Case Study
Brecksville-Broadview Heights City Schools
2004 Interest Rate Swap

In March, 1996 the Brecksville-Broadview Heights City School District issued $36,000,000 in bonds for the construction of a new high school. The bonds were an advance refunding of one-year bond anticipation notes (BANs) that were issued just two months earlier. Since the bonds expended the District's only chance at an advance refunding, the District was unable to take advantage of market conditions when interest rates dropped significantly in 2003.

After considerable analysis and research, District officials determined one way to produce savings for taxpayers in lieu of a second advance refunding would be to pursue a forward starting interest rate swap. Accordingly, On April 15, 2004 the District executed a forward starting swap agreement with Bank One. Under the agreement, the District continues to pay the original fixed rate of 6.50% to the bank on $8,920,000 of outstanding bonds originally scheduled to mature from 2012 to 2016. In return, Bank One made a lump sum, upfront payment of $826,500 to the District and agreed to pay the District a variable swap rate equal to 68% of 1 month LIBOR rate plus 0.90%.

Bank One also agreed to buy refunding BANs from the District on December 1, 2006 at the same 68% of 1 month LIBOR rate plus 0.90%. Bank One will use the proceeds of the refunding BANs to retire the original, callable bonds.

Of the $826,500 paid to the District, $96,633 represented accrued interest the District will owe on the refunding BANs from October 2, 2006 (the execution date) until December 1, 2006 (the call date) and $178,400 was for the 2% call premium on the 1996 bonds that will be paid to the original bondholders when the call is exercised.

The net present value savings after accrued interest and the call premium total $551,467 or 6.18% of the par amount of the bonds that were refinanced. Industry minimum standards for executing refundings is between 3% and 5%.

$17,365,000 of the original 1996 bonds remain outstanding and are possible candidates for similar refundings when future market rates permit.

Sudsina & Associates served as senior financial advisor, assisted by Fifth Third Securities as co-financial advisor. Squire Sanders & Dempsey served as bond counsel.

Swap Flow of Funds

Sudsina & Associates, LLC
Registered Municipal Advisors