North Central Local Schools Case Study

$9,799,985.60 Classroom Facilities Improvement Bonds, Series 2007

$1,598,181.50 Various Purpose Bonds, Series 2008

"Home of the Bobcats"

During 2006, the North Central Local School District and the Ohio School Facilities Commission (OSFC) entered into a project agreement for the construction and acquisition of classroom facilities, which was estimated to cost $30,100,236. The District's share of this co-funded project was $9,933,078 while the OSFC provided the balance of $20,167,158.

On November 7, 2006 District voters were asked to approve a two part bond issue, first for the $9,933,078 local share of the OSFC project, and second for $1,466,922 for local initiatives not covered by the OSFC project agreement. Voters approved both issues by the same 59.8% favorable margin.

Immediately after the successful election, the District finalized its selection of Sudsina & Associates, LLC as Financial Advisor and A.G. Edwards & Sons, Inc. as sole managing underwriter.

The financing team's first order of business was to determine whether it made sense to issue short-term bond anticipation notes as soon as the election results were certified. Sudsina's advisors studied the problem and determined that there was good economic rationale to support that a note issue be sold and proceeds invested while the bond issue was being prepared. As part of that analysis, consideration was given to existing market conditions that favored "bank qualified" issues over "non-bank qualified" transactions. The distinction focuses on the amount of new money debt an issuer sells within a calendar year.

Federal tax law provides incentives to banks that invest in debt issued by smaller public entities. "Small" in this sense is defined as an issuer that issues $10,000,000 or less in new money debt within the same calendar year. North Central found itself in a unique position where, when combined, its issue totaled just over this limitation at approximately $11,400,000.

In late 2006, the market differential between bank qualified and non-bank qualified bonds was approximately 30 basis points, so the financing team determined that it was in the best interest of the District to ensure that most, if not all, of North Central's new debt be deemed bank qualified. This goal was met by a plan of issuance that included the following:

1. Bond anticipation notes (BANs) in the amount of $9,800,000 sold December 13, 2006 with a maturity date of June 22, 2007 – deemed "bank qualified"
2. A second series of (Bans) priced January 3, 2007 (a new calendar year) in the amount of $1,600,000, also maturing June 22, 2007 – also deemed "bank qualified"
3. Bank qualified bonds in the amount of $9,799,985.60 priced on February 27, 2007 that will retire the 2006 Bans
4. Bank qualified bonds in the amount of $1,598,181.50 priced March 20, 2007 to retire the 2007 Bans. The two bond issues had to be priced at least 15 days apart to be considered "separate plans of finance" according to federal securities law.

As the bond issue was being prepared for marketing, District officials and the financing team developed a credit rating presentation to be made to Standard & Poor's at their Chicago Office. Members of the presentation team included the Superintendent, Board of Education President and Treasurer from the District while representatives from the financial advisor's firm, underwriter and bond counsel, Squire, Sanders & Dempsey also attended.

At the conclusion of the rating process, S&P assigned an "A" underlying rating to the District, noting the District's "long trend of balanced financial operations and above-average cash-based fund balances" as well as its "moderate debt levels with limited capital needs". Finally, the S&P report concluded "The stable outlook (for the District's credit rating) reflects the district's stable enrollment and history of strong voter support. It is expected that the district will maintain its historically balanced financial operations and above-average cash-based fund balances.

Not only did the "bank qualified" versus "non-bank qualified" strategy save the District more than $400,000 in interest cost over the life of the bonds, but the notes and bonds plan of issuance helped the District garner at least an additional $240,000 in interest earnings on the investment of the proceeds over a "bonds only" scenario.

Both bond issues had 28 year final maturities. The larger issue resulted in an overall interest rate (TIC) of 4.11% and the smaller, second issue 4.21% which priced approximately two weeks later.

Sudsina
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