



From Soup to Nuts! Debt Planning & Administration

Shelby McQuay, Aaron Bushberger & Ryan Miles – Ehlers
April 1, 2022

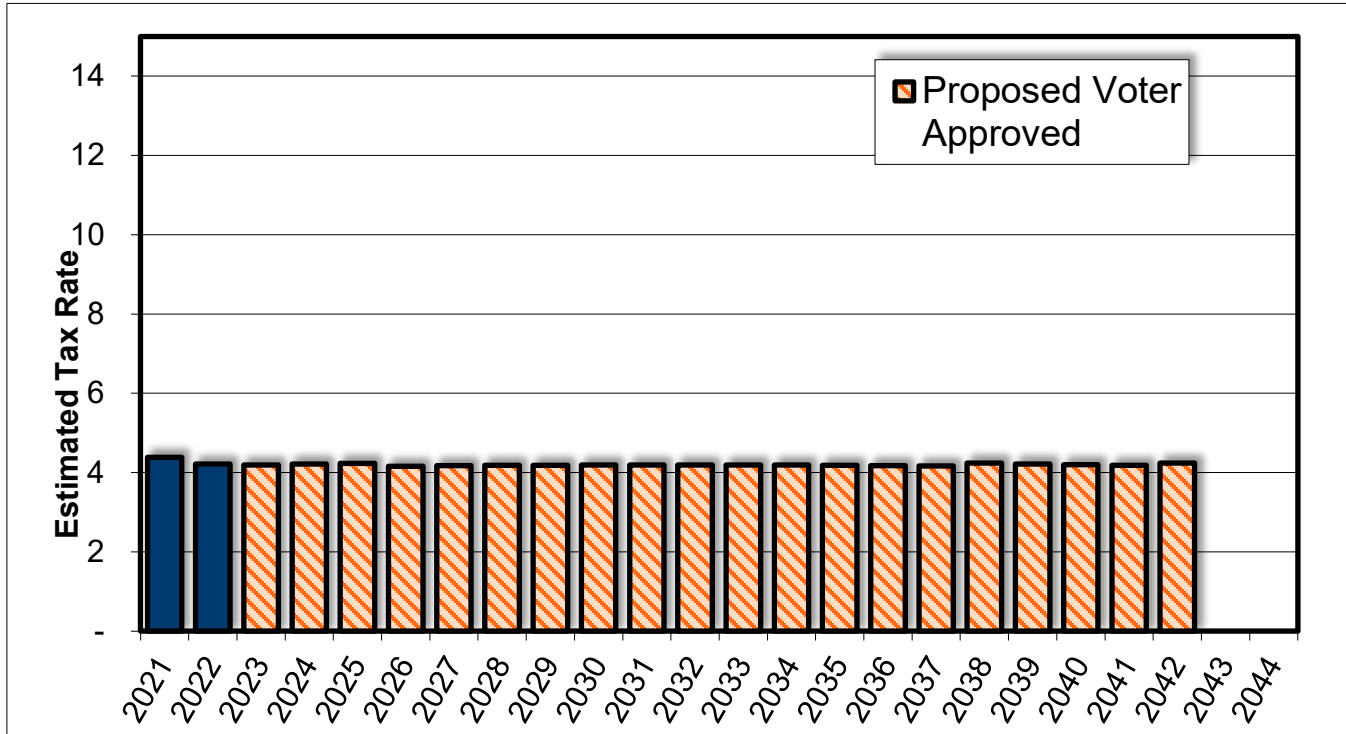




**Best
Practices in
Issuing Debt**

Planning

Planning



Planning

- Election dates
- Timeline
- Current property tax levy realities
 - ✓ Operating
 - ✓ Debt
 - ✓ Property values

The diagram consists of two overlapping circles. The larger circle on the left has a dashed border and contains the text 'Best Practices in Issuing Debt'. The smaller circle on the right has a solid border and contains the text 'School Board's Role'. The two circles overlap on their right and left sides respectively.

Best Practices in Issuing Debt

School Board's Role

Combined Polling Place Resolution

- MSBA model resolution
- Annual requirement
 - ✓ Adopted year prior to election

Fund Balance Policy

- MSBA model policy (#714)
- Identify fund balance % that meets district, community and School Board needs
- Different fund balance thresholds
- What happens if district is below policy?

Post-Issuance Debt Compliance Policy

- Not an MSBA model policy
- Identifies responsibilities and responsible individuals
- Ehlers has created a policy template
 - ✓ Provides updates when IRS regulations change

Post-Issuance Compliance Policy

Form **8038-G**
(Rev. October 2021)
Department of the Treasury
Internal Revenue Service

Information Return for Tax-Exempt Governmental Bonds

▶ Under Internal Revenue Code section 149(e)
▶ See separate instructions.

Caution: *If the issue price is under \$100,000, use Form 8038-GC.*
▶ Go to www.irs.gov/F8038G for instructions and the latest information.

OMB No. 1545-0047

- 43** If the issuer has established written procedures to ensure that all nonqualified bonds of this issue are remediated according to the requirements under the Code and Regulations (see instructions), check box ▶
- 44** **If the issuer has established written procedures to monitor the requirements of section 148, check box** ▶
- 45a** If some portion of the proceeds was used to reimburse expenditures, check here ▶ and enter the amount of reimbursement ▶ _____
- b** Enter the date the official intent was adopted ▶ (MM/DD/YYYY) _____

Investment Policy: Scope & Objectives

- Funds to govern:
 - ✓ General Funds
 - ✓ Special Projects/Capital Projects Funds
 - ✓ Debt Service Funds
 - ✓ Others as defined by district policy



Investment Policy: Additional Components

- Roles & Responsibilities
- Authorized Vehicles
 - ✓ MN 118A
- Diversification Requirements
- Custody & Internal Controls
- Authorized Institutions

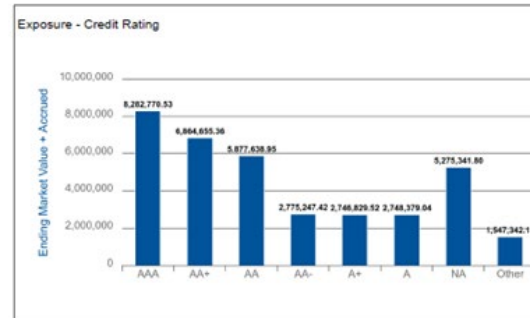
Investment Policy: Risk & Reporting

- Frequency
- Content
- Recipients
- Communication



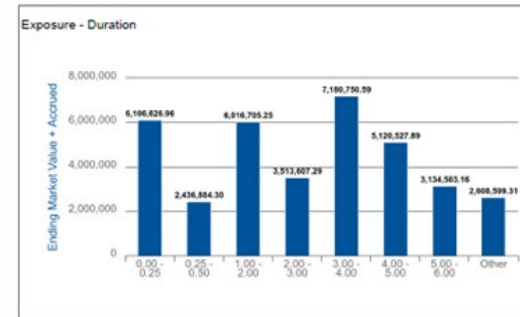
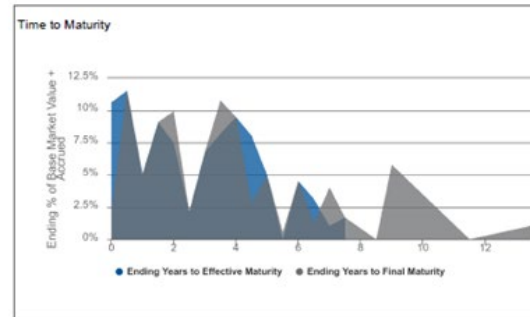
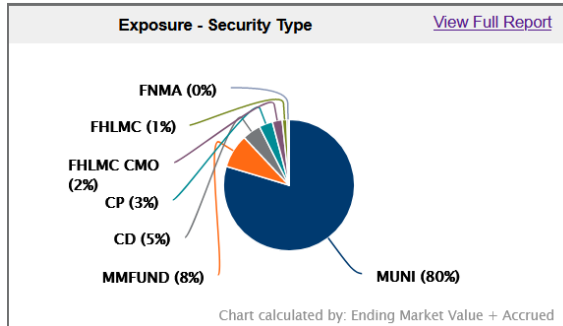
Risk Summary - Fixed Income
06/01/2020 - 06/21/2020

Sales Demo Account 1 (161815)
Dated: 06/22/2020



Credit Duration Heat Map

Rating	0-1	1-2	2-3	3-4	4-6	6-7	7-10	10-15	15-30
AAA	11.258%	3.727%	1.363%	3.744%	0.000%	2.840%	0.000%	0.000%	0.000%
AA	11.273%	5.037%	1.652%	6.953%	11.320%	6.820%	0.000%	0.000%	0.000%
A	1.324%	1.440%	0.669%	0.789%	1.665%	0.000%	0.000%	0.000%	0.000%
BBB	0.000%	2.844%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
BB	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
B	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
CCC	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
CC	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
C	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
NA	6.632%	2.412%	2.117%	4.416%	1.191%	0.700%	0.000%	0.000%	0.000%



Investment Policy: The Bottom Line

A photograph of a business meeting around a wooden table. A laptop in the center shows a bar chart and data tables. A person's hand with a pen points at the screen. Another person's hands are gesturing in the foreground. Papers with charts and a coffee cup are also on the table.

- Tailor to YOUR circumstances
- Review regularly for compliance & best practices



Best Practices in Issuing Debt

Budget Management

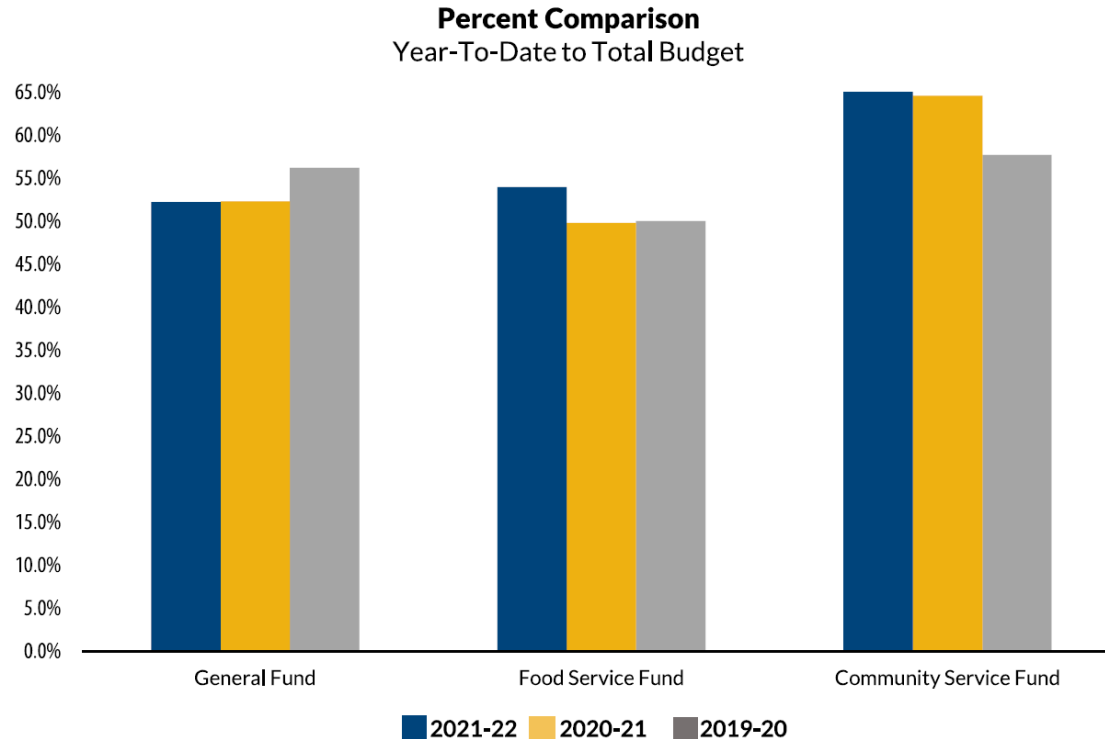
Regular Financial Reporting to School Board

- Standard policies:
 - ✓ 701 – Establishment & Adoption of School District Budget
 - ✓ 701.1 – Modification of School District Budget
- MN Statutes:
 - ✓ 123B.75 – 123B.77

Regular Financial Reporting to School Board

Fund	2021-22		Year-to-Date % of Budget		
	Budget	Actuals	2021-22	2020-21	2019-20
General Fund					
Property Taxes	\$ 66,623,535	\$ 67,331,129	101.1%	100.2%	99.5%
State Aids	107,455,534	28,252,131	26.3%	26.5%	29.5%
Federal Aids	10,301,059	1,441,827	14.0%	41.4%	26.9%
Miscellaneous Local Revenue	5,791,303	2,253,733	38.9%	31.7%	81.3%
Other Financing Sources	-	-	-	100.0%	-
Total General Fund Revenue	\$ 190,171,431	\$ 99,278,820	52.2%	52.3%	56.2%
Food Service Fund	7,489,466	4,039,413	53.9%	49.8%	50.0%
Community Service Fund	12,196,295	8,350,700	68.5%	64.6%	57.7%
Debt Service Fund	14,896,155	15,250,545 ¹	102.4%	100.3%	99.7%
Construction Fund	-	636,448	-	-	-
Total Revenue All Funds	\$ 224,753,347	\$ 127,555,926	56.8%	58.8%	64.5%

Regular Financial Reporting to School Board



Regular Financial Reporting to School Board

General Fund: Year to date salary expenditures, excluding federal funds, were approximately 1.2% higher than the previous fiscal year due to staffing variances caused by pandemic uncertainty and its impact on enrollment, and renewed collectively bargaining agreements. The salary budget was revised by \$2,628,774, exclusive of related benefits, to account for this variance. The overall General Fund budget was revised from \$183,577,267 to \$192,253,787, which includes \$6,205,287 of federal pandemic relief funds. The entire amount of \$6,205,287 may not be expended in the current year as the many of the funds can be used through fiscal year 2023 or 2024.

Food Service Fund: Salary and benefit expenditures of \$1,771,769 represent a \$225,851 increase over the prior year. The increase is primarily attributed to increases to the collective bargaining agreement as well as the return to in-person instruction, necessitating the hiring of a portion of the positions that were left vacant during the distance learning period. Food and milk expenditures are also higher by \$770,271 during the current fiscal year due to the increase to the number of meals served after the return to in-person instruction as well as pandemic related inflation. The federal Supply Chain Assistance funds, which will be received in subsequent months, will mitigate the impact of increased food costs.

Multi-Year Budget Planning

- Utilize data
 - ✓ Past, current and projections
- Assumptions
 - ✓ Enrollment
 - ✓ State funding
 - ✓ Expenditure changes

Multi-Year Budget Planning

Definitions	Actual 2020-21	Budget 2021-22	Projected 2022-23	% Chg	Projected 2023-24	% Chg	Projected 2024-25	% Chg	Projected 2025-26	% Chg	Projected 2026-27	% Chg
Revenue	\$16,077,371	\$16,854,913	\$16,968,244	0.7%	\$17,229,724	1.5%	\$17,398,534	1.0%	\$17,478,450	0.5%	\$17,421,118	-0.3%
Expenditures	\$16,048,413	\$17,637,155	\$17,900,174	1.5%	\$18,309,584	2.2%	\$18,709,128	2.2%	\$19,119,496	2.2%	\$19,537,889	2.2%
Revenue Over (Under) Expenditures	\$28,958	(\$782,242)	(\$931,930)		(\$1,079,860)		(\$1,310,594)		(\$1,641,046)		(\$2,116,771)	
Fund Balance	\$4,481,012	\$3,698,770	\$2,766,840		\$1,686,979		\$376,385		(\$1,264,661)		(\$3,381,432)	
Assigned Fund Balance	\$749,431	\$749,431	\$749,431		\$749,431		\$749,431		\$749,431		\$749,431	
Unassigned Fund Balance	\$3,731,581	\$2,949,339	\$2,017,409		\$937,549		(\$373,046)		(\$2,014,092)		(\$4,130,862)	
Percent Unassigned	23.3%	16.7%	11.3%		5.1%		-2.0%		-10.5%		-21.1%	
Unassigned Target Fd Bal. Percent	25.0%	25.0%	25.0%		25.0%		25.0%		25.0%		25.0%	
Minimum Unassigned Fund Balance*	\$4,012,103	\$4,409,289	\$4,475,043		\$4,577,396		\$4,677,282		\$4,779,874		\$4,884,472	
Fund Balance Over (Under) Target	(\$280,522)	(\$1,459,950)	(\$2,457,634)		(\$3,639,847)		(\$5,050,328)		(\$6,793,966)		(\$9,015,335)	

Multi-Year Budget Planning

Adjusted Average Daily Membership				Projection Assumption: Five (5) year weighted average			
Grade	Actual 2020-21	Budget 2021-22	Projected 2022-23	Projected 2023-24	Projected 2024-25	Projected 2025-26	Projected 2026-27
PK - 5	452.2	445.0	450.6	454.2	460.0	467.0	458.1
6-8	355.8	358.0	335.0	293.5	289.6	288.4	299.8
9-12	469.4	455.0	470.6	506.0	499.0	482.3	460.6
Total	<u>1,277.3</u>	<u>1,258.0</u>	<u>1,256.2</u>	<u>1,253.7</u>	<u>1,248.6</u>	<u>1,237.7</u>	<u>1,218.4</u>
Number Change		(19.3)	(1.8)	(2.5)	(5.1)	(10.9)	(19.3)
Percent Change		-1.5%	-0.1%	-0.2%	-0.4%	-0.9%	-1.6%
FTE Classroom Teachers		90.0	90.0	90.0	90.0	90.0	90.0
Change - Classroom Teachers		n/a	0.0	0.0	0.0	0.0	0.0
Pupil/Staff Ratio		13.98	13.98	13.96	13.93	13.87	13.75

Classroom Teacher Staffing (Includes regular classroom, special education, music, art and PE teachers)

Multi-Year Budget Planning

REVENUE:							
Assumption #2: Basic funding is directly related to changes in pupil units and legislative changes in the basic formula. Trends are indicated below.							
	Actual	Budget	Projected	Projected	Projected	Projected	Projected
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
State Determined Basic Allowance							
Per Adjusted ADM	\$6,567	\$6,728	\$6,863	\$6,863	\$6,863	\$6,863	\$6,863
Increase in Formula		\$161	\$135	\$0	\$0	\$0	\$0
Percent Change		2.45%	2.01%	0.00%	0.00%	0.00%	0.00%
	Actual	Budget	Projected	Projected	Projected	Projected	Projected
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Adjusted Pupil Units							
Pre-K thru Grade 6 (1.0)	558.5	523.0	525.3	531.1	534.6	540.5	547.8
Half Day Kdgt (.55)	-	-	-	-	-	-	-
Grades 7-12 (1.2)	862.6	882.0	877.1	867.1	856.7	836.6	804.7
Total Pupil Units	1,421.1	1,405.0	1,402.4	1,398.2	1,391.4	1,377.1	1,352.5
Number Change		(16.1)	(2.6)	(4.2)	(6.9)	(14.2)	(24.6)
Percent Change		-1.1%	-0.2%	-0.3%	-0.5%	-1.0%	-1.8%
General Education Basic Allowance	\$9,469,584	\$9,616,359	\$9,624,534	\$9,596,052	\$9,548,904	\$9,451,243	\$9,282,345
Declining Enrollment	\$128,662	\$30,349	\$5,035	\$7,975	\$13,202	\$27,345	\$0
Total Basic Revenue	\$9,598,247	\$9,646,708	\$9,629,569	\$9,604,027	\$9,562,105	\$9,478,588	\$9,282,345
Percent Change		0.50%	-0.18%	-0.27%	-0.44%	-0.87%	-2.07%

Multi-Year Budget Planning

	Budget 2021-22	Projected 2022-23	Projected 2023-24	Projected 2024-25	Projected 2025-26	Projected 2026-27
Salaries & Wages	9.33%	3.80%	3.75%	3.70%	3.65%	3.61%
Benefits	10.68%	-0.41%	4.48%	3.25%	3.24%	3.23%
Total Personnel Costs	9.64%	2.83%	3.91%	3.60%	3.56%	3.52%
Purchased Serv.	15.88%	2.38%	2.38%	2.39%	2.39%	2.40%
Supplies	27.84%	1.00%	1.00%	1.00%	1.00%	1.00%
Other Expenses	-48.40%	0.00%	0.00%	0.00%	1.00%	1.00%
Transpo Included Above	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Expenses	9.90%	2.55%	3.34%	3.12%	3.12%	3.10%

10-Year LTFM Plan

- Due by July 31 each year
 - ✓ MDE Ten-Year Expenditure Plan Application spreadsheet
 - ✓ MDE Ten-Year Revenue Projection spreadsheet
 - ✓ MDE Statement of Assurances
 - ✓ Board Resolution



The diagram consists of two overlapping circles. The larger circle on the left has a dashed border and contains the text 'Best Practices in Issuing Debt'. The smaller circle on the right has a solid border and contains the text 'Bond Rating'. The two circles overlap on their right and left sides respectively.

Best Practices in Issuing Debt

Bond Rating

Rating Agency

- Renders independent credit assessment of issuer & specific transaction
 - ✓ Better rating = better market access, lower cost of capital
 - ✓ Not all municipal issuers or transactions rated
- Monitors issuer via ongoing surveillance

S&P Global

MOODY'S
INVESTORS SERVICE

FitchRatings

Rating Agency Methodologies

Moody's

- Economy: 30%
- Financial Performance: 30%
- Institutional Framework: 10%
- Leverage: 30%

Standard and Poor's (S&P)

- Economy: 30%
- Financial Measures: 30%
- Debt & Liability: 10%
- Institutional Framework: 10%
- Management: 20%

Rating Comments: Recent Rating

Good financial practices and policies under our Financial Management Assessment management

Highlights of the district's financial policies and practices include:

- Use of historical trends to formulate its line-item budget and incorporating long-term financial projections into the budget;
- Quarterly budget-to-actual reports to the board, with the ability to amend the budget as needed;
- A five-year financial forecast for operations, updated annually and reviewed by the board;
- A 10-year long-term facilities maintenance plan tied to a state funding source that it is required to update annually;
- A formal investment policy and monthly investment reports provided to the board; and
- A formal fund balance policy to hold an unassigned fund balance equal to 8% of expenditures, which it currently exceeds.

Rating Comments: Other

Environmental, social, and governance (ESG) factors

We note that the district maintains board-approved gender inclusion and equity policies while focusing on equity-based programming, and we view this favorably when considering social risk factors. Furthermore, the district is actively increasing solar installations with a goal of 20% of electricity coming from solar energy. We have analyzed the district's ESG risks and concluded that these are in line with or superior to those of sector peers.



Best Practices in Issuing Debt

Bond Sale &
Closing

June 17, 2021

CLOSING MEMORANDUM FOR:

Independent School District No. 831 (Forest Lake Area Schools), Minnesota

**\$6,820,000 Certificates of Participation,
Series 2021A**



Prepared by:

Ehlers
3060 Centre Pointe Drive
Roseville, MN 55113

BUILDING COMMUNITIES. IT'S WHAT WE DO.

CLOSING MEMORANDUM

TO: Steve Massey, Superintendent of Schools
Larry Martini, Director of Business Services
Chrissy Rehnberg, Controller
Nathan Canova, Dorsey & Whitney LLP
Eric Wied, Associated Trust Company, N.A.
Kristina Honkanen, Associated Trust Company, N.A.

FROM: Jodie Zesbaugh/Shelby McQuay/Matthew Hammer/Rose Xiong, Ehlers

DATE: June 16, 2021

SUBJECT: Independent School District No. 831 (Forest Lake Area Schools), Minnesota, (the "District")
\$6,820,000 Certificates of Participation, Series 2021A (the "Certificates")

DATED DATE/CLOSING DATE: June 17, 2021

Funds to be wired by the District

On June 16, 2021, the District will wire the following funds to Associated Trust Company, N.A. (the "Trustee"):

Wire Instructions	Amount Wired
1) To Trustee	<u>\$80,863.11</u>

Funds to be wired by the Purchaser:

In connection with the above closing, proceeds will be wired by the purchaser, Baird, as follows:

Wire Instructions	Amount Wired
1) To Trustee	<u>\$7,123,381.29</u>
Total Proceeds:	<u>\$7,123,381.29</u>

If you would like to verify the wire instructions in detail, please contact Ehlers at (651) 697-8500 and ask for the Bond Sale Department.



The diagram consists of two overlapping circles. The larger circle on the left has a dashed border and contains the text 'Best Practices in Issuing Debt'. The smaller circle on the right has a solid border and contains the text 'Investments'. The two circles overlap on their right and left sides respectively.

Best Practices in Issuing Debt

Investments

Investing Bond Proceeds

What You Need to Know!



Investing Bond Proceeds: Key Concepts

Develop a sound investment policy

- Serves as your roadmap
- Ensures legal & regulatory requirements defined
- Identifies key objectives

Establish fiduciary-based objectives

- Safeguard principal balances
- Ensure liquidity for needed expenditures
- Maximize yield

Investing Bond Proceeds: Building Blocks

Cash Flow Forecasting

Build into debt plan

Plan for investment earnings

Compliance

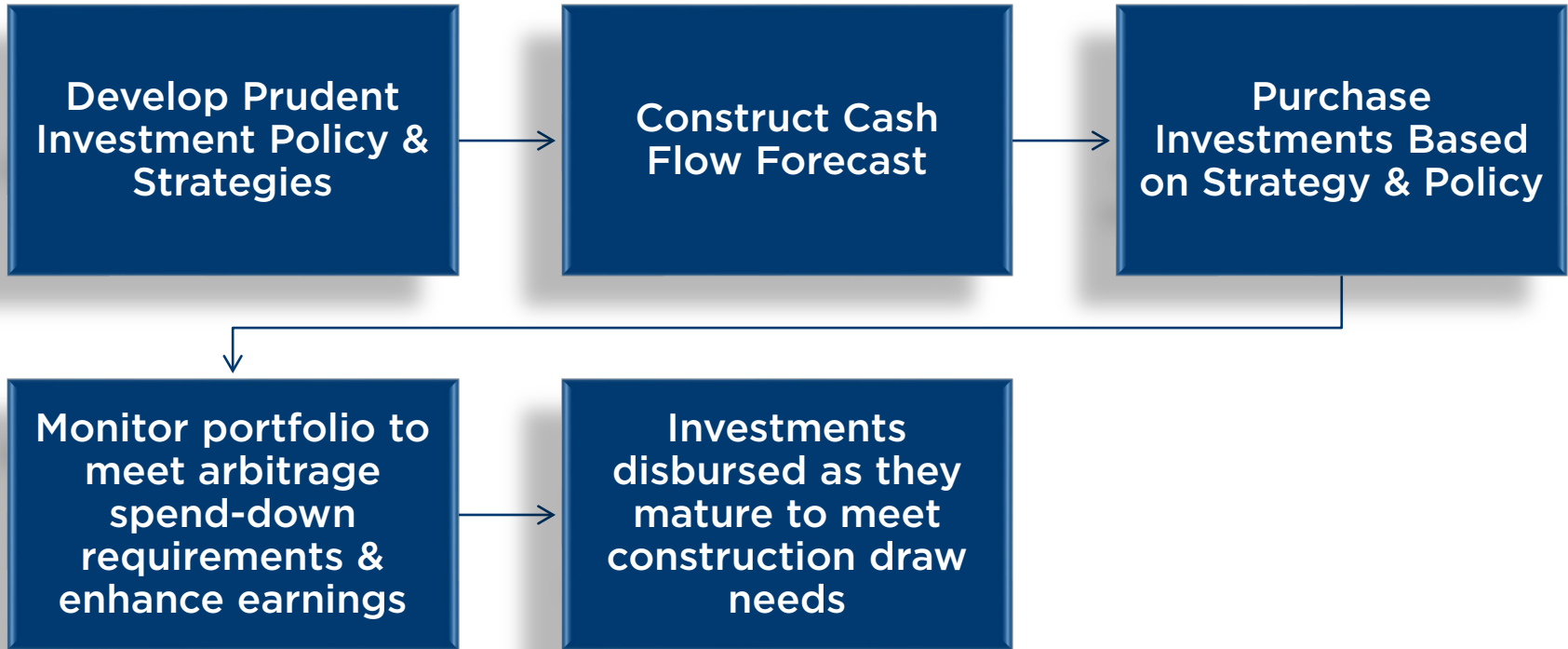
Permissible investments

Arbitrage

Construction Draw Schedule

Ensure funds available when needed

Investing Bond Proceeds: The Process





**Best
Practices in
Issuing Debt**

Debt
Compliance

Paying Agent

- Make debt payments on time
- Participation in State Credit Enhancement Program
 - ✓ Enhanced bond rating
 - ✓ Requires payment three days ahead of due date

Arbitrage: What exactly is it?

ARBITRAGE CREATION



Investment of
Bond Proceeds

Interest Earnings



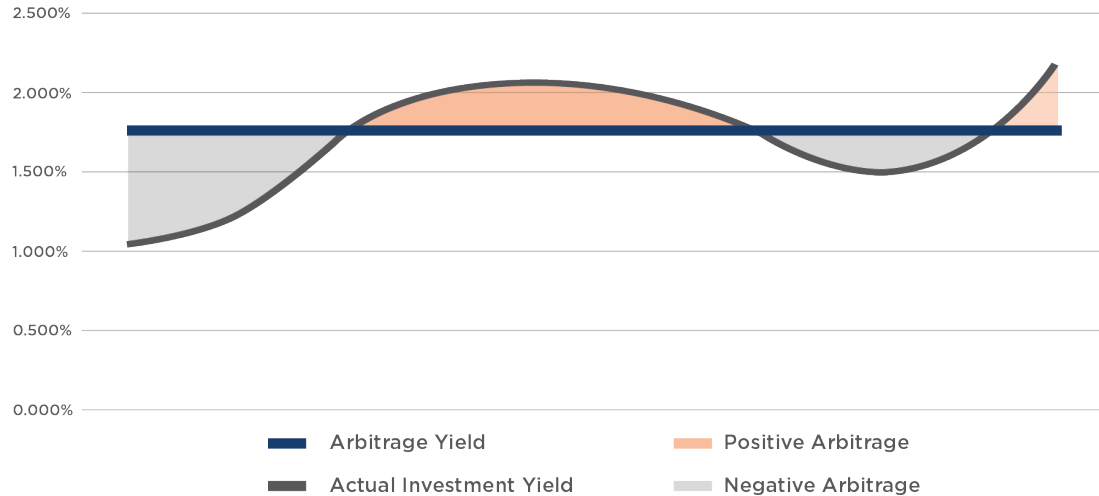
Issuance of
Municipal Debt

Interest Payments



Arbitrage: What exactly is it?

ARBITRAGE MONITORING



Arbitrage: Reimbursement of Prior Expenditures

- Reimbursement subject to 3 requirements:
 1. Timely adoption of official intent
 2. Funds allocated during reimbursement period
 3. Specific original expenditure



Arbitrage: General Considerations

Planning	At Closing
Reimbursement allocations & official intent	
✓ Spend-down duration	✓ Updated draw-down schedules
✓ Financing complexity	✓ Investment policy, strategy & portfolio
✓ Project expenditure & debt service payment accounting	✓ Arbitrage tracking plan

Arbitrage: General Considerations

- Post Issuance
 - ✓ Conduct accounting of reimbursement allocations, include in arbitrage cash flows
 - ✓ Maintain tracking log of key arbitrage dates & allowable investment yields
 - ✓ Complete arbitrage reporting
 - Debt size
 - Investment performance
 - State statute compliance

Continuing Disclosures: What are they?

SEC Rule 15c2-12

- Issuers of municipal securities bound by Continuing Disclosure Agreements to disseminate:
 - ✓ Financial & operating information
 - ✓ Material event notices
- Disclosures filed with MSRB via EMMA



Continuing Disclosures: Required Information



**CURRENT
PROPERTY
VALUATIONS**



DIRECT DEBT



**TAX LEVIES &
COLLECTION**



**POPULATION &
EMPLOYMENT
TRENDS**

- Vary by obligation type & pledged revenues
- Defined by Continuing Disclosure Agreement

Continuing Disclosures: Required Event Notices

Must be filed within 10 business days of occurrence.

Principal & interest payment delinquencies

Securities calls & tender offers

Non-payment defaults

Defeasances

Unscheduled draws on debt reserves

Release, substitution or sale of securing property

Unscheduled draws on credit enhancements

Rating changes

Substitution of credit or liquidity providers

Bankruptcy, insolvency or receivership

Events affecting tax-exempt status

Merger, acquisition or sale

Modifications to security holders' rights

Trustee successor appointment, addition or name change

Continuing Disclosures: Event Notices 15 & 16

What
types of
debt must
be
disclosed?

- Private placement & bank purchased
- Material capital leases



Investors want TIMELY information!

Continuing Disclosures: Voluntary Disclosures

- Municipalities may choose to disclose certain events
 - ✓ Financial impacts of COVID-19
 - ✓ Interim financial or operating data
 - ✓ Privately placed debt not subject to Events 15 & 16



USE CAUTION!
Market communications are subject to SEC regulations.

Let's Talk!



Shelby McQuay

Senior Municipal Advisor/Managing Director

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651-697-8548

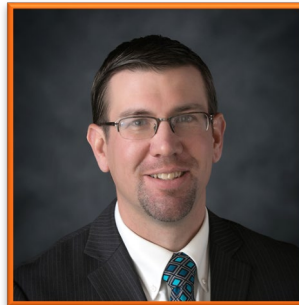


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Municipal Advisor

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Questions?



Important Disclosures

Ehlers is the joint marketing name of the following affiliated businesses (collectively, the “Affiliates”): Ehlers & Associates, Inc. (“EA”), a municipal advisor registered with the Municipal Securities Rulemaking Board (“MSRB”) and the Securities and Exchange Commission (“SEC”); Ehlers Investment Partners, LLC (“EIP”), an SEC registered investment adviser; and Bond Trust Services Corporation (“BTS”), a holder of a limited banking charter issued by the State of Minnesota.

Where an activity requires registration as a municipal advisor pursuant to Section 15B of the Exchange Act of 1934 (Financial Management Planning and Debt Issuance & Management), such activity is or will be performed by EA; where an activity requires registration as an investment adviser pursuant to the Investment Advisers Act of 1940 (Investments and Treasury Management), such activity is or will be performed by EIP; and where an activity requires licensing as a bank pursuant to applicable state law (paying agent services shown under Debt Issuance & Management), such activity is or will be performed by BTS. Activities not requiring registration may be performed by any Affiliate.

This communication does not constitute an offer or solicitation for the purchase or sale of any investment (including without limitation, any municipal financial product, municipal security, or other security) or agreement with respect to any investment strategy or program. This communication is offered without charge to clients, friends, and prospective clients of the Affiliates as a source of general information about the services Ehlers provides. This communication is neither advice nor a recommendation by any Affiliate to any person with respect to any municipal financial product, municipal security, or other security, as such terms are defined pursuant to Section 15B of the Exchange Act of 1934 and rules of the MSRB. This communication does not constitute investment advice by any Affiliate that purports to meet the objectives or needs of any person pursuant to the Investment Advisers Act of 1940 or applicable state law.