

# City of Blaine, Minnesota

## Recommendations for Issuance of Bonds

\$4,020,000 Taxable General Obligation Improvement Bonds, Series 2017A

\$2,505,000 General Obligation Water Revenue Refunding Bonds, Series 2017B

The Council has under consideration the issuance of bonds to finance (i) street improvements, supported in part with special assessments (the "Series 2017A Bonds") and (ii) the refunding of an outstanding general obligation issue of the City (the "Series 2017B Bonds") (together the "Bonds"). This document provides information relative to the proposed issuance.

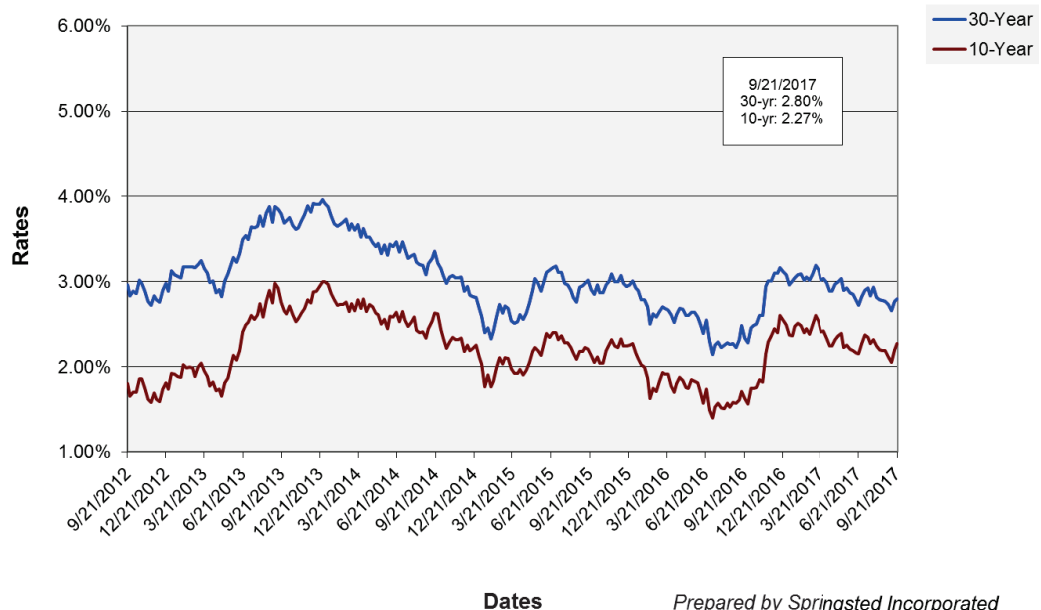
**KEY EVENTS:** The following summary schedule includes the timing of some of the key events that will occur relative to the bond issuance.

October 5, 2017	Council set sale date and terms
Week of October 16, 2017	Rating conference conducted
October 31, 2017	Receipt of rating (est.)
<b>November 2, 2017, 10:00 a.m.</b>	<b>Competitive proposals are received</b>
<b>November 2, 2017, 7:30 p.m.</b>	<b>Council considers award of bonds</b>
December 5, 2017	Proceeds are received
February 1, 2018	Redemption of the Series 2008A Bonds

**RATING:** An application will be made to S&P Global Ratings ("S&P") for a rating on the Bonds. The City's general obligation debt is currently rated "AA+" by S&P.

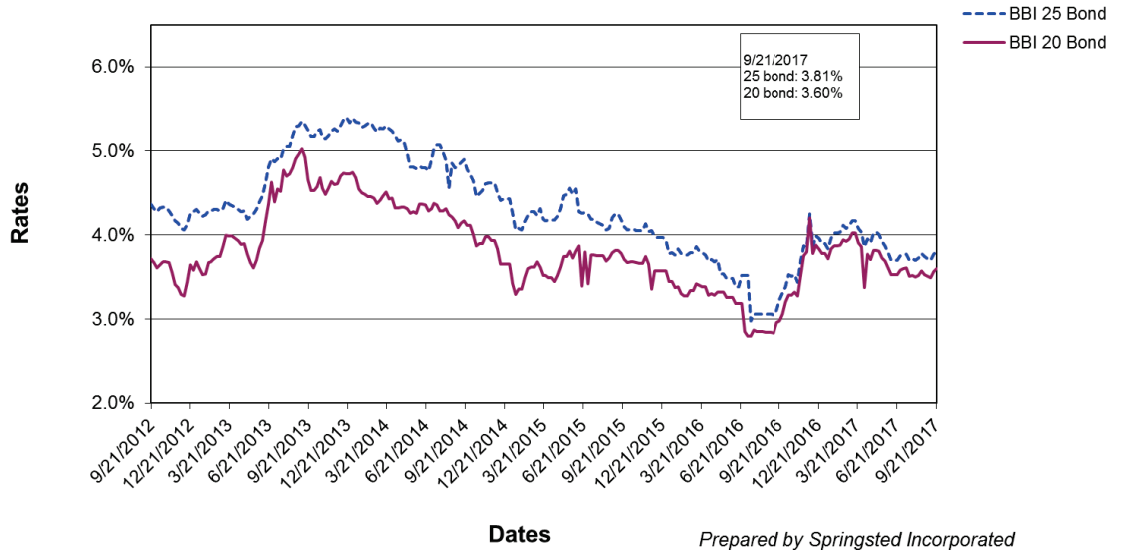
**THE MARKET:** Interest rates for the taxable municipal market are quoted as a spread to U.S. Treasury Securities. To give you an indication of the relative position of that market, the chart below tracks the yield of the 10-year and 30-year U.S. Treasury over the last five years.

**10-year and 30-year Treasury Rates for Five Years Ending September 21, 2017**



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 20<sup>th</sup> maturity year for general obligation bonds and the 25<sup>th</sup> maturity year for revenue bonds. The following chart illustrates these two indices over the past five years.

**BBI 25-bond (Revenue) and 20-bond (G.O.) Rates for 5 Years Ending 9/21/2017**



**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.

**Note: The Series 2017A Bonds is a taxable issue and therefore is not subject to the federal arbitrage requirements.**

Federal arbitrage requirements include a wide range of implications that have been taken into account as the Bonds have been structured. Post-issuance compliance responsibilities for your tax-exempt issues 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 Series 2017B 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 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 issuance of the Series 2017B Bonds is being conducted as a current refunding where the proceeds will be spent within 90 days from the date of settlement and will therefore qualify for the 6-month spending exception.

Regardless of whether an issue qualifies for an exemption from the rebate provisions, yield restriction provisions will apply to the debt service fund under certain conditions. These funds should be monitored throughout the life of the Series 2017B Bonds.

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.

**RISKS/SPECIAL  
CONSIDERATIONS:**

The outcome of this financing will rely on the market conditions at the time of the sale. Any projections included herein are estimates based on current market conditions.

Principal payments on the Series 2017A Bonds have been structured around projected future assessment collections. If actual assessment collections are different than projected (lower annual collections due to delinquencies or prepayments), the levy requirement could differ from what is shown in these recommendations.

**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: Based on the short duration of the Bonds, and to avoid possible negative pricing impacts, the Bonds will not be subject to redemption prior to maturity.

Bank Qualification: The City does not expect to issue more than \$10 million in tax-exempt obligations that count against its \$10 million limit for this calendar year; therefore, the Series 2017B Bonds will be designated as bank qualified. Bank qualification requirements do not apply to taxable issues such as the Series 2017A Bonds.

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*\$4,020,000 Taxable General Obligation Improvement Bonds, Series 2017A*

**Description of Issue**

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<b>PURPOSE:</b>	The proceeds of the Series 2017A Bonds will be used to finance the construction of the Lever Street improvements.
<b>AUTHORITY:</b>	<p><u>Statutory Authority:</u> The Series 2017A Bonds are being issued pursuant to Minnesota Statutes, Chapters 429 and 475.</p> <p><u>Statutory Requirements:</u> In order to issue debt under Minnesota Statutes, Chapter 429, the projects must be at least 20% assessed. The street project being financed under this statute meets that requirement.</p>
<b>SECURITY AND SOURCE OF PAYMENT:</b>	<p>The Series 2017A Bonds will be a general obligation of the City, secured by its full faith and credit and taxing power. In addition, the City pledges special assessments filed against benefited properties.</p> <p>Special assessments in the principal amount of \$1,837,150 are expected to be filed in 2018 with equal annual principal payments to be collected over a term of ten years and interest charged on the unpaid balance at a rate of 4.50%.</p> <p>The City will make its first levy for the Series 2017A Bonds in 2018 for first collection in 2019. Interest due on the Series 2017A Bonds on August 1, 2018 and February 1, 2019 will be paid from available City funds. Thereafter, each year's first-half collection of assessments and taxes will be used to pay the August 1 interest payment in the year of collection. Second-half collections and any funds collected but not applied on August 1 will be used to pay the February 1 principal and interest payment in the following year.</p>
<b>STRUCTURING SUMMARY:</b>	The Series 2017A Bonds are structured around the projected future income stream from special assessments to achieve an even annual levy requirement. The annual tax levy requirement on the Series 2017A Bonds is projected to average approximately \$261,600.
<b>FEDERAL CONSIDERATIONS AND/OR REQUIREMENTS:</b>	The Series 2017A Bonds are designated as taxable obligations because the special assessments to be collected from the benefitted properties are not being uniformly applied.
<b>SCHEDULES ATTACHED:</b>	<p>Schedules attached for the Series 2017A Bonds include:</p> <ul style="list-style-type: none"><li>• Sources and uses</li><li>• Estimated net debt service, given the current interest rate environment</li><li>• Projected assessment income</li></ul>

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\$2,505,000 General Obligation Water Revenue Refunding Bonds, Series 2017B

**Description of Issue**

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**PURPOSE:** Proceeds of the Series 2017B Bonds will be used to refund the February 1, 2019 through 2023 maturities of the City's General Obligation Water Revenue Bonds, Series 2008A, dated June 1, 2008 (the "Prior Bonds"). The issuance of the Series 2017A Bonds is being conducted as a current refunding, in which the proceeds of the issue are used within ninety days of bond settlement to redeem the outstanding principal of the Prior Bonds. The maturities to be refunded are currently outstanding in the aggregate principal amount of \$2,455,000. The refunding is being undertaken to provide interest cost savings.

Original proceeds of the Prior Bonds were used to finance construction of a new water tower and related improvements.

**AUTHORITY:** Statutory Authority: The Series 2017B Bonds are being issued pursuant to Minnesota Statutes, Chapters 444 and 475.

Pursuant to Minnesota Statutes, Chapter 444 and the resolution awarding the Series 2017B Bonds, the City will covenant to maintain water collections in an amount sufficient to generate revenues to support the operation of the water system and to pay debt service on the Series 2017B Bonds. The City is required to annually review the budget of the water system to determine whether current rates and charges are sufficient and to adjust them as necessary.

**SOURCE OF PAYMENT:** The Series 2017B Bonds will be 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, which are expected to cover all of the debt service payments on the Series 2017B Bonds.

On February 1, 2018, the call date of the Prior Bonds, the City will (i) make the February 1, 2018 principal and interest payment on the Prior Bonds as originally scheduled and (ii) use the proceeds of the Series 2017B Bonds to redeem the remaining \$2,455,000 of outstanding principal on the Prior Bonds in full. Beginning with the August 1, 2018 interest payment, the City will make debt service payments on the Series 2017B Bonds, realizing the interest cost savings.

**STRUCTURING SUMMARY:** In consultation with City staff, the Series 2017B Bonds have been structured to provide approximately even annual savings with a term matching that of the Prior Bonds.

Based on current interest rate estimates, the refunding is projected to result in the City realizing an average cash flow savings of approximately \$29,322 per year. This results in future value savings of approximately \$149,476, and a net present value benefit to the City of approximately \$144,186. These estimates are net of all costs associated with the refunding. Actual results will be determined by market conditions at the time of the sale.

**SCHEDULES  
ATTACHED:**

Schedules attached for the Series 2017B Bonds include:

- Refunding summary
- Debt service comparison (savings)
- Debt service to maturity and to call
- Estimated debt service, given the current interest rate environment

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**\$4,020,000**

**City of Blaine, Minnesota**

Taxable General Obligation Improvement Bonds, Series 2017A

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**Sources & Uses**

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**Dated 12/05/2017 | Delivered 12/05/2017**

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**Sources Of Funds**

Par Amount of Bonds..... \$4,020,000.00

**Total Sources..... \$4,020,000.00**

**Uses Of Funds**

Deposit to Project Construction Fund..... 3,950,000.00

Costs of Issuance..... 41,520.00

Total Underwriter's Discount (0.700%)..... 28,140.00

Rounding Amount..... 340.00

**Total Uses..... \$4,020,000.00**

**\$4,020,000**

**City of Blaine, Minnesota**  
Taxable General Obligation Improvement Bonds, Series 2017A

**NET DEBT SERVICE SCHEDULE**

Date	Principal	Coupon	Interest	Total P+I	City Cash	105% of Total	Assessment	Levy Required
02/01/2019	-	-	127,509.78	127,509.78	127,509.78	-	-	-
02/01/2020	405,000.00	1.950%	110,345.00	515,345.00	-	541,112.25	276,950.36	264,161.89
02/01/2021	395,000.00	2.100%	102,447.50	497,447.50	-	522,319.88	258,119.58	264,200.30
02/01/2022	395,000.00	2.400%	94,152.50	489,152.50	-	513,610.13	249,852.40	263,757.73
02/01/2023	395,000.00	2.550%	84,672.50	479,672.50	-	503,656.13	241,585.22	262,070.91
02/01/2024	395,000.00	2.750%	74,600.00	469,600.00	-	493,080.00	233,318.06	259,761.94
02/01/2025	400,000.00	2.850%	63,737.50	463,737.50	-	486,924.38	225,050.88	261,873.50
02/01/2026	405,000.00	3.050%	52,337.50	457,337.50	-	480,204.38	216,783.70	263,420.68
02/01/2027	405,000.00	3.150%	39,985.00	444,985.00	-	467,234.25	208,516.52	258,717.73
02/01/2028	410,000.00	3.250%	27,227.50	437,227.50	-	459,088.88	200,249.36	258,839.52
02/01/2029	415,000.00	3.350%	13,902.50	428,902.50	-	450,347.63	191,982.18	258,365.45
Total	\$4,020,000.00	-	\$790,917.28	\$4,810,917.28	\$127,509.78	\$5,051,463.14	\$2,302,408.26	\$2,615,169.62

Dated..... 12/05/2017  
Delivery Date..... 12/05/2017  
First Coupon Date..... 8/01/2018

**Yield Statistics**

Bond Year Dollars..... \$26,895.33  
Average Life..... 6.690 Years  
Average Coupon..... 2.9407231%  
Net Interest Cost (NIC)..... 3.0453509%  
True Interest Cost (TIC)..... 3.0438796%  
Bond Yield for Arbitrage Purposes..... 2.9260110%  
All Inclusive Cost (AIC)..... 3.2198188%

**IRS Form 8038**

Net Interest Cost..... 2.9407231%  
Weighted Average Maturity..... 6.690 Years



**\$1,837,150**

**City of Blaine, Minnesota**  
Taxable General Obligation Improvement Bonds, Series 2017A  
Assessments

**ASSESSMENT INCOME**

Date	Principal	Coupon	Interest	Total P+I
12/31/2019	183,715.00	4.500%	93,235.36	276,950.36
12/31/2020	183,715.00	4.500%	74,404.58	258,119.58
12/31/2021	183,715.00	4.500%	66,137.40	249,852.40
12/31/2022	183,715.00	4.500%	57,870.22	241,585.22
12/31/2023	183,715.00	4.500%	49,603.06	233,318.06
12/31/2024	183,715.00	4.500%	41,335.88	225,050.88
12/31/2025	183,715.00	4.500%	33,068.70	216,783.70
12/31/2026	183,715.00	4.500%	24,801.52	208,516.52
12/31/2027	183,715.00	4.500%	16,534.36	200,249.36
12/31/2028	183,715.00	4.500%	8,267.18	191,982.18
Total	\$1,837,150.00	-	\$465,258.26	\$2,302,408.26

**SIGNIFICANT DATES**

Filing Date..... 11/15/2018  
First Payment Date..... 12/31/2019

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**\$2,505,000**

**City of Blaine, Minnesota**  
General Obligation Water Revenue Refunding Bonds, Series 2017B  
Current Refunding of Series 2008A

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**Sources & Uses**

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**Dated 12/05/2017 | Delivered 12/05/2017**

**Sources Of Funds**

Par Amount of Bonds..... \$2,505,000.00

**Total Sources ..... \$2,505,000.00**

**Uses Of Funds**

Total Underwriter's Discount (0.600%)..... 15,030.00

Costs of Issuance..... 32,105.00

Deposit to Current Refunding Fund..... 2,455,000.00

Rounding Amount..... 2,865.00

**Total Uses ..... \$2,505,000.00**

**\$2,505,000**

**City of Blaine, Minnesota**

General Obligation Water Revenue Refunding Bonds, Series 2017B  
Current Refunding of Series 2008A

**Debt Service Comparison**

Date	Total P+I	Existing D/S	Net New D/S	Old Net D/S	Savings
02/01/2018	-	487,700.00	487,700.00	487,700.00	-
02/01/2019	517,133.78	-	517,133.78	548,200.00	31,066.22
02/01/2020	521,615.00	-	521,615.00	550,200.00	28,585.00
02/01/2021	520,675.00	-	520,675.00	551,400.00	30,725.00
02/01/2022	524,425.00	-	524,425.00	551,800.00	27,375.00
02/01/2023	527,540.00	-	527,540.00	556,400.00	28,860.00
Total	\$2,611,388.78	\$487,700.00	\$3,099,088.78	\$3,245,700.00	\$146,611.22

**PV Analysis Summary (Net to Net)**

Net FV Cashflow Savings.....	146,611.22
Gross PV Debt Service Savings.....	141,321.83
Net PV Cashflow Savings @ 1.329%(Bond Yield).....	141,321.83
Contingency or Rounding Amount.....	2,865.00
Net Future Value Benefit.....	\$149,476.22
Net Present Value Benefit.....	\$144,186.83
Net PV Benefit / \$294,061.07 PV Refunded Interest.....	49.033%
Net PV Benefit / \$2,646,321.83 PV Refunded Debt Service.....	5.449%
Net PV Benefit / \$2,455,000 Refunded Principal.....	5.873%
Net PV Benefit / \$2,505,000 Refunding Principal.....	5.756%

**Refunding Bond Information**

Refunding Dated Date.....	12/05/2017
Refunding Delivery Date.....	12/05/2017

**\$6,255,000**  
**City of Blaine, Minnesota**  
 General Obligation Water Revenue Bonds, Series 2008A

**Debt Service To Maturity And To Call**

Date	Refunded Bonds	D/S To Call	Principal	Coupon	Interest	Refunded D/S
02/01/2018	2,455,000.00	2,455,000.00	-	4.000%	-	-
08/01/2018	-	-	-	-	49,100.00	49,100.00
02/01/2019	-	-	450,000.00	4.000%	49,100.00	499,100.00
08/01/2019	-	-	-	-	40,100.00	40,100.00
02/01/2020	-	-	470,000.00	4.000%	40,100.00	510,100.00
08/01/2020	-	-	-	-	30,700.00	30,700.00
02/01/2021	-	-	490,000.00	4.000%	30,700.00	520,700.00
08/01/2021	-	-	-	-	20,900.00	20,900.00
02/01/2022	-	-	510,000.00	4.000%	20,900.00	530,900.00
08/01/2022	-	-	-	-	10,700.00	10,700.00
02/01/2023	-	-	535,000.00	4.000%	10,700.00	545,700.00
Total	\$2,455,000.00	\$2,455,000.00	\$2,455,000.00	-	\$303,000.00	\$2,758,000.00

**Yield Statistics**

Base date for Avg. Life & Avg. Coupon Calculation.....	12/05/2017
Average Life.....	3.241 Years
Average Coupon.....	3.8080210%
Weighted Average Maturity (Par Basis).....	3.241 Years
Weighted Average Maturity (Original Price Basis).....	3.229 Years

**Refunding Bond Information**

Refunding Dated Date.....	12/05/2017
Refunding Delivery Date.....	12/05/2017

**\$2,505,000**

**City of Blaine, Minnesota**

General Obligation Water Revenue Refunding Bonds, Series 2017B

Current Refunding of Series 2008A

**Debt Service Schedule**

Date	Principal	Coupon	Interest	Total P+I	105% Levy
02/01/2018	-	-	-	-	-
02/01/2019	480,000.00	1.150%	37,133.78	517,133.78	542,990.47
02/01/2020	495,000.00	1.200%	26,615.00	521,615.00	547,695.75
02/01/2021	500,000.00	1.250%	20,675.00	520,675.00	546,708.75
02/01/2022	510,000.00	1.350%	14,425.00	524,425.00	550,646.25
02/01/2023	520,000.00	1.450%	7,540.00	527,540.00	553,917.00
Total	\$2,505,000.00	-	\$106,388.78	\$2,611,388.78	\$2,741,958.22

**Yield Statistics**

Bond Year Dollars .....	\$7,999.67
Average Life .....	3.193 Years
Average Coupon .....	1.3299152%
Net Interest Cost (NIC) .....	1.5177980%
True Interest Cost (TIC) .....	1.5227327%
Bond Yield for Arbitrage Purposes .....	1.3287949%
All Inclusive Cost (AIC) .....	1.9424099%

**IRS Form 8038**

Net Interest Cost .....	1.3299152%
Weighted Average Maturity .....	3.193 Years