

City of Blaine, Minnesota

Recommendations for Issuance of Bonds

\$30,105,000 General Obligation Water Revenue Bonds, Series 2018B

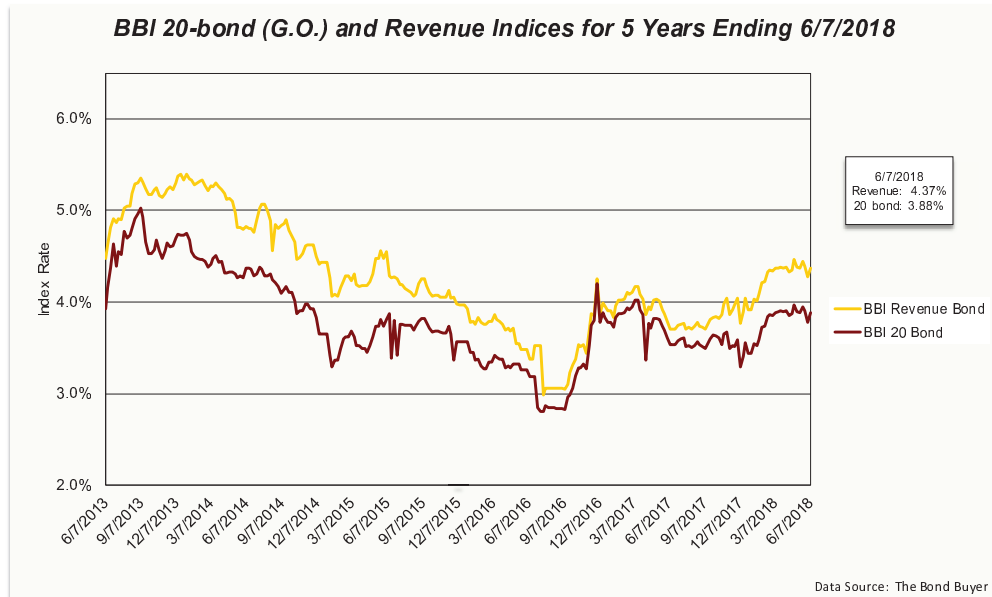
The City Council has under consideration the issuance of bonds (the “Bonds”) to finance water system improvements within the City including construction of a water treatment facility and well-house rehabilitation. This document provides information relative to the proposed issuance.

KEY EVENTS: The following summary schedule includes the timing of some of the key events that will occur relative to the bond issuance.

June 21, 2018	Council sets sale date and terms
Week of June 25, 2018	Rating conference is conducted
July 12, 2018, 10:00 a.m.	Competitive proposals are received
July 12, 2018, 7:30 p.m.	Council considers award of the Bonds
August 15, 2018	Proceeds are received

RATING: An application will be made to S&P Global Ratings (S&P) for ratings on the Bonds. The City’s general obligation debt is currently rated “AA+” by S&P.

THE MARKET: General performance of the tax-exempt market is often measured by the Bond Buyer’s Index (“BBI”) which measures the yield of high grade municipal bonds in the 20th year for general obligation bonds (the BBI 20 Bond Index) and the 30th year for revenue bonds (the BBI Revenue Bond Index). The following chart illustrates these two indices over the past five years.



POST ISSUANCE COMPLIANCE:

The issuance of the Bonds will result in post-issuance compliance responsibilities. The responsibilities are in two primary areas: i) compliance with federal arbitrage requirements and ii) compliance with secondary disclosure requirements.

Federal arbitrage requirements include a wide range of implications that have been taken into account as this issue has been structured. Post-issuance compliance responsibilities for this tax-exempt issue include both rebate and yield restriction provisions of the IRS Code. In general terms the arbitrage requirements control the earnings on unexpended bond proceeds, including investment earnings, moneys held for debt service payments (which are considered to be proceeds under the IRS regulations), and/or reserves. Under certain circumstances any “excess earnings” will need to be paid to the IRS to maintain the tax-exempt status of the Bonds. Any interest earnings on gross bond proceeds or debt service funds should not be spent until it has been determined based on actual facts that they are not “excess earnings” as defined by the IRS Code.

The arbitrage rules provide for spend-down exceptions for proceeds that are spent within either a 6-month, 18-month or 24-month period in accordance with certain spending criteria. Proceeds that qualify for an exception will be exempt from rebate. These exceptions are based on actual expenditures and not based on reasonable expectations; and expenditures, including any investment proceeds, will have to meet the spending criteria to qualify for the exclusion. The City expects to meet the 24-month spending exception.

Regardless of whether this issue qualifies for an exemption from the rebate provisions, yield restriction provisions will apply to Bond proceeds (including interest earnings) unspent after three years and the debt service fund throughout the term of the Bonds. These moneys should be monitored for the Bonds until they are retired.

Secondary disclosure requirements result from an SEC requirement that underwriters provide ongoing disclosure information to investors. To meet this requirement, any prospective underwriter will require the City to commit to providing the information needed to comply under a continuing disclosure agreement.

Springsted currently provides both arbitrage and continuing disclosure services to the City. Springsted will work with City staff to include the Bonds under the existing Agreement for Municipal Advisor Services.

SUPPLEMENTAL INFORMATION AND BOND RECORD:

Supplementary information will be available to staff including detailed terms and conditions of sale, comprehensive structuring schedules and information to assist in meeting post-issuance compliance responsibilities.

Upon completion of the financing, a bond record will be provided that contains pertinent documents and final debt service calculations for the transaction.

PURPOSE:

Proceeds of the Bonds will be used to finance water system improvements within the City including construction of a water treatment facility and well house rehabilitation.

AUTHORITY:

Statutory Authority: The Bonds are being issued pursuant to Minnesota Statutes, Chapters 444 and 475.

Statutory Requirements: Pursuant to Minnesota Statutes, Chapter 444 and the resolution awarding the Bonds, the City will covenant to maintain water system rates in an amount sufficient to generate revenues to support the operation of the water utility fund and to pay debt service. The City is required to annually review the budget of the water utility to determine whether current rates and charges are sufficient and to adjust them as necessary.

The City currently has one outstanding bond issue (the Series 2017B Bonds) for which net revenues of the water utility fund are pledged for repayment of debt service. The table below shows the calculation of projected net revenues available to pay debt service from the City’s water utility fund for the fiscal year ending December 31, 2017 as provided by the City. Although the table shows a shortfall, effective in year 2018, the City increased the usage charges of the water utility by 10 cents per 1,000 gallons used with an additional increase anticipated to be effective in year 2020. The City is also conducting a rate study to assess any need for additional rate or usage charge increases under the recommendation of a hired consultant. With these increases and a surplus fund balance in the water utility fund, the City expects sufficient coverage in future years. The maximum annual calendar year debt service to be paid from net revenues of the water utility fund, including this issue, is estimated to be \$2,266,138 as shown below.

2017 Projected Net Revenues	Water Fund
Operating Revenues	4,001,500
Operating Expenses	3,981,730
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Operating Income	19,770
Add: Depreciation	1,285,000
WAC Fees/Other	724,500
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Net Revenues Available for Debt Service	2,029,270
Less Maximum Debt Service	2,266,138
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Remaining Capacity for Annual Debt Service	(236,868)

SECURITY AND SOURCE OF PAYMENT:

The Bonds are a general obligation of the City, secured by its full faith and credit and taxing power. In addition, the City will pledge net revenues of its water system.

The City will use net revenues of its water system to pay the debt service on the Bonds as it becomes due.

SCHEDULES ATTACHED:

Schedules attached for the Bonds include:

- sources and uses
- net debt service for the Bonds, given current market conditions
- estimated pricing summary

**STRUCTURING
SUMMARY:**

In consultation with the City, the Bonds have been structure with a repayment term of twenty years around the existing Series 2017B Bonds, to result in approximately level annual payments of debt service overall.

**RISKS/SPECIAL
CONSIDERATIONS:**

The outcome of this financing will rely on the market conditions at the time of the sale. Schedules included are for illustrative purposes based on current market conditions and do not represent the final pricing for the Bonds.

The Bonds have been structured to result in additional proceeds generated from a premium bid, assuring the City will receive at least the par (face) amount of the issue in proceeds. There is no guaranty that the winning bidder will price these issues with a premium in the amount that we have estimated, which could result in less or more additional proceeds than what is currently shown in the attached schedules.

The Bonds are expected to be repaid from water system revenues. In the event these revenues fall short, the City will be obligated to provide other funds or levy to pay debt service on the Bonds.

**SALE TERMS AND
MARKETING:**

Variability of Issue Size: A specific provision in the sale terms permits modifications to the issue size and/or maturity structure to customize the issue once the price and interest rates are set on the day of sale.

Prepayment Provisions: Bonds maturing on or after February 1, 2029 may be prepaid at a price of par plus accrued interest on or after February 1, 2028.

Bank Qualification: The City is issuing more than \$10 million in tax-exempt obligations in 2018; therefore, the Bonds are not designated as bank qualified.

Premium Bidding: Any excess proceeds generated as the original issue premium and/or unused discount will be used to reduce the principal amount of the borrowing.

\$30,105,000

City of Blaine, Minnesota
General Obligation Water Utility Revenue Bonds, Series 2018B

Sources & Uses

Dated 08/15/2018 | Delivered 08/15/2018

Sources Of Funds

Par Amount of Bonds.....	\$30,105,000.00
Reoffering Premium.....	276,817.90

Total Sources..... \$30,381,817.90

Uses Of Funds

Deposit to Project Construction Fund.....	30,000,000.00
Total Underwriter's Discount (0.900%).....	270,945.00
Costs of Issuance.....	106,505.00
Rounding Amount.....	4,367.90

Total Uses..... \$30,381,817.90

\$30,105,000

City of Blaine, Minnesota
General Obligation Water Utility Revenue Bonds, Series 2018B

NET DEBT SERVICE SCHEDULE

Date	Principal	Coupon	Interest	Total P+I	Existing D/S	Net New D/S	105% Overlevy
02/01/2019	-	-	-	-	476,300.00	476,300.00	500,115.00
02/01/2020	280,000.00	2.250%	1,485,201.18	1,765,201.18	518,700.00	2,283,901.18	2,398,096.24
02/01/2021	750,000.00	3.000%	1,010,187.50	1,760,187.50	524,400.00	2,284,587.50	2,398,816.88
02/01/2022	775,000.00	3.000%	987,687.50	1,762,687.50	520,000.00	2,282,687.50	2,396,821.88
02/01/2023	795,000.00	3.000%	964,437.50	1,759,437.50	525,300.00	2,284,737.50	2,398,974.38
02/01/2024	1,340,000.00	3.000%	940,587.50	2,280,587.50	-	2,280,587.50	2,394,616.88
02/01/2025	1,385,000.00	3.000%	900,387.50	2,285,387.50	-	2,285,387.50	2,399,656.88
02/01/2026	1,425,000.00	3.000%	858,837.50	2,283,837.50	-	2,283,837.50	2,398,029.38
02/01/2027	1,465,000.00	3.000%	816,087.50	2,281,087.50	-	2,281,087.50	2,395,141.88
02/01/2028	1,510,000.00	3.000%	772,137.50	2,282,137.50	-	2,282,137.50	2,396,244.38
02/01/2029	1,555,000.00	3.250%	726,837.50	2,281,837.50	-	2,281,837.50	2,395,929.38
02/01/2030	1,605,000.00	3.250%	676,300.00	2,281,300.00	-	2,281,300.00	2,395,365.00
02/01/2031	1,660,000.00	3.250%	624,137.50	2,284,137.50	-	2,284,137.50	2,398,344.38
02/01/2032	1,715,000.00	3.500%	570,187.50	2,285,187.50	-	2,285,187.50	2,399,446.88
02/01/2033	1,775,000.00	3.500%	510,162.50	2,285,162.50	-	2,285,162.50	2,399,420.63
02/01/2034	1,835,000.00	3.500%	448,037.50	2,283,037.50	-	2,283,037.50	2,397,189.38
02/01/2035	1,900,000.00	3.750%	383,812.50	2,283,812.50	-	2,283,812.50	2,398,003.13
02/01/2036	1,970,000.00	3.750%	312,562.50	2,282,562.50	-	2,282,562.50	2,396,690.63
02/01/2037	2,045,000.00	3.750%	238,687.50	2,283,687.50	-	2,283,687.50	2,397,871.88
02/01/2038	2,120,000.00	3.750%	162,000.00	2,282,000.00	-	2,282,000.00	2,396,100.00
02/01/2039	2,200,000.00	3.750%	82,500.00	2,282,500.00	-	2,282,500.00	2,396,625.00
Total	\$30,105,000.00	-	\$13,470,776.18	\$43,575,776.18	\$2,564,700.00	\$46,140,476.18	\$48,447,499.99

SIGNIFICANT DATES

Dated Date.....	8/15/2018
Delivery Date.....	8/15/2018
First Coupon Date.....	8/01/2019

Yield Statistics

Bond Year Dollars.....	\$384,236.75
Average Life.....	12.763 Years
Average Coupon.....	3.5058531%
Net Interest Cost (NIC).....	3.5043247%
True Interest Cost (TIC).....	3.4814844%
Bond Yield for Arbitrage Purposes.....	3.3918808%
All Inclusive Cost (AIC).....	3.5170068%

IRS Form 8038

Net Interest Cost.....	3.4078744%
Weighted Average Maturity.....	12.743 Years

\$30,105,000

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Pricing Summary

Maturity	Type of Bond	Coupon	Yield	Maturity Value	Price	YTM	Call Date	Call Price	Dollar Price
02/01/2020	Serial Coupon	2.250%	2.250%	280,000.00	100.000%	-	-	-	280,000.00
02/01/2021	Serial Coupon	3.000%	2.300%	750,000.00	101.665%	-	-	-	762,487.50
02/01/2022	Serial Coupon	3.000%	2.400%	775,000.00	101.981%	-	-	-	790,352.75
02/01/2023	Serial Coupon	3.000%	2.500%	795,000.00	102.098%	-	-	-	811,679.10
02/01/2024	Serial Coupon	3.000%	2.600%	1,340,000.00	102.024%	-	-	-	1,367,121.60
02/01/2025	Serial Coupon	3.000%	2.700%	1,385,000.00	101.767%	-	-	-	1,409,472.95
02/01/2026	Serial Coupon	3.000%	2.800%	1,425,000.00	101.338%	-	-	-	1,444,066.50
02/01/2027	Serial Coupon	3.000%	2.900%	1,465,000.00	100.745%	-	-	-	1,475,914.25
02/01/2028	Serial Coupon	3.000%	2.950%	1,510,000.00	100.410%	-	-	-	1,516,191.00
02/01/2029	Serial Coupon	3.250%	3.050%	1,555,000.00	101.632%	c 3.066%	02/01/2028	100.000%	1,580,377.60
02/01/2030	Serial Coupon	3.250%	3.150%	1,605,000.00	100.812%	c 3.165%	02/01/2028	100.000%	1,618,032.60
02/01/2031	Serial Coupon	3.250%	3.250%	1,660,000.00	99.999%	c 3.250%	02/01/2028	100.000%	1,659,983.40
02/01/2032	Serial Coupon	3.500%	3.350%	1,715,000.00	101.207%	c 3.388%	02/01/2028	100.000%	1,735,700.05
02/01/2033	Serial Coupon	3.500%	3.450%	1,775,000.00	100.400%	c 3.465%	02/01/2028	100.000%	1,782,100.00
02/01/2034	Serial Coupon	3.500%	3.500%	1,835,000.00	99.999%	c 3.500%	02/01/2028	100.000%	1,834,981.65
02/01/2035	Serial Coupon	3.750%	3.550%	1,900,000.00	101.594%	c 3.621%	02/01/2028	100.000%	1,930,286.00
02/01/2036	Serial Coupon	3.750%	3.600%	1,970,000.00	101.193%	c 3.657%	02/01/2028	100.000%	1,993,502.10
02/01/2037	Serial Coupon	3.750%	3.650%	2,045,000.00	100.793%	c 3.690%	02/01/2028	100.000%	2,061,216.85
02/01/2038	Serial Coupon	3.750%	3.700%	2,120,000.00	100.395%	c 3.721%	02/01/2028	100.000%	2,128,374.00
02/01/2039	Serial Coupon	3.750%	3.750%	2,200,000.00	99.999%	c 3.750%	02/01/2028	100.000%	2,199,978.00
Total	-	-	-	\$30,105,000.00	-	-	-	-	\$30,381,817.90

Bid Information

Par Amount of Bonds.....	\$30,105,000.00
Reoffering Premium or (Discount).....	276,817.90
Gross Production.....	\$30,381,817.90
Total Underwriter's Discount (0.900%).....	\$(270,945.00)
Bid (100.020%).....	30,110,872.90
Total Purchase Price.....	\$30,110,872.90
Bond Year Dollars.....	\$384,236.75
Average Life.....	12.763 Years
Average Coupon.....	3.5058531%
Net Interest Cost (NIC).....	3.5043247%
True Interest Cost (TIC).....	3.4814844%