



PUBLIC SCHOOLS OF NORTH CAROLINA

STATE BOARD OF EDUCATION :: Howard N. Lee, *Chairman*

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DEPARTMENT OF PUBLIC INSTRUCTION :: Michael E. Ward, *State Superintendent*

November 3, 2003

MEMORANDUM

TO: Superintendents, Finance Officers, and Transportation Directors
Counties Receiving Three or More Replacement School Buses

FROM: Philip Price, Associate Superintendent
Financial and Business Services

Derek Graham, Section Chief
Transportation Services

SUBJECT: 2003-2004 Replacement School Buses – Financing Arrangements

Session law 2003-284 authorized the State Board of Education to arrange for the purchase of replacement school buses through financing. Bids were received for school buses on a cash basis and for financing through lease/purchase and third party financing. The best price to the state resulted in a third party financing arrangement offered by DaimlerChrysler Services (a third-party finance company) based on the bid for school buses submitted by Thomas Built Buses and Triad Transportation Sales, a Freightliner/Thomas dealer. DaimlerChrysler Services offered total payments that were less than the purchase price of the bus (i.e. a *negative* interest rate). Their offer, due to a mutual agreement with Thomas Built Buses, will allow this lesser amount to be sufficient to satisfy payment in full for the buses. The Thomas bus is now on state contract ONLY for purchases made through this third party financing agreement with DaimlerChrysler Services.

DPI Transportation Services contacted transportation directors, notifying them of the particular school buses eligible to be replaced this year. DPI, in turn, received requests from the transportation director regarding the specific configuration (capacity, lift-equipped, etc.) to be ordered.

On the internet at www.ncbussafety.org/finance you will find a copy of the Master Facilitator Agreement between the State Board of Education and DaimlerChrysler Services. This agreement includes the following stipulations:

- The state is responsible for the maintenance and self-insurance of replacement buses acquired under this program.
- The finance agreement to be established between DaimlerChrysler Services and your LEA is contingent on appropriation of funds to make payments during year two and year three of the financing agreement. Note that funds for the first two of the three annual payments are already in place.

DIVISION OF SCHOOL SUPPORT, TRANSPORTATION SERVICES

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- DPI will make the annual payments directly to DaimlerChrysler Services on behalf of your LEA and will notify the LEA when payment is made.

Also on that web site you will find a copy of the Master Bus Replacement Finance Agreement to be established between your LEA and DaimlerChrysler. This agreement, we believe, minimizes the risk to the LEA associated with this financing. It has been reviewed by attorneys at the Attorney General's office, the NC School Boards Association and LEA counsel.

In the event of non-appropriation of funds for this purpose by the North Carolina General Assembly, the LEA is relieved of the obligation for additional payments. DaimlerChrysler, as the lienholder, would then take possession of the school buses. We have every confidence that the General Assembly will not let this happen. Funding for Year 1 and Year 2 payments has already been appropriated.

School buses will be built and delivered in the order in which purchase orders are received.

LEA Instructions for Financed Purchase of Replacement School Buses

Since only an LEA can enter into a financed purchase agreement and is the responsible party for payment, the LEA must make the installment payments or request that DPI make payment on its behalf. DPI Transportation Services will coordinate the issuing of installment payments directly from DPI using funds allocated to your LEA.

Following are the steps necessary to issue the purchase order for the replacement school buses and to account for the receipt and payment of the buses in subsequent years.

DPI Transportation Services section has sent each LEA a report of buses they are authorized to purchase (Exhibit B). This report includes type of bus, unit cost, payment 1, 2, & 3 amounts, total per bus, and aggregate total.

1. Based on the above report, the LEA will submit a request for DPI to make payment on their behalf at the time that each installment payment is due. DPI will notify the LEA of approval of their request. A sample request is attached to this memo.
2. This approval notice (guarantee of payment) from DPI will be the LEA's authorization to issue a Capital Outlay purchase order (PO) for the buses: coded to 4-9300-120-551.
3. The LEA will sign a Master Replacement Bus Financing Agreement with the finance company, DaimlerChrysler Services. This Agreement states that the LEA will submit its installment payments through DPI.

The buses ordered through this process should be delivered during the 2003-2004 fiscal year. In the event that any buses are delivered after July 1, 2004, funds for this purpose will carry over and will be available in the next fiscal year.

Fiscal Year 2003-2004

1. Prior to the delivery of any bus with optional equipment (locally paid wheelchair lift or flat floor configuration) DPI will request payment from the LEA for the equipment.

2. Upon delivery of any replacement buses to the LEA, DPI will pay Installment # 1 on its behalf, as stated above.
3. DPI will notify the LEA when payment on its behalf has been made. This notice will include the total amount of the bus purchase, including interest expense and the cost of optional equipment paid by the LEA (wheelchair lift of flat floor configuration).

Each year, beginning 2003-2004:

1. The LEA gets an allotment of 1/3 of the DPI approved financed purchase price. This will show in PRC 120 on the Allotment Revision report (like textbooks) – no allotment amount is posted in MSA.
2. The LEA records a budget in the Capital Outlay Fund for the amount of the Allotment, revenue & expenditure: 4-3490-120-000 and 4-9300-120-551.
3. Each year, DPI will notify the LEA when that year's installment payment has been made.
4. When the notice that of payment is received, the LEA will record a revenue and expenditure transaction via journal entry:
Credit 4-3490-120-000 and Debit 4-9300-120-551.
5. The LEA also records a manual entry to disencumber 1/3 of the PO after each payment is made.
6. When the notice of the third and final payment is received, mark the purchase order "CLOSED." This will clear out any remaining encumbered balance.

ACTION ITEMS

- A. FAX TO DPI TRANSPORTATION SERVICES: Complete the Request for Payment form and fax to Steve Beachum at DPI (919/807-3578). He will "OK" the form and return via fax.
- B. MAIL TO DPI TRANSPORTATION SERVICES: Issue a Purchase Order to Triad Transportation Sales for your replacement buses as indicated on Exhibit B. The Purchase Order should reflect the total **PURCHASE PRICE** of the buses (not the financed price) shown on Exhibit B.
- C. MAIL TO DIAMLERCHRYSLER SERVICES: Download the Master Replacement Bus Financing Agreement. Sign two copies where indicated and attach the Exhibit B for your LEA. Submit two copies to DiamlerChrysler Services Truck Finance, 1011 Warrentonville, Rd., Lisle, IL 60532 c/o Keith Courtney (630/435-6686). See specific instructions at www.ncbussafety.org/finance.

All documents are available at www.ncbussafety.org/finance. Questions should be directed to Steve Beachum at DPI Transportation Services (919) 807-3576.