

The Local Government Commission Role in Senate Bill 2009

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Capital Leases

- SB 2009 permits schools to enter into capital leases to finance construction, repair or renovation of schools
- Not a pledge of taxing power of any unit
- Subject to approval by the county commissioners
- Debt would be reported by the schools

Capital Leases

- Subject to LGC approval if:
 - Period of lease is 5 years or more **and**
 - Total payments under lease, including interest, are at least \$500,000
- Same LGC approval process as an installment purchase or certificate of participation (COP)
- Requirements are found in Article 8 of GS Chapter 159

Build to Suit Capital Leases

- Capital lease that provides for private developer to construct or renovate a school
- Local board of education must adopt a resolution stating that this agreement is in the best interest of the schools considering
 - Time
 - Cost
 - Quality

Build to Suit Capital Leases

- Local board of education must find that the private developer is qualified to deliver the service
- The contract and any pre-development agreements must be approved by the county commissioners
- A build to suit capital lease is subject to LGC approval under the same conditions as a capital lease

Factors for LGC to Consider

- Factors the LGC must consider when approving a debt issue
 - Is the project necessary or expedient
 - Amount and nature of outstanding debt
 - Debt and fiscal management practices
 - Current and future tax rates

Factors for LGC to Consider

- Factors the LGC must consider when approving a debt issue
 - Is the amount of debt adequate but not excessive
 - Could bonds be issued for the project
 - The justification for this method of financing rather than bonds

Findings the LGC Must Make Prior to Approval

- The debt is necessary or expedient
- Proceeds are adequate but not excessive
- Debt management practices are good
- Any tax increases will not be excessive
- Debt can be marketed at a reasonable rate
- Installment purchase or capital lease is preferable to a bond issue

Preliminary LGC Meeting

- Contact a member of the debt management staff by telephone or e-mail
- Schedule a preliminary meeting
- Unit should have:
 - A list of potential projects to be financed
 - An estimate of the costs of the projects
 - A plan to finance the debt

Costs of Borrowing

- General obligation bonds
 - 4% to 4.5%
- Installment purchase/COPS
 - 4.25% to 4.75%
- Taxable borrowing
 - 6.50% to 7%

Costs of Borrowing

- For 20 year debt, the approximate total interest repayment per \$1 million borrowed
 - General obligation bonds
 - \$446,000
 - Installment purchase/COPs
 - \$472,000
 - Taxable debt
 - \$708,000

Costs of Borrowing

- Under SB 2009 financing may be assigned to the private developer
- Developers may gain a tax exempt borrowing rate by “securitizing” a lease with a government entity
- The developer will sell rights to the payments under the lease to the public in the form of a COP

Costs of Borrowing

- The developer is the issuer, but the government's credit rating is on the line
- Should payments be held up because of the developer's failure to perform, the debt market will view this as a default by the government
- Without a Form 8038G signed by the government, "securitizing" of a lease can not occur

Costs of Borrowing

- SB 2009 permits a borrowing period of up to 40 years
- Approximate additional interest costs of extended borrowing period per \$1 million borrowed
 - General Obligation bonds
 - 20 years pay \$446,000
 - 40 years pay \$871,000
 - Installment purchase/COPs
 - 20 years pay \$472,000
 - 40 years pay \$973,000

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