

CASE STUDY STRATTON MOUNTAIN SCHOOL

Stratton Mountain School and Ski Foundation Project

\$6,800,000 Series 2004

Vermont Educational and Health Buildings Financing Agency
Variable Rate Demand Revenue Bonds

Underwriter

George K. Baum & Company, Denver, Colorado



Being Too Small for the Banking Community Can Be an Uphill Climb, But Not for a School that Sends Its Students Rapidly Downhill

Stratton Mountain School (SMS) is considered by many to be the preeminent ski academy in the nation, producing 26 Olympic athletes and more than 90 U.S. and foreign national ski team members. In fact, eight of the School's alumni competed in the 2002 winter Olympics. Founded in 1970 at the base of Stratton Mountain in southern Vermont, this small, low profile secondary school has an unprecedented record for helping its students achieve their dreams, both academically and athletically. The first ski academy accredited by the New England Association of Schools and Colleges, SMS has a strong tradition of solid college preparatory academics combined with comprehensive and innovative training programs available to ski racers and snowboarders. SMS graduates regularly go on to attend the most competitive colleges nationwide, including Williams College, Dartmouth University and Harvard University.

While SMS is a household name for up-and-coming winter Olympians, its small size places it well below the radar of most financial institutions. Therein lay the problem: the School needed a bank that would provide a letter of credit (LOC) for a \$6.8 million variable rate financing. The proceeds of the bond issue would be used to finance additional dormitory space, faculty housing and a new athletic center. All of the proposed projects were located on the School's new campus at the base of the Ski Area and were sized to serve an enrollment of 114 students.

A long list of LOC banks across the nation were contacted by George K. Baum & Company, SMS's investment banker. Almost all of the responses were either, "Wow, it sounds like a great project, but an independent school that teaches students to race down steep icy ski slopes is not the type of business our credit committee will understand," or "A school of 114 students is too small." It was a bumpy ride trying to find a bank that

would take the plunge and provide the necessary LOC for the bond issue. Banks typically reject a financing for any number of reasons: the size is too small and location of the school is too remote, the loan-to-value ratio is too high, the loan amount is too large relative to the size of the school, or its fundraising is unproven. But in the case of SMS, the key problem was that the School's story (one overshadowed by the School's unique ski focus) did not fit the banking community's preconceived criteria for a private school.

The difficulty of lining up an LOC bank was particularly discouraging given that the School had the opportunity to leverage its current capital campaign with a new tax-exempt variable rate issue. The proposed strategy would allow SMS to construct new facilities and, at the same time, start an endowment. The endowment would enable the School to fund financial aid, faculty salaries, and other important human capital needs, while providing much-needed financial flexibility. If all of the LOC banks passed on the project, George K. Baum & Company was prepared to move forward and underwrite a 30-year fixed rate issue. Borrowing costs would be higher with a fixed-rate issue, but this type of financing would not require an LOC and the School could still leverage its capital campaign.

SMS closed its \$6.8 million variable rate bond financing in Spring 2004 utilizing a LOC from Bank North. Since then, its interest rate (including the cost of the LOC) has averaged 2.66%. Today, as the project nears completion and SMS students continue their unprecedented track record in world alpine, Nordic and snowboarding competition, the School is close to achieving its dream of a world class academic and athletic campus.

