

TO: Mayor and City Council

FROM: City Administrator Ron Johnson

SUBJECT: Financing Discussion of 318th St Project and 2nd St SW Street/Water Main Project

DATE: June 12, 2014

BACKGROUND

Staff has been in discussion with George Eilertson, Northland Securities, regarding the financing of both of these projects. All construction costs have not yet been determined, but based on the low bid received on 318th Street and estimated costs of the 2nd St SW project, Financial Advisor Eilertson has completed the enclosed finance plan. Although most of the 318th Street project will be paid through special assessments as will a portion of the street construction portion of the 2nd St SW project, general obligation bond financing is needed to fund the initial cost of the improvements and ancillary costs.

STAFF RECOMMENDATION

View the Northland Securities presentation on the financing plan for the 318th St Project and the 2nd St SW Street/Water Main Project, and approve a motion to accept the report.

REQUESTED COUNCIL ACTION

Approve a motion to accept the Finance Report Summary for the 318th St Improvement Project and the 2nd St SW Street and Water Main Replacement Project.

Attachment(s): Northland Securities Finance Plan Summary

FINANCE PLAN SUMMARY

FOR

CITY OF CANNON FALLS, MINNESOTA

\$343,000

**GENERAL OBLIGATION IMPROVEMENT BONDS,
SERIES 2014A**



45 South 7th Street
Suite 2000
Minneapolis, MN 55402
612-851-5900 800-851-2920

June 17, 2014

City of Cannon Falls, Minnesota
\$343,000
General Obligation Improvement Bonds, Series 2014A

Financing Overview:

The City anticipates issuing bonds for the following purposes:

1. **\$164,000 General Obligation Improvement Bond (318th Street Improvement Project).**

The expected sources of revenue to pay back the bonds are the following:

- 100% of the project will be paid for by special assessments against benefitting property owners/businesses and the City.

2. **\$179,000 General Obligation Bond (2nd Street Southwest Improvement Project).**

The expected sources of revenue to pay back the bonds are the following:

- water main improvements (approximately 48% of the total project) will be paid by revenues of the municipal water utility
- street improvements (approximately 52% of the total project) will be paid by a combination of special assessments against the benefitting property owners and a city-wide tax levy.

Summary of Recommended Terms:

- | | |
|--------------------------|---|
| 1. Type of Sale | Public Offering – Local Banks. |
| 2. Proposals Received | Monday, July 14, 2014 @ 12:00 P.M. |
| 3. Council Consideration | Tuesday, July 15, 2014 @ 6:30 P.M. |
| 4. Repayment Term | The Bonds will be issued in any combination of term or serial bonds and will mature on February 1, 2016 through 2025. Interest will be payable August 1, 2015 and semiannually thereafter on February 1st and August 1st. |
| 5. Security | General Obligation pledge of the City, special assessments levied against benefited property and net revenues of the municipal water utility. |

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- | | |
|-----------------------|--|
| 6. Prepayment Option | The Bonds are subject to optional redemption on February 1, 2020 and any date thereafter. |
| 7. Tax Status | Briggs and Morgan – St. Paul, MN |
| 8. Credit Enhancement | The Bonds will not be rated. The City's general obligation debt is currently rated AA- by Standard & Poor's. |
| 9. Paying Agent | The City will serve as paying agent. |

Related Considerations:

- *Bank Qualified* - because total tax-exempt debt issued by the City in calendar year 2014 is not expected to be more than \$10 million, the bonds will be designated as "bank qualified" obligations pursuant to Federal Tax Law.
- *Arbitrage Compliance* –
 - Project / Construction Fund – All tax exempt issues are subject to federal rebate requirements which require all arbitrage earned to be rebated to the U.S. Treasury. A rebate exemption the City expects to qualify for is the "24-month spend down exemption."
 - Debt Service Fund – The City must maintain a bona fide debt service fund for the bonds or be subject to yield restriction in the debt service fund. A bona fide debt service fund involves an equal matching of revenues to debt service expense with a balance forward permitted equal to the greater of the investment earnings in the fund during that year or 1/12 of the debt service of that year.
- *Continuing Disclosure* - This issue will not be subject to the Securities and Exchange Commission's continuing disclosure requirements.

EXHIBIT A – ESTIMATED SOURCES & USES OF FUNDS

Total Issue Sources And Uses

Dated 07/30/2014 | Delivered 07/30/2014

	318th Street	2nd Street SW	Issue Summary
Sources Of Funds			
Par Amount of Bonds	\$164,000.00	\$179,000.00	\$343,000.00
Total Sources	\$164,000.00	\$179,000.00	\$343,000.00
Uses Of Funds			
Deposit to Project Construction Fund	160,000.00	175,000.00	335,000.00
Costs of Issuance	4,000.00	4,000.00	8,000.00
Total Uses	\$164,000.00	\$179,000.00	\$343,000.00

**EXHIBIT B – PRELIMINARY DEBT SERVICE SCHEDULE
(CONSOLIDATED)**

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
07/30/2014	-	-	-	-	-
08/01/2015	-	-	10,318.58	10,318.58	-
02/01/2016	25,000.00	3.000%	5,145.00	30,145.00	40,463.58
08/01/2016	-	-	4,770.00	4,770.00	-
02/01/2017	31,000.00	3.000%	4,770.00	35,770.00	40,540.00
08/01/2017	-	-	4,305.00	4,305.00	-
02/01/2018	33,000.00	3.000%	4,305.00	37,305.00	41,610.00
08/01/2018	-	-	3,810.00	3,810.00	-
02/01/2019	33,000.00	3.000%	3,810.00	36,810.00	40,620.00
08/01/2019	-	-	3,315.00	3,315.00	-
02/01/2020	34,000.00	3.000%	3,315.00	37,315.00	40,630.00
08/01/2020	-	-	2,805.00	2,805.00	-
02/01/2021	35,000.00	3.000%	2,805.00	37,805.00	40,610.00
08/01/2021	-	-	2,280.00	2,280.00	-
02/01/2022	36,000.00	3.000%	2,280.00	38,280.00	40,560.00
08/01/2022	-	-	1,740.00	1,740.00	-
02/01/2023	38,000.00	3.000%	1,740.00	39,740.00	41,480.00
08/01/2023	-	-	1,170.00	1,170.00	-
02/01/2024	38,000.00	3.000%	1,170.00	39,170.00	40,340.00
08/01/2024	-	-	600.00	600.00	-
02/01/2025	40,000.00	3.000%	600.00	40,600.00	41,200.00
Total	\$343,000.00	-	\$65,053.58	\$408,053.58	-

Date And Term Structure

Dated	7/30/2014
Delivery Date	7/30/2014
First Coupon Date	8/01/2015
First available call date	2/01/2020
Call Price	100.000000%

Yield Statistics

Bond Year Dollars	\$2,168.45
Average Life	6.322 Years
Average Coupon	3.000000%
Net Interest Cost (NIC)	3.000000%
True Interest Cost (TIC)	2.9960882%
All Inclusive Cost (AIC)	3.4169640%

**EXHIBIT C – PRELIMINARY DEBT SERVICE SCHEDULE
(318th STREET PORTION)**

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
07/30/2014	-	-	-	-	-
08/01/2015	-	-	4,933.67	4,933.67	-
02/01/2016	12,000.00	3.000%	2,460.00	14,460.00	19,393.67
08/01/2016	-	-	2,280.00	2,280.00	-
02/01/2017	15,000.00	3.000%	2,280.00	17,280.00	19,560.00
08/01/2017	-	-	2,055.00	2,055.00	-
02/01/2018	16,000.00	3.000%	2,055.00	18,055.00	20,110.00
08/01/2018	-	-	1,815.00	1,815.00	-
02/01/2019	16,000.00	3.000%	1,815.00	17,815.00	19,630.00
08/01/2019	-	-	1,575.00	1,575.00	-
02/01/2020	16,000.00	3.000%	1,575.00	17,575.00	19,150.00
08/01/2020	-	-	1,335.00	1,335.00	-
02/01/2021	17,000.00	3.000%	1,335.00	18,335.00	19,670.00
08/01/2021	-	-	1,080.00	1,080.00	-
02/01/2022	17,000.00	3.000%	1,080.00	18,080.00	19,160.00
08/01/2022	-	-	825.00	825.00	-
02/01/2023	18,000.00	3.000%	825.00	18,825.00	19,650.00
08/01/2023	-	-	555.00	555.00	-
02/01/2024	18,000.00	3.000%	555.00	18,555.00	19,110.00
08/01/2024	-	-	285.00	285.00	-
02/01/2025	19,000.00	3.000%	285.00	19,285.00	19,570.00
Total	\$164,000.00	-	\$31,003.67	\$195,003.67	-

Date And Term Structure

Dated	7/30/2014
Delivery Date	7/30/2014
First Coupon Date	8/01/2015
First available call date	2/01/2020
Call Price	100.0000000%

Yield Statistics

Bond Year Dollars	\$1,033.46
Average Life	6.302 Years
Average Coupon	3.0000000%
Net Interest Cost (NIC)	3.0000000%
True Interest Cost (TIC)	2.9960765%
All Inclusive Cost (AIC)	3.4378591%

**EXHIBIT D – PRELIMINARY DEBT SERVICE SCHEDULE
(2nd STREET SOUTHWEST PORTION)**

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
07/30/2014	-	-	-	-	-
08/01/2015	-	-	5,384.92	5,384.92	-
02/01/2016	13,000.00	3.000%	2,685.00	15,685.00	21,069.92
08/01/2016	-	-	2,490.00	2,490.00	-
02/01/2017	16,000.00	3.000%	2,490.00	18,490.00	20,980.00
08/01/2017	-	-	2,250.00	2,250.00	-
02/01/2018	17,000.00	3.000%	2,250.00	19,250.00	21,500.00
08/01/2018	-	-	1,995.00	1,995.00	-
02/01/2019	17,000.00	3.000%	1,995.00	18,995.00	20,990.00
08/01/2019	-	-	1,740.00	1,740.00	-
02/01/2020	18,000.00	3.000%	1,740.00	19,740.00	21,480.00
08/01/2020	-	-	1,470.00	1,470.00	-
02/01/2021	18,000.00	3.000%	1,470.00	19,470.00	20,940.00
08/01/2021	-	-	1,200.00	1,200.00	-
02/01/2022	19,000.00	3.000%	1,200.00	20,200.00	21,400.00
08/01/2022	-	-	915.00	915.00	-
02/01/2023	20,000.00	3.000%	915.00	20,915.00	21,830.00
08/01/2023	-	-	615.00	615.00	-
02/01/2024	20,000.00	3.000%	615.00	20,615.00	21,230.00
08/01/2024	-	-	315.00	315.00	-
02/01/2025	21,000.00	3.000%	315.00	21,315.00	21,630.00
Total	\$179,000.00	-	\$34,049.92	\$213,049.92	-

Date And Term Structure

Dated	7/30/2014
Delivery Date	7/30/2014
First Coupon Date	8/01/2015
First available call date	2/01/2020
Call Price	100.0000000%

Yield Statistics

Bond Year Dollars	\$1,135.00
Average Life	6.341 Years
Average Coupon	3.0000000%
Net Interest Cost (NIC)	3.0000000%
True Interest Cost (TIC)	2.9960990%
All Inclusive Cost (AIC)	3.3979562%

EXHIBIT E – PRELIMINARY CASH FLOW SCHEDULE

City of Cannon Falls, Minnesota Series 2014A Analysis

	318th Street Portion of 2014 Bonds (100% Assessed)	2nd Street Southwest Portion of 2014 Bonds (20% Assessed / 80% Levy) (100% Water Revenue)	General Obligation Bonds, Series 2014A (Consolidated)
DEBT SERVICE			
Deposit to Street Construction Fund	\$ 160,000	\$ 93,750	\$ 253,750
Deposit to Water Construction Fund	\$ -	\$ 81,250	\$ 81,250
Add Costs of Issuance and Rounding	\$ 4,000	\$ 4,000	\$ 8,000
Bond Amount	\$ 164,000	\$ 179,000	\$ 343,000
STREET AND UTILITY PROJECT			
Bond term (Years)	10	10	10
Avg. Interest Rate	3.00%	3.00%	3.00%
Total Net Debt Service	\$ 195,004	\$ 213,050	\$ 408,054
Avg. Annual Debt Service	\$ 19,500	\$ 21,305	\$ 40,805
105% Statutory Annual Debt Service	\$ 20,475	\$ 22,370	\$ 42,846
UTILITY REVENUE			
Water Revenue (100% of Water Main Portion)	\$ -	\$ 10,386	\$ 10,386
SPECIAL ASSESSMENT REVENUE			
Annual Payment (assumes @ 5.00%)	\$ 20,475	\$ 2,544	\$ 23,019
TAX IMPACT			
Annual Tax Levy Required	\$ 0	\$ 9,440	\$ 9,440
Tax Impact Information			
Net Tax Capacity Value (Pay 2013)	\$ 2,987,922	\$ 2,987,922	\$ 2,987,922
Estimated Net Tax Rate Increase	0.0000%	0.3159%	0.3159%
Market Value of Residential Property			
75,000	\$ 0.00	\$ 1.42	\$ 1.42
100,000	\$ 0.00	\$ 2.27	\$ 2.27
125,000	\$ 0.00	\$ 3.13	\$ 3.13
150,000	\$ 0.00	\$ 3.99	\$ 3.99
175,000	\$ 0.00	\$ 4.85	\$ 4.85
200,000	\$ 0.00	\$ 5.71	\$ 5.71
250,000	\$ 0.00	\$ 7.43	\$ 7.43
300,000	\$ 0.00	\$ 9.15	\$ 9.15
Mkt Value of Commerical-Industrial Property			
100,000	\$ 0.00	\$ 4.74	\$ 4.74
250,000	\$ 0.00	\$ 13.43	\$ 13.43
500,000	\$ 0.00	\$ 29.22	\$ 29.22
750,000	\$ 0.00	\$ 45.02	\$ 45.02