

August 22, 2022

PRE-SALE REPORT FOR

Independent School District No. 2143 (Waterville-Elysian-Morristown), Minnesota

**\$800,000 General Obligation School Building Bonds,
Series 2022A**



Prepared by:

Ehlers
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BUILDING COMMUNITIES. IT'S WHAT WE DO.

EXECUTIVE SUMMARY OF PROPOSED DEBT

Proposed Issue:

\$800,000 General Obligation School Building Bonds, Series 2022A

District voters authorized the issuance of up to \$19,300,000 in bonds in a special election held on November 6, 2018. In February 2019, the District issued General Obligation School Building Bonds, Series 2019A totaling \$18,500,000, leaving a remaining unused authority of \$800,000.

Purposes:

The proposed issue includes financing the acquisition and betterment of school sites and facilities, as authorized by the passage of the November 6, 2018 school bond election.

Authority:

The Bonds are being issued pursuant to Minnesota Statutes, Chapter 475 and the successful election held November 6, 2018. The Bonds will be general obligations of the District for which its full faith, credit and taxing powers are pledged. Payments will be financed from the District's annual debt service tax levy.

Term/Call Feature:

The Bonds are being issued for a term of 5 years, 4 months. Principal on the Bonds will be due on February 1 in the years 2024 through 2028. Interest is payable every six months beginning August 1, 2023.

The Bonds are being offered without option of prior redemption.

Bank Qualification:

Because the District is expecting to issue no more than \$10,000,000 in tax exempt debt during the calendar year, the District will be able to designate the Bonds as "bank qualified" obligations. Bank qualified status broadens the market for the Bonds, which can result in lower interest rates.

State Credit Enhancement:

By resolution the District will covenant and obligate itself to be bound by the provisions of Minnesota Statutes, Section 126C.55, which provides for payment by the State of Minnesota in the event of a potential default of a school district obligation.

To qualify for the credit enhancement, the District must submit an application to the State. Ehlers will coordinate the application process to the State on your behalf.

Rating:

Under current bond ratings, the state credit enhancement would bring a S&P Global Rating of "AAA" rating. The District's most recent bond issues were rated by Standard & Poor's. The current ratings on those bonds are "A+". The District will request a new rating for the Bonds (state credit enhancement rating only).

If the winning bidder on the Bonds elects to purchase bond insurance, the rating for the issue may be higher than the District's bond rating in the event that the bond rating of the insurer is higher than that of the District.

Basis for Recommendation:

Based on your objectives and characteristics of various municipal financing options, we are recommending the issuance of General Obligation School Building Bonds as a suitable option to finance the planned projects.

- This is the only financing tool that can legally be used to finance all of the projects in the District's planned construction program.
- General Obligation Bonds will result in lower interest rates.
- The District will be able to finance the payments with an additional debt service levy.
- Debt service levies for the Bonds will qualify for the School Building Bond Agricultural Credit, which will offset a portion of the debt service levy for agricultural landowners.
- This is consistent with the District's plans communicated to the community prior to the election.

Method of Sale/Placement:

We will solicit competitive bids for the purchase of the Bonds from underwriters and banks.

We will include an allowance for discount bidding in the terms of the issue. The discount is treated as an interest item and provides the underwriter with all or a portion of their compensation in the transaction.

If the Bonds are purchased at a price greater than the minimum bid amount (maximum discount), the unused allowance may be used to reduce your borrowing amount or increase the net proceeds for the project.

Premium Pricing:

In some cases, investors in municipal bonds prefer "premium" pricing structures. A premium is achieved when the coupon for any maturity (the interest rate paid by the issuer) exceeds the yield to the investor, resulting in a price paid that is greater than the face value of the bonds. The sum of the amounts paid in excess of face value is considered "reoffering premium." The underwriter of the bonds will retain a portion of this reoffering premium as their compensation (or "discount") but will pay the remainder of the premium to the District. Any net premium received may be used to reduce the principal amount of the Bonds, increase the net proceeds for the project, or to fund a portion of the interest on the Bonds.

Review of Existing Debt:

We have reviewed all outstanding indebtedness for the District and find that there are no refunding opportunities at this time. We will continue to monitor the market and the call dates for the District's outstanding debt and will alert you to any future refunding opportunities.

Continuing Disclosure:

The District will be agreeing to provide certain updated Annual Financial Information and its Audited Financial Statement annually, as well as providing notices of the occurrence of certain reportable events to the Municipal Securities Rulemaking Board (the "MSRB"), as required by rules of the Securities and Exchange Commission (SEC). The District is already obligated to provide such reports for its existing bonds, and has contracted with Ehlers to prepare and file the reports.

Arbitrage Monitoring:

The District must ensure compliance with certain sections of the Internal Revenue Code and Treasury Regulations ("Arbitrage Rules") throughout the life of the issue to maintain the tax-exempt status of the Bonds. These Arbitrage Rules apply to amounts held in construction, escrow, reserve, debt service account(s), etc., along with related investment income on each fund/account.

IRS audits will verify compliance with rebate, yield restriction and records retention requirements within the Arbitrage Rules. The District's specific arbitrage responsibilities will be detailed in the Tax Certificate (the "Tax Compliance Document") prepared by your Bond Attorney and provided at closing.

The Bonds may qualify for one or more exception(s) to the Arbitrage Rules by meeting 1) small issuer exception, 2) spend down requirements, 3) bona fide debt service fund limits, 4) reasonable reserve requirements, 5) expenditure within an available period limitations, 6) investments yield restrictions, 7) de minimis rules, or; 8) borrower limited requirements.

We recommend that the District review its specific responsibilities related to the Bonds with an arbitrage expert in order to utilize one or more of the exceptions listed above.

Investment of Bond Proceeds:

Proceeds of the Bonds will be available for investment from the closing date (October 12, 2022) until project costs are paid. We recommend using an SEC registered investment advisor. Ehlers can assist in developing a strategy to invest Bond proceeds until they are needed to pay project costs.

Other Service Providers:

This debt issuance will require the engagement of other public finance service providers. This section identifies those other service providers, so Ehlers can coordinate their engagement on your behalf. Where you have previously used a particular firm to provide a service, we have assumed that you will continue that relationship. For services you have not previously required, we have identified a service provider. Fees charged by these service providers will be paid from proceeds of the obligation, unless you notify us that you wish to pay them from other sources. Our pre-sale bond sizing includes a good faith estimate of these fees, but the final fees may vary. If you have any questions pertaining to the identified service providers or their role, or if you would like to use a different service provider for any of the listed services please contact us.

Bond Counsel: Kennedy & Graven, Chartered

Paying Agent: Bond Trust Services Corporation

Rating Agency: Standard & Poor's Global Ratings (S&P)

This presale report summarizes our understanding of the District's objectives for the structure and terms of this financing as of this date. As additional facts become known or capital markets conditions change, we may need to modify the structure and/or terms of this financing to achieve results consistent with the District's objectives.

PROPOSED DEBT ISSUANCE SCHEDULE

Ehlers Presents Pre-Sale Report to School Board School Board Approves Resolution Authorizing Sale of the Bonds:	August 22, 2022
Due Diligence Call to review Official Statement:	Week of September 12
Distribute Official Statement:	Week of September 12
Ehlers Receives and Evaluates Proposals for Purchase of Bonds:	September 26, 2022
School Board Meeting to Award Sale of Bonds:	September 26, 2022
Estimated Closing Date:	October 20, 2022

Attachments

- Estimated Sources and Uses of Funds
- Estimated Proposed Debt Service Schedule
- Estimated Combined Debt Service Schedule
- Estimated Tax Impact Schedule
- Resolution Authorizing Ehlers to Proceed with Bond Sale/Credit Enhancement Resolution (provided separately)

EHLERS' CONTACTS

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Matthew Hammer, Municipal Advisor	(651) 697-8592
Nate Gilger, Public Finance Analyst	(651) 697-8538

PRE-SALE ESTIMATES

ISD # 2143 (Waterville-Elysian-Morristown), Minnesota

Estimated Sources and Uses of Funds

August 17, 2022

Bond Type	Voter Approved School Building Bonds
Bond Amount	\$800,000
Dated Date	October 20, 2022
Number of Years	5
Sources of Funds	
Par Amount	\$800,000
Reoffering Premium ¹	10,451
<u>Total Sources</u>	<u>\$810,451</u>
Uses of Funds	
Allowance for Discount Bidding ²	\$14,400
Legal and Fiscal Costs ³	31,260
<u>Net Available for Project Costs</u>	<u>764,791</u>
Total Uses	\$810,451
Deposit to Construction Fund	\$764,791

- 1 The underwriter of the bonds may pay a premium to purchase the bonds. The amount will be determined based on the competitive bidding process. If any premium is received, it will be used either to reduce the par amount of the bonds or to pay a portion of the first year's interest on the bonds.
- 2 The allowance for discount bidding is an estimate of the compensation taken by the underwriter who provides the lowest true interest cost as part of the competitive bidding process and purchases the bonds. Ehlers provides independent municipal advisory services as part of the bond sale process and is not an underwriting firm.
- 3 Includes fees for municipal advisor, bond counsel, rating agency or agencies, paying agent, and county certificates.

Waterville-Elysian-Morristown School District No. 2143

\$800,000 General Obligation School Building Bonds, Series 2022A

Dated: October 20, 2022

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
10/20/2022	-	-	-	-	-
08/01/2023	-	-	18,733.33	18,733.33	-
02/01/2024	105,000.00	3.000%	12,000.00	117,000.00	135,733.33
08/01/2024	-	-	10,425.00	10,425.00	-
02/01/2025	145,000.00	3.000%	10,425.00	155,425.00	165,850.00
08/01/2025	-	-	8,250.00	8,250.00	-
02/01/2026	160,000.00	3.000%	8,250.00	168,250.00	176,500.00
08/01/2026	-	-	5,850.00	5,850.00	-
02/01/2027	195,000.00	3.000%	5,850.00	200,850.00	206,700.00
08/01/2027	-	-	2,925.00	2,925.00	-
02/01/2028	195,000.00	3.000%	2,925.00	197,925.00	200,850.00
Total	\$800,000.00	-	\$85,633.33	\$885,633.33	-

Yield Statistics

Bond Year Dollars	\$2,854.44
Average Life	3.568 Years
Average Coupon	2.9999999%
Net Interest Cost (NIC)	3.1383561%
True Interest Cost (TIC)	3.1454587%
Bond Yield for Arbitrage Purposes	2.6092110%
All Inclusive Cost (AIC)	4.3549664%

IRS Form 8038

Net Interest Cost	2.5981343%
Weighted Average Maturity	3.571 Years

PRESALE ESTIMATES

ISD # 2143 (Waterville-Elysian-Morristown), MN
Analysis of Possible Structure for Capital and Debt Levies

\$800,000 Bond Issue
5 Tax Levies

Type of Bond	Principal Amount	Interest Rate
Voter-Approved Building	\$800,000	3.15%

August 17, 2022

Levy Payable Year	Fiscal Year	Tax Capacity Value ¹		Existing Commitments				Proposed New School Building Bonds				Combined Totals			
		(\$000s)	% Chg	Building Bonds ²	Est. Debt Excess ³	Net Levy	Tax Rate	Principal	Interest	Add'l. Debt Excess ³	Net Levy	Initial Debt Levy	State Aid	Net Levy	Tax Rate
2021	2022	10,492	3.3%	1,321,554	-	1,321,554	12.60	-	-	-	-	1,321,554	-	1,321,554	12.60
2022	2023	11,213	3.0%	1,379,514	-	1,379,514	12.30	-	-	-	-	1,379,514	-	1,379,514	12.30
2023	2024	11,438	2.0%	1,376,364	(57,905)	1,318,459	11.53	105,000	30,733	6,000	148,520	1,466,979	-	1,466,979	12.83
2024	2025	11,666	2.0%	1,377,414	(55,055)	1,322,359	11.33	145,000	20,850	-	174,143	1,496,502	-	1,496,502	12.83
2025	2026	11,783	1.0%	1,379,776	(55,097)	1,324,680	11.24	160,000	16,500	-	185,325	1,510,005	-	1,510,005	12.82
2026	2027	11,901	1.0%	1,374,789	(55,191)	1,319,598	11.09	195,000	11,700	(7,413)	209,622	1,529,220	-	1,529,220	12.85
2027	2028	11,901	0.0%	1,378,464	(54,992)	1,323,472	11.12	195,000	5,850	(8,385)	202,508	1,525,980	-	1,525,980	12.82
2028	2029	11,901	0.0%	1,379,776	(55,139)	1,324,638	11.13	-	-	-	-	1,324,638	-	1,324,638	11.13
2029	2030	11,901	0.0%	1,377,046	(55,191)	1,321,855	11.11	-	-	-	-	1,321,855	-	1,321,855	11.11
2030	2031	11,901	0.0%	1,379,356	(55,082)	1,324,274	11.13	-	-	-	-	1,324,274	-	1,324,274	11.13
2031	2032	11,901	0.0%	1,374,579	(55,174)	1,319,404	11.09	-	-	-	-	1,319,404	-	1,319,404	11.09
2032	2033	11,901	0.0%	1,374,264	(54,983)	1,319,280	11.09	-	-	-	-	1,319,280	-	1,319,280	11.09
2033	2034	11,901	0.0%	1,378,254	(54,971)	1,323,283	11.12	-	-	-	-	1,323,283	-	1,323,283	11.12
2034	2035	11,901	0.0%	1,375,891	(55,130)	1,320,761	11.10	-	-	-	-	1,320,761	-	1,320,761	11.10
2035	2036	11,901	0.0%	1,378,733	(55,036)	1,323,697	11.12	-	-	-	-	1,323,697	-	1,323,697	11.12
2036	2037	11,901	0.0%	1,380,157	(55,149)	1,325,007	11.13	-	-	-	-	1,325,007	-	1,325,007	11.13
2037	2038	11,901	0.0%	1,378,608	(55,206)	1,323,402	11.12	-	-	-	-	1,323,402	-	1,323,402	11.12
2038	2039	11,901	0.0%	1,380,839	(55,144)	1,325,695	11.14	-	-	-	-	1,325,695	-	1,325,695	11.14
2039	2040	11,901	0.0%	-	-	-	-	-	-	-	-	-	-	-	-
Totals				24,745,375	(884,444)	23,860,931		800,000	85,633	(9,798)	920,117	24,781,049	-	24,781,049	

- 1 Tax capacity value for taxes payable in 2021 and 2022 are final values. Estimates for future years are based on the percentage changes as shown above.
- 2 Initial debt service levies (prior to subtracting debt equalization aid) are set at 105 percent of the principal and interest payments during the next fiscal year.
- 3 Debt excess adjustment for taxes payable in 2022 is the actual amount. 2023 is an estimate using June 30, 2021 Fund Balance. Debt excess for future years is estimated at 4% of the prior year's initial debt service le

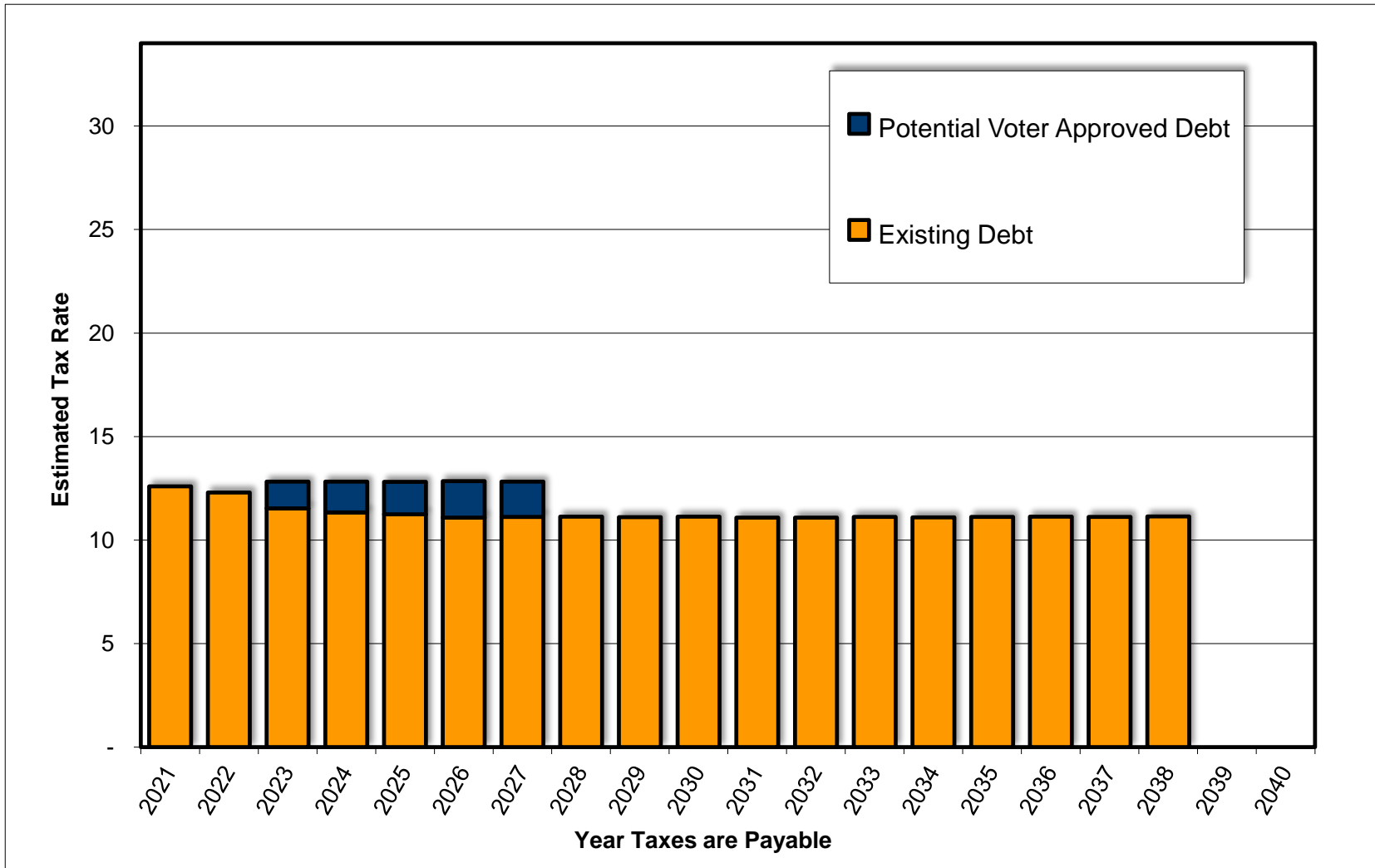


PRESALE ESTIMATES

ISD # 2143 (Waterville-Elysian-Morristown), MN
Estimated Tax Rates for Capital and Debt Service Levies
Existing Commitments and Proposed New Debt

\$800,000 Bond Issue
5 Tax Levies

Date Prepared: **August 17, 2022**



PRESALE ESTIMATES

Independent School District No. 2143 (Waterville-Elysian-Morristown), MN

Analysis of Tax Impact for Potential Bond Issue

August 17, 2022

Unused Authority from November 6, 2018 Election

Bond Issue Amount	\$800,000
Average Interest Rate	3.15%
Number of Years	5

Type of Property	Estimated Market Value	Estimated Impact on Annual Taxes Payable in 2023*
Residential Homestead	\$100,000	\$9
	125,000	13
	150,000	16
	175,000	20
	200,000	23
	225,000	27
	250,000	31
	275,000	34
	300,000	38
Commercial/Industrial #	400,000	52
	500,000	65
	\$50,000	\$10
	100,000	20
	200,000	42
Agricultural Homestead** (average value per acre of land & buildings)	400,000	94
	600,000	146
	\$7,000	\$0.14
	8,000	0.16
	9,000	0.18
Agricultural Non-Homestead** (average value per acre of land & buildings)	10,000	0.20
	11,000	0.21
	\$7,000	\$0.27
	8,000	0.31
	9,000	0.35
	10,000	0.39
	11,000	0.43

* Estimated tax impact includes principal and interest payments on the new bonds. The amounts in the table are based on school district taxes for bonded debt levies only, and do not include tax levies for other purposes. Tax increases shown above are gross increases, not including the impact of the homeowner's Homestead Credit Refund ("Circuit Breaker") program. Owners of homestead property may qualify for a refund, based on their income and total property taxes. This will change the net effect of the proposed bond issue for those property owners.

** For all agricultural property, estimated tax impact for 2023 includes a 70% reduction due to the School Building Bond Agricultural Credit. Under current law, the School Building Agricultural Credit will remain at that higher level. Average value per acre is the total estimated market value of all land & buildings divided by total acres. If the property includes a home, then the tax impact on the house, garage, and one acre of land will be calculated in addition to the taxes per acre, on the same basis as a residential homestead or non-homestead property. If the same property owner owns more than approximately \$1.9 million of agricultural homestead land and buildings, a portion of the property will be taxed at the higher non-homestead rate.

