Issue 14 Update

$55 million bond issue

October 5, 2010

The Cleveland Metropolitan School District has issued the last of $335 million in bonds authorized by voters in May 2001 to finance school construction and renovation.

A BAC-commissioned study led by American Governmental Financial Services of Sacramento, Calif., had concluded last April with recommendations on how the District might improve its bond-issuance practices. Among the recommendations were that the District sell its bonds through competitive bidding, rather than the negotiated method used in the past, and that the District issue taxable Qualified School Construction Bonds, rather than the tax-exempt securities issued in the past.

The District did choose to conduct a competitive sale of QSCBs, which were authorized under federal economic stimulus legislation. Within limits, the federal government reimburses a QSCB issuer for the interest due on the bonds.

The District offered $55 million in QSCBs to competitive bidding on Sept. 14. It received three bids. Including cost of issuance of $187,000, the true-interest bids were: 5.232109% from BMO Capital Markets, 5.235723% from Ramirez & Co and 5.260880% from Morgan, Keegan & Co. The bid was awarded to BMO Capital Markets, and the deal closed on Sept. 29.

Excluding costs of issuance, the net interest cost to the District after federal reimbursement of 4.94 percent of the interest rate will be 0.26 percent, according to the District's interim chief financial officer.

The interest cost to local taxpayers over the 16-year life of the bonds will be $1.3 million. That compares with $25.7 million at the full 5.20 percent rate and in the neighborhood of $18 million had the District issued the customary tax-exempt general obligation bonds.

In addition, the terms of the bonds will allow the District to earn interest on $3,235,294 to be deposited in a bond retirement account each year. The District estimated those potential earnings at $13.2 million, assuming a 3 percent interest rate.

The bond proceeds will allow the District to receive reimbursement from the Ohio School Facilities Commission for 68% of the main design and construction costs of Segment 5 of the District's 10-segment capital program.

Rating agencies Fitch, Moody's, and S&P assigned ratings of AA, Aa2, and AA, respectively, to the bonds, based on the District's participation in the Ohio School District Credit Enhancement Program.

The District's financial advisors were Fifth Third Securities Inc. and Blaylock Robert Van. Its bond counsel was Squire, Sanders & Dempsey.