

TO: Honorable Mayor and City Council
FROM: City Administrator Ron Johnson
SUBJECT: Update on General Obligation Refunding Bonds
DATE: September 16, 2016

BACKGROUND

At the September 20 meeting, George Eilertson, Northland Securities, discussed the potential competitive negotiated sale of \$4,015,000 General Obligation Crossover Refunding Bonds, Series 2016B..

At that meeting, Council approved a motion adopting the Resolution authorizing the competitive negotiated sale of \$4,015,000 General Obligation Crossover Refunding Bonds, Series 2016B. This sale was tentatively going to be scheduled for October 18.

Also, during Mr. Eilertson's presentation, he stated that the Fed was meeting that following Friday and the effect of that meeting on the bond market was unknown. Based on the movement of the market since the September 20 meeting, Mr. Eilertson is recommending that Council hold off on the Refunding at this time. His memo is attached.

REQUESTED COUNCIL ACTION

No action is being requested- As per the City's bond counsel, the City Council does not need to take any formal action to cancel or postpone the bond sale.

Attachment(s): Northland Securities memo

DATE: October 12, 2016

TO: Honorable Robby Robinson, Mayor & Members of the City Council
 Mr. Ron Johnson, Administrator
 Ms. Lanell Endres, Asst. Administrator/Finance Director
 City of Cannon Falls

FROM: George Eilertson, Sr. Vice President
 Northland Securities



RE: Update on Possible Refunding Bond Issue

I had attended the September 20, 2016 City Council meeting to present the possible advance refunding of the following two existing bond issues:

- a. \$3,150,000 General Obligation Bonds, Series 2011A (2/1/19 call date)
- b. \$2,575,000 General Obligation Bonds, Series 2013A (2/1/20 call date)

Based upon interest rates in the bond market at that time (9/20/16), the City Council approved a resolution calling for a bond sale to occur on October 18, 2016. Since I attended this City Council meeting, interest rates in the municipal bond market have been moving higher. The following table compares the interest rates for the September 20th bond market and those in the current (mid-October) bond market.

Date	Sept. 20, 2016	Oct. 11, 2016
Avg Interest Rate on New Bonds	1.63%	1.82%
Total Debt Service Savings	\$234,439	\$186,500
Net present value savings %	5.00%	3.94%

The refunding of the 2011A and 2013A Bonds is considered an advance refunding where the City would lock in current interest rates for a future savings. The advance refunding of a bond issue can only be done one time from the issuance of the original bonds. A minimum present value savings of 3.00% must be achieved to issue advance refunding bonds. If the bonds are not refunded in the current bond market, the City will continue to have the opportunity to consider the issuance of this type of refunding bond in the coming months/years.

Even though the possible advance refunding bond issue meets the minimum savings test, I would recommend waiting to see if the savings improves. Some bond market observers have commented that they believe interest rates will move lower following the presidential election. I will continue to closely monitor interest rates and advise if market conditions improve and the overall savings increase similar to the September 2016 levels. Based upon the recent rise in interest rates and corresponding drop in the debt service savings, we are recommending that the sale of refunding bonds be postponed.

As per the City's bond attorney, the City Council does not need to take any formal action to cancel or postpone the bond sale. In the event that interest rates move lower and the debt service savings return to levels similar to those available in mid-September, a new resolution calling for a bond sale will be presented to the City Council.

Please let me know if you have any questions. Thank you.