



Sharpest Tools in the Shed! Financing Strategies for Capital & Operational Needs Planning

Jeff Seeley & Jen Chapman - Ehlers

Financing Tools: Capital Projects



Multiple financing tools



“Tools for Financing Capital Projects” booklet



Growing trend

- ✓ Mix & match
- ✓ Get advice early to be creative



Effective use = SUCCESS!

PROJECT TYPES

Available Financing Tools for Capital Projects

	New Buildings/ Bldg. Purchase	Building Additions	Building Renovations	Site Improvements	Deferred Maintenance	Health/Safety Projects	Parking Lots	Energy Improvements	Security Improvements	Furnishings/ Equipment	Voter Approval Required	Property Tax Impact	Ag Bond Credit	Limitations	Maximum Borrowing	Other Notes
Building Bonds	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Y	Y	Y	None	Statutory debt limit	State Review & Comment required
Operating Referendum	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Y	Y		Annual revenue; not all up-front	No borrowing State maximum revenue/ pupil	Annual revenue can be used to make payments on debt issue (lease purchase, capital facilities bonds, capital notes)
Capital Project Levy	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Y	Y		Annual revenue; not all up-front	No borrowing	
Facilities Maintenance Bonds (All except old Alt. Fac. Districts)					✓								Y	Payments financed from LTFM revenue	Statutory debt limit	State approval required
			1			✓						Y	Y	HVAC, fire suppression, asbestos over \$100k or remodeling for Pre-K	Statutory debt limit	State approval required
Facilities Maintenance Bonds (Old Alt. Fac. Districts)			1		✓	✓						Y	Y	None	Statutory debt limit	State approval required

PROJECT TYPES

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Capital Facilities Bonds			✓	✓		✓	✓	✓	✓				Y	Payments financed from general fund revenue	Annual pmts. can't exceed operating capital revenue	State approval required
Capital Notes										✓			Y	Payments financed from general fund revenue	Annual pmts. can't exceed operating capital revenue	State approval required
Lease Purchase without Levy	✓	✓		✓			✓			✓				Payments financed from general fund revenue		
Lease Purchase with Levy	2	✓		3								Y		Instructional & school storage use only Additions limited to 20% of existing building space	Annual lease levy limited to \$212/pupil	Annual state approval required with upfront capital lease approval prior to financing
Abatement Bonds							✓					Y	Y	Permitted uses limited to parking construction & improvements	Annual debt service limited to 10% of NTC	Public hearing required

1 - Facilities maintenance bonds can be used to finance building remodeling required to accommodate state-funded voluntary pre-kindergarten programs.

2 - Lease levy can be used for new buildings, building purchases or building additions under 20% of existing building, but only if the facilities are used for instruction or school storage and not for "regular elementary or secondary instruction." Permitted examples would include buildings used for early childhood education, special education, alternative learning centers or adult education.

3 - Lease levy can be used for site improvements for cocurricular or other instructional uses, e.g. athletic fields and tracks.

Examples - Tax Base Composition

School District: Lakeville (ISD # 194)

Taxes Payable 2021 Tax Base by Property Type

	Market Value	Percent of Total	Referendum Market Value	Percent of Total	Net Tax Capacity*	Percent of Total
Totals	8,802,367,699	100.0%	8,586,835,851	100.0%	99,597,729	
Residential Homestead	6,467,956,122	73.5%	6,425,753,212	74.8%	64,058,777	64.3%
Other Residential	1,141,467,292	13.0%	1,137,277,904	13.2%	12,573,311	12.6%
Commercial / Industrial	971,082,100	11.0%	971,082,100	11.3%	19,061,035	19.1%
Non Qualifying Agricultural	46,429,035	0.5%	45,563,535	0.5%	461,712	0.5%
Qualifying Agriculture	168,274,050	1.9%	-	0.0%	1,317,176	1.3%
Seasonal Recreational	7,159,100	0.1%	7,159,100	0.1%	89,305	0.1%
TIF and FD					2,036,413	2.0%

* Totals include TIF and Fiscal Disparities adjustments

Examples - Tax Base Composition

School District: Walker-Hackensac (ISD # 113)

Taxes Payable 2021 Tax Base by Property Type

	Market Value	Percent of Total	Referendum Market Value	Percent of Total	Net Tax Capacity*	Percent of Total
Totals	2,198,965,724	100.0%	904,089,988	100.0%	22,267,605	
Residential Homestead	627,749,233	28.5%	613,636,730	67.9%	5,847,219	26.3%
Other Residential	89,909,225	4.1%	89,156,775	9.9%	955,031	4.3%
Commercial / Industrial	120,944,500	5.5%	120,944,500	13.4%	2,134,590	9.6%
Non Qualifying Agricultural	13,995,184	0.6%	13,749,584	1.5%	115,093	0.5%
Qualifying Agriculture	171,961,967	7.8%	-	0.0%	1,539,659	6.9%
Seasonal Recreational	1,174,405,615	53.4%	66,602,400	7.4%	11,904,187	53.5%
TIF and FD					(228,175)	-1.0%

* Totals include TIF and Fiscal Disparities adjustments

Examples - Tax Base Composition







School District: Mabel-Canton (ISD # 238)

Taxes Payable 2021 Tax Base by Property Type

	Market Value	Percent of Total	Referendum Market Value	Percent of Total	Net Tax Capacity*	Percent of Total
Totals	495,364,517	100.0%	123,706,394	100.0%	4,010,599	
Residential Homestead	65,339,100	13.2%	64,856,100	52.4%	501,825	12.5%
Other Residential	20,662,900	4.2%	20,514,150	16.6%	217,661	5.4%
Commercial / Industrial	18,385,800	3.7%	18,385,800	14.9%	337,365	8.4%
Non Qualifying Agricultural	20,067,400	4.1%	19,950,344	16.1%	153,193	3.8%
Qualifying Agriculture	364,646,817	73.6%	-	0.0%	2,747,524	68.5%
Seasonal Recreational	6,262,500	1.3%	-	0.0%	62,625	1.6%
TIF and FD					(9,594)	-0.2%

* Totals include TIF and Fiscal Disparities adjustments

Financing Tools: School Building Bonds

-  Broadest authority
-  Voter approval required (typically, for any tax increase)
-  Provides up front cash
-  Qualifies for agricultural credit
-  Flexible payment structure
-  MDE review & comment for projects over \$2 million

School Building Bond Agricultural Credit

Provides agricultural property owners a credit for taxes attributable to school district debt service

Applies to new & existing debt

Applies to all agricultural property (except house, garage & one acre)

Class 2a: Agricultural Land (Homestead & Non-Homestead)
Class 2b: Rural Vacant Land
Class 2c: Managed Forest Land

Credit increases:
60% in Pay 2022
70% in Pay 2023 & later

Ongoing credit, automatically deducted from property taxes owed
(no request form needed)

Credit paid by State, does not shift levy to other property types

Operating Referendum

November election
ballot question, stated
per pupil, generally
capped at \$1,966.66
(FY 2023-24)

(no cap for sparsity districts)

Allows districts to
generate additional
general education
revenue

Revenue can be
combination of local
property tax levies &
state aid

Annual levy, 10-year
maximum length

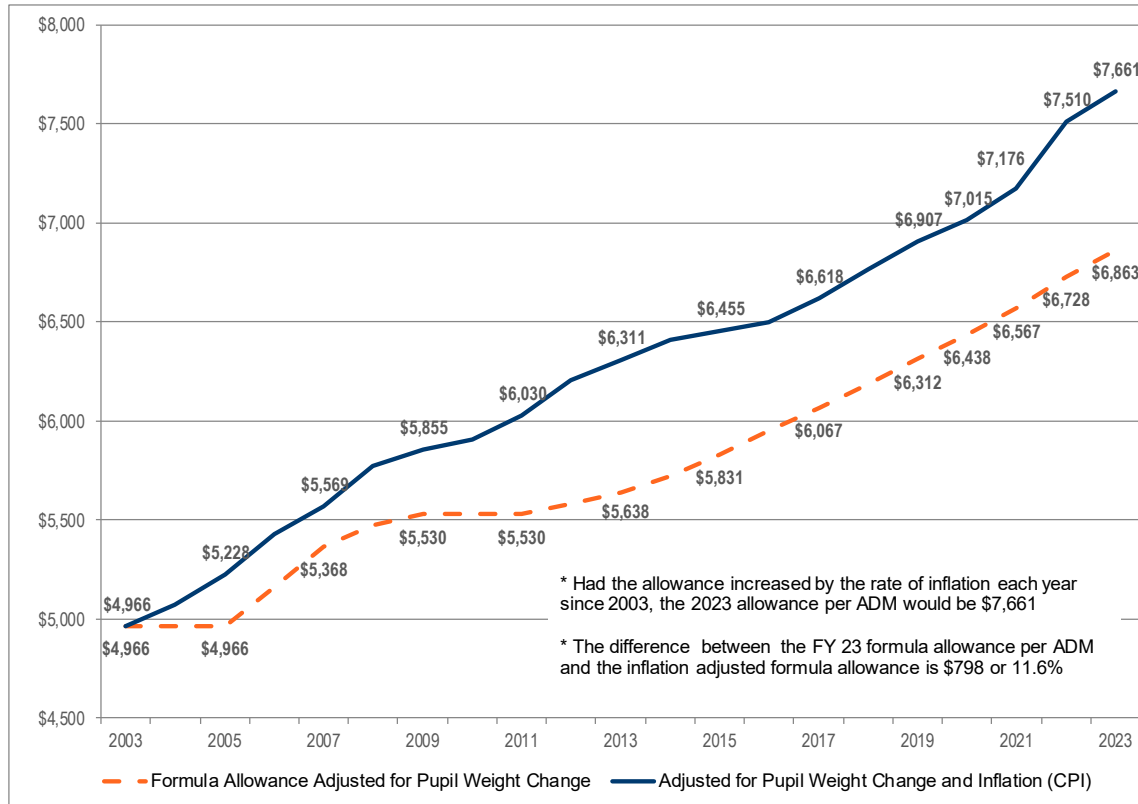
Taxes spread on
Referendum Market
Value

(most property types pay same
taxes per dollar of property
value)

Revenue may be used
for any operating or
capital expenses

(e.g. staff salaries/benefits,
utilities, supplies, technology)

General Education Formula Allowance



Source: MDE September 2021 Inflation Estimates

Capital Project Levy

Election ballot question,
stated tax rate

Allows districts to
generate additional
revenue for technology
& capital projects

Revenue provided
through local property
tax levies

Annual levy, maximum
length of 10 years

Taxes spread on net tax
capacity

(All taxpayers pay, but may pay
different amounts based on type
of property)

Revenue may be used
for items consistent with
ballot language

		Capital Project Levy (+300/Pupil Equivalent)	Operating Referendum Revenue (+300/Pupil)	Difference
Per Pupil Authority Annual Revenue		\$1,027,800	\$1,027,800	\$0
Type of Property	Estimated Market Value	Estimated Annual Tax Increase *		Difference
	\$100,000	\$20	\$37	-\$17
Residential	200,000	51	74	-23
Homestead	250,000	66	93	-27
	300,000	81	112	-31
	400,000	112	149	-37
Commercial/ Industrial	\$100,000	\$42	\$37	\$5
	200,000	91	74	17
	300,000	148	112	36
Agricultural	\$5,000	\$0.70	\$0.00	\$0.70
Homestead**	6,000	0.84	0.00	0.84
(average value per acre of land & buildings)	7,000	0.98	0.00	0.98
	8,000	1.12	0.00	1.12
Agricultural	\$5,000	\$1.41	\$0.00	\$1.41
Non-Homestead**	6,000	1.69	0.00	1.69
(average value per acre of land & buildings)	7,000	1.97	0.00	1.97
	8,000	2.25	0.00	2.25
	6,000	1.69	0.00	1.69
Seasonal	\$100,000	\$28	\$0	\$28
Recreational	200,000	56	0	56
Residential	300,000	84	0	84
	400,000	112	0	112
	500,000	141	0	141

* The amounts in the table are based on school district taxes for the proposed capital project levy or operating referendum only, and do not include tax levies for other purposes. These calculations are based on estimated data for taxes payable 2023. Tax increases shown above are gross increases, not including the impact of the state Homestead Credit Refund ("Circuit Breaker") program. Owners of homestead property will qualify for a refund, based on their income and total property taxes. This may change the net tax for those property owners.

Financing Tools: LTFM Revenue

- Long term facilities maintenance (LTFM) revenue
 - ✓ Deferred maintenance (like-for-like)
 - ✓ Health & safety
 - ✓ Building remodeling for voluntary Pre-K
 - ✓ Additional revenue for health & safety projects over \$100,000
 - Indoor air quality
 - Fire alarm & suppression
 - Asbestos removal

Financing Tools: LTFM Revenue

- ✓ \$380 per pupil (old alternative facilities districts: no limit)
- ✓ Building age
- ✓ State aid & property tax levy
 - Excludes 50% of agricultural land value for tax base
- ✓ Equalizing factor
 - 123% of state average ANTC per pupil
- ✓ Bonds & pay-as-you-go options

Financing Tools: LTFM Revenue

Advantages

- State aid
- Bonds qualify for school building bond agricultural credit
- Lower interest rates
- No election
- 10-year plan

Disadvantages

- Limited uses
- Limited revenue
- Multistep approval process

Capital Facilities Bonds / Capital Notes

- Purposes
 - ✓ Building renovations
 - ✓ Site improvements
 - ✓ Health & safety projects
 - ✓ Energy modifications
 - ✓ Security improvements
 - ✓ Parking lot improvements
- 15-year term
- No additional revenue for debt service
- Eligible for school building bond agricultural credit
- Payments limited to annual operating capital revenue
- Capital notes: equipment purchases (10-year limit)

Abatement Bonds

- Funds used for parking lots only
- Generally, 15 years (20 years possible)
- Public hearing required
- Review & comment required if project exceeds \$2 million
- Levy each year for payments
- Qualify for school building bond agricultural credit
- No state equalization aid

Lease Purchase / Lease Levy

- Lease purchase agreement
 - ✓ Direct bank placement or “certificates of participation” (COPs)
- Used for real or personal property
- Certain leases qualify for lease levy authority
 - ✓ K-12 building additions
 - ✓ New buildings for non-K-12 purposes
 - ALC, early childhood center

Lease Levy

- Purposes
 - ✓ Operating leases
 - ✓ Long-term capital leases (space used for instructional purposes)
- \$212 per pupil limit
- No state equalization aid
- Not eligible for school building bond agricultural credit



District Example

ST. CHARLES PUBLIC SCHOOLS

Background

- 100 miles SE of Twin Cities & 20 miles E of Rochester
- Current population estimate of 6,100
- 118 square miles
- Stable enrollment approximately 1,000 students
- Total identified capital needs over \$23 million

Elementary School Building

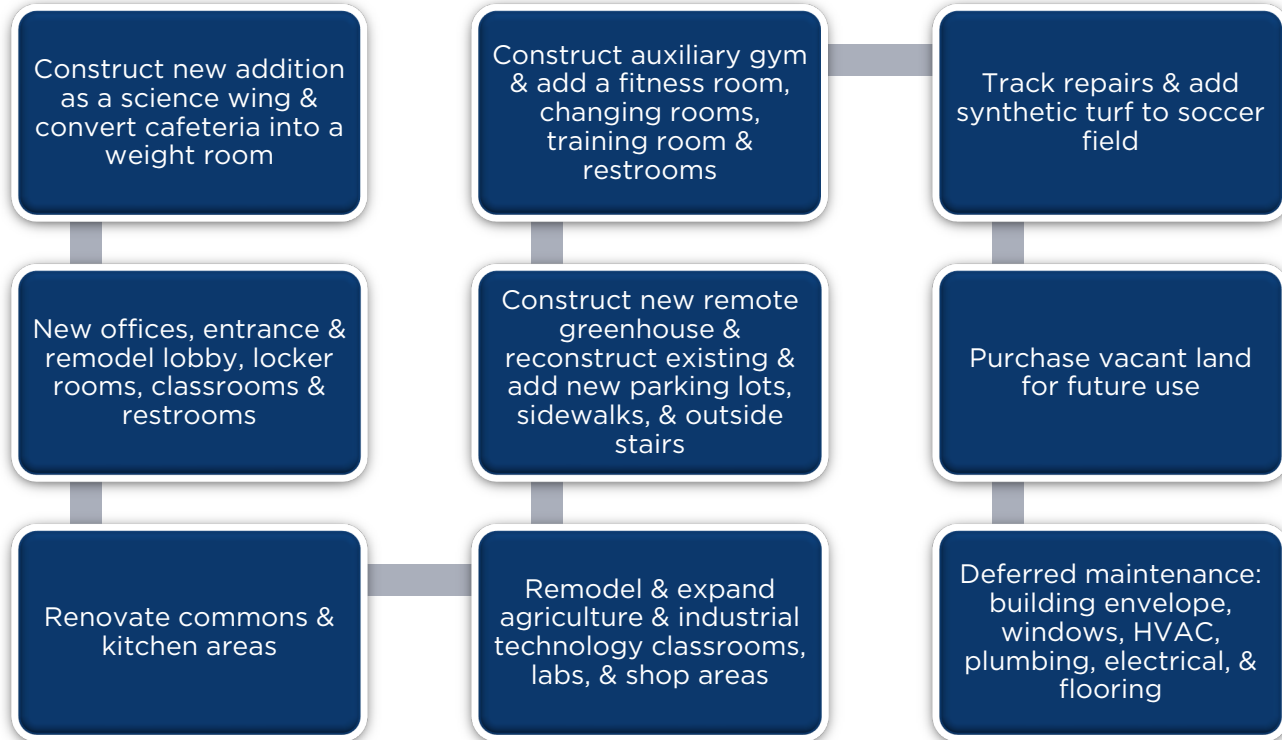
Converting existing kitchen & cafeteria into preschool & kindergarten classrooms

Constructing new addition housing a kitchen & cafeteria

Deferred maintenance: building envelope, windows, boilers, plumbing, & electrical

Driveway & parking lot renovation & expansion

Middle & High School Building



Planning Process

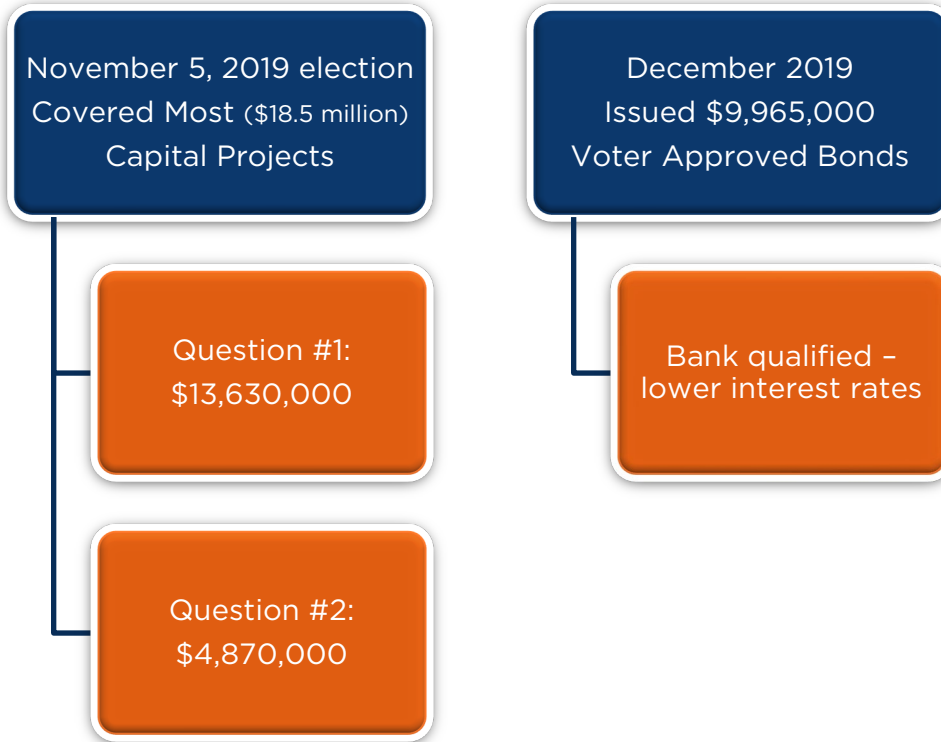
- April 2018: District & Ehlers begin discussing capital needs & funding options
- Several funding sources identified
 - ✓ Voter approved bonds for majority of project costs
 - 2 ballot questions
 - ✓ Facilities maintenance bonds
 - ✓ Capital facilities bonds
- Several other sources explored

Planning Process

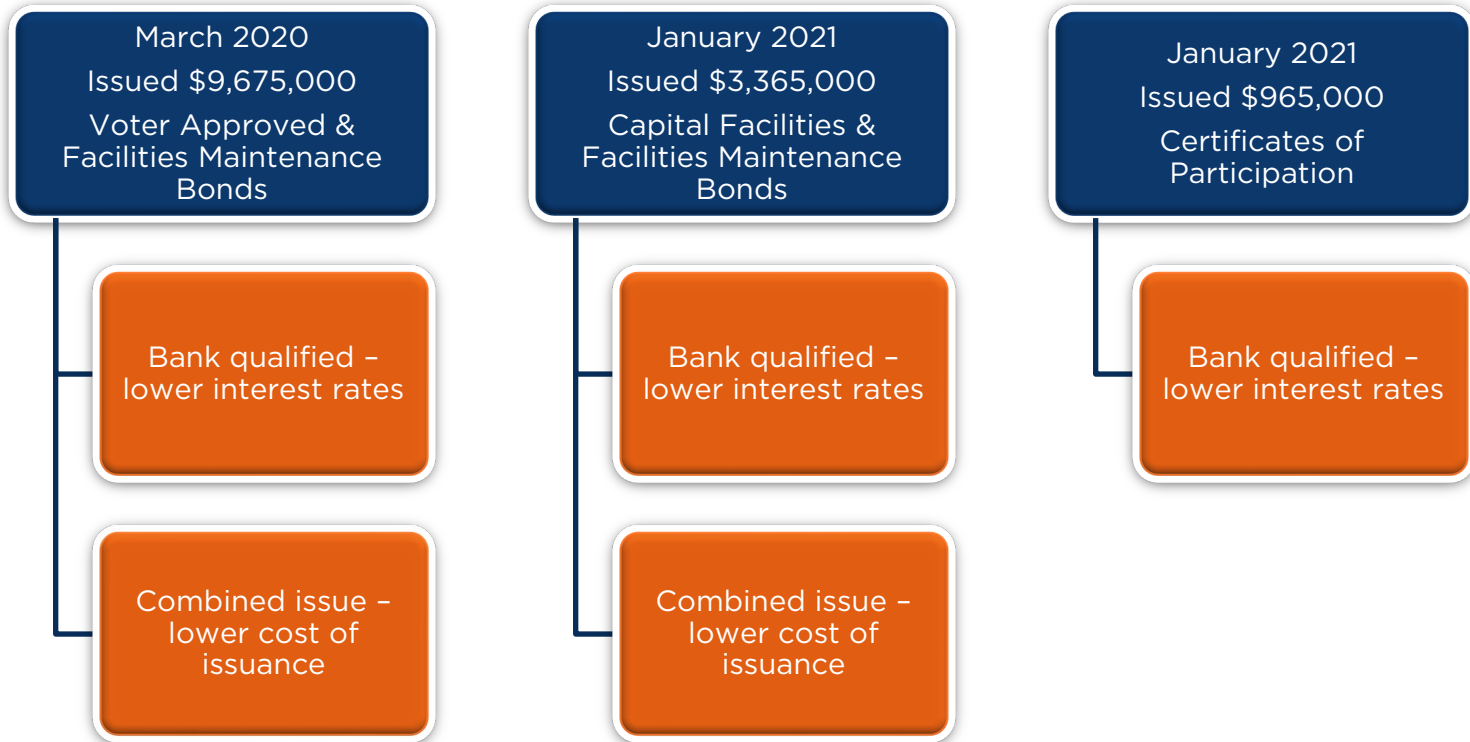
Debt issuance strategies

- ✓ Timing
- ✓ Bank qualification
- ✓ Combining different types of bonds into single bond issue to reduce up-front issuance costs

Solutions



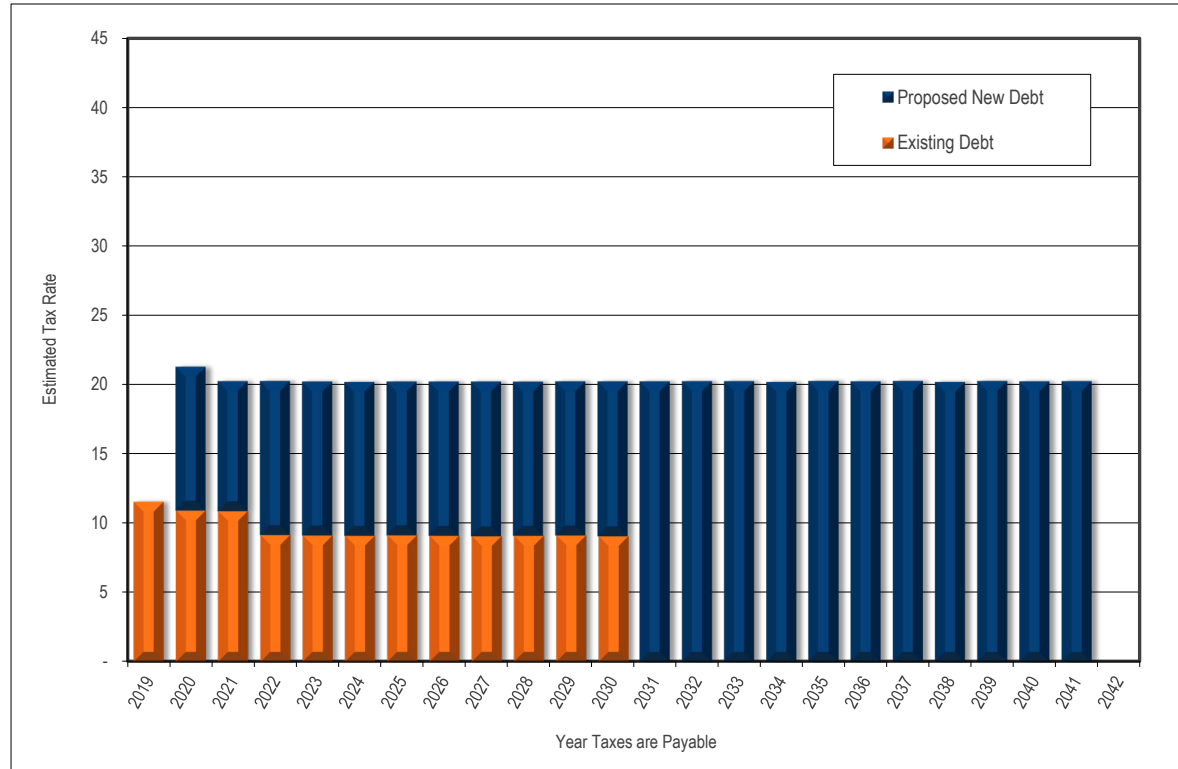
Solutions



Authorized Bond Amount	Pre-Election \$18,500,000	After Bond Issuance \$18,500,000
Average Interest Rate	3.80%	2.26% 2019A & 2.07% 2020A
Number of Years	22	22
Bond Structure	Single Issue - Wrap Around	Split BQ Issues - Wrap Around
Ag Credit Percent in First Tax Year	50%	50%
Total Est. Tax Levy Over Bond Term	\$29,726,200	\$24,800,565
First Tax Year (Taxes Payable In)	2020	2020

Type of Property	Estimated Market Value	Estimated Annual Debt Service Tax Change for Taxes Payable 2020*			
		Annual	Monthly	Annual	Monthly
Residential Homestead	\$75,000	\$56	\$5	\$45	\$4
	100,000	90	7	72	6
	125,000	124	10	100	8
	150,000	158	13	127	11
	165,000	179	15	144	12
	175,000	192	16	155	13
	200,000	226	19	182	15
	250,000	295	25	237	20
	300,000	363	30	292	24
	350,000	431	36	347	29
Commercial/ Industrial	400,000	499	42	402	33
	\$100,000	\$188	\$16	\$151	\$13
	200,000	407	34	327	27
	300,000	657	55	529	44
Agricultural Homestead** (average value per acre of land & buildings)	500,000	1,158	97	931	78
	4,000	\$1.25	\$0.10	\$1.01	\$0.08
	5,000	1.57	0.13	1.26	0.10
	6,000	1.88	0.16	1.51	0.13
Agricultural Non-Homestead** (average value per acre of land & buildings)	7,000	2.19	0.18	1.76	0.15
	4,000	\$2.50	\$0.21	\$2.01	\$0.17
	5,000	3.13	0.26	2.52	0.21
	6,000	3.76	0.31	3.02	0.25
	7,000	4.38	0.37	3.52	0.29

St. Charles Public Schools



Operating Capital Revenue

Year Taxes Payable	Fiscal Year	Oper Cap Revenue	Oper Cap Levy	Levy %	Oper Cap Aid	Aid %	Principal	Interest	Total Payments	Debt Service Levies (P&I at 105%)	Remaining Oper Cap
2020	2021	259,850	70,152	27.00%	189,698	73.00%	0	0	0	0	259,850
2021	2022	272,669	76,414	28.02%	196,255	71.98%	95,000	32,009	127,009	133,359	139,310
2022	2023	273,941	77,522	28.30%	196,419	71.70%	95,000	29,428	124,428	130,649	143,292
2023	2024	275,212	78,646	28.58%	196,566	71.42%	100,000	26,578	126,578	132,906	142,306
2024	2025	276,483	79,784	28.86%	196,699	71.14%	105,000	23,578	128,578	135,006	141,477
2025	2026	277,755	80,151	28.86%	197,604	71.14%	105,000	20,428	125,428	131,699	146,056
2026	2027	279,026	80,518	28.86%	198,508	71.14%	110,000	17,278	127,278	133,641	145,385
2027	2028	280,298	80,885	28.86%	199,413	71.14%	115,000	13,978	128,978	135,426	144,872
2028	2029	281,569	81,251	28.86%	200,318	71.14%	115,000	10,528	125,528	131,804	149,765
2029	2030	282,840	81,618	28.86%	201,222	71.14%	115,000	9,378	124,378	130,596	152,244
2030	2031	284,112	81,985	28.86%	202,127	71.14%	120,000	8,228	128,228	134,639	149,473
2031	2032	285,383	82,352	28.86%	203,031	71.14%	120,000	7,028	127,028	133,379	152,004
2032	2033	286,654	82,719	28.86%	203,935	71.14%	120,000	5,828	125,828	132,119	154,535
2033	2034	287,926	83,086	28.86%	204,840	71.14%	120,000	4,568	124,568	130,796	157,130
2034	2035	289,197	83,453	28.86%	205,744	71.14%	125,000	3,188	128,188	134,597	154,600
2035	2036	290,469	83,820	28.86%	206,649	71.14%	125,000	1,625	126,625	132,956	157,513
2036	2037	291,740	84,186	28.86%	207,554	71.14%	0	0	0	0	291,740
Totals		4,775,124	1,368,542		3,406,582		1,685,000	213,641	1,898,641	1,993,573	

LTFM Revenue

Year Taxes Payable	Fiscal Year	LTFM Revenue	LTFM Levy	LTFM Aid	Principal	Interest	Total Payments	Initial Debt Service Levies (P&I at 105%)	Existing LTFM Debt Service Levies	Remaining LTFM Revenue
2020	2021	422,864	218,252	204,612	0	0	0	0	169,833	253,031
2021	2022	443,232	226,313	216,919	105,000	31,947	136,947	143,794	164,115	135,323
2022	2023	443,232	227,079	216,153	95,000	29,065	124,065	130,268	164,535	148,429
2023	2024	443,232	211,082	232,150	100,000	26,215	126,215	132,526	164,745	145,961
2024	2025	443,232	215,673	227,559	100,000	23,215	123,215	129,376	164,745	149,111
2025	2026	443,232	215,673	227,559	105,000	20,215	125,215	131,476	164,535	147,221
2026	2027	443,232	215,673	227,559	110,000	17,065	127,065	133,418	166,950	142,864
2027	2028	443,232	215,673	227,559	110,000	13,765	123,765	129,953	166,320	146,959
2028	2029	443,232	215,673	227,559	115,000	10,465	125,465	131,738	165,480	146,014
2029	2030	443,232	215,673	227,559	115,000	9,315	124,315	130,531	166,005	146,696
2030	2031	443,232	215,673	227,559	120,000	8,165	128,165	134,573	0	308,659
2031	2032	443,232	215,673	227,559	120,000	6,965	126,965	133,313	0	309,919
2032	2033	443,232	215,673	227,559	120,000	5,765	125,765	132,053	0	311,179
2033	2034	443,232	215,673	227,559	120,000	4,505	124,505	130,730	0	312,502
2034	2035	443,232	215,673	227,559	120,000	3,125	123,125	129,281	0	313,951
2035	2036	443,232	215,673	227,559	125,000	1,625	126,625	132,956	0	310,276
2036	2037	443,232	215,673	227,559	0	0	0	0	0	443,232
Totals		\$7,514,576	\$3,686,477	\$3,828,099	\$1,680,000	\$211,417	\$1,891,417	\$1,985,987	\$1,657,263	



District Example

ST. CROIX RIVER EDUCATION DISTRICT ("SCRED")

Background

- Educational cooperative organization serving 6 districts
- Key players
 - ✓ SCRED Director
 - ✓ SCRED Business Manager
 - ✓ District Superintendents
 - ✓ District Business Managers
 - ✓ Ehlers Team
 - ✓ ICS
 - ✓ Local Attorney & Financing Attorney

Capital Need

- Construct a new educational facility
 - ✓ Federal Setting IV social behavior program
 - ✓ Serving Pine City, East Central & Hinckley/Finlayson students

Planning Process

- Identified space & programming needs
- Evaluated available facilities
 - ✓ Suitability
 - ✓ Purchase & renovation costs
- Evaluated constructing new
- Evaluated financing options & delegation of responsibilities

Solution

- Purchase & renovate property
- Identified fiscal agent for the project
- Memo of understanding
- Amendments to SCRED agreement

Solution

Pine City issued certificates of participation (COPs)

\$3,865,000

20-year term

Evaluated alternatives

Solution

- Participating districts pay their proportionate share of the debt service
 - ✓ Separate agreement
 - ✓ Based on total adjusted pupil units of districts
 - Adjusted annually
 - ✓ Funding source
 - Annual lease levy
 - General fund appropriation

Taxes Payable	Fiscal Year	Principal	Interest	Total
2021	2022	155,000.00	82,107.64	237,107.64
2022	2023	155,000.00	86,300.00	241,300.00
2023	2024	160,000.00	81,650.00	241,650.00
2024	2025	165,000.00	76,850.00	241,850.00
2025	2026	170,000.00	71,900.00	241,900.00
2026	2027	175,000.00	66,800.00	241,800.00
2027	2028	180,000.00	61,550.00	241,550.00
2028	2029	185,000.00	56,150.00	241,150.00
2029	2030	190,000.00	50,600.00	240,600.00
2030	2031	190,000.00	46,800.00	236,800.00
2031	2032	195,000.00	43,000.00	238,000.00
2032	2033	200,000.00	39,100.00	239,100.00
2033	2034	205,000.00	35,100.00	240,100.00
2034	2035	210,000.00	31,000.00	241,000.00
2035	2036	215,000.00	26,800.00	241,800.00
2036	2037	215,000.00	22,500.00	237,500.00
2037	2038	220,000.00	18,200.00	238,200.00
2038	2039	225,000.00	13,800.00	238,800.00
2039	2040	230,000.00	9,300.00	239,300.00
2040	2041	235,000.00	4,700.00	239,700.00
Totals		3,875,000.00	924,207.64	4,799,207.64

Solution

Pay 2021 Lease Levy Capacity

	Regular Lease Levy Limit \$212 per pupil	Current Approved Leases	Remaining Authority
East Central	165,233	106,501	58,731
- After Reduction		-10,132	68,863
Hinckley-Finlayson	219,166	159,964	59,201
- After Reduction		-12,825	72,026
Pine City	361,121	215,988	145,133
- After Reduction		-22,043	167,176
Total (Current)	745,519	482,453	263,066
- After Lease Changes*	745,519	437,454	308,066

** Each school district will reduce their lease levy by the amount they're currently levying for the Visions program if this project is completed. The Transitions program would remain the same.*

Solution

	20 Year Lease Levy	
Project Cost: \$3,877,740	Proportionate Contribution to Lease Payment	Annual Tax Impact on \$100,000 Home
East Central	52,551	
- available lease authority	68,863	\$6
- <i>General Fund subsidy</i>	0	
Hinckley-Finlayson	69,704	
- available lease authority	69,704	\$6
- <i>General Fund subsidy</i>	0	
Pine City	114,852	
- available lease authority	167,176	\$7
- <i>General Fund subsidy</i>	0	
Total Payment	237,108	

Solution

District		East Central	Hinckley-Finlayson	Pine City
Proportionate Allocation of Pay 2022 Payment		\$52,551	\$69,704	\$114,852
Type of Property	Estimated Market Value	Estimated Impact on Annual Taxes Payable in 2022*		
Residential Homestead	\$50,000	\$2	\$2	\$3
	100,000	6	6	7
	125,000	8	8	10
	150,000	10	10	13
	200,000	15	15	19
	300,000	24	23	30
Commercial/ Industrial	\$50,000	\$6	\$6	\$8
	100,000	12	12	16
	250,000	35	34	44
	500,000	76	75	96
Agricultural Homestead** (average value per acre of land & buildings)	\$2,000	\$0.08	\$0.08	\$0.10
	3,000	0.12	0.12	0.16
	4,000	0.16	0.16	0.21
	5,000	0.21	0.20	0.26
Agricultural Non-Homestead** (average value per acre of land & buildings)	\$2,000	\$0.16	\$0.16	\$0.21
	3,000	0.25	0.24	0.31
	4,000	0.33	0.32	0.42
	5,000	0.41	0.41	0.52
Seasonal Recreational Residential	\$50,000	\$4	\$4	\$5
	100,000	8	8	10
	200,000	16	16	21

Let's Talk!



Jeff Seeley, Ehlers
Senior Municipal Advisor
651.697.8585
jseeley@ehlers-inc.com



Jen Chapman, Ehlers
Financial Specialist
651.697.8566
jchapman@ehlers-inc.com

Questions?



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