

## City of Blaine, Minnesota Recommendations for Issuance of Bonds

### \$4,200,000 General Obligation Capital Improvement Plan Bonds, Series 2019B

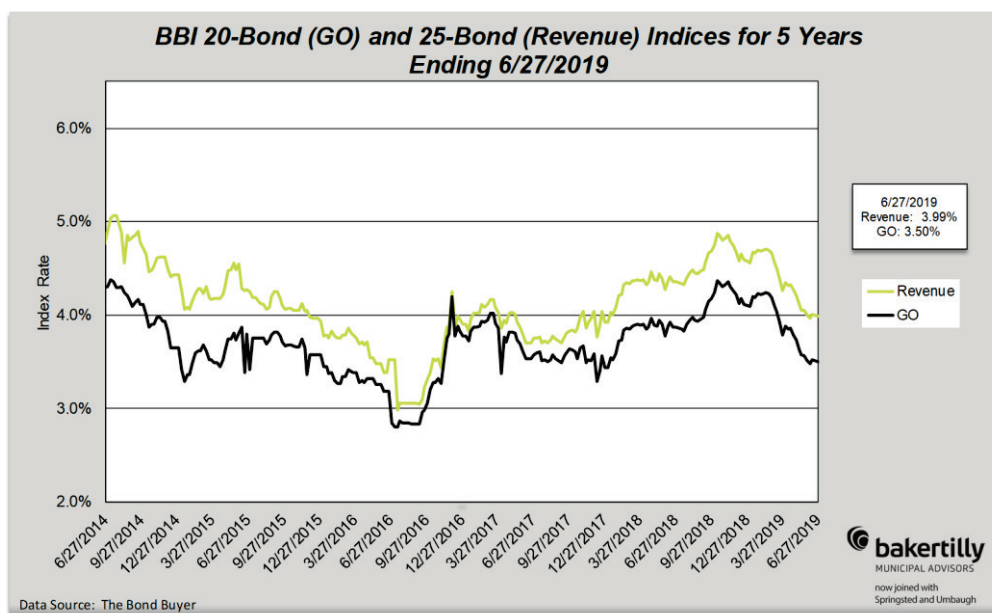
The City Council has under consideration the issuance of bonds to finance the City Hall Expansion/Renovation project (the "Bonds") in accordance with the City's 2019-2023 Capital Improvement Plan ("CIP"). This document provides information relative to the proposed issuance.

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

March 21, 2019	Council held public hearing on CIP and issuance of bonds
July 8, 2019	Council sets sale date and terms
Week of July 22, 2019	Rating conference is conducted
<b>August 5, 2019, 10:00 a.m.</b>	<b>Competitive proposals are received</b>
<b>August 5, 2019, 7:30 p.m.</b>	<b>Council considers award of the Bonds</b>
September 4, 2019	Proceeds are received

**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:** 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> year for general obligation bonds rated Aa2 by Moody's or AA by S&P (the BBI 20-Bond GO Index) and the 30<sup>th</sup> year for revenue bonds rated A1 by Moody's or A+ by S&P (the BBI 25-Bond Revenue 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, for certain construction issues, a 24-month period each 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 18-month spending exception.

Regardless of whether the 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 until the Bonds 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.

Baker Tilly Municipal Advisors, LLC (“Baker Tilly MA”) currently provides both arbitrage and continuing disclosure services to the City. Baker Tilly MA 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 the City Hall Expansion/Renovation project (the "Project") in accordance with the City's 2019-2023 Capital Improvement Plan and pay associated costs of issuance. The Project consists of the (i) expansion and build out of the third floor of the existing City Hall building, (ii) reconfiguration and relocation of the existing workspace for various departments, and (iii) improvements to the existing City Hall infrastructure.

**AUTHORITY:**

Statutory Authority: The Bonds are being issued pursuant to Minnesota Statutes, Chapter 475 bonding provisions and specifically, and Section 475.521 related to capital improvement bonds.

Statutory Requirements: Minnesota Statutes, Section 475.521 authorizes the City to issue capital improvement plan bonds for purposes including the financing of a city hall, public safety facility, and public works facilities. Under this authority, cities may issue general obligation capital improvement plan bonds as long as the maximum amount of the principal and interest to become due in any year on all outstanding bonds issued under this authority, including the bonds to be issued, does not exceed 0.16% of the City's estimated market value in the year the bonds are issued or sold. The City has two other series of bonds outstanding issued under this authority. The maximum principal and interest due on bonds issued under MS Section 475.521, including the Bonds, is estimated to be \$1,674,225, which is within the limitation as shown in the following calculation:

2018/19 Estimated Market Value	\$6,976,175,700
Statutory Maximum Principal & Interest (0.16%)	\$11,161,881
Estimated Max Debt Service	\$1,674,225
Estimated Unused Capacity After Issuance of the Bonds	\$9,487,656

Section 475.521 also requires that a public hearing be held relative to both the CIP and the issuance of CIP bonds. The City conducted its public hearing on March 21, 2019 and approved the Bonds in an amount not to exceed \$4,200,000. No petition for a referendum was received during the 30-day petition period.

**SECURITY AND  
SOURCE OF  
PAYMENT:**

The Bonds will be a general obligation of the City, secured by its full faith and credit and taxing power. The Bonds will be paid from ad valorem property taxes.

The City will make its first levy in 2019 for collection in 2020. Each year's collection of taxes will be used to make the August 1 interest payment due in the collection year and the February 1 principal and interest payment due in the following year.

**STRUCTURING  
SUMMARY:**

In consultation with City staff, the Bonds have been structured over a term of 10 years to result in approximately level annual debt service.

The Bonds as presented here are structured assuming premium pricing. Bids on the Bonds will require a minimum purchase price of 100.00% (Par) of the principal amount of the Bonds in order to maximize Bond proceeds available for deposit to the Project fund.

Furthermore, the Bonds are subject to limitations on gross proceeds over the authorized \$4,200,000 issuance amount. As a result, any premium received in excess of 2.00% of the authorized amount of the borrowing will be used to reduce the par amount of the Bonds.

**SCHEDULES  
ATTACHED:**

Schedules for the Bonds include (i) sources and uses of funds, (ii) estimated pricing summary, and (iii) estimated debt service, given the current interest rate environment.

**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.

The Bonds have been structured illustrating additional proceeds generated from a premium bid. There is no guaranty that the winning bidder will price this issue with a premium in the amount estimated, which could result in an amount of proceeds available for deposit to the Project fund that differ from what is currently shown in the attached schedules.

**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, 2028 may be prepaid at a price of par plus accrued interest on or after February 1, 2027.

Bank Qualification: The City is issuing more than \$10 million in tax-exempt obligations in 2019; therefore, the Bonds are not designated as bank qualified.

Bidding Parameters: Interest rates applied in the structuring of the Bonds are based on current market conditions and assume a reoffering premium sufficient to compensate the underwriter under premium bidding. In this case, premium bidding requires that an underwriter bid not less than 100.00% of the face amount of the Bonds.

**\$4,200,000****City of Blaine, Minnesota**

General Obligation Capital Improvement Plan Bonds, Series 2019B

**Sources & Uses****Dated 09/04/2019 | Delivered 09/04/2019****Sources Of Funds**

Par Amount of Bonds.....	\$4,200,000.00
Reoffering Premium.....	34,492.30

<b>Total Sources.....</b>	<b>\$4,234,492.30</b>
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**Uses Of Funds**

Deposit to Project Construction Fund.....	4,156,042.30
Costs of Issuance.....	44,850.00
Total Underwriter's Discount (0.800%).....	33,600.00

<b>Total Uses.....</b>	<b>\$4,234,492.30</b>
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**\$4,200,000****City of Blaine, Minnesota****General Obligation Capital Improvement Plan Bonds, Series 2019B****Pricing Summary**

Maturity	Type of Bond	Coupon	Yield	Maturity Value	Price	YTM	Call Date	Call Price	Dollar Price
02/01/2021	Serial Coupon	2.000%	1.520%	355,000.00	100.665%	-	-	-	357,360.75
02/01/2022	Serial Coupon	2.000%	1.550%	395,000.00	101.059%	-	-	-	399,183.05
02/01/2023	Serial Coupon	2.000%	1.600%	400,000.00	101.321%	-	-	-	405,284.00
02/01/2024	Serial Coupon	2.000%	1.650%	410,000.00	101.481%	-	-	-	416,072.10
02/01/2025	Serial Coupon	2.000%	1.700%	420,000.00	101.543%	-	-	-	426,480.60
02/01/2026	Serial Coupon	2.000%	1.750%	425,000.00	101.508%	-	-	-	431,409.00
02/01/2027	Serial Coupon	2.000%	1.850%	435,000.00	101.033%	-	-	-	439,493.55
02/01/2028	Serial Coupon	2.000%	1.950%	445,000.00	100.342%	c 1.956%	02/01/2027	100.000%	446,521.90
02/01/2029	Serial Coupon	2.000%	2.100%	455,000.00	99.149%	-	-	-	451,127.95
02/01/2030	Serial Coupon	2.250%	2.200%	460,000.00	100.339%	c 2.213%	02/01/2027	100.000%	461,559.40
Total	-	-	-	\$4,200,000.00	-	-	-	-	\$4,234,492.30

**Bid Information**

Par Amount of Bonds.....	\$4,200,000.00
Reoffering Premium or (Discount).....	34,492.30
Gross Production.....	\$4,234,492.30
Total Underwriter's Discount (0.800%).....	\$(33,600.00)
Bid (100.021245%).....	4,200,892.30
Total Purchase Price.....	\$4,200,892.30
Bond Year Dollars.....	\$25,650.00
Average Life.....	6.107 Years
Average Coupon.....	2.0466650%
Net Interest Cost (NIC).....	2.0431863%
True Interest Cost (TIC).....	2.0402028%

**\$4,200,000****City of Blaine, Minnesota****General Obligation Capital Improvement Plan Bonds, Series 2019B****Debt Service Schedule**

<b>Date</b>	<b>Principal</b>	<b>Coupon</b>	<b>Interest</b>	<b>Total P+I</b>	<b>105% Levy</b>
02/01/2020	-	-	-	-	-
02/01/2021	355,000.00	2.000%	119,919.58	474,919.58	498,665.56
02/01/2022	395,000.00	2.000%	78,050.00	473,050.00	496,702.50
02/01/2023	400,000.00	2.000%	70,150.00	470,150.00	493,657.50
02/01/2024	410,000.00	2.000%	62,150.00	472,150.00	495,757.50
02/01/2025	420,000.00	2.000%	53,950.00	473,950.00	497,647.50
02/01/2026	425,000.00	2.000%	45,550.00	470,550.00	494,077.50
02/01/2027	435,000.00	2.000%	37,050.00	472,050.00	495,652.50
02/01/2028	445,000.00	2.000%	28,350.00	473,350.00	497,017.50
02/01/2029	455,000.00	2.000%	19,450.00	474,450.00	498,172.50
02/01/2030	460,000.00	2.250%	10,350.00	470,350.00	493,867.50
<b>Total</b>	<b>\$4,200,000.00</b>	<b>-</b>	<b>\$524,969.58</b>	<b>\$4,724,969.58</b>	<b>\$4,961,218.06</b>

**SIGNIFICANT DATES**

Dated.....	9/04/2019
Delivery Date.....	9/04/2019
First Coupon Date.....	8/01/2020

**Yield Statistics**

Bond Year Dollars.....	\$25,650.00
Average Life.....	6.107 Years
Average Coupon.....	2.0466650%
Net Interest Cost (NIC).....	2.0431863%
True Interest Cost (TIC).....	2.0402028%
Bond Yield for Arbitrage Purposes.....	1.8993749%
All Inclusive Cost (AIC).....	2.2305606%

**IRS Form 8038**

Net Interest Cost.....	1.9003246%
Weighted Average Maturity.....	6.095 Years

**Interest rates are estimates. Changes in rates may cause significant alterations to this schedule.**  
**The actual underwriter's discount bid may also vary.**