



# What is Going on in the Tax-Exempt Market and How Does it Affect Me?

## Part 2



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Tuesday, June 12, 2019, 8:00 AM

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What is Going on in the Tax-Exempt Market and How Does it Affect Me?



### Case Studies



Sandusky City Schools



Warrensville Heights City Schools



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**Case Study – Sandusky City Schools**

Erie County – Total Construction - \$70 million



**Objective**

- Elimination of aging structures, consolidation of assets
  - Construction of three new elementary schools (one to house grades PK-8, one to house grades 1-2 and one to house grades 3-6),
  - Demolish 3 existing elementary buildings and one junior high school, and
  - Abandon 2 other elementaries and one other junior high.

**Background**

- Voter’s approved \$35,305,000 bond levy at November 2016 election
- Project cost supplemented by Ohio Facilities Construction Commission (OFCC)
- 4.04-mill property tax levy for 34 years
- Funding breakdown:

Total Project	\$70,512,198
OFCC Funding (64%)	\$35,207,198
District Portion of OFCC Project	\$19,804,049
Locally Funded Initiatives	\$15,500,951
Total Voter Authorized Debt	\$35,305,000



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**NEW PRESCHOOL & KINDERGARTEN BUILDING AT THE HANCOCK ELEMENTARY SITE**

GRADES	STUDENT CAPACITY	SQUARE FOOTAGE
PRESCHOOL & KINDERGARTEN	367	45,875 SQ. FT.

**PROGRAM SPACES:**

- New Preschool & Kindergarten Classrooms
- Special Education Classrooms
- Special Education Resource Room
- Small Group Room
- Computer Lab
- Art Room
- Music Room
- Health Center
- Gymnasium
- Cafeteria
- Full Service Kitchen
- Teacher's Prep/Work Room

**BUILDING FEATURES:**

- 21<sup>st</sup> Century Learning Environments
- Expanded Professional Opportunities
- State of the Art Technology
- Sustainable Building
- Energy Efficient
- Enhanced Security System
- Separated Bus & Car Drop-off
- Designed for Community Use

**NEW FIRST & SECOND GRADE BUILDING AT THE ONTARIO ELEMENTARY SITE**

GRADES	STUDENT CAPACITY	SQUARE FOOTAGE
FIRST & SECOND	548	64,326 SQ. FT.

**PROGRAM SPACES:**

- New First & Second Grade Classrooms
- Special Education Classrooms
- Special Education Resource Room
- Small Group Room
- Computer Lab
- Art Room
- Music Room
- Health Center
- Gymnasium
- Cafeteria
- Full Service Kitchen
- Teacher's Prep/Work Room

**BUILDING FEATURES:**

- 21<sup>st</sup> Century Learning Environments
- State of the Art Technology
- Sustainable Building
- Energy Efficient
- Enhanced Security System
- Separated Bus & Car Drop-off
- Designed for Community Use

**NEW THIRD-SIXTH GRADE BUILDING AT SANDUSKY HIGH SCHOOL**

GRADES	STUDENT CAPACITY	SQUARE FOOTAGE
THIRD - SIXTH	990	151,800 SQ. FT.

**PROGRAM SPACES:**

- New Third-Sixth Grade Classrooms
- Special Education Classrooms
- Special Education Resource Room
- Small Group Room
- Computer Lab
- Art Room
- Music Room
- Health Center
- Gymnasium with 2 Regulation Courts
- Cafeteria
- Full Service Kitchen
- Teacher's Prep/Work Room
- Global Education Center

**BUILDING FEATURES:**

- 21<sup>st</sup> Century Learning Environments
- State of the Art Technology
- Sustainable Building
- Energy Efficient
- Enhanced Security System
- Separated Bus & Car Drop-off
- Designed for Community Use



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## What is Going on in the Tax-Exempt Market and How Does it Affect Me?



### • **Financing Plan Objectives**

- Achieve the lowest overall financing cost for the project by:
  - Obtain the highest possible credit rating for the issue
  - Take advantage of the ability to issue a portion of the bonds with Bank Qualified status (note – Gina pioneered this technique during her tenure at Ashland CSD)
  - Get the issue prepared for marketing as soon as possible to take advantage of favorable market conditions



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### • **Credit Rating Process**

- The district had no existing outstanding credit rating
- Invited Moody's analysts to Sandusky for tour and meeting
- Also applied for the Ohio School District Credit Enhancement Program (OSDCEP)
  - Automatic Aa2 if qualify

### • **Credit Rating Result**

- Moody's applied A2 rating to the district's underlying credit
- All the district's new debt qualified for the OSDCEP so bonds were sold with Aa2 rating (A2 underlying)



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### • **Financing Plan Execution**

- December 2016
  - Issued bank qualified (BQ) notes (unrated) - \$9,900,000
- January 2017
  - Issued NBQ notes (unrated) - \$9,904,049
    - Needed to sign OFCC project agreement
- April 2017
  - Issued non-bank qualified (NBQ) bonds - \$24,935,000
    - Proceeds used to payoff January notes and represented balance of construction funds
- May 2017
  - Issued BQ bonds \$9,215,000 to retire December 2016 BQ notes



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### • **Bank Qualified Bonds**

- To achieve bank qualified an issuer must sell less than \$10,000,000 during a *calendar* year.
- The advantage of issuing as Bank Qualified is that there are specific tax breaks that banks receive for purchasing these bonds so the interest rates associated with the bonds are generally lower than a Non-Bank Qualified bond.
- Because of this feature it was decided that Sandusky Schools would issue slightly less than \$10,000,000 in notes during 2016 to capture the bank qualified status, and carry-over that benefit to bonds at maturity of the notes in 2017.
- The June 1st maturity date for the 2016 notes provided the team ample time to prepare the long-term bond issues.



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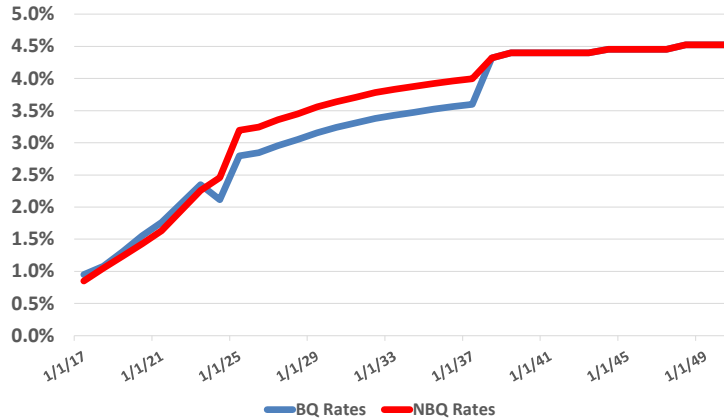
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**Financing Plan Results**

- Bank qualified rates typically out perform non-bank qualified rates from year 5 to year 25 over the yield curve. In Sandusky's case the difference ranged between 35 and 40 basis points.



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**Financing Plan Results**

- May 2017 BQ bonds \$9,215,000 debt service was "wrapped" around NBQ bonds debt service in order to achieve relatively level debt service from year-to-year.
- Some reassessment year valuation growth was assumed to meet increasing debt service from 2017 through the final maturity of 2050, but zero growth was assumed for first 7 years and all non-reassessment years through the final maturity.
- Interest differential between BQ and NBQ rates saved taxpayers over \$1,380,000.

Sandusky City School District  
Classroom Facilities and School Improvement Bonds (UTGO)  
FINAL NUMBERS

Period Ending	Series 2017-1 (Non-BQ)	Series 2017-2 (BQ)	Total
11/01/2017	1,497,275.35	274,233.61	1,771,508.96
11/01/2018	1,486,625.00	366,675.00	1,853,300.00
11/01/2019	1,489,825.00	366,525.00	1,856,350.00
11/01/2020	1,485,825.00	366,375.00	1,852,200.00
11/01/2021	1,488,625.00	366,225.00	1,854,850.00
11/01/2022	1,495,300.00	366,075.00	1,861,375.00
11/01/2023	1,493,750.00	365,925.00	1,859,675.00
11/01/2024	1,391,900.00	510,775.00	1,902,675.00
11/01/2025	1,087,750.00	807,400.00	1,895,150.00
11/01/2026	1,087,250.00	789,400.00	1,876,650.00
11/01/2027	1,091,750.00	831,400.00	1,923,150.00
11/01/2028	1,086,000.00	841,000.00	1,927,000.00
11/01/2029	1,090,500.00	834,400.00	1,924,900.00
11/01/2030	1,084,750.00	902,200.00	1,986,950.00
11/01/2031	1,084,250.00	901,400.00	1,985,650.00
11/01/2032	1,083,750.00	904,600.00	1,988,350.00
11/01/2033	1,088,250.00	961,600.00	2,049,850.00
11/01/2034	1,082,500.00	970,200.00	2,052,700.00
11/01/2035	1,082,000.00	967,200.00	2,049,200.00
11/01/2036	1,086,500.00	1,033,000.00	2,119,500.00
11/01/2037	1,085,750.00	1,034,800.00	2,120,550.00
11/01/2038	2,140,000.00		2,140,000.00
11/01/2039	2,211,500.00		2,211,500.00
11/01/2040	2,211,750.00		2,211,750.00
11/01/2041	2,209,000.00		2,209,000.00
11/01/2042	2,273,250.00		2,273,250.00
11/01/2043	2,276,000.00		2,276,000.00
11/01/2044	2,275,000.00		2,275,000.00
11/01/2045	2,345,250.00		2,345,250.00
11/01/2046	2,345,000.00		2,345,000.00
11/01/2047	2,341,500.00		2,341,500.00
11/01/2048	2,390,500.00		2,390,500.00
11/01/2049	2,392,250.00		2,392,250.00
11/01/2050	2,388,750.00		2,388,750.00
<b>55,747,875.35</b>			<b>14,761,408.61</b>
			<b>70,509,283.96</b>



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## What is Going on in the Tax-Exempt Market and How Does it Affect Me?



### Case Study – Warrensville Heights CSD

Cuyahoga County – Total Construction - **\$98 million**



#### • Objectives

- Elimination of aging structures, consolidation of assets
- New construction of pre-K thru 5 facility
- Merging of elementary and middle schools on high school campus
- Locally funded initiatives include extra classroom space, new athletics facility
- Take advantage of historically low interest rates before inevitable increase
- Leveraging existing revenues to mitigate impact of borrowing needs on voters

#### • Obstacles

- Current tax base is only 23% real estate – struggling value growth
- Existing outstanding debt millage greatly inflated due to declining recession era taxable values
- Overlapping existing debt would create unrealistic millage burden for taxpayers



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## What is Going on in the Tax-Exempt Market and How Does it Affect Me?



### Plan of Finance



- **\$17,225,000 CERTIFICATES OF PARTICIPATION (COP's) – LEASE REVENUE – 30 YRS.**
  - ❖ Repaid with TIF and alternative revenues from economic development
  - ❖ Financed construction of new pre-K thru 5 elementary school
  - ❖ Issued in December 2017
- **\$8,800,000 UNLIMITED TAX (UTGO) - GENERAL OBLIGATION – 28 YRS.**
  - ❖ Repaid with TIF and alternative revenues from economic development
  - ❖ Financed construction of new pre-K thru 5 elementary school
  - ❖ Issued in December 2018
- **\$39,700,000 UNLIMITED TAX (UTGO) - GENERAL OBLIGATION – 35 YRS.**
  - ❖ 8.8 mill ballot initiative passed November 2018
  - ❖ Repaid with UTGO tax levy – to be issued Spring '19
- **~\$20,000,000 CERTIFICATES OF PARTICIPATION (COP's) – LEASE REVENUE – 30 YRS.**
  - ❖ 4.5 mill ballot initiative passed November 2018
  - ❖ Repaid with on going PI levy – to be issued Spring '19



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**What is Going on in the Tax-Exempt Market and How Does it Affect Me?**



**• New Issue Focal Points**



- District had refinanced their original 1999 issue several times to improve rates
- Original voted ballot millage was 5.90 mills – currently collecting 7.80 mills
- Falling real estate values and reduced collections required excess collections
- Overlapping existing debt with a new ballot initiative needed relief thru 2024
- Administration promised no larger increase than 7 mills added to current assessment

D/S Left from Series 2015 Ref'd					
Date	Principal	Interest	Gross D/S	TOTAL Required Millage	Projected AV (\$1,000)
12/1/2019	\$1,635,000.00	\$262,875.00	\$1,897,875.00	6.62	\$358,098.00
12/1/2020	\$1,690,000.00	\$222,000.00	\$1,912,000.00	6.61	\$361,678.98
12/1/2021	\$1,735,000.00	\$179,750.00	\$1,914,750.00	6.55	\$365,295.77
12/1/2022	\$1,780,000.00	\$136,375.00	\$1,916,375.00	6.49	\$368,948.73
12/1/2023	\$1,820,000.00	\$91,875.00	\$1,911,875.00	6.41	\$372,638.21
12/1/2024	\$1,855,000.00	\$46,375.00	\$1,901,375.00	6.31	\$376,364.60



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**What is Going on in the Tax-Exempt Market and How Does it Affect Me?**



**D/S Series 2018**

BQ \$8.800 MM

Principal	Interest	Gross D/S
\$5,000.00	\$362,553.75	\$367,553.75
\$25,000.00	\$391,850.00	\$416,850.00
\$25,000.00	\$391,100.00	\$416,100.00
\$25,000.00	\$390,350.00	\$415,350.00
\$25,000.00	\$389,600.00	\$414,600.00
\$25,000.00	\$388,600.00	\$413,600.00

- Strategy was to create relief on debt service thru 2024.
- New Issue represents all 7.00+ promised mills
- However, PI levy will begin to collect 4.50 mills
- Overlapping existing debt would create millage assessment in excess of 15 mills

**Proposed Series 2019 UTGO**

\$39.700 million

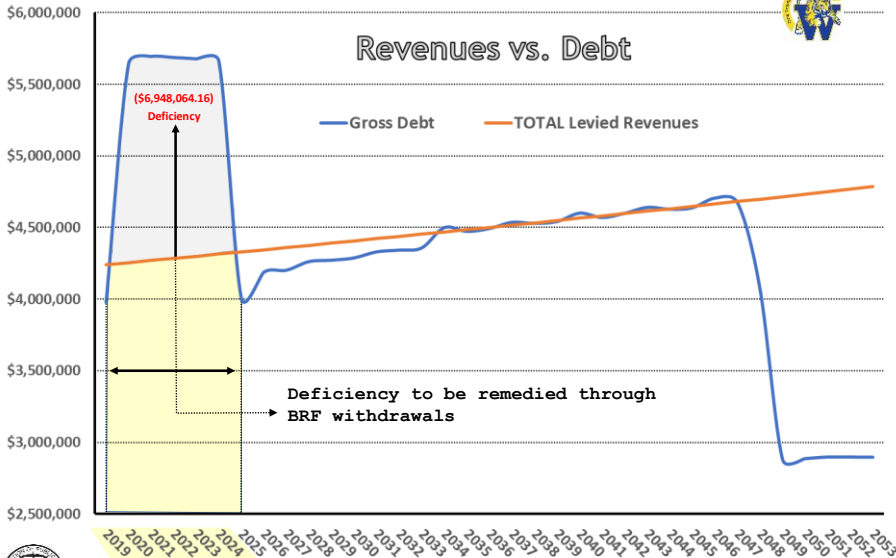
Principal	Interest	Gross Debt Service	Net TOTAL P+I	Projected AV (\$1,000)	Revenues @ 80% Collections	Required Milage @ 80% Collection
\$0.00	\$1,154,416.67	\$1,154,416.67	\$1,521,970.42	\$358,098	\$1,217,576.34	5.100
\$150,000.00	\$1,979,000.00	\$2,129,000.00	\$2,545,850.00	\$361,679	\$2,036,680.00	8.447
\$150,000.00	\$1,973,000.00	\$2,123,000.00	\$2,539,100.00	\$365,296	\$2,031,280.00	8.341
\$150,000.00	\$1,967,000.00	\$2,117,000.00	\$2,532,350.00	\$368,949	\$2,025,880.00	8.236
\$150,000.00	\$1,961,000.00	\$2,111,000.00	\$2,525,600.00	\$372,638	\$2,020,480.00	8.133
\$150,000.00	\$1,955,000.00	\$2,105,000.00	\$2,518,600.00	\$376,365	\$2,014,880.00	8.030



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### What is Going on in the Tax-Exempt Market and How Does it Affect Me?



#### Warrensville Heights CSD Proposed TOTAL Capital Expenditure Represents Entire Debt Issuance Strategy 2017-2019

Projected AV (\$1,000)	Gross Debt	PI Levy @ 80%	14.8 mills	UTGO Revenue @ 80%	TOTAL Levied Revenues	Revenue Excess / Deficiency	Required BRF Supplement
\$358,098	\$3,978,364.17	\$1,289,152.80	\$5,299,855.71	\$2,950,730.48	\$4,239,883.28	\$261,519.11	
\$359,889	\$5,645,591.25	\$1,289,152.80	\$5,326,354.99	\$2,965,484.13	\$4,254,636.93	(\$1,390,954.32)	(\$1,390,954.32)
\$361,688	\$5,695,387.50	\$1,289,152.80	\$5,352,986.77	\$2,980,311.55	\$4,269,464.35	(\$1,425,923.15)	(\$1,425,923.15)
\$363,497	\$5,688,012.50	\$1,289,152.80	\$5,379,751.70	\$2,995,213.11	\$4,284,365.91	(\$1,403,646.59)	(\$1,403,646.59)
\$365,314	\$5,678,762.50	\$1,289,152.80	\$5,406,650.46	\$3,010,189.17	\$4,299,341.97	(\$1,379,420.53)	(\$1,379,420.53)
\$367,141	\$5,662,512.50	\$1,289,152.80	\$5,433,683.71	\$3,025,240.12	\$4,314,392.92	(\$1,348,119.58)	(\$1,348,119.58)

Maturity	Coupon	Yield	Maturity Value	Price	YTM	Call Date	Call Price	Dollar Price
12/01/2020	4.000%	2.250%	150,000.00	102.705%	-	-	-	154,057.50
12/01/2021	4.000%	2.340%	150,000.00	104.136%	-	-	-	156,204.00
12/01/2022	4.000%	2.440%	150,000.00	105.319%	-	-	-	157,978.50
12/01/2023	4.000%	2.540%	150,000.00	106.277%	-	-	-	159,415.50
12/01/2024	5.000%	2.650%	150,000.00	112.119%	-	-	-	168,178.50
12/01/2025	5.000%	2.730%	410,000.00	113.591%	-	-	-	465,723.10
12/01/2026	5.000%	2.800%	440,000.00	114.935%	-	-	-	505,714.00
12/01/2027	5.000%	2.880%	470,000.00	116.018%	-	-	-	545,284.60
12/01/2028	5.000%	2.970%	545,000.00	116.820%	-	-	-	636,669.00
12/01/2029	5.000%	3.060%	580,000.00	117.423%	-	-	-	681,053.40
12/01/2030	5.000%	3.130%	615,000.00	116.733% c	3.254%	12/01/2029	100.000%	717,907.95
12/01/2031	5.000%	3.180%	685,000.00	116.244% c	3.402%	12/01/2029	100.000%	796,271.40
12/01/2032	5.000%	3.220%	730,000.00	115.854% c	3.521%	12/01/2029	100.000%	845,734.20
12/01/2033	5.000%	3.290%	775,000.00	115.175% c	3.649%	12/01/2029	100.000%	892,606.25
12/01/2034	5.000%	3.340%	860,000.00	114.694% c	3.746%	12/01/2029	100.000%	986,368.40
12/01/2035	5.000%	3.390%	915,000.00	114.214% c	3.834%	12/01/2029	100.000%	1,045,058.10
12/01/2036	5.000%	3.440%	970,000.00	113.737% c	3.912%	12/01/2029	100.000%	1,103,248.90
12/01/2037	5.000%	3.480%	1,060,000.00	113.357% c	3.976%	12/01/2029	100.000%	1,201,584.20
12/01/2038	5.000%	3.510%	1,120,000.00	113.074% c	4.028%	12/01/2029	100.000%	1,266,428.80
12/01/2043	5.000%	3.640%	6,870,000.00	111.853% c	4.220%	12/01/2029	100.000%	7,684,301.10
12/01/2053	5.000%	3.850%	21,905,000.00	109.915% c	4.436%	12/01/2029	100.000%	24,076,880.75
<b>Total</b>	-	-	<b>\$39,700,000.00</b>	-	-	-	-	<b>\$44,246,668.15</b>



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PRELIMINARY March 8, 2019

**Warrensville Heights CSD**

**\$39,700,000**

Non-Bank Qualified  
Series 2019 - UTGO

**Sources & Uses**

Dated 05/01/2019 | Delivered 05/01/2019

**Sources Of Funds**

Par Amount of Bonds	\$39,700,000.00
Reoffering Premium (Original Issue Premium) OIP	4,546,668.15
<b>Total Sources</b>	<b>\$44,246,668.15</b>

**Uses Of Funds**

Deposit to Project Construction Fund	39,700,000.00
Excess Original Issue Premium for Deposit to BRF	3,799,032.77
Gross Bond Insurance Premium ( 45.0 bp)	397,635.38
Costs of Issuance	350,000.00
<b>Total Uses</b>	<b>\$44,246,668.15</b>

Sudsina & Associates  
Independent Registered Municipal Advisors



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Valuation FY19 \$ 358,098,359  
1 mill \$ 358,098 14.8

Collection % 80.00% 1/2 Year Collection

Millage 7.00 \$ 1,002,675.41  
7.00 \$ 1,002,675.41

**Bond Retirement Fund Analysis**

Excess Original Issue Premium

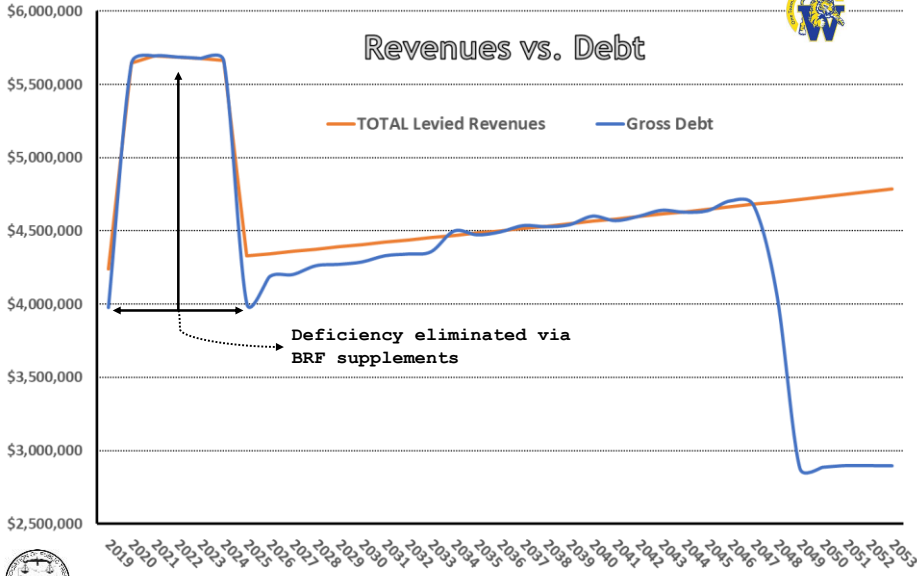
	AV	Series 2015 Ref'd P+I	Withdrawal	Revenue	Fund Balance
					\$ 5,827,164.04
Dec-18		(1,600,000.00)	(151,437.50)		4,075,726.54
Jun-19	Spring Settlement 359,888.00			1,002,675.41	5,078,401.95
	Fall Settlement		(131,437.50)	3,799,082.00	8,746,046.45
Dec-19		(1,635,000.00)	(131,437.50)	1,002,675.41	13,547,803.85
Jun-20	Spring Settlement 361,687.44			1,002,675.41	11,781,366.35
	Fall Settlement		(111,000.00)	1,002,675.41	12,784,041.76
Dec-20		(1,690,000.00)	(111,000.00)	1,002,675.41	13,675,717.16
Jun-21	Spring Settlement 363,495.88			1,002,675.41	10,483,762.84
	Fall Settlement		(89,875.00)	1,002,675.41	10,095,483.93
Dec-21		(1,735,000.00)	(89,875.00)	1,002,675.41	10,005,608.93
Jun-22	Spring Settlement 365,313.36			1,002,675.41	11,008,284.33
	Fall Settlement		(68,187.50)	1,002,675.41	7,757,486.18
Dec-22		(1,780,000.00)	(68,187.50)	1,002,675.41	8,760,161.59
Jun-23	Spring Settlement 367,139.92			1,002,675.41	8,691,974.09
	Fall Settlement		(45,937.50)	1,002,675.41	9,694,649.49
Dec-23		(1,820,000.00)	(45,937.50)	1,002,675.41	6,442,815.40
Jun-24	Spring Settlement 368,975.62			1,002,675.41	7,445,490.81
	Fall Settlement		(23,187.50)	1,002,675.41	7,399,553.31
Dec-24		(1,855,000.00)	(23,187.50)	1,002,675.41	8,402,228.71
			(1,379,420.53)	1,002,675.41	5,156,870.69
			(1,348,119.58)	1,002,675.41	6,159,546.09
				1,002,675.41	6,136,358.59
				1,002,675.41	7,139,034.00
				1,002,675.41	3,912,726.92



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### What is Going on in the Tax-Exempt Market and How Does it Affect Me?



# Thank You



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