

**TO: Honorable Mayor and City Council**

**FROM: City Administrator Ron Johnson**

**SUBJECT: \$4,015,000 General Obligation Refunding Bonds**

**DATE: September 16, 2016**

**BACKGROUND**

George Eilertson, Northland Securities, will be present to discuss the potential competitive negotiated sale of \$4,015,000 General Obligation Crossover Refunding Bonds, Series 2016B.

As is stated in the Refunding Summary of the attached Finance Plan, the estimated savings are as follows: Dollar savings \$234,439; Net Present Value \$202,952.

The Finance Plan, Resolution and related Municipal Advisory Agreement are attached for reference, consideration and approval.

**REQUESTED COUNCIL ACTION**

- 1) Approve a motion adopting the Resolution authorizing the competitive negotiated sale of \$4,015,000 General Obligation Crossover Refunding Bonds, Series 2016B, and
- 2) Approve the related Municipal Advisory Agreement with Northland Securities, Inc.

Attachment(s): Finance Plan; Resolution: Municipal Advisory Agreement

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# Finance Plan



**\$4,015,000**

**General Obligation Crossover  
Refunding Bonds, Series 2016B**

**September 20, 2016**



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Member FINRA and SIPC

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## Executive Summary

The following is a summary of the recommended terms for the issuance of \$4,015,000 General Obligation Crossover Refunding Bonds, Series 2016B (the "Bonds" or "Series 2016B Bonds"). Additional information on the proposed finance plan and issuing process can be found after the Executive Summary, in the Issue Overview and Attachment 5 – Related Considerations.

<b>Purpose</b>	Proceeds from the Bonds will be used to crossover refund the 2020 through 2032 maturities of the City's General Obligation Bonds, Series 2011A on February 1, 2019; to crossover refund the 2021 through 2034 maturities of the City's General Obligation Bonds, Series 2013A on February 1, 2020; and to pay the costs associated with the issuance of the Bonds.									
<b>Security</b>	<p>The Bonds will be a General Obligation of the City. The City will pledge for payment of the Bonds:</p> <ul style="list-style-type: none"><li>• Special assessments collected from benefitted properties.</li><li>• Property tax levies.</li><li>• Net revenues of the City's Water System, Sewer System, and Storm Sewer System.</li></ul>									
<b>Repayment Term</b>	The Bonds will mature annually each February 1 in the years 2020 through 2034. Interest on the Bonds will be payable on August 1, 2017 and semiannually thereafter on each February 1 and August 1.									
<b>Refunding Summary</b>	<table><tr><td>Estimated Savings:</td><td>Dollar savings</td><td>\$234,439</td></tr><tr><td></td><td>Net Present Value</td><td>\$202,952</td></tr><tr><td></td><td>Net PV Percent</td><td>5.001%</td></tr></table> <p>Other Factors: No change in the original debt structure is proposed for the refinancing.</p>	Estimated Savings:	Dollar savings	\$234,439		Net Present Value	\$202,952		Net PV Percent	5.001%
Estimated Savings:	Dollar savings	\$234,439								
	Net Present Value	\$202,952								
	Net PV Percent	5.001%								
<b>Estimated Interest Rate</b>	<table><tr><td>Average coupon:</td><td>1.63%</td></tr><tr><td>True interest cost (TIC):</td><td>1.62%</td></tr></table>	Average coupon:	1.63%	True interest cost (TIC):	1.62%					
Average coupon:	1.63%									
True interest cost (TIC):	1.62%									
<b>Prepayment Option</b>	Bonds maturing on and after February 1, 2025 will be subject to redemption on February 1, 2024 and any day thereafter at a price of par plus accrued interest.									
<b>Rating</b>	A rating will be requested from Standard and Poor's (S&P). The City's general obligation debt is currently rated "AA-" by S&P.									
<b>Tax Status</b>	The Bonds will be tax-exempt, bank qualified obligations.									
<b>Risk Factors</b>	There are certain risks associated with all debt. Risk factors related to the Bonds are discussed in Attachment 7.									
<b>Type of Bond Sale</b>	Public Sale – Competitive Bids									
<b>Proposals Received</b>	Tuesday, October 18, 2016 @ 10:30 A.M.									
<b>Council Consideration</b>	Tuesday, October 18, 2016 @ 6:30 P.M.									

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## Issue Overview

### Purpose

Proceeds from the Bonds will be used to crossover refund the 2020 through 2032 maturities of the City's General Obligation Bonds, Series 2011A (the "Series 2011A Bonds") on February 1, 2019; to crossover refund the 2021 through 2034 maturities of the City's General Obligation Bonds, Series 2013A (the "Series 2013A Bonds") on February 1, 2020; and to pay the costs associated with the issuance of the Bonds. The Bonds have been sized based on the proceeds required to refund the outstanding maturities of the Series 2011A Bonds and the Series 2013A Bonds. The sources and uses of funds and preliminary interest rates for the bond issue are provided in Attachment 2 and Attachment 4.

The Bonds are being issued to undertake a crossover advance refunding of the Series 2011A Bonds and the Series 2013A Bonds. The Series 2011A Bonds maturing on and after February 1, 2020 are eligible for call and prepayment on February 1, 2019 (the "2011A Call Date"). A portion of the proceeds of the 2016B Bonds will be deposited in an escrow for the 2011A Bonds until February 1, 2019. At that time, monies in the escrow will be used to prepay all outstanding principal of the 2011A Bonds plus accrued interest. The City will continue to pay principal and interest on the 2011A Bonds until the 2011A Call Date. Prior to that date, funds in the escrow account will be used to make the interest payments on the new Series 2016B Bonds. After the 2011A Call Date, the City will "crossover" and begin paying a portion of the debt service on the 2016B Bonds. Based on current market conditions, we have estimated total savings of \$102,390 with a present value of \$89,579, for the refunding of the Series 2011A Bonds.

The Series 2013A Bonds maturing on and after February 1, 2021 are eligible for call and prepayment on February 1, 2020 (the "2013A Call Date"). A portion of the proceeds of the 2016B Bonds will be deposited in the escrow for the 2013A Bonds until February 1, 2020. At that time, monies in the escrow will be used to prepay all outstanding principal of the 2013A Bonds plus accrued interest. The City will continue to pay principal and interest on the 2013A Bonds until the 2013A Call Date. Prior to that date, funds in the escrow will be used to make the interest payments on the new Series 2016B Bonds. After the 2013A Call Date, the City will "crossover" and begin paying the full debt service on the 2016B Bonds. Based on current market conditions, we have estimated total savings of \$132,049 with a present value of \$113,373, for the refinancing of the Series 2013A Bonds.

The preliminary refunding overview can be found in Attachment 1 and projected annual savings are shown in Attachment 3.

### Authority

The Bonds will be issued pursuant to the authority of Minnesota Statutes, Chapters 429, 444 and 475.

### Structure

The Bonds have been structured to result in relatively level annual debt service payments over the life of the Bonds, which preserves the original structure for the issues being refunded.

The proposed structure for the bond issue and preliminary debt service projections are illustrated in Attachment 4.

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## Security and Source of Repayment

The Bonds will be general obligations of the City. The finance plan relies on the following assumptions for the revenues used to pay debt service, as provided by City staff:

- Special Assessments. The City is expected to continue levying special assessments against benefited properties. The assessments originally certified for the Series 2011A and Series 2013A Bonds will be used to pay a portion of the new issue.
- System Revenues. Net revenues of the City's water, sewer and storm sewer systems will also be pledged to payment of the Bonds. Sewer revenues will pay 60% of the debt service of the System Portion, water revenues will pay 28% of the debt service of the System Portion and storm sewer revenues will pay 12% of the debt service of the System Portion. The contribution will be made in the years 2020-2034.
- Property Taxes. The remaining revenues needed to pay debt service on the Bonds are expected to come from a property tax levy. The initial projections show an annual tax levy is needed to produce the statutory requirement of 105% of debt service, after accounting for assessments and system contributions. The levy will be adjusted annually based on actual special assessment collections, system revenue contributions and additional monies in the debt service fund.

## Plan Rationale

The Finance Plan recommended in this report is based on a variety of factors and information provided by the City related to financed projects and City objectives, Northland's knowledge of the City and our experience in working with similar cities and projects. The issuance of the Series 2016B Bonds provides the best means of achieving the City's objectives and cost effective financing. The City has successfully issued and managed this type of general obligation debt for previous projects.

A "crossover" refunding technique is recommended to achieve the refunding objective for the Series 2011A Bonds and Series 2013A Bonds. The average interest rate on the Series 2011A Bonds is 2.81% and the average interest rate on the Series 2013A Bonds is 3.58%. Given current market conditions, Northland estimates the eligible maturities could be refunded with a new bond issue at an average interest rate of approximately 1.63%. This interest rate spread between the old and new bonds would result in a total debt service cost savings of approximately \$234,439 with a present value benefit of \$202,952. The savings is net of all financing costs and is an estimated amount.

## Issuing Process

Northland will receive bids to purchase the Bonds on Tuesday, October 18, 2016 at 10:30 AM. Market conditions and the marketability of the Bonds support issuance through a competitive sale. This process has been chosen as it is intended to produce the lowest combination of interest expense and underwriting expense on the date and time set to receive bids. The calendar of events for the issuing process can be found in Attachment 6.

**Municipal Advisor:** Northland Securities, Inc.

**Bond Counsel:** Briggs and Morgan, P.A., Minneapolis

**Paying Agent:** Northland Trust Services, Inc.

## Attachment 1 - Preliminary Refunding Overview

**City of Cannon Falls, Minnesota**  
**Overview of General Obligation Crossover Refunding Bonds, Series 2016B**  
**(Assumed AA- Rated/ based upon preliminary interest rates on 9/8/16)**

Following is a summary of the refunding of the following two existing bond issues:  
 \$3,150,000 General Obligation Bonds, Series 2011A (call date 2/1/19)  
 \$2,575,000 General Obligation Bonds, Series 2013A (call date 2/1/20)

	\$3,150,000 General Obligation Bonds, Series 2011A	\$2,575,000 General Obligation Bonds, Series 2013A	TOTAL
New Bond Size	\$ 2,130,000	\$ 1,885,000	\$ 4,015,000
Call Date ORIGINAL Bonds	2/1/2019	2/1/2020	
Final Maturity ORIGINAL Bonds	2032	2034	
Final Maturity NEW Bonds	2032	2034	2034
Avg. Remaining Interest Rate ORIGINAL Bonds	2.81%	3.58%	
Avg. Interest Rate NEW Bonds	1.58%	1.69%	1.63%
Net Debt Service Reduction	\$ 102,390.00	\$ 132,049.00	\$ 234,439.00
Present Value Savings	\$ 89,579.00	\$ 113,373.00	\$ 202,952.00
Average Annual Debt Service Savings	\$ 7,928.00	\$ 9,383.00	\$ 15,629.00
Net Present Value Savings %	4.18%	5.92%	5.00%

## Attachment 2 - Refunding Summary

	2011A	2013A	Issue Summary
<b>Sources Of Funds</b>			
Par Amount of Bonds	\$2,130,000.00	\$1,885,000.00	\$4,015,000.00
<b>Total Sources</b>	<b>\$2,130,000.00</b>	<b>\$1,885,000.00</b>	<b>\$4,015,000.00</b>
<b>Uses Of Funds</b>			
Deposit to Crossover Escrow Fund	2,083,305.43	1,842,390.49	3,925,695.92
Costs of Issuance	47,374.60	41,925.40	89,300.00
Rounding Amount	(680.03)	684.11	4.08
<b>Total Uses</b>	<b>\$2,130,000.00</b>	<b>\$1,885,000.00</b>	<b>\$4,015,000.00</b>
<b>Date And Term Structure</b>			
Dated			11/01/2016
Delivery Date			11/01/2016
First Coupon Date			8/01/2017
First available call date			2/01/2024
Call Price			100.0000000%
<b>Yield Statistics</b>			
Bond Year Dollars			\$35,903.75
Average Life			8.942 Years
Average Coupon			1.6334332%
Net Interest Cost (NIC)			1.6334332%
True Interest Cost (TIC)			1.6235070%
All Inclusive Cost (AIC)			1.8968740%
<b>IRS Form 8038</b>			
Net Interest Cost			1.6334332%
Weighted Average Maturity			8.942 Years
Bond Yield for Arbitrage Purposes			1.6235070%



## Attachment 3 – Preliminary Debt Service Comparison

Date	Total P+I	PCF	Existing D/S	Net New D/S	Old Net D/S	Savings
02/01/2017	-	-	1,082,633.75	1,082,629.67	1,082,633.75	4.08
02/01/2018	74,718.76	(74,718.76)	434,367.50	434,367.50	434,367.50	-
02/01/2019	59,775.00	(2,109,775.00)	2,483,367.50	433,367.50	433,367.50	-
02/01/2020	249,775.00	(1,829,252.50)	2,008,650.00	429,172.50	437,267.50	8,095.00
02/01/2021	423,065.00	-	-	423,065.00	440,180.00	17,115.00
02/01/2022	419,415.00	-	-	419,415.00	437,505.00	18,090.00
02/01/2023	415,400.00	-	-	415,400.00	433,892.50	18,492.50
02/01/2024	416,020.00	-	-	416,020.00	440,142.50	24,122.50
02/01/2025	411,210.00	-	-	411,210.00	435,130.00	23,920.00
02/01/2026	415,845.00	-	-	415,845.00	439,480.00	23,635.00
02/01/2027	429,955.00	-	-	429,955.00	447,555.00	17,600.00
02/01/2028	303,355.00	-	-	303,355.00	319,980.00	16,625.00
02/01/2029	298,455.00	-	-	298,455.00	315,000.00	16,545.00
02/01/2030	183,275.00	-	-	183,275.00	194,850.00	11,575.00
02/01/2031	180,045.00	-	-	180,045.00	193,680.00	13,635.00
02/01/2032	181,645.00	-	-	181,645.00	192,340.00	10,695.00
02/01/2033	67,970.00	-	-	67,970.00	75,800.00	7,830.00
02/01/2034	71,540.00	-	-	71,540.00	78,000.00	6,460.00
<b>Total</b>	<b>\$4,601,463.76</b>	<b>(4,013,746.26)</b>	<b>\$6,009,018.75</b>	<b>\$6,596,732.17</b>	<b>\$6,831,171.25</b>	<b>\$234,439.08</b>

### PV Analysis Summary (Net to Net)

Gross PV Debt Service Savings.....	202,947.60
Net PV Cashflow Savings @ 1.624%(Bond Yield)....	202,947.60
Contingency or Rounding Amount.....	4.08
Net Present Value Benefit	\$202,951.68
Net PV Benefit / \$4,058,626.33 PV Refunded Debt Service	5.001%
Net PV Benefit / \$2,050,000 Refunded Principal...	9.900%
Net PV Benefit / \$4,015,000 Refunding Principal..	5.055%

### Refunding Bond Information

Refunding Dated Date	11/01/2016
Refunding Delivery Date	11/01/2016

## Attachment 4 - Preliminary Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
11/01/2016	-	-	-	-	-
08/01/2017	-	-	44,831.26	44,831.26	-
02/01/2018	-	-	29,887.50	29,887.50	74,718.76
08/01/2018	-	-	29,887.50	29,887.50	-
02/01/2019	-	-	29,887.50	29,887.50	59,775.00
08/01/2019	-	-	29,887.50	29,887.50	-
02/01/2020	190,000.00	0.900%	29,887.50	219,887.50	249,775.00
08/01/2020	-	-	29,032.50	29,032.50	-
02/01/2021	365,000.00	1.000%	29,032.50	394,032.50	423,065.00
08/01/2021	-	-	27,207.50	27,207.50	-
02/01/2022	365,000.00	1.100%	27,207.50	392,207.50	419,415.00
08/01/2022	-	-	25,200.00	25,200.00	-
02/01/2023	365,000.00	1.200%	25,200.00	390,200.00	415,400.00
08/01/2023	-	-	23,010.00	23,010.00	-
02/01/2024	370,000.00	1.300%	23,010.00	393,010.00	416,020.00
08/01/2024	-	-	20,605.00	20,605.00	-
02/01/2025	370,000.00	1.450%	20,605.00	390,605.00	411,210.00
08/01/2025	-	-	17,922.50	17,922.50	-
02/01/2026	380,000.00	1.550%	17,922.50	397,922.50	415,845.00
08/01/2026	-	-	14,977.50	14,977.50	-
02/01/2027	400,000.00	1.650%	14,977.50	414,977.50	429,955.00
08/01/2027	-	-	11,677.50	11,677.50	-
02/01/2028	280,000.00	1.750%	11,677.50	291,677.50	303,355.00
08/01/2028	-	-	9,227.50	9,227.50	-
02/01/2029	280,000.00	1.850%	9,227.50	289,227.50	298,455.00
08/01/2029	-	-	6,637.50	6,637.50	-
02/01/2030	170,000.00	1.900%	6,637.50	176,637.50	183,275.00
08/01/2030	-	-	5,022.50	5,022.50	-
02/01/2031	170,000.00	2.000%	5,022.50	175,022.50	180,045.00
08/01/2031	-	-	3,322.50	3,322.50	-
02/01/2032	175,000.00	2.100%	3,322.50	178,322.50	181,645.00
08/01/2032	-	-	1,485.00	1,485.00	-
02/01/2033	65,000.00	2.200%	1,485.00	66,485.00	67,970.00
08/01/2033	-	-	770.00	770.00	-
02/01/2034	70,000.00	2.200%	770.00	70,770.00	71,540.00
<b>Total</b>	<b>\$4,015,000.00</b>	<b>-</b>	<b>\$586,463.76</b>	<b>\$4,601,463.76</b>	<b>-</b>

### Date And Term Structure

Dated	11/01/2016
Delivery Date	11/01/2016
First Coupon Date	8/01/2017
First available call date	2/01/2024
Call Price	100.0000000%

### Yield Statistics

Bond Year Dollars	\$35,903.75
Average Life	8.942 Years
Average Coupon	1.6334332%
Net Interest Cost (NIC)	1.6334332%
True Interest Cost (TIC)	1.6235070%
All Inclusive Cost (AIC)	1.8968740%

### IRS Form 8038

Net Interest Cost	1.6334332%
Weighted Average Maturity	8.942 Years
Bond Yield for Arbitrage Purposes	1.6235070%

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## Attachment 5 – Related Considerations

### Bank Qualification

We understand the City (in combination with any subordinate taxing jurisdictions or debt issued in the City's name by 501(c)3 corporations) anticipates issuing \$10,000,000 or less in tax-exempt debt during this calendar year. Therefore the Bonds will be designated as "bank qualified" obligations pursuant to Federal Tax Law.

### Arbitrage Compliance

The Bonds will be subject to rebate. Arbitrage regulations will apply to the investment of bond proceeds and the debt service fund.

Escrow Account. Funds deposited in the Escrow Account will be yield restricted and therefore will not generate arbitrage earnings to be rebated to the U.S. Treasury.

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

Type: Full

Dissemination Agent: Northland Securities

The requirements for continuing disclosure are governed by SEC Rule 15c2-12. The primary requirements of Rule 15c2-12 actually fall on underwriters. The Rule sets forth due diligence needed prior to the underwriter's purchase of municipal securities. Part of this requirement is obtaining commitment from the issuer to provide continuing disclosure. The document describing the continuing disclosure commitments (the "Undertaking") is contained in the Official Statement that will be prepared to offer the Bonds to investors.

The City has more than \$10,000,000 of outstanding debt and is required to undertake "full" continuing disclosure. Full disclosure requires annual posting of the audit and a separate continuing disclosure report, as well as the reporting of certain "material events." Material events set forth in the Rule, including, but not limited to, bond rating changes and call notices, must be reported within ten days of occurrence. The report contains annual financial information and operating data that "mirrors" material information presented in the Official Statement. The specific contents of the annual report will be described in the Undertaking that appears in the appendix of the Official Statement. Northland currently serves as dissemination agent for the City, assisting with the annual reporting. The information for the Bonds will be incorporated into our reporting.

### Premiums

In the current market environment, it is likely that bids received from underwriters will include premiums. A premium bid occurs when the purchaser pays the City an amount in excess of the par amount of a maturity in exchange for a higher coupon (interest rate). The use of premiums reflects the bidder's view on future market conditions, tax considerations for investors and other factors. Ultimately, the true interest cost calculation will determine the lowest bid, regardless of premium.

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A premium bid produces additional funds that can be used in several ways:

- The premium means that the City needs less bond proceeds and can reduce the size of the issue by the amount of the premium.
- The premium can be deposited in the Debt Service Fund and used to pay principal and interest.

Northland will work with City staff on the sale day to determine use of premium (if any).

### **Rating**

A rating will be requested from Standard and Poor's (S&P). The City's general obligation debt is currently rated "AA-" by S&P. The rating process will include a conference call with the rating analyst. Northland will assist City staff in preparing for and conducting the rating call.

## Attachment 6 – Calendar of Events

September 2016						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	

October 2016						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

November 2016						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

December 2016						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

Date	Action	Responsible Party
September 9	Set Sale Resolution Sent to City for Council Packets  Finance Plan Sent to the City	Northland, Bond Counsel
September 20	Set Sale Resolution for Bonds Adopted	<b>City Council Action,</b> Northland, Bond Counsel
September 21	Preliminary Official Statement Sent to City for Sign Off and to Rating Agency	Northland, City
Week of October 3	Rating Conference Call	Northland, City, Rating Agency
October 11	Awarding Resolution Sent to the City for Council Packets	Northland
October 12	Rating Received	Rating Agency, City, Northland
October 18	Bond Sale 10:30 a.m.  Awarding Resolution Adopted - 6:30 p.m.	<b>City Council Action,</b> Northland, Bond Counsel
November 28	Closing on the Bonds (Proceeds wired to Northland Trust Services to be deposited into Escrow Accounts)	Northland, City Staff, Bond Counsel

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## Attachment 7 - Risk Factors

**Property Taxes:** Final levies will be set based on the results of sale. Levies should be reviewed annually and adjusted as needed. The debt service levy must be included in the preliminary levy for annual Truth in Taxation hearings. Future Legislative changes in the property tax system, including the imposition of levy limits and changes in calculation of property values, would affect plans for payment of debt service. Delinquent payment of property taxes would reduce revenues needed to pay debt service.

**Special Assessments:** The outstanding special assessments for the projects originally financed by the Series 2011A and the Series 2013A Bonds will be used to cover a portion of the debt service of this issue. This Finance Plan is based on the assumptions made at the time the original bonds were issued. Changes in the terms, timing and outstanding actual assessments will alter the projected flow of funds for payment of debt service on the Bonds. Also, special assessments may be prepaid. It is likely that the income earned on the investment of prepaid assessments will be less than the interest paid if the assessments remained outstanding. Delinquencies in assessment collections would reduce revenues needed to pay debt service. The collection of deferred assessments (if any) has not been included in the revenue projections. Projected assessment income should be reviewed annually and adjusted as needed.

**System Revenues:** The City pledges the net revenues of the Water, Sewer and Storm Sewer Systems to the payment of principal and interest on the Bonds. The failure to adjust rates and charges as needed and the loss of significant customers will affect available net revenues. If the net revenues are insufficient, the City is required to levy property taxes or use other revenues to cover the deficiency. Property taxes can only be used on a temporary basis and may not be an ongoing source of revenue to pay debt service.

**General:** In addition to the risks described above, there are certain general risks associated with the issuance of bonds. These risks include, but are not limited to:

- Failure to comply with covenants in bond resolution.
- Failure to comply with Undertaking for continuing disclosure.
- Failure to comply with IRS regulations, including regulation related to use of the proceeds and arbitrage/rebate. The IRS regulations govern the ability of the City to issue its bonds as tax-exempt securities and failure to comply with the IRS regulations may lead to loss of tax-exemption.

**CITY OF CANNON FALLS  
GOODHUE COUNTY, MINNESOTA**

**RESOLUTION NUMBER 2219**

**A RESOLUTION PROVIDING FOR THE COMPETITIVE NEGOTIATED SALE OF  
\$4,015,000 GENERAL OBLIGATION CROSSOVER REFUNDING BONDS,  
SERIES 2016B**

A. WHEREAS, the City Council of the City of Cannon Falls, Minnesota (the "City"), hereby determines that it is necessary and expedient to issue \$4,015,000 General Obligation Crossover Refunding Bonds, Series 2016B (the "Bonds"), pursuant to Minnesota Statutes, Chapter 475. The proceeds of which will be used to (i) crossover refund the 2020 through 2032 maturities of the City's General Obligation Bonds, Series 2011A on February 1, 2019; (ii) crossover refund the 2021 through 2034 maturities of the City's General Obligation Bonds, Series 2013A on February 1, 2020; and (ii) pay the costs of issuing the Bonds; and

B. WHEREAS, the City has retained Northland Securities, Inc., in Minneapolis, Minnesota ("Northland"), as its independent financial advisor and is therefore authorized to sell the Bonds by competitive negotiated sale in accordance with Minnesota Statutes, Section 475.60, Subdivision 2(9); and

C. WHEREAS, the City has retained Briggs and Morgan, P.A. in St. Paul, Minnesota as its bond counsel for purposes of this financing.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Cannon Falls, Minnesota, as follows:

1. Authorization. The City Council hereby authorizes Northland to solicit proposals for the competitive negotiated sale of the Bonds.
2. Meeting; Proposal Opening. This City Council shall meet at the time and place specified in the Notice of Sale attached hereto as Exhibit A for the purpose of considering sealed proposals and awarding the sale of the Bonds.
3. Notice of Sale. The terms and conditions of the Bonds and the negotiation thereof are fully set forth in the Notice of Sale attached hereto as Exhibit A and hereby approved and made a part hereof.
4. Official Statement. In connection with the competitive negotiated sale, the City Administrator and other officers or employees of the City are hereby authorized to cooperate with Northland and participate in the preparation of an official statement for the Bonds, and to execute and deliver it on behalf of the City upon its completion.

ADOPTED by the Council this 20th day of September, 2016.

CITY OF CANNON FALLS

By: \_\_\_\_\_  
Lyman M. Robinson, Mayor

ATTEST: \_\_\_\_\_  
Ronald S. Johnson, City Administrator



EXHIBIT A

**NOTICE OF SALE**

\$4,015,000\*

GENERAL OBLIGATION CROSSOVER REFUNDING BONDS, SERIES 2016B

CITY OF CANNON FALLS, MINNESOTA  
(Book-Entry Only)

NOTICE IS HEREBY GIVEN that these Bonds will be offered for sale according to the following terms:

**TIME AND PLACE:**

Proposals will be opened by the City's Administrator, or designee, on Tuesday, October 18, 2016, at 10:30 A.M., CT, at the offices of Northland Securities, Inc., 45 South 7th Street, Suite 2000, Minneapolis, Minnesota 55402. Consideration of the Proposals for award of the sale will be by the City Council at its meeting at the City Offices beginning Tuesday, October 18, 2016 at 6:30 P.M., CT.

**SUBMISSION OF PROPOSALS**

Proposals may be:

- a) submitted to the office of Northland Securities, Inc.,
- b) faxed to Northland Securities, Inc. at 612-851-5918,
- c) for proposals submitted prior to the sale, the final price and coupon rates may be submitted to Northland Securities, Inc. by telephone at 612-851-5900 or 612-851-4945, or
- d) submitted electronically.

Notice is hereby given that electronic proposals will be received via PARITY™, or its successor, in the manner described below, until 10:30 A.M., CT, on Tuesday, October 18, 2016. Proposals may be submitted electronically via PARITY™ or its successor, pursuant to this Notice until 10:30 A.M., CT, but no Proposal will be received after the time for receiving Proposals specified above. To the extent any instructions or directions set forth in PARITY™, or its successor, conflict with this Notice, the terms of this Notice shall control. For further information about PARITY™, or its successor, potential bidders may contact Northland Securities, Inc. or i-Deal® at 1359 Broadway, 2<sup>nd</sup> floor, New York, NY 10018, telephone 212-849-5021.

Neither the City nor Northland Securities, Inc. assumes any liability if there is a malfunction of PARITY™ or its successor. All bidders are advised that each Proposal shall be deemed to constitute a contract between the bidder and the City to purchase the Bonds regardless of the manner in which the Proposal is submitted.

**BOOK-ENTRY SYSTEM**

The Bonds will be issued by means of a book-entry system with no physical distribution of bond certificates made to the public. The Bonds will be issued in fully registered form and one bond certificate, representing the aggregate principal amount of the Bonds maturing in each year, will be registered in the name of Cede & Co. as nominee of Depository Trust Company ("DTC"), New York, New York, which will act as securities depository of the Bonds.

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\* The City reserves the right to increase or decrease the principal amount of the Bonds. Any such increase or decrease will be made in multiples of \$5,000 and may be made in any maturity. If any maturity is adjusted, the purchase price will also be adjusted to maintain the same gross spread.

Individual purchases of the Bonds may be made in the principal amount of \$5,000 or any multiple thereof of a single maturity through book entries made on the books and records of DTC and its participants. Principal and interest are payable by the City through Northland Trust Services, Inc. Minneapolis, Minnesota (the “Paying Agent/Registrar”), to DTC, or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by participants will be the responsibility of such participants and other nominees of beneficial owners. The successful bidder, as a condition of delivery of the Bonds, will be required to deposit the bond certificates with DTC. The City will pay reasonable and customary charges for the services of the Paying Agent/Registrar.

**DATE OF ORIGINAL ISSUE OF BONDS**

November 15, 2016

**AUTHORITY/PURPOSE/SECURITY**

The Bonds are being issued pursuant to Minnesota Statutes, Chapters 429, 444 and 475. Proceeds will be used to crossover refund the 2020 through 2032 maturities of the City’s General Obligation Bonds, Series 2011A on February 1, 2019; to crossover refund the 2021 through 2034 maturities of the City’s General Obligation Bonds, Series 2013A on February 1, 2020; and to pay the costs associated with the issuance of the Bonds. The Bonds are payable from special assessments against benefited property, net revenues of the City’s water, storm and sewer utility systems and additionally secured by ad valorem taxes on all taxable property within the City. The full faith and credit of the City is pledged to their payment and the City has validly obligated itself to levy ad valorem taxes in the event of any deficiency in the debt service account established for this issue.

**INTEREST PAYMENTS**

Interest is due semiannually on each February 1 and August 1, commencing August 1, 2017, to registered owners of the Bonds appearing of record in the Bond Register as of the close of business on the fifteenth day (whether or not a business day) of the calendar month preceding such interest payment date.

**MATURITIES**

Principal is due annually on February 1, inclusive, in each of the years and amounts as follows:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2020	\$190,000	2025	\$370,000	2030	\$170,000
2021	365,000	2026	380,000	2031	170,000
2022	365,000	2027	400,000	2032	175,000
2023	365,000	2028	280,000	2033	65,000
2024	370,000	2029	280,000	2034	70,000

Proposals for the Bonds may contain a maturity schedule providing for any combination of serial bonds and term bonds, subject to mandatory redemption, so long as the amount of principal maturing or subject to mandatory redemption in each year conforms to the maturity schedule set forth above.

**INTEREST RATES**

All rates must be in integral multiples of 1/20th or 1/8th of 1%. The dollar price of the callable maturities, 2025 through 2034, shall not exceed a maximum price of 102.00%. All Bonds of the same maturity must bear a single uniform rate from date of issue to maturity.

## **ADJUSTMENTS TO PRINCIPAL AMOUNT AFTER PROPOSALS**

The City reserves the right to increase or decrease the principal amount of the Bonds. Any such increase or decrease will be made in multiples of \$5,000 and may be made in any maturity. If any maturity is adjusted, the purchase price will also be adjusted to maintain the same gross spread. Such adjustments shall be made promptly after the sale and prior to the award of Proposals by the City and shall be at the sole discretion of the City. The successful bidder may not withdraw or modify its Proposal once submitted to the City for any reason, including post-sale adjustment. Any adjustment shall be conclusive and shall be binding upon the successful bidder.

## **OPTIONAL REDEMPTION**

Bonds maturing on February 1, 2025 through 2034 are subject to redemption and prepayment at the option of the City on February 1, 2024 and any date thereafter, at a price of par plus accrued interest. Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the maturities and principal amounts within each maturity to be redeemed shall be determined by the City and if only part of the Bonds having a common maturity date are called for prepayment, the specific Bonds to be prepaid shall be chosen by lot by the Bond Registrar.

## **CUSIP NUMBERS**

If the Bonds qualify for assignment of CUSIP numbers such numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder thereof to accept delivery of and pay for the Bonds in accordance with terms of the purchase contract. The CUSIP Service Bureau charge for the assignment of CUSIP identification numbers shall be paid by the successful bidder.

## **DELIVERY**

Delivery of the Bonds will be within forty-five days after award, subject to an approving legal opinion by Briggs and Morgan, Professional Association, Bond Counsel. The legal opinion will be paid by the City and delivery will be anywhere in the continental United States without cost to the successful bidder at DTC.

## **TYPE OF PROPOSAL**

Proposals of not less than \$3,954,775 (98.50%) and accrued interest on the principal sum of \$4,015,000 must be filed with the undersigned prior to the time of sale. Proposals must be unconditional except as to legality. Proposals for the Bonds should be delivered to Northland Securities, Inc. and addressed to:

Ron Johnson, City Administrator  
Cannon Falls City Hall  
918 River Road  
Cannon Falls, Minnesota 55009

A good faith deposit (the "Deposit") in the amount of \$80,300 in the form of a federal wire transfer (payable to the order of the City) is only required from the apparent winning bidder, and must be received within two hours after the time stated for the receipt of Proposals. The apparent winning bidder will receive notification of the wire instructions from the Municipal Advisor promptly after the sale. If the Deposit is not received from the apparent winning bidder in the time allotted, the City may choose to reject their Proposal and then proceed to offer the Bonds to the next lowest bidder based on the terms of their original proposal, so long as said bidder wires funds for the Deposit amount within two hours of said offer.

The City will retain the Deposit of the successful bidder, the amount of which will be deducted at settlement and no interest will accrue to the successful bidder. In the event the successful bidder fails to comply with the accepted Proposal, said amount will be retained by the City. No Proposal can be withdrawn after the time set for receiving Proposals unless the meeting of the City scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made.

#### **AWARD**

The Bonds will be awarded on the basis of the lowest interest rate to be determined on a true interest cost (TIC) basis. The City's computation of the interest rate of each Proposal, in accordance with customary practice, will be controlling. In the event of a tie, the sale of the Bonds will be awarded by lot. The City will reserve the right to: (i) waive non-substantive informalities of any Proposal or of matters relating to the receipt of Proposals and award of the Bonds, (ii) reject all Proposals without cause, and (iii) reject any Proposal which the City determines to have failed to comply with the terms herein.

#### **INFORMATION FROM SUCCESSFUL BIDDER**

The successful bidder will be required to provide, in a timely manner, certain information relating to the initial offering price of the Bonds necessary to compute the yield on the Bonds pursuant to the provisions of the Internal Revenue Code of 1986, as amended.

#### **OFFICIAL STATEMENT**

By awarding the Bonds to any underwriter or underwriting syndicate submitting a Proposal therefor, the City agrees that, no more than seven business days after the date of such award, it shall provide to the senior managing underwriter of the syndicate to which the Bonds are awarded, the Final Official Statement in an electronic format as prescribed by the Municipal Securities Rulemaking Board (MSRB).

#### **FULL CONTINUING DISCLOSURE UNDERTAKING**

The City will covenant in the resolution awarding the sale of the Bonds and in a Continuing Disclosure Undertaking to provide, or cause to be provided, annual financial information, including audited financial statements of the City, and notices of certain material events, as required by SEC Rule 15c2-12.

#### **BANK QUALIFICATION**

The City will designate the Bonds as qualified tax-exempt obligations for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

#### **BOND INSURANCE AT UNDERWRITER'S OPTION**

If the Bonds qualify for issuance of any policy of municipal bond insurance or commitment therefor at the option of the successful bidder, the purchase of any such insurance policy or the issuance of any such commitment shall be at the sole option and expense of the successful bidder of the Bonds. Any increase in the costs of issuance of the Bonds resulting from such purchase of insurance shall be paid by the successful bidder, except that, if the City has requested and received a rating on the Bonds from a rating agency, the City will pay that rating fee. Any other rating agency fees shall be the responsibility of the successful bidder. Failure of the municipal bond insurer to issue the policy after the Bonds have been awarded to the successful bidder shall not constitute cause for failure or refusal by the successful bidder to accept delivery on the Bonds.

The City reserves the right to reject any and all Proposals, to waive informalities and to adjourn the sale.

Dated: September 20, 2016

BY ORDER OF THE CANNON FALLS CITY COUNCIL

/s/ Ron Johnson  
City Administrator

Additional information may be obtained from:

Northland Securities, Inc.  
45 South 7<sup>th</sup> Street, Suite 2000  
Minneapolis, Minnesota 55402  
Telephone No.: 612-851-5900

**MUNICIPAL ADVISORY SERVICE AGREEMENT  
BY AND BETWEEN  
THE CITY OF CANNON FALLS, MINNESOTA  
AND  
NORTHLAND SECURITIES, INC.**

This Agreement made and entered into by and between the City of Cannon Falls, Minnesota (hereinafter "City") and Northland Securities, Inc., of Minneapolis, Minnesota (hereinafter "NSI").

**WITNESSETH**

WHEREAS, the City desires to have NSI provide it with advice on the structure, terms, timing and other matters related to the issuance of the General Obligation Crossover Refunding Bonds, Series 2016B (the "Debt") serving in the role of municipal (financial) advisor, and

WHEREAS, NSI is a registered municipal advisor (registration # 866-00082-00), and

WHEREAS, NSI will act as municipal advisor in accordance with the duties and responsibilities of Rule G-42 of the Municipal Securities Rulemaking Board, and

WHEREAS, the City and NSI are entering into this Agreement to define the municipal advisory relationship at the earliest opportunity related to the inception of the municipal advisory relationship for the Debt, and

WHEREAS, NSI desires to furnish services to the City as hereinafter described,

NOW, THEREFORE, it is agreed by and between the parties as follows:

**SERVICES TO BE PROVIDED BY NSI**

NSI shall provide the City with services necessary to analyze, structure, offer for sale and close the Debt. The services will be tailored to meet the needs of this engagement and may include:

**Planning and Development**

1. Assist City officials to define the scope and the objectives for the Debt.
2. Investigate and consider reasonably feasible financing alternatives.
3. Assist the City in understanding the material risks, potential benefits, structure and other characteristics of the recommended plan for the Debt, including issue structure, estimated debt service payments, projected revenues, method of issuance, bond rating, sale timing, and call provisions.
4. Prepare a schedule of events related to the issuance process.
5. Coordinate with bond counsel any actions needed to authorize the issuance of the Debt.
6. Attend meetings of the City Council and other project and bond issue related meetings as needed and as requested.

**Bond Sale**

1. Assist the City with the preparation, review and approval of the preliminary official statement (POS).
2. Assist the City and bond counsel with preparing and publishing the Official Notice of Sale if required by law.
3. Prepare and submit application for bond rating(s) and assist the City with furnishing the rating agency(s) with any additional information required to conduct the rating review. Assist the City with preparing and conducting the rating call or other presentation.
4. Assist the City in receiving the bids, compute the accuracy of the bids received, and recommend to the City the most favorable bid for award.
5. Coordinate with bond counsel the preparation of required contracts and resolutions.

**Post Sale Support**

1. Assist the City with the preparation of final official statement, distribution to the underwriter and posting on EMMA.
2. Coordinate the bond issue closing, including making all arrangements for bond printing, registration, and delivery.
3. Furnish to the City a complete transcript of the transaction, if not provided by bond counsel.

There are no specific limitations on the scope of this agreement.

**COMPENSATION**

For providing these services with respect to the Debt, NSI shall be paid a lump sum of \$21,750. The fee due to NSI shall be payable by the City upon the closing of the Bonds.

NSI agrees to pay the following expenses from its fee:

- Out-of-pocket expenses such as travel, long distance phone, and copy costs.
- Production and distribution of material to rating agencies and/or bond insurance companies.
- Preparation of the bond transcript.

The City agrees to pay for all other expenses related to the processing of the bond issue(s) including, but not limited to, the following:

- Engineering and/or architectural fees.
- Publication of legal notices.
- Bond counsel and local attorney fees.
- Fees for various debt certificates.
- The cost of printing Official Statements, if any.
- City staff expenses.
- Airfare and lodging expenses of one NSI official and City officials when and if traveling for rating agency presentations.
- Rating agency fees, if any.
- Bond insurance fees, if any.
- Accounting and other related fees.

It is expressly understood that there is no obligation on the part of the City under the terms of this Agreement to issue the Debt. If the Debt is not issued, NSI agrees to pay its own expenses and receive no fee for any services it has rendered.

## **CONFLICTS OF INTEREST**

NSI is not aware of any material conflicts of interest that could reasonably be anticipated to impair NSI's ability to provide advice to or on behalf of the City in accordance with the standards of conduct for municipal advisors.

The compensation for services provided in this Agreement is customary in the municipal securities market, but may pose a conflict of interest. Since the fee is payable at closing and only if the Debt is issued, NSI may have an incentive to encourage issuance. Compensation linked to the size of the transaction may provide incentive to increase the amount of the Debt. Compensation considerations will not impair NSI's ability to provide unbiased and competent advice or to fulfill its fiduciary duty to the City. In executing this Agreement, the City acknowledges and accepts the potential conflicts of interest posed by the compensation to NSI.

Northland Capital Holdings is the parent company of NSI. Another subsidiary of Northland Capital Holdings is Northland Trust, Inc. Northland Trust provides paying agent services to issuers of municipal bonds. The City is solely responsible for the decision on the source of paying agent services. Any engagement of Northland Trust is outside the scope of this Agreement. No compensation paid to Northland Trust is shared with NSI.

NSI does not provide executive search, organizational development, compensation systems or other management consulting services that may directly or indirectly affect City staff that recommend the engagement of municipal advisor services and may pose a conflict of interest.

## **LEGAL AND DISCIPLINARY ACTIONS**

There are no legal or disciplinary events reported by the Securities and Exchange Commission contained in Form MA or Form MA-I. The City can find information about these forms and accessing information related to NSI at [www.sec.gov/municipal](http://www.sec.gov/municipal).

## **SUCCESSORS OR ASSIGNS**

The terms and provisions of this Agreement are binding upon and inure to the benefit of the City and NSI and their successors or assigns.

## **TERM OF THIS AGREEMENT**

This Agreement may be terminated by thirty (30) days written notice by either the City or NSI and it shall terminate sixty (60) days following the closing date related to the issuance of the Debt.



Dated this 17th day of August, 2016.

**Northland Securities, Inc.**

By:   
John R. Fifield, Jr. - Senior Vice President

**City of Cannon Falls, Minnesota**

By: \_\_\_\_\_  
Its: \_\_\_\_\_