



Council Work Session Memorandum

TO: City Council
THROUGH: Tim Murray, City Administrator
FROM: Jeanne Day, Finance Director
MEETING DATE: March 2, 2021
SUBJECT: Issuance of Debt for Funding Municipal State Aid Street Improvements

Discussion:

The Engineer's projection for the City's MSA Construction Account for 2021 is estimated to have a deficit of \$1,343,826 for 2021 and up to \$1,478,835 by 2024. Based on this information Staff has been projecting the need of bonding to fill the gap.

	Beginning Balance	Estimated Allotment	Projected Expenditures	Ending Balance
2020	(975,441)	1,061,512	(731,000)	(644,929)
2021	(644,929)	981,853	(1,680,750)	(1,343,826)
2022	(1,343,826)	980,000	(1,062,960)	(1,426,786)
2023	(1,426,786)	980,000	(865,897)	(1,312,683)
2024	(1,312,683)	980,000	(1,146,152)	(1,478,835)
2025	(1,478,835)	980,000	(190,948)	(689,783)

During the 2021 budget process, the CIP was reviewed at the Budget Work Session #4 on August 18, 2020. As part of the fund discussion for the Street Improvement Fund (401) \$1,273,583 was estimated as MSA funds for the replacement of the 2nd Avenue West bridge over Division Street (see page 146 of the 2021-2025 CIP). Also as part of the CIP, within the Financial Analysis for the Street Improvement Fund (401) beginning on page 169, it indicates that bonds proceeds would be necessary for this MSA funding. It is reflected in the budget summary as well as the funds Financial Projects on the following pages.

The LTFMP also indicated that the issuance of MSA bonds is anticipated in 2021. During Budget Work Session #6, on November 4, 2020, the Long Term Financial Management Plan (LTFMP) was reviewed for the City's Governmental Funds. On page 14 of LTFMP, it anticipated the issuance of \$1,500,000 of GO MSA Bonds for the Street & Bridge Improvements. On table 4 of the LTFMP, page 18 reflects this bond issuance including closing

costs of \$1,540,000. The Financial Plans in the LTFMP for the Street Improvement Fund (401), beginning on page 36, reflect MSA bonding estimated at \$1,500,000 for Street Improvements as the projected revenue is not sufficient to cover planned spending. Also during the presentation at the Budget Work Session Staff discussed the recommendation of issuing \$1.5 million of MSA Bonds in 2021. It was stated that these bonds would pledge future MSA dollars to pay the debt issuance, and that this would support the 2021 Street Improvement Project and spread the expense of the bond payments over future years to help maintain a positive cash balance. It was also noted that although it would reduce future MSA revenues it would not increase the Debt Service levy.

Both the 2021 Budget Book and the 2021-2025 CIP reviewed at the Council Committee meeting on November 17, 2020 and approved at the City Council meeting on December 8, 2020 show bonding continued to be laid out but was not specifically highlighted.

On February 23, 2021, Resolution 2021-037 to Accept Bids for 2021 Replacement of 2nd Avenue Bridge over Division Street – Contract 2021-04 was passed. Based on the low bidder’s prices, awarding base bid only, the estimated funding for the project is as follows (with contingencies/engineering fees):

Federal BROS Funds	\$1,626,510.00	46.5%
State Bridge Bonds	\$ 146,930.00	4.2%
Municipal State Aid Funds (MSAS)	\$1,510,750.00	43.2%
Water Utility Fund (601)	\$ 160,825.00	4.6%
Sanitary Sewer Utility Fund (602)	\$ 49,515.00	1.4%
Total	\$3,494,530.00	100.0%

Now that there are specific dollars for the project and not just Engineer estimates it is appropriate to look at the bonding proposed over the past several months. The \$1,510,750 of MSAS funds are proposed to come from GO State Aid Bonds. This allows the City to use the State-Aid allotment to repay the principal and interest on a local bond issue versus increasing the property tax levy for the debt service. With the uncertainty of State-Aid funds being available for advancement, the City would pledge State Aid funds to pay for the principal and interest over a ten-year period. The General Obligation (GO) is also pledged and would be utilized in the event the State-Aid allotment is not sufficient in any given year. This is a good avenue for financing as the availability of advancement options is not guaranteed from year-to-year, nor are the allotted amounts.

The tentative schedule for this issuance of debt is that a resolution to set the sale be adopted by City Council at the March 9th meeting. On March 10th a Preliminary Official Statement will be sent to the Rating Agency. The week of March 9th a rating call would be held and a rating should be

received by April 6th. On April 13th Council action would be needed to authorize the bond sale based on proposals with the closing of the bonds on May 13th to begin making contractor payments on the project.

Attachments:

- Proposed Schedule of Events
- Preliminary Debt Structure

PRELIMINARY AS OF DECEMBER 28, 2020
CITY OF FARIBAULT, MINNESOTA
GENERAL OBLIGATION STATE AID BONDS, SERIES 2021A
PROPOSED SCHEDULE OF EVENTS

The following checklist of items denotes each milestone activity as well as the members of the finance team who will have the responsibility to complete it. *Please note this proposed timetable assumes regularly scheduled City Council meetings.*

February 2021						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28						

March 2021						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

April 2021						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	

May 2021						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

Date	Action	Responsible Party
February 19 th	City to confirm required bond proceeds for deposit to construction fund	Northland, City
March 2 nd	Set Sale Resolution and Finance Plan Sent to City	Northland, Bond Counsel
March 9 th	Set Sale Resolution Adopted	City Council Action, Northland, Bond Counsel
March 10 th	Preliminary Official Statement Sent to City for Sign Off and to Rating Agency	Northland, City
Week of March 22 nd	Rating Calls	Northland, City, Rating Agency
April 6 th	Rating Received	Northland, City, Rating Agency
April 13 th	Bond Sale - 10:30 a.m. Authorizing Resolution Adopted - 6:00 p.m.	City Council Action, Northland, Bond Counsel
May 13 th	Closing on the Bonds (Proceeds Available)	Northland, City Staff, Bond Counsel



City of Faribault, Minnesota

\$1,570,000 G.O. State Aid Bonds, Series 2021A
(Preliminary AA Rates + 25 BPS as of 2/17/21)

Sources & Uses

Dated 05/13/2021 | Delivered 05/13/2021

Sources Of Funds

Par Amount of Bonds	\$1,570,000.00
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Total Sources	\$1,570,000.00
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Uses Of Funds

Total Underwriter's Discount (0.800%)	12,560.00
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Costs of Issuance	38,100.00
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Deposit to Capitalized Interest (CIF) Fund	7,309.58
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Deposit to Project Construction Fund	1,510,750.00
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Rounding Amount	1,280.42
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Total Uses	\$1,570,000.00
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City of Faribault, Minnesota

\$1,570,000 G.O. State Aid Bonds, Series 2021A

(Preliminary AA Rates + 25 BPS as of 2/17/21)

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
05/13/2021	-	-	-	-	-
12/15/2021	-	-	7,309.58	7,309.58	7,309.58
06/15/2022	-	-	6,206.25	6,206.25	-
12/15/2022	150,000.00	0.500%	6,206.25	156,206.25	162,412.50
06/15/2023	-	-	5,831.25	5,831.25	-
12/15/2023	155,000.00	0.500%	5,831.25	160,831.25	166,662.50
06/15/2024	-	-	5,443.75	5,443.75	-
12/15/2024	155,000.00	0.550%	5,443.75	160,443.75	165,887.50
06/15/2025	-	-	5,017.50	5,017.50	-
12/15/2025	155,000.00	0.600%	5,017.50	160,017.50	165,035.00
06/15/2026	-	-	4,552.50	4,552.50	-
12/15/2026	155,000.00	0.700%	4,552.50	159,552.50	164,105.00
06/15/2027	-	-	4,010.00	4,010.00	-
12/15/2027	155,000.00	0.800%	4,010.00	159,010.00	163,020.00
06/15/2028	-	-	3,390.00	3,390.00	-
12/15/2028	160,000.00	0.900%	3,390.00	163,390.00	166,780.00
06/15/2029	-	-	2,670.00	2,670.00	-
12/15/2029	160,000.00	1.000%	2,670.00	162,670.00	165,340.00
06/15/2030	-	-	1,870.00	1,870.00	-
12/15/2030	160,000.00	1.100%	1,870.00	161,870.00	163,740.00
06/15/2031	-	-	990.00	990.00	-
12/15/2031	165,000.00	1.200%	990.00	165,990.00	166,980.00
Total	\$1,570,000.00	-	\$87,272.08	\$1,657,272.08	-

Yield Statistics

Bond Year Dollars	\$9,664.56
Average Life	6.156 Years
Average Coupon	0.9030118%
Net Interest Cost (NIC)	1.0329712%
True Interest Cost (TIC)	1.0354188%
Bond Yield for Arbitrage Purposes	0.9004129%
All Inclusive Cost (AIC)	1.4539000%

IRS Form 8038

Net Interest Cost	0.9030118%
Weighted Average Maturity	6.156 Years

City of Faribault, Minnesota

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(Preliminary AA Rates + 25 BPS as of 2/17/21)

Detail Costs Of Issuance

Dated 05/13/2021 | Delivered 05/13/2021

COSTS OF ISSUANCE DETAIL

Municipal Advisor	\$16,500.00
Bond Counsel	\$8,000.00
Rating Agency Fee	\$12,500.00
Paying Agent	\$850.00
Miscellaneous	\$250.00
TOTAL	\$38,100.00