

Equipment Financing Overview

March 8, 2023

Presentation Overview

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Overview

School districts have many options to fund equipment, technology and related capital needs. Today we are going to focus on options to fund the following:

- Computers, smart boards and related technology
- Electrical equipment and components
- Furniture and fixtures
- Cafeteria equipment
- HVAC
- Playground equipment
- Vehicles
- Projects related to energy efficiency measures

Funding Considerations

Funding for equipment needs can come from many sources. The decision on how to fund these projects is based on many factors including:

- Timing
- Useful life of the equipment
- General fund cash position
- Longer-term capital needs
- Grant fund options - specifically grants with spending deadlines
- Debt limitation
- Interest rates



Financing Sources

School Districts have many options to fund performance service contracts, including but not limited to:

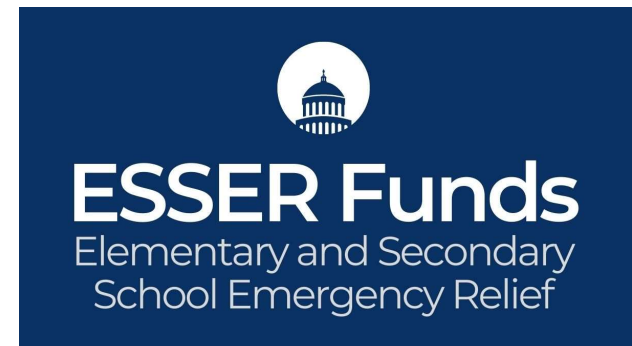
- Cash
- ESSER and Grant Funds
- Equipment Acquisition and Lease Purchase Agreements
- Special Obligation Bonds
- General Obligation Bonds



Cash and Grant Funds

Cash and grant funds are commonly utilized to fund equipment needs, with many of those qualifying under ESSER.

- General funds are often used to support small equipment purchases with a short useful life.
- Utilizing a combination of cash/grants and debt is a common financing structure.
- Districts often use ESSER or other grant funds to show the tangible benefit of funds.
 - Capital expenses tied to air quality measures are a commonly utilized expense qualifying under ESSER.



Lease Purchase & Related Agreements

Lease purchase and equipment acquisition agreements are commonly utilized instruments to fund equipment needs.

- Schools purchase a portion of the project back with each payment.
 - Agreement is secured with an appropriation pledge and the equipment as collateral.
- Payment amounts can be funded with general fund cash or with annual general obligation bonds.
- **The annual payment amount is the only portion subject to the eight percent constitutional debt limit. *Great way to fund the project without limiting bonding ability.***
- *Not a traditional “lease”*
 - *Assets pass on to the municipality at the end of lease term*

Lease Purchase & Related Agreements

These agreements are not subject to competitive bidding requirements but are commonly bid out to procure the optimal result. Considerations for determining method of sale include but are not limited to:

- Underlying asset
- Project scope
- Term
- Structure



Lease Purchase & Related Agreements

Equipment Lenders

- Large and diverse base of lenders
 - National, regional and local (SC based) banks participate in these agreements.
- Term limitations based on useful life of equipment
- Some banks are willing to lend out 12 to 15 years with a fixed rate if collateral and structure are acceptable.
 - Detailed equipment list is key
- Minimum size of lease purchase agreements will vary among lenders
 - General rule of thumb is that amounts financed under \$1.0MM will limit the number of potential lenders
 - However, we have worked on transactions as small as \$200K.

Lease Purchase & Related Agreements

Vendor Financing

- Some vendors offer financing through their banking partners
- Typically limited to the vendors equipment
 - Inability to combine with other equipment purchases to achieve economies of scale
- Vendor financing is typically not as competitive
 - Always better to shop rates
 - Amortization structure may be limited – i.e. the inability to “customize” the repayment amounts.

Lease Purchase & Related Agreements

Competitive Bid Process

- Similar to issuing GO Bonds
- RFP is prepared and disseminated to banking community
- 2 to 3 week credit review process

REQUEST FOR PROPOSALS

School District No. 4 of Dorchester County, South Carolina
Acquisition, Use and Security Agreement, Series 2022
\$4,000,000*

NON BANK QUALIFIED

Time and Place of Sale: NOTICE IS HEREBY GIVEN that proposals addressed to the undersigned will be received on behalf of the Board of Trustees (the "Board") of School District No. 4 of Dorchester County, South Carolina (the "School District"), until 11:00 a.m., South Carolina time, on Wednesday, April 27, 2022, at which time said proposals will be publicly opened.

Acquisition, Use and Security Agreement: The Board of the School District has authorized the School District to fund certain equipment through an Acquisition, Use and Security Agreement (the "Agreement"). On behalf of the School District, proposals are being requested from selected banks for a \$4,000,000* tax-exempt financing in the form of the Agreement. You are invited to submit a proposal giving your lowest available rate of interest and other conditions for such financing.

Bids: Proposals will be accepted by e-mail transmission to: William Saunders, Chief Finance Officer of the School District, at wsaunders@dd4.k12.sc.us with copies to proposals@compassmuni.com and fheizer@bny.com. The School District shall not be responsible for the confidentiality of bids submitted by e-mail transmission.

PROPOSALS MUST BE DELIVERED BY ELECTRONIC MAIL BUT NO PROPOSAL SHALL BE CONSIDERED WHICH IS NOT ACTUALLY RECEIVED BY THE SCHOOL DISTRICT AT THE DATE AND TIME APPOINTED.

Please note that the School District reserves the right to select the proposal it believes best meets its needs. The selection process will be heavily weighted toward lowest financing costs. The School District reserves the right to reject any or all proposals as well as negotiate with the lowest responsible proposer.

I. Structure of Agreement:

(a) Amount to be Financed: \$4,000,000*

(b) Payments: The School District will make annual Acquisition Payments (as defined in the Agreement) beginning December 1, 2022 through December 1, 2036, in the following amounts:

December 1	Amount*	December 1	Amount*
2022	\$344,553.28	2030	\$228,385.49
2023	286,779.85	2031	237,520.91
2024	298,251.05	2032	247,021.75
2025	310,181.10	2033	256,902.62
2026	322,588.34	2034	267,178.72
2027	203,033.87	2035	277,865.87
2028	211,155.22	2036	288,980.50
2029	219,601.43		

*Preliminary, subject to adjustment

Lease Purchase & Related Agreements

Exhibit A

EQUIPMENT LIST

Bells Elementary School

<u>Description</u>	<u>Projected Cost</u>
Sewer Pump Station	\$ 33,705
Food Service Equipment	592,625
HVAC Equipment	1,368,530
Electrical Equipment	350,000
Technology Equipment	500,000
Furniture, Fixtures and Equipment	<u>500,000</u>
Total	\$3,344,860*

If costs allows, there will be lighting added at a projected cost of \$415,800 for a total of \$3,760,660

District-Wide

<u>Description</u>	<u>Projected Cost</u>
450 OptiPlexx 5490 AIO	\$564,655
450 Dell Services	31,423
	\$596,078
Maximum Total for Bells Elementary and District-Wide	\$4,356,738

The School District shall be responsible for any amounts over \$4,000,000

Special Obligation Bonds

Equipment and related capital expenses can also be funded in the capital markets through the use of a Special Obligation Bond (“SOB”).

Special Obligation Bonds function like an acquisition agreement but are a publicly traded debt instrument.

- Only payment amounts are subject to 8% debt limitations.
- Schools can issue GO bonds to fund the payments.
- Can be negotiated or competitively bid.



Special Obligation Bonds

SOBs are a common and acceptable capital market structure.

- Bond rating is notched downward from the issuer's GO rating
- Essentiality is important
- Usually a one-notch adjustment from GO rating
- Size, rating, term and structure are determining factors in method of sale

More to come.....

Credit Ratings and Credit Scores



SOB and Lease Considerations

Due to inflation and other rising costs, many projects now drastically exceed initial costs estimates.

- In addition to the financial strain created, cost overruns create political issues, specifically on voter approved referendum projects.
- Separating the equipment costs from the “brick and mortar” costs can serve as an alternative option to finance the overrun.
 - This strategy preserves referendum capacity and prevents Districts from tapping into their 8% limitation or drastically reducing the project scope.



Traditional General Obligation Bonds

Performance service contracts can be financed with General Obligation Bonds as well.

- Less common for larger projects
- Unless part of a referendum, the **debt would be subject to eight percent limitations.**
- Interest rates are typically better when compared to Acquisition Agreements and Special Obligation Bonds.
- Subject to competitive bid requirements





Utilizing Performance Service Contracts to Fund Equipment Needs

Overview

Performance service contracts can be used in connection with equipment acquisitions and upgrades.

What are they and how do they work?

- A partnership between a school district and an energy service company (ESCO) to identify and address facility upgrades through energy efficient solutions.
- Same funding options as a traditional equipment purchase.



Benefits

What are the benefits of Performance Service Contracts?

- Generates energy savings that can be used to pay for some or all of the project.
- The savings are guaranteed by the ESCO for the length of the project and then can be applied to fund additional infrastructure and technology needs.
- Eliminates a low-bid procurement process.
- Consolidates district-wide improvements into one project.



Types of Projects

The types of projects funded by school districts through performance service contracts include but are not limited to:

- HVAC
- Lighting
- Windows and Doors
- Water Conservation
- Building Weatherization
- Roofing Systems
- Electrical Improvements
- Telephone and Technology Upgrades
- Building Automation

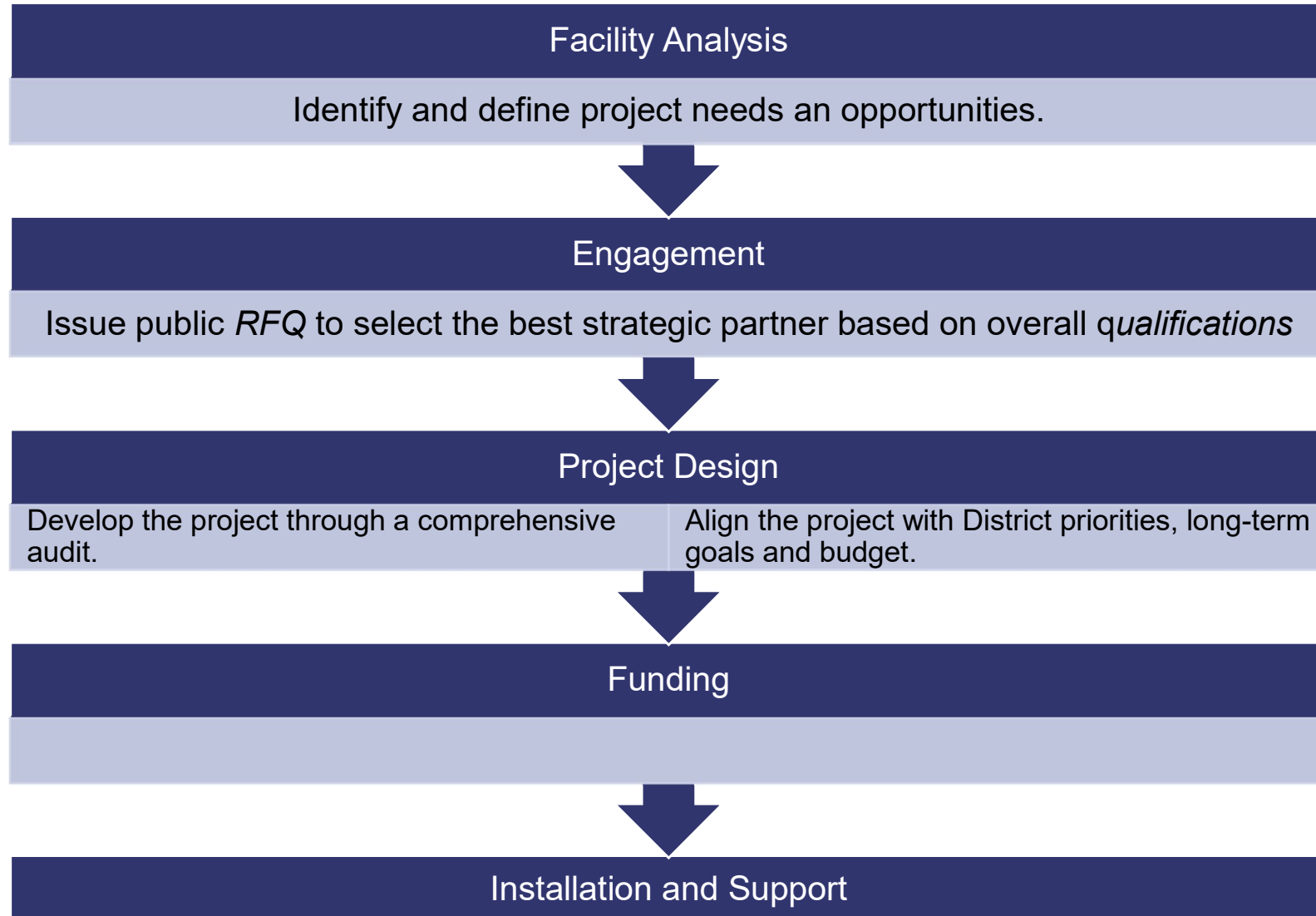
Project Considerations

It is important to balance capital/infrastructure needs with operational resources.

- Do you have the time and resources to dedicate to improving or implementing operational efficiencies?
- Limited access to traditional funding sources.
 - Legal, political or financial
- External expertise to design and deliver results.



Process





Case Study

Case Study

Project Details:

School District: Spartanburg CSD No. 7

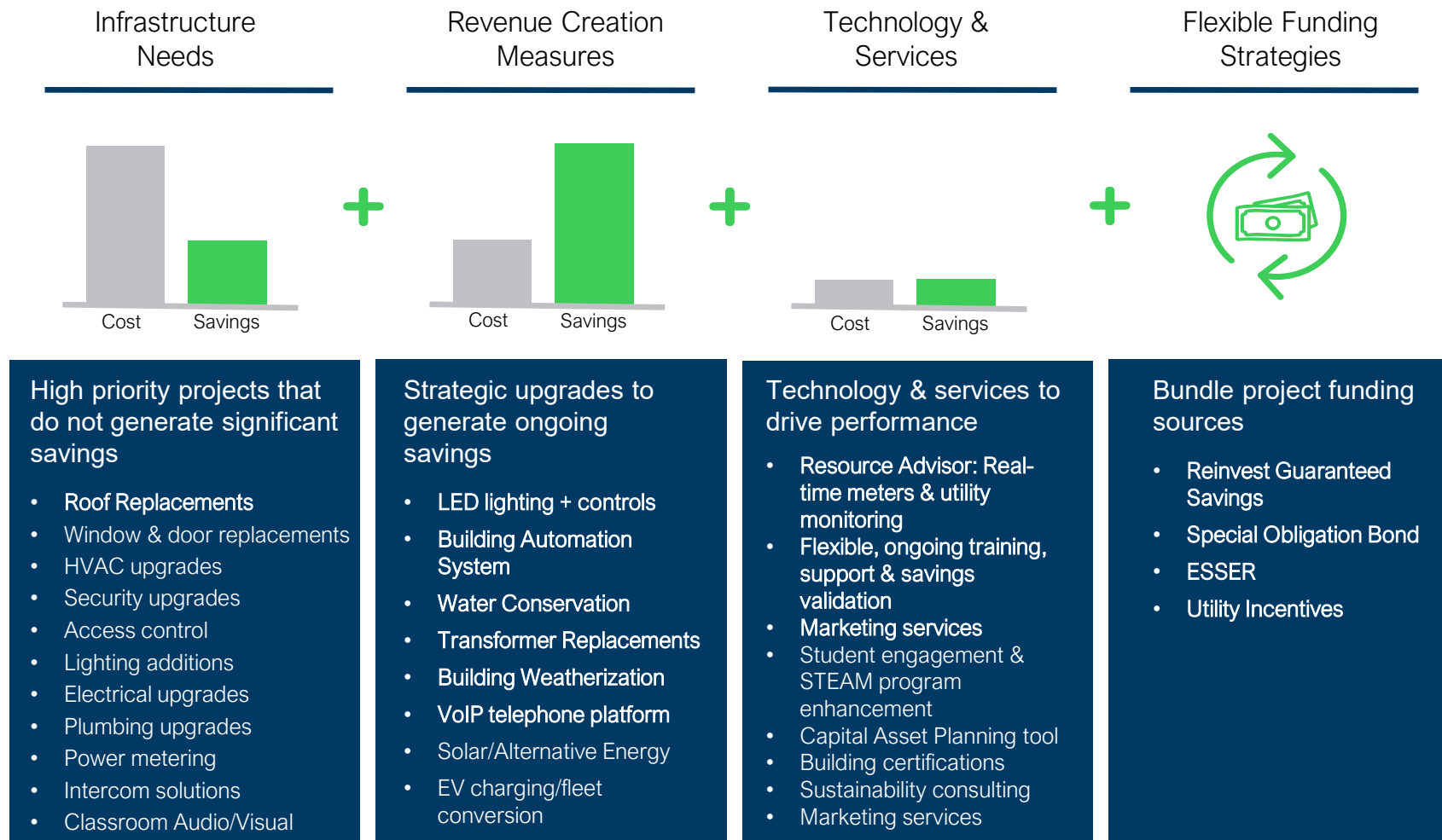
PSC Provider: Schneider Electric

Project: Various improvements for 12 buildings

Scope: \$22.3MM



General Considerations




Result: Comprehensive solution that achieved multiple outcomes

- Implementation of priority projects while protecting future budgets
- A new, streamlined operational approach

Performance Contract Cash Flows

Life Is On



Performance Contract Savings

Annual Utility Rate Escalation:		3%			
Year	Measured Energy Savings	Non-Measured			Guaranteed Savings
		Stipulated utility Savings	O+M Savings	Capital Avoidance Savings	
1	\$301,000	\$52,000	\$81,000	\$550,000	\$984,000
2	\$310,030	\$53,560	\$83,430	\$550,000	\$997,020
3	\$319,331	\$55,167	\$85,933	\$550,000	\$1,010,431
4	\$328,911	\$56,822	\$88,511	\$550,000	\$1,024,244
5	\$338,778	\$58,526	\$91,166	\$550,000	\$1,038,471
6	\$348,941	\$60,282	\$93,901	\$550,000	\$1,053,125
7	\$359,410	\$62,091	\$96,718	\$550,000	\$1,068,219
8	\$370,192	\$63,953	\$99,620	\$550,000	\$1,083,765
9	\$381,298	\$65,872	\$102,608	\$550,000	\$1,099,778
10	\$392,737	\$67,848	\$105,687	\$550,000	\$1,116,272
11	\$404,519	\$69,884	\$108,857	\$550,000	\$1,133,260
12	\$416,654	\$71,980	\$112,123	\$550,000	\$1,150,757
13	\$429,154	\$74,140	\$115,487	\$550,000	\$1,168,780
14	\$442,029	\$76,364	\$118,951	\$550,000	\$1,187,344
15	\$455,290	\$78,655	\$122,520	\$550,000	\$1,206,464
16	\$468,948	\$81,014	\$126,195	\$550,000	\$1,226,158
17	\$483,017	\$83,445	\$129,981	\$550,000	\$1,246,443
18	\$497,507	\$85,948	\$133,881	\$550,000	\$1,267,336
19	\$512,432	\$88,527	\$137,897	\$550,000	\$1,288,856
20	\$527,805	\$91,182	\$142,034	\$550,000	\$1,311,022
Totals	\$8,087,983	\$1,397,259	\$2,176,500	\$11,000,000	\$22,661,743
Source: Schneider Electric Buildings Americas, Inc.					

20-Year
Term



Note a Capitalized Interest Period

Life Is On

Schneider

Electric

Performance Contract Savings

Annual Utility Rate Escalation:3%

Year	Measured Energy Savings	Non-Measured			Guaranteed Savings
		Stipulated utility Savings	O+M Savings	Capital Avoidance Savings	
1	\$301,000	\$52,000	\$81,000	\$550,000	\$984,000
2	\$310,030	\$53,560	\$83,430	\$550,000	\$997,020
3	\$319,331	\$55,167	\$85,933	\$550,000	\$1,010,431
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19	\$512,432	\$88,527	\$137,897	\$550,000	\$1,288,856
20	\$527,805	\$91,182	\$142,034	\$550,000	\$1,311,022
Totals	\$8,087,983	\$1,397,259	\$2,176,500	\$11,000,000	\$22,661,743

Source: Schneider Electric Buildings Americas, Inc.

When does
"Year 1" savings
physically begin?

How long is the
project period in
months?

What are the
risks?

Financing Details

Financing Overview

Financing Term: 22 Years

Debt Type: Special Obligation Bonds

Issuance Type: Public Market

Borrowing Amount: \$10,600,000

Other Sources of Funds: \$13,200,000 ESSER

Customization: 2 Years Capitalized Interest

Underwriter: Piper Sandler

Define Financing/Project Net Cash Flows

(A)	(B)	(C)	(D)	(E)	(F)		(G)	(H)	(I)
	Fiscal Year								
Project	Ending			Capitalized	Net Debt		Guaranteed	Net Debt	Net
Year	June 30th	Principal	Interest	Interest	Service		Savings	Service	Savings
1	2023	\$0	\$390,386	(\$390,386)	\$0			\$0	\$0
2	2024	\$0	\$463,825	(\$463,825)	\$0			\$0	\$0
3	2025	\$335,000	\$463,825		\$798,825		\$984,000	\$798,825	\$185,175
4	2026	\$350,000	\$450,425		\$800,425		\$997,020	\$800,425	\$196,595
5	2027	\$365,000	\$436,425		\$801,425		\$1,010,431	\$801,425	\$209,006
6	2028	\$380,000	\$421,825		\$801,825		\$1,024,244	\$801,825	\$222,419
7	2029	\$400,000	\$402,825		\$802,825		\$1,038,471	\$802,825	\$235,646
8	2030	\$415,000	\$382,825		\$797,825		\$1,053,125	\$797,825	\$255,300
9	2031	\$440,000	\$362,075		\$802,075		\$1,068,219	\$802,075	\$266,144
10	2032	\$460,000	\$340,075		\$800,075		\$1,083,765	\$800,075	\$283,690
11	2033	\$485,000	\$317,075		\$802,075		\$1,099,778	\$802,075	\$297,703
12	2034	\$505,000	\$292,825		\$797,825		\$1,116,272	\$797,825	\$318,447
13	2035	\$535,000	\$267,575		\$802,575		\$1,133,260	\$802,575	\$330,685
14	2036	\$560,000	\$240,825		\$800,825		\$1,150,757	\$800,825	\$349,932
15	2037	\$580,000	\$218,425		\$798,425		\$1,168,780	\$798,425	\$370,355
16	2038	\$605,000	\$195,225		\$800,225		\$1,187,344	\$800,225	\$387,119
17	2039	\$630,000	\$171,025		\$801,025		\$1,206,464	\$801,025	\$405,439
18	2040	\$655,000	\$145,825		\$800,825		\$1,226,158	\$800,825	\$425,333
19	2041	\$680,000	\$119,625		\$799,625		\$1,246,443	\$799,625	\$446,818
20	2042	\$710,000	\$91,575		\$801,575		\$1,267,336	\$801,575	\$465,761
21	2043	\$740,000	\$62,288		\$802,288		\$1,288,856	\$802,288	\$486,568
22	2044	\$770,000	\$31,763		\$801,763		\$1,311,022	\$801,763	\$509,259
Totals:	Totals:	\$10,600,000	\$6,268,561	(\$854,211)	\$16,014,350		\$22,661,743	\$16,014,350	\$6,647,393

Sources & Uses of Funds

<u>Sources of Funds</u>	
Par Amount of Bonds:	\$10,600,000.00
Gross Premium:	\$495,081.70
Total Sources of Funds:	\$11,095,081.70
<u>Uses of Funds</u>	
Underwriter's Discount:	\$56,500.00
Cost of Issuance:	\$214,456.29
Net Fund Deposit to Capitalized Interest Fund:	\$824,125.41
Deposit to Acquisition Fund:	\$10,000,000.00
Total Uses of Funds:	\$11,095,081.70

Operation of Capitalized Interest Fund

	SLGS	SLGS	SLGS	Fund	Interest Expense	Cash
Date	Principal	Rate	Interest	Receipts	Disbursements	Balance
07/28/22				\$0.41		\$0.41
12/01/22	\$152,172.00	2.57%	\$6,301.56	\$158,473.56	\$158,473.54	\$0.43
06/01/23	\$218,938.00	3.13%	\$12,974.11	\$231,912.11	\$231,912.50	\$0.04
12/01/23	\$224,721.00	3.18%	\$7,191.51	\$231,912.51	\$231,912.50	\$0.05
06/01/24	\$228,294.00	3.17%	\$3,618.45	\$231,912.45	\$231,912.50	\$0.00
Totals:	\$824,125.00		\$30,085.63	\$854,211.04	\$854,211.04	

Acquisition Fund Investments

	SLGS	SLGS	SLGS	Total
Date	Principal	Rate	Interest	Receipts
08/22/22				
09/01/22				
10/01/22	\$188,122.00	2.24%	\$2,553.15	\$190,675.15
11/01/22	\$262,806.00	2.56%	\$5,113.51	\$267,919.51
12/01/22	\$105,475.00	2.75%	\$6,330.27	\$111,805.27
01/01/23	\$388,707.00	2.97%	\$10,225.60	\$398,932.60
02/01/23	\$209,818.00	3.10%	\$7,831.70	\$217,649.70
03/01/23	\$289,062.00	3.17%	\$9,825.75	\$298,887.75
04/01/23	\$335,483.00	3.21%	\$19,716.42	\$355,199.42
05/01/23	\$453,074.00	3.24%	\$21,765.62	\$474,839.62
06/01/23	\$615,416.00	3.25%	\$26,235.52	\$641,651.52
07/01/23	\$406,618.00	3.26%	\$20,606.56	\$427,224.56
08/01/23	\$477,959.00	3.27%	\$20,441.46	\$498,400.46
09/01/23	\$324,258.00	3.27%	\$15,885.01	\$340,143.01
10/01/23	\$346,168.00	3.27%	\$13,461.55	\$359,629.55
11/01/23	\$313,929.00	3.28%	\$12,032.85	\$325,961.85
12/01/23	\$137,477.00	3.27%	\$11,275.86	\$148,752.86
01/01/24	\$286,279.00	3.27%	\$9,602.48	\$295,881.48
02/01/24	\$375,512.00	3.27%	\$6,139.62	\$381,651.62
03/01/24	\$323,045.00	3.27%	\$5,281.78	\$328,326.78
04/01/24	\$477,169.00	3.27%	\$7,801.71	\$484,970.71
05/01/24	\$421,066.00	3.27%	\$6,884.42	\$427,950.42
06/01/24	\$552,179.00	3.27%	\$9,028.12	\$561,207.12
07/01/24	\$301,029.00	3.27%	\$4,921.82	\$305,950.82
Totals:	\$7,590,651.00		\$252,960.78	\$7,843,611.78

Revisiting the Results

(A)	(B)	(C)	(D)	(E)	(F)		(G)	(H)	(I)
	Fiscal Year								
Project	Ending			Capitalized	Net Debt		Guaranteed	Net Debt	Net
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2	2024	\$0	\$463,825	(\$463,825)	\$0			\$0	\$0
3	2025	\$335,000	\$463,825		\$798,825		\$984,000	\$798,825	\$185,175
4	2026	\$350,000	\$450,425		\$800,425		\$997,020	\$800,425	\$196,595
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8	2030	\$415,000	\$382,825		\$797,825		\$1,053,125	\$797,825	\$255,300
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19	2041	\$680,000	\$119,625		\$799,625		\$1,246,443	\$799,625	\$446,818
20	2042	\$710,000	\$91,575		\$801,575		\$1,267,336	\$801,575	\$465,761
21	2043	\$740,000	\$62,288		\$802,288		\$1,288,856	\$802,288	\$486,568
22	2044	\$770,000	\$31,763		\$801,763		\$1,311,022	\$801,763	\$509,259
Totals:	Totals:	\$10,600,000	\$6,268,561	(\$854,211)	\$16,014,350		\$22,661,743	\$16,014,350	\$6,647,393

Revisiting the Results

Performance Service Contract Summary

- District-wide building and equipment upgrades
- Energy efficiencies will generate operational savings that will flow back into the general fund.

Financing Summary

- The SOB structure preserved 8% bonding capacity
- Utilized ESSER funds on a tangible project
- Maximized project fund dollars through investment earnings



Questions?

