

December 3, 2013

FOR YOUR INFORMATION

This section is to highlight projects and events that do not require Council action but are necessary to keep you informed. Commission/Committee minutes will be contained in this section when they are available.

City Administrators Report

This will be included in the first Council Packet of each month.

Planning Commission Agenda Packet

EDA Agenda Packet

Public Works Commission Agenda

Cable Commission Agenda Packet

Library Board Agenda Packet

Ehlers Market Commentary

ADMINISTRATORS REPORT

December 3, 2013

Following is a brief update on the main projects I have been working on:

52/24 Access Issue: A meeting has been set up with our area legislators and the affected business owners to discuss this matter. I am also working to set up a meeting with the MNDOT Commissioner. Our request seems justified based on the decisions made by MNDOT in Hampton and Zumbrota so I hope a reasonable compromise can be reached.

South of School Project: The work is for the most part completed. Some homeowners have already connected to City services and others will do so in the spring. All things considered the whole process went very smoothly and we were able to address an important issue by working with the homeowners to come up with an acceptable solution.

Mulvihill Development: The County has announced that they plan to extend the new CSAH 24 through to highway 19 in 2015. This will allow for a second access point to this development that is not off of 19. We will work with the owner to develop final plans over the winter for spring construction.

Road Renaming: The City, County, and Township have met and decided on names for all the roads in the 52 interchange project area. Goodhue County is working on creating a map and I will share that with the Council when available.

Illegal Access to Driver's

License Data Base: This continues to evolve as the numerous lawsuits around the state work their way through the courts. The latest ruling has thrown out all the claims against the effected Cities based on a number of reasons. This bodes well for the other cases if the same case law is applied. I will keep the Council updated as this continues.

- Hwy. 19 Project:** The crosswalk at the Park n Ride lot will be bid this winter for construction in the spring. MNDOT is reviewing the traffic patterns at the new downtown intersection and may put in striping that has cars stop for the lights farther back than the intersection. This allows for trucks to safely make the tight turns.
- CSAH 24 Project:** This project continues to move forward with road construction underway. We have been notified that they intend to extend 24 all the way to 19 in 2015 which will help with access to the proposed Mulvihill housing development across from the school.
- 52/86 Interchange:** The proposed interchange plan is in the latest issue of the Beacon. This plan appears to be a big improvement over the initial "J-Turn" concept and will greatly improve safety. It will also be an important improvement for access to our industrial park.
- New Hospital Update:** Construction is on schedule and going well. A preliminary plan for the reuse of the old hospital site has been developed and should be ready for Council consideration soon.
- Economic Development:** Dave and the EDA continue doing a great job in growing our Commercial/Industrial base with more projects in the works at this time. Hopefully some of these projects will be coming forward for review and approval soon.
- Invenergy Expansion:** Invenergy is one of two site finalists for an Xcel contract to generate more electricity. If they are awarded the contract a third generator would be added to their current site. If this occurs the City would amend our current Agreement with them and we would receive more Payment In Lieu of Taxes revenue. The expansion would not require any additional City utilities or expense on our part. I recently testified in front of the Public Utilities Commission in support of the project. Invenergy has been an excellent corporate citizen and this expansion would be a great benefit to the City.

Sandstone Ridge: The lots went up for auction in November with no bidders. Now the City will meet with the County Board in January to request the lots be given to us for redevelopment. I am working on a resolution authorizing this action and it will be ready for Council approval at our final meeting of the year.

City Finances: The presentation and adoption of the final budget and levy is on the regular agenda. At the second meeting this month we will review the CIP/FMP with the updated 2014 budget information. As always we continue to invest City funds and gain whatever interest we can on our reserves.

East Side I Project: Construction is substantially complete. We are reviewing any potential penalties for the delay in completion and should have a recommendation for the Council at the second meeting this month.

Highway 52 Project: The project is moving forward very quickly and is on schedule. Monthly meetings continue being held to keep everyone involved up to date on the project status.

Cooperation Efforts: As always we continue to work with our neighboring Cities, the County, School District, and area businesses to see what can be developed for sharing of services.

The above are brief descriptions of the main projects I have been working on. There have been numerous smaller projects and the everyday activities of City Hall that have been keeping me busy. Please let me know if you would like further information on any of the above projects or if you would like me working on anything else. I always appreciate input and direction from the City Council.

A Financial Feast (Best Enjoyed in Moderation)

With the Thanksgiving holiday this week, market activity will be noticeably diminished. In this pre-Thanksgiving edition of the Ehlers' *Market Commentary*, we provide an assortment of topics to tempt your financial appetite in the form of a main entrée, side dish, and dessert.

The Main Entrée: Will quantitative easing continue to be the “gravy” binding the economy together?

Last week (on November 20, 2013) minutes from the Federal Open Market Committee's (FOMC) October meeting were released. Market observers continue to closely monitor comments from the FOMC to determine when the Fed might trim back its monthly bond purchases. The minutes revealed the trimming (slowing of bond purchases) could occur at “one of its next few meetings”. All FOMC members, with one exception, determined that it would wait for more evidence that the economy is improving before slowing the pace of its monthly purchases known as Quantitative Easing 3 (QE3).

The FOMC still sees the economy growing at a “moderate” pace. In the view of one committee member the improvement in the economy indicated that the continued easing of monetary policy at the current pace was no longer necessary. The FOMC has received some criticism for sending mixed messages about the future of QE3. The minutes of the October meeting revealed there was ample discussion about communication strategies going forward, and the merits of having a more unified message to provide direction on where the FOMC is headed, especially after the markets were caught off guard when QE3 was not scaled back in September as was widely expected by many market observers. Specifically, members of the FOMC want the markets to clearly understand that its Federal Funds rate target of 0.00% - 0.25% and QE3 are two separate policy tools that are not likely to move in tandem. That is, the Fed Funds rate will be kept accommodative far longer than the duration of the Fed's asset purchases under QE.

The release of the FOMC minutes on November 20 was followed by a small spike in interest rates. However, over the last two weeks combined, yields have not changed significantly.



Trends in Municipal Bond Yields November 8 to November 22, 2013

	November 8th	November 22nd	Change
AAA Yields*			
5 Years	1.15%	1.16%	0.01%
10 Years	2.58%	2.66%	0.08%
20 Years	3.83%	3.81%	-0.02%
30 Years	4.15%	4.14%	-0.01%
Bond Buyer 20 Bond Index**	4.56%	4.60%	0.04%

Source:

* Thomson Reuters Municipal Market Data

** The Bond Buyer. Average yield on a portfolio of municipal bonds maturing in 20 years, with an average rating of AA/Aa2.

The Side Dish: Study concludes Missouri competitive bond sales produce results that “squash” those of negotiated sales.

A report titled “General Obligation Bond Sales Practices” was prepared by the office of the Missouri State Auditor. The primary objectives of the report were to determine the extent to which the negotiated method of bond sale was used in comparison to competitive sales; determine the financial impact of using negotiated sales; determine why competitive sales are used less often in Missouri, and discuss recommended best practices.

A competitive bond sale occurs when bids are solicited from underwriting firms to purchase the bonds, with the sale awarded to the underwriter offering the lowest bid. A negotiated sale occurs when an underwriter is selected before the sale and the terms of the sale are negotiated with that particular underwriter.

Many states have laws in place that dictate the method of sale for certain types of bonds (e.g. general obligation, revenue, refunding, etc.). Missouri does not have a state law that requires local governments to conduct competitive sales for general obligation (G.O.) bonds or to be represented by an independent financial advisor throughout a negotiated transaction.



The Missouri State Auditor reviewed four years of bond sale data (2008-2011). Of the 538 G.O. bond issues sold during this period, only 9.3% (50 issues) were sold through competitive sale. The average interest rate of negotiated sales in the analysis was 3.157%, while the average interest rate for competitive sales was 2.922%. Not all of the 538 bond sales would meet criteria for a competitive sale, but the report estimates local governments could have potentially saved \$43 million over the life of the bonds if competitive sales had been used. This was calculated based on the average negotiated bond issue used in the analysis, which was approximately \$5.8 million, had a repayment schedule of 12 years, and incurred an estimated \$88,148 in unnecessary interest costs over the life of the bond (488 negotiated bond sales were included in the analysis, multiplied by \$88,148 equals an estimated \$43 million in savings).

The report also cited the recommended best practices of the Government Finance Officers Association (GFOA) regarding method of sale and the primary advantages of issuing G.O. bonds competitively including: 1.) open competition provides some assurances that bonds have been sold at the lowest interest rates; and 2). competition promotes the appearance of an open and fair process.

The Dessert: Apple or Pumpkin Pie? Moody's examines federal budget proposals that examine a "capped scenario" and a "repeal scenario".

Moody's Investors Services prepared a report titled the "Economic Analysis of Federal Tax Proposals Affecting State and Local Budgets" for the National Governors Association and the Council of State Governments. The purpose of the analysis was to examine proposals to change long-standing IRS provisions regarding the tax treatment of municipal bond interest, and state and local government taxes paid. Two scenarios were prepared in the report:

- **Capped scenario:** Includes various pieces of the President's fiscal 2014 budget proposal such as a 28% cap on both the state and local tax deduction, and the earned interest exemption on municipal bonds. Also included in this scenario is the establishment of the direct-subsidy America Fast Forward Bond (AFFB) program at a subsidy rate of 28%. The AFFB has been proposed as a successor to the Build America Bond (BAB) program introduced as part of the American Recovery and Reinvestment Act in 2009. AFFBs would be sold on a taxable basis with a cash subsidy equal to 28% of the interest directly to bond issuers (compared to the 35% offered through the BAB program). The President's



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proposal eliminates some of the previous BAB restrictions. AFFBs could be used for refundings, short-term operating notes, and qualified private activity.

- **Repeal scenario:** In addition to the President's proposal, the approach taken by the respective chairmen of the House and Senate tax writing committees could result in the elimination of both forms of state and local government tax subsidy. This scenario includes a total elimination of the state and local tax deduction and the earned interest exemption on municipal bonds.

The report includes an analysis of fiscal and economic impacts. We will focus on the fiscal impact of the "capped" and "repeal" scenarios. According to Moody's, the capped scenario results in a tax revenue gain to the federal government of \$112 billion over 10 years beginning in 2014. The repeal scenario increases tax revenue by \$743 billion over the same period.

The capped scenario increases state and local government borrowing costs by more than \$6.6 billion over the ten year period, with an increase of about \$77 million in tax revenues to the federal government. The repeal scenario increases municipal borrowing costs \$33 billion, with a \$385 billion increase in tax revenues.

Under the capped scenario, Moody's estimates state and local governments will issue just over \$1 trillion in AFFBs over the next decade. This was based on an analysis of the usage of the BAB program in 2010, the only year the program was in effect for a full calendar year. The AFFB program is estimated to save issuers \$3.1 billion over 10 years.

Proposals put forth by the President and proposals in Congress continue to threaten the tax-exempt status of interest paid on municipal bonds, and reduce the value of this exemption. The National Association of Counties and other local government groups have been vocal about the impact these proposals will have on local governments and their ability to finance capital projects in a cost effective manner. We encourage you to discuss this issue with your local representatives.

A heavy helping of quantitative easing, bond sale methods and federal budgetary policy is sure to cause indigestion, even for those with the heartiest fiscal appetites. We suggest moderation provided through our *Market Commentary*. On behalf of everyone at Ehlers, have a happy and safe Thanksgiving!

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Competitive Sale Results November 11 - November 22, 2013

Sale Date	Issuer	St	Par Amt (in millions)	Issue	Underlying Rating	Credit Enhanced Rating	BQ	TIC / NIC	Maturities	# of Bidders	Winning Bidder
11/12/13	Moline SD No. 40	IL	9.61	GO School Bonds	Aa2		Y	1.49%	2015-20	7	Hutch
11/12/13	North Palos SD No. 117	IL	3.51	GO Limited Refunding School Bonds	Aa2		Y	0.88%	2014-17	3	Baird
11/12/13	Coffeyville, City	KS	5.56	GO Electric Utility System Refunding Bonds	A+		Y	1.52%	2014-21	8	Country Club Bank
11/12/13	Monticello, City	MN	3.00	GO Wastewater Treatment Bonds	Aa2	Y	Y	2.68%	2014-28	5	UMB Bank
11/12/13	Farmington SD No. 192	MN	2.87	Taxable GO OPEB Refunding Bonds	Aa2	Y	N	2.87%	2015-23	4	Raymond James
11/12/13	Fairmont Area SD No. 2752	MN	1.24	GO School Building Refunding Bonds	Aa2	Y	Y	1.24%	2015-19	5	Stifel Nicolaus
11/12/13	Minneapolis SD No. 1	MN	13.25	GO Refunding Bonds	Aa1/AA+/AA	Y	N	0.56%	2015-17	9	Wells Fargo
11/12/13	Minneapolis SD No. 1	MN	20.53	GO School Building Bonds	Aa1/AA+/AA	Y	N	2.87%	2015-29	6	Wells Fargo
11/12/13	Minneapolis SD No. 1	MN	38.09	GO Alternative Facility Bonds	Aa1/AA+/AA	Y	N	3.56%	2015-34	8	Piper Jaffray
11/12/13	Minneapolis SD No. 1	MN	41.13	Refunding Certificates of Participation	Aa1/AA+/AA	Y	N	1.43%	2015-21	9	Wells Fargo
11/12/13	St. Louis County	MN	5.47	GO Capital Improvement Bonds	AA+		Y	2.62%	2015-29	4	Piper Jaffray
11/12/13	Wausau, City	WI	3.41	GO Swimming Pool Bonds	Aa2		Y	3.15%	2014-33	4	Baird
11/13/13	Falcon Heights, City	MN	0.72	GO Equipment Certificates	AAA		Y	1.98%	2016-23	3	United Banker's
11/13/13	Dakota County Community Dev. Agency	MN	7.63	Governmental Housing Development Bonds	Aaa/AAA		Y	2.58%	2016-27	3	Piper Jaffray
11/13/13	Oshkosh, City	WI	1.69	GO Prom Notes	Aa2		N	2.32%	2014-23	3	Baird
11/13/13	Oshkosh, City	WI	9.08	GO Corp Purp Bonds	Aa2		N	3.60%	2014-33	6	Baird
11/14/13	Maplewood, City	MN	3.70	GO Refunding Bonds	Aa1		Y	1.84%	2015-24	9	Raymond James
11/14/13	Genoa City, Village	WI	1.50	GO Street Bonds	NR		Y	4.02%	2014-30	2	Baird
11/14/13	Genoa City, Village	WI	1.50	GO Prom Notes	NR		Y	2.65%	2017-23	2	BOSC
11/18/13	Dodge City, City	KS	6.24	GO Refunding and Improvement Bonds	A+		Y	2.71%	2014-28	5	Country Club Bank
11/18/13	Litchfield, City	MN	8.87	GO Improvement Bonds	AA-		Y	3.45%	2016-35	3	Wells Fargo
11/18/13	Pillager SD No. 116	MN	1.90	GO School Building Refunding Bonds	AA+		Y	0.99%	2015-18	6	BOSC
11/18/13	Bagley SD No. 162	MN	6.38	GO Alternative Facilities Bonds	Aa2	Y	Y	3.27%	2015-34	3	Piper Jaffray
11/18/13	Prior Lake/Savage Area SD No. 719	MN	39.20	GO School Building Refunding Bonds	Aa2	Y	Y	2.76%	2016-26	8	Piper Jaffray
11/18/13	Genoa City SD No. 2	WI	2.11	GO Refunding Bonds	A1		Y	0.98%	2014-18	4	Hutch
11/18/13	Wisconsin Indianhead Tech College District	WI	5.83	GO Prom Notes	Aaa		Y	1.19%	2015-19	9	Baird
11/19/13	Monroe County	IL	9.70	GO Refunding Bonds	AA		Y	2.40%	2014-25	5	Baird
11/19/13	Manhattan, City	KS	6.40	GO Bonds	Aa2/NR/AA+		N	2.42%	2014-33	5	UBS
11/19/13	Minneapolis, City	MN	1.26	Taxable GO Housing Improvement Bonds	Aa1/AAA/AAA		N	3.91%	2014-32	2	Baird
11/19/13	Minneapolis, City	MN	7.00	Taxable GO Various Purpose Park Bonds	Aa1/AAA/AAA		N	3.37%	2014-26	4	Baird
11/19/13	Minneapolis, City	MN	13.04	GO Improvement Bonds	Aa1/AAA/AAA		N	2.47%	2014-33	10	Baird
11/19/13	Minneapolis, City	MN	17.93	GO Library Referendum Refunding Bonds	Aa1/AAA/AAA		N	0.97%	2014-18	8	Hutch
11/19/13	Minneapolis, City	MN	37.68	GO Various Purpose Bonds	Aa1/AAA/AAA		N	0.98%	2014-20	11	Hutch
11/19/13	Lincoln County	MN	3.06	Go Water System Refunding Bonds	AA-		Y	1.84%	2015-23	6	UMB
11/20/13	Marshall, City	MN	3.13	Public Utility Revenue Bonds	A		Y	3.13%	2014-28	3	Northland Securities
11/20/13	Oshkosh, City	WI	3.79	Water System Revenue Bonds	Aa3		N	3.46%	2015-33	4	FTN Fin Cap Mkts
11/20/13	Oshkosh, City	WI	4.18	Sewer System Revenue Bonds	Aa3		N	3.65%	2014-33	4	FTN Fin Cap Mkts
11/20/13	New Auburn SD	WI	1.00	GO School Improvement Bonds	NR		Y	2.98%	2016-29	4	Bankers' Bank
11/21/13	Elko New Market, City	MN	2.15	GO Bonds	AA+		Y	2.62%	2015-29	1	Baird
11/21/13	Cambridge-Isanti SD No. 911	MN	2.94	GO Alternative Facilities Bonds	Aa2	Y	Y	2.01%	2015-24	6	Piper Jaffray
11/21/13	Three Rivers Park District	MN	0.43	GO Capital Equipment Notes	Aaa/NR/AAA		N	0.96%	2015-17	1	Cronin
11/21/13	Three Rivers Park District	MN	8.11	GO Bonds	Aaa/NR/AAA		N	3.42%	2015-32	4	Piper Jaffray
11/21/13	Three Rivers Park District	MN	7.97	GO Refunding Bonds	Aaa/NR/AAA		N	2.02%	2016-23	4	FTN Fin Cap Mkts
11/21/13	Blackhawk Technical College District	WI	1.50	GO Prom Notes	Aa2		Y	2.34%	2020-23	4	Raymond James