

Maintaining PlanCon Through Additional Capacity

PlanCon Advisory Committee: Act 26 of 2016 authorized the formation of the PlanCon Advisory Committee, which is tasked with reviewing the current PlanCon program for state reimbursement and making recommendations for the future of the program. The Committee must issue a report by May 15, 2017.

PlanCon Borrowing Plan: The PlanCon borrowing plan, also authorized by Act 26 of 2016, is moving forward to ensure that school districts and career and technical education centers receive state reimbursement for their current school construction or renovation projects.

The legislation authorized the borrowing of up to \$2.5 billion (done through the Commonwealth Financing Authority) to cover all current projects in the PlanCon pipeline already approved by PDE. The borrowing will be done in several steps, with the first borrowing, authorized for up to \$850 million, to occur in fall 2016.

The Problem: While the PlanCon Advisory Committee is just beginning its work, the PlanCon borrowing plan is moving forward, with the goal of going to market with the first round of bonds in October 2016. Decisions about how to structure the debt payments for the borrowing are happening now, and these decisions could dictate the fate of future school construction in Pennsylvania. There are 2 options available:

Option 1: The current plan for the design of the borrowing provides some working capital for the state for the next 4 years (which will provide the state with some temporary budgetary relief), and after that, it maximizes the PlanCon line item (at \$306 million in 14-15) for payment of the debt. It leaves no available dollars for any future program for school construction reimbursement, essentially closing the program.

Option 2: Another option for structuring the debt payments is to build some additional capacity into the design such that there would be additional dollars available for new projects. This does not require borrowing any additional money, and instead structures the repayment in a way that creates a gap between the \$306 million line item and the actual debt payment—freeing up approximately \$40 million annually (at least for a period of time) that could be used for new school construction projects. This proposal does not provide as much working capital to the state, but it does preserve the program into the future by providing additional capacity that could be dedicated to new projects.

The education community prefers Option 2, as the additional capacity guarantees that the program can continue in some form; however, the administration prefers Option 1. Failing to structure the borrowing in a way that includes additional capacity from the beginning, as is done by Option 2, has significant negative implications for all stakeholders involved.

- Providing no available dollars going forward shuts the door on the state's role in school construction and renovation, undercutting the PlanCon Advisory Committee's ability to realistically implement any future recommendations for a new program.
- The moratorium that went into effect in Act 26 is set to expire on July 1, 2017, but with no additional capacity (and no available revenue stream in sight), it is unlikely that the program will ever reopen, despite any recommendations from the PlanCon Advisory Committee.
- Without state support for school construction and renovation, needed projects simply won't happen in most districts, and the absence of state support means that most school districts will have to defer all construction and renovation projects, resulting in deteriorating, crumbling and inadequate school facilities across the state.
- Failure to provide state support for needed school construction and renovation projects will increase the equity gap across districts, undermining attempts at increasing basic education funding as some of the neediest districts must use those valuable dollars not to increase academic achievement or offer more opportunities, but to repair failing HVAC systems, replace roofs and ensure the structural integrity of their facilities.
- With no program for school construction reimbursement, school construction across the state will grind to a halt, meaning there will be fewer jobs and Pennsylvania's economy will suffer.

Overall, the additional capacity built into the debt structure of Option 2 keeps the door open for state reimbursement for school construction funding in the future. While it is likely that a new program for school construction reimbursement will cost in excess of \$40 million annually, it is preferable to be in the position arguing to increase the investment above the \$40 million rather than in the position of arguing to keep the program in existence.

Option 2 provides a guarantee—without increasing the PlanCon line item or the borrowing amount—that the state will continue to have a role in school construction in the future. It allows the PlanCon Advisory Committee to play a meaningful role in the development of a new program, and it ensures that school districts and career and technical centers across the state will have some future state support to make needed repairs and renovations to their aging facilities.