Youngstown City School Refunding Bond Financing Plan Overview Case Study

$14,610,000 School Improvement Refunding Bonds, Series 2012

$8,835,000 School Improvement Refunding Bonds, Series 2013

In December 2000, Youngstown City School District and the Ohio School Facilities Commission (OSFC) entered into a Project Agreement for the construction of four new elementary schools, renovations and additions to five existing elementary schools, construction of a new middle school, renovations to three other building to realign those schools as middle schools, construction of a new high school, renovations to an existing high school and renovations to the District's Career Center. At that time it was estimated to cost $163,455,056. On November 7, 2000 District voters approved a bond levy for $33,198,000 for the District's share of the project. Thereafter, due to declining enrollment and other factors, the OSFC re-assessed the District Master Facilities Plan, reducing building allocations in some cases but determining to build new buildings (as opposed to renovating or making additions) in others. On June 24, 2004, the OSFC approved a new Master Plan, contemplating a new total Project cost of $193,432,748, of which the District was to provide $39,286,529 and the OSFC $154,146,219. As a result, the District is required to contribute $6,088,529 over that originally called for (and beyond the original Classroom Facilities Bond voter approval). The District was able to provide $2,088,529 of that amount from available funds, and sought approval from voters to issue $4,000,000 of bonds to cover the balance. The $4,000,000 bond issue was approved by voters on November 2, 2004 and on February 17, 2005 the District sold bonds for its portion of the funding in the amount of $35,625,000 that were dated March 2, 2005.

The 2004 bonds were sold with a first call date of December 1, 2014 for the bonds maturing on or after December 1, 2015. During 2010 and 2011 as the first call date approached, bond rates were falling, experiencing new all-time lows. Even so, as analyses were made, the opportunity to refund the bonds did not fully manifest itself until early fall, 2012. At that time, the financing team comprised of representatives from the underwriting firm, Piper Jaffray & Co., the financial advisor, Sudsina & Associates, LLC and bond counsel, Squire Sanders (US) LLP determined that market conditions favored a refunding of the 2005 bonds. The team also determined that it would benefit 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, Youngstown Schools had $23,585,000 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 $14,610,000 of non-bank qualified bonds in December 2012 leaving $8,835,000 to be refunded with an issue in early 2013 as bank qualified. Had the District issued the entire $23,585,000 in December as non-bank qualified, debt service savings to taxpayers would have been approximately $1,260,000 over the remaining life of the bonds through the final maturity in 2027 with a true interest cost of just over 3.00%. As it turned out, the $14,610,000 2012 refunding bonds resulted in debt service savings of just over $1,120,000, with a final maturity of 2023 since only the outstanding bonds through 2023 were included. The true interest cost of the 2012 issue was 2.28% while the bonds that were refunded carried an average interest rate of 4.71%.

At this point it is expected that the 2013 $8,835,000 bank qualified issue will accomplish estimated debt service savings over the remaining life of the bonds of somewhere between $850,000 and $950,000. The 2013 bonds will refund the 2024 through 2027 maturities of the 2005 issue which carry an average interest rate of 4.58%, while the refunding bonds are expected to be priced at a true interest cost of 2.92%. Adding the expected 2013 savings to the 2012 results should yield total savings between the two issues of $1,970,000 and $2,070,000. Therefore the two issue strategy should produce in excess of $800,000 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.

The District entered the 2012 bond preparation process without an outstanding credit rating as the 2005 bonds were sold with bond insurance and no underlying credit rating. The 2012 bonds, like the 2005 bonds, were issued with the Ohio School District Credit Enhancement Program (OSDCE). That provided the 2012 bonds a programmatic rating of Aa2 by Moody's Investors Service. The financing team is currently assessing the benefit of approaching Moody's for an underlying rating for the District with the 2013 issue. The team believes an underlying rating in the "A" range by Moody's would enhance the sale in conjunction with the OSDCE programmatic rating. That decision should be made before the end of January.

The financing schedule currently calls for a pricing date in mid-to-late February for the 2013 bonds.