



MEMO

To: Heidi Arnson, North Metro Telecommunications Commission
From: Nick Anhut, Ehlers & Associates
Date: February 9, 2016
Re: Proposed G.O. Financing for Capital Equipment

You have asked us to provide an update on background information, procedure and considerations regarding the issuance of general obligation bonds by the City of Circle Pines to purchase \$2 million in capital equipment on behalf of the North Metro Telecommunications Commission (the “Commission”).

Background

Under terms of its Joint Powers Agreement (“JPA”), the Commission was granted authority to issue up to \$2.5 million in bonds payable solely from franchise fee revenues collected quarterly from the members. The bonds were to finance the acquisition and improvements for the public access and studio facility. The revenue bonds were refinanced for interest savings in 2012, and then prepaid in full in 2015. The Commission currently has no debt on its books.

In discussion with Commission staff about the potential costs of financing a \$2 million capital equipment upgrade in 2016, two options were discussed: either a Commission-issued revenue bond (similar to that used to finance the Commission’s facility) or a general obligation bond issued by one of the member entities. The JPA is silent to additional debt issuance and either option would require approval from each of the members’ governing bodies.

It is estimated that today’s fixed interest rates for a Commission-issued revenue bond would be 3.00-3.25% for a ten year term. Today’s comparable market interest rate estimates for the proposed Circle Pines issue of bank qualified general obligation bonds are 1.83% for a ten year term. In total debt service payments, this difference in rates and financing costs equates to \$136,700 less over the ten year term.

Circle Pines Bond Issuance

Under the authority of Minnesota Statutes Chapter 412, a city can issue general obligation equipment certificates or capital notes to finance capital equipment payable from a property tax levy. Cities can choose to offset this levy requirement with other available revenue sources. The debt can be repaid up to the useful life of the asset or 10 years, whichever is less. A notice is required to be published in the city’s newspaper if the total principal amount financed exceeds 0.25% of its current year assessed market value.

In discussion with the City of Circle Pines and its bond attorney, the City agrees to facilitate the overall financing and equipment purchase using this bonding authority as long as it





receives the individual pledges of each of the members of the Commission. In essence, Circle Pines is asking each of the member cities to issue their own capital notes that will be held by Circle Pines in order to reduce its risk. Proceeds of the bond issue would be used by the Circle Pines to pay for the costs of the equipment and financing. To offset the levy requirement for each of the member cities, the Commission would agree to budget annually to provide fee revenues to repay the debt.

Each member city's capital notes and G.O. pledge would support a principal amount and annual payment of the debt allocated using the most recent system revenue shares of the Commission (2015). Each member city's capital notes would be issued to Circle Pines and certified with its county for tax levy purposes, however Circle Pines would serve as the sole issuer and obligated party for the debt's reporting and administrative purposes.

Using the most recent valuations, each member city's share is well below the 0.25% of market value threshold for purposes of publishing a public notice of the debt. However, the total principal amount would exceed the Circle Pines' 0.25% threshold and would require it to publish notice of its resolution determining to issue the debt. The Bonds cannot be issued until after a ten day period after the publication to allow for a petition asking to put the matter to referendum. Any such petition must be signed by voters equal to 10% of the vote cast at the last municipal election.

The Commission has already included funding within its capital budget for 2016 to provide funds to make the first year's debt payments. From a risk standpoint, the projected annual debt payments equates to 19.5% of the overall fee revenues collected in 2015. Even with the payments factored into the 2016 budget, the Commission plans to remit \$320,000, or 1.4 times the expected annual debt payment, in franchise fees back to the members after all capital and operating costs.

Using the most recent member share information, the table below shows each members share of the estimated debt principal and annual payments.

Members System Revenue Share (2015)	= Share of 2016 Debt	Estimated Share of Annual Debt Payments*
Blaine 53.857981%	\$ 1,112,167	\$ 120,987.27
Centerville 3.338439%	\$ 68,939	\$ 7,499.51
Circle Pines 4.787906%	\$ 98,870	\$ 10,755.61
Ham Lake 13.958125%	\$ 288,235	\$ 31,355.71
Lexington 1.796855%	\$ 37,105	\$ 4,036.48
Lino Lakes 16.502266%	\$ 340,772	\$ 37,070.90
Spring Lake Park 5.758428%	\$ 118,912	\$ 12,935.81
Totals:	\$ 2,065,000.00	\$ 224,641.29

*\$2,065,000 G.O. Equipment Certificates at 1.91% w/ 10 yr term





Other Considerations

Legal and federal debt limits. Even though the member cities of the Commission will utilize franchise fee revenues to offset any levy requirement, each city's capital notes will count toward their legal debt limit.

Another limitation to consider is the \$10 million threshold a city must stay under annually in order to designate its bonds as bank qualified debt. It is the request of the Commission that the City of Circle Pines allocate the full amount of the debt against this amount. Circle Pines will not require each member city to designate their capital notes for purposes of their own \$10 million thresholds.

Call Feature. For a 10 year Bond issue, the market is typically comfortable with a 7-8 year call feature whereupon the Bonds are able to be prepaid without penalty. It is expected that the financing will carry a call date of February 1, 2024. Each member city's capital notes may be defeased ahead of this call date.

Timing. Upon authorization by the member cities, the City of Circle Pines plans to include the equipment financing within its 2016A Bonds set to issue in late March. It is expected the City's financing will close in mid to late April.

The debt service estimates for City-issued General Obligation bonds to finance \$2 million capital equipment project and associated financing costs are attached. It is expected financing costs may be reduced due to favorable terms at the time of Circle Pines' bond sale. Any such savings will be reflected in a reduced principal amount and carried forward in the financing terms of each member city's capital notes.

We look forward to further discussions on these issues.



City of Circle Pines, Minnesota

\$2,065,000 General Obligation Bonds, Series 2016

Assumes Current Market BQ "AA" Rate plus 15bps

10 Years

Sources & Uses

Dated 03/15/2016 | Delivered 03/15/2016

Sources Of Funds

Par Amount of Bonds	\$2,065,000.00
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Total Sources	\$2,065,000.00
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Uses Of Funds

Total Underwriter's Discount (1.200%)	24,780.00
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Costs of Issuance	39,000.00
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Deposit to Project Construction Fund	2,000,000.00
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Rounding Amount	1,220.00
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Total Uses	\$2,065,000.00
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City of Circle Pines, Minnesota

\$2,065,000 General Obligation Bonds, Series 2016

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10 Years

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+	Fiscal Total
03/15/2016	-	-	-	-	-
02/01/2017	200,000.00	0.750%	25,438.00	225,438.00	225,438.00
08/01/2017	-	-	13,740.00	13,740.00	-
02/01/2018	195,000.00	0.900%	13,740.00	208,740.00	222,480.00
08/01/2018	-	-	12,862.50	12,862.50	-
02/01/2019	200,000.00	1.100%	12,862.50	212,862.50	225,725.00
08/01/2019	-	-	11,762.50	11,762.50	-
02/01/2020	200,000.00	1.200%	11,762.50	211,762.50	223,525.00
08/01/2020	-	-	10,562.50	10,562.50	-
02/01/2021	205,000.00	1.350%	10,562.50	215,562.50	226,125.00
08/01/2021	-	-	9,178.75	9,178.75	-
02/01/2022	205,000.00	1.500%	9,178.75	214,178.75	223,357.50
08/01/2022	-	-	7,641.25	7,641.25	-
02/01/2023	210,000.00	1.600%	7,641.25	217,641.25	225,282.50
08/01/2023	-	-	5,961.25	5,961.25	-
02/01/2024	215,000.00	1.700%	5,961.25	220,961.25	226,922.50
08/01/2024	-	-	4,133.75	4,133.75	-
02/01/2025	215,000.00	1.850%	4,133.75	219,133.75	223,267.50
08/01/2025	-	-	2,145.00	2,145.00	-
02/01/2026	220,000.00	1.950%	2,145.00	222,145.00	224,290.00
Total	\$2,065,000.00	-	\$181,413.00	\$2,246,413.00	-

Yield Statistics

Bond Year Dollars	\$11,317.61
Average Life	5.481 Years
Average Coupon	1.6029266%
Net Interest Cost (NIC)	1.8218774%
True Interest Cost (TIC)	1.8297073%
Bond Yield for Arbitrage Purposes	1.5964595%
All Inclusive Cost (AIC)	2.2049559%

IRS Form 8038

Net Interest Cost	1.6029266%
Weighted Average Maturity	5.481 Years