



February 3, 2020

RECOMMENDATIONS

Mr. James Tayloe, Mayor
 Ms. Nancy Malecha, City Administrator
 City of Pequot Lakes
 4638 Main Street
 Pequot Lakes, MN 56472

RE: General Obligation Disposal System and Utility Revenue Bonds, Series 2020A

Honorable Mayor Tayloe, Members of the City Council, and Ms. Malecha:

This letter outlines our recommendations for the structure and sale of General Obligation Bonds associated with the City's 2020 Rasmussen Road project.

Overview of Project and Component Costs

The major component costs and sources of funds are detailed below:

Construction	\$	2,396,792
Engineering (design, construction, study, geotech)	\$	384,497
Contingency	\$	150,000
Admin/Legal	\$	50,000
Total Project Costs	\$	2,981,289
Plus Issuance Costs (including discount)	\$	66,188
Plus Capitalized Interest/Rounding	\$	18,024
Less - 402 Fund Contribution/Budget Allocation	\$	(943,000)
Less - Sourcewell Contribution	\$	(7,500)
RECOMMENDED SIZE OF BOND ISSUE	\$	2,115,000

Statutory Authority

Cities must cite the specific statutory authority they intend to use before issuing general obligation bonds. In this instance, we are advising the utilization of two separate pieces of authority as described below:

Approximately \$1,055,000 of the bonds should be issued as General Obligation Disposal System Bonds utilizing authority provided in Minnesota Statutes Chapters 115 and 475. This authority allows us to fund sanitary sewer related costs and pledge sewer revenues, tax levies, or a blend of both. It requires no public hearings and does not count against any statutory net debt limits.

The remaining \$1,060,000 of the bonds should be issued as General Obligation Utility Revenue Bonds utilizing authority provided in Minnesota Statutes Chapters 444 and 475. This portion of the bonds will be utilized to cover the water system related costs of the project. We must pledge water revenues to the

repayment of this portion of the bonds...no tax levies. This authority also does not require any public hearings nor does it count against net debt limits.

The road costs will be covered with cash contributions from the City's 2020 budget (roughly \$50,000) and the 402 Funds – Highway 371 Turnback dollars (\$893,000).

We bifurcated this issue as described above because in our prior planning we identified taxes as a significant source of revenue and therefore needed to allocate sanitary sewer costs to the Chapter 115 authority.

Payment and Revenue Requirements:

We have identified the following revenue source to fund bond payments:

Tax Levy: The average annual tax levy for this debt is estimated at \$86,100. Budgeting for this project began with the 2020 budget, allocating \$50,000 to this project. The City will need to increase its 2021 levy for the additional debt associated with this project. Levy increases have been planned with the project and is consistent with the City's capital financial plan.

Utility Revenues: The Water and Sewer Funds will need to generate roughly \$84,400/year, beginning in 2021 for this debt. With the City's capital financial plan, the water and sewer rates are incorporated for this project.

Current market conditions would likely yield a net effective rate on the borrowing of 2.29%. Due to the size of the bond, along with the fifteen-year term, this bond is sensitive to interest rate movement. If rates move up prior to the official sales date by ½ of a percentage point, the interest expense would increase approximately \$93,800 over the life of the bond.

Please refer to the attached exhibit for bond details.

\$2,115,000 General Obligation Permanent Improvement Revolving Bonds:

If the Council chooses to finance this project as detailed in the attached exhibits, David Drown Associates, Inc. recommends the project costs be financed through the issuance of competitively sold \$2,115,000 of General Obligation Disposal System & Utility Revenue Bonds. Other recommended key elements of this financing would be:

- Approximate 15-year term which is consistent with the City's capital financial plan.
- Callable any time after 2/1/2029 @ par plus accrued interest.
- Offer up to 1.25% discount allowance.
- Standard & Poor's Rating (cost of rating more than offset by interest rate savings)
- Limited Continuing Disclosure

Options Considered

In addition to the recommended competitive, conventional sale as noted above, I considered other options before coming to that conclusion. For instance, I looked at intergovernmental funding options (USDA, PFA, etc.) and MN Rural Water Association programs. These options were discarded for a variety of factors including, but not limited to:

- Eligibility of programs
- Application process, time delays and uncertainty of funding

- Pricing
- Additional administrative, legal costs & ongoing reporting burdens

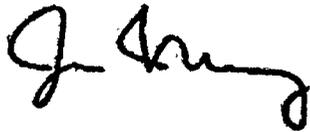
Schedule and Issuance

The proposed schedule for putting the project financing in place is as follows:

March 5, 2020	Set Sale Date of Bond Issue
April 7, 2020	Award Sale of Bond Issue
April 27, 2020	Closing
May 1, 2020	Projected Construction Date

Please feel free to contact me with any questions. I would welcome the opportunity to discuss this matter with the City Council.

Respectfully,



Jason Murray, Associate
David Drown Associates, Inc.
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City of Pequot Lakes, Minnesota

\$2,115,000
General Obligation Revenue and Disposal System Bonds, 2020A

MASTER

Uses of Funds			
Utility Related Construction			805,792
Sewer Disposal			835,000
Non Utility Related (Street)			756,000
Subtotal Construction			2,396,792
Engineering (design, construction, study, geotech)			384,487
Contingency			150,000
Legal/RW/Administration			50,000
Other:			-
Other:			-
Other:			-
Total Project Costs			2,981,289
Underwriter's Discount Allowance	1.25%		26,438
Unused Underwriter's Discount Allowance			-
Financial Advisor	Verified		16,000
Bond Counsel	Verified		10,000
Pay Agent Setup	Verified		750
Miscellaneous	Verified		1,500
Rating Agency Fee	Estimate		11,500
Capitalized Interest			14,320
Rounding			3,704
			3,065,500

Bond Details		
Set Sale Date		3/5/2020
Sale Date		4/7/2020
Dated Date		4/27/2020
Closing Date		4/27/2020
1st Interest Payment		2/1/2021
Proceeds spent by:		12/31/2021
	<i>to Dated Date</i>	
Purchase Price		2,088,562.50
Net Interest Cost		429,056.19
Net Effective Rate		2.2867%
Average Coupon		2.146%
Average Life		8.8716
Call Option		2/1/2029
Purchaser		Proposed for Competitive Sale
Bond Counsel		Taft Law PA
Rating Agency		Standard & Poors
Pay Agent		Northland Trust Services
Disclosure		Limited
Authority		MS 115, 444 and 475

Sources of Funds		
Bond Issue		2,115,000
Bond Premium		-
Sourcewell Contribution		7,500
City Contribution (Fund 402 - 371 Turnback Funds)		943,000
Construction Fund Earnings (excess proceeds)		-
		3,065,500

Payment Schedule & Cashflow

Payment Schedule					
12-Month Period ending	Principal	Rate	Interest	Payment Total	TOTAL PLUS 5%
4/27/2020					
2/1/2021	30,000	1.550%	28,641	58,641	60,857
2/1/2022	125,000	1.550%	41,793	166,793	175,132
2/1/2023	125,000	1.600%	39,855	164,855	173,098
2/1/2024	130,000	1.650%	37,855	167,855	176,248
2/1/2025	130,000	1.700%	35,710	165,710	173,996
2/1/2026	130,000	1.750%	33,500	163,500	171,675
2/1/2027	135,000	1.800%	31,225	166,225	174,536
2/1/2028	135,000	1.900%	28,795	163,795	171,985
2/1/2029	140,000	1.950%	26,230	166,230	174,542
2/1/2030	140,000	2.050%	23,500	163,500	171,675
2/1/2031	140,000	2.150%	20,630	160,630	168,662
2/1/2032	140,000	2.200%	17,620	157,620	165,501
2/1/2033	150,000	2.250%	14,540	164,540	172,767
2/1/2034	150,000	2.350%	11,165	161,165	169,223
2/1/2035	155,000	2.400%	7,640	162,640	170,772
2/1/2036	160,000	2.450%	3,920	163,920	172,116
	2,115,000		402,619	2,517,619	2,642,784

Collection Year	Revenues			Account Balances	
	Utility Revenues	Tax Levies	Surplus (deficit)	Account Balance	
			Unused Discount & accrued interest >		18,024
2020	46,202	-	-	(14,656)	3,368
2021	84,698	-	-	87,066	-
2022	83,722	-	-	89,376	-
2023	87,964	-	-	88,284	-
2024	86,838	-	-	87,158	-
2025	85,677	-	-	85,998	-
2026	84,483	-	-	90,053	-
2027	83,255	-	-	88,730	-
2028	87,208	-	-	87,334	-
2029	85,775	-	-	85,901	-
2030	84,268	-	-	84,394	-
2031	82,688	-	-	82,814	-
2032	86,321	-	-	86,447	-
2033	84,549	-	-	84,675	-
2034	82,698	-	-	88,074	-
2035	86,058	-	-	86,058	-
	1,322,400	-	1,302,360	(18,024)	