Capital Funding Options and Considerations for Edgefield County, SC

(November 13, 2019)

COMPASS
MUNICIPAL ADVISORS
1310 Pulaski Street, Columbia, South Carolina 29201

Presentation Outline

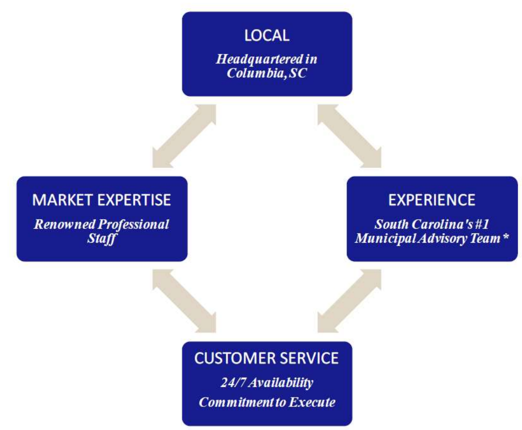
1) Firm Background
2) Capital Funding Program
3) Types of Available Financing Vehicles
4) Next Steps

Firm Background

Compass Municipal Advisors, LLC (“Compass”) is an independent municipal advisory firm in Columbia, South Carolina with offices in Lexington, Kentucky and Louisville, Kentucky.

Our municipal advisory team has been the **#1 advisor in South Carolina since 2003 in terms of number of issuances.**

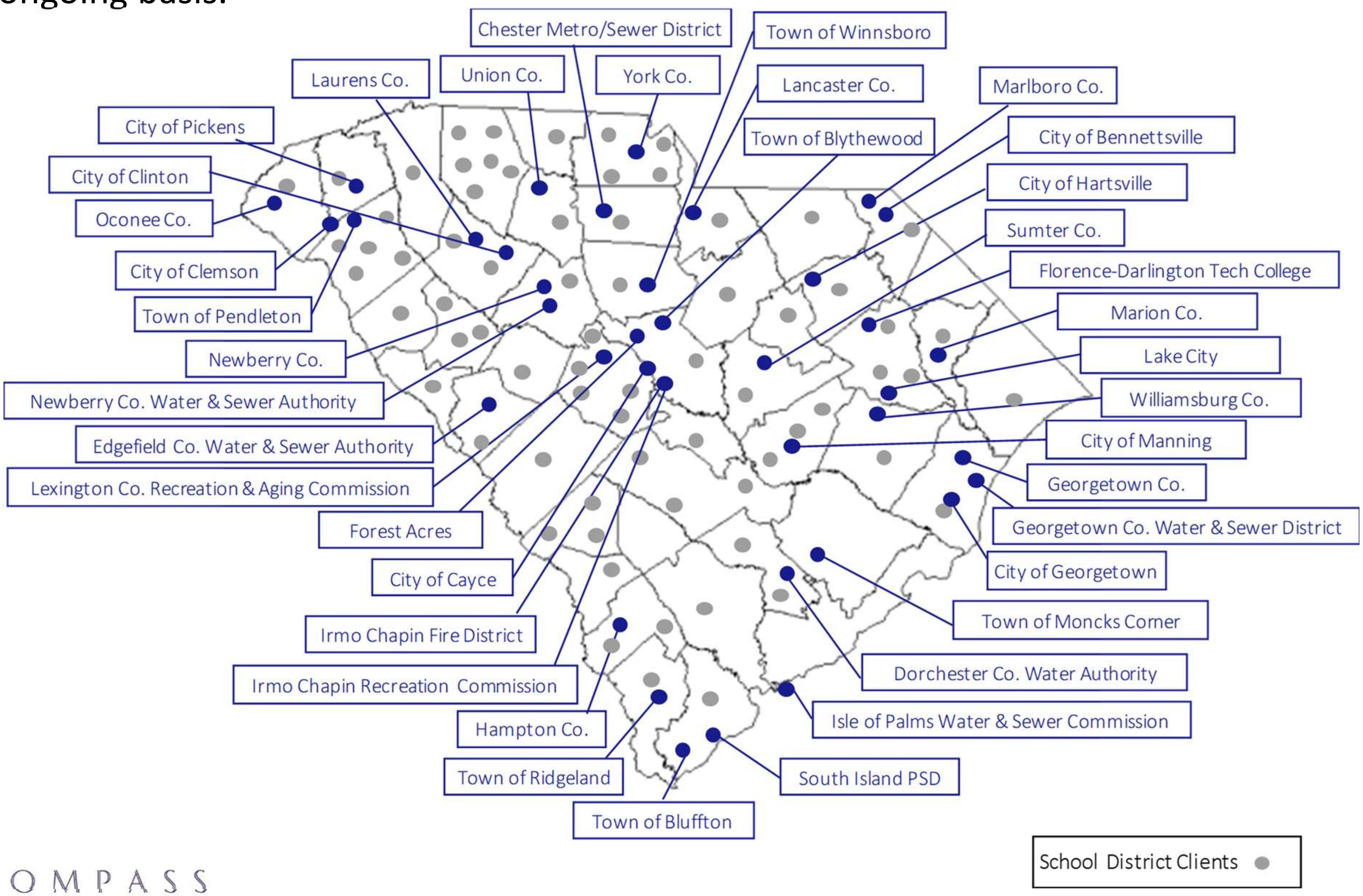
- Core team has been working together since 2002
- Our team of advisors bring an unparalleled level of expertise to the municipal advisory space with over 100 years of combined experience, serving as the fiduciary on a wide variety of structures and financings of all sizes.



Source: Thomson Reuters

South Carolina Presence

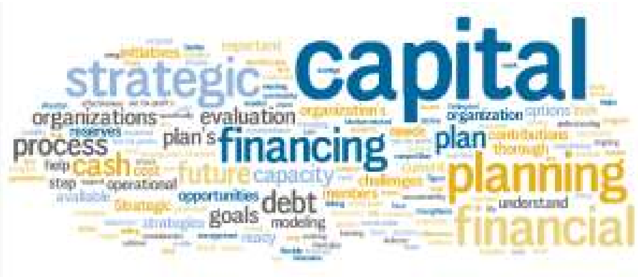
Our advisors have direct experience servicing **100+ municipal entities in South Carolina** on an ongoing basis.



Importance of Long-Term Capital Funding Program

<u>What is a Capital Funding Program?</u>

- Financing program designed to fund all or a portion of long-term capital needs
- Works hand-in-hand with long-term capital needs program
- Program can be complex or extremely basic
    - Depends on size and needs of an entity
    - Flexibility is important - model must be adaptable
- Should be updated at least annually or when a material change occurs, such as:
    - Changes to project needs
    - Significant and rapid shift in tax base/taxes
    - Material financial event



Why Develop a Capital Funding Program?

- Plan out capital needs
  - Determine what can be funded and when
- Prudent management - ***Successful programs mitigate cost through***:
  - More efficient access to capital
  - More efficient use of cash flow
  - Better equipped to handle emergency financial needs
- Tool used to set and maintain tax rates

Importance of Long-Term Capital Funding Program

What information should be included?

- Summary of outstanding debt
- Breakdown of annual debt service (including future debt issuances)
- Debt Service Millage Levy Amounts (if applicable)
  - Historical, Current and Proforma
- Summary of FILOT, sales tax, and related debt service supported revenue sources (if applicable)
- Debt Service Coverage Report (if applicable)
- Eight Percent Debt Limitation Calculation (if applicable)
- Sinking Fund and Debt Payment Schedules

1

STEP 1
Identify Needs

- Minimum of five years of capital needs
  - Ranked by priority
- Considerations for longer-term needs and wish list projects
  - Placeholders

2

STEP 2
Identify Revenue Sources

- Millage valuation and levies
- Debt limitation
- Accommodations, hospitality and special source revenues
- Sales tax
- Growth trends
- Political capacity for new revenues

3

STEP 3
Implementation

- Develop plan of finance
  - Debt / PAYGO
- Build out debt and repayment model
- Refine future borrowings and capital needs
- Annual update

Additional Capital Funding Program Considerations

- Not just limited to large scale capital needs
  - Rolling technology and equipment lease programs are common
  - Programs can be tailored to allow for 1-5 year refreshes in equipment and technology
- Importance of saving general obligation capacity
  - Often utilized to fund non-essential or non-revenue producing projects
- Capital market debt and private bank loan payments can be customized, allowing debt service to be structured around:
  - Future growth
  - Changes to future millage levies
  - Existing debt

Capital Funding Program Example

- Summary of outstanding debt
- Debt service report
- Millage repayment and cashflow report
- Eight percent debt report

Capital Funding Program Example

(A)	(B)	(C)	(D)	(E)	(F)	(G)
	Original	Current				
Bond	Par	Amount	Repayment	Borrowing	Final	Call
Series	Amount	Outstanding	Source	Rate	Maturity	Information
2010A RZEB	$8,448,000	$1,235,000	D/S Millage	1.821%	2020	Non-Callable
2014A	$2,500,000	$1,105,000	D/S Millage	1.700%	2020	Non-Callable
2015	$2,500,000	$1,885,000	D/S Millage	1.790%	2021	Non-Callable
2015 QECB	$5,262,000	$4,256,000	SC Saves Program	0.727%	2028	Non-Callable
2016A	$40,000,000	$29,905,000	Sales Tax	1.339%	2024	Non-Callable
2016B	$2,500,000	$1,170,000	D/S Millage	1.224%	2022	Non-Callable
2017	$2,500,000	$1,360,000	D/S Millage	1.894%	2023	Non-Callable
2018	$2,500,000	$1,526,000	D/S Millage	2.881%	2024	Anytime @ 100%
2019	$2,800,000	$2,800,000	D/S Millage	1.955%	2025	Non-Callable
Totals:	$69,010,000	$45,242,000	---	---	---	---

Capital Funding Program Example

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
			(SC Saves)	*(Sales Tax)*				*($2.5MM)*	
Calendar Year	General Obligation Bonds	Series 2010A RZ Bonds	Series 2015 QECB	Series 2016A Bonds	Series 2018 Bonds	Series 2019 Bonds	Reserved	Annual Issuance	Total Payments
2012	$9,765,506	$320,721							$10,086,227
2013	$10,348,579	$696,921							$11,045,500
2014	$10,180,997	$798,594							$10,979,590
2015	$10,827,106	$988,519							$11,815,625
2016	$10,910,547	$1,058,905	$373,659						$12,343,111
2017	$10,895,343	$1,309,604	$381,995						$12,586,941
2018	$3,482,779	$1,250,881	$391,142	$2,184,658					$7,309,460
2019	$2,542,384	$1,250,407	$400,394	$6,758,450	$1,033,995				$11,985,630
2020	$2,114,333	$1,248,529	$409,977	$6,760,250	$327,815	$545,280			$11,406,184
2021	$2,460,403		$420,437	$6,758,375	$327,403	$483,752		$500,000	$10,950,370
2022	$765,977		$431,764	$6,757,375	$327,746	$484,003		$1,000,000	$9,766,865
2023	$353,315		$441,949	$6,756,500	$327,829	$484,079		$1,500,000	$9,863,671
2024			$453,000	$6,759,875	$327,653	$483,978		$2,000,000	$10,024,506
2025			$464,910			$484,692		$2,500,000	$3,449,602
2026			$476,667					$3,000,000	$3,476,667
2027			$489,273					$3,000,000	$3,489,273
2028			$501,717					$3,000,000	$3,501,717
2029								$3,000,000	$3,000,000
2030								$3,000,000	$3,000,000
2031								$3,000,000	$3,000,000
2032								$3,000,000	$3,000,000
2033								$3,000,000	$3,000,000
2034								$3,000,000	$3,000,000
2035								$3,000,000	$3,000,000
2036								$3,000,000	$3,000,000
2037								$3,000,000	$3,000,000
2038								$3,000,000	$3,000,000
Totals:	$74,647,268	$8,923,080	$5,636,884	$42,735,483	$2,672,441	$2,965,784	$0	$46,500,000	$184,080,939

Capital Funding Program Example

(A) Calendar Year	(B) Budgeted Millage Valuation	(C) Projected Growth	(D) Debt Service	(E) Interest Earnings	(F) SC Saves Program	(G) Sales Tax Requirement	(H) Millage Target	(I) Millage Levy	(J) Annual Remaining Cash Flow
2012*	$283,198	---	$10,086,227	$0		$7,086,750		15.0	
2013*	$280,635	-0.91%	$11,045,500	$0		$7,223,750		15.0	
2014*	$284,896	1.52%	$10,979,590	$0		$7,357,500		15.0	
2015*	$289,012	1.44%	$11,815,625	$0		$7,499,000		15.0	
2016*	$312,635	8.17%	$12,343,111	$0	$373,659	$7,641,875		15.0	
2017*	$318,493	1.87%	$12,586,941	$0	$381,995	$7,784,875		15.0	
2018*	$313,198	-1.66%	$7,309,460	$0	$391,142	$2,184,658		15.0	
2019	$313,198		$11,985,630	$0	$400,394	$6,758,450		15.0	
2020	$316,330	1.00%	$11,406,184	$0	$409,977	$6,760,250	15.0	13.4	$508,999
2021	$319,494	1.00%	$10,950,370	$0	$420,437	$6,758,375	15.0	11.8	$1,020,848
2022	$322,689	1.00%	$9,766,865	$0	$431,764	$6,757,375	15.0	8.0	$2,262,603
2023	$325,916	1.00%	$9,863,671	$0	$441,949	$6,756,500	15.0	8.2	$2,223,511
2024	$329,175	1.00%	$10,024,506	$0	$453,000	$6,759,875	15.0	8.5	$2,125,989
2025	$332,466	1.00%	$3,449,602	$0	$464,910		15.0	9.0	$2,002,304
2026	$335,791	1.00%	$3,476,667	$0	$476,667		15.0	8.9	$2,036,866
2027	$339,149	1.00%	$3,489,273	$0	$489,273		15.0	8.8	$2,087,235
2028	$342,540	1.00%	$3,501,717	$0	$501,717		15.0	8.8	$2,138,107
2029	$345,966	1.00%	$3,000,000	$0			15.0	8.7	$2,189,488
2030	$349,426	1.00%	$3,000,000	$0			15.0	8.6	$2,241,383
2031	$352,920	1.00%	$3,000,000	$0			15.0	8.5	$2,293,797
2032	$356,449	1.00%	$3,000,000	$0			15.0	8.4	$2,346,735
2033	$360,013	1.00%	$3,000,000	$0			15.0	8.3	$2,400,202
2034	$363,614	1.00%	$3,000,000	$0			15.0	8.3	$2,454,204
2035	$367,250	1.00%	$3,000,000	$0			15.0	8.2	$2,508,746
2036	$370,922	1.00%	$3,000,000	$0			15.0	8.1	$2,563,834
2037	$374,631	1.00%	$3,000,000	$0			15.0	8.0	$2,619,472
2038	$378,378	1.00%	$3,000,000	$0			15.0	7.9	$2,675,667
Totals:	$8,978,384	---	$184,080,939	$0	$5,636,884	$87,329,233	---	---	$40,699,991

** Actual Collectable Value of a Mill, Audited Financial Statements.*

Capital Funding Program Example

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
June 30th	General Obligation Bonds	Series 2018 Bonds	Series 2019 Bonds	Reserved	Reserved	Annual Issuance	Assessed Valuation	Annual Growth	Maximum Limitation	Remaining Eight Percent Capacity
2012	$1,700,000						$290,565,700	---	$23,245,256	
2013	$2,185,000						$290,685,440	0.04%	$23,254,835	
2014	$2,070,000						$311,580,990	7.19%	$24,926,479	
2015	$3,945,000						$325,133,140	4.35%	$26,010,651	
2016	$3,995,000						$319,443,060	-1.75%	$25,555,445	
2017	$4,265,000						$311,423,780	-2.51%	$24,913,902	
2018	$4,456,000						$309,478,850	-0.62%	$24,758,308	
2019	$3,604,000	$974,000					$309,478,850		$24,758,308	$13,677,308
2020	$3,250,000	$288,000	$494,000				$312,573,639	1.00%	$25,005,891	$15,456,891
2021	$2,407,000	$296,000	$443,000			$2,500,000	$315,699,375	1.00%	$25,255,950	$16,737,950
2022	$748,000	$305,000	$452,000			$4,615,000	$318,856,369	1.00%	$25,508,509	$16,780,509
2023	$350,000	$314,000	$461,000			$6,330,000	$322,044,932	1.00%	$25,763,595	$16,855,595
2024		$323,000	$470,000			$7,635,000	$325,265,382	1.00%	$26,021,231	$17,021,231
2025			$480,000			$8,520,000	$328,518,035	1.00%	$26,281,443	$17,311,443
2026						$8,970,000	$331,803,216	1.00%	$26,544,257	$17,574,257
2027						$8,970,000	$335,121,248	1.00%	$26,809,700	$17,839,700
2028						$8,970,000	$338,472,460	1.00%	$27,077,797	$18,107,797
2029						$8,970,000	$341,857,185	1.00%	$27,348,575	$18,378,575
2030						$8,970,000	$345,275,757	1.00%	$27,622,061	$18,652,061
2031						$8,970,000	$348,728,514	1.00%	$27,898,281	$18,928,281
2032						$8,970,000	$352,215,800	1.00%	$28,177,264	$19,207,264
2033						$8,970,000	$355,737,958	1.00%	$28,459,037	$19,489,037
2034						$8,970,000	$359,295,337	1.00%	$28,743,627	$19,773,627
2035						$8,970,000	$362,888,291	1.00%	$29,031,063	$20,061,063
2036						$8,970,000	$366,517,173	1.00%	$29,321,374	$20,351,374
2037						$8,970,000	$370,182,345	1.00%	$29,614,588	$20,644,588
2038						$8,970,000	$373,884,169	1.00%	$29,910,733	$29,910,733
Totals:	$32,975,000	$2,500,000	$2,800,000	$0	$0	---	---	---	---	---

Types of Available Financing Vehicles

1) General Obligation Bonds
    a) Eight Percent
    b) Referendum
2) Revenue Bonds
    a) Installment Purchase Revenue Bonds
    b) Hospitality and Accommodations Tax
    c) Tax Increment Financing
3) Lease Purchase Agreement

Eight Percent Debt

- Represents a full faith, credit and taxing power pledge of the issuing government
- Repayment source may come from all sources but is typically ad valorem taxes
- Does not require voter approval
- Limited to 8.00% of assessments

Estimated Assessed Value	$80,480,210
Maximum Debt Limitation	$6,438,417
Less: Existing 8% Debt	$0
Eight Percent Debt Capacity	$6,438,417

Referendum Debt

- Represents a full faith, credit and taxing power pledge of the issuing government
- Voter approval is required
- Debt does not count against eight percent debt limitation
- Repayment source is typically ad valorem taxes
  - However, a $0.01 local sales tax is becoming a more popular tool to fund referendum projects
    - Sales tax collections can be used in full or part to pay debt service
    - Often paired with a reduction in millage levies to incentivize voters

Revenue Bonds

- Can encompass many types of debt issues where specific revenues are pledged for repayment.
- Pledged revenues primarily come in the following forms:
    - Local Hospitality Taxes
    - Local Accommodations Taxes
    - TIF Revenues
    - Utility Revenues
- Does not count against 8.00% limitation
- Typically viewed as a weaker credit pledge compared to general obligation

Installment Purchase Revenue Bonds ("IRPB")

- A revenue bond issued by a non-profit corporation established by the County to fund identified projects.
- County enters into agreement with non-profit to lease the project area. The non-profit enters into a project lease with County, leasing the project area back to the County with improvements.
- Debt payments can be made by a variety of sources:
  - Basket of pledged revenues
  - General obligation bonds
  - Surplus general fund monies

IPRBs are typically utilized if a County does not have sufficient debt limit, or does not wish to exhaust all of its available debt limit for the project

- The overall credit strength of an IPRB is largely driven by the essentiality of the project.
    - Critical component of a public market bond rating
- Essential projects would include:
    - Administrative buildings
    - Police and fire facility
    - Library

- Non-essential capital expenses, such as recreation and tourism related projects often fail the essentiality test and bear a higher cost of capital.
    - However, these projects can be combined with more essential projects to satisfy investors and rating agencies.

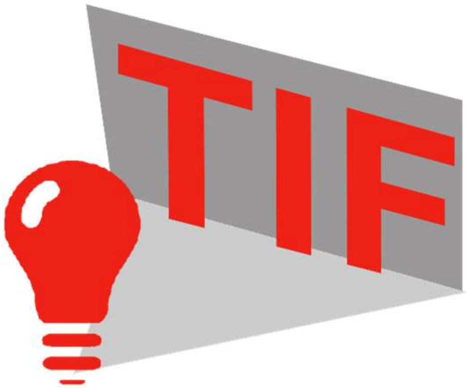
Hospitality and Accommodations Tax Bonds

- Bonds repaid by hospitality and accommodation tax revenues
  - Typically issued as “Hospitality Tax Revenue Bonds” or “Special Obligation Bonds”

- Bond proceeds must be used exclusively for the following purposes:
  - Civic centers and other tourism related buildings
  - Recreational or historic facilities
  - Roads and bridges providing access to tourist destinations
  - Beach access, re-nourishment, or other tourism-related lands and water access
  - Water and sewer infrastructure related to tourism demand
  - Advertisements related to tourism development

Tax Increment Financing (“TIF”)

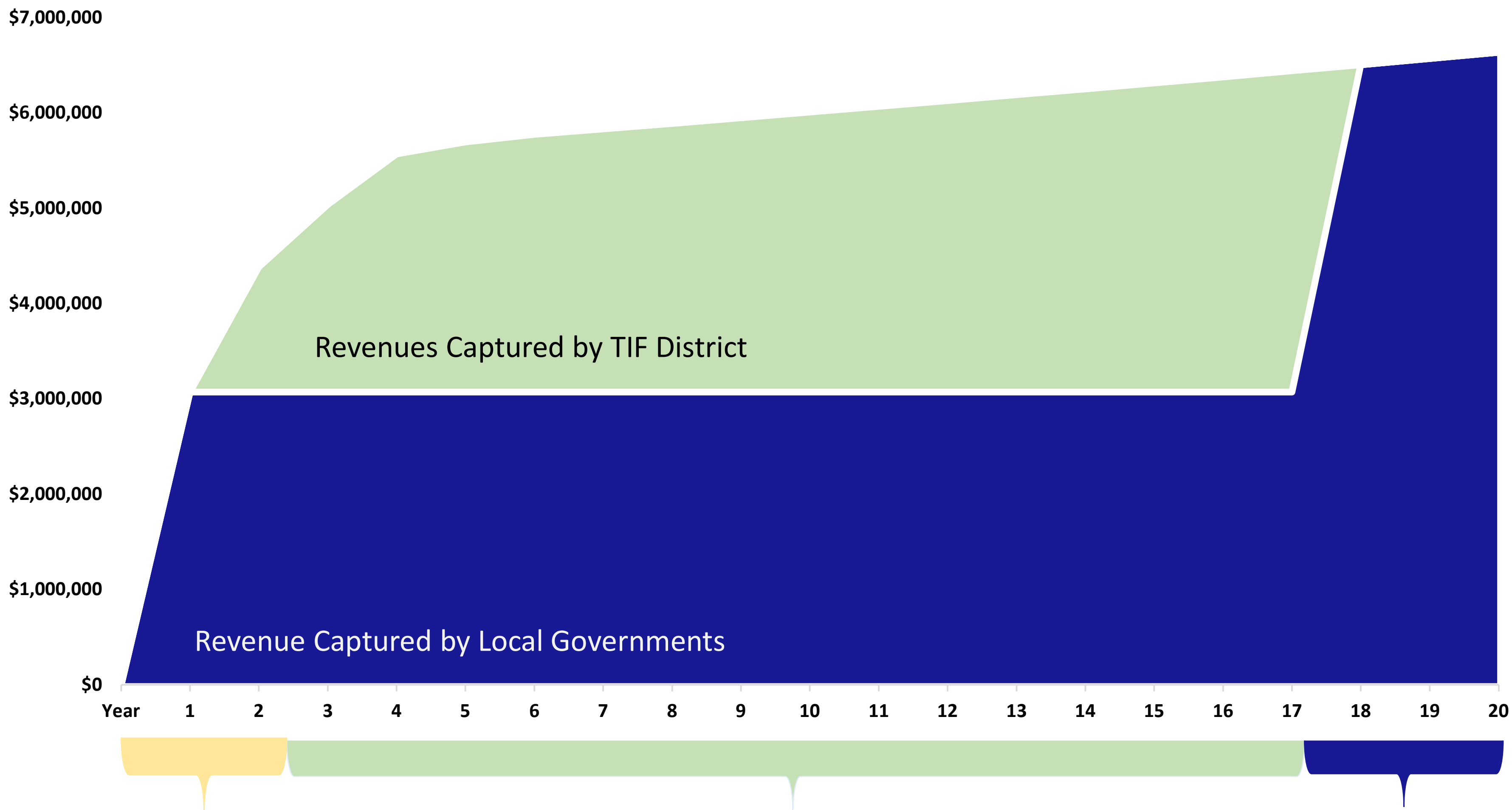
- A financing tool used to spur development
- Allows municipalities to fund infrastructure related expenses in qualified areas
  - Debt is repaid with “incremental” increases in revenue generated by the development
  - Designed to generate additional tax revenue with an increase to the underlying levy
- Intergovernmental partnership established for a defined duration and a defined property zone
  - Typically involves School, City, County and Special Purpose Entities.
- Authorized at the state level and administered at the local level



How TIFs Work

- An initial assessed value of all properties within the defined property zone is established
- When assessed values grow as a result of the project, the incremental taxes generated are held in a Special TIF Fund
  - Funds used to make bond payments and pay for expenses
  - If tax collections exceed disbursement requirements, the excess is remitted to the political subdivisions from which the tax was generated
- Highly negotiated terms between the political subdivisions
  - Highly political
- TIF financing and agreements can be complicated
  - Establishing a "TIF Team" is critical

TIF Example



Construction	**Active TIF**	**Maturity**
AV's increase at completion	Revenues generated above initial assessment diverted to TIF District to support debt service payments and expenses	Revenues no longer diverted

COMPASS MUNICIPAL ADVISORS

- Proceeds tethered to identified vehicles and equipment
- Lessor/lender obtains title and has an asset pledge related to the procured vehicles and equipment
- Does not count against eight percent debt limitation
- Counties can use existing funds to make lease payments or issue an annual general obligation bond
- County may determine and exercise its right of non-appropriation

Next Steps

1) Establish or refine five-year capital improvement plan

2) Identify & prioritize upcoming projects and needs

3) Determine revenue and repayment source(s)

4) Develop plan of finance