

# HORRY COUNTY SCHOOLS

Alternative Payment Options: November 23, 2015



# OPTION 1: DEFERRED PAYMENT

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Design-Build Contract with the ability to pay Firstfloor over a period of time not to exceed the sunset date of 2025 for the sales tax revenue.



## OPTION 1: Deferred Payment

- The term of this contract will be determined based on sales tax revenues available for this program as provided by the District and its financial advisor.
- This is essentially an extended pay construction contract.
- The sales tax revenues each year will be deposited into a lock-box until the total payments for that year are met. Thereafter, sales tax revenues can be used for other purposes.





## OPTION 1: Deferred Payment

- The construction payments under the contract will not be secured by a general obligation pledge and the amounts due under the contract will not count as part of the HCS 8% debt limit and would possibly free up HCS borrowing capacity allowing HCS to issue general obligation bonds for other projects.
- Design-Builder will provide maintenance and optimization of the HVAC system for the term of the payout in lieu of the specified three years.



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- Annual payments are subject to lender approval and establishing interest rates.
- We have reviewed this potential structure with one lender in particular, and their initial thoughts range from the low 4% area (tax exempt) up to mid 5% rates, if taxable. This potential lender has expressed initial interest in the program but will need to complete due diligence and fully understand the strength of the revenue stream in order to approve the structure and proceed. Prior to submission of the RFP, we made a limited review of other potential interest in the structure and received feedback of borrowing rates ranging from 1.75% to the mid 4% level (tax exempt) depending on the strength of the revenue and contract terms. Rates have risen since this time and the feedback was based on very limited understanding of the program and structure as much work needs to be done in conjunction with the District's bond counsel and financial advisor. We would not know the willingness of buyers to participate at interest rate levels below the 5% range (taxable) without a thorough review of the market via a term sheet detailing the financing structure and sales tax revenue stream. We would need to work with the District and its bond counsel and financial advisor before any term sheet is distributed to potential lenders. *No assurance can be given that a lender will be willing to participate until a thorough marketing effort and lender credit/due diligence process can be completed.*

## OPTION 1: Deferred Payment - continued

- The terms of the final contract for this option will include design-build, loan/finance, underwriting and legal costs.
- We estimate the total additional costs to be \$6,887,262 for the full program (5 schools). This number is for the full program cost only and does not include any interest cost during the pay-off of the construction contract.
- We would need the assistance of HCS's Financial Advisor and Bond Counsel to complete structuring process and due diligence.
- If HCS is interested in Option 1, we will work the District's bond counsel and financial advisor to make certain that it will not delay the construction timeline.



# OPTION 2: LONG TERM LEASE



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Firstfloor proposes to lease the buildings for a term up to 30 years to HCS.

*"However, since submission of the RFP, statutory concerns have been raised that would likely cause this approach to result in a test case, which would delay the funding and construction for a period of possibly 2 years. For this reason, Firstfloor does not recommend pursuing this option at this time."*



## OPTION 2: Long Term Lease

### FEATURES OF THIS OPTION ARE:

- The goal of this lease structure is eliminate or reduce dependence on the 8% debt limit thereby freeing up HCS borrowing capacity for other projects.
- Annual payments are subject to contract terms negotiated between the design-builder and its lender.
- Requires coordination with District's bond counsel and financial advisor.
- Additional design-build, financing and underwriting fees would apply.





SfL+a RALEIGH • 333 Fayetteville Street, Ste. 225 • Raleigh, NC 27601 • P: 919.573.6350 • F: 919.573.6355  
SfL+a FAYETTEVILLE • 110 Anderson Street • Fayetteville, NC 28301 • P: 910.484.4989 • F: 919.573.6355