



## *Norton City Schools Case Study*

**\$9,900,000 School Improvements Notes, Series 2012 (Competitive Sale)**  
**\$17,580,895 School Improvements Notes, Series 2013 (Competitive Sale)**  
**\$9,890,000 School Improvements Bonds - Bank Qualified, Series 2013 (Negotiated Sale)**  
**\$17,579,728 School Improvements Bonds - Non-bank Qualified, Series 2013 (Negotiated Sale)**  
**\$3,045,000 Energy Conservation Improvement Refunding Bonds, Series 2013 (Negotiated Sale)**

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### **NORTON CITY SCHOOLS**

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On November 6, 2012 voters in Ashland approved a \$27,480,895, 37 year bond issue for capital improvements throughout the District.

Once the issue was approved, Sudsina & Associates assisted District administrators in conducting a thorough underwriter selection process that included the distribution of an investment banking services request for proposals, review of the proposals, interview of selected finalists and the ultimate selection of the banking team.

As the issue was being prepared for marketing 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.

Sudsina & Associates provided the District a number of analyses that compared the total interest cost of issuing a single, non-bank qualified bond issue for the total voted amount of \$27,480,895 versus taking advantage of the bank qualified differential by issuing approximately \$10,000,000 of BQ debt in 2012 and the remainder as NBQ in 2013. As a result it was determined that the BQ & NBQ option would save over \$1,600,000 in interest cost over the life of the bonds. To execute the selected plan, the District sold \$9,900,000 of BQ short term bond anticipation notes (BANs) to lock in the BQ advantage. Those notes would be refunded in 2014 with BQ long term bonds.

To complete the BQ/NBQ set up strategy \$17,580,895 of short term BANs were sold in early January 2013 that would mature in April 2014.

As the Note program was being executed, Sudsina & Associates and District officials were simultaneously conducting the underwriting team selection process. The RFPs were reviewed and interviews held prior to selling the notes through competitive sale. The purpose of the competitive sale was to achieve the lowest interest rate on the notes, and to see whether those firm in contention for underwriting the bonds would make a respectable effort to win the bid for the Notes. As a result, 4 of the 8 RFP respondents bid on the 2012 Notes and 5 of the 8 respondents bid on the 2014 notes. The 2012 notes received a low bid from a local bank that was not in contention for the bonds, and the 2014 notes were won by the ultimately lead manager on the bonds, Stifel Nicolaus & Company at a net interest cost of 0.18% vs. the 2nd place bid of 0.25% and the last place bid at 1.25%.

While Stifel was selected as the senior manager, Piper Jaffray was appointed as co-manager on the issue as we believe any issue over \$10,000,000 will benefit from having more than one underwriter on the task. Both bond issues were sold quite successfully in plenty of time ahead of the maturity dates of the previously issued notes.

When the November bond election issue was sold and closed, we prepared a refunding for the District’s 2008 Energy Conservation Bonds that would benefit from lower current interest rates that saved the District approximately \$10,000 annually in debt service costs on the HB264 Energy issue.

Squire Sanders’ Cleveland office served as bond counsel to the District for all the issues.