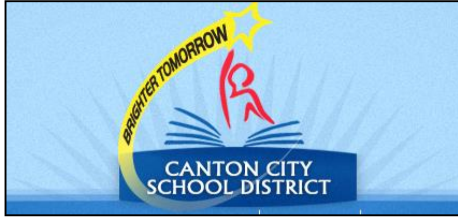

Canton City Schools Case Study Long-term Relationship *(1 of 2)*

The Canton City School District is a good example of a long-term relationship that has been mutually beneficial to both the District and Sudsina & Associates. Over nearly 15 years, including a number of changes in the Treasurer and Superintendent offices and make up of the School Board, we have faithfully served the District.

The relationship actually started back in 1999 when Michael Sudsina served as the District's investment banker on the financing plan for the District's successful $46,705,789 November 1999 bond issue levy. That financing plan included a total building program estimated to cost $167,929,358 of which $129,181,358 was committed from the State of Ohio leaving approximately $38,748,000 to be raised by the District plus $7,957,789 of locally funded initiatives to arrive at the $46,705,789 1999 ballot issue. Included in the initial financing plan was Ohio's first, large, Qualified Zone Academy Bond (QZAB) that accounted for $14,000,000 in 2000 and another $2,100,000 in 2001. The unique attribute of QZAB's is that thanks to a federal subsidy, the District pays no interest on the debt. The QZAB's coupled with the 2000 publicly sold $30,605,000 bond issue brought the overall average borrowing rate down to approximately 3.00% when typical interest rates were over 5.50% for tax-exempt debt.

Once the relationship was established, the need arose in 2004 for the District to borrow $3.4 million against its permanent improvement levy. By that time Mr. Sudsina had established Sudsina & Associates, LLC as an independent financial advisory firm. With Sudsina's assistance the District prepared the 2004 borrowing for competitive sale. The results of the sale were quite successful with 5 bids received and interest rates ranging from a low of 3.39% to a high of 4.07% saving the District over $80,000 of interest cost.

In 2005 interest rates fell and enough time had passed since the original 2000 $30,605,000 bond issue that Sudsina & Associates introduced the idea of refunding the 2000 bond issue to achieve additional interest savings. The result was the 2005 $28,325,000 bond issue sold through negotiated sale. The decision to negotiate the sale was predicated on the necessity to include premium capital appreciation bonds (PCAB's) in the structure in order to optimize the structure. Sudsina had tested the competitive market for PCAB's and found that there was very little interest by competitive bidders to commit to PCAB's, therefore the sale was negotiated.

In 2006 the National Football League was in the process of making improvements to the Pro Football Hall of Fame. Since the Canton City School District owns the site of the Hall of Fame game, Fawcett Stadium, and the improvement program included upgrades to the stadium and the scoreboard, the District was required to raise funding for the upgrades. The cost was estimated at $850,000, $290,000 for the scoreboard and $560,000 for the stadium. Keeping consistent with the District's preference for competitive sales, and due to the unique nature of the relationship between the NFL and the School District, the decision was made to conduct a limited competitive sale by circulating a term sheet among parties interested in doing the financing, including the scoreboard manufacturer. In the end, 4 bids were received, 3 from banks and one from the scoreboard manufacturer for the scoreboard only. Through negotiations led by Sudsina, the District was able to enter into a 15 year repayment schedule on the stadium improvements along with 7 years on the scoreboard due to useful lives. The other bidders were not interested in going out beyond 12 years on the borrowing. Never the less, even at 15 years, the winning bidder out bid the competition by 50 basis points.

Summary of Sudsina & Associates Canton CSD Transactions

Year	Amount	Description
2004	$ 3,400,000	Tax anticipation notes
2005	$28,325,000	UTGO refunding bonds
2006	$ 850,000	Lease revenue bonds
2010	$ 6,728,633	HB 264 QSCB's & BAB's
2013	$14,585,000	Taxable Refunding Bonds
	$53,888,633	

Sudsina
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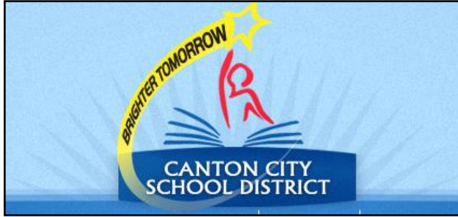

Canton City Schools Case Study Long-term Relationship (2 of 2)

$6,728,633 HB 264 Qualified School Construction Bonds, Series 2010

$14,585,000 Taxable Refunding Bonds, Series 2013

The American Recovery and Reinvestment Act of 2009 (RRA) established the Qualified School Construction Bond (QCSB) and Build America Bond (BAB) programs. The QSCB program was structured very similar to the QZAB program that the District took advantage of in 2000 & 2001. Like QZAB's, QSCB's offered zero percent financing thanks to a 100% federal subsidy of interest cost. The QSCB program was, however, limited to not more than $4,000,000 per Ohio school district, a limit established by the Ohio Department of Education (ODE) to ensure that the statewide allocation of QSCB funding by the federal government was allotted to as many school districts as possible.

Canton CSD had identified over $6,700,000 of improvements that qualified for Ohio House Bill 264 Energy Improvements that could be issued without voter approval. With the $4,000,000 limitation on the QSCB program the District opted to take advantage of the second ARRA program, Build America Bonds, for the balance of the energy conservation program. Unlike QSCB's 100% interest subsidy, BAB's only offered a 35% subsidy, however, both programs required that the bonds be sold as taxable debt. Never the less, the subsidies still put the net interest cost to the District well below market rates for tax-exempt bonds so the entire program was sold as taxable debt. Due to the unique nature and newness of the ARRA programs, the decision was made to negotiate the sale of both bond issues and, in an effort to keep costs of issuance at a minimum, the financing team determined that a private placement of the debt would be most economical.

The ARRA programs were set to expire at the end of 2010 and as the preparation process of the Canton issues progressed, it was determined that not enough applications had been made to ODE to exhaust the statewide allocation so the Department made the decision to allow more allocation to those districts that could make use of the additional subsidy. Since Canton had already factored in the BAB portion, it was relatively seamless to leave the BAB program behind and issue the entire $6,728,633 as QSCBs. In addition to zero interest financing, due to the nature of the single-maturity structure of the debt, the District was able to establish a system of making annual payments into a self-managed retirement fund for the QSCB's. The interest on the retirement fund was able to be kept by the District, thereby allowing the QSCB program to effectively pay the District for doing the financing.

Most recently Sudsina & Associates assisted the District to take advantage of record low interest rates that allowed the District to again refund a portion of the 2005 bonds, this time as taxable bonds to avert the federal government's one-time limit on refunding tax-exempt bonds. Due to the relatively new entrance of municipal bond issuers in the taxable market and in order to quickly take advantage of rates at current low levels, the decision was made to privately place the bonds. The District had a good experience doing the same with the 2010 financings and knew it had a qualified investor ready to add more of the District's debt to its portfolio. The private placement option allowed the District to avoid the preparation of an Official Statement for the issue as well as the need to have the issue rated. As a result, once the District was ready and the investor had done its internal diligence, the issue was quickly priced at significant savings to taxpayers amounting to neatly $100,000 annually for total interest savings of more than $685,000 and over 4.4% present value savings.

The original 2005 bonds had a 2023 final maturity and were currently callable on 6/1/15 beginning with the December 2015 maturity. The 2013 refunding only took into consideration the 2015 through 2020 maturities, purposefully leaving the 2021, 2022 and 2023 maturities from 2005 still able to be refunded once the current call date is reached in 2015, actually as early as March 2015. Sudsina & Associates performed a sensitivity analysis to determine the viability of a current refunding in 2015 even if interest rates rose. That analysis indicated that even if rates rose 200 basis points by the first call date substantial savings could still be achieve on the refunding of the 2021-23 maturities. At the time of the 2013 taxable pricing, it was estimated that a 2015 refunding of the remaining 2021-23 maturities could produce debt service savings as high as $1.8 million. However, should rates rise naturally those savings would fall so taking advantage of savings on the 2015-2020 was determine a reasonable hedge against rising rates.

While the original 2000 financing plan resulted in overall interest cost of a remarkably low 3.00% at the time, monitoring by Sudsina & Associates and the planning and execution of these refundings continues to drive down the lifetime interest cost to taxpayers of the bonds they approved in November 1999.