

Bond Case Briefs

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More Issuers Contemplate BAB Redemptions.

More issuers are lining up to redeem Build America Bonds early after interest subsidy payments were reduced as a result of across the board spending cuts by Congress.

A review of event notices by The Bond Buyer showed eight issuers have indicated in the last month that they are likely to take advantage of extraordinary redemption provisions to refund BABs, half of them school districts located in Ohio. In May the state's capital city, Columbus, said it planned to refinance approximately \$368.7 million of BABs issued in 2009 and 2010, making it one of the first issuers to make such a redemption of BABs because of the so-called sequestration cuts.

Issuers Begin Calling BABs Due to Sequestration

In March, \$85 billion of the federal budget cuts went into effect and cut the 35% interest subsidy rate the Treasury Department had promised to pay issuers by 8.7%. In April, issuers began announcing their intent to redeem BABs, cutting off a stream of interest income to investors.

Market analysts have said they expect issuers to continue to examine whether the options to refinance their BABs are economically beneficial and produce a savings.

"There was an enormous variation in the way call language was written in these deals," said Chris Mier, managing director of analytical services at Loop Capital Markets. "But the ones with the par call language are being called."

Mier said there has been some investor frustration with these calls. While it is the right of the issuer to decide about the cuts, most "investors feel they got sandbagged by the Treasury Department because of the risk of sequestration or the cut was clearly not properly disclosed by the federal government," he said. "The federal government acted like this was never going to happen and here it has happened."

The Board of Education of the Brunswick City School District in Ohio notified bond holders on the Municipal Securities Rulemaking Board's EMMA system May 29 that they had the option to authorize the provision on \$15.46 million of BABs but had not chosen to do so yet.

The district said it received a notice from the Internal Revenue Service on May 13 about the reduced interest payment on the bonds. The district said that it had already received a reduced payment from the Treasury consistent with the sequestration cut but that it would not affect its ability to pay the interest payment due on June 1.

The BABs were used to renovate and construct school and transportation facilities at eight different schools within the district, according to the official statement. Peck Shaffer & Williams LLP was bond counsel. Stifel Nicolaus was underwriter.

The Austintown Local School District in Youngstown, Ohio adopted the extraordinary redemption provision on May 29 but has not determined whether it will proceed to sell, issue and deliver the refunding bonds to all or any part of the \$12.655 million in BABs. Those bonds were used to pay the

local share of school construction under the state of Ohio Classroom Facilities Assistance Program, the official statement said.

RBC Capital Markets was underwriter. Squire, Sanders & Dempsey LLP was bond counsel.

The Keystone Local School District in Lagrange, Ohio also notified bond holders on June 4 about the possibility to refinance \$5.8 million of Series 2010B BABs. On June 3, the Board of Education of the School District adopted a resolution acknowledging the reduced interest subsidy payment and its option to redeem the bonds. The district also has not determined if it will proceed to refinance the bonds. Squire, Sanders & Dempsey LLP was bond counsel. Robert W. Baird & Co. Inc. was underwriter.

The Eaton Community City School District in Preble, Ohio announced its intent to authorize the redemption of \$3.77 million of BABs on May 29 to its bond holders. RBC Capital Markets was underwriter. Peck, Shaffer & Williams LLP was bond counsel.

Separately, the Washington County Housing and Redevelopment Authority in Woodbury, Minnesota announced its intent to refund \$7.7 million of recovery zone economic development bonds issued in 2010.

The city of Manhattan, Kan., said it was contemplating exercising its extraordinary optional right to redeem \$33.14 million of Series 2009-2 BABs.

The Independent School District in South Washington County, Minn., announced to bond holders on June 3 that the extraordinary redemption provision had been triggered on \$4.365 million of qualified zone academy bonds.

And finally, the Rock Island County Metropolitan Mass Transit District announced that the Board of Trustee met on June 18 to consider redemption of \$10.29 million of Series 2010B BABs.

BABs expired at the end of 2010. Almost \$188 billion of BABs were issued since they were created in 2009 as part of the American Recovery and Reinvestment Act.

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