EHLERS
LEADERS IN PUBLIC FINANCE

August 15, 2016

Sale Day Report for

Independent School District No. 763 (Medford), Minnesota

$1,040,000 General Obligation Facilities Maintenance Bonds, Series 2016A

Medford Public School
ISD #763

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Sale Day Report – August 15, 2016

Independent School District No. 763 (Medford), Minnesota
$1,040,000 General Obligation Facilities Maintenance Bonds, Series 2016A

Purpose: To provide funds for facility maintenance projects, consistent with the District's state-approved ten-year facilities plan.

Rating: Credit Enhanced Rating: Standard & Poor's Credit Markets "AA+"
Underlying Rating: Standard & Poor's Credit Markets "A+"

Number of Bids: 3

Low Bidder: United Bankers' Bank, Bloomington, Minnesota

Comparison from Lowest to Highest Bid: (TIC as bid)	**Low Bid**	**High Bid**	**Interest Difference**
	1.7214% *	1.8017%	$6,706

Summary of Results:	**Results of Sale**
Principal Amount*:	$1,040,000
Underwriter's Discount:	$10,730
Reoffering Premium:	$10,616
True Interest Cost*:	1.7168%
Costs of Issuance:	$28,004
Yield:	0.900% - 1.850%
Total Net P&I	$1,183,272

**In the estimates used to prepare the Pre-Sale Report and Official Statement for the Bonds, Ehlers estimated that the underwriter would pay a premium price (a price greater than the part amount of the bonds) and that the net premium (reoffering premium minus underwriter's discount) would be used to finance project costs and issuance costs. However, the winning bidder actually submitted a bid with a discount price (a price less than the par amount). In order to have sufficient funds for project costs, the principal amount of the Bonds was increased from $1,015,000 (in the Pre-Sale Report and the Preliminary Official Statement) to $1,040,000, which also caused a slight change to the True Interest Cost.*

Notes: The True Interest Cost of 1.72% was less than the estimate of 2.00% included in the Pre-Sale Report in July. As a result, the total amount of Long Term Facilities Maintenance Funding used for debt service will be $24,348 lower during the life of the bonds than estimated in the Pre-Sale Report.

Closing Date: September 7, 2016

School Board Action: Resolution authorizing issuance, awarding the sale, prescribing the form and details and providing for the payment of $1,040,000 General Obligation Facilities Maintenance Bonds, Series 2016A.

Attachments:

- Bid Tabulation
- Sources and Uses of Funds
- Updated Debt Service Schedules
- Rating Report
- Bond Resolution (Distributed in School Board Packets)

BID TABULATION

$1,015,000* General Obligation Facilities Maintenance Bonds, Series 2016A

Independent School District No. 763 (Medford Public Schools), Minnesota

SALE: August 15, 2016

AWARD: UNITED BANKERS' BANK

MN Credit Enhancement Rating: Standard & Poor's Credit Markets "AA+"
Underlying Rating: Standard & Poor's Credit Markets "A+"

BBI: 2.85%
Bank Qualified

NAME OF BIDDER	MATURITY (February 1)	RATE	REOFFERING YIELD	PRICE	NET INTEREST COST	TRUE INTEREST RATE
UNITED BANKERS' BANK				$1,015,143.50	$141,872.47	1.7214%
Bloomington, Minnesota	2019[1]	0.900%	0.900%			
	2020[1]	0.900%	0.900%			
	2021[2]	1.150%	1.150%			
	2022[2]	1.150%	1.150%			
	2023[3]	1.350%	1.350%			
	2024[3]	1.350%	1.350%			
	2025[4]	1.550%	1.550%			
	2026[4]	1.550%	1.550%			
	2027[5]	2.125%	1.850%			
	2028[5]	2.125%	1.850%			
	2029[5]	2.125%	1.850%			
BAIRD				$1,034,983.85	$143,936.15	1.7343%
Milwaukee, Wisconsin	2019	2.000%				
	2020	2.000%				
	2021	2.000%				
	2022	2.000%				
	2023	2.000%				
	2024	2.000%				
	2025	2.000%				
	2026	2.000%				
	2027	2.000%				
	2028	2.000%				
	2029	2.000%				

* Subsequent to bid opening the issue size was increased to $1,040,000.

Adjusted Price - $1,039,885.57   Adjusted Net Interest Cost - $143,386.69   Adjusted TIC - 1.7168%

[1] $135,000 Term Bond due 2020 with mandatory redemption in 2019.
[2] $170,000 Term Bond due 2022 with mandatory redemption in 2021.
[3] $180,000 Term Bond due 2024 with mandatory redemption in 2023.
[4] $205,000 Term Bond due 2026 with mandatory redemption in 2025.
[5] $350,000 Term Bond due 2029 with mandatory redemption in 2027-2028.

NAME OF BIDDER	MATURITY (February 1)	RATE	REOFFERING YIELD	PRICE	NET INTEREST COST	TRUE INTEREST RATE
NORTHLAND SECURITIES, INC.				$1,015,429.30	$148,578.20	1.8017%
Minneapolis, Minnesota	2019	1.000%				
	2020	1.000%				
	2021	1.000%				
	2022	1.250%				
	2023	1.250%				
	2024	1.500%				
	2025	1.500%				
	2026	2.000%				
	2027	2.000%				
	2028	2.250%				
	2029	2.250%				

Medford School District No.763

August 15, 2016

Sources and Uses of Funds, Results of Bond Sale
2016 Facilities Maintenance Bonds

Bond Issue Amount	**$1,040,000**
Sources of Funds	
Par Amount of Bonds	$1,040,000
Estimated Premium	10,616
Estimated Investment Earnings*	0
Total Sources	$1,050,616
Uses of Funds	
Allowance for Discount Bidding	$10,730
Legal and Fiscal Costs **	28,004
Net Available for Project Costs	**1,011,882**
Total Uses	$1,050,616

* Because the project will be completed very quickly, we expect that investment earnings in the construction fund would be negligible.

** Includes fees for financial advisor, bond counsel, rating agency, paying agent and county certificates.

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Sources Uses 16 LTFM Results.xlsx

Medford School District, No. 763

Facilities Maintenance Bond Schedule, Results of Bond Sale
Deferrred Maintenance Projects

$1,040,000 Bond Issue
12 Years
47.1 % of Revenue Used

Principal Amount:	$1,040,000
Dated Date:	9/7/2016
Number of Years:	12
Avg. Interest Rate:	1.72%

August 15, 2016

Based on Maximum Revenue Available for Deferred Maintenance Costs
Doesn't Include Potential Additional Revenue Available for Health & Safety Projects

Year Taxes Payable	Fiscal Year	LTFM Revenue	LTFM Levy	LTFM Aid	Principal	Interest	Total Payments	Remaining LTFM Revenue
2016	2017	$73,633	$30,472	$43,161	$0	$0	$0	$73,633
2017	2018	119,359	46,647	72,712	0	22,701	22,701	96,658
2018	2019	165,685	63,743	101,942	55,000	16,215	71,215	94,470
2019	2020	176,043	66,535	109,508	80,000	15,720	95,720	80,323
2020	2021	186,401	70,450	115,951	85,000	15,000	100,000	86,401
2021	2022	196,759	74,365	122,395	85,000	14,023	99,023	97,737
2022	2023	207,108	78,276	128,832	90,000	13,045	103,045	104,063
2023	2024	217,466	82,191	135,275	90,000	11,830	101,830	115,636
2024	2025	227,825	86,106	141,719	95,000	10,615	105,615	122,210
2025	2026	238,173	90,017	148,156	110,000	9,143	119,143	119,031
2026	2027	248,532	93,932	154,600	115,000	7,438	122,438	126,094
2027	2028	258,890	97,847	161,043	115,000	4,994	119,994	138,896
2028	2029	269,248	101,762	167,486	120,000	2,550	122,550	146,698
2029	2030	279,597	105,673	173,924	0	0	0	279,597
2030	2031	289,955	109,588	180,367	0	0	0	289,955
2031	2032	300,313	113,503	186,811	0	0	0	300,313
2032	2033	310,662	117,414	193,248	0	0	0	310,662
2033	2034	321,020	121,329	199,691	0	0	0	321,020
2034	2035	331,379	125,244	206,135	0	0	0	331,379
2035	2036	341,737	129,159	212,578	0	0	0	341,737
					$1,040,000	$143,272	$1,183,272	

Assumes growth in adusted pupil units of 0% per year for future years.

Assumes no change in ANTC after payable 2017.

** Levy does not include 5% overlevy, or debt excess reductions.*

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S&P Global
Ratings

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Summary:
Medford Independent School District No. 763, Minnesota; School State Program

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Summary:

Medford Independent School District No. 763, Minnesota; School State Program

Credit Profile		
US$1.015 mil GO facs maintenance bnds ser 2016A due 02/01/2029		
Long Term Rating	AA+/Positive	New
Underlying Rating for Credit Program	A+/Stable	New
Medford Indpt Sch Dist #763 State Enhancement Prog		
Long Term Rating	AA+/Positive	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating and 'A+' underlying rating to Medford Independent School District (ISD) No. 763, Minn.'s series 2016A general obligation (GO) facilities maintenance bonds. At the same time, we affirmed our 'A+' underlying rating on the district's previously rated bonds. The outlook on the underlying rating is stable.

The 'AA+' program rating reflects our assessment of the school district's eligibility for, and participation in, the Minnesota State Standing Appropriation for School Program, which provides the security of a standing appropriation from Minnesota's general fund in the event of a school district debt payment default. The outlook on the program rating is positive.

The bonds are GOs of the district for which its full faith, credit and taxing powers are pledged. We understand that officials will use the bond proceeds to fund facility maintenance projects in the ten-year facility plan of the district.

In our opinion, the rating reflects our view of the district's:

- Strong incomes and extremely strong market value per capita;
- Very strong reserves despite recent deficits; and
- Low-to-moderate debt burden.

Partially offsetting the above strengths is our view of the trend of deficits and lack of revenue-raising flexibility.

Economy

Medford ISD No. 763 serves an estimated population of 3,180 approximately 60 miles south of the Minneapolis-St. Paul metropolitan area in Steele, Rice, and Waseca counties. In our opinion, median household effective buying income (EBI) is strong at 113% of the national level, but per capita EBI is good at 96%. At $154,359 per capita, the 2016 economic market value totaling $490.9 million is, in our opinion, extremely strong. Assessed value (AV) grew by a total of 6.4% overall from 2014 to $4.1 million in 2016, but it decreased by 2.4% in 2016. The 10 largest taxpayers make up an estimated 15.0% of AV, which we consider diverse.

The tax base is nearly 52% agricultural. The largest employers include property manager Medford Outlet Center (286 employees), Hormel Foods (250), and the district itself (102). Unemployment in Steele County was 3.3% in 2015.

Finances

The state's basic general education revenue funding, which is determined by pupil count, is the primary source of operating revenue for Minnesota school districts. As a result, increases or decreases in enrollment can lead to increases or decreases, respectively, in revenue. In 2016, enrollment was 860 and rose each year from 2012 to 2016. Projections show slight growth to 875 through 2019.

The district's available fund balance of $2.4 million is very strong, in our view, at 31.4% of general fund expenditures at fiscal year-end (June 30) 2015. It reported a deficit operating result at 1.0% of expenditures in 2015. The district depends primarily on state aid for general fund revenue (89.7%), with property taxes accounting for only 4.7%.

The district reports its financial statements using the accrual basis of accounting. The fund balance dropped from 45% of expenditures in fiscal 2012 after three consecutive years of deficits due to rising expenditures, but we still view the district's finances as very strong. Management attributes the small fiscal 2015 deficit to one-time capital expenditures. For fiscal 2016, the budget included a $205,000 surplus but management estimates to report a larger, roughly $400,000 surplus due to lower expenditures than budgeted. The fiscal 2017 budget includes another surplus of $236,000 due to increased enrollment and state revenue.

Labor contracts are settled through fiscal 2017 with modest increases.

Management

We consider the district's management practices "standard" under our financial management assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Highlights include strong revenue and expenditure assumptions with a predictable budget and the use of historical data. The board receives at least quarterly budget-to-actual reports and the finance committee receives monthly financial reports. The district lacks a long-term financial plan but maintains a long-range facilities plan that addresses district-wide capital needs. It lacks its own investment and debt management policies but adheres to state statutes. The district has a formal fund balance policy of 25% of expenditures in general fund reserves, with which it is in compliance.

Debt

Overall net debt is low, in our opinion, as a percentage of market value at 2.8%, and moderate on a per capita basis at $4,637. Amortization is fairly rapid, with 62% of the district's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 11.6% of total governmental fund expenditures (excluding capital outlay) in fiscal 2015, which we consider moderate.

The district has no additional debt plans within the next two years.

Pension and other postemployment benefit liabilities

In fiscal 2015, the district paid its full required contribution of $306,000, or 3.3% of total governmental expenditures, toward its pension obligations. In the same fiscal year, it also paid $46,000, or 0.5% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations. Combined pension and OPEB carrying charges totaled 3.8% of total governmental fund expenditures in 2015.

All teachers are covered by the state of Minnesota Teachers Retirement Association (TRA). Employees not covered by TRA are covered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF).

Outlook

The positive outlook on the enhanced rating reflects that on the state of Minnesota and moves in tandem with the state GO rating and outlook. The stable outlook on the underlying rating reflects our expectation that management will maintain at least strong reserves and make the necessary budgetary adjustments in response to any declines in revenue. We do not anticipate changing the rating within the two-year outlook horizon.

Upside scenario

We could raise the rating after modest improvement in economic characteristics, namely income indicators, coupled with sustainable operational balance and the maintenance of very strong reserves.

Downside scenario

Although unlikely, we could lower the rating should the district continue to report operating deficits and report a decline in reserves to a level that we no longer consider strong.