DeKalb County
Refunds Eight Bond Series in Less than Five Months, Complete with Rating Upgrades

BY STEFAN JASKULAK
It was August 1, 2013, and DeKalb County, Georgia, needed to refinance, or refund, eight series of bonds before December 31, the end of the county’s fiscal year — a component of the county’s 2013 budget assumptions. The county had less than five months to select underwriters and form syndicates, finalize its financial statements, obtain ratings, complete the financing documents and the preliminary official statements, market and sell the bonds, and validate and close.

Most of these steps are usually done in sequence, ensuring that the county leadership is ready to proceed to the next step in the event of delays or unforeseen circumstances. Following the traditional sequencing, however, would have taken the county well into the following fiscal year for just one bond issue. But the mandate was clear: Close on all eight before December 31.

DeKalb County had eight series of bonds eligible for refunding, each with significant savings potential:

- DeKalb County Building Authority Bond Series 2003A
- Association of County Commissioners of Georgia (ACCG) Certificate of Participation Series 2003
- Fulton-DeKalb Hospital Authority Series 2003
- Water & Sewer Series 2003A and 2003B

Only the General Obligation and the Water & Sewer Bonds were issued directly by DeKalb County. The Building Authority, Fulton-DeKalb Hospital Authority, and the ACCG Certificate of Participation Bonds were issued by separate entities. While the county is responsible for the debt service, it did not issue these bonds directly, so approvals for refunding all of the bonds needed to be obtained from four separate boards.

**TWO IMPORTANT DECISIONS**

Two simple decisions made it possible for DeKalb County to achieve its goal: implementing a steering committee and collapsing the sequence of events.

Establishing a steering committee with weekly meetings should be the standard approach for any bond refunding, and this step is usually implemented in varying degrees. (For the GFOA’s best practices, see Analyzing and Issuing Refunding Bonds at www.gfoa.org.) DeKalb County’s steering committee was comprehensive and included the finance and legal departments, financial advisor, bond counsel, and disclosure counsel, as well as the senior managers of the syndicates, once selected, with their counsel. This lineup filled the conference room at every meeting, but it achieved the goals of direct communication, open discussion, quick decision making, and task assignment. With the compressed schedule and the number of bonds being issued by multiple legal entities, the steering committee proved to be indispensable.

Collapsing the timeline was a calculated risk. The county decided to move forward simultaneously with all the necessary steps and checkpoints in the refunding process — such as selecting the underwriter, doing the paperwork, working with the rating agency, validating the bonds in DeKalb County’s circuit court, and obtaining approvals from the four boards involved in the process — for all eight bonds. The deadline could not have been achieved with a normal timeline, let alone having each bond progress on an individual timeline. (See Exhibit 1.)

Collapsing the timeline essentially consolidated the entire process into two components:

1. Preparing to go to market. This consisted of forming syndicates, performing financial analysis, preparing documentation, and conducting a rating agency “road show.”
2. Issuing the bonds and closing. This consisted of marketing and selling the bonds, getting a court validation (a detail mandated by Georgia law — see below), and closing.

The county’s board of commissioners and the boards of directors of the authorities received frequent updates as the tasks and components were carried out, enabling smooth decision making on their part.

In addition to collapsing the timeline, it also made sense to refund the eight bonds into five new bonds, since there
were multiple series for the same funding and issuing source. Deciding to go with fewer new deals cut down on the amount of new paperwork needed.

An interesting nuance of Georgia bond law is the requirement to validate the bonds in court before the bond issuance is considered final. This is typically done after the bonds have been sold in the market, but that would have pushed the county’s completion well into January 2014 under good circumstances, or even later if there was a challenge to the validation. To mitigate this risk and ensure the bond issuance could be completed in 2013, the county decided to pre-validate the bonds by adopting preliminary resolutions that included the parameters of the bond issuance, including maximum principal amounts and interest rates. The pre-validation was successful; none of the bonds was challenged and the county was thus able to maintain its timeline. The court validation process takes three weeks, but if there is a challenge, it can take up to six months.

SELECTING THE UNDERWRITER

Because many tasks ran simultaneously, the county was not able to issue requests for proposals or select underwriters for each individual deal. Instead, the county issued a request for qualifications to establish a pool of qualified underwriters from which syndicates could be appointed for each bond.

The underwriting community showed a great deal of interest. The county received 28 responses, interviewed 16 firms in two days, and selected eight companies. Each firm in the pool of underwriters was asked to participate in at least one issue. The entire RFQ process took a little more than two months (the industry standard is typically six months), including final pool selection and the board of commissioners’ approval on the composition of the five syndicates.
STAYING IN THE DRIVER’S SEAT

From the inception of the steering committee to the closing of the bonds, the county was intentionally in the driver’s seat. The steering committee was chaired by the chief financial officer, with the county attorney riding shotgun and the chief executive officer and chief operations officer staying in close communication. By keeping close control over the process, holding financial and legal professionals accountable to weekly scheduled tasks, the county was able to safeguard the condensed timeline and at the same time direct the flow and communication of information.

All the team members knew their tasks and stayed within their own lanes. The county’s bond counsel and disclosure counsel ensured that all the legal documentation was on schedule and on point. The financial advisor provided updated analysis and process support, and the senior underwriters provided their marketing and pricing plans.

RATING AGENCIES — ROAD TRIP, UPGRADES, AND NEW RELATIONSHIPS

It was decided early on to proactively visit the rating agencies in New York. The county had an established relationship with Standard & Poor’s and Moody’s for previous bond issues, and it decided to engage Fitch Ratings, as well, for two very clear reasons: 1) to provide additional rating support in the aftermath of the economic downturn, and 2) to ensure sufficient rating coverage, should one of the existing relationships not be able to provide ratings by our deadlines.

The county prepared the roadshow presentation completely in-house. The roadshow team, led by the CEO, included the presiding officer of the board of commissioners and the chair of the board’s Finance, Audit, and Budget Committee. In all, the county took a dozen subject-matter experts to New York, at which point there were only three weeks between the road trip and the sale of the bonds — one of which was the Thanksgiving holiday week. That did not give the rating agencies much time to absorb the information and ask follow-up questions, or for the county to provide answers. But in the end, all three agencies and their credit committees came through for DeKalb County. (See Exhibit 2.)

TO THE FINISH LINE

The financial analysis itself was quickly delegated to the senior managers of each of the five syndicates, back-checked by the county’s financial advisor.

About halfway through the process timeline, there was a recommendation to take bids on the three “authority bonds” — the ACCG/Certificate of Participation, the Building Authority bond and the Fulton-DeKalb Hospital Authority bond — via private placement. The recommendation made sense because the maturity of these bonds was relatively short and the par amounts were relatively small, and of course the county would be able to compare the results of the private bids to what it could get from a public sale. The private placement route wound up saving the county money because it did not have to publish a preliminary offering statement, obtain ratings, or incur many of the fees associated with these activities. The senior manager for the three private placement deals was one company, and the senior manager for the two competitive bonds was another firm, effectively splitting the management of the deals between the two firms — which also eased the county’s workload.

Preparing and executing all the resolutions and documents required skills akin to air-traffic control at Hartsfield-Jackson

Exhibit 2: DeKalb County’s Bond Ratings

<table>
<thead>
<tr>
<th>General Obligation</th>
<th>Existing</th>
<th>2013 Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moody’s Investors Service</td>
<td>Aa3/Neg</td>
<td>Aa3/Stable</td>
</tr>
<tr>
<td>Fitch Ratings</td>
<td>AA-/Stable</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Water and Sewer</th>
<th>Existing</th>
<th>2013 Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standards &amp; Poor’s</td>
<td>AA-/A+</td>
<td>AA-/A+</td>
</tr>
<tr>
<td>Moody’s Investors Service</td>
<td>Aa3/Stable</td>
<td>Aa3/Stable</td>
</tr>
<tr>
<td>Fitch Ratings</td>
<td>AA-/Stable</td>
<td></td>
</tr>
</tbody>
</table>
Airport. The legal team was flying from bond counsel to disclosure counsel, and it did a phenomenal job, ensuring that all documents were available for adoption and execution on time. Each team member was briefed before any meetings with the board of commissioners or board of directors meetings to facilitate a thorough vetting of the process and to enable the commissioners and directors of the four entities to make well-informed decisions.

CONCLUSIONS

The eight series of bonds were successfully refunded, on time, and with ratings upgrades, and they generated a realized net present value savings of more than 10 percent (see Exhibit 3). The main take-away: Using the steering committee made serious multi-tasking possible, allowing DeKalb County to restructure its bond deals in record time.

Exhibit 3: Final Results of DeKalb County’s Bond Refunding

<table>
<thead>
<tr>
<th>Issuing Entity</th>
<th>Refunding Par</th>
<th>Realized NPV Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>DeKalb County General Obligation</td>
<td>$52,445 million</td>
<td>$5,214,246 9.94%</td>
</tr>
<tr>
<td>ACCG Building Authority</td>
<td>$15,730 million</td>
<td>$1,627,804 10.34%</td>
</tr>
<tr>
<td>Fulton-DeKalb Hospital Authority</td>
<td>$8,795 million</td>
<td>$793,621 9.02%</td>
</tr>
<tr>
<td>DeKalb County Water and Sewer</td>
<td>$134,375 million</td>
<td>$13,346,268 9.93%</td>
</tr>
<tr>
<td></td>
<td><strong>$252,725 million</strong></td>
<td><strong>$25,375,238 10.04%</strong></td>
</tr>
</tbody>
</table>

STEFAN JASKULAK is deputy chief financial officer for DeKalb County, Georgia, including treasury, risk, accounting and financial systems. Jaskulak was deputy CFO for the City of Atlanta, Georgia; during his tenure there, the city received GFOA’s Award for Excellence for Business Continuity Planning in 2011 and the Bond Buyer Deal of Year Award for the Southeast Region in 2010. As director of cash management for the City of Los Angeles, California, the city received the coveted AFP Pinnacle Award (Grand Prize and Strategy) and the London-based Treasury Today’s Adam Smith Award for the Virtual City-Virtual Bank conversion project.