Bond Rating Preparation

Masbo Spring Conference

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Pma Securities, Inc.
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Agenda

✓ Bond Rating Basics
✓ Importance of Your Rating
✓ Bond Rating Process
✓ Rating Committee (Presented by Ben Vanmetre)
✓ District Preparation

BOND RATING BASICS

What is a Credit Rating?

• An opinion about credit risk
  o Ability and willingness of an issuer to meet its financial obligations in full and on time
  o Likelihood of default

• Helps investors determine whether to invest in an issuer’s bond issue and at what yields
Credit Rating Scales

**Moody's Rating**

<table>
<thead>
<tr>
<th>Number</th>
<th>Number of Minnesota Districts (March 2017)</th>
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</thead>
<tbody>
<tr>
<td>Aaa</td>
<td>3</td>
</tr>
<tr>
<td>Aa1</td>
<td>3</td>
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<tr>
<td>Aa2</td>
<td>16</td>
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<tr>
<td>Aa3</td>
<td>28</td>
</tr>
<tr>
<td>A1</td>
<td>55</td>
</tr>
<tr>
<td>A2</td>
<td>18</td>
</tr>
<tr>
<td>A3</td>
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</tr>
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<td>Baa3</td>
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**S&P Rating**

<table>
<thead>
<tr>
<th>Number</th>
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<tbody>
<tr>
<td>AAA</td>
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<td>AA+</td>
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<td>A-</td>
<td>12</td>
</tr>
<tr>
<td>A</td>
<td>10</td>
</tr>
<tr>
<td>BBB+</td>
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</tbody>
</table>
ENHANCED AND UNDERLYING RATING

MINNESOTA STATE CREDIT ENHANCEMENT PROGRAM

- Moody's Rating: Aa2
- S&P Rating: AA+

WHY DO YOU CARE???

IMPORTANCE OF YOUR RATING
Importance of Your Rating

Example

- $40 Million Dollar Bond for New School
- 20 Year Even Debt Schedule
- Total Interest Over Length of Bonds

Interest Impact

<table>
<thead>
<tr>
<th>MMD Rating</th>
<th>Total Interest</th>
<th>Difference</th>
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<tbody>
<tr>
<td>AAA</td>
<td>$10,348,611</td>
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<tr>
<td>AA</td>
<td>$11,295,834</td>
<td>$947,223</td>
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<tr>
<td>A</td>
<td>$12,811,478</td>
<td>$1,515,644</td>
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<tr>
<td>BAA</td>
<td>$14,434,614</td>
<td>$1,623,136</td>
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</table>

Interest calculated based on MMD yields as of April 11, 2017.
**IMPORTANCE OF YOUR RATING**

Ancillary Reasons

- Confidence with your Public
- Confidence with your School Board
- Confidence with your Staff
- Motivation for Change

**BOND RATING PROCESS**

Working with your Financial Advisor:

- Determine pay-back for Rating
- Apply for MN Credit Enhancement
- Schedule Call with Rating Agency
- Prepare Preliminary Official Statement (POS)

Pay Back for Rating

- Fee to have bonds rated
  - Sliding Scale
  - Based on Par Amount of Bonds
- Do the interest savings offset the bond rating fee?
- Bond Rating fee is paid out of Bond Funds
Apply for MN Credit Enhancement

• Optional
• No Fee
• Requires Board Resolution
• Allow time for MDE to approve

Schedule Call with Rating Agency

• Get on their Calendar
• Superintendent, Business Official, Financial Advisor: clear calendar for 1.5 hours
• POS and MN Credit Enhancement Application should be available
• Allow time for rating to be received before the bonds are sold

Prepare Preliminary Official Statement

• Data from County or Counties
  • Top Ten Taxpayers
  • Market Values
  • Top Ten Employers
• District Demographic Data
  • Enrollment
  • Staffing
  • Building Capacities
BOND RATING PROCESS

Preparation of Preliminary Official Statement

- District Financial Data
  - Fund Balance Trends
  - Levy History
  - Debt Ratios
  - Pension Liabilities
  - OPEB Liabilities

- Recent Audits

- District Financial Policies

Moody’s Rating Score Card

S&P’s Rating Score Card
WHAT HAPPENS AT THE RATING COMMITTEE?

TRANSITION TO BEN....

- Block out time for the Rating Call
- Include:
  - Superintendent
  - Business Official
  - Someone with local knowledge
- Have following documents available:
  - POS
  - District Audit

In Advance of the call, if available, send informative data to Rating Analyst
DISTRICT PREPARATION

Dollars Per Student Spent On Salaries

<table>
<thead>
<tr>
<th>Year</th>
<th>Dollars Per Student</th>
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<tbody>
<tr>
<td>2008</td>
<td>5,000</td>
</tr>
<tr>
<td>2009</td>
<td>5,500</td>
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<tr>
<td>2010</td>
<td>6,000</td>
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<tr>
<td>2011</td>
<td>6,500</td>
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<td>2012</td>
<td>7,000</td>
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<td>2013</td>
<td>7,500</td>
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<td>2014</td>
<td>8,000</td>
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<td>2015</td>
<td>8,500</td>
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<td>2016</td>
<td>9,000</td>
</tr>
<tr>
<td>2017</td>
<td>9,500</td>
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Amount of Operating Expense

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