



# City of Grand Forks Staff Report

APPROVED & ACCEPTED  
by City Council

09/18/2017

*Maureen Storstad*  
Maureen Storstad  
City Auditor

**Finance & Development Committee – September 11, 2017**  
**City Council – September 18, 2017**

**Agenda Item:** Resolution authorizing the issuance, call for bids and set sale date for:  
\$11,810,000 Refunding improvement Bonds, Series 2017B

**Submitted by:** Maureen Storstad, Finance Director

**Staff Recommended Action:** Adopt resolution relating to \$11,810,000 Refunding Improvement Bonds, Series 2017B & set sale date for October 16, 2017

**Committee Recommended Action:** Refer to City Council with Recommendation to Approve.

**Council Action:**

## **BACKGROUND:**

The City of Grand Forks uses the special assessment process to pay for certain projects in various subdivisions. The proceeds of the Improvement Bonds will be used to finance various infrastructure improvement projects in the City. The projects have been certified for collection. This action will sell the bonds to finance the projects completed in 2017.

The Improvement Bonds are being issued pursuant to North Dakota Century Code, Chapter 40-22 through 40-27 and the City's Home Rule Charter.

## **ANALYSIS AND FINDINGS OF FACT:**

- Various projects have been constructed as listed in the resolution.
- Financing is needed to fund on a permanent basis this construction.
- The 2017B debt will be paid back by special assessments.
- The Council needs to set October 16, 2017 as the sale date of the debt.

## **SUPPORT MATERIALS:**

- Resolution
- Recommendations for the issuance of 2017B

CERTIFICATION OF MINUTES RELATING TO  
\$11,810,000 REFUNDING IMPROVEMENT BONDS, SERIES 2017B

Issuer: City of Grand Forks, North Dakota

Governing Body: City Council

Kind, date, time and place of meeting: A regular meeting, held on September 18, 2017,  
at 5:30 o'clock P.M. at the City Hall.

Members present:

Members absent:

Documents Attached:

RESOLUTION RELATING TO \$11,810,000 REFUNDING  
IMPROVEMENT BONDS, SERIES 2017B; CALLING FOR THE SALE  
THEREOF

I, the undersigned, being the duly qualified and acting recording officer of the public corporation issuing the bonds referred to in the title of this certificate, certify that the documents attached hereto, as described above, have been carefully compared with the original records of said corporation in my legal custody, from which they have been transcribed; that said documents are a correct and complete transcript of the minutes of a meeting of the governing body of said corporation, and correct and complete copies of all resolutions and other actions taken and of all documents approved by the governing body at said meeting, so far as they relate to said bonds; and that said meeting was duly held by the governing body at the time and place and was attended throughout by the members indicated above, pursuant to call and notice of such meeting given as required by law.

WITNESS my hand officially as such recording officer on this \_\_\_\_ day of September, 2017.

(SEAL)

\_\_\_\_\_  
Maureen Storstad, Director of Finance and  
Administrative Services

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

RESOLUTION RELATING TO \$11,810,000 REFUNDING  
IMPROVEMENT BONDS, SERIES 2017B; CALLING FOR THE SALE  
THEREOF

BE IT RESOLVED by the City Council of the City of Grand Forks, North Dakota (the “City”), as follows:

1. Authorization. For the purpose of paying the cost of improvements of special benefit to the following improvement districts in the City:

| <u>District</u>                         | <u>Number</u> | <u>Assessed Costs</u>  |
|---|---------------|------------------------|
| Paving                                  | 709           | \$ 222,149.98          |
|   | 702           | 740,175.13             |
|   | 706           | 163,157.58             |
|   | 708           | 252,136.06             |
|   | 710           | 746,528.81             |
|   | 711           | 1,650,286.35           |
| Water Main                              | 323           | 428,005.72             |
|   | 330           | 269,867.15             |
|   | 331           | 62,621.38              |
|   | 332           | 213,004.49             |
|   | 333           | 61,214.41              |
|   | 334           | 434,919.96             |
| Sanitary Sewer                          | 518           | 1,419,622.01           |
|   | 530           | 846,546.07             |
|   | 537           | 48,172.23              |
|   | 539           | 865,407.80             |
| Stormwater Pond                         | 535           | 777,592.30             |
|   | 542           | 552,136.10             |
| Storm Sewer                             | 536           | 531,196.85             |
|   | 538           | 69,990.38              |
|   | 540           | 882,897.24             |
| Street Lights                           | 204           | 123,137.72             |
|   | 205           | 74,102.82              |
|   | 210           | 8,544.97               |
|   | 214           | 17,898.15              |
| Bike Path on S. 20 <sup>th</sup> Street | --            | 87,258.51              |
| 2017 City Sidewalks                     | --            | 261,789.83             |
|   |               | <u>\$11,810,000.00</u> |

it is determined to be necessary to issue and sell definitive improvement warrants on the funds of said districts in the aggregate principal amount of \$11,810,000, to be refunded simultaneously by the issuance to the purchaser of refunding improvement bonds of the City in the same aggregate principal amount, to be designated Refunding Improvement Bonds, Series 2017B (the “Bonds”).

Section 2. Sale of Bonds And Publication of Notice of Bond Sale. Springsted Incorporated, municipal advisor to the City, has presented to this Council a form of Official Terms of Offering for the Bonds, which shall be placed on file by the Director of Finance and Administrative Services. Each and all of the provisions of the Official Terms of Offering are hereby adopted as the terms and conditions of the Bonds and of the sale thereof.

Section 3. Sale Meeting. This Council shall meet at the City Hall on Monday, October 16, 2017, at 5:30 o'clock P.M., for the purpose of considering sealed bids for the purchase of the Bonds, and of taking such action thereon as may be in the best interests of the City.

(SEAL)

\_\_\_\_\_  
Mayor

Attest: \_\_\_\_\_  
Director of Finance and  
Administrative Services

The motion for the adoption of the foregoing resolution was duly seconded by Council Member \_\_\_\_\_ and upon vote being taken thereon, the following voted in favor:

and the following voted against the same:

whereupon the resolution was declared duly passed and adopted and was signed by the Mayor and his signature attested by the Director of Finance and Administrative Services.

4839-2646-5614\1

# City of Grand Forks, North Dakota

## Recommendations for Issuance of Bonds

### \$11,810,000 Refunding Improvement Bonds, Series 2017B

The City Council has under consideration the issuance of bonds to fund various infrastructure improvement projects. This document provides information relative to the proposed issuance.

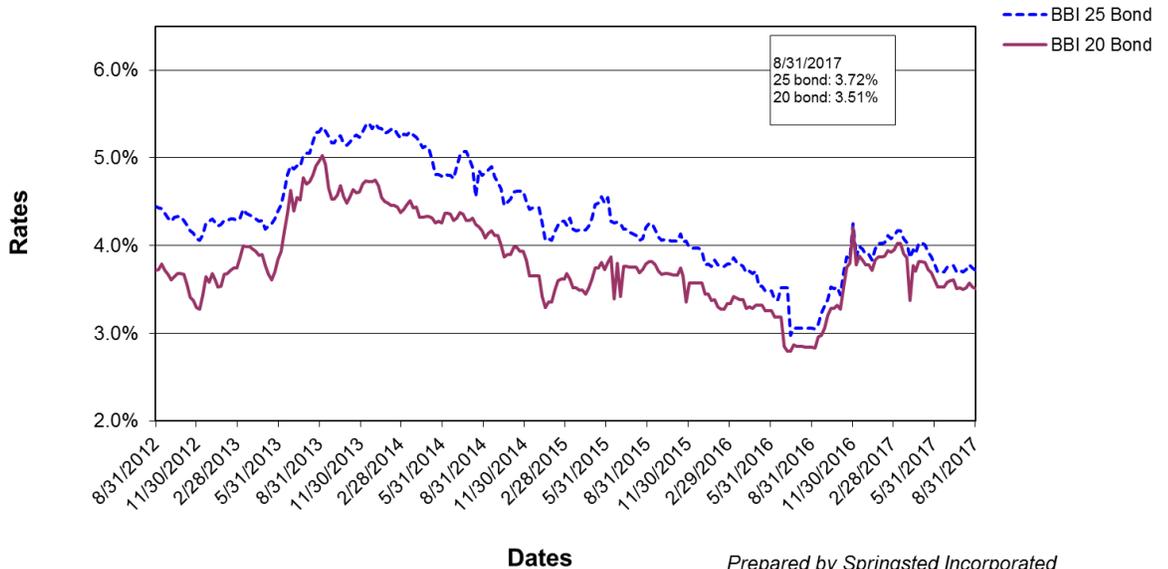
**KEY EVENTS:** The following summary schedule includes the timing of some of the key events that will occur relative to the bond issuance.

|                                   |   |
|-----------------------------------|---|
| September 11, 2017                | City Council meeting of the Whole to consider the sale of the Bonds |
| September 18, 2017                | City Council sets sale date and terms                               |
| October 2, 2017                   | Rating conference is conducted                                      |
| On or about October 12, 2017      | Rating is received  |
| <b>October 16, 2017, 10:00 AM</b> | <b>Competitive bids are received on the Bonds</b>                   |
| <b>October 16, 2017, 5:30 PM</b>  | <b>City Council considers award of the Bonds</b>                    |
| On or about November 16, 2017     | Proceeds are received   |

**RATING:** An application will be made to Moody's Investors Service for a rating on the Bonds. The City's general obligation debt is currently rated 'Aa2' by Moody's.

**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 (the BBI 20 Bond Index) and the 30<sup>th</sup> year for revenue bonds (the BBI 25 Bond Index). The following chart illustrates these two indices over the past five years.

**BBI 25-bond (Revenue) and 20-bond (G.O.) Rates for 5 Years Ending 8/31/2017**



Prepared by Springsted Incorporated

**POST ISSUANCE COMPLIANCE:**

The issuance of these 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 tax-exempt issues 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 spend-down exceptions for proceeds that are spent within either a 6-month, 18-month or 24-month period 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 the debt service fund under certain conditions and any unspent bond proceeds remaining after three years. These funds should be monitored throughout the life of the Bonds.

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.

Springsted currently provides continuing disclosure compliance services to the City. Springsted will work with City staff to include the Bonds the existing Agreement for Municipal Advisor Services. We understand that arbitrage and rebate responsibilities are being monitored internally or through a third party contract.

**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.

**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.

**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 December 1, 2027 may be prepaid at a price of par plus accrued interest on or after December 1, 2026.

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

**PURPOSE:**

Proceeds of the Bonds, together with other funds of the City, will be used to finance various infrastructure improvement projects in the City including street paving; utility improvements for sanitary sewer, water, and storm sewer; street lighting; and sidewalk improvements.

**AUTHORITY:**

The Bonds are being issued pursuant to North Dakota Century Code, Chapters 40-22 through 40-27 and the City's Home Rule Charter.

**SECURITY AND  
SOURCE OF  
PAYMENT:**

The Bonds will not be a general obligation of the City. The City pledges special assessments against benefited properties for the repayment of the Bonds, and any deficiencies will be made up from the collection of an annual tax levy or from other available City funds. It is anticipated that a tax levy will not be needed to pay debt service on the Improvement Bonds. Assessment income is expected to be sufficient to cover each June 1 interest payment and the subsequent December 1 principal and interest payment due in the year of collection.

Assessments for the Bonds will be filed and pledged to the repayment of the Bonds. Assessments in the amount of \$694,815 are expected to be filed in 2017 for first collection in 2018. Assessments in the amount of \$4,815,259 are expected to be filed in 2018 for first collection in 2019. Deferred assessments in the amount of \$6,299,927 (the "Deferred Assessments") are expected to be filed in 2020 for first collection in 2021. Assessments will be collected over terms of 10, 20 and 25 years and repaid in equal annual installments of principal with interest on the unpaid balance at a rate of 1.0% over the true interest rate on the Bonds. For projection purposes we have used a rate of 4.29%.

The Deferred Assessments represent 53.3% of the total assessment income to be used to pay debt service on the Bonds. The deferral of receipt of the Deferred Assessments results in a revenue shortfall in the first year. Therefore, a portion of the interest to become due on the Bonds through December 1, 2018 will be capitalized and funded from proceeds of the Bonds. The cost of the capitalized interest will be spread only against the properties assessed for the Deferred Assessments.

Since the projects are being 100% assessed relative to the costs financed with the Bonds, and the assessments carry a slightly higher interest rate than the Bonds, it is anticipated that an annual surplus will accumulate in the debt service fund each year. However, certain factors will impact the actual annual collection of assessments, including (i) the receipt of prepayments of assessments, which will reduce the interest component of the assessment income stream, thereby reducing the projected future assessment income stream and (ii) accrued interest on the deferred assessments that will be added to the original principal amount of the assessments and amortized and collected over time.

**STRUCTURING  
SUMMARY:**

The Bonds have been structured around the projected assessment income to provide for a relatively even annual surplus of revenues over projected debt service.

Estimated 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 a par bidding limitation. A par bid requires that an underwriter bid not less than 100% of the face amount of the Bonds. Any premium received above the par amount of the Bonds and net of underwriter's compensation, will be used to reduce the principal amount of the Bonds.

**SCHEDULES  
ATTACHED:**

Schedules attached for the Bonds include the following: project listing, sources and uses of funds, estimated pricing summary, net debt service schedule, and aggregate assessment income.