2010 Local Education Finance Success Story – Public Finance

Community Unit School District #4 – Champaign County, Illinois

In 2009, Stifel assisted Champaign CUSD #4 (the District), along with thirteen other districts in Champaign County, to pass a new 1% County School Facilities Sales Tax (CSFT) implemented on a per pupil basis to be used for school facilities needs by all districts in the County.

In 2010, Stifel structured and sold alternate revenue bonds used to build two new facilities in the District and to renovate several elementary schools. The bonds were secured by a first pledge against the District's CSFT funds, with a 125% coverage factor (based on a feasibility study) and an additional full general obligation pledge of the District, making the bonds true "double-barreled" general obligation bonds. Stifel worked with the District to create a tailored and conservative sales tax revenue growth rate structure, which was well below the growth rate outlined by the initial feasibility report. This conservative approach to revenue and debt service coverage allowed for possible future bond issues and annual capital projects to be paid for by CSFT funds.

This was the first financing of its kind in Illinois to use a lease structure for an alternate revenue general obligation pledge. Stifel issued bonds in four series using three forms of financing: Build America Bonds (provided an extra $5 million for project funds); Capital Appreciation Bonds (fully utilized the District's growing income stream and allowed the District to use CSFT revenue to abate three series of existing bonds); and Recovery Zone Bonds (provided a 45% interest subsidy from the federal government).

Standard and Poor's (S&P) initially affirmed the "AA" rating for the District's general obligation bonds and assigned a rating of "AA-" for the general obligation lease bonds. Because this was a new structure, S&P automatically downgraded the lease by one rating notch because the word "lease" was in the title, implying appropriation risk. Stifel worked with S&P and bond counsel to create updated language for the lease agreement, clarifying that the structure is not at risk for appropriation. As a result, S&P upgraded its original rating of "AA-" to "AA." Stifel estimates that this change saved the District between 10 and 20 basis points on the final interest rate.

On the day of sale, Stifel's trading desk was able to aggressively price the bonds and set the interest rates dramatically lower than expected. The final all-in total interest rate was 4.11%. Stifel was able to maintain the same par amount and coverage on the bonds, while decreasing the length of borrowing by one year, which saved the District $4 million on the day of pricing.

This transaction appears as a matter of record only.

Architectural renderings courtesy of CUSD

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