May 22, 2023

PRE-SALE REPORT FOR

# Independent School District No. 182 (Crosby-Ironton Schools), Minnesota

## $6,360,000 General Obligation School Building Bonds, Series 2023A

EHLERS
PUBLIC FINANCE ADVISORS


**Prepared by:**

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# EXECUTIVE SUMMARY OF PROPOSED DEBT

## Proposed Issue:

$6,360,000 General Obligation School Building Bonds, Series 2023A

District voters authorized the issuance of up to $29,560,000 in bonds in a bond referendum election held on November 5, 2019. On March 19, 2020, the District issued General Obligation School Building Bonds, Series 20202A totaling $23,200,000, leaving a remaining unused authority of $6,360,000.

## Purposes:

The proposed issue includes financing for the acquisition and betterment of school sites and facilities as approved by voters in an election held on November 5, 2019.

## Authority:

The Bonds are being issued pursuant to Minnesota Statutes, Chapter 475. The Bonds will be general obligations of the District for which its full faith, credit and taxing powers are pledged. Debt service for the bonds will be paid from the District's annual debt service tax levy.

## Term/Call Feature:

The Bonds are being issued for a term of 9 years, 7 months. Principal on the Bonds will be due on February 1 of 2024 through 2033. Interest will be due every six months beginning February 1, 2024.

The Bonds maturing on February 1, 2032 and later will be subject to prepayment at the discretion of the District on February 1, 2031, or any date thereafter.

## 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 Ratings of "AAA" rating. The District's most recent bond issues were rated by S&P Global Ratings. The current rating on those bonds is “AAA” (credit enhanced rating) and “A+” (underlying rating). The District will request a new rating for the Bonds.

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, financial situation and need, risk tolerance, liquidity needs, experience with the issuance of Bonds and long-term financial capacity, as well as the tax status considerations related to the Bonds and the structure, timing and other similar matters related to the Bonds, we are recommending the issuance of Bonds as a suitable option.

## Method of Sale/Placement:

We are recommending the Bonds be issued as municipal securities and offered through a competitive underwriting process. 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.

## 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:

Ehlers will assist the District in developing a strategy to invest your Bond proceeds until the funds 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: S&P 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: | May 22, 2023 |
| Due Diligence Call to Review Official Statement: | Week of June 5, 2023 |
| Conference with Rating Agency: | Week of June 5, 2023 |
| Distribute Official Statement: | June 8, 2023 |
| Ehlers Receives and Evaluates Proposals for Purchase of Bonds: | June 20, 2023 |
| School Board Meeting to Award Sale of Bonds: | June 20, 2023 |
| Estimated Closing Date: | July 13, 2023 |

## Attachments

Estimated Sources and Uses of Funds

Estimated Debt Service Schedule

Estimated Long-Term Financing Plan for Debt and Capital Payments and Levies

Resolution Authorizing Ehlers to Proceed with Bond Sale/Credit Enhancement Resolution (provided separately)

# EHLERS' CONTACTS

| | |
|---|---|
| Jodie Zesbaugh, Senior Municipal Advisor | (651) 697-8526 |
| Aaron Bushberger, Municipal Advisor | (651) 697-8532 |
| Silvia Johnson, Senior Public Finance Analyst | (651) 697-8580 |
| Brian Shannon, Senior Finance Manager | (651) 697-8515 |

**ESTIMATES PRIOR TO BOND SALE**

## Crosby-Ironton School District No. 182

**May 15, 2023**

Estimated Sources and Uses of Funds
Remaining Authority - Voter Approved Building Bonds

| | Voter Approved |
|---|---|
| **Bond Amount** | **$6,360,000** |
| **Number of Years** | **10** |
| **Closing Date** | **7/13/2023** |
| **Sources of Funds** | |
| Par Amount | $6,360,000 |
| Investment Earnings [1] | 38,944 |
| Reoffering Premium [2] | 372,720 |
| Total Sources | $6,771,664 |
| **Uses of Funds** | |
| Underwriter's Discount [3] | $63,600 |
| Legal and Fiscal Costs [4] | 65,325 |
| **Net Available for Project Costs** | **6,642,739** |
| Total Uses | $6,771,664 |
| **Initial Deposit to Construction Fund** | $6,603,795 |

1 Estimated investment earnings are based on an average interest rate of .50% and an average life of 15 months.

2 The underwriter that purchases the bonds may receive a reoffering premium in the sale of the bonds. They will retain a portion of the premium as their compensation, or underwriter's discount. The remainder of the premium may be used to reduce the par amount of the bonds, pay a portion of the first year's interest on the bonds, pay costs of issuance, or deposited in the construction fund and used to fund a portion of the project costs.

3 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.

4 Includes fees for municipal advisor, bond counsel, rating agency, paying agent and county certificates.

# I.S.D. No. 182 (Crosby-Ironton), Minnesota

$6,360,000 General Obligation School Building Bonds, Series 2023A

Dated: July 13, 2023

## Debt Service Schedule

| Date | Principal | Coupon | Interest | Total P+I | Fiscal Total |
|---|---|---|---|---|---|
| 07/13/2023 | - | - | - | - | - |
| 02/01/2024 | 835,000.00 | 5.000% | 167,365.00 | 1,002,365.00 | 1,002,365.00 |
| 08/01/2024 | - | - | 131,275.00 | 131,275.00 | - |
| 02/01/2025 | 780,000.00 | 5.000% | 131,275.00 | 911,275.00 | 1,042,550.00 |
| 08/01/2025 | - | - | 111,775.00 | 111,775.00 | - |
| 02/01/2026 | 475,000.00 | 5.000% | 111,775.00 | 586,775.00 | 698,550.00 |
| 08/01/2026 | - | - | 99,900.00 | 99,900.00 | - |
| 02/01/2027 | 525,000.00 | 5.000% | 99,900.00 | 624,900.00 | 724,800.00 |
| 08/01/2027 | - | - | 86,775.00 | 86,775.00 | - |
| 02/01/2028 | 550,000.00 | 5.000% | 86,775.00 | 636,775.00 | 723,550.00 |
| 08/01/2028 | - | - | 73,025.00 | 73,025.00 | - |
| 02/01/2029 | 580,000.00 | 5.000% | 73,025.00 | 653,025.00 | 726,050.00 |
| 08/01/2029 | - | - | 58,525.00 | 58,525.00 | - |
| 02/01/2030 | 610,000.00 | 5.000% | 58,525.00 | 668,525.00 | 727,050.00 |
| 08/01/2030 | - | - | 43,275.00 | 43,275.00 | - |
| 02/01/2031 | 635,000.00 | 5.000% | 43,275.00 | 678,275.00 | 721,550.00 |
| 08/01/2031 | - | - | 27,400.00 | 27,400.00 | - |
| 02/01/2032 | 670,000.00 | 4.000% | 27,400.00 | 697,400.00 | 724,800.00 |
| 08/01/2032 | - | - | 14,000.00 | 14,000.00 | - |
| 02/01/2033 | 700,000.00 | 4.000% | 14,000.00 | 714,000.00 | 728,000.00 |
| **Total** | **$6,360,000.00** | **-** | **$1,459,265.00** | **$7,819,265.00** | **-** |

### Yield Statistics

| | |
|---|---|
| Bond Year Dollars | $31,668.00 |
| Average Life | 4.979 Years |
| Average Coupon | 4.6080112% |
| Net Interest Cost (NIC) | 3.6318853% |
| True Interest Cost (TIC) | 3.5170199% |
| Bond Yield for Arbitrage Purposes | 3.2591781% |
| All Inclusive Cost (AIC) | 3.7447066% |

### IRS Form 8038

| | |
|---|---|
| Net Interest Cost | 3.2038150% |
| Weighted Average Maturity | 5.037 Years |

## Crosby Ironton Schools, No. 182

### Estimated Payments and Tax Levies for Voter Approved Bonds

**$6,360,000 Bond Issue**
**10 Years, Wrapped Around Existing Debt**
**November 5, 2019 Election**

| Type of Bond | Principal Amount | Dated Date | Interest Rate |
|---|---|---|---|
| Voter-Approved Building | $23,200,000 | 03/19/20 | 2.09% |
| Voter-Approved Building | $6,360,000 | 07/13/23 | 3.52% |

**May 15, 2023**

| Levy Payable Year | Fiscal Year | Tax Capacity Value [1] ($000s) | % Chg | Existing Commitments: Building Bonds [2] | Existing Commitments: Est. Debt Excess [3] | Existing Commitments: Net Levy | Existing Commitments: Tax Rate | Other Levies: Capital Project Levy | Other Levies: Capital Leases | Existing Tax Rate | Proposed New School Building Bonds: Principal | Proposed New School Building Bonds: Interest | Proposed New School Building Bonds: Add'l. Debt Excess [3] | Proposed New School Building Bonds: Net Levy | Combined Totals: Initial Debt Levy | Combined Totals: Net Levy | Combined Totals: Tax Rate |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2021 | 2022 | 22,444 | 5.0% | 2,305,564 | (260,439) | 2,045,125 | 9.11 | 207,338 | 154,905 | 10.73 | - | - | - | - | 2,407,367 | 2,407,367 | 10.73 |
| 2022 | 2023 | 24,580 | 9.5% | 2,304,251 | (133,610) | 2,170,641 | 8.83 | 216,878 | 154,905 | 9.46 | - | - | - | - | 2,542,424 | 2,542,424 | 10.34 |
| 2023 | 2024 | 34,477 | 40.3% | 1,375,264 | (79,399) | 1,295,865 | 3.76 | 237,583 | 154,905 | 4.21 | 835,000 | 167,365 | - | 1,054,200 | 2,742,552 | 2,742,552 | 7.95 |
| 2024 | 2025 | 36,201 | 5.0% | 1,391,854 | (95,397) | 1,296,457 | 3.58 | 333,244 | 154,905 | 4.01 | 780,000 | 262,550 | - | 1,094,678 | 2,874,033 | 2,874,033 | 7.94 |
| 2025 | 2026 | 36,201 | 0.0% | 1,390,804 | (55,674) | 1,335,130 | 3.69 | 349,906 | 154,905 | 4.12 | 475,000 | 223,550 | - | 733,478 | 2,579,035 | 2,579,035 | 7.12 |
| 2026 | 2027 | 36,201 | 0.0% | 1,393,744 | (55,632) | 1,338,112 | 3.70 | 349,906 | 154,905 | 4.12 | 525,000 | 199,800 | (29,339) | 731,701 | 2,574,399 | 2,574,399 | 7.11 |
| 2027 | 2028 | 36,201 | 0.0% | 1,395,214 | (55,750) | 1,339,464 | 3.70 | 349,906 | 154,905 | 4.13 | 550,000 | 173,550 | (29,268) | 730,459 | 2,574,743 | 2,574,743 | 7.11 |
| 2028 | 2029 | 36,201 | 0.0% | 1,458,214 | (55,809) | 1,402,405 | 3.87 | 349,906 | 90,573 | 4.12 | 580,000 | 146,050 | (29,218) | 733,134 | 2,576,018 | 2,576,018 | 7.12 |
| 2029 | 2030 | 36,201 | 0.0% | 1,459,159 | (58,329) | 1,400,830 | 3.87 | 349,906 | 90,573 | 4.12 | 610,000 | 117,050 | (29,325) | 734,077 | 2,575,387 | 2,575,387 | 7.11 |
| 2030 | 2031 | 36,201 | 0.0% | 1,459,159 | (58,366) | 1,400,792 | 3.87 | 349,906 | 90,573 | 4.12 | 635,000 | 86,550 | (29,363) | 728,264 | 2,569,536 | 2,569,536 | 7.10 |
| 2031 | 2032 | 36,201 | 0.0% | 1,458,214 | (58,366) | 1,399,847 | 3.87 | 349,906 | 90,573 | 4.12 | 670,000 | 54,800 | (29,131) | 731,909 | 2,572,236 | 2,572,236 | 7.11 |
| 2032 | 2033 | 36,201 | 0.0% | 1,503,574 | (58,329) | 1,445,245 | 3.99 | 349,906 | 45,287 | 4.12 | 700,000 | 28,000 | (29,276) | 735,124 | 2,575,562 | 2,575,562 | 7.11 |
| 2033 | 2034 | 36,201 | 0.0% | 1,547,989 | (60,143) | 1,487,846 | 4.11 | 349,906 | - | 4.11 | - | - | - | - | 1,837,752 | 1,837,752 | 5.08 |
| 2034 | 2035 | 36,201 | 0.0% | 1,554,289 | (61,920) | 1,492,369 | 4.12 | 349,906 | - | 4.12 | - | - | - | - | 1,842,275 | 1,842,275 | 5.09 |
| 2035 | 2036 | 36,201 | 0.0% | 1,549,459 | (62,172) | 1,487,287 | 4.11 | 349,906 | - | 4.11 | - | - | - | - | 1,837,193 | 1,837,193 | 5.08 |
| 2036 | 2037 | 36,201 | 0.0% | 1,549,459 | (61,978) | 1,487,480 | 4.11 | 349,906 | - | 4.11 | - | - | - | - | 1,837,387 | 1,837,387 | 5.08 |
| 2037 | 2038 | 36,201 | 0.0% | 1,548,934 | (61,978) | 1,486,955 | 4.11 | 349,906 | - | 4.11 | - | - | - | - | 1,836,862 | 1,836,862 | 5.07 |
| 2038 | 2039 | 36,201 | 0.0% | 1,553,134 | (61,957) | 1,491,176 | 4.12 | 349,906 | - | 4.12 | - | - | - | - | 1,841,083 | 1,841,083 | 5.09 |
| 2039 | 2040 | 36,201 | 0.0% | 1,554,958 | (62,125) | 1,492,833 | 4.12 | 349,906 | - | 4.12 | - | - | - | - | 1,842,739 | 1,842,739 | 5.09 |
| 2040 | 2041 | 36,201 | 0.0% | 1,550,863 | (62,198) | 1,488,665 | 4.11 | 349,906 | - | 4.11 | - | - | - | - | 1,838,571 | 1,838,571 | 5.08 |
| 2041 | 2042 | 36,201 | 0.0% | 1,551,460 | (62,035) | 1,489,426 | 4.11 | 349,906 | - | 4.11 | - | - | - | - | 1,839,332 | 1,839,332 | 5.08 |
| 2042 | 2043 | 36,201 | 0.0% | 1,551,388 | (62,058) | 1,489,330 | 4.11 | 349,906 | - | 4.11 | - | - | - | - | 1,839,236 | 1,839,236 | 5.08 |
| 2043 | 2044 | 36,201 | 0.0% | - | - | - | - | - | - | - | - | - | - | - | 0 | 0 | 0.00 |
| Totals | | | | 34,406,945 | (1,643,664) | 32,763,281 | 97 | 7,293,355 | 1,491,911 | | 6,360,000 | 1,459,265 | (204,921) | 8,007,024 | 49,555,722 | 49,555,722 | |

1 Tax capacity values for taxes payable in 2021 and 2022 are final values. Estimates for future years are based on the percentage changes 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 2021 and 2022 are the actual amounts. Debt excess adjustment for taxes payable in 2023 is based on MDE levy report as of September 22, 2022. Debt excess for future years is estimated at 4% of the prior year's initial debt service levy.

## ESTIMATES PRIOR TO BOND SALE

**Crosby Ironton Schools, No. 182**

**Estimated Tax Rates for Capital and Debt Service Levies**

**Existing Commitments and Proposed New Debt**

**$6,360,000 Bond Issue**
**10 Years, Wrapped Around Existing Debt**
**November 5, 2019 Election**

**Date Prepared:** May 15, 2023