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June 4, 2018

Sale Day Report for

Independent School District No. 318 (Itasca County), Minnesota

$65,440,000 General Obligation School Building Bonds, Series 2018A

Independent School District 318

820 NW 1st Avenue
Grand Rapids, MN 55744
218-327-5700

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Sale Day Report – June 4, 2018

Independent School District No. 318 (Itasca County), Minnesota

$65,440,000 General Obligation School Building Bonds, Series 2018A

Purpose: To finance the acquisition of land for and the construction and equipping of two new elementary school facilities in Grand Rapids and the remodeling, upgrading and construction and equipping of an addition to the Cohasset Elementary School site and facility, as approved by voters in a special election held on April 10, 2018.

Rating: **MN Credit Enhancement Rating:** S&P Global Ratings "AA+"
Underlying Rating: S&P Global Ratings "A+"

Number of Bids: 8

Low Bidder: Citigroup Global Markets Inc., New York, New York

Comparison from Lowest to Highest Bid: (TIC as bid)	Low Bid	High Bid	Interest Difference
	3.3749%*	3.4449%	$675,299

Summary of Results:	Results of Sale
Principal Amount*:	$65,440,000
Underwriter's Discount:	$213,989
Reoffering Premium:	$5,469,551
True Interest Cost*:	3.3791%
Capitalized Interest:	$1,785,562
Costs of Issuance:	$180,604
Yield:	2.49% - 3.58%
Total Net P&I	$101,575,508

* *The winning bidder submitted a bid with a premium price (a price greater than the par amount of the bonds) that was larger than the estimates in the Pre-Sale Report. Most of the net premium (reoffering premium minus underwriter's discount) will be used to reduce the par amount of the bond issue. A portion of the balance will be used to pay the first year's interest payment and part of the second year's interest payment, and the remaining amount will be deposited in the construction fund. The maturity schedule of the bonds was also adjusted. The reduction in the bond size and change in the maturity schedule caused a slight change in the True Interest Cost.*

Notes: The True Interest Cost of 3.38% is lower than the estimate of 3.68% used for the Pre-Sale Report which was presented to the board on May 7th, and significantly lower than the estimate of 4.25% used for the Pre-Election estimates. Total principal and interest over the life of the bond issue will be approximately $5.4 million less than the Pre-Sale and Pre-Election estimates, while an additional $75,000 is available to finance project costs.

Closing Date:	June 28, 2018
School Board Action:	Adopt the resolution awarding the sale of $65,440,000 General Obligation School Building Bonds, Series 2018A.
Attachments:	• Bid Tabulation • Updated Sources and Uses of Funds • Debt Service Schedule, 2018A Issue • Updated Long-Term Debt Plan, Including Sale Results • Updated Tax Impact Schedule • S & P Rating Report • Bond Resolution (Distributed in School Board Packets)

BID TABULATION

$68,590,000* General Obligation School Building Bonds, Series 2018A

Independent School District No. 318 (Itasca County), Minnesota

SALE: June 4, 2018

AWARD: CITIGROUP GLOBAL MARKETS INC.

MN Credit Enhancement Rating: S&P Global Ratings "AA+"
Underlying Rating: S&P Global Ratings "A+"

BBI: 3.78%
Non-Bank Qualified

NAME OF BIDDER	MATURITY (February 1)	RATE	REOFFERING YIELD	PRICE	NET INTEREST COST	TRUE INTEREST RATE
CITIGROUP GLOBAL MARKETS INC.				$74,168,689.00	$34,095,239.75	3.374952%
New York, New York	2026	5.000%	2.490%			
Roosevelt & Cross	2027	5.000%	2.560%			
Siebert Cisneros	2028	5.000%	2.610%			
Drexel Hamilton, LLC	2029	5.000%	2.650%			
Stern Brothers & Co.	2030	5.000%	2.690%			
American Municipal S	2031	3.000%	3.140%			
Rice Fin'l	2032	4.000%	3.150%			
Cabrera Capital Mark	2033	4.000%	3.190%			
PROTECTIVE	2034	4.000%	3.240%			
Wiley Brothers, Inc.	2035	4.000%	3.280%			
	2036	4.000%	3.310%			
	2037	4.000%	3.330%			
	2038	3.500%	3.580%			
BANK OF AMERICA MERRILL LYNCH				$73,063,499.47	$33,796,708.23	3.374977%
New York, New York	2026	5.000%				
	2027	5.000%				
	2028	5.000%				
	2029	5.000%				
	2030	4.000%				
	2031	4.000%				
	2032	3.125%				
	2033	3.125%				
	2034	4.000%				
	2035	4.000%				
	2036	4.000%				
	2037	4.000%				
	2038	3.375%				

* Subsequent to bid opening the issue size was decreased to $65,440,000.
Adjusted Price - $70,695,562.30 Adjusted Net Interest Cost - $32,665,508.33 Adjusted TIC - 3.3791%

NAME OF BIDDER	MATURITY (February 1)	RATE	REOFFERING YIELD	PRICE	NET INTEREST COST	TRUE INTEREST RATE
BAIRD				$72,222,864.98	$33,892,955.12	3.3995%
Milwaukee, Wisconsin	2026	5.000%				
	2027	5.000%				
	2028	5.000%				
	2029	3.000%				
	2030	3.000%				
	2031	4.000%				
	2032	4.000%				
	2033	4.000%				
	2034	3.250%				
	2035	4.000%				
	2036	4.000%				
	2037	4.000%				
	2038	3.500%				
RAYMOND JAMES & ASSOCIATES, INC.				$74,429,993.30	$34,436,677.64	3.4066%
St. Petersburg, Florida	2026	5.000%				
	2027	5.000%				
	2028	5.000%				
	2029	5.000%				
	2030	5.000%				
	2031	5.000%				
	2032	4.000%				
	2033	4.000%				
	2034	3.250%				
	2035	4.000%				
	2036	4.000%				
	2037	4.000%				
	2038	3.500%				
MESIROW FINANCIAL, INC.				$73,897,806.67	$34,449,471.66	3.4101%
Chicago, Illinois	2026	5.000%				
	2027	5.000%				
	2028	5.000%				
	2029	5.000%				
	2030	4.000%				
	2031	3.000%				
	2032	4.000%				
	2033	4.000%				
	2034	4.000%				
	2035	4.000%				
	2036	4.000%				
	2037	4.000%				
	2038	4.000%				

NAME OF BIDDER	MATURITY (February 1)	RATE	REOFFERING YIELD	PRICE	NET INTEREST COST	TRUE INTEREST RATE
J.P. MORGAN SECURITIES LLC				$75,357,920.32	$34,813,238.85	3.4126%
New York, New York	2026	5.000%				
	2027	5.000%				
	2028	5.000%				
	2029	5.000%				
	2030	5.000%				
	2031	5.000%				
	2032	4.000%				
	2033	4.000%				
	2034	4.000%				
	2035	4.000%				
	2036	4.000%				
	2037	4.000%				
	2038	4.000%				
JEFFERIES				$75,286,355.89	$34,884,803.28	3.4216%
New York, New York	2026	5.000%				
	2027	5.000%				
	2028	5.000%				
	2029	5.000%				
	2030	5.000%				
	2031	5.000%				
	2032	4.000%				
	2033	4.000%				
	2034	4.000%				
	2035	4.000%				
	2036	4.000%				
	2037	4.000%				
	2038	4.000%				
WELLS FARGO BANK, NATIONAL ASSOCIATION				$74,040,573.99	$34,770,538.93	3.4449%
Charlotte, North Carolina	2026	5.000%				
	2027	5.000%				
	2028	5.000%				
	2029	5.000%				
	2030	5.000%				
	2031	4.000%				
	2032	4.000%				
	2033	4.000%				
	2034	4.000%				
	2035	3.250%				
	2036	4.000%				
	2037	4.000%				
	2038	4.000%				

Independent School District 318, Itasca County

Sources and Uses for 2018A School Building Bond Issue

June 4, 2018

	Pre-Election Estimates	Bond Sale Results
Authorized Bond Amount	**$68,910,000**	**$68,910,000**
Issued Bond Amount	**$68,910,000**	**$65,440,000**
Number of Years	19	20
Number of Levies	19	19
Dated	2/1/2019	6/28/2018
Estimated Interest Rate	4.25%	3.38%
Sources of Funds		
Par Amount of School Building Bond	$68,910,000	$65,440,000
Estimated Premium	0	5,469,551
City of Grand Rapids Contribution	941,906	941,906
IRRRB Grant	4,698,894	4,698,894
Long Term Facilities Maintenance Bond	2,000,000	2,000,000
Estimated Investment Earnings *	429,403	474,449
Total Sources	$76,980,203	$79,024,800
Uses of Funds		
Allowance for Discount Bidding	$0	$213,989
Capitalized Interest **	0	1,785,562
Legal and Fiscal Costs ***	205,469	180,604
Rounding / Contingency ****	4,748	0
Net Available for Project Costs	**76,769,987**	**76,844,645**
Total Uses	$76,980,203	$79,024,800

* Estimated investment earnings are based on an average interest rate of 0.5% and an average life of 15 months for the Pre-Election Estimate, and 18 months for the Bond Sale Results.

** Due to timing of the levy process, the district was not be able to make a levy for the interest payment due in FY 2019, equal to $1,625,145. The payment will be made from bond proceeds. In order to keep the FY 2020 tax rate consistent with the FY 2021 tax rate, a portion of the FY 2020 payment, equal to $160,417, will be made from bond proceeds.

*** Includes fees for municipal advisor, bond counsel, rating agency, paying agent and county certificates.

**** The rounding amount represents the total additional funds available for project costs or debt service due to the requirement to issue bonds in $5,000 increments.

Itasca County School District No 318

$65,440,000 General Obligation School Building Bonds, Series 2018A
Dated June 28, 2018

Net Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	CIF	Net New D/S	Fiscal Total
06/28/2018	-	-	-	-	-	-	-
02/01/2019	-	-	1,625,145.63	1,625,145.63	(1,625,145.63)	0.00	0.00
08/01/2019	-	-	1,373,362.50	1,373,362.50	(160,416.67)	1,212,945.83	-
02/01/2020	-	-	1,373,362.50	1,373,362.50	-	1,373,362.50	2,586,308.33
08/01/2020	-	-	1,373,362.50	1,373,362.50	-	1,373,362.50	-
02/01/2021	-	-	1,373,362.50	1,373,362.50	-	1,373,362.50	2,746,725.00
08/01/2021	-	-	1,373,362.50	1,373,362.50	-	1,373,362.50	-
02/01/2022	-	-	1,373,362.50	1,373,362.50	-	1,373,362.50	2,746,725.00
08/01/2022	-	-	1,373,362.50	1,373,362.50	-	1,373,362.50	-
02/01/2023	-	-	1,373,362.50	1,373,362.50	-	1,373,362.50	2,746,725.00
08/01/2023	-	-	1,373,362.50	1,373,362.50	-	1,373,362.50	-
02/01/2024	-	-	1,373,362.50	1,373,362.50	-	1,373,362.50	2,746,725.00
08/01/2024	-	-	1,373,362.50	1,373,362.50	-	1,373,362.50	-
02/01/2025	-	-	1,373,362.50	1,373,362.50	-	1,373,362.50	2,746,725.00
08/01/2025	-	-	1,373,362.50	1,373,362.50	-	1,373,362.50	-
02/01/2026	3,680,000.00	5.000%	1,373,362.50	5,053,362.50	-	5,053,362.50	6,426,725.00
08/01/2026	-	-	1,281,362.50	1,281,362.50	-	1,281,362.50	-
02/01/2027	4,010,000.00	5.000%	1,281,362.50	5,291,362.50	-	5,291,362.50	6,572,725.00
08/01/2027	-	-	1,181,112.50	1,181,112.50	-	1,181,112.50	-
02/01/2028	4,210,000.00	5.000%	1,181,112.50	5,391,112.50	-	5,391,112.50	6,572,225.00
08/01/2028	-	-	1,075,862.50	1,075,862.50	-	1,075,862.50	-
02/01/2029	4,420,000.00	5.000%	1,075,862.50	5,495,862.50	-	5,495,862.50	6,571,725.00
08/01/2029	-	-	965,362.50	965,362.50	-	965,362.50	-
02/01/2030	4,640,000.00	5.000%	965,362.50	5,605,362.50	-	5,605,362.50	6,570,725.00
08/01/2030	-	-	849,362.50	849,362.50	-	849,362.50	-
02/01/2031	4,875,000.00	3.000%	849,362.50	5,724,362.50	-	5,724,362.50	6,573,725.00
08/01/2031	-	-	776,237.50	776,237.50	-	776,237.50	-
02/01/2032	5,015,000.00	4.000%	776,237.50	5,791,237.50	-	5,791,237.50	6,567,475.00
08/01/2032	-	-	675,937.50	675,937.50	-	675,937.50	-
02/01/2033	5,215,000.00	4.000%	675,937.50	5,890,937.50	-	5,890,937.50	6,566,875.00
08/01/2033	-	-	571,637.50	571,637.50	-	571,637.50	-
02/01/2034	5,425,000.00	4.000%	571,637.50	5,996,637.50	-	5,996,637.50	6,568,275.00
08/01/2034	-	-	463,137.50	463,137.50	-	463,137.50	-
02/01/2035	5,640,000.00	4.000%	463,137.50	6,103,137.50	-	6,103,137.50	6,566,275.00
08/01/2035	-	-	350,337.50	350,337.50	-	350,337.50	-
02/01/2036	5,865,000.00	4.000%	350,337.50	6,215,337.50	-	6,215,337.50	6,565,675.00
08/01/2036	-	-	233,037.50	233,037.50	-	233,037.50	-
02/01/2037	6,100,000.00	4.000%	233,037.50	6,333,037.50	-	6,333,037.50	6,566,075.00
08/01/2037	-	-	111,037.50	111,037.50	-	111,037.50	-
02/01/2038	6,345,000.00	3.500%	111,037.50	6,456,037.50	-	6,456,037.50	6,567,075.00
Total	**$65,440,000.00**	-	**$37,921,070.63**	**$103,361,070.63**	**(1,785,562.30)**	**$101,575,508.33**	-

Yield Statistics

Bond Year Dollars	$928,068.67
Average Life	14.182 Years
Average Coupon	4.0860199%
Net Interest Cost (NIC)	3.5197297%
True Interest Cost (TIC)	3.3791786%
Bond Yield for Arbitrage Purposes	3.1035944%
All Inclusive Cost (AIC)	3.4031129%

IRS Form 8038

Net Interest Cost	3.2714978%
Weighted Average Maturity	13.989 Years

RESULTS OF BOND SALE

Independent School District 318, Itasca County

Estimated Payments and Tax Levies for Existing Debt and 2018A School Building Bond

$65,440,000 Bond Issue
April 2018 Election; 20 Years
Wrapped Around Existing Debt

June 4, 2018

Principal Amount:	$65,440,000
Dated Date:	6/28/2018
Avg. Interest Rate:	3.38%

Levy Pay. Year	Fiscal Year	Tax Capacity Value[1] ($000s)		Existing Commitments: Initial Debt Levies[2] Bldg Bonds	Existing Commitments: Initial Debt Levies[2] OPEB Bonds	Existing Commitments: Capital Leases	Existing Commitments: Debt Excess[4]	Existing Commitments: Net Levy	Existing Commitments: Tax Rate	Proposed New Debt: Principal	Proposed New Debt: Interest	Proposed New Debt: Add'l. Debt Excess[4]	Proposed New Debt: Adjusted Levy[3]	Combined Totals: Adjusted Debt Levy[3]	Combined Totals: Net Levy	Combined Totals: Tax Rate
2017	2018	42,254	1.4%	1,022,018	4,177,907	393,739	(274,218)	5,319,446	12.59	-	-	-	-	5,319,446	5,319,446	12.59
2018	2019	42,012	-0.6%	-	4,897,741	393,739	(332,812)	4,958,669	11.80	-	1,625,146 [5]	-	-	4,958,669	4,958,669	11.80
2019	2020	42,012	0.0%	-	4,899,158	393,739	(195,910)	5,096,988	12.13	-	2,746,725 [5]	-	2,715,624	7,812,612	7,812,612	18.60
2020	2021	42,012	0.0%	-	4,903,700	218,602	(195,966)	4,926,336	11.73	-	2,746,725	-	2,884,061	7,810,397	7,810,397	18.59
2021	2022	42,012	0.0%	-	4,911,246	121,587	(196,148)	4,836,685	11.51	-	2,746,725	-	2,884,061	7,720,747	7,720,747	18.38
2022	2023	42,012	0.0%	-	4,929,963	121,587	(196,450)	4,855,100	11.56	-	2,746,725	(115,362)	2,768,699	7,623,799	7,623,799	18.15
2023	2024	42,012	0.0%	-	4,947,288	-	(197,199)	4,750,089	11.31	-	2,746,725	(110,748)	2,773,313	7,523,402	7,523,402	17.91
2024	2025	42,012	0.0%	-	4,949,049	-	(197,892)	4,751,157	11.31	-	2,746,725	(110,933)	2,773,129	7,524,286	7,524,286	17.91
2025	2026	42,012	0.0%	-	-	-	-	-	-	3,680,000	2,746,725	(110,925)	6,637,136	6,637,136	6,637,136	15.80
2026	2027	42,012	0.0%	-	-	-	-	-	-	4,010,000	2,562,725	(265,485)	6,635,876	6,635,876	6,635,876	15.80
2027	2028	42,012	0.0%	-	-	-	-	-	-	4,210,000	2,362,225	(265,435)	6,635,401	6,635,401	6,635,401	15.79
2028	2029	42,012	0.0%	-	-	-	-	-	-	4,420,000	2,151,725	(265,416)	6,634,895	6,634,895	6,634,895	15.79
2029	2030	42,012	0.0%	-	-	-	-	-	-	4,640,000	1,930,725	(265,396)	6,633,865	6,633,865	6,633,865	15.79
2030	2031	42,012	0.0%	-	-	-	-	-	-	4,875,000	1,698,725	(265,355)	6,637,057	6,637,057	6,637,057	15.80
2031	2032	42,012	0.0%	-	-	-	-	-	-	5,015,000	1,552,475	(265,482)	6,630,366	6,630,366	6,630,366	15.78
2032	2033	42,012	0.0%	-	-	-	-	-	-	5,215,000	1,351,875	(265,215)	6,630,004	6,630,004	6,630,004	15.78
2033	2034	42,012	0.0%	-	-	-	-	-	-	5,425,000	1,143,275	(265,200)	6,631,489	6,631,489	6,631,489	15.78
2034	2035	42,012	0.0%	-	-	-	-	-	-	5,640,000	926,275	(265,260)	6,629,329	6,629,329	6,629,329	15.78
2035	2036	42,012	0.0%	-	-	-	-	-	-	5,865,000	700,675	(265,173)	6,628,786	6,628,786	6,628,786	15.78
2036	2037	42,012	0.0%	-	-	-	-	-	-	6,100,000	466,075	(265,151)	6,629,227	6,629,227	6,629,227	15.78
2037	2038	42,012	0.0%	-	-	-	-	-	-	6,345,000	222,075	(265,169)	6,630,260	6,630,260	6,630,260	15.78
2038	2039	42,012	0.0%	-	-	-	-	-	-	-	-	-	-	-	-	-
Totals				4,069,170	41,125,006	1,642,995	(2,052,756)	44,784,415		65,440,000	37,921,071	(3,631,705)	103,022,578	147,806,994	147,806,994	

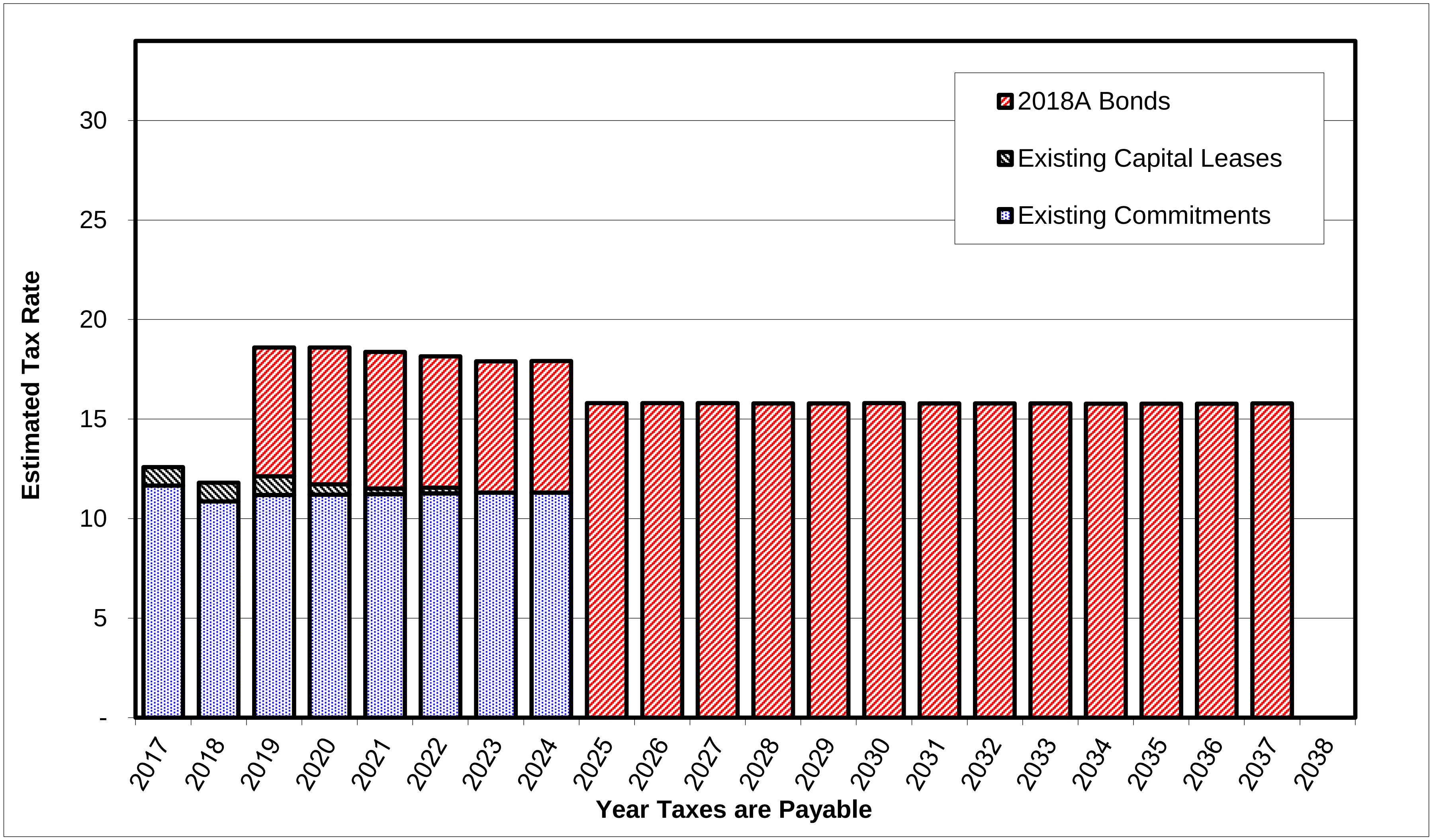
1 The tax capacity value for taxes payable in 2017 and 2018 is the final value. Estimates for later years are based on annual percentage changes shown above.
2 Initial debt service levies are set at 105 percent of the principal and interest payments during the next fiscal year.
3 The adjusted debt levy is the initial debt service levy less the debt excess adjustment.
4 The debt excess adjustments for Existing Debt for pay 2017 and pay 2018 are actual. The debt excess adjustment for subsequent years are estimated at 4% of the prior year's initial debt levy.
5 Due to timing of the levy process, the district was not be able to make a levy for the interest payment due in FY 2019, equal to $1,625,146. The payment will be made from bond proceeds. In order to keep the FY 2020 tax rate consistent with the FY 2021 tax rate, a portion of the FY 2020 payment, equal to $160,417, will be made from bond proceeds.

RESULTS OF BOND SALE

Independent School District 318, Itasca County
Estimated Tax Rates for Capital and Debt Service Levies
Existing Commitments and 2018A School Building Bond

$65,440,000 Bond Issue
April 2018 Election; 20 Years
Wrapped Around Existing Debt

Date Prepared: **June 4, 2018**



DebtPlan 2018A Results

Ind. School District 318, Itasca County

Analysis of Tax Impact for 2018A Bond Issue

June 4, 2018

	Pre-Election Estimate: Question 1	Bond Sale Results
Authorized Bond Amount	**$68,910,000**	**$68,910,000**
Bond Issue Amount	**$68,910,000**	**$65,440,000**
Number of Years	**19**	**20**
Number of Levies	**19**	**19**

Type of Property	Estimated Market Value	Estimated Monthly Tax Change Taxes Payable 2018 to Taxes Payable 2019 *			
Residential Homestead	$75,000	$33	$2.75	$29	$2.43
	100,000	53	4.39	46	3.87
	125,000	73	6.06	64	5.34
	150,000	93	7.72	82	6.81
	200,000	133	11.06	117	9.75
	250,000	173	14.39	152	12.68
	300,000	213	17.72	187	15.62
	500,000	367	30.58	324	26.96
	750,000	596	49.70	526	43.81
	1,000,000	826	68.81	728	60.66
Commercial/ Industrial	$100,000	$110	$9.18	$97	$8.09
	250,000	312	26.00	275	22.91
	500,000	679	56.58	598	49.87
	750,000	1,046	87.16	922	76.83
	1,000,000	1,413	117.75	1,245	103.79
	1,500,000	2,147	178.91	1,892	157.71
Apartments	$100,000	$92	$7.65	$81	$6.74
	250,000	229	19.11	202	16.85
	500,000	459	38.23	404	33.70
Agricultural Homestead ** (average value per acre of land and buildings)	$2,000	$0.44	$0.04	$0.39	$0.03
	4,000	0.88	0.07	0.78	0.06
	5,000	1.10	0.09	0.97	0.08
	6,000	1.32	0.11	1.16	0.10
Agricultural Non-Homestead ** (average value per acre of land and buildings)	$2,000	$0.88	$0.07	$0.78	$0.06
	4,000	1.76	0.15	1.55	0.13
	5,000	2.20	0.18	1.94	0.16
	6,000	2.64	0.22	2.33	0.19
Seasonal Recreational	75,000	$55	$4.59	$49	$4.04
	150,000	110	9.18	97	8.09
	250,000	184	15.29	162	13.48
	500,000	367	30.58	324	26.96

* Estimated tax impact includes principal and interest payments on the new bonds. The amounts in the table are based on school district taxes for bonded debt levies only, and do not include tax levies for other purposes. Tax increases shown above are gross increases, not including the impact of the homeowner's Homestead Credit Refund ("Circuit Breaker") program. Many owners of homestead property will qualify for a refund, based on their income and total property taxes. This will decrease the net effect of the proposed bond issue for many property owners.

** Estimated tax impact includes 40% reduction due to the School Building Bond Agricultural Credit. Average value per acre is the total assessed value of all land & buildings divided by total acres. Homestead examples exclude the house, garage, and one acre, which has the same tax impact as a residential homestead.

S&P Global
Ratings

RatingsDirect®

Summary:

Itasca County Independent School District No. 318, Minnesota; School State Program

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Summary:

Itasca County Independent School District No. 318, Minnesota; School State Program

Credit Profile		
US$68.59 mil GO sch bldg bnds ser 2018A dtd 06/28/2018 due 02/01/2038		
Long Term Rating	AA+/Stable	New
Underlying Rating for Credit Program	A+/Stable	New
Itasca Cnty Indpt Sch Dist #318 GO state credit enhancment		
Long Term Rating	AA+/Stable	Current
Underlying Rating for Credit Program	A+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' enhanced long-term rating and 'A+' underlying rating to Itasca County Independent School District (ISD) No. 318, Minn.'s series 2018A general obligation (GO) school building bonds. At the same time, we affirmed our 'A+' underlying rating on the district's existing GO debt. The outlook on all ratings is stable.

The 'AA+' long term rating reflects the district's eligibility for and participation in Minnesota's School District Credit Enhancement Program, a state standing appropriation program to prevent a default on the district's bond issues as authorized by Minnesota State Statutes, Section 126C.55. Under the program, the state will pay debt service on behalf of the district from the state's general fund if the district fails to meet its debt service obligations for the qualified debt. Payments from the state represent a standing appropriation from the state's general fund. We view this standing appropriation pledge as equivalent to a general fund pledge because the standing appropriation does not require adoption of a budget or any action of the legislature to make payment. Furthermore, the standing appropriation is not subject to executive unallotment authority. Additionally, the credit enhancement program supports projects that are central to the state of Minnesota's operations and purpose. In our opinion, there is no unusual political, timing, or administrative risk related to the debt payment. The rating on obligations that have received enhancement under the program is on par and moves in tandem with the rating on the state.

The bonds are secured by the district's GO unlimited property tax pledge. Proceeds from the sale of the 2018A bonds will be used for school construction and remodeling projects and equipment.

The underlying rating reflects our view of the district's:

- Good-to-adequate income levels;
- Extremely strong market value per capita;
- Very strong available reserves; and

- Financial management practices and policies we consider "good" under our Financial Management Assessment (FMA).

The above strengths are somewhat offset by the district's moderately concentrated tax base, high pension and other postemployment benefit (OPEB) carrying charges, and plans to reduce reserves over the next two years.

Economy

Itasca County ISD No. 318 serves an estimated population of 28,308 across about 1,956 square miles in Grand Rapids, Bigfork, Effie, La Prairie, and Squaw Lake, as well as surrounding areas. At 93% and 90% of national averages, respectively, the district's median household and per capita effective buying incomes are good, in our view. The total $4.2 billion economic market value in 2017 is extremely strong, in our view, at $146,620 per capita. Assessed value (AV) grew by a total of 1.5% since 2016 to $43.4 million in 2018. Roughly 32.2% of AV comes from the 10 largest taxpayers, representing a moderately concentrated tax base, in our opinion.

The regional economy is based primarily in iron ore mining, timber, and wood/paper product manufacturing. Its tax base is moderately concentrated, although its top two taxpayers, Minnesota Power & Light (16.7% of net tax capacity) and Enbridge Energy L.P. (6.8%), have been stable in recent years. Unemployment in Itasca County remains somewhat high, although it improved to 7% in 2017 (down from 8.5% in 2016). The district expects the tax base to grow somewhat due to new construction. We expect the economy to remain stable overall.

Finances

The state's basic general education revenue funding, which is determined by pupil count, is the primary source of operating revenue for Minnesota school districts. As a result, increases or decreases in enrollment can lead to increases or decreases, respectively, in revenue. State aid accounted for 77% of 2017 general fund revenue. In 2018, enrollment came in at 3,961, increasing slightly overall from 2014 to 2018, which is a trend management expects will continue over the next few years.

The district's available fund balance of $8.8 million is very strong, in our view, at 18% of general fund expenditures at fiscal year-end (June 30) 2017. The district reported a deficit operating result of 5.4% of expenditures in 2017.

The 2017 general fund deficit was related to an expansion of mental health programs for students as well as a one-time ($729,000) transfer to its building fund. It plans to reduce the structural deficit over the next two fiscal years, primarily through revenue growth. In 2018, management expects about a $500,000 general fund deficit, followed by $100,000 to $200,000 in fiscal 2019. These planned deficits would reduce available reserves to approximately $8 million (16% of expenditures), which we would still consider very strong. Based on the district's prior growth in revenue and projections of increased enrollment, we expect that it will be able to return to balanced operations over the next two-to-three years and without significantly reducing available reserves.

Management

We consider the district's management practices "good" under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

In developing the budget, management uses at least three years of historical data, outside data sources, and line-item estimates. The board receives monthly budget-to-actual reports and the budget can be amended as necessary throughout the year. The district uses a multiyear financial model that covers the budget year and five future years. It also has a 10-year long-term facilities maintenance plan, which it uses to identify capital projects funded by state funds. It has an investment management policy and the board receives quarterly holdings reports. It does not have a debt management policy but it has a general fund reserve policy to maintain at least 5% of expenditures. The district has historically complied with this policy.

Debt

As a percentage of market value, we consider overall net debt low, at 2.2%, and moderate on a per capita basis at $3,227. Amortization is slower than average, with 39% of the district's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 10.4% of total governmental fund expenditures (excluding capital outlay) in fiscal 2017, which we consider moderate.

The district reports that it may issue $2 million in GO debt in 2019. It has about $1.1 million in private lease debt outstanding. The lease terms do not include debt acceleration provisions or other provisions we view as a contingent liability risk.

Pension and other postemployment benefit liabilities

In fiscal 2017, the district paid its full required contribution of $2.2 million, or 3.6% of total governmental expenditures, toward its pension obligations. It also contributed $4.4 million, or 7.4% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations in fiscal 2017. Combined pension and OPEB carrying charges totaled 11.1% of total governmental fund expenditures in 2017.

The district participates in two cost-sharing multiple-employer pension plans, including the Teachers' Retirement Association (TRA) and General Employees Retirement Fund (GERF). In 2017, the TRA and GERF plans were 51.6% and 75.9% funded, respectively. Contributions to the plans are based on statutory rates, which have historically been below actuarially determined rates and have reduced funding levels (particularly for TRA). In fiscal 2016 (the latest year data were available) the district's share of the net pension liabilities for these plans totaled $99 million.

The state recently adopted pension reform legislation that will marginally increase employer contributions to TRA over the next several years (to 8.75% in fiscal 2024 from 7.5%). It also will increase employee contributions to 7.75% (from 7.5%) in fiscal 2024. The district will receive additional state aid to offset the increased pension contributions, so it is unlikely to be significantly affected by the legislation. However the legislation would be somewhat positive for TRA plan funding levels over time.

The district maintains a single-employer OPEB plan, which it funds on a pay-as-you-go basis. It previously issued OPEB obligation bonds that it used to establish a revocable trust (with assets of $21 million). Its unfunded actuarial accrued liability was $126 million as of June 30, 2017 (the latest actuarial valuation).

Outlook

The stable outlook on the long-term credit enhancement program rating reflects that on the state of Minnesota and moves in tandem with the state GO rating and outlook.

The stable outlook on the underlying rating reflects our expectation that, despite planned drawdowns, the district will maintain at least strong reserves over the next two years. We do not expect to change the rating within the two-year outlook period.

Upside scenario

We could raise the rating if the economy improves and diversifies to a level commensurate with higher rated peers while the district also maintained very strong reserves.

Downside scenario

We could lower the rating if, due to budgetary imbalance, reserve levels no longer compared with its peers.

Related Research

- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.