

May 9, 2022

PRE-SALE REPORT FOR

City of Fridley, Minnesota

**\$20,730,000 General Obligation Tax Abatement
Bonds, Series 2022A**



Prepared by:

Ehlers
3060 Centre Pointe Drive
Roseville, MN 55113

Advisors:

Shelly Eldridge, Senior Municipal Advisor
Dan Tienter, Senior Financial Specialist
Stacie Kvilvang, Senior Municipal Advisor

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EXECUTIVE SUMMARY OF PROPOSED DEBT

Proposed Issue:

\$20,730,000 General Obligation (“GO”) Tax Abatement Bonds, Series 2022A (“Bonds”)

Purpose:

The proposed, tax-exempt issue will finance improvements to the park system for the City of Fridley (“City”) as identified in the Park System Improvement Plan (“Plan”) adopted by the City Council on April 25, 2022. The principal amount of the Bonds will be paid from property tax abatement revenues and interest will be paid with ad valorem property taxes.

Authority:

The Bonds are being issued pursuant to Minnesota Statutes, Chapters:

- 469, Property Tax Abatement Authority; and
- 475, General Bonding Authority

Under the property tax abatement authority, the amount of property taxes abated annually for the Bonds, together with any outstanding annual abatements, may not exceed 10% of the City’s net tax capacity (“NTC”) or \$200,000, whichever is greater. For property taxes payable in 2022, the City’s NTC is approximately \$44,207,182, which provides property tax abatement authority of approximately \$4,420,000. The annual debt service on the principal amount of the bonds is \$1,382,000. Since the City does not have any outstanding abatements, this amount is well below the statutory limit.

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 term of 15 years. Principal on the Bonds will be due on February 1 in the years 2024 through 2038. Interest is payable every six months beginning February 1, 2023. The Bonds will be subject to prepayment at the discretion of the City on February 1, 2031 or any date thereafter.

Bank Qualification:

Because the City is issuing, or expects to issue, more than \$10,000,000 in tax-exempt obligations during the calendar year, the City will be not able to designate the Bonds as “bank qualified” obligations.

Rating:

The City's most recent bond issues were rated by Moody's Investors Service. The current ratings on those bonds are "Aa2". The City will request a new rating for the Bonds. If the winning bidder on the Bonds elects to purchase bond insurance, the rating for the issue may be higher than the City's bond rating if the bond rating of the insurer is higher than that of the City.

Basis for Recommendation:

Given the communicated objectives of the proposed Plan, the financial position of the City, our advisory relationship, and the various characteristics of the financial alternative available to the City, we recommend the issuance of Bonds as outlined in this Pre-Sale Report. The basis for this recommendation includes the following rationale.

- The Bonds present a reasonable and viable option to finance the Plan under Minnesota law.
- The Bonds provide the most overall cost-effective option while maintaining future flexibility for the repayment of debt.
- The GO pledge will result in lower interest rates and lower interest cost.
- The proposed method of sale complies with City policy and best practices endorsed by the Government Finance Officers Association.

Method of Sale/Placement:

We will solicit competitive bids for the purchase of the Bonds from underwriters and banks. We will include an allowance for discount bidding in the terms 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 reduce your borrowing amount.

Premium Pricing:

In some cases, 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 underwriter of the bonds will retain a portion of this reoffering premium as their compensation (or "discount") but will pay the remainder of the premium to the City. 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.

For this issue of Bonds, we have been directed to use the net premium to reduce the size of the issue. The resulting adjustments may slightly change the true interest cost of the issue.

Review of Existing Debt:

We have reviewed all outstanding indebtedness for the City and find that there are no refunding opportunities at this time. 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 reportable 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:

The City must ensure compliance with certain sections of the Internal Revenue Code (IRC) and Treasury Regulations ("Arbitrage Rules") throughout the life of the issue to maintain the tax-exempt status of the Bonds. These Arbitrage Rules apply to amounts held in construction, escrow, reserve, debt service account(s), along with related investment income on each fund and/or account.

Internal Revenue Service (IRS) audits will verify compliance with rebate, yield restriction and records retention requirements within the Arbitrage Rules. The City's specific arbitrage responsibilities will be detailed in the Nonarbitrage Certificate (the "Tax Compliance Document") prepared by your Bond Attorney and provided at closing.

The Bonds may qualify for one or more exception(s) to the Arbitrage Rules by meeting 1) small issuer exception, 2) spend down requirements, 3) bona fide debt service fund limits, 4) reasonable reserve requirements, 5) expenditure within an available period limitation, 6) investments yield restrictions, 7) de minimis rules, or; 8) borrower limited requirements.

Given the par amount of the Bonds and timeline for proposed improvements outlined in the Plan, we anticipate the City to utilize the Five-Year Reasonable Expectation Test. The City plans to work with Ehlers to comply with its specific arbitrage responsibilities related to the Bonds.

Investment of Bond Proceeds:

The City plans to work with the Ehlers Investment Team in developing a strategy to invest and manage any the Bond proceeds until the funds are needed to pay project costs and to comply with the arbitrage rules.

Other Considerations:

Pursuant to Minnesota Statutes § 469.1813, the City Council may approve the Property Tax Abatement Program associated with the Bonds only after holding a public hearing. The notice for the public hearing must be published in the official publication at least once more than 10

days but less than 30 days before the public hearing. Based on the proposed schedule, the public hearing will be held on May 23, 2022 at 7:00 p.m.

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. 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, but the final fees may vary. If you have any questions pertaining to the identified service providers or their role, or if you would like to use a different service provider for any of the listed services please contact us.

Bond Counsel: Taft Stettinius & Hollister LLP

Paying Agent: Bond Trust Services Corporation

Rating Agency: Moody's Investors Service, Inc.

Summary:

The decisions to be made by the City Council are as follows:

- Accept or modify the finance assumptions described in this report; and
- Consider adoption the resolution attached to this report and call for a public hearing on May 23, 2022.

PROPOSED DEBT ISSUANCE SCHEDULE

Pre-Sale Review by City Council:	May 9, 2022
Property Tax Abatement Program Public Hearing:	May 23, 2022
Conference with Rating Agency:	May 26, 2022
Due Diligence Call to review Official Statement:	Week of May 30, 2022
Distribute Official Statement:	June 2, 2022
Award Sale of the Bonds:	June 13, 2022
Estimated Closing Date:	July 7, 2022

Attachments

- Estimated Sources and Uses of Funds
- Estimated Proposed Debt Service Schedule
- Resolution Calling for Public Hearing on proposed Property Tax Abatement Program
- Resolution Authorizing Ehlers to Proceed with Bond Sale

EHLERS' CONTACTS

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Dan Tienter, Senior Financial Specialist	(651) 697-8537
Stacie Kvilvang, Senior Municipal Advisor	(651) 697-8506
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City of Fridley, Minnesota

\$20,730,000 General Obligation Tax Abatement Bonds, Series 2022A

Assumes Current Market Non-BQ "Aa2" Rates +75bps

15 Years

Sources & Uses

Dated 07/07/2022 | Delivered 07/07/2022

Sources Of Funds

Par Amount of Bonds	\$20,730,000.00
Total Sources	\$20,730,000.00

Uses Of Funds

Total Underwriter's Discount (1.000%)	207,300.00
Costs of Issuance	104,000.00
Deposit to Capitalized Interest (CIF) Fund	414,260.25
Deposit to Project Construction Fund	20,000,000.00
Rounding	4,439.75
Total Uses	\$20,730,000.00

City of Fridley, Minnesota

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15 Years

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
07/07/2022	-	-	-	-	-
02/01/2023	-	-	414,260.25	414,260.25	414,260.25
08/01/2023	-	-	365,523.75	365,523.75	-
02/01/2024	1,090,000.00	2.900%	365,523.75	1,455,523.75	1,821,047.50
08/01/2024	-	-	349,718.75	349,718.75	-
02/01/2025	1,120,000.00	3.000%	349,718.75	1,469,718.75	1,819,437.50
08/01/2025	-	-	332,918.75	332,918.75	-
02/01/2026	1,155,000.00	3.150%	332,918.75	1,487,918.75	1,820,837.50
08/01/2026	-	-	314,727.50	314,727.50	-
02/01/2027	1,190,000.00	3.200%	314,727.50	1,504,727.50	1,819,455.00
08/01/2027	-	-	295,687.50	295,687.50	-
02/01/2028	1,230,000.00	3.300%	295,687.50	1,525,687.50	1,821,375.00
08/01/2028	-	-	275,392.50	275,392.50	-
02/01/2029	1,270,000.00	3.400%	275,392.50	1,545,392.50	1,820,785.00
08/01/2029	-	-	253,802.50	253,802.50	-
02/01/2030	1,315,000.00	3.500%	253,802.50	1,568,802.50	1,822,605.00
08/01/2030	-	-	230,790.00	230,790.00	-
02/01/2031	1,360,000.00	3.550%	230,790.00	1,590,790.00	1,821,580.00
08/01/2031	-	-	206,650.00	206,650.00	-
02/01/2032	1,405,000.00	3.600%	206,650.00	1,611,650.00	1,818,300.00
08/01/2032	-	-	181,360.00	181,360.00	-
02/01/2033	1,460,000.00	3.650%	181,360.00	1,641,360.00	1,822,720.00
08/01/2033	-	-	154,715.00	154,715.00	-
02/01/2034	1,510,000.00	3.700%	154,715.00	1,664,715.00	1,819,430.00
08/01/2034	-	-	126,780.00	126,780.00	-
02/01/2035	1,565,000.00	3.750%	126,780.00	1,691,780.00	1,818,560.00
08/01/2035	-	-	97,436.25	97,436.25	-
02/01/2036	1,625,000.00	3.800%	97,436.25	1,722,436.25	1,819,872.50
08/01/2036	-	-	66,561.25	66,561.25	-
02/01/2037	1,685,000.00	3.850%	66,561.25	1,751,561.25	1,818,122.50
08/01/2037	-	-	34,125.00	34,125.00	-
02/01/2038	1,750,000.00	3.900%	34,125.00	1,784,125.00	1,818,250.00
Total	\$20,730,000.00	-	\$6,986,637.75	\$27,716,637.75	-

Yield Statistics

Bond Year Dollars	\$190,757.00
Average Life	9.202 Years
Average Coupon	3.6625853%
Net Interest Cost (NIC)	3.7712575%
True Interest Cost (TIC)	3.7819802%
Bond Yield for Arbitrage Purposes	3.6484981%
All Inclusive Cost (AIC)	3.8496566%

IRS Form 8038

Net Interest Cost	3.6625853%
Weighted Average Maturity	9.202 Years

City of Fridley, Minnesota

\$20,730,000 General Obligation Tax Abatement Bonds, Series 2022A

Assumes Current Market Non-BQ "Aa2" Rates +75bps

15 Years

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	CIF	Net New D/S	105% of Total
02/01/2023	-	-	414,260.25	414,260.25	(414,260.25)	-	-
02/01/2024	1,090,000.00	2.900%	731,047.50	1,821,047.50	-	1,821,047.50	1,912,099.88
02/01/2025	1,120,000.00	3.000%	699,437.50	1,819,437.50	-	1,819,437.50	1,910,409.38
02/01/2026	1,155,000.00	3.150%	665,837.50	1,820,837.50	-	1,820,837.50	1,911,879.38
02/01/2027	1,190,000.00	3.200%	629,455.00	1,819,455.00	-	1,819,455.00	1,910,427.75
02/01/2028	1,230,000.00	3.300%	591,375.00	1,821,375.00	-	1,821,375.00	1,912,443.75
02/01/2029	1,270,000.00	3.400%	550,785.00	1,820,785.00	-	1,820,785.00	1,911,824.25
02/01/2030	1,315,000.00	3.500%	507,605.00	1,822,605.00	-	1,822,605.00	1,913,735.25
02/01/2031	1,360,000.00	3.550%	461,580.00	1,821,580.00	-	1,821,580.00	1,912,659.00
02/01/2032	1,405,000.00	3.600%	413,300.00	1,818,300.00	-	1,818,300.00	1,909,215.00
02/01/2033	1,460,000.00	3.650%	362,720.00	1,822,720.00	-	1,822,720.00	1,913,856.00
02/01/2034	1,510,000.00	3.700%	309,430.00	1,819,430.00	-	1,819,430.00	1,910,401.50
02/01/2035	1,565,000.00	3.750%	253,560.00	1,818,560.00	-	1,818,560.00	1,909,488.00
02/01/2036	1,625,000.00	3.800%	194,872.50	1,819,872.50	-	1,819,872.50	1,910,866.13
02/01/2037	1,685,000.00	3.850%	133,122.50	1,818,122.50	-	1,818,122.50	1,909,028.63
02/01/2038	1,750,000.00	3.900%	68,250.00	1,818,250.00	-	1,818,250.00	1,909,162.50
Total	\$20,730,000.00	-	\$6,986,637.75	\$27,716,637.75	(414,260.25)	\$27,302,377.50	\$28,667,496.38

Significant Dates

Dated	7/07/2022
First Coupon Date	2/01/2023

Yield Statistics

Bond Year Dollars	\$190,757.00
Average Life	9.202 Years
Average Coupon	3.6625853%
Net Interest Cost (NIC)	3.7712575%
True Interest Cost (TIC)	3.7819802%
Bond Yield for Arbitrage Purposes	3.6484981%
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15 Years

Detail Costs Of Issuance

Dated 07/07/2022 | Delivered 07/07/2022

COSTS OF ISSUANCE DETAIL

Municipal Advisor	\$55,500.00
Tax Abatement Fees	\$5,000.00
Bond Counsel	\$20,500.00
Rating Agency Fee	\$22,000.00
Miscellaneous	\$1,000.00
TOTAL	\$104,000.00

