



## AGENDA ITEM #10.1.A

### REPORT TO CITY COUNCIL

**Report Prepared by: Nancy Malecha**

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**Date:** April 7, 2020

**Subject:** Rasmussen Road & South Washington Avenue Improvement Project  
– Award Bond Issuance

**Report:** Attached are the following documents related to the issuance of \$2,098,000 for the 2020 General Obligation Utility Revenue and Disposal System Bond.

- Master Cash Flow/Bond Schedule
- Bremer Bank Terms
- Resolution Providing Issuance of the \$2,098,000 GO Bond

Jason Murray, the City's financial consultant, will be in attendance to update the Council on the sale process and recommend final placement with Bremer Bank.

**Council Action Requested:** Council motion adopting the resolution providing for the issuance and the sale of \$2,098,000 General Obligation Utility Revenue and Disposal System Bond, Series 2020A and pledging for the security thereof net revenues and levying a tax for the payment thereof.

City of Pequot Lakes, Minnesota

Master Cash Flow  
Bank Placement

**\$2,098,000**  
**General Obligation Utility Revenue and Disposal System Bonds, 2020A**

Uses of Funds		
Utility Related Construction		805,792
Sewer Disposal		835,000
Non Utility Related (Street)		756,000
<b>Subtotal Construction</b>		<b>2,396,792</b>
Engineering (design, construction, study, geotech)		384,497
Contingency		150,000
Legal/RW/Administration		50,000
<b>Total Project Costs</b>		<b>2,981,289</b>
Placement Agent Fee	1.00%	20,980
Other		-
Financial Advisor	Verified	16,000
Bond Counsel	Verified	11,000
Pay Agent Setup		-
Miscellaneous	Verified	1,500
Rating Agency Fee		-
Capitalized Interest		17,610
Rounding		121
		<u>3,048,500</u>

Sources of Funds		
Bond Issue		2,098,000
Bid Premium		-
Sourcewell Contribution		7,500
City Contribution (Fund 402 - 371 Turnback Funds)		943,000
Construction Fund Earnings (excess proceeds)		0
		<u>3,048,500</u>

Payment Schedule & Cashflow

Payment Schedule					
12-Month Period ending	Principal	Rate	Interest	Payment Total	TOTAL PLUS 5%
4/21/2020					
2/1/2021	25,000	2.14%	34,920	59,920	62,036
2/1/2022	119,000	2.14%	44,362	163,362	171,530
2/1/2023	121,000	2.14%	41,816	162,816	170,956
2/1/2024	124,000	2.14%	39,226	163,226	171,388
2/1/2025	127,000	2.14%	36,573	163,573	171,751
2/1/2026	129,000	2.14%	33,855	162,855	170,998
2/1/2027	132,000	2.14%	31,094	163,094	171,249
2/1/2028	135,000	2.14%	28,269	163,269	171,433
2/1/2029	137,000	2.14%	25,380	162,380	170,499
2/1/2030	141,000	2.14%	22,449	163,449	171,621
2/1/2031	143,000	2.14%	19,431	162,431	170,553
2/1/2032	147,000	2.14%	16,371	163,371	171,540
2/1/2033	149,000	2.14%	13,225	162,225	170,336
2/1/2034	153,000	2.14%	10,037	163,037	171,188
2/1/2035	157,000	2.14%	6,762	163,762	171,951
2/1/2036	159,000	2.14%	3,403	162,403	170,523
	<u>2,098,000</u>		<u>407,173</u>	<u>2,505,173</u>	<u>2,629,551</u>

Bond Details	
Sale Date	4/7/2020
Dated Date	4/21/2020
Closing Date	4/21/2020
1st Interest Payment	2/1/2021
Proceeds spent by:	12/31/2021
	<i>to Dated Date</i>
Purchase Price	2,077,020.00
Net Interest Cost	407,173.04
Net Effective Rate	2.1400%
Average Coupon	2.140%
Average Life	9.0690
Yield	2.1394%
Call Option	2/1/2028
Purchaser	Bremer Bank, National Association
Placement Agent	RW Baird
Bond Counsel	Taft Stettinius & Hollister LLP
Pay Agent	City of Pequot Lakes
Disclosure Authority	Limited MS 115, 444 and 475

Collection Year	Revenues				Account Balance
	Water Revenues	Sewer Revenues	Tax Levies	Surplus (deficit)	
				Unused Discount & accrued interest >	17,731
2020	22,172	22,172	-	(17,691)	40
2021	41,854	41,854	87,783	(40)	(0)
2022	41,727	41,727	87,503	-	(0)
2023	42,114	42,114	87,159	-	(0)
2024	41,954	41,954	87,844	-	(0)
2025	41,782	41,782	87,433	-	(0)
2026	42,124	42,124	87,000	-	(0)
2027	41,919	41,919	87,595	-	(0)
2028	41,703	41,703	87,094	-	(0)
2029	42,000	42,000	87,621	-	(0)
2030	41,750	41,750	87,054	-	(0)
2031	42,013	42,013	87,513	-	(0)
2032	41,729	41,729	86,878	-	(0)
2033	41,959	41,959	87,270	-	(0)
2034	42,166	42,166	87,618	-	(0)
2035	41,826	41,826	86,870	-	(0)
	<u>650,792</u>	<u>650,792</u>	<u>1,310,236</u>	<u>(17,731)</u>	



**PRICING PROPOSALS DUE NO LATER THAN 10:00 A.M. FRIDAY, MARCH 27, 2020**

To: City of Pequot Lakes, Minnesota (the "City" or the "Issuer")

Re: **\$2,098,000\* General Obligation Utility Revenue and Disposal System Bonds, Series 2020A (the "Bonds")**

For all or none of the above Bonds, in accordance with the Outline of Offering / Terms, we will pay you \$2,098,000\* and accrued interest, if any, to date of delivery for Bonds bearing interest rates and maturing as follows.

Due	Principal	Coupon	Due	Principal	Coupon
02/01/2021	\$25,000	2.14	02/01/2029	\$137,000	2.14
02/01/2022	119,000		02/01/2030	141,000	
02/01/2023	121,000		02/01/2031	143,000	
02/01/2024	124,000		02/01/2032	147,000	
02/01/2025	127,000		02/01/2033	149,000	
02/01/2026	129,000		02/01/2034	153,000	
02/01/2027	132,000		02/01/2035	157,000	
02/01/2028	135,000		02/01/2036	159,000	

We elect to have the Bonds issued as one term Bond\*\*:  YES  NO

We will designate the next available call date to be. Callable 02/01/2028 in whole or in part at par  
 (An example would be. "Callable 02/01/2028 at Par" or "Callable Anytime with 30-days' Notice")

We  WILL  WILL NOT require the assignment of CUSIP numbers to the Bonds. Even if CUSIP numbers are assigned, the Bonds will be physically registered and delivered to the purchaser

We  WILL  WILL NOT require a paying agent

We  WILL  WILL NOT require outside bank counsel Bank counsel fee will not exceed \$\_\_\_\_\_.

Please designate any other terms here or attach a separate sheet.

This bid is for prompt acceptance and for delivery of said Bonds to us in compliance with the Terms of Offering, which is made a part of this proposal by reference.

\*The total principal amount is subject to change based upon actual project costs and costs of issuance known on the bid date. By presenting this bid we are accepting any changes that are necessary to the final debt service schedule once all final dates and costs are known. Changes, if any, will be reasonable and will be circulated promptly once a bid has been accepted.

\*\*If we choose to have the Bonds issued as one term Bond (with only one CUSIP number, but still following the annual principal repayment structure with a mandatory sinking fund) we understand that only ONE flat interest rate can be assigned to all maturities



Bidding Institution Name & City. Bremer Bank, National Association

Taxpayer ID of Institution: 41-0224890

Authorized Signature of Bidder. *Stacy Childers*

E-mail Address of Bidder sachilders@bremer.com

Phone Number 651-726-6068

Written Name & Title Stacy Childers, Vice President

The foregoing offer is hereby accepted by and on behalf of the City of Pequot Lakes, Minnesota, this \_\_\_ day of \_\_\_\_\_, 2020.

ATTEST.

\_\_\_\_\_

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EXTRACT OF MINUTES OF A MEETING  
CITY COUNCIL OF THE  
CITY OF PEQUOT LAKES, MINNESOTA

HELD: April 7, 2020

Pursuant to due call and notice thereof, a regular or special meeting of the City Council of the City of Pequot Lakes, Crow Wing County, Minnesota, was duly held at the City Hall on April 7, 2020, at 6:30 P.M., for the purpose, in part, of authorizing the issuance and the sale of a \$2,098,000 General Obligation Utility Revenue and Disposal System Bond, Series 2020A.

The following members were present:

and the following were absent:

Member \_\_\_\_\_ introduced the following resolution and moved its adoption:

RESOLUTION NO. 20-\_\_\_

RESOLUTION PROVIDING FOR THE ISSUANCE AND THE SALE OF A \$2,098,000  
GENERAL OBLIGATION UTILITY REVENUE AND DISPOSAL SYSTEM BOND, SERIES  
2020A AND PLEDGING FOR THE SECURITY THEREOF NET REVENUES AND  
LEVYING A TAX FOR THE PAYMENT THEREOF

A. WHEREAS, the City of Pequot Lakes, Minnesota (the "City"), owns and operates a municipal water system (the "Water System") and a municipal sanitary sewer system (the "Sewer System" and together with the Water System, the "Utility System") as separate revenue producing public utilities;

B. WHEREAS, the net revenues of the Utility System are pledged to the City's outstanding General Obligation Utility Refunding Bonds, Series 2012A, dated August 1, 2012, in the original principal amount of \$1,270,000 (the "Outstanding Utility Bonds"); and

C. WHEREAS, the City Council has heretofore determined and declared that it is necessary and expedient to issue a \$2,098,000 General Obligation Utility Revenue and Disposal System Bond, Series 2020A (the "Bond"), pursuant to Minnesota Statutes, Chapter 475 and Section 444.075, to finance various improvements to the Utility System (the "Utility Improvements") and pursuant to Minnesota Statutes, Chapter 475 and Sections 115.46 and 444.075, to finance various improvements to the Sewer System (the "Disposal System Improvements"); and

D. WHEREAS, the City has retained David Drown Associates, Inc., in Minneapolis, Minnesota ("David Drown"), as its independent financial advisor for the sale of the Bond and was therefore authorized to sell the Bond by private negotiation in accordance with Minnesota Statutes, Section 475.60, Subdivision 2(9) and proposals to purchase the Bond have been solicited by Robert W. Baird & Co., Incorporated, as placement agent; and

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Pequot Lakes, Minnesota, as follows:

1. Acceptance of Offer. The offer of Bremer Bank, National Association, in Brainerd, Minnesota (the "Purchaser"), to purchase the Bond and to pay therefor the sum of \$2,098,000.00, plus interest accrued to settlement, all in accordance with the terms and at the rate of interest hereinafter set forth, is hereby accepted.

2. Bond Terms.

(a) Original Issue Date; Denominations; Maturities; Interest and Redemption. The City shall forthwith issue the Bond, which shall be in fully registered form without interest coupons, shall be dated, mature, bear interest, be subject to redemption and be payable as provided in the form of the Bond.

(b) Allocation. The aggregate principal amount of \$ 1,040,000 maturing in each of the years and amounts hereinafter set forth are issued to finance the Utility Improvements (the "Utility Revenue Portion"). The aggregate principal amount of \$ 1,058,000 maturing in each of the years and amounts hereinafter set forth are issued to finance the Disposal System Improvements (the "Disposal System Portion"):

<u>Year</u>	<u>Utility Revenue Portion</u>	<u>Disposal System Portion</u>	<u>Total Amount</u>
2021	25,000		25,000
2022	58,000	61,000	119,000
2023	59,000	62,000	121,000
2024	61,000	63,000	124,000
2025	62,000	65,000	127,000
2026	63,000	66,000	129,000
2027	65,000	67,000	132,000
2028	66,000	69,000	135,000
2029	67,000	70,000	137,000
2030	69,000	72,000	141,000
2031	70,000	73,000	143,000
2032	72,000	75,000	147,000
2033	73,000	76,000	149,000
2034	75,000	78,000	153,000
2035	77,000	80,000	157,000
2036	78,000	81,000	159,000

If Bond is prepaid, the prepayments shall be allocated to the portions of debt service (and hence allocated to the payment of Bond treated as relating to a particular portion of debt service) as provided in this paragraph. If the source of prepayment moneys is the general fund of the City, or other generally available source, the prepayment may be allocated to any portion of debt service in such amounts as the City shall determine. If the source of a prepayment is excess net

revenues of the Utility System pledged to the Utility Improvements, the prepayment shall be allocated to the Utility Revenue Portion of debt service. If the source of a prepayment is taxes pledged for the Disposal System Improvements, the prepayment shall be allocated to the Disposal System Portion of debt service.

3. Purpose. The Utility Revenue Portion of the Bond shall provide funds to finance the Utility Improvements (the "Utility System Project") and the Disposal System Portion of the Bond shall provide funds to finance the Disposal System Improvements (the "Disposal System Project", and together with the Utility System Project, the "Project"). The total cost of the Project, which shall include all costs enumerated in Minnesota Statutes, Sections 115.46, 444.075 and 475.65, is estimated to be at least equal to the amount of the Bond. Work on the Project shall proceed with due diligence to completion. The City covenants that it shall do all things and perform all acts required of it to assure that work on the Project proceeds with due diligence to completion and that any and all permits and studies required under law for the Project are obtained.

4. Bond Registrar. The Administrator of the City of Pequot Lakes, Minnesota, is appointed to act as Bond Registrar and transfer agent with respect to the Bond (the "Bond Registrar"), and shall do so unless and until a successor Bond Registrar is duly appointed. Any successor Bond Registrar shall act as Bond Registrar and transfer agent pursuant to any contract the City and successor Bond Registrar shall execute which is consistent herewith. The Bond Registrar shall also serve as paying agent unless and until a successor paying agent is duly appointed. Principal and interest on the Bond shall be paid to the registered holders (or record holders) of the Bond in the manner set forth in the form of Bond.

5. Form of Bond. The Bond, together with the Certificate of Registration, shall be in substantially the following form:

UNITED STATES OF AMERICA  
STATE OF MINNESOTA  
CROW WING COUNTY  
CITY OF PEQUOT LAKES

R-1

\$2,098,000

GENERAL OBLIGATION UTILITY REVENUE AND  
DISPOSAL SYSTEM BOND, SERIES 2020A

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Date of Original Issue</u>
2.14%	February 1, 2036	April 21, 2020

REGISTERED OWNER: BREMER BANK, NATIONAL ASSOCIATION,  
BRAINERD, MINNESOTA

PRINCIPAL AMOUNT: TWO MILLION NINETY-EIGHT THOUSAND DOLLARS

THE CITY OF PEQUOT LAKES, CROW WING COUNTY, MINNESOTA (the "Issuer"), certifies that it is indebted and for value received promises to pay to the registered owner specified above, or assigns duly certified on the Certificate of Registration attached to and made a part of this Bond (the "Owner"), in the manner hereinafter set forth, the \$2,098,000 principal amount of this Bond in the principal installments due on February 1 of the years and in the amounts, respectively, as follows, with each such principal installment bearing interest until paid at the interest rate of 2.14% per annum:

<u>Principal Installments Due February 1</u>	<u>Amount</u>	<u>Principal Installments Due February 1</u>	<u>Amount</u>
2021	\$25,000	2029	\$137,000
2022	\$119,000	2030	\$141,000
2023	\$121,000	2031	\$143,000
2024	\$124,000	2032	\$147,000
2025	\$127,000	2033	\$149,000
2026	\$129,000	2034	\$153,000
2027	\$132,000	2035	\$157,000
2028	\$135,000	2036	\$159,000

Interest. Interest shall be payable semiannually on February 1 and August 1 of each year, commencing February 1, 2021, and shall be calculated on the basis of a 360 day year consisting of twelve thirty day months.

Payment Instructions. Interest and the payment due at the maturity of the Bond shall be paid by check, ACH debit, wire transfer or draft mailed to the Owner at the address listed on the Certificate of Registration attached to and made a part of this Bond. At the time of final payment

of all principal and interest on this Bond, the Owner shall surrender this Bond to the City Administrator, City of Pequot Lakes, Minnesota (the "Bond Registrar").

Date of Payment Not a Business Day. If the nominal date for payment of any principal of or interest on this Bond shall not be a business day of the Issuer or of the Owner, then the date for such payment shall be the next such business day and payment on such business day shall have the same force and effect as if made on the nominal date of payment.

Redemption. This Bond shall be subject to redemption and prepayment without penalty at the option of the Issuer on February 1, 2028 any date thereafter, in whole or in part, upon written notice to the Owner, at the redemption price equal to par plus accrued interest to date of prepayment.

Issuance; Purpose; General Obligation. This Bond is issued as a single instrument under and pursuant to and in full conformity with the Constitution and laws of the State of Minnesota and pursuant to a resolution adopted by the City Council on April 7, 2020 (the "Resolution"), for the purpose of providing money to finance improvements to the municipal water and municipal sanitary sewer system and to aid in financing a sewage disposal system within the jurisdiction of the Issuer. This Bond is payable out of the General Obligation Utility Revenue and Disposal System Bond, Series 2020A Fund of the Issuer. This Bond constitutes a general obligation of the Issuer, and to provide moneys for the prompt and full payment of its principal, premium, if any, and interest when the same become due, the full faith and credit and taxing powers of the Issuer have been and are hereby irrevocably pledged.

Transfer. This Bond is transferable, as provided in the Resolution, upon the Register kept by the Finance Director upon surrender of this Bond together with a written instrument of transfer duly executed by the Owner or the Owner's attorney duly authorized in writing, and thereupon a new, fully registered Bond in the same principal amount shall be issued to the transferee in exchange therefor (or the transfer shall be duly recorded on the Register and the Certificate of Registration hereof), upon the payment of charges and satisfaction of applicable conditions, if any, as therein prescribed; provided that such transfer may occur only with respect to the entire Bond. The Issuer may treat and consider the person in whose name this Bond is registered as the absolute Owner hereof for the purpose of receiving payment of or on account of the principal of and interest on this Bond and for all other purposes whatsoever.

Fees upon Transfer or Loss. The Bond Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with the transfer or exchange of this Bond and any legal or unusual costs regarding transfers and lost Bond.

Authentication. This Bond shall not be valid or become obligatory for any purpose or be entitled to any security unless the Certificate of Registration hereon shall have been executed by the Bond Registrar.

Qualified Tax-Exempt Obligation. This Bond has been designated by the Issuer as a "qualified tax-exempt obligation" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

IT IS HEREBY CERTIFIED AND RECITED that all acts, conditions and things required by the Constitution and laws of the State of Minnesota to be done, to happen and to be performed, precedent to and in the issuance of this Bond, have been done, have happened and have been performed, in regular and due form, time and manner as required by law, that the Issuer has covenanted and agreed with the Holder of the Bond that it will impose and collect charges for the service, use and availability of its municipal water system and municipal sanitary sewer system (together, the "Utility System") at the times and in amounts necessary to produce net revenues, together with other sums pledged to the payment of the Utility Revenue Portion of the Bond, as defined in the Resolution, adequate to pay all principal and interest when due on the Utility Revenue Portion of the Bond; and that the Issuer will levy a direct, annual, irrevocable ad valorem tax upon all of the taxable property of the Issuer, without limitation as to rate or amount, for the years and in amounts sufficient to pay the principal and interest on the Utility Revenue Portion of the Bond as they respectively become due; if the net revenues from the Utility System, and any other sums irrevocably appropriated to the Debt Service Account are insufficient therefor; and that this Bond, together with all other debts of the Issuer outstanding on the date of original issue hereof and the date of its issuance and delivery to the original purchaser, does not exceed any constitutional or statutory limitation of indebtedness.

IN WITNESS WHEREOF, the City of Pequot Lakes, Crow Wing County, Minnesota, by its City Council has caused this Bond to be executed on its behalf by the facsimile signatures of its Mayor and its Administrator, the corporate seal of the Issuer having been intentionally omitted as permitted by law.

Date of Registration:

CITY OF PEQUOT LAKES,  
CROW WING COUNTY, MINNESOTA

April 21, 2020

REGISTRABLE BY AND  
PAYABLE AT:  
City Administrator  
City of Pequot Lakes, Minnesota

\_\_\_\_\_  
Mayor

\_\_\_\_\_  
Administrator

CERTIFICATE OF REGISTRATION

The transfer of ownership of the principal amount of the attached Bond may be made only by the registered owner or the registered owner's legal representative last noted below:

<u>Date of Registration</u>	<u>Registered Owner</u>	<u>Signature of Bond Registrar</u>
<u>April 21, 2020</u>	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

6. Execution. The Bond shall be in typewritten form, shall be executed on behalf of the City by the signatures of its Mayor and Administrator and be sealed with the seal of the City; provided, as permitted by law, both signatures may be photocopied facsimiles and the corporate seal has been omitted. In the event of disability or resignation or other absence of either officer, the Bond may be signed by the manual or facsimile signature of the officer who may act on behalf of the absent or disabled officer. In case either officer whose signature or facsimile of whose signature shall appear on the Bond shall cease to be such officer before the delivery of the Bond, the signature or facsimile shall nevertheless be valid and sufficient for all purposes, the same as if the officer had remained in office until delivery.

7. Delivery; Application of Proceeds. The Bond when so prepared and executed shall be delivered by the Administrator to the Purchaser upon receipt of the purchase price, and the Purchaser shall not be obliged to see to the proper application thereof.

8. Fund and Accounts. There is hereby created a special fund to be designated the "General Obligation Utility Revenue and Disposal System Bond, Series 2020A Fund" (the "Fund") to be administered and maintained by the Administrator as a bookkeeping account separate and apart from all other funds maintained in the official financial records of the City. The Fund shall be maintained in the manner herein specified until the Bond and the interest thereon shall have been fully paid. The Operation and Maintenance Account heretofore established by the City for the Water System shall continue to be maintained in the manner heretofore provided by the City. The Operation and Maintenance Account heretofore established by the City for the Sewer System shall continue to be maintained in the manner heretofore provided by the City. (The Operation and Maintenance Account for the Water System and the Operation and Maintenance Account for the Sewer System are referred to collectively herein as the "Operation and Maintenance Accounts".) All moneys remaining after paying or providing for the items set forth in the resolution establishing the Operation and Maintenance Accounts shall constitute and are referred to as "net revenues" until the Bond has been paid. There shall be maintained in the Fund the following separate accounts to which shall be credited and debited all income and disbursements of the Utility System as hereinafter set forth. The Administrator of the City and all officials and employees concerned therewith shall establish and maintain financial records of the receipts and disbursements of the Utility System in accordance with this resolution. In such records there shall be established accounts or accounts shall continue to be maintained as the case may be, of the Fund for the purposes and in the amounts as follows:

(a) Construction Account. To the Construction Account there shall be credited the proceeds of the sale of the Bond, less capitalized interest. From the Construction Account there shall be paid all costs and expenses of the Project, including the cost of any construction contracts heretofore let and all other costs incurred and to be incurred of the kind authorized in Minnesota Statutes, Section 475.65. Moneys in the Construction Account shall be used for no other purpose except as otherwise provided by law; provided that the proceeds of the Bond may also be used to the extent necessary to pay interest on the Bond due prior to the anticipated date of commencement of the collection of net revenues or taxes herein levied or covenanted to be levied. Provided further that if upon completion of the Project there shall remain any unexpended balance in the Construction Account, the balance shall be transferred to the Debt Service Account.

(b) Debt Service Account. There shall be maintained separate subaccounts in the Debt Service Account, the "Utility System Project Debt Service Subaccount" and the "Disposal System Project Debt Service Subaccount". There are hereby irrevocably appropriated and pledged to, and there shall be credited to the separate subaccounts of the Debt Service Account:

(i) Utility System Project Debt Service Subaccount. To the Utility System Project Debt Service Subaccount there shall be credited: (A) the net revenues of the Utility System not otherwise pledged and applied to the payment of other obligations of the City, in an amount, together with other funds which may herein or hereafter from time to time be irrevocably appropriated to the Utility System Project Debt Service Subaccount, sufficient to meet the requirements of Minnesota Statutes, Section 475.61 for the payment of the principal and interest of the Utility Revenue Portion of the Bond; (B) any collections of all taxes which may hereafter be levied in the event that the net revenues of the Utility System and other funds herein pledged to the payment of the principal and interest on the Utility Revenue Portion of the Bond are insufficient therefore; (C) a pro rata share of all funds remaining in the Construction Account after completion of the Utility System Project and payment of the costs thereof; (D) all investment earnings on funds held in the Utility System Project Debt Service Subaccount; and (E) any and all other moneys which are properly available and are appropriated by the governing body of the City to the Utility System Project Debt Service Subaccount. The Utility System Project Debt Service Subaccount shall be used solely to pay the principal and interest and any premiums for redemption of the Utility Revenue Portion of the Bond and any other general obligation bonds of the City hereafter issued by the City and made payable from said subaccount as provided by law.

(ii) Disposal System Project Debt Service Subaccount. To the Disposal System Project Debt Service Subaccount there shall be credited: (A) all collections of all taxes herein or hereafter levied for the payment of the principal and interest on the Disposal System Portion of the Bond; (B) revenues of the Sewer System in the annual amount as set forth on Exhibit B attached hereto for payment of the principal and interest on the Disposal System Portion of the Bond; (C) a pro rata share of all funds remaining in the Construction Account after completion of the Disposal System Project and payment of the costs thereof; (D) capitalized interest in the amount of \$\_\_\_\_\_ (together with interest earnings thereon and subject to such other adjustments as are appropriate to provide sufficient funds to pay interest due on the Disposal System Portion of the Bond on or before \_\_\_\_\_); (E) all investment earnings on funds held in the Disposal System Project Debt Service Subaccount; and (F) any and all other moneys which are properly available and are appropriated by the governing body of the City to the Disposal System Project Debt Service Subaccount. The Disposal System Project Debt Service Subaccount shall be used solely to pay the principal and interest and any premiums for redemption of the Disposal System Portion of the Bond and any other general obligation bonds of the City hereafter issued by the City and made payable from said subaccount as provided by law.

No portion of the proceeds of the Bond shall be used directly or indirectly to acquire higher yielding investments or to replace funds which were used directly or indirectly to acquire

higher yielding investments, except (1) for a reasonable temporary period until such proceeds are needed for the purpose for which the Bond was issued and (2) in addition to the above in an amount not greater than the lesser of five percent of the proceeds of the Bond or \$100,000. To this effect, any proceeds of the Bond and any sums from time to time held in the Construction Account or the Debt Service Account (or any other City account which will be used to pay principal or interest to become due on the bonds payable therefrom) in excess of amounts which under then applicable federal arbitrage regulations may be invested without regard to yield shall not be invested at a yield in excess of the applicable yield restrictions imposed by said arbitrage regulations on such investments after taking into account any applicable "temporary periods" or "minor portion" made available under the federal arbitrage regulations. Money in the Fund shall not be invested in obligations or deposits issued by, guaranteed by or insured by the United States or any agency or instrumentality thereof if and to the extent that such investment would cause the Bond to be "federally guaranteed" within the meaning of Section 149(b) of the Internal Revenue Code of 1986, as amended (the "Code").

9. Covenants Relating to the Utility Revenue Portion of the Bond.

(a) Sufficiency of Net Revenues of the Utility System. It is hereby found, determined and declared that the net revenues of the Utility System are sufficient in amount to pay when due the principal of and interest on the Utility Revenue Portion of the Bond and a sum at least five percent in excess thereof, and the net revenues of the Utility System are hereby pledged on a parity lien with the Outstanding Utility Bonds for the payment of the Utility Revenue Portion of the Bond and shall be applied for that purpose, but solely to the extent required to meet the principal and interest requirements of the Utility Revenue Portion of the Bond as the same become due. Nothing contained herein shall be deemed to preclude the City from making further pledges and appropriations of the net revenues of the Utility System for the payment of other or additional obligations of the City, provided that it has first been determined by the City Council that the estimated net revenues of the Utility System will be sufficient in addition to all other sources, for the payment of the Utility Revenue Portion of the Bond and such additional obligations and any such pledge and appropriation of the net revenues of the Utility System may be made superior or subordinate to, or on a parity with the pledge and appropriation herein.

(b) Excess Revenues of the Utility System. Net revenues of the Utility System in excess of those required for the foregoing may be used for any proper purpose.

(c) Covenant to Maintain Rates and Charges. In accordance with Minnesota Statutes, Section 444.075, the City hereby covenants and agrees with the Holders of the Utility Revenue Portion of the Bond that it will impose and collect charges for the service, use, availability and connection to the Utility System at the times and in the amounts required to produce net revenues adequate to pay all principal and interest when due on the Utility Revenue Portion of the Bond and the Outstanding Utility Bonds. Minnesota Statutes, Section 444.075, Subdivision 2, provides as follows: "Real estate tax revenues should be used only, and then on a temporary basis, to pay general or special obligations when the other revenues are insufficient to meet the obligations".

10. Covenants Relating to the Disposal System Portion of the Bond.

(a) Tax Levy. To provide moneys for payment of the principal and interest on the Disposal System Portion of the Bond there is hereby levied upon all of the taxable property in the City a direct annual ad valorem tax which shall be spread upon the tax rolls and collected with and as part of other general property taxes in the City for the years and in the amounts as follows:

<u>Year of Tax Levy</u>	<u>Year of Tax Collection</u>	<u>Amount</u>
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See Attached Schedule in Exhibit A

(b) Coverage Test. The tax levies are such that if collected in full they, together with estimated collections of net revenues of the Sewer System, and other revenues herein pledged for the payment of the Bond, will produce at least five percent in excess of the amount needed to meet when due the principal and interest payments on the Disposal System Portion of the Bond. The tax levies shall be irrevocable so long as any of the Disposal System Portion of the Bond are outstanding and unpaid, provided that the City reserves the right and power to reduce the levies in the manner and to the extent permitted by Minnesota Statutes, Section 475.61, Subdivision 3.

11. Defeasance. When the Bond have been discharged as provided in this paragraph, all pledges, covenants and other rights granted by this resolution to the registered holder of the Bond shall, to the extent permitted by law, cease. The City may also discharge its obligations with respect to principal installments of the Bond which is due on any date by irrevocably depositing with the Bond Registrar on or before that date a sum sufficient for the payment thereof in full; or if any Bond should not be paid when due, it may nevertheless be discharged by depositing with the Bond Registrar a sum sufficient for the payment thereof in full with interest accrued to the date of such deposit. The City may also at any time discharge its obligations with respect to the Bond, subject to the provisions called for redemption on any date when they are prepayable according to their terms, by depositing with the Bond Registrar on or before that date a sum sufficient for the payment thereof in full, provided that notice of redemption thereof has been duly given. The City may also at any time discharge its obligations with respect to the Bond, subject to the provisions of law now or hereafter authorizing and regulating such action, by depositing irrevocably in escrow, with a suitable banking institution qualified by law as an escrow agent for this purpose, cash or securities described in Minnesota Statutes, Section 475.67, Subdivision 8, bearing interest payable at such times and at such rates and maturing on such dates as shall be required, without regard to sale and/or reinvestment, to pay all amounts to become due thereon to maturity or, if notice of redemption as herein required has been duly provided for, to such earlier redemption date.

12. Compliance With Reimbursement Bond Regulations. The provisions of this paragraph are intended to establish and provide for the City's compliance with United States Treasury Regulations Section 1.150-2 (the "Reimbursement Regulations") applicable to the "reimbursement proceeds" of the Bond, being those portions thereof which will be used by the City to reimburse itself for any expenditure which the City paid or will have paid prior to the Closing Date (a "Reimbursement Expenditure").

The City hereby certifies and/or covenants as follows:

(a) Not later than sixty days after the date of payment of a Reimbursement Expenditure, the City (or person designated to do so on behalf of the City) has made or will have made a written declaration of the City's official intent (a "Declaration") which effectively (i) states the City's reasonable expectation to reimburse itself for the payment of the Reimbursement Expenditure out of the proceeds of a subsequent borrowing; (ii) gives a general and functional description of the property, project or program to which the Declaration relates and for which the Reimbursement Expenditure is paid, or identifies a specific fund or account of the City and the general functional purpose thereof from which the Reimbursement Expenditure was to be paid (collectively the "Project"); and (iii) states the maximum principal amount of debt expected to be issued by the City for the purpose of financing the Project; provided, however, that no such Declaration shall necessarily have been made with respect to: (i) "preliminary expenditures" for the Project, defined in the Reimbursement Regulations to include engineering or architectural, surveying and soil testing expenses and similar prefatory costs, which in the aggregate do not exceed twenty percent of the "issue price" of the Bond, and (ii) a *de minimis* amount of Reimbursement Expenditures not in excess of the lesser of \$100,000 or five percent of the proceeds of the Bond.

(b) Each Reimbursement Expenditure is a capital expenditure or a cost of issuance of the Bond or any of the other types of expenditures described in Section 1.150-2(d)(3) of the Reimbursement Regulations.

(c) The "reimbursement allocation" described in the Reimbursement Regulations for each Reimbursement Expenditure shall and will be made forthwith following (but not prior to) the issuance of the Bond and in all events within the period ending on the date which is the later of three years after payment of the Reimbursement Expenditure or one year after the date on which the Project to which the Reimbursement Expenditure relates is first placed in service.

(d) Each such reimbursement allocation will be made in a writing that evidences the City's use of Bond proceeds to reimburse the Reimbursement Expenditure and, if made within thirty days after the Bond is issued, shall be treated as made on the day the Bond is issued.

Provided, however, that the City may take action contrary to any of the foregoing covenants in this paragraph upon receipt of an opinion of its Bond Counsel for the Bond stating in effect that such action will not impair the tax-exempt status of the Bond.

13. General Obligation Pledge. For the prompt and full payment of the principal and interest on the Bond, as the same respectively become due, the full faith, credit and taxing powers of the City shall be and are hereby irrevocably pledged. If the net revenues of the Utility System appropriated and pledged to the payment of principal and interest on the Utility Revenue Portion of the Bond, together with other funds irrevocably appropriated to the Utility System Project Debt Service Subaccount herein established, shall at any time be insufficient to pay such principal and interest when due, the City covenants and agrees to levy, without limitation as to rate or amount an ad valorem tax upon all taxable property in the City sufficient to pay such principal and interest as it becomes due. If the balance in the Debt Service Account is ever

insufficient to pay all principal and interest then due on the Bond and any other bonds payable therefrom, the deficiency shall be promptly paid out of any other funds of the City which are available for such purpose, and such other funds may be reimbursed with or without interest from the Debt Service Account when a sufficient balance is available therein.

14. Certificate of Registration. A certified copy of this resolution is hereby directed to be filed with the County Auditor of Crow Wing County, together with such other information as the County Auditor shall require, and there shall be obtained from the County Auditor a certificate that the Bond has been entered in the Bond Register and that the tax levy required by law has been made.

15. Records and Certificates. The officers of the City are hereby authorized and directed to prepare and furnish to the Purchaser, and to the attorneys approving the legality of the issuance of the Bond, certified copies of all proceedings and records of the City relating to the Bond and to the financial condition and affairs of the City, and such other affidavits, certificates and information as are required to show the facts relating to the legality and marketability of the Bond as the same appear from the books and records under their custody and control or as otherwise known to them, and all such certified copies, certificates and affidavits, including any heretofore furnished, shall be deemed representations of the City as to the facts recited therein.

16. Negative Covenant as to Use of Bond Proceeds and Project. The City hereby covenants not to use the proceeds of the Bond or to use the Project, or to cause or permit them to be used, or to enter into any deferred payment arrangements for the cost of the Project, in such a manner as to cause the Bond to be "private activity bonds" within the meaning of Sections 103 and 141 through 150 of the Code.

17. Tax-Exempt Status of the Bond; Rebate. The City shall comply with requirements necessary under the Code to establish and maintain the exclusion from gross income under Section 103 of the Code of the interest on the Bond, including without limitation (1) requirements relating to temporary periods for investments, (2) limitations on amounts invested at a yield greater than the yield on the Bond, and (3) the rebate of excess investment earnings to the United States, if the Bond (together with other obligations reasonably expected to be issued and outstanding at one time in this calendar year) exceeds the small-issuer exception amount of \$5,000,000. For purposes of qualifying for the exception to the federal arbitrage rebate requirements for governmental units issuing \$5,000,000 or less of bonds, the City hereby finds, determines and declares that:

- (a) the Bond is issued by a governmental unit with general taxing powers;
- (b) the Bond is not a private activity bond;
- (c) ninety-five percent or more of the net proceeds of the Bond is to be used for local governmental activities of the City (or of a governmental unit the jurisdiction of which is entirely within the jurisdiction of the City); and
- (d) the aggregate face amount of all tax-exempt bonds (other than private activity bonds) issued by the City (and all subordinate entities thereof, and all entities treated as one

issuer with the City) during the calendar year in which the Bond is issued and outstanding at one time is not reasonably expected to exceed \$5,000,000, all within the meaning of Section 148(f)(4)(D) of the Code.

18. Designation of Qualified Tax-Exempt Obligations. In order to qualify the Bond as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code, the City hereby makes the following factual statements and representations:

- (a) the Bond is issued after August 7, 1986;
- (b) the Bond is not a "private activity bond" as defined in Section 141 of the Code;
- (c) the City hereby designates the Bond as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code;
- (d) the reasonably anticipated amount of tax-exempt obligations (other than private activity bonds, treating qualified 501(c)(3) bonds as not being private activity bonds) which will be issued by the City (and all entities treated as one issuer with the City, and all subordinate entities whose obligations are treated as issued by the City) during this calendar year 2020 will not exceed \$10,000,000;
- (e) not more than \$10,000,000 of obligations issued by the City during this calendar year 2020 have been designated for purposes of Section 265(b)(3) of the Code; and
- (f) the aggregate face amount of the Bond does not exceed \$10,000,000.

The City shall use its best efforts to comply with any federal procedural requirements which may apply in order to effectuate the designation made by this paragraph.

19. Severability. If any section, paragraph or provision of this resolution shall be held to be invalid or unenforceable for any reason, the invalidity or unenforceability of such section, paragraph or provision shall not affect any of the remaining provisions of this resolution.

20. Headings. Headings in this resolution are included for convenience of reference only and are not a part hereof, and shall not limit or define the meaning of any provision hereof.

The motion for the adoption of the foregoing resolution was duly seconded by member \_\_\_\_\_ and, after a full discussion thereof and upon a vote being taken thereon, the following voted in favor thereof:

and the following voted against the same:

Whereupon the resolution was declared duly passed and adopted.

STATE OF MINNESOTA  
COUNTY OF CROW WING  
CITY OF PEQUOT LAKES

I, the undersigned, being the duly qualified and acting Administrator of the City of Pequot Lakes, Minnesota, DO HEREBY CERTIFY that I have compared the attached and foregoing extract of minutes with the original thereof on file in my office, and that the same is a full, true and complete transcript of the minutes of a meeting of the City Council, duly called and held on the date therein indicated, insofar as such minutes relate to providing for the issuance and the sale of a \$2,098,000 General Obligation Utility Revenue and Disposal System Bond, Series 2020A.

WITNESS my hand on April 7, 2020.

\_\_\_\_\_  
Administrator

EXHIBIT A

Tax Levy Schedule for Disposal System Portion of the Bonds

[To be supplied by David Drown Associates, Inc.]