Brown Local Schools Case Study

School Improvement Bonds, Series 2013
$8,981,874.90, Series A, Enhanced AA Rated
$8,170,613.70, Unenhanced A+ Rated

Brown Local voters approved a $17,152,577 bond levy on August 6, 2013 to support the construction of a new PK-12 building to house the entire student body, thereby replacing all existing school facilities. The project was estimated to cost $24,503,681 with the Ohio School Facilities Commission (OFCC) contributing $7,351,104 to the project.

At the time of the election, the District had selected the bond counsel firm that would perform the legal work on the issue as well as its bond underwriting firm. Only once the issue was approved did the District engage Sudsina & Associates to represent the District on financing matters during the execution of the financing plan.

In order to ensure that the District achieved the lowest possible financing cost for the project, the financing team studied a number of issuance scenarios to determine the optimal plan. First on the agenda was to get the authorized funds to the District so it could sign the project agreement with OFCC. As such, a short-term note issue was prepared for the entire local share of $17,152,577. Due to the size of the note issue the team agreed that it would make sense to have the note rated and it was decided that Standard & Poor's would be the rating agency. Once preparations were made, a conference call was held with the S&P analysts that included all the members of the financing team - Treasurer, Superintendent, bond counsel, financial advisor and underwriter. The goal of the rating call was to obtain the highest possible credit rating for the notes as well as the eventual bond issue. Discussed during the conference call were the project, District's finances, enrollment trends, employment contracts, community support, local economy and financing plan. The result was that S&P assigned its highest short-term rating of SP-1+ to the notes and established an underlying, long-term rating for the District of "A+" with a stable outlook. In its report, S&P mentioned the following highlights that supported the rating:

- Access to the larger employment base of Canton
- Good incomes and strong wealth as measured by market value per capita
- Stable financial operations with very strong reserves
- Moderate overall debt burden

Once the rating was in place the notes were sold on 9/24/13 with a 3/12/14 maturity date for a 0.25% yield and the District received its funds on October 1st.

The financing team now focused on the bond issue and, although issuing a single $17,152,577 bond issue may have been the quickest and easiest route, Sudsina & Associates worked diligently to produce various scenarios for consideration by the financing team that were aimed to ensure the lowest overall borrowing cost for the District. This analysis included the consideration of bank qualified versus non-bank qualified bonds, credit enhancement in the form of bond insurance or the Ohio School District Credit Enhancement Program (OSDCE), as well as the goal to ensure that total debt service never exceeded ballot millage in any given year. After more than 20 iterations, it was determined that the bond issue would be split into two portions, one sold with the AA enhanced credit rating provided by participation in OSDCE and the second piece sold unenhanced, with just the District's underlying A+ credit rating. The amounts of each portion were determined by OSDCE limitations based on the amount of State Foundation payments the District was slated to receive. Fortunately the OSDCE component was able to be larger than the unenhanced portion.

With the POS completed and after a brief rating update call, the POS was distributed to the market on November 14, 2013 with the sale date set for November 20th. The financing team traveled to the headquarters of the senior managing underwriter, Stifel Nicolaus, for the pricing. Being on-site allowed the team to monitor incoming order flows for the bonds during the pricing period and make any reallocation decisions based on the orders received.

The sale resulted in a true interest cost (TIC) of 5.07% for the A+ unenhanced bonds and a 4.75% TIC for the AA-rated enhanced portion. These were quite attractive rates considering the final maturity of the Brown Local bonds was January 15, 2050 or 36 years, while the Bond Buyer 20 Year Bond Index was at 4.60% the week of the pricing. Had the District chosen to ignore the OSDCE program and simply do a single $17,152,577 bond issue with its underlying A+ rating, debt service would have been more than $400,000 higher over the life of the bond issue.

After the bonds were sold and closed, Sudsina & Associates assisted the District with its investment strategies for the bond proceeds during the construction period. This assistance included organizing and conducting interviews with investment advisors to assist the Treasurer with investments.

Squire Sanders (US) LLP served as bond counsel, Stifel Nicolaus & Co. as senior managing underwriter and Fifth Third Securities, Inc. as co-managing underwriter.

Sudsina & Associates, LLC
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