Independence Local Schools Case Study

$17,999,986 School Construction Bonds, Series 2003

Independence High School

In 1991 Independence Local School District began researching financing alternatives when it was recommended that they construct a new middle school building. A few years after two ballot defeats by voters in 1995 and 1996, the District entered into a joint use agreement with the City. The District would build a new high school, convert the existing high school into a middle school and have the City pay for a field house and other joint use facilities. This plan was approved by voters in February of 2002. The total financing for a new high school and the City's joint use facilities was estimated to be approximately $33,000,000.

In April, 2002 the district sold $15,000,000 of bond anticipation notes while it was beginning to prepare the bond issue for marketing. In addition to providing available cash for initial construction related expenses, the District was also able to begin earning interest on the unspent proceeds. The $15,000,000 par amount was selected to exempt the proceeds from most arbitrage rebate regulations. The notes had slightly less than a one-year maturity and were sold at a yield of 2.12%.

The District entered the bond preparation process without an outstanding credit rating. The financing team decided to approach Standard & Poor's Investors Service for a credit review. After a conference call with the S&P analysts, the District was awarded a "AA" underlying rating. S&P cited the follow credit strengths of the District in its report:

- Very high property wealth levels on a per capita basis due mostly to a large commercial tax base, which enables the district to receive substantially higher revenues per pupil under state funding formulas than most school districts in the state
- Good financial position
- Low student-to-teacher ratios, contributing to substantial potential budget-cutting flexibility
- Low debt burden, on a market value basis, with minimal capital needs

By December 2002, the District was ready to market the bonds. After reviewing market conditions, the financing team decided to price the bonds the week of December 16th. During this week the supply of municipal bonds was light, and long-term municipal interest rates were quite close to the lowest point in 2002. The issue was structured with premium capital appreciation bonds to cover costs of issuance, resulting in a final par amount of $17,999,985.55.

Sudsina & Associates served as financial advisor. A.G. Edwards & Sons acted as senior managing underwriter with Fifth Third Securities as co-manager. Squire, Sanders & Dempsey served as Bond Counsel.

$7,764,993 School Improvements Refunding Bonds, Series 2011
$5,869,996 School Improvements Refunding Bonds, Series 2012

During late summer and early fall of 2011 interest rates for municipal bonds began a rather steep decline which created opportunities for Ohio schools and cities to consider refunding outstanding debt. At the same time, there existed a unique situation concerning interest rates for "bank-qualified" bonds and "non-bank qualified bond". Bank qualified bonds are those issued by what the federal government considers "small issuers" which, by definition, are those that issue less than $10 million in bonds in a given calendar year. To incentivize commercial banks to actively participate in the purchase of these bond issues the federal government has granted banks a special tax break if they buy the so-called bank qualified bonds.

During 2011 the interest rate differential between bank-qualified and non-bank qualified bonds was between 30 and 50 basis points depending on the part of the yield curve in question.

Independence schools had outstanding $13,635,000 of callable bonds from the original 2003 issue. In September 2011 Sudsina & Associates provided the District a refunding analysis for all the outstanding bonds that would result in present value savings of nearly $710,000 or 5.2%.

Upon further analysis, however, Sudsina & Associates determined that due to the differential between bank qualified and non-bank qualified rates the District would significant increase savings by splitting the issue in two with the first sale occurring in December 2011 and the second in early January 2012.

During October and November of 2011 the District was also busy preparing and marketing a $1,250,000 HB264 energy savings bond issue. The energy issue counted toward the 2011 bank qualified limit, so the 2011 refunding was sized at approximately $7,765,000 to remain under the $10 million limitation. Rates continued to improve through the end of 2011 and the beginning of 2012. In the final analysis, by splitting the issues, rather than accomplishing present value savings on a single $13,635,000 issue of $826,000 (6.06%) had that issue sold in December, the two separate issues saved a combined $1,200,000 (8.9%) on a present value basis or nearly $1,500,000 over the remaining life of the debt.