

# SUCCESSFUL EDUCATION FINANCING IN ARKANSAS: A STEPHENS PERSPECTIVE

An interview with Leigh Ann Biernat, Senior Vice President of Stephens Public Finance



Leigh Ann Biernat joined Stephens in 2015 as Senior Vice President of Public Finance. Here, Leigh Ann talks about why she joined Stephens and discusses the most important financing issues facing school districts today.

## You worked in government before joining Stephens in 2015. What led to your decision to join Stephens?

I was a CFO for the last 16 years, 14 of them with a state issuer of bonds. I've always enjoyed financial transactions and issuing bonds for a variety of purposes, and I liked the idea of spending 100 percent of my time in that area. I started my career at Ernst & Young, and I also liked the idea of returning to client work. Because of my background as a CFO, I can relate to a lot of what public finance clients are going through, perhaps more than a typical investment banker would, and I think clients appreciate that.

I'd worked with Stephens in my previous capacity, so I knew it would be a perfect fit. In all the years I worked with the firm, I can honestly say they never pitched us anything other than ideas that were completely appropriate for our organization. You don't see that protective, conservative approach with every investment banking firm, and I liked that. I'm also particularly appreciative of the opportunity to work with Arkansas school districts.

## What do you find appealing about the public sector?

I like that there is a direct correlation between education and economic development, which leads to thriving communities. In public finance, you meet people who are passionate about doing the best for the schools and communities they serve, and it's very satisfying to be able to help them, whether it's finding ways to fund a new project, finance critical improvements, or restructure debt. Recently we worked with a school district on a refinancing. Their primary objective was to fund a safe room for an elementary school. By refinancing existing bonds, which lowered the cash needed to make payments on that debt, the district was able to use the available cash to build the safe room. With some notable tornadoes devastating Arkansas communities in the last couple of years, safe rooms are becoming

more of a priority to ensure the well-being of students. Playing a part in keeping kids safe is incredibly rewarding.

Working in public finance is the best of both worlds: It gives you the opportunity to work in a corporate environment and to be civic-minded. That was important to me after being a public servant for 16 years. It's especially satisfying to help communities that are in your own backyard, which is a big part of what Stephens stands for as a company.

## Are the needs of the public sector different from those of the private sector?

The specifics are different, but the basics aren't. You bring your clients resources and expertise that they don't have. One of the first things a client typically says at a preliminary pricing meeting is, "I don't know a lot about bonds." It's not their job to know about bonds. They know about running a city or a school district. You want to help educate clients; you want a mutual understanding and appreciation of each other's expertise.

## Can you talk about the challenges in public finance today?

The macro issue is the regulatory environment in which we operate, which has become more onerous in the last 3 to 5 years and makes the financing process slower, more complex, and more expensive for both bankers and issuers, including school districts. Also, issuers of tax-exempt bonds are facing a higher degree of regulation and scrutiny, particularly in the areas of post-issuance compliance and continuing disclosure.

## How do you help your clients navigate this complexity?

Tax-exempt bonds by their very nature reduce tax revenue received by the federal government. Because of this, the Internal Revenue Service wants to ensure that issuers maintain post-issuance compliance, which includes qualified use of proceeds and financed property. We provide our clients with a checklist with each bond issue that provides an overview of information and requirements associated with tax-exempt bonds. We also facilitate the adoption of a post-issuance compliance manual, which we review with the board at adoption and as requested by the district. This manual provides written guidelines and procedures for the district to follow in order to maintain post-issuance compliance.

One example we see occasionally relates to the qualified use of the property financed with tax-exempt bonds and for which the bonds are still outstanding. If school districts want to change the use of a facility or enter into contracts for private business use of the facility, we will confer with bond counsel to ensure the district's compliance with the federal regulations.

When a school district issues bonds, the district agrees to provide continuing disclosure information in accordance with regulations of the Securities and Exchange Commission. The information includes the district's annual audit, assessed valuations of property in the district, and other data. We work with our clients to file these disclosures on EMMA, which is the official repository for information on municipal bonds provided by the Municipal Securities Rulemaking Board.

## What are the hot-button issues concerning Arkansas schools?

School elections have been a hot topic in school finance. Previously, Arkansas school elections (such as a new millage to benefit the school) had to be held by September of every year. Legislation was passed allowing school elections in November, but there was a question as to whether the school election ballot items could be on the same ballot or at the same polling place as the general election ballot items. This issue was recently clarified in the Third Extraordinary Session of the 90th General Assembly.

The quorum courts typically levy taxes in November. So, as schools place millage elections on November ballots, it will be interesting to see how this works logistically. It is relevant to what we do because the revenue generated by a new millage may be pledged as security for bonds issued to fund school projects.

A related issue is a growing sentiment against special elections. Those who share this outlook feel the cost of a special election is not justified, and that can result in less citizen representation at the polls compared with a general election. The counter perspective is that the ability to have special elections provides flexibility to the districts and can allow them to move quickly on needed capital projects, such as a new elementary school to accommodate district growth.

## What does Stephens provide that might be considered outside of the typical services of a fiscal agent or municipal advisor?

First, I think it is important to know that Stephens started in 1933 in public finance. We have been doing this for a long time, and our relationships with our clients are important to us. Stephens built its public finance business – in fact, all of its businesses – based on long-term relationships, not transactions. Our highest priority is always to help our clients meet their most important objectives and be successful.

One service that sets us apart is legislative support. The best example I can share relates to the State of Arkansas's Pre-Default School District Enhancement Program, also referred to as the State Intercept Program. This Program provides funds in the event a school has not paid the trustee the debt service on their outstanding bonds. It also enables bonds issued by Arkansas school districts to be rated – without the individual school districts being rated or going through a rating process. This rating makes the bonds more marketable and should result in a lower cost of funds to the school district. Previously, this was a post-default program, and, in 2013, Moody's changed its post-default rating criteria. Stephens worked with Arkansas's Department of Education to change the program from a post-default program to a pre-default program. Representatives from Stephens spent time with many legislators and interested parties to share information on the program and to address the rating agency's concerns. Ultimately, legislation was passed (Act 110 of the 2013 Regular Session of the 93rd General Assembly). This program continues to contribute to Arkansas school districts successfully accessing the bond market and achieving a low cost of funds to provide for their school's projects.



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