

January 22, 2024

PRE-SALE REPORT FOR

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

**\$41,500,000 General Obligation School Building  
Bonds, Series 2024A**



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**Prepared by:**

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**Advisors:**

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# EXECUTIVE SUMMARY OF PROPOSED DEBT

## Proposed Issue:

\$41,500,000 General Obligation School Building Bonds, Series 2024A

## Purposes:

The proposed issue will finance the acquisition and betterment of school sites and facilities as authorized by the District's voters in a referendum on November 7, 2023.

## 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 property tax levies.

## Term/Call Feature:

The Bonds are being issued for a term of 19 years and 10 months. Principal on the Bonds will be due on February 1 of 2025 through 2044. Interest will be due every six months beginning August 1, 2024.

The Bonds maturing on February 1, 2033 and later will be subject to prepayment at the discretion of the District on February 1, 2032 or any date thereafter.

## State Credit Enhancement:

By resolution the District covenanted and obligated 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 Moody's "Aa1" rating. The District's most recent bond issues were rated Moody's Investors Services. The current rating on those bonds are "Aa1" (credit enhanced rating) and "Aa2" (underlying rating). The District will request a new rating for the Bonds.

## **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. You will solicit competitive bids, which we will compile on your behalf, for the purchase of the Bonds from underwriters and banks.

An allowance for discount bidding will be incorporated 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.

## **Parameters:**

The School Board will consider adoption of a Parameters Resolution on January 22, 2024, which delegates authority to the Superintendent or Director of Finance and Operations and any Board member to accept and approve a bid for the Bonds so long as the True Interest Cost (TIC) does not exceed 4.50%.

We intend to accept bids on February 22, 2024 and present the results to the designated officials for their authorization on behalf of the Board. The Board will adopt a resolution ratifying the award of the sale at the February 26, 2024 Board meeting.

## **Review of Existing Debt:**

We have reviewed all outstanding indebtedness for the District. The District is planning to proceed with a current refunding of the Series 2015A General Obligation School Building Bonds (which are callable beginning February 1, 2024). Other than the Series 2015A bonds, there are no refunding opportunities at this time.

We will continue to monitor the market and the call dates for all of 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.

An Ehlers arbitrage expert will contact the District within 30 days after the sale date to review the District's specific responsibilities for the Bonds. The District is currently receiving arbitrage services from Ehlers in relation to the Bonds.

## **Investment of Bond Proceeds:**

Ehlers can 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:** Moody's Investors Service, Inc.

*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

School Board Approved Resolution Authorizing Sale of the Bonds:	December 11, 2023
Ehlers Presents Pre-Sale Report to School Board; School Board Approves Amending Authorizing Resolution (Including Parameters for Awarding Sale of Bonds):	January 22, 2024
Due Diligence Call to Review Official Statement:	Week of February 5, 2024
Conference with Rating Agency:	Week of February 5, 2024
Distribute Official Statement:	February 8, 2024
Ehlers Receives and Evaluates Proposals for Purchase of Bonds; Designated Officials Award Sale of Bonds if Bid Parameters are Met:	February 22, 2024
School Board Approves Resolution Ratifying Award of Sale:	February 26, 2024
Estimated Closing Date:	March 21, 2024

### Attachments

Estimated Sources and Uses of Funds

Estimated Debt Service Schedule

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

Amending Authorizing Resolution (provided separately)

## EHLERS' CONTACTS

Jodie Zesbaugh, Senior Municipal Advisor	(651) 697-8526
Matthew Hammer, Senior Municipal Advisor	(651) 697-8592
Tess Kuhn, Public Finance Analyst	(651) 697-8518
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## ESTIMATES PRIOR TO BOND SALE

### Buffalo-Hanover-Montrose Schools ISD #877

January 16, 2024

Sources and Uses of Funds

Voter Approved Building Bonds

	Pre-Election Estimates	Pre-Sale Estimates
<b>Bond Amount</b>	<b>\$41,500,000</b>	<b>\$41,500,000</b>
<b>Number of Years</b>	<b>20</b>	<b>20</b>
<b>Closing Date</b>	<b>2/1/2024</b>	<b>3/21/2024</b>
<b>Sources of Funds</b>		
Par Amount	\$41,500,000	\$41,500,000
Investment Earnings <sup>1</sup>	409,200	641,280
Reoffering Premium <sup>2</sup>	0	4,346,739
<b>Total Sources</b>	<b>\$41,909,200</b>	<b>\$46,488,019</b>
<b>Uses of Funds</b>		
Underwriter's Discount <sup>3</sup>	\$415,000	\$415,000
Legal and Fiscal Costs <sup>4</sup>	165,000	164,950
<b>Net Available for Project Costs</b>	<b>41,329,200</b>	<b>45,908,069</b>
<b>Total Uses</b>	<b>\$41,909,200</b>	<b>\$46,488,019</b>
<b>Initial Deposit to Construction Fund</b>	<b>\$40,920,000</b>	<b>\$45,266,789</b>

- 1 Estimated investment earnings are based on an average interest rate of 1.00% and an average life of 17 months (project duration of 34 months).
- 2 The underwriter of 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 will be 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. 877 (Buffalo, Hanover, Montrose), MN

\$41,500,000 General Obligation School Building Bonds, Series 2024A

Dated: March 21, 2024

## Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
03/21/2024	-	-	-	-	-
08/01/2024	-	-	722,312.50	722,312.50	-
02/01/2025	940,000.00	5.000%	1,000,125.00	1,940,125.00	2,662,437.50
08/01/2025	-	-	976,625.00	976,625.00	-
02/01/2026	1,095,000.00	5.000%	976,625.00	2,071,625.00	3,048,250.00
08/01/2026	-	-	949,250.00	949,250.00	-
02/01/2027	1,025,000.00	5.000%	949,250.00	1,974,250.00	2,923,500.00
08/01/2027	-	-	923,625.00	923,625.00	-
02/01/2028	1,195,000.00	5.000%	923,625.00	2,118,625.00	3,042,250.00
08/01/2028	-	-	893,750.00	893,750.00	-
02/01/2029	1,255,000.00	5.000%	893,750.00	2,148,750.00	3,042,500.00
08/01/2029	-	-	862,375.00	862,375.00	-
02/01/2030	1,680,000.00	5.000%	862,375.00	2,542,375.00	3,404,750.00
08/01/2030	-	-	820,375.00	820,375.00	-
02/01/2031	7,405,000.00	5.000%	820,375.00	8,225,375.00	9,045,750.00
08/01/2031	-	-	635,250.00	635,250.00	-
02/01/2032	7,775,000.00	5.000%	635,250.00	8,410,250.00	9,045,500.00
08/01/2032	-	-	440,875.00	440,875.00	-
02/01/2033	1,450,000.00	5.000%	440,875.00	1,890,875.00	2,331,750.00
08/01/2033	-	-	404,625.00	404,625.00	-
02/01/2034	1,250,000.00	5.000%	404,625.00	1,654,625.00	2,059,250.00
08/01/2034	-	-	373,375.00	373,375.00	-
02/01/2035	1,315,000.00	5.000%	373,375.00	1,688,375.00	2,061,750.00
08/01/2035	-	-	340,500.00	340,500.00	-
02/01/2036	1,380,000.00	5.000%	340,500.00	1,720,500.00	2,061,000.00
08/01/2036	-	-	306,000.00	306,000.00	-
02/01/2037	1,455,000.00	5.000%	306,000.00	1,761,000.00	2,067,000.00
08/01/2037	-	-	269,625.00	269,625.00	-
02/01/2038	1,525,000.00	5.000%	269,625.00	1,794,625.00	2,064,250.00
08/01/2038	-	-	231,500.00	231,500.00	-
02/01/2039	1,600,000.00	5.000%	231,500.00	1,831,500.00	2,063,000.00
08/01/2039	-	-	191,500.00	191,500.00	-
02/01/2040	1,680,000.00	5.000%	191,500.00	1,871,500.00	2,063,000.00
08/01/2040	-	-	149,500.00	149,500.00	-
02/01/2041	1,760,000.00	4.000%	149,500.00	1,909,500.00	2,059,000.00
08/01/2041	-	-	114,300.00	114,300.00	-
02/01/2042	1,830,000.00	4.000%	114,300.00	1,944,300.00	2,058,600.00
08/01/2042	-	-	77,700.00	77,700.00	-
02/01/2043	1,905,000.00	4.000%	77,700.00	1,982,700.00	2,060,400.00
08/01/2043	-	-	39,600.00	39,600.00	-
02/01/2044	1,980,000.00	4.000%	39,600.00	2,019,600.00	2,059,200.00
<b>Total</b>	<b>\$41,500,000.00</b>	<b>-</b>	<b>\$19,723,137.50</b>	<b>\$61,223,137.50</b>	<b>-</b>

## Yield Statistics

Bond Year Dollars	\$421,986.11
Average Life	10.168 Years
Average Coupon	4.6738831%
Net Interest Cost (NIC)	3.7421608%
True Interest Cost (TIC)	3.5432288%
Bond Yield for Arbitrage Purposes	3.2456163%
All Inclusive Cost (AIC)	3.5893088%

## IRS Form 8038

Net Interest Cost	3.3443834%
Weighted Average Maturity	10.028 Years

2024A PRESALE | SINGLE PURPOSE | 1/16/2024 | 3:56 PM





**ESTIMATES PRIOR TO BOND SALE**

**Buffalo-Hanover-Montrose Schools ISD No. 877**  
**Analysis of Possible Structure for Capital and Debt Levies**

<b>\$41,500,000 Bond Issue</b> <b>20 Tax Levies</b> <b>Wrapped Around Existing Debt</b>
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Type of Bond	Principal Amount	Dated Date	Interest Rate
Voter-Approved Building	\$41,500,000	03/21/24	3.54%

January 16, 2024

Levy Payable Year	Fiscal Year	Tax Capacity Value <sup>1</sup>		Existing Commitments						Other Levies		Proposed New School Building Bonds				Combined Totals				
		(\$000s)	% Chg	Building Bonds <sup>2</sup>	Alt Fac/Fac Maint H&S Bonds <sup>2</sup>	OPEB Bonds <sup>2</sup>	Est. Debt Excess <sup>3</sup>	Est. Refunding Savings <sup>4</sup>	Net Levy	Tax Rate	Lease Levy <sup>5</sup>	Existing Tax Rate	Principal	Interest	Add'l. Debt Excess <sup>3</sup>	Net Levy	Initial Debt Levy	State Aid	Net Levy	Tax Rate
2022	2023	43,730	4.7%	5,748,673	215,355	2,044,256	(116,241)	-	7,892,042	18.05	267,425	18.66	-	-	-	-	8,159,467	-	8,159,467	18.66
2023	2024	52,506	20.1%	5,348,619	2,265,165	-	(201,178)	-	7,412,606	14.12	285,705	14.66	-	-	-	-	7,698,312	-	7,698,312	14.66
2024	2025	62,212	18.5%	6,291,519	-	-	(197,878)	-	6,093,641	9.79	230,075	10.16	940,000	1,722,438	-	2,798,250 <sup>6</sup>	9,121,966	-	9,121,966	14.66
2025	2026	62,834	1.0%	6,311,416	-	-	(380,437)	-	5,930,979	9.44	79,882	9.57	1,095,000	1,953,250	-	3,200,663	9,211,524	-	9,211,524	14.66
2026	2027	62,834	0.0%	6,315,459	-	-	(252,457)	-	6,063,002	9.65	79,882	9.78	1,025,000	1,898,500	-	3,069,675	9,212,559	-	9,212,559	14.66
2027	2028	62,834	0.0%	6,312,794	-	-	(252,618)	-	6,060,176	9.64	79,882	9.77	1,195,000	1,847,250	(122,787)	3,071,576	9,211,633	-	9,211,633	14.66
2028	2029	62,834	0.0%	6,310,658	-	-	(252,512)	-	6,058,146	9.64	79,882	9.77	1,255,000	1,787,500	(122,863)	3,071,762	9,209,790	-	9,209,790	14.66
2029	2030	62,834	0.0%	6,315,960	-	-	(252,426)	(384,510)	5,679,024	9.04	79,882	9.17	1,680,000	1,724,750	(122,870)	3,452,117	9,211,023	-	9,211,023	14.66
2030	2031	62,834	0.0%	-	-	-	-	-	-	-	79,882	0.13	7,405,000	1,640,750	(365,246)	9,132,792	9,212,674	-	9,212,674	14.66
2031	2032	62,834	0.0%	-	-	-	-	-	-	-	79,882	0.13	7,775,000	1,270,500	(365,312)	9,132,463	9,212,345	-	9,212,345	14.66
2032	2033	62,834	0.0%	-	-	-	-	-	-	-	-	-	1,450,000	881,750	(365,299)	2,083,039	2,083,039	-	2,083,039	3.32
2033	2034	62,834	0.0%	-	-	-	-	-	-	-	-	-	1,250,000	809,250	(83,322)	2,078,891	2,078,891	-	2,078,891	3.31
2034	2035	62,834	0.0%	-	-	-	-	-	-	-	-	-	1,315,000	746,750	(83,156)	2,081,682	2,081,682	-	2,081,682	3.31
2035	2036	62,834	0.0%	-	-	-	-	-	-	-	-	-	1,380,000	681,000	(83,267)	2,080,783	2,080,783	-	2,080,783	3.31
2036	2037	62,834	0.0%	-	-	-	-	-	-	-	-	-	1,455,000	612,000	(83,231)	2,087,119	2,087,119	-	2,087,119	3.32
2037	2038	62,834	0.0%	-	-	-	-	-	-	-	-	-	1,525,000	539,250	(83,485)	2,083,978	2,083,978	-	2,083,978	3.32
2038	2039	62,834	0.0%	-	-	-	-	-	-	-	-	-	1,600,000	463,000	(83,359)	2,082,791	2,082,791	-	2,082,791	3.31
2039	2040	62,834	0.0%	-	-	-	-	-	-	-	-	-	1,680,000	383,000	(83,312)	2,082,838	2,082,838	-	2,082,838	3.31
2040	2041	62,834	0.0%	-	-	-	-	-	-	-	-	-	1,760,000	299,000	(83,314)	2,078,636	2,078,636	-	2,078,636	3.31
2041	2042	62,834	0.0%	-	-	-	-	-	-	-	-	-	1,830,000	228,600	(83,145)	2,078,385	2,078,385	-	2,078,385	3.31
2042	2043	62,834	0.0%	-	-	-	-	-	-	-	-	-	1,905,000	155,400	(83,135)	2,080,285	2,080,285	-	2,080,285	3.31
2043	2044	62,834	0.0%	-	-	-	-	-	-	-	-	-	1,980,000	79,200	(83,211)	2,078,949	2,078,949	-	2,078,949	3.31
2044	2045	62,834	0.0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2045	2046	62,834	0.0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Totals</b>				<b>48,955,097</b>	<b>2,480,520</b>	<b>2,044,256</b>	<b>(1,905,747)</b>	<b>(384,510)</b>	<b>51,189,616</b>		<b>1,342,379</b>		<b>41,500,000</b>	<b>19,723,138</b>	<b>(2,380,313)</b>	<b>61,906,672</b>	<b>114,438,667</b>	<b>-</b>	<b>114,438,667</b>	

1 Tax capacity value for taxes payable in 2022 and 2023 is the actual value. 2024 is an estimate based on preliminary data from Wright County. 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 adjustments for taxes payable in 2022 through 2024 are the actual amounts. Debt Excess for taxes payable 2025 is an estimate using June 30, 2023 fund balance. Debt excess for future years is estimated at 4% of the prior year's initial debt service levy.  
4 Represents debt service levy savings from current refunding of the District's 2015A School Building Bonds.  
5 Lease levy amounts for future years are based on the best available estimates of future payments for all current and planned future capital leases.  
6 The District's levy for taxes payable in 2024 was certified in December of 2023 and included a debt service levy of \$2,798,250 (based on a preliminary estimate of \$2,665,000 for principal and interest payments due in fiscal year 2024-25 and the requirement to levy at 105% of that amount).

## ESTIMATES PRIOR TO BOND SALE

**Buffalo-Hanover-Montrose Schools ISD No. 877**  
**Estimated Tax Rates for Capital and Debt Service Levies**  
**Existing Commitments and Proposed New Debt**

**\$41,500,000 Bond Issue**  
**20 Tax Levies**  
**Wrapped Around Existing Debt**

Date Prepared: **January 16, 2024**

