REPORT / RECOMMENDATION

To: MAYOR AND COUNCIL

Agenda Item #: IV. U.

From: Eric Roggeman, Finance Director

Action ☒
Discussion ☐
Information ☐

Date: October 21, 2014

Subject: Resolution No. 2014-134 Providing For The Sale of $13,485,000 General Obligation Refunding Bonds, Series 2014B

Action Requested:
Adopt Resolution No. 2014-134 Providing For The Sale of $13,485,000 General Obligation Refunding Bonds, Series 2014B

Information / Background:
The proposed issue includes financing to execute a current refunding of the callable maturities of the City's 2005A, 2007B, 2008A, and 2008B Bonds. With expected rates under 1.5%, the combined present value savings are expected to be $725,000 to $750,000, assuming no change in interest rates between now and the sale date. Details for each issue to be refunded are as follows:

- $1,160,000 to refund the G.O. Park & Recreation Refunding Bonds, Series 2005A. Debt service will continue to be paid from ad valorem property taxes.
- $1,920,000 to refund the G.O. Utility Revenue Bonds, Series 2007B. Debt service will continue to be paid from utility revenue.
- $6,085,000 to refund the G.O. Utility Revenue Bonds, Series 2008A. Debt service will continue to be paid from utility revenue.
- $4,320,000 to refund the G.O. Permanent Improvement Revolving Fund Bonds, Series 2008B. Debt service will continue to be paid from special assessments.

The refunding is expected to reduce interest expense by approximately $289,000 over the next five years.

The results of the bond sale will be presented to the City Council at the November 18 Council meeting by the City's Financial Advisors Ehlers Inc.

ATTACHMENT:
Resolution 2014-134
Pre-Sale Report for $13,485,000 General Obligation Refunding Bonds, Series 2014B

Resolution No. 2014-134
Resolution Providing for the Sale of
$13,485,000 General Obligation Refunding Bonds, Series 2014B

A. WHEREAS, the City Council of the City of Edina, Minnesota has heretofore determined that it is necessary and expedient to issue the City's $13,485,000 General Obligation Refunding Bonds, Series 2014B (the "Bonds"), to finance the current refunding of the callable maturities of the City's $5,375,000 General Obligation Park and Recreation Refunding Bonds, Series 2005A; $8,210,000 General Obligation Utility Revenue Bonds, Series 2007B; $13,985,000 General Obligation Utility Revenue Bonds, Series 2008A; and $7,755,000 General Obligation Permanent Improvement Revolving Fund Bonds, Series 2008B; and

B. WHEREAS, the City has retained Ehlers & Associates, Inc., in Roseville, Minnesota ("Ehlers"), as its independent financial advisor for the Bonds and is therefore authorized to solicit proposals in accordance with Minnesota Statutes, Section 475.60, Subdivision 2(9);

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

1. Authorization; Findings. The City Council hereby authorizes Ehlers to solicit proposals for the sale of the Bonds.

2. Meeting; Proposal Opening. The City Council shall meet at 7:00 on November 18, 2014, for the purpose of considering sealed proposals for and awarding the sale of the Bonds.

3. Official Statement. In connection with said sale, the officers or employees of the City are hereby authorized to cooperate with Ehlers and participate in the preparation of an official statement for the Bonds and to execute and deliver it on behalf of the City upon its completion.

Approved this 21st day of October, 2014.

Attest:______________________________ ______________________________
Debra A. Mangen, City Clerk James B. Hovland, Mayor

STATE OF MINNESOTA)
COUNTY OF HENNEPIN) SS
CITY OF EDINA)

CERTIFICATE OF CITY CLERK

I, the undersigned duly appointed and acting City Clerk for the City of Edina do hereby certify that the attached and foregoing Resolution was duly adopted by the Edina City Council at its Regular Meeting of October 21, 2014 and as recorded in the Minutes of said Regular Meeting.

WITNESS my hand and seal of said City this ______ day of __________, 20___.

____
City Clerk

EHLERS
LEADERS IN PUBLIC FINANCE

October 21, 2014

Pre-Sale Report

City of Edina, Minnesota

$13,485,000 General Obligation Refunding Bonds, Series 2014B

Prepared by:

Mark Ruff
Senior Financial Advisor

And

Nick Anhut
Financial Advisor

Executive Summary of Proposed Debt

<table>
<tr><td>Proposed Issue:</td><td>$13,485,000 General Obligation Refunding Bonds, Series 2014B</td></tr>
<tr><td>Purposes:</td><td>The proposed issue includes financing to execute a current refunding of the callable maturities of the City's 2005A, 2007B, 2008A, and 2008B Bonds. With expected rates under 1.5%, the combined present value savings are expected to be $725,000 to $750,000, assuming no change in interest rates between now and the sale date. This refunding is considered to be a current refunding as the obligations being refunded are callable (pre-payable) February 1, 2015, which is within 90 days of the date of issue of the new Bonds.

$1,160,000 to refund the G.O. Park & Recreation Refunding Bonds, Series 2005A. Debt service will continue to be paid from ad valorem property taxes.

Interest rates on the obligations proposed to be refunded are 4.0%. The refunding is expected to reduce interest expense by approximately $39,000 over the next two years. The net present value benefit of the refunding is estimated to be $38,540, or 3.2% of the refunded debt service.
$1,920,000 to refund the G.O. Utility Revenue Bonds, Series 2007B. Debt service will continue to be paid from utility revenue.

Interest rates on the obligations proposed to be refunded are 4.0%. The refunding is expected to reduce interest expense by approximately $65,000 over the next two years. The net present value benefit of the refunding is estimated to be $64,200, or 3.2% of the refunded debt service.
$6,085,000 to refund the G.O. Utility Revenue Bonds, Series 2008A. Debt service will continue to be paid from utility revenues.

Interest rates on the obligations proposed to be refunded average 4.1%. The refunding is expected to reduce interest expense by approximately $377,000 over the next four years. The net present value benefit of the refunding is estimated to be $368,300, or 5.7% of the refunded debt service.
$4,320,000 to refund the G.O. Permanent Improvement Revolving Fund Bonds, Series 2008B. Debt service will continue to be paid from special assessments.

Interest rates on the obligations proposed to be refunded average 3.9%. The refunding is expected to reduce interest expense by approximately $289,000 over the next five years. The net present value benefit of the refunding is estimated to be $281,200, or 6.1% of the refunded debt service.
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Authority:	The Bonds are being issued pursuant to Minnesota Statutes, Chapters 429, 444, and 475 in keeping with the original authorizations. The Bonds will be general obligations of the City for which its full faith, credit and taxing powers are pledged.
Term/Call Feature:	The Bonds are being issued for a 5 year term. Principal on the Bonds will be due on February 1 in the years 2016 through 2020. Interest is payable every six months beginning August 1, 2015. Because the term of the new Bonds are shorter than the market's tolerance for prepayment without penalty, the Bonds are being offered without option of prior redemption.
Bank Qualification:	Because the City has already issued more than $10,000,000 in tax-exempt obligations during the calendar year and the bond issues to be refunded were not originally designated "bank qualified", the City will be not able to designate the Bonds as "bank qualified" obligations.
Rating:	The City's most recent bond issues were rated AAA by Standard & Poor's and Aaa by Moody's. The City will request a new rating for the Bonds.
Basis for Recommendation:	Based on our knowledge of your situation, your objectives communicated to us, our advisory relationship as well as characteristics of various municipal financing options, we are recommending the issuance of General Obligation Refunding Bonds as a suitable financing option because: - This option is in keeping with the original authorizations and city policy to finance these types of projects with this type of debt issue. - The City does not have cash to pre-pay the obligations before their final term. - It is a cost effective option to reduce annual debt service expense by accessing today's market interest rates.
Method of Sale/Placement:	In order to obtain the lowest interest cost to the City, we will solicit competitive bids for purchase of the Bonds from local banks in your area and national underwriters. We have included an allowance for discount bidding equal to 0.80% of the principal amount of the issue. The discount is treated as an interest item and provides the underwriter with all or a portion of their compensation in the transaction. If the Bonds are purchased at a price greater than the minimum bid amount (maximum discount), the unused allowance may be used to lower your borrowing amount. **Premium Bids:** Under current market conditions, most investors in municipal bonds prefer "premium" pricing structures. A premium is achieved when the coupon for any maturity (the interest rate paid by the issuer) exceeds the yield to the investor, resulting in a price paid that is greater than the face value of

	the bonds. The sum of the amounts paid in excess of face value is considered "reoffering premium." The amount of the premium varies, but it is not uncommon to see premiums for new issues in the range of 2.00% to 10.00% of the face amount of the issue. This means that an issuer with a $2,000,000 offering may receive bids that result in proceeds of $2,040,000 to $2,200,000. Because the original projects are complete, for this issue of Bonds we will use the premium to reduce the size of the issue. The adjustments may slightly change the true interest cost of the original bid, either up or down. You have the choice to limit the amount of premium in the bid specifications. This may result in fewer bids, but it may also eliminate large adjustments on the day of sale and other uncertainties.
Review of Existing Debt:	We have reviewed all outstanding indebtedness for the City and find that, other than the obligations proposed to be refunded by the Bonds, there are no other refunding opportunities at this time. In early 2015, there is an opportunity to refund the Public Project Revenue Bonds, Series 2005A for interest cost savings. This was the financing for the gymnasia on school property. We will continue to monitor the market and the call dates for the City's outstanding debt and will alert you to any future refunding opportunities.
Continuing Disclosure:	Because the City has more than $10,000,000 in outstanding debt (including this issue) and this issue is over $1,000,000, the City will be agreeing to provide certain updated Annual Financial Information and its Audited Financial Statement annually as well as providing notices of the occurrence of certain "material events" to the Municipal Securities Rulemaking Board (the "MSRB"), as required by rules of the Securities and Exchange Commission (SEC). The City is already obligated to provide such reports for its existing bonds, and has contracted with Ehlers to prepare and file the reports.
Arbitrage Monitoring:	Because the Bonds are tax-exempt securities/tax credit securities, the City must ensure compliance with certain Internal Revenue Service (IRS) rules throughout the life of the issue. These rules apply to all gross proceeds of the issue, including initial bond proceeds and investment earnings in construction, escrow, debt service, and any reserve funds. How issuers spend bond proceeds and how they track interest earnings on funds (arbitrage/yield restriction compliance) are common subjects of IRS inquiries. Your specific responsibilities will be detailed in the Officers' Certificate prepared by your Bond Attorney and provided at closing. You have retained Ehlers to assist you with compliance with these rules.
Risk Factors:	**Current Refunding:** The Bonds are being issued for the purpose of current refunding prior City debt obligations. Those prior debt obligations are "callable" February 1, 2015 and can therefore be paid off within 90 days or less. The new Bonds will be offered without a call feature and will not be pre-

	payable. This refunding is being undertaken based in part on an assumption that the City does not expect to use future revenues to pay off this debt and that market conditions warrant the refinancing at this time.
Other Service Providers	This debt issuance will require the engagement of other public finance service providers. This section identifies those other service providers, so Ehlers can coordinate their engagement on your behalf. Where you have previously used a particular firm to provide a service, we have assumed that you will continue that relationship. For services you have not previously required, we have identified a service provider. Fees charged by these service providers will be paid from proceeds of the obligation, unless you notify us that you wish to pay them from other sources. Our pre-sale bond sizing includes a good faith estimate of these fees, so their final fees may vary. If you have any questions pertaining to the identified service providers or their roles, or if you would like to use a different service provider for any of the listed services please contact us. **Bond Attorney:** Dorsey & Whitney LLP **Paying Agent:** U.S. Bank National Association **Rating Agency:** Standard & Poor's and Moody's Investors Service

This presale report summarizes our understanding of the City's objectives for the structure and terms of this financing as of this date. As additional facts become known or capital markets conditions change, we may need to modify the structure and/or terms of this financing to achieve results consistent with the City's objectives.

Proposed Debt Issuance Schedule

Pre-Sale Review by City Council	October 21, 2014
Distribute Official Statement:	Week of November 6, 2014
Conference with Rating Agency:	Week of November 6, 2014
City Council Meeting to Award Sale of the Bonds:	November 18, 2014
Estimated Closing Date:	December 15, 2014
Redemption Date for 2005A, 2007B, 2008A, and 2008B	February 1, 2015

Attachments

Sources and Uses of Funds

Proposed Debt Service Schedule

Refunding Savings Analysis

Resolution Authorizing Ehlers to Proceed With Bond Sale

Ehlers Contacts

Financial Advisors:	Mark Ruff	(651) 697-8505
	Nick Anhut	(651) 697-8507
Disclosure Coordinator:	Pia Troy	(651) 697-8556
Financial Analyst:	Alicia Gage	(651) 697-8551

The Official Statement for this financing will be mailed to the City Council at their home address or e-mailed for review prior to the sale date.

City of Edina, Minnesota

$13,485,000 General Obligation Refunding Bonds, Series 2014B

Issue Summary - Current Ref 05A, 07B, 08A and 08B

Assuming Current GO Non-BQ "AAA" Market Rates plus 10bps

Total Issue Sources And Uses

Dated 12/15/2014 | Delivered 12/15/2014

	Cur Ref GO Park & Rec 2005A	Cur Ref GO Util Rev 2007B	Cur Ref GO Util Rev 2008A	Cur Ref GO PIR 2008B	Issue Summary
Sources Of Funds					
Par Amount of Bonds	$1,160,000.00	$1,920,000.00	$6,085,000.00	$4,320,000.00	$13,485,000.00
Total Sources	**$1,160,000.00**	**$1,920,000.00**	**$6,085,000.00**	**$4,320,000.00**	**$13,485,000.00**
Uses Of Funds					
Total Underwriter's Discount (0.800%)	9,280.00	15,360.00	48,680.00	34,560.00	107,880.00
Costs of Issuance	8,172.04	13,526.15	42,868.00	30,433.81	95,000.00
Deposit to Current Refunding Fund	1,140,000.00	1,890,000.00	5,995,000.00	4,255,000.00	13,280,000.00
Rounding Amount	2,547.96	1,113.85	(1,548.00)	6.19	2,120.00
Total Uses	**$1,160,000.00**	**$1,920,000.00**	**$6,085,000.00**	**$4,320,000.00**	**$13,485,000.00**

City of Edina, Minnesota

$13,485,000 General Obligation Refunding Bonds, Series 2014B

Issue Summary - Current Ref 05A, 07B, 08A and 08B

Assuming Current GO Non-BQ "AAA" Market Rates plus 10bps

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
12/15/2014	-	-	-	-	-
08/01/2015	-	-	72,061.05	72,061.05	-
02/01/2016	3,870,000.00	0.450%	57,393.75	3,927,393.75	3,999,454.80
08/01/2016	-	-	48,686.25	48,686.25	-
02/01/2017	3,905,000.00	0.750%	48,686.25	3,953,686.25	4,002,372.50
08/01/2017	-	-	34,042.50	34,042.50	-
02/01/2018	2,390,000.00	1.000%	34,042.50	2,424,042.50	2,458,085.00
08/01/2018	-	-	22,092.50	22,092.50	-
02/01/2019	2,425,000.00	1.250%	22,092.50	2,447,092.50	2,469,185.00
08/01/2019	-	-	6,936.25	6,936.25	-
02/01/2020	895,000.00	1.550%	6,936.25	901,936.25	908,872.50
Total	**$13,485,000.00**	**-**	**$352,969.80**	**$13,837,969.80**	**-**

Yield Statistics

Bond Year Dollars	$34,748.08
Average Life	2.577 Years
Average Coupon	1.0157965%
Net Interest Cost (NIC)	1.3262596%
True Interest Cost (TIC)	1.3310052%
Bond Yield for Arbitrage Purposes	1.0135769%
All Inclusive Cost (AIC)	1.6136019%

IRS Form 8038

Net Interest Cost	1.0157965%
Weighted Average Maturity	2.577 Years

City of Edina, Minnesota

$13,485,000 General Obligation Refunding Bonds, Series 2014B
Issue Summary - Current Ref 05A, 07B, 08A and 08B
Assuming Current GO Non-BQ "AAA" Market Rates plus 10bps

Debt Service Comparison

Date	Total P+I	Net New D/S	Old Net D/S	Savings
02/01/2015	-	(2,120.00)	-	2,120.00
02/01/2016	3,999,454.80	3,999,454.80	4,203,231.26	203,776.46
02/01/2017	4,002,372.50	4,002,372.50	4,205,131.26	202,758.76
02/01/2018	2,458,085.00	2,458,085.00	2,610,387.50	152,302.50
02/01/2019	2,469,185.00	2,469,185.00	2,620,387.50	151,202.50
02/01/2020	908,872.50	908,872.50	967,200.00	58,327.50
Total	**$13,837,969.80**	**$13,835,849.80**	**$14,606,337.52**	**$770,487.72**

PV Analysis Summary (Net to Net)

Gross PV Debt Service Savings.....................	750,251.00
Net PV Cashflow Savings @ 1.014%(Bond Yield).....	750,251.00
Contingency or Rounding Amount....................	2,120.00
Net Present Value Benefit	$752,371.00
Net PV Benefit / $14,235,251.00 PV Refunded Debt Service	5.285%
Net PV Benefit / $13,280,000 Refunded Principal...	5.665%
Net PV Benefit / $13,485,000 Refunding Principal..	5.579%

Refunding Bond Information

Refunding Dated Date	12/15/2014
Refunding Delivery Date	12/15/2014