

January 22, 2024

PRE-SALE REPORT FOR

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

\$30,415,000 General Obligation  
School Building Refunding Bonds, Series 2024B



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Prepared by:

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# EXECUTIVE SUMMARY OF PROPOSED DEBT

## Proposed Issue:

\$30,415,000 General Obligation School Building Refunding Bonds, Series 2024B

The resolution prepared for the School Board's consideration at their meeting on January 22, 2024 includes the issuance of approximately \$32,800,000 in bonds; \$30,415,000 is our current estimate of the bond amount necessary based on that authorization and the expected premium pricing structure explained in more detail on Page 2.

## Purpose:

The proposed issue will finance a current refunding of the 2025 through 2030 maturities of the \$ 32,620,000 General Obligation School Building Bonds, Series 2015A. The purpose of the issue is to reduce future debt service payments and property tax levies.

The callable maturities for the existing 2015A bonds have interest rates of 2.75% to 3.00% (see Page 7). Based on current market conditions, we estimate that the new refunding bonds would have a True Interest Cost of 2.57% (see Page 8) and also expect that the underwriter of the bonds will pay a premium (a price in excess of the par amount of the bonds) to purchase the bonds (see Page 6).

The net effect of the premium paid by the underwriter and the new interest rates would be a reduction in future debt service payments by an estimated \$381,323 (see Page 10). Actual results will be determined based on market conditions on the day of sale.

The refunding is considered to be a Current Refunding as the bonds being refunded are callable beginning February 1, 2024.

## Authority:

The Bonds are being issued pursuant to Minnesota Statutes, Chapters 475 and Section 475.67. The Bonds will be general obligations of the District for which its full faith, credit and taxing powers are pledged.

Debt service on 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 5 years and 10 months, matching the maturity schedule of the refunded bonds. Principal on the Bonds will be due on February 1 of 2025 through 2030. Interest will be due every six months beginning August 1, 2024.

The Bonds are being offered without option of prior redemption.

## **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 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 will be used to reduce the principal amount of 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 minimum estimated future value savings is \$240,000.

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.

## **Other Considerations:**

The Bonds are being issued to finance a current refunding of the 2015A bonds, which are “callable” beginning on February 1, 2024. Because the new Bonds will not be callable, there will not be an opportunity to refund them again in the future. This refunding is being undertaken based in part on an assumption that market conditions warrant the refinancing at this time.

## **Review of Existing Debt:**

We have reviewed all outstanding indebtedness for the District and find that, other than the 2015A bonds, there are no other 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.

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:

Proceeds from the new Bonds will be available for investment by the District from the closing date (March 21, 2024) until the redemption date (April 25, 2024) of the 2015A bonds. These estimates include the assumption that the proceeds of the refunding bonds will be deposited in an interest earning escrow account which will be used to redeem the existing bonds on the call date. We are estimating investment earnings to be \$173,241 (see Page 9).

## 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.

**Escrow Agent:** Zion’s Bancorporation, National Association

*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 (Including Parameters for Awarding Sale of the 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
Redemption Date for the 2015A Bonds:	April 25, 2024

### Attachments

- Estimated Sources and Uses of Funds
- Debt Service Schedule for 2015A Bonds
- Estimated Debt Service Schedule for Proposed Refunding Bonds
- Estimated Current Refunding Escrow
- Estimated Debt Service Comparison/Refunding Analysis
- Resolution Authorizing Ehlers to Proceed with Bond Sale/Credit Enhancement Resolution (provided separately)

## EHLERS' CONTACTS

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

\$30,415,000 General Obligation School Building Refunding Bonds, Series 2024B

Dated: March 21, 2024 - Proposed Current Refunding of

\$32,620,000 G.O. School Building Bonds, Series 2015A

## Sources & Uses

Dated 03/21/2024 | Delivered 03/21/2024

### Sources Of Funds

Par Amount of Bonds	\$30,415,000.00
Reoffering Premium	2,554,922.25
<b>Total Sources</b>	<b>\$32,969,922.25</b>

### Uses Of Funds

Total Underwriter's Discount (0.500%)	152,075.00
Costs of Issuance	146,000.00
Deposit to Current Refunding Fund	32,670,041.20
Rounding Amount	1,806.05
<b>Total Uses</b>	<b>\$32,969,922.25</b>

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

\$32,620,000 G.O. School Building Bonds, Series 2015A

## Prior Original Debt Service

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
02/04/2015	-	-	-	-	-
08/01/2015	-	-	470,486.90	470,486.90	-
02/01/2016	-	-	478,461.25	478,461.25	948,948.15
08/01/2016	-	-	478,461.25	478,461.25	-
02/01/2017	-	-	478,461.25	478,461.25	956,922.50
08/01/2017	-	-	478,461.25	478,461.25	-
02/01/2018	-	-	478,461.25	478,461.25	956,922.50
08/01/2018	-	-	478,461.25	478,461.25	-
02/01/2019	-	-	478,461.25	478,461.25	956,922.50
08/01/2019	-	-	478,461.25	478,461.25	-
02/01/2020	-	-	478,461.25	478,461.25	956,922.50
08/01/2020	-	-	478,461.25	478,461.25	-
02/01/2021	-	-	478,461.25	478,461.25	956,922.50
08/01/2021	-	-	478,461.25	478,461.25	-
02/01/2022	-	-	478,461.25	478,461.25	956,922.50
08/01/2022	-	-	478,461.25	478,461.25	-
02/01/2023	-	-	478,461.25	478,461.25	956,922.50
08/01/2023	-	-	478,461.25	478,461.25	-
02/01/2024	-	-	478,461.25	478,461.25	956,922.50
08/01/2024	-	-	478,461.25	478,461.25	-
02/01/2025	5,035,000.00	3.000%	478,461.25	5,513,461.25	5,991,922.50
08/01/2025	-	-	402,936.25	402,936.25	-
02/01/2026	5,205,000.00	3.000%	402,936.25	5,607,936.25	6,010,872.50
08/01/2026	-	-	324,861.25	324,861.25	-
02/01/2027	5,365,000.00	2.750%	324,861.25	5,689,861.25	6,014,722.50
08/01/2027	-	-	251,092.50	251,092.50	-
02/01/2028	5,510,000.00	2.850%	251,092.50	5,761,092.50	6,012,185.00
08/01/2028	-	-	172,575.00	172,575.00	-
02/01/2029	5,665,000.00	3.000%	172,575.00	5,837,575.00	6,010,150.00
08/01/2029	-	-	87,600.00	87,600.00	-
02/01/2030	5,840,000.00	3.000%	87,600.00	5,927,600.00	6,015,200.00
<b>Total</b>	<b>\$32,620,000.00</b>	<b>-</b>	<b>\$12,039,380.65</b>	<b>\$44,659,380.65</b>	<b>-</b>

## Yield Statistics

Base date for Avg. Life & Avg. Coupon Calculation	3/21/2024
Average Life	3.446 Years
Average Coupon	2.9374754%
Weighted Average Maturity (Par Basis)	3.446 Years
Weighted Average Maturity (Original Price Basis)	3.412 Years

## Refunding Bond Information

Refunding Dated Date	3/21/2024
Refunding Delivery Date	3/21/2024



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

\$30,415,000 General Obligation School Building Refunding Bonds, Series 2024B

Dated: March 21, 2024 - Proposed Current Refunding of

\$32,620,000 G.O. School Building Bonds, Series 2015A

## Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
03/21/2024	-	-	-	-	-
08/01/2024	-	-	549,159.72	549,159.72	-
02/01/2025	4,680,000.00	5.000%	760,375.00	5,440,375.00	5,989,534.72
08/01/2025	-	-	643,375.00	643,375.00	-
02/01/2026	4,725,000.00	5.000%	643,375.00	5,368,375.00	6,011,750.00
08/01/2026	-	-	525,250.00	525,250.00	-
02/01/2027	4,960,000.00	5.000%	525,250.00	5,485,250.00	6,010,500.00
08/01/2027	-	-	401,250.00	401,250.00	-
02/01/2028	5,205,000.00	5.000%	401,250.00	5,606,250.00	6,007,500.00
08/01/2028	-	-	271,125.00	271,125.00	-
02/01/2029	5,465,000.00	5.000%	271,125.00	5,736,125.00	6,007,250.00
08/01/2029	-	-	134,500.00	134,500.00	-
02/01/2030	5,380,000.00	5.000%	134,500.00	5,514,500.00	5,649,000.00
<b>Total</b>	<b>\$30,415,000.00</b>	<b>-</b>	<b>\$5,260,534.72</b>	<b>\$35,675,534.72</b>	<b>-</b>

## Yield Statistics

Bond Year Dollars	\$105,210.69
Average Life	3.459 Years
Average Coupon	5.00000000%
Net Interest Cost (NIC)	2.7161568%
True Interest Cost (TIC)	2.5743971%
Bond Yield for Arbitrage Purposes	2.4294074%
All Inclusive Cost (AIC)	2.7145062%

## IRS Form 8038

Net Interest Cost	2.3263471%
Weighted Average Maturity	3.528 Years

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

\$30,415,000 General Obligation School Building Refunding Bonds, Series 2024B

Dated: March 21, 2024 - Proposed Current Refunding of  
 \$32,620,000 G.O. School Building Bonds, Series 2015A

## Current Refunding Escrow

Date	Principal	Rate	Interest	Receipts	Disbursements	Cash Balance
03/21/2024	-	-	-	0.20	-	0.20
04/25/2024	32,670,041.00	5.530%	173,240.72	32,843,281.72	32,843,281.92	-
<b>Total</b>	<b>\$32,670,041.00</b>	-	<b>\$173,240.72</b>	<b>\$32,843,281.92</b>	<b>\$32,843,281.92</b>	-

## Investment Parameters

Investment Model [PV, GIC, or Securities]	Securities
Default investment yield target	Unrestricted
Cash Deposit	0.20
Cost of Investments Purchased with Bond Proceeds	32,670,041.00
Total Cost of Investments	\$32,670,041.20
Target Cost of Investments at bond yield	\$32,768,464.33
Actual positive or (negative) arbitrage	98,423.13
Yield to Receipt	5.6789634%
Yield for Arbitrage Purposes	2.4294074%
State and Local Government Series (SLGS) rates for	1/09/2024

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

\$30,415,000 General Obligation School Building Refunding Bonds, Series 2024B

Dated: March 21, 2024 - Proposed Current Refunding of

\$32,620,000 G.O. School Building Bonds, Series 2015A

## Debt Service Comparison

Date	Total P+I	Net New D/S	Old Net D/S	Savings
02/01/2025	5,989,534.72	5,987,728.67	5,991,922.50	4,193.83
02/01/2026	6,011,750.00	6,011,750.00	6,010,872.50	(877.50)
02/01/2027	6,010,500.00	6,010,500.00	6,014,722.50	4,222.50
02/01/2028	6,007,500.00	6,007,500.00	6,012,185.00	4,685.00
02/01/2029	6,007,250.00	6,007,250.00	6,010,150.00	2,900.00
02/01/2030	5,649,000.00	5,649,000.00	6,015,200.00	366,200.00
<b>Total</b>	<b>\$35,675,534.72</b>	<b>\$35,673,728.67</b>	<b>\$36,055,052.50</b>	<b>\$381,323.83</b>

## PV Analysis Summary (Net to Net)

Gross PV Debt Service Savings.....	321,032.95
Net PV Cashflow Savings @ 2.429%(Bond Yield).....	321,032.95
Contingency or Rounding Amount.....	1,806.05
Net Present Value Benefit	\$322,839.00
Net PV Benefit / \$33,290,955.20 PV Refunded Debt Service	0.970%
Net PV Benefit / \$32,620,000 Refunded Principal...	0.990%
Net PV Benefit / \$30,415,000 Refunding Principal..	1.061%

## Refunding Bond Information

Refunding Dated Date	3/21/2024
Refunding Delivery Date	3/21/2024