Refunding Bond Financing Plan
Tallmadge City Schools Case Study

$8,570,000 School Improvement Refunding Bonds, Series 2012

$14,685,000 School Improvement Refunding Bonds, Series 2013

At the election held on November 2, 2004, Talllmadge City School District voters approved a 4.69 mill levy to support a 28 year, $30,500,000 bond issue to construct and renovate school buildings throughout the District, which primarily meant building a new high schools for grades 9 through 12 and converting the former high school into a middle school.

On April 26, 2005 the District closed on a $30,190,000 bond issue that retired notes that had been previously issued for the construction project. The District was able to reduce the par amount of the bond issue from the voter approved $30,500,000 to the $30,190,000 due to premium generated by the bond sale. The 2005 bonds were issued with a combination of serial and term bonds and the sale resulted in a 4.62% true interest cost with a final maturity of December 1, 2032. The bonds maturing on or after December 1, 2015 were callable on or after June 1, 2015.

During 2011 municipal bond interest rates were experiencing new all-time lows. Sudsina & Associates, LLC, the District's financial advisor, suggested that the District begin the preparation process to refund the 2005 bonds in order to deliver debt service savings that would result in lower taxes to the District's taxpayers. By early fall, 2012 the District had concluded the necessary preparations to market bonds that would refinance (refund) the 2005 issue. At that time, the financing team determined that it would be additionally beneficial to District taxpayers to split the refunding bond issue in two parts, one to be sold in late 2012 and the other in early 2013. The rationale for the issuance plan was based on the market conditions that favored "bank qualified" issues over "non-bank qualified" transactions. The distinction focuses on the amount of debt an issuer sells within a calendar year to be considered a "small issuer" by federal tax law that would permit the issuance of "bank qualified" debt. Federal tax law provides incentives to banks to 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.

However, Tallmadge Schools had $23,255,000 of the 2005 bonds outstanding that were callable. In late 2012, the market differential between bank qualified and non-bank qualified bonds ranged between 30 and 50 basis points. Therefore the financing team recommended that the District issue approximately $8,570,000 of qualified bonds in December 2012 leaving roughly $14,685,000 to be refunded with an issue in early 2013 as non-bank qualified. This decision considered the fact that the District had on the November 6, 2012 ballot a $27,500,000 new bond issue for additional improvements throughout the District, primarily to replace elementary school buildings. As such, it was expected that if the new bond issue was approved by voters, a non-bank qualified issue would be prepared in the amount of approximately $42,185,000 combining the new money with the remaining refunding bonds. Unfortunately the 2012 bond issue was not approved by voters.

Had the District issued the entire $23,585,000 in September 2012 as non-bank qualified, debt service savings to taxpayers would have been approximately $2,074,000 over the remaining life of the bonds through the final maturity in 2032 with a true interest cost of just over 3.16%. As it turned out, the $8,570,000 2012 refunding bonds resulted in debt service savings of just about $1,754,000. The true interest cost of the 2012 issue was 2.294% while the bonds that were refunded carried an average interest rate of 4.91%, which included the maturities from 2018-2032.

At this point it is expected that the 2013 $14,685,000 non-bank qualified issue will accomplish estimated debt service savings over the remaining life of the bonds of approximately $1,600,000. The 2013 bonds will refund the 2015 through 2027 maturities of the 2005 issue which carry an average interest rate of 4.86%, while the refunding bonds are expected to be priced at a true interest cost of 2.43%. Adding the expected 2013 savings to the 2012 results should yield total savings between the two issues of $1,754,000 and $1,600,000 or a total of $3,354,000. Therefore the two issue strategy should produce nearly $1,300,000 additional savings over what would have been accomplished with the single, non-bank qualified issue alternative. All of these savings figures are quoted after all costs of issuance are taken into consideration.

Sudsina & Associates, LLC
Registered Municipal Advisors