



Once upon a time there was an idea for a building. The story of the life of a building project.

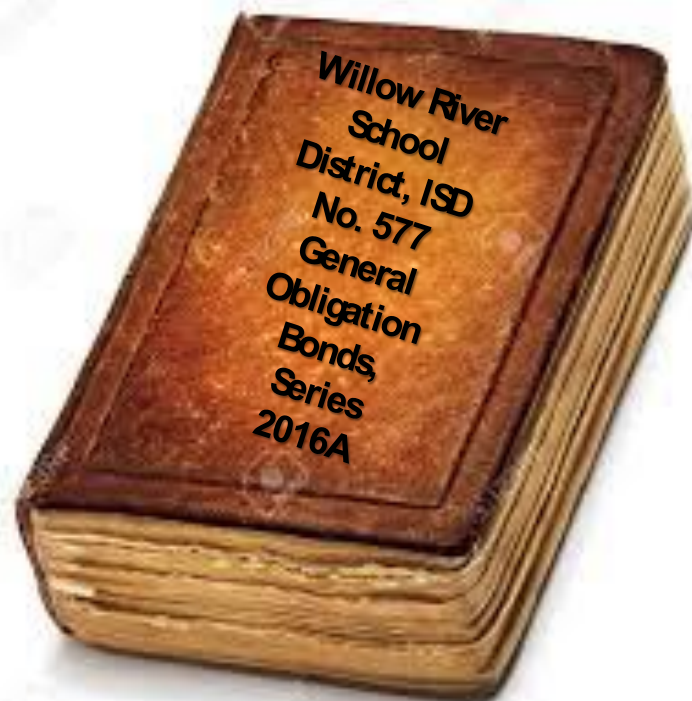
Shelby McQuay – Municipal Advisor

Ryan Miles – Senior Investment Advisor

Stephen Broden – Arbitrage Managing Director

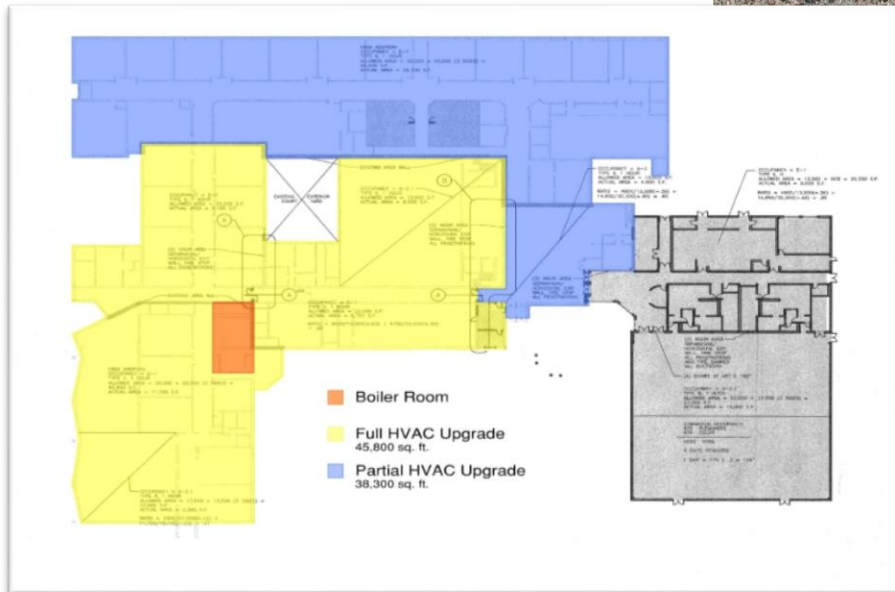


The Story of the Life of a Building Project





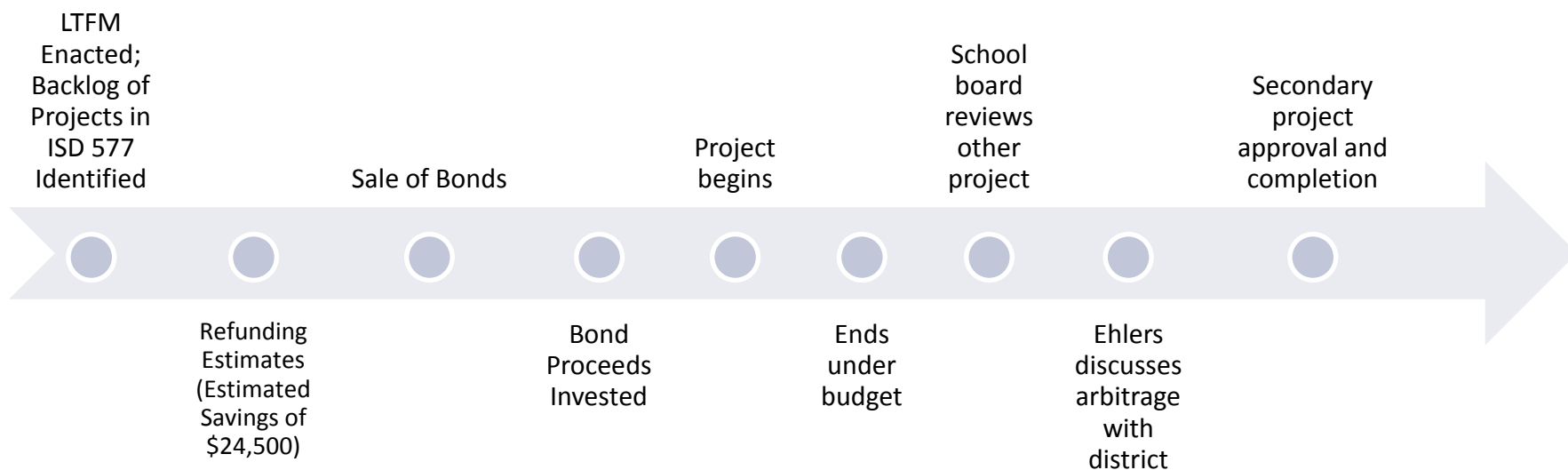
Chapter 1 – The Project





Chapter 1 – The Project & The Project Timeline

- Health & Safety
- Deferred Maintenance
- Current Refunding





Chapter 2 – The Project and the Funding Sources

- “Pay as you go” LTFM
- Issue facilities maintenance bonds
- LTFM fund balance



Chapter 2 – The Project Totals

- Current Refunding of 2006 Bonds
 - \$654,389
- Deferred Maintenance Project Budget
 - \$1.30 m
- Health & Safety Project Budget
 - \$5.16 m



Chapter 2 – Project Sources & Uses

	Current Refunding	FM Bonds/ Per Pupil	FM Bonds/ Additional	Combined Totals
Bond Amount	\$640,000	\$1,260,000	\$5,145,000	\$7,045,000
Number of Years Dated	3.5	15	21	
	9/13/2016	9/13/2016	9/13/2016	9/13/2016
Sources of Funds				
Par Amount	\$640,000	\$1,260,000	\$5,145,000	\$7,045,000
Reoffering Premium	26,314	74,518	192,481	293,313
Investment Earnings *	0	1,240	5,032	6,271
Total Sources	\$666,314	\$1,335,758	\$5,342,513	\$7,344,585
Uses of Funds				
Allowance for Discount Bidding **	\$4,371	\$8,605	\$35,137	\$48,112
Capitalized Interest +	0	0	48,427	48,427
Legal and Fiscal Costs #	6,101	11,821	29,548	47,469
Rounding	1,453	914	-1,083	1,284
Net Available for Refunding/Project Costs	654,389	1,314,419	5,230,484	7,199,292
Total Uses	\$666,314	\$1,335,758	\$5,342,513	\$7,344,585



Chapter 3 – Investment Bond Proceeds Objectives

- Safety of Principal
- Liquidity
- Yield

Investment Suitability
Fiduciary responsibility
The Guide: Investment Policy





Chapter 3 – Bond Proceeds Investment Strategies

Passive

Bank Money Market/Local
Government Investment Pool

Immediate availability

Minimal resources required to
monitor

Zero market/interest rate risk

Inconsistent investment returns

Lowest return over time

Active

Managed portfolio of permitted
investments

Consistent investment returns

Maximize returns over time

Availability of funds investment
dependent

Additional resources required to
monitor

Subject to market/interest rate risk



Chapter 3 – Investment Market Participants

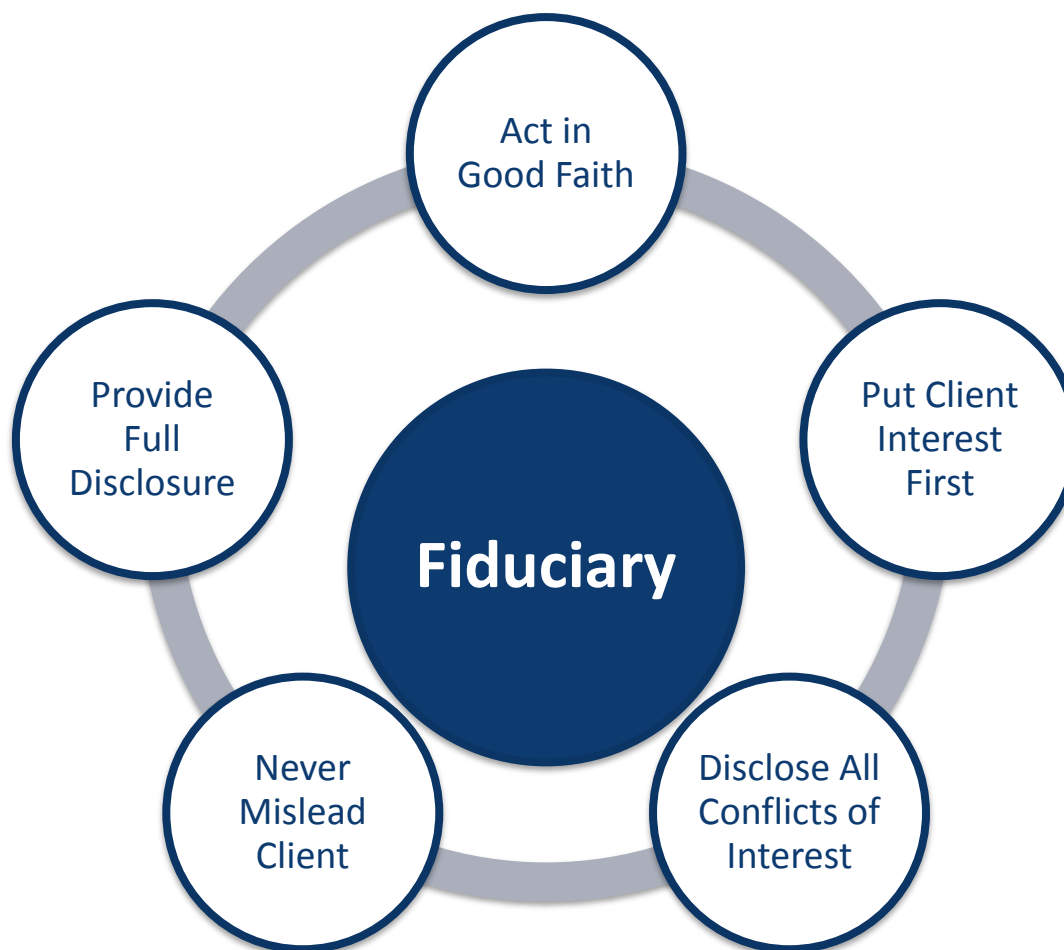
Typical Participants:

- Broker / Dealer
- Registered Representative
- Bank
- Custodial Bank
- Registered Investment Advisor





Chapter 3 – Prudent Investor Rule – Fiduciary vs Suitability





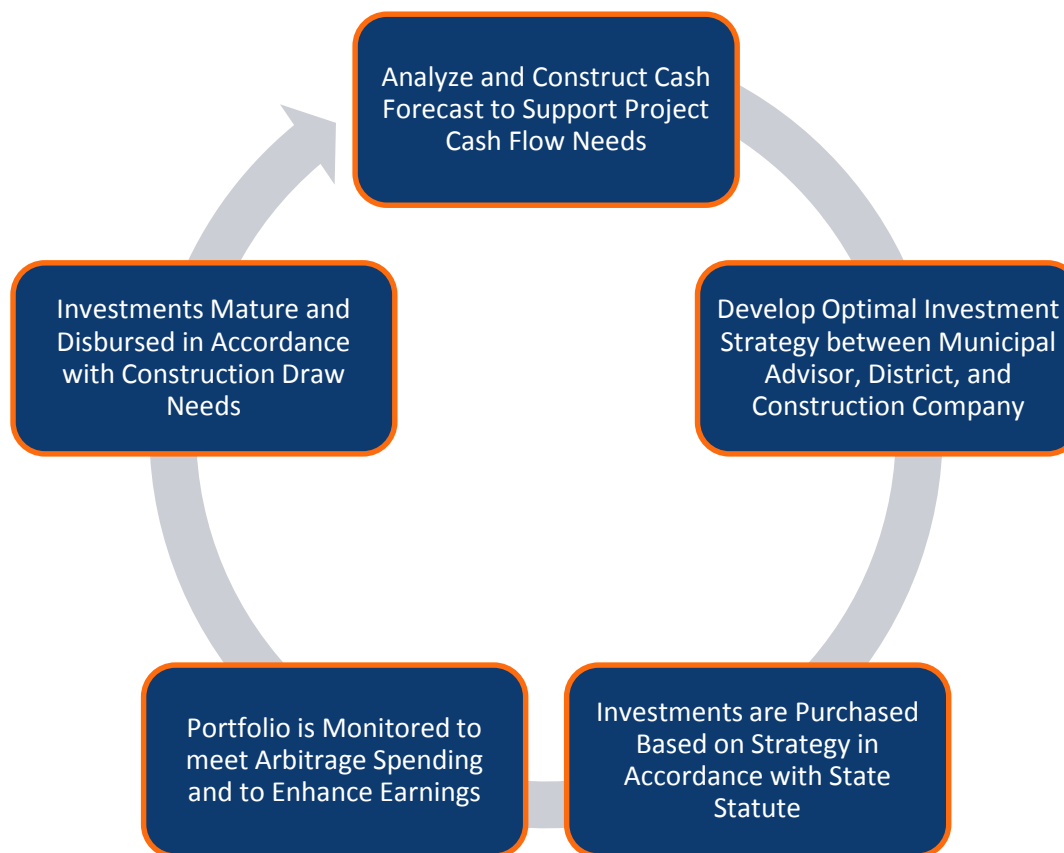
Chapter 3 – Importance of a Strategy

Opportunity Cost of Lack of Investment Strategy

Bond Issue	Avg Bond Portfolio Return (%)	Weighted Avg Maturity 2yr Issue (yrs)	Projected Total Return (\$)
\$7,045,000	0.50%	1.1	\$38,748
\$7,045,000	0.75%	1.1	\$58,121
\$7,045,000	1.00%	1.1	\$77,495
\$7,045,000	1.25%	1.1	\$96,869
\$7,045,000	1.50%	1.1	\$116,243
\$7,045,000	1.75%	1.1	\$135,616
\$7,045,000	2.00%	1.1	\$154,990
\$7,045,000	2.25%	1.1	\$174,364
\$7,045,000	2.50%	1.1	\$193,738



Chapter 3 – Bond Proceeds Investing Roadmap





Chapter 3 – Common Investment Types- MN Statute 118A

Local Government Investment Pools

Time Deposit or CD

Money Market Mutual Fund

Commercial Paper

Repurchase Agreement (aka Repos)

Obligations of Federal Government (T-Bills / Notes / Bonds)

Obligations guaranteed by the Federal Government (GNMA, SBA, etc.)

Obligations of Federal Agencies(FNMA, FHLMC, FHLB, FFCEB, etc.)

Mortgage Backed Securities

Municipal Bonds





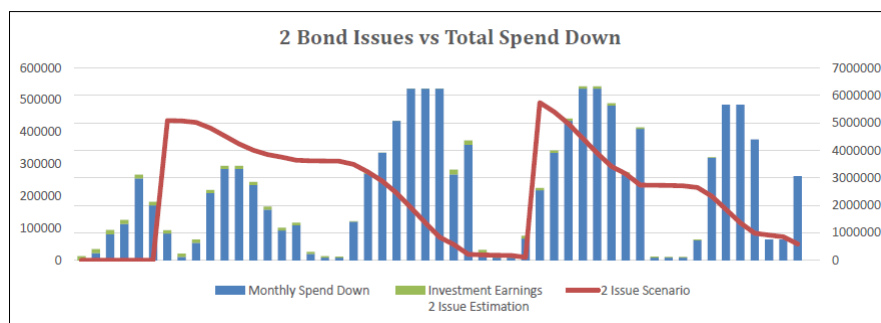
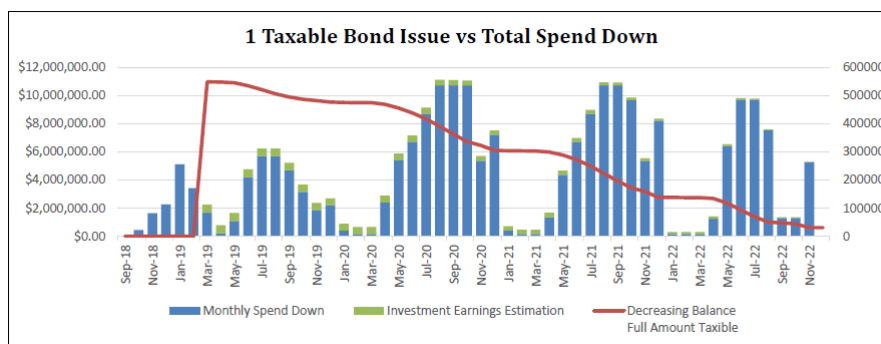
Chapter 3 – Bond Proceeds portfolio construction

Willow River Public Schools 2016A Bond Proceeds - Portfolio 9/13/2016

Investment Security/Type	Amount	YTM	Maturity
Northpointe Bank CD	130,000	0.6000%	5/22/2017
Bank Leiumi CD	248,000	0.7000%	6/21/2017
First Financial Bank CD	248,000	0.7000%	6/21/2017
Pacific Western Bank CD	229,000	0.6500%	6/16/2017
Southern First Bank CD	248,000	0.7000%	7/21/2017
USAmeribank CD	248,000	0.6500%	7/24/2017
FNMA 0.65	704,000	0.6500%	8/10/2017
Fidelity Bank CD	248,000	0.7000%	8/23/2017
United Bankers Bank CD	62,000	0.8000%	12/22/2017
Total	6,360,000		

Average Weighted YTM **0.7255%**
 Average Weighted Maturity(Duration) **0.97** years
 Estimated Earnings **\$ 44,809.39**

Historical returns are not a guarantee of future results.
 Information obtained is from sources we believe to be reliable
 but we do not guarantee accuracy. Neither the information, nor any opinion
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 Yields, rates, securities and prices are subject to change and availability.





Chapter 3 – Bond Proceeds Projected Cashflows

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Projected Cash Flows

Willow River ISD No. 577/Bond Proceeds 2016A

As of Date 2/28/2017 Account Number Report Currency USD

Security Name(Ticker/Symbol)	Quantity	03/2017	04/2017	05/2017	06/2017	07/2017	08/2017	09/2017	10/2017	11/2017	12/2017	01/2018	02/2018	Total
MERRICK BK SOUTH JORDAN UTAH C D MTHLY (59013JTJ8)	248,000.00	165	165	165	165	165	165	165	0	0	0	0	0	1,157
PACIFIC WESTERN BANK CA CD (69506YDC0)	229,000.00	0	0	0	744	0	0	0	0	0	0	0	0	744
SAFRA NATL BK NEW YORK CD (78658QYW7-)	180,000.00	0	0	0	0	0	0	1,440	0	0	0	0	0	1,440
SANTANDER BK NATL ASSN CD 0% (80280J-QE4)	248,000.00	0	0	0	0	0	0	1,984	0	0	0	0	0	1,984
SOUTHERN MO BK & TR CO CD MTHLY (8433-83AU4)	115,000.00	77	77	77	77	77	77	77	77	77	0	0	0	690
UNITED BANKERS BANK CD MTHLY (909557F-Z8)	62,000.00	41	41	41	41	41	41	41	41	41	41	0	0	413
USAMERIBANK LARGO FL CD MTHLY (917312-DU1)	248,000.00	134	134	134	134	269	0	0	0	0	0	0	0	806
Total	-	4,582	1,048	1,048	5,268	1,182	2,512	17,409	2,107	294	217	0	0	35,667



Chapter 3 – Annual GASB 72 reporting

Ehlers GASB 72 Rpt
Base Currency: USD As of 06/30/2018

Willow Rvr Bond Proceeds 2016A [REDACTED]
Dated: 10/10/2018

Security Type Category	Level 1	Level 2	Level 3	Other	Total
CD	0.00	599,724.00	0.00	0.00	599,724.00
Currency	361.11	0.00	0.00	0.00	361.11
MM Fund	346,318.89	0.00	0.00	0.00	346,318.89
---	346,680.00	599,724.00	0.00	0.00	946,404.00

Level 1

Account	Identifier	Description	Base Current Units	Fair Value Level (2)	Security Type	ES Class	Base Net Total Unrealized Gain/ Loss	Market Price	Base Market Value	Base Market Value + Accrued
Willow Rvr Bond Proceeds 2016A	608919809	[REDACTED]	346,318.89	Level 1	MMFUND	CE	0.00	1.0000	346,318.89	346,318.89
Willow Rvr Bond Proceeds 2016A	CCYUSD	Cash	400,399.74	Level 1	CASH	Cash	0.00	1.0000	400,399.74	400,399.74
Willow Rvr Bond Proceeds 2016A	CCYUSD	Payable	-400,038.63	Level 1	CASH	PAY	0.00	1.0000	-400,038.63	-400,038.63
Willow Rvr Bond Proceeds 2016A	---	---	346,680.00	Level 1	---	---	0.00	1.0000	346,680.00	346,680.00

Level 2

Account	Identifier	Description	Base Current Units	Fair Value Level (2)	Security Type	ES Class	Base Net Total Unrealized Gain/ Loss	Market Price	Base Market Value	Base Market Value + Accrued
Willow Rvr Bond Proceeds 2016A	024263CC7	American Bank & Trust Company, Inc.	200,000.00	Level 2	CD	ST	-71.00	99.9720	199,944.00	199,944.00
Willow Rvr Bond Proceeds 2016A	41166HBA3	HarborCoop Bank	200,000.00	Level 2	CD	ST	-45.00	99.9700	199,940.00	199,978.63
Willow Rvr Bond Proceeds 2016A	856188AZ0	The State Bank	200,000.00	Level 2	CD	ST	-174.92	99.9200	199,840.00	199,865.21
Willow Rvr Bond Proceeds 2016A	---	---	600,000.00	Level 2	CD	ST	-290.92	99.9540	599,724.00	599,787.84

Summary

Account	Identifier	Description	Base Current Units	Fair Value Level (2)	Security Type	ES Class	Base Net Total Unrealized Gain/ Loss	Market Price	Base Market Value	Base Market Value + Accrued
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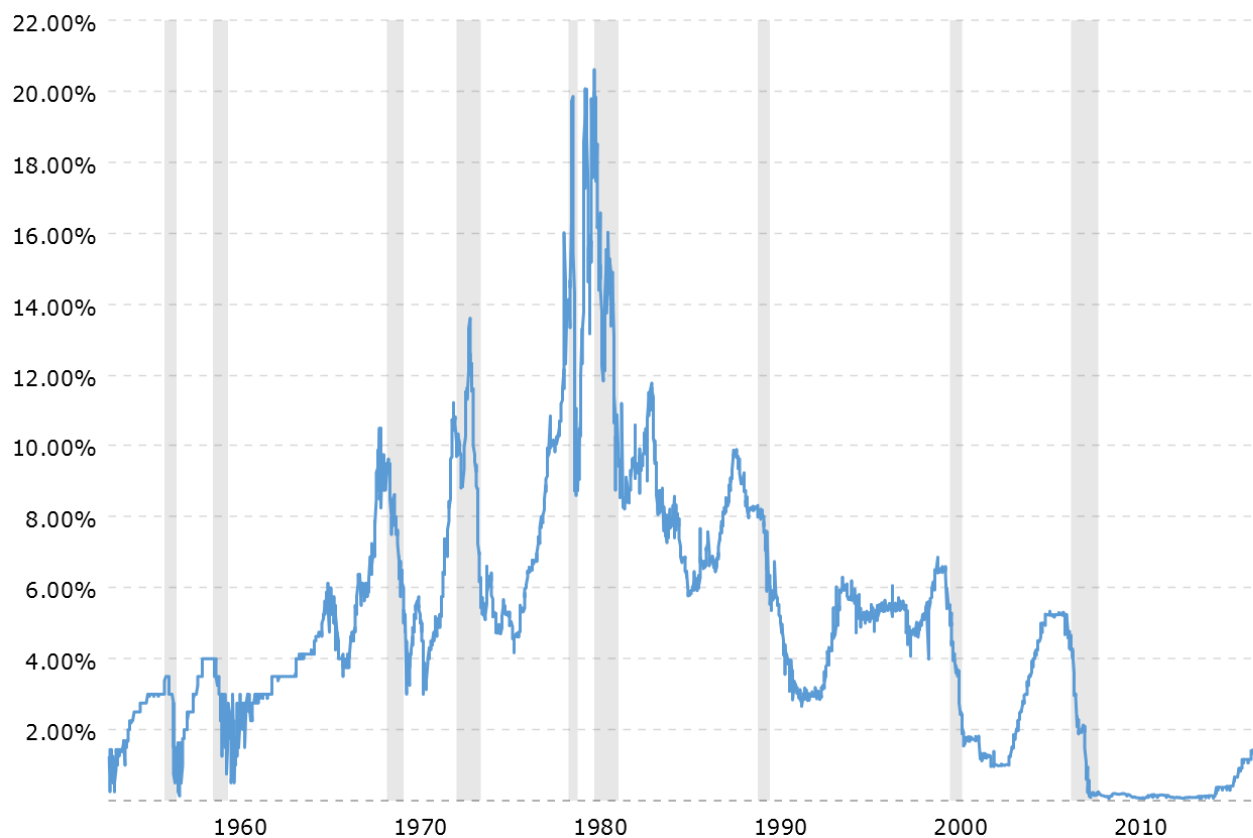


Chapter 4 – Investment Risk Factors



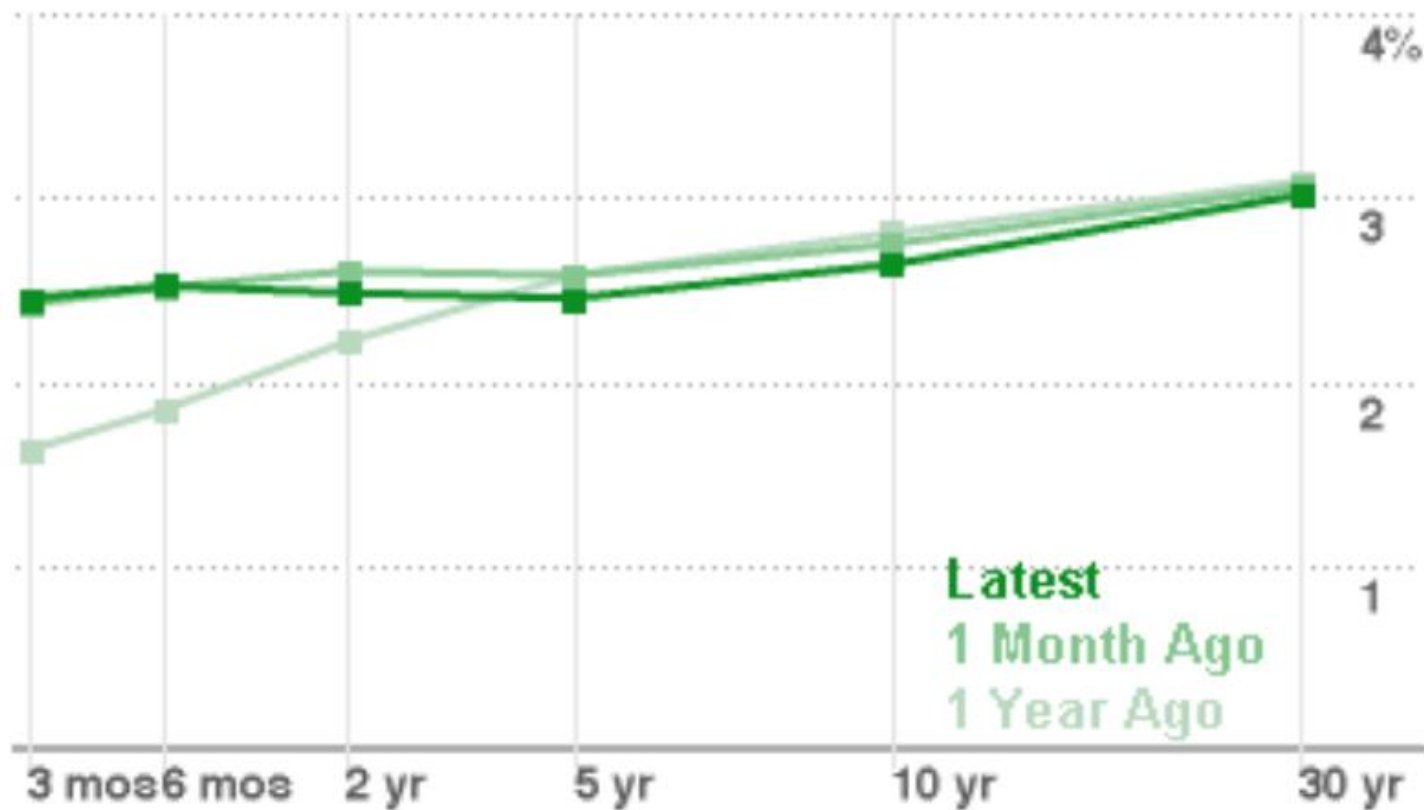


Chapter 4 – Risk Historical Market Conditions – Fed Interest Rate Watch





Chapter 4 – Risk Current Market Conditions – Treasury Yield Curve

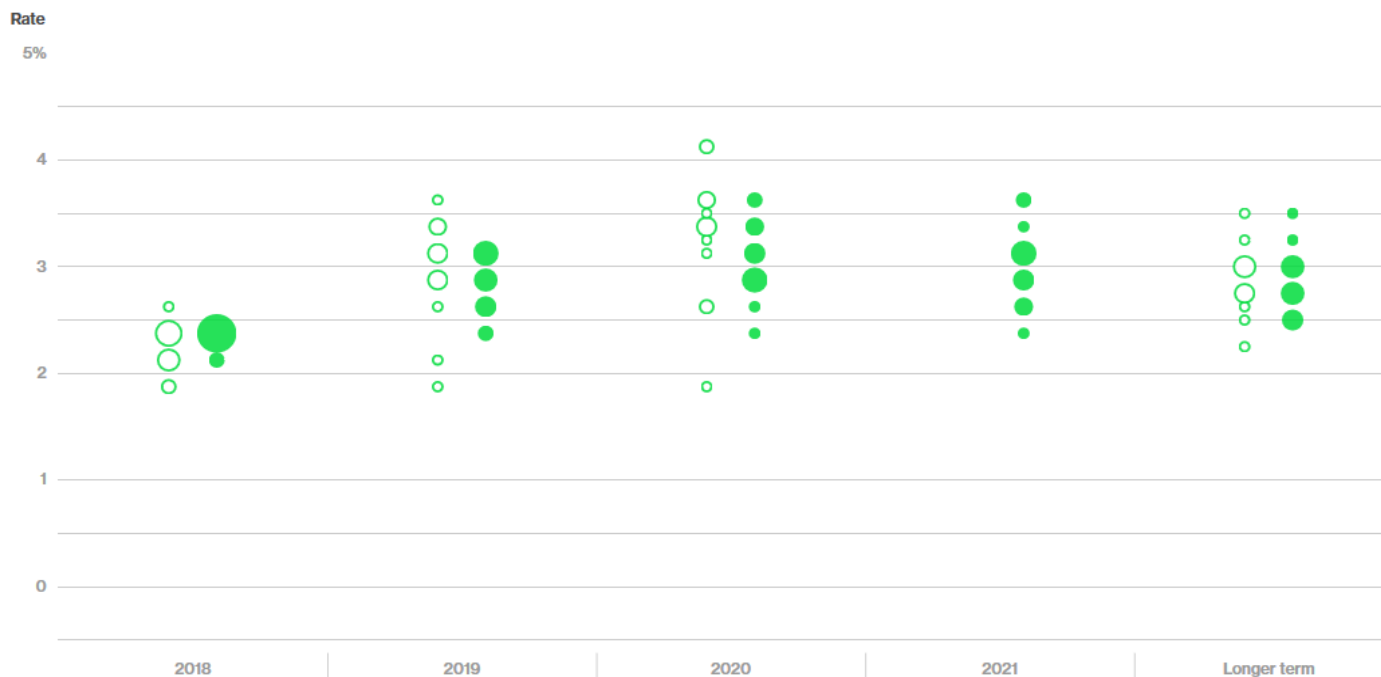




Chapter 4 – Risk Current Market Conditions Fed Funds Rate Projections

Compare projections between: **June 2018** and **Dec 2018**

● Number of governors voting ● Older/newer projection ● Median of projections



Source: U.S. Federal Reserve



Chapter 5 – Arbitrage and the IRS

- IRS limitations prevent tax exemption abuse:
 - Issuing earlier than necessary
 - Issuing more than necessary
 - Keeping longer than necessary
- Limitations clarified to deter issuers from creation of arbitrage profits from higher yielding investments

These limitations are known generally as the IRS arbitrage rules.



Chapter 5 – Arbitrage and District Responsibilities

- Legal documents for tax-exempt bonds create District obligation to follow IRS arbitrage rules
- IRS has filing requirement for each tax-exempt bond issue after 5 years and final maturity
 - Analyze difference in bond interest cost versus investment earnings



Chapter 5 – Arbitrage and District Specific Responsibilities

- Annual bond amounts dictate arbitrage rules
- Most arbitrage regulation if issuing over \$15 million per year
 - (for construction projects specifically)
 - \$5 million for refinancing purpose
- Willow River
 - Total issue \$7.045 million
 - Mainly construction
 - Reduced arbitrage rules



Chapter 5 – Arbitrage and District Specific Responsibilities

For Willow River:

- Current Refunding of 2006 Bonds
 - \$654,389 – Spend within 90 days
- Deferred Maintenance and Health & Safety Projects
 - Spend within 3 years, most within 2 years (timing in financing documents)
 - \$1,300,000 for Deferred Maintenance
 - \$5,160,000 for Health & Safety



Chapter 5 – Arbitrage and District Specific Responsibilities

- Summer 2018
 - Project came in \$680,000 under budget
 - Nearing 2 year mark (expected completion date)
- ✓ District spent 85% of proceeds
 - Key IRS indicator
- Next Steps Options
 - Return to taxpayers through debt excess adjustment
 - Find more projects



Chapter 5 – Arbitrage and School District Specific Responsibilities

- Maintain sale and investment records for bond issue life plus 3 tax years
- Willow River:
 - Closed September 13, 2016
 - Bonds paid off February 1, 2038
 - Maintain records through tax year 2041



Chapter 5 – School District Specific Responsibilities

- Rely on internal / external expertise for arbitrage rules
- Understand when arbitrage rules are necessary, documentation requirements, deadlines for analysis
- Use external experts for analysis, making timely payments, and IRS inquiry responses



Epilogue

- Projects CAN be under budget
- Investments can create additional resources
- Investing in taxable investments will generally create arbitrage review requirements



Ryan Miles

Senior Investment Advisor

651-697-8590

rmiles@ehlersinvest.com



Stephen Broden

Arbitrage Managing Director

303-802-2307

sbroden@ehlers-inc.com



Shelby McQuay

Municipal Advisor

651-697-8548

smcquay@ehlers-inc.com

