Garfield Heights City Schools Case Study

$2,050,000 Energy Conservation Note, Series 2005	$31,339,991 Refunding Bonds, Series 2006

After investing $52,000,000 in new and improved school buildings with bond issues in both 2000 and 2004, the Garfield Heights City School District had one final project to undertake. Energy improvements were deemed necessary at various sites throughout the district. Administrators determined the best alternative for financing these projects would be through special financing statues commonly known as House Bill 264. Under HB 264 districts are permitted to enter into lease type financing structures for improvements provided that the energy savings provided by the improvements exceeds the cost of the improvements, including financing costs.

Due to the relatively small size of the borrowing ($2,050,000) and the unique nature of the HB 264 regulations, the district decided to pursue a private placement of the debt rather than a public sale of bonds. It believed costs of issuance would be held to a minimum with this approach and even though a minor interest rate premium would be incurred, it was deemed to be less than the additional costs of a public sale.

Sudsina & Associates assisted the District with the selection of All Points Capital Corporation as financing agent. The debt was privately placed with All Points pledging to hold the debt until maturity.

At the November 2000 election, Garfield Heights voters approved a $41,500,000 to build a new high schools and make various improvements to other buildings throughout the district.

By early 2006 interest rates had dropped and enough time had elapsed since the original issuance that it appeared feasible that the 2000 bonds could be refunded. At that time, there existed in the marketplace a considerable interest rate difference between “bond qualified” and “non-bank qualified” bond issues.

In general terms, a “bank qualified” bond is one that occurs when an issuer issues less than $10,000,000 in new debt in a calendar year. As such, many scenarios were examined to determine whether the Garfield Heights issue should be broken down into smaller parts and executed over more than one year. For example, during the early planning stages of this issue, an $8.9 million “BQ” issue yielded $440,000 savings over the remaining life of the bonds, or $347,000 present value savings (3.90%). At the same time, a “non-bank qualified issue for all the callable bonds ($31,340,000) resulted in savings of only $584,000 over the remaining life, and $417,000 (1.33%) in present value terms. Throughout the preparation process of the bond issue, we continued to monitor the differential between the BQ and NBQ scenarios.

By the time the bonds were finally priced on October 3, 2006, interest rates had dropped approximately 30 basis points and the rate on escrow securities had risen by 14 basis points for a combined positive effect on the Garfield Heights Schools refunding of 44 basis points. This improvement made the non-bank qualified option preferable. As a result, the final par amount was approximately $31,340,000 and the refunding resulted in savings of nearly $1,400,000 over the remaining life, and more than $960,000 (3.07%) in present value terms.

The District took advantage of the historically low interest rates with the new bonds having a true interest cost (TIC) of 4.35%, whereas the original bonds carried a TIC of 4.95%.

During the preparation process for the bond sale, the District’s credit rating was affirmed at the level of “A2” by Moody’s Investors Service. In its report, Moody’s said “…the A2 rating reflects the District's satisfactory financial position, moderately sized tax base that benefits from its participation in the Cleveland Metropolitan area…”

Sudsina & Associates, LLC assisted in all aspects of the transaction including the post-sale accounting for record keeping purposes. The bonds were ultimately underwritten by A.G. Edwards & Sons, Inc. with bond insurance provided by FGIC. The Cleveland office of Squire, Sanders & Dempsey served as bond counsel.

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