April 23, 2018

Sale Day Report for

Independent School District No. 877 (Buffalo-Hanover-Montrose), Minnesota

$5,710,000 General Obligation School Building Refunding Bonds, Series 2018A

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Sale Day Report – April 23, 2018

Independent School District No. 877 (Buffalo-Hanover-Montrose), Minnesota
$5,710,000 General Obligation School Building Refunding Bonds, Series 2018A

Purpose: To finance a current refunding of the 2019 - 2022 maturities of the District's $20,400,000 General Obligation School Building Refunding Bonds, Series 2008A

Rating: Credit Enhanced Rating: Moody's Investor's Service "Aa2" Underlying Rating: Moody's Investor's Service "Aa2"

Number of Bids: 9

Low Bidder: Fifth Third Securities, Inc., Cincinnati, Ohio

Comparison from Lowest to Highest Bid: (TIC as bid)	Low Bid	High Bid	Interest Difference
	2.1033%*	2.2957%	$14,411

Summary of Results:	Results of Sale
Principal Amount*:	$5,710,000
Underwriter's Discount:	$12,926
Reoffering Premium:	$318,531
True Interest Cost*:	2.1035%
Costs of Issuance:	$47,426
Yield:	1.80%-2.12%
Future Value Savings:	$256,942
Present Value Savings:	$240,483
Savings Percentage:	3.837%
Total Net P&I	$6,250,114

* *The winning bidder submitted a bid with a premium price (a price greater than the par amount of the bonds) that was larger than the estimate in the Pre-Sale Report. The premium will be used to partially finance the prepayment of the 2008A Bonds, so the principal amount of the bonds was decreased from $5,925,000 (in the Pre-Sale Report and the Preliminary Official Statement) to $5,710,000, which also caused a slight change to the True Interest Cost.*

Notes: The actual true interest cost of 2.10% is lower than the estimate of 2.17% in the Pre-Sale Report provided to the School Board on March 26th. As a result, the total savings increased by approximately $13,000, from $244,244 in the Pre-Sale Report, to $256,942. This will result in an average annual reduction in debt service levies of approximately $88,000 per year for taxes payable in 2019 through 2021.

Closing Date: May 17, 2018

School Board Action: Adopt the resolution awarding the sale of $5,710,000 General Obligation School Building Refunding Bonds, Series 2018A.

Attachments:

- Bid Tabulation
- Updated Sources and Uses of Funds
- Debt Service Schedule – Callable Portion of 2008A Bonds
- Updated Debt Service Schedule – 2018A Bonds
- Refunding Savings Analysis
- Current Refunding Account Cashflow
- Moody’s Press Release
- Moody’s Credit Opinion
- Bond Resolution (Distributed in School Board Packets)

EHLERS LEADERS IN PUBLIC FINANCE

BID TABULATION

$5,925,000* General Obligation School Building Refunding Bonds, Series 2018A

Independent School District No. 877 (Buffalo-Hanover-Montrose), Minnesota

SALE: April 23, 2018

AWARD: FIFTH THIRD SECURITIES, INC.

MN Credit Enhancement Rating: Moody's Investor's Service "Aa2"
Underlying Rating: Moody's Investor's Service "Aa2"

BBI: 3.87%
Bank Qualified

NAME OF BIDDER	MATURITY (February 1)	RATE	REOFFERING YIELD	PRICE	NET INTEREST COST	TRUE INTEREST RATE
FIFTH THIRD SECURITIES, INC.				$6,241,078.80	$246,942.03	2.1033%
Cincinnati, Ohio	2019	5.000%	1.800%			
	2020	5.000%	1.910%			
	2021	5.000%	2.030%			
	2022	5.000%	2.120%			
HUTCHINSON, SHOCKEY, ERLEY & CO.				$6,237,890.20	$250,130.63	2.1313%
Chicago, Illinois	2019	5.000%				
	2020	5.000%				
	2021	5.000%				
	2022	5.000%				
PIPER JAFFRAY				$6,060,986.00	$244,838.44	2.1378%
Minneapolis, Minnesota	2019	4.000%				
	2020	4.000%				
	2021	3.000%				
	2022	3.000%				
BAIRD				$6,236,008.35	$252,012.48	2.1478%
Milwaukee, Wisconsin	2019	5.000%				
	2020	5.000%				
	2021	5.000%				
	2022	5.000%				

* Subsequent to bid opening the issue size was decreased to $5,710,000.
Adjusted Price - $6,015,604.80 Adjusted Net Interest Cost - $238,831.31 Adjusted TIC - 2.1035%

NAME OF BIDDER	MATURITY (February 1)	RATE	REOFFERING YIELD	PRICE	NET INTEREST COST	TRUE INTEREST RATE
STIFEL NICOLAUS				$6,015,769.65	$247,042.85	2.1660%
Memphis, Tennessee	2019	3.000%				
	2020	3.000%				
	2021	3.000%				
	2022	3.000%				
WELLS FARGO BANK, NATIONAL ASSOCIATION				$6,015,181.40	$247,631.10	2.1714%
Charlotte, North Carolina	2019	3.000%				
	2020	3.000%				
	2021	3.000%				
	2022	3.000%				
NORTHLAND SECURITIES, INC.				$6,110,265.55	$252,839.17	2.1880%
Minneapolis, Minnesota	2019	3.000%				
	2020	4.000%				
	2021	4.000%				
	2022	4.000%				
RAYMOND JAMES & ASSOCIATES, INC.				$6,088,728.65	$256,868.85	2.2264%
Memphis, Tennessee	2019	5.000%				
	2020	2.000%				
	2021	4.000%				
	2022	5.000%				
FTN FINANCIAL CAPITAL MARKETS				$6,001,459.46	$261,353.04	2.2957%
Memphis, Tennessee	2019	3.000%				
	2020	3.000%				
	2021	3.000%				
	2022	3.000%				

I.S.D. No. 877 (Buffalo, Hanover, Montrose), MN

$5,710,000 General Obligation School Building Refunding Bonds, Series 2018
Dated: May 17, 2018
Current Refunding of Series 2008A

Sources & Uses

Dated 05/17/2018 | Delivered 05/17/2018

Sources Of Funds

Par Amount	$5,710,000.00
Original Issue Premium	318,530.60
Total Sources	**$6,028,530.60**

Uses Of Funds

Total Underwriter's Discount (0.226%)	12,925.80
Costs of Issuance	47,426.00
Deposit to Current Refunding Fund	5,963,856.75
Rounding Amount	4,322.05
Total Uses	**$6,028,530.60**

I.S.D. No. 877 (Buffalo, Hanover, Montrose), MN

$20,340,000 General Obligation School Building Refunding Bonds, Series 2008A

Prior Original Debt Service

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
08/01/2018	-	-	-	-	-
02/01/2019	1,720,000.00	5.000%	152,162.50	1,872,162.50	1,872,162.50
08/01/2019	-	-	109,162.50	109,162.50	-
02/01/2020	1,790,000.00	5.125%	109,162.50	1,899,162.50	2,008,325.00
08/01/2020	-	-	63,293.75	63,293.75	-
02/01/2021	1,885,000.00	5.125%	63,293.75	1,948,293.75	2,011,587.50
08/01/2021	-	-	14,990.63	14,990.63	-
02/01/2022	585,000.00	5.125%	14,990.63	599,990.63	614,981.26
Total	**$5,980,000.00**	**-**	**$527,056.26**	**$6,507,056.26**	**-**

Yield Statistics

Base date for Avg. Life & Avg. Coupon Calculation	5/17/2018
Average Life	1.929 Years
Average Coupon	5.1118484%
Weighted Average Maturity (Par Basis)	1.929 Years
Weighted Average Maturity (Original Price Basis)	1.929 Years

Refunding Bond Information

Refunding Dated Date	5/17/2018
Refunding Delivery Date	5/17/2018

I.S.D. No. 877 (Buffalo, Hanover, Montrose), MN

$5,710,000 General Obligation School Building Refunding Bonds, Series 2018
Dated: May 17, 2018
Current Refunding of Series 2008A

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
05/17/2018	-	-	-	-	-
02/01/2019	1,670,000.00	5.000%	201,436.11	1,871,436.11	1,871,436.11
08/01/2019	-	-	101,000.00	101,000.00	-
02/01/2020	1,725,000.00	5.000%	101,000.00	1,826,000.00	1,927,000.00
08/01/2020	-	-	57,875.00	57,875.00	-
02/01/2021	1,810,000.00	5.000%	57,875.00	1,867,875.00	1,925,750.00
08/01/2021	-	-	12,625.00	12,625.00	-
02/01/2022	505,000.00	5.000%	12,625.00	517,625.00	530,250.00
Total	**$5,710,000.00**	**-**	**$544,436.11**	**$6,254,436.11**	**-**

Yield Statistics

Bond Year Dollars	$10,888.72
Average Life	1.907 Years
Average Coupon	5.0000000%
Net Interest Cost (NIC)	2.1933823%
True Interest Cost (TIC)	2.1035925%
Bond Yield for Arbitrage Purposes	1.9864832%
All Inclusive Cost (AIC)	2.5366092%

IRS Form 8038

Net Interest Cost	1.9409995%
Weighted Average Maturity	1.931 Years

I.S.D. No. 877 (Buffalo, Hanover, Montrose), MN

$5,710,000 General Obligation School Building Refunding Bonds, Series 2018
Dated: May 17, 2018
Current Refunding of Series 2008A

Debt Service Comparison

Date	Total P+I	Net New D/S	Old Net D/S	Savings
02/01/2019	1,871,436.11	1,867,114.06	1,872,162.50	5,048.44
02/01/2020	1,927,000.00	1,927,000.00	2,008,325.00	81,325.00
02/01/2021	1,925,750.00	1,925,750.00	2,011,587.50	85,837.50
02/01/2022	530,250.00	530,250.00	614,981.26	84,731.26
Total	**$6,254,436.11**	**$6,250,114.06**	**$6,507,056.26**	**$256,942.20**

PV Analysis Summary (Net to Net)

Gross PV Debt Service Savings.....................	236,161.19
Net PV Cashflow Savings @ 2.537%(AIC)............	236,161.19
Contingency or Rounding Amount....................	4,322.05
Net Present Value Benefit	$240,483.24
Net PV Benefit / $6,268,141.40 PV Refunded Debt Service	3.837%
Net PV Benefit / $5,980,000 Refunded Principal...	4.021%
Net PV Benefit / $5,710,000 Refunding Principal..	4.212%

Refunding Bond Information

Refunding Dated Date	5/17/2018
Refunding Delivery Date	5/17/2018

I.S.D. No. 877 (Buffalo, Hanover, Montrose), MN

$5,710,000 General Obligation School Building Refunding Bonds, Series 2018
Dated: May 17, 2018
Current Refunding of Series 2008A

Current Refunding Escrow

Date	Principal	Rate	Interest	Receipts	Disbursements	Cash Balance
05/17/2018	-	-	-	0.75	-	0.75
08/01/2018	5,963,856.00	1.300%	16,143.25	5,979,999.25	5,980,000.00	-
Total	**$5,963,856.00**	**-**	**$16,143.25**	**$5,980,000.00**	**$5,980,000.00**	**-**

Investment Parameters

Investment Model [PV, GIC, or Securities]	Securities
Default investment yield target	Unrestricted
Cash Deposit	0.75
Cost of Investments Purchased with Bond Proceeds	5,963,856.00
Total Cost of Investments	$5,963,856.75
Target Cost of Investments at bond yield	$5,955,751.47
Actual positive or (negative) arbitrage	(8,105.28)
Yield to Receipt	1.3193988%
Yield for Arbitrage Purposes	1.9864832%
State and Local Government Series (SLGS) rates for	1/16/2018

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 to Buffalo-Hanover-Montrose ISD 877, MN's GO bonds

Global Credit Research - 19 Apr 2018

New York, April 19, 2018 -- Moody's Investors Service has assigned a Aa2 underlying rating and a Aa2 enhanced rating to the Buffalo-Hanover-Montrose ISD No. 877, MN's $5.9 million General Obligation School Building Refunding Bonds, Series 2018A. Moody's affirmed an Aa2 underlying rating on the district's outstanding general obligation unlimited tax (GOULT) debt. Inclusive of the current offering, the district will have $68.2 million of GOULT debt outstanding.

RATINGS RATIONALE

The Aa2 rating reflects the district's sizable tax base located in the outer suburbs of the Twin Cities, healthy fund balance and liquidity despite slightly declining enrollment trend and above average debt burden.

The Aa2 enhanced rating reflects the additional security provided by the State of Minnesota's School District Enhancement Program (MSDE). The programmatic rating is notched once from the State of Minnesota's Aa1 rating to reflect sound program mechanics and the State of Minnesota's pledge of an unlimited appropriation from its general fund should the district be unable to meet debt service requirements. The program's mechanics include a provision for third party notification of pending deficiency. If the school district does not transfer funds necessary to pay debt to the paying agent at least three days prior to the payment due date, the state will appropriate the payment to the paying agent directly. The outlook on the state's general obligation debt is stable.

RATING OUTLOOK

Outlooks are generally not assigned to underlying ratings of local government credits with this amount of debt. That stable outlook on the enhanced rating is based upon the stable outlook assigned to the State of Minnesota's GO rating.

FACTORS THAT COULD LEAD TO AN UPGRADE

Increase in reserves and/or liquidity

Moderation of debt and pension burden

Upward movement in the state of Minnesota's GO rating (enhanced)

FACTORS THAT COULD LEAD TO A DOWNGRADE

Narrowing of operating fund reserves and/or liquidity

Growth in the district's debt or pension burden

Downward movement in the state of Minnesota's GO rating (enhanced)

Weakening of the MSDE program mechanics (enhanced)

LEGAL SECURITY

The district's general obligation unlimited tax (GOULT) debt, including the Series 2018A bonds, is secured by the district's unlimited tax GOULT pledge, which is unlimited as to rate or amount. The security benefits from a statutory lien, but there is no lockbox structure.

The Series 2018A bonds are additionally secured by the State of Minnesota's School District Credit Enhancement Program (MSDE) which provides for an unlimited advance from the state's General Fund should the district be unable to meet debt service requirements.

USE OF PROCEEDS

Proceeds will refund the district's outstanding General Obligation School Building Refunding Bonds, Series 2008A.

PROFILE

Buffalo-Hanover-Montrose Independent School District 877 is located approximately 35 miles northwest of the Minneapolis (Aa1 negative) - St. Paul (Aa1 negative) metropolitan area. The district encompasses 157 square miles and serves a resident population of about 33,000. The district provides education for 5,672 students in grades kindergarten through twelve.

METHODOLOGY

The principal methodology used in the underlying ratings was US Local Government General Obligation Debt published in December 2016. The principal methodology used in the enhanced rating was State Aid Intercept Programs and Financings published in December 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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MOODY'S
INVESTORS SERVICE

CREDIT OPINION
20 April 2018

Rate this Research

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Buffalo-Hanover-Montrose I.S.D. 877, MN

Update to credit analysis

Summary

Buffalo-Hanover-Montrose ISD 877, MN's (Aa2) credit profile benefits from sizable tax base with multi-year valuation increases near the Minneapolis (Aa1 negative) – St. Paul (Aa1 negative) metropolitan area. The district's healthy fund balance and liquidity may erode slightly as the district restores programming and smaller class sizes, but officials have the ability to go to voters for an operating referendum to restore operational balances. The district's primary credit challenge is elevated debt and pension burdens.

Credit strengths

» Sizable tax base with multi-year valuation increases near the Twin Cities metro area

» Healthy reserves and liquidity

Credit challenges

» Long-term trend of declining enrollment

» Elevated debt and pension burden

Rating outlook

Outlooks are generally not assigned to underlying ratings of local government credits with this amount of debt. The stable outlook on the enhanced rating is based upon the stable outlook assigned to the State of Minnesota's GO rating.

Factors that could lead to an upgrade

» Increase in reserves and/or liquidity

» Moderation of debt and pension burden

Factors that could lead to a downgrade

» Narrowing of operating fund reserves and/or liquidity

» Growth in the district's debt or pension burden

Key indicators

Exhibit 1

Buffalo-Hanover-Montrose I.S.D. 877, MN	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value ($000)	$2,819,984	$2,905,363	$3,147,425	$3,251,640	$3,543,156
Population	31,519	31,854	32,369	33,055	33,055
Full Value Per Capita	$89,469	$91,209	$97,236	$98,371	$107,190
Median Family Income (% of US Median)	128.7%	129.5%	127.0%	127.0%	127.0%
Finances					
Operating Revenue ($000)	$60,812	$62,424	$65,254	$68,807	$70,066
Fund Balance ($000)	$16,661	$16,399	$17,161	$17,658	$17,436
Cash Balance ($000)	$15,468	$17,647	$20,576	$20,355	$21,252
Fund Balance as a % of Revenues	27.4%	26.3%	26.3%	25.7%	24.9%
Cash Balance as a % of Revenues	25.4%	28.3%	31.5%	29.6%	30.3%
Debt/Pensions					
Net Direct Debt ($000)	$61,786	$57,197	$84,830	$79,683	$74,904
3-Year Average of Moody's ANPL ($000)	$114,001	$126,113	$128,711	$128,226	$152,236
Net Direct Debt / Operating Revenues (x)	1.0x	0.9x	1.3x	1.2x	1.1x
Net Direct Debt / Full Value (%)	2.2%	2.0%	2.7%	2.5%	2.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.9x	2.0x	2.0x	1.9x	2.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	4.0%	4.3%	4.1%	3.9%	4.3%

The table above does not include the district's most recent debt issuance.
Source: Moody's Investors Service; audited financial statements; U.S. Census Bureau

Profile

Buffalo-Hanover-Montrose Independent School District 877 is located approximately 35 miles northwest of the Minneapolis – St. Paul metropolitan area. The district encompasses 157 square miles and serves a resident population of about 33,000. The district provides education for 5,672 students in grades kindergarten through twelve.

Detailed credit considerations

Economy and Tax Base: sizable tax base west of the Twin Cities expected to remain stable

The district's sizable tax base will likely remain a credit strength given its favorable location in the greater Twin Cities metropolitan area. Located predominantly in Wright County approximately 35 miles west of the Twin Cities, the district encompasses 157 square miles and serves all or portions of the cities of Buffalo, Hanover (Aa3) and Montrose. The district is predominantly residential (63% of net tax capacity) and has moderately-sized commercial/industrial (13%) and agricultural (9%) sectors. After three years of declines between 5% and 9%, the district has seen four years of growth increasing the estimated market value in 2016 $3.5 billion, above the previous 2009 high of $3.3 billion.

The district's unemployment rate of 3.5% is on par with the state (3.3%), but lower than the national (3.9%) rate. The resident median family income is strong at 108% of the state median and 127% of the national median.

Financial Operations and Reserves: healthy financial profile; slightly declining enrollment

The district's financial position might erode slightly over the next two years as the district adds services. The district closed fiscal 2017 with a General Fund operating deficit of $426,000 due to a planned spend down to increase teaching staff and programming, which were scaled back in previous years. Despite the draws, the General Fund available balance remained a healthy $16 million or 25.6% of revenues. Inclusive of the debt service fund, the district's total available operating fund balance was $17.4 million, or 24.9% of operating fund revenue. The district budgeted for a General Fund operating deficit of $1.7 million in fiscal 2018, but management believes that actual draw will be smaller do to conservative budgetary assumptions. Management also has the ability to go to voters to request a new operating referendum which would help bolster finances.

District management was comfortable with operating draws given the district was above its fund balance policy of maintaining 8-12% of expenditures. Should the district draw reserves down to its stated policy, its fund balance would be well below the median for its rating category. However, we do not expect the district to draw down to that level given a history of positive budgetary variances. In addition, the district can consider approaching voters for an operating referendum to increase their revenues.

State aid is the district's main revenue source at 76% of fiscal 2017 general fund revenues. As funding for Minnesota school districts is based on per pupil aid, enrollment is key to district revenues. Enrollment in the district has fallen from 5,739 in fiscal 2014 to 5,672 in fiscal 2018. The district is bordered by nine other school districts which partially facilitates the negative net open enrollment of about 536 students in the current school year. The district anticipates declines to continue, but moderate, due to an increase in outreach to families and efforts to decrease class sizes and increase programming. The current five year average annual change in enrollment is a negative 0.2%.

LIQUIDITY

The district's net cash position in its major operating funds was $21.3 million, or a healthy 30.3% of operating revenues in fiscal 2017.

Debt and Pensions: above average debt and pension burden

The district's debt burden is above average and should moderate over time given a lack of plans for new debt and rapid amortization. The district has $69.2 million of debt outstanding, equivalent to 1.95% of full value and 1.0x fiscal 2017 operating revenues.

The district's pension burden, related to its participation in two statewide pension plans, is elevated. Moody's three-year average ANPL (adjusted net pension liability) was equal to $152.2 million, or 4.3% of full value and 2.2x fiscal 2017 operating revenues. Total fixed costs, inclusive of debt service, OPEB, and pension contributions were $12 million, or 17.1% of fiscal 2017 operating revenues.

DEBT STRUCTURE

All of the district's debt is fixed rate with 83% of principal amortized over the next ten years.

DEBT-RELATED DERIVATIVES

The district is not a party to any interest rate swap agreements.

PENSIONS AND OPEB

The district participates in two multiple-employer cost-sharing plans, the General Employees Retirement Fund (GERF) and the Teachers Retirement Association of Minnesota (TRA). While ultimately dependent on state legislative action, pension contribution requirements will likely rise due to growing unfunded liabilities. Growing pension costs could pressure Minnesota school districts' operating budgets.

Minnesota statutes establish local government retirement contributions as a share of annual payroll. Both GERF and TRA employer contribution rates are currently set at 7.5% of payroll. Contributions to TRA in aggregate, which represents the majority of the district's pension exposure, have consistently fallen short of actuarial requirements. The TRA board recommended contribution increases for fiscal 2017, but the state legislature did not increase employer contribution rates. The district's total fiscal 2017 pension contribution was $2.9 million, or 4.1% of operating revenue.

The district issued $10.8 million of OPEB bonds in the 2009 school year, creating a revocable OPEB trust to pre-fund its benefit obligations. At the close of fiscal 2017, the OPEB trust had a net position of $13.5 million.

Management and Governance: moderate institutional framework

Minnesota school districts have an Institutional Framework score of A, which is moderate. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Minnesota school districts are highly dependent on state aid, averaging 70% of General Fund revenues. State aid is moderately predictable and is based on a per pupil funding formula, with some adjustments for wealth and need. Schools have moderate revenue raising ability and can increase operating levies through board and voter approval. Unpredictable revenue fluctuations tend to be moderate. Across the sector, fixed and mandated costs are generally moderate. Minnesota has public sector unions, which can limit the ability to cut expenditures. Expenditures are highly predictable with personnel and benefits representing the largest costs.

The district utilizes the state's Long-term Facilities Maintenance program. In year one (fiscal 2017) of participating the district received $750,000 which will increase to $2.2 million by fiscal 2019. Per pupil revenue at the district is $724, which includes $424 of Local Option Revenue that does not require voter approval. The remaining $300 is a combination of board and voter-approved referendum authority and is authorized through 2020. The referendum authority is expected to be renewed by board action this spring for another five years.

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