestricted Fund - Operational or Capital Projects permitted
- Estimated Balance as of June 30, 2013 - \$2,680,800



THANK YOU

May 22, 2013