November 22, 2021

SALE DAY REPORT FOR:

City of Grand Rapids, Minnesota

$1,120,000 General Obligation Utility Revenue Refunding Bonds, Series 2021D

EHLERS
PUBLIC FINANCE ADVISORS

Prepared by:

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BUILDING COMMUNITIES. IT'S WHAT WE DO.

Competitive Sale Results

PURPOSE: For the purpose of effecting a current refunding of the Series 2012D Bonds of the City.

RATING: S&P Global Ratings "AA-"

NUMBER OF BIDS: 2

LOW BIDDER: Baird, Milwaukee, Wisconsin

COMPARISON FROM LOWEST TO HIGHEST BID:
(TIC as bid)

LOW BID:* 1.2959%

HIGH BID: 1.3898%

INTEREST DIFFERENCE: $5,066

Summary of Sale Results:	
Principal Amount*:	$1,120,000
Underwriter's Discount:	$9,143
Reoffering Premium:	$91,314
True Interest Cost:	1.3067%
Costs of Issuance:	$32,162
Yield:	0.30% - 1.40%
Future Value Savings on Refunding Portion:	$79,264
Present Value Savings on Refunding Portion:	$74,586
Savings Percentage on Refunding Portion:	5.779%
Total Net P&I	$1,296,161

** The winning bidder submitted a bid with a premium price (a price greater than the par amount of the bonds) that was larger than the estimates in the Pre-Sale Report. A portion of the net premium (reoffering premium minus underwriter's discount) was used to reduce the bond amount. As a result, the principal amount of the bonds was reduced from $1,225,000.00 (in the Pre-Sale Report and the Preliminary Official Statement) to $1,120,000. This also caused a slight change in the True Interest Cost.*

NOTES: The True Interest Cost of 1.2959% is less than the 1.6212% estimated in the Revised Pre-Sale Report presented to the City Council on November 1, 2021. For the refunding portion, the future value savings of $79,264 is more than the estimate of $49,069 in the Revised Pre-Sale Report. The net present value of savings as a percentage of refunded debt service is 5.78%.

U.S. Bank National Association, St. Paul, Minnesota will serve as Paying Agent on the Bonds.

The Bonds maturing February 1, 2031 and thereafter are callable February 1, 2030 or any date thereafter.

* Subsequent to bid opening, the issue size was decreased to $1,120,000.00 from $1,225,000.

CLOSING DATE: December 9, 2021

CITY COUNCIL ACTION: Adopt a resolution awarding the sale of $1,120,000 General Obligation Utility Revenue Refunding Bonds, Series 2021D.

SUPPLEMENTARY ATTACHMENTS

- Bid Tabulation
- Sources and Uses of Funds
- Updated Debt Service Schedules
- Refunding Savings Analysis
- Rating Report
- Bond Resolution (Distributed in City Council Packets)

BID TABULATION

$1,225,000* General Obligation Utility Revenue Refunding Bonds, Series 2021D

City of Grand Rapids, Minnesota

SALE: November 22, 2021

AWARD: BAIRD

Rating: S&P Global Ratings "AA-"

Tax Exempt - Bank Qualified

NAME OF BIDDER	MATURITY (February 1)	RATE	REOFFERING YIELD	PRICE	NET INTEREST COST	TRUE INTEREST RATE
BAIRD				$1,314,111.70	$99,198.86	1.2959%
Milwaukee, Wisconsin	2023	3.000%	0.300%			
C.L. King & Associates	2024	3.000%	0.400%			
Colliers Securities LLC	2025	3.000%	0.550%			
Fidelity Capital Markets	2026	3.000%	0.700%			
Crews & Associates, Inc.	2027	3.000%	0.850%			
Davenport & Co. L.L.C.	2028	3.000%	1.050%			
Duncan-Williams, Inc.	2029	3.000%	1.150%			
Loop Capital Markets	2030	3.000%	1.250%			
Country Club Bank	2031	2.000%	1.300%			
SumRidge Partners	2032[1]	2.000%	1.400%			
Sierra Pacific Securities	2033[1]	2.000%	1.400%			
Celadon Financial Group, LLC						
Isaak Bond Investments, Inc						
UMB Bank,N.A.						
Wintrust Investments, LLC						
FMS Bonds Inc.						
Central States Capital Markets						
Midland Securities						
First Southern LLC						
Dinosaur Securities						
Mountainside Securities LLC						
Valdes and Moreno						
NORTHLAND SECURITIES, INC.				$1,267,273.70	$104,265.19	1.3898%
Minneapolis, Minnesota						

* Subsequent to bid opening the issue size was decreased to $1,120,000.

Adjusted Price - $1,202,171.14 Adjusted Net Interest Cost - $93,998.86 Adjusted TIC - 1.3067%

1 $200,000 Term Bond due 2033 with mandatory redemption in 2032.

City of Grand Rapids, Minnesota

$1,120,000 G.O. Utility Revenue Refunding Bonds, Series 2021D

Current Refunding G.O. Util Rev Bond 2012D

Sources & Uses

Dated 12/09/2021 | Delivered 12/09/2021

Sources Of Funds

Par Amount of Bonds	$1,120,000.00
Reoffering Premium	91,314.00
Total Sources	**$1,211,314.00**

Uses Of Funds

Total Underwriter's Discount (0.816%)	9,142.86
Costs of Issuance	32,162.00
Deposit to Current Refunding Fund	1,170,000.00
Deposit to Debt Service Fund (Rounding)	9.14
Total Uses	**$1,211,314.00**

City of Grand Rapids, Minnesota

$1,120,000 G.O. Utility Revenue Refunding Bonds, Series 2021D
Current Refunding G.O. Util Rev Bond 2012D

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
12/09/2021	-	-	-	-	-
08/01/2022	-	-	19,720.00	19,720.00	-
02/01/2023	95,000.00	3.000%	15,300.00	110,300.00	130,020.00
08/01/2023	-	-	13,875.00	13,875.00	-
02/01/2024	100,000.00	3.000%	13,875.00	113,875.00	127,750.00
08/01/2024	-	-	12,375.00	12,375.00	-
02/01/2025	100,000.00	3.000%	12,375.00	112,375.00	124,750.00
08/01/2025	-	-	10,875.00	10,875.00	-
02/01/2026	105,000.00	3.000%	10,875.00	115,875.00	126,750.00
08/01/2026	-	-	9,300.00	9,300.00	-
02/01/2027	110,000.00	3.000%	9,300.00	119,300.00	128,600.00
08/01/2027	-	-	7,650.00	7,650.00	-
02/01/2028	110,000.00	3.000%	7,650.00	117,650.00	125,300.00
08/01/2028	-	-	6,000.00	6,000.00	-
02/01/2029	100,000.00	3.000%	6,000.00	106,000.00	112,000.00
08/01/2029	-	-	4,500.00	4,500.00	-
02/01/2030	100,000.00	3.000%	4,500.00	104,500.00	109,000.00
08/01/2030	-	-	3,000.00	3,000.00	-
02/01/2031	100,000.00	2.000%	3,000.00	103,000.00	106,000.00
08/01/2031	-	-	2,000.00	2,000.00	-
02/01/2032	100,000.00	2.000%	2,000.00	102,000.00	104,000.00
08/01/2032	-	-	1,000.00	1,000.00	-
02/01/2033	100,000.00	2.000%	1,000.00	101,000.00	102,000.00
Total	**$1,120,000.00**	**-**	**$176,170.00**	**$1,296,170.00**	**-**

Yield Statistics

Bond Year Dollars	$6,886.78
Average Life	6.149 Years
Average Coupon	2.5580904%
Net Interest Cost (NIC)	1.3649179%
True Interest Cost (TIC)	1.3067219%
Bond Yield for Arbitrage Purposes	1.1035068%
All Inclusive Cost (AIC)	1.7868022%

IRS Form 8038

Net Interest Cost	1.1384186%
Weighted Average Maturity	6.154 Years

City of Grand Rapids, Minnesota

$1,120,000 G.O. Utility Revenue Refunding Bonds, Series 2021D
Current Refunding G.O. Util Rev Bond 2012D

Debt Service Comparison

Date	Total P+I	Net New D/S	Old Net D/S	Savings
02/01/2022	-	(9.14)	-	9.14
02/01/2023	130,020.00	130,020.00	137,437.50	7,417.50
02/01/2024	127,750.00	127,750.00	135,075.00	7,325.00
02/01/2025	124,750.00	124,750.00	132,712.50	7,962.50
02/01/2026	126,750.00	126,750.00	140,087.50	13,337.50
02/01/2027	128,600.00	128,600.00	137,212.50	8,612.50
02/01/2028	125,300.00	125,300.00	133,992.50	8,692.50
02/01/2029	112,000.00	112,000.00	115,772.50	3,772.50
02/01/2030	109,000.00	109,000.00	112,972.50	3,972.50
02/01/2031	106,000.00	106,000.00	109,872.50	3,872.50
02/01/2032	104,000.00	104,000.00	111,772.50	7,772.50
02/01/2033	102,000.00	102,000.00	108,517.50	6,517.50
Total	**$1,296,170.00**	**$1,296,160.86**	**$1,375,425.00**	**$79,264.14**

PV Analysis Summary (Net to Net)

Gross PV Debt Service Savings.....................	74,576.36
Net PV Cashflow Savings @ 1.104%(Bond Yield).....	74,576.36
Contingency or Rounding Amount....................	9.14
Net Present Value Benefit	$74,585.50
Net PV Benefit / $1,290,732.30 PV Refunded Debt Service	5.779%
Net PV Benefit / $1,170,000 Refunded Principal...	6.375%
Net PV Benefit / $1,120,000 Refunding Principal..	6.659%

Refunding Bond Information

Refunding Dated Date	12/09/2021
Refunding Delivery Date	12/09/2021

S&P Global
Ratings

RatingsDirect®

Summary:

Grand Rapids, Minnesota; General Obligation

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Summary:

Grand Rapids, Minnesota; General Obligation

Credit Profile		
US$1.225 mil GO util rev rfdg bnds ser 2021D dtd 12/09/2021 due 02/01/2033		
Long Term Rating	AA-/Stable	New

Rating Action

S&P Global Ratings assigned its 'AA-' rating to the City of Grand Rapids, Minn.'s series 2021D general obligation (GO) utility revenue refunding bonds. The outlook on the rating is stable.

The 2021D bonds (approximate par amount: $1.2 million) are secured by the city's unlimited-tax, full faith, and credit GO pledge. The proceeds will be used to refund the city's series 2012D bonds for interest cost savings. Although the city intends to pay these using separate sources, we rate to the GO level due to lack of supporting bond provisions.

Credit overview

Grand Rapids is the seat of northern Minnesota's Itasca County, and is a service center and economic hub for the surrounding region, which in our opinion provides economic stability that supports a strong financial profile despite the large debt burden. The COVID-19 pandemic has had only a limited effect on the local economy and city finances. Management is seeing a construction boom in the city, in part because of an increase in residents working from their homes, and is forecasting year-end results that largely align with the break-even budget. We believe the city has capacity to close a moderate budget gap, should one emerge, due to the large fund balance on hand. Its operating reserves are exceptionally strong and have generally been at or near six months of spending, and we expect that Grand Rapids' forward-looking management will continue to monitor its finances and make adjustments to ensure the city sustains a very strong financial position, as per its reserve policy. Key credit weaknesses include economic measures such as weak incomes and market values that generally lag those of similarly rated peers, as well as a weak overall debt and liability profile stemming primarily from the city's direct debt burden. However, we expect Grand Rapids' credit profile will remain stable in the near term.

The rating further reflects our view of Grand Rapids':

- Weak economy, with market value per capita of $78,130 and projected per capita effective buying income at 70.5% of the national level;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with an operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 57% of operating expenditures;
- Very strong liquidity, with total government available cash at 54.2% of total governmental fund expenditures and

3.4x governmental debt service, and access to external liquidity we consider strong;

- Weak debt and contingent liability profile, with debt service carrying charges at 15.8% of expenditures and net direct debt that is 144.4% of total governmental fund revenue, but rapid amortization, with 85.1% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) factors

We analyzed ESG risks relative to Grand Rapids' economy, management, financial measures, and debt and liability profile, and determined that all are in line with our view of the sector standard. In addition, the city has taken measures to enhance cyber security.

Stable Outlook

Downside scenario

We could take a negative rating action if the city's structural budgetary performance were to weaken, if per capita income measures were to weaken, or if new money debt issuance were to significantly outpace growth in the city's economy.

Upside scenario

We could take a positive rating action if the city experienced material improvement in market value and tax base diversification or if it reduced debt service within the budget.

Credit Opinion

Weak economy

We consider Grand Rapids' economy weak. The city, with an estimated population of 11,251, is in Itasca County. It has a projected per capita effective buying income of 70.5% of the national level and per capita market value of $78,130. Overall, Grand Rapids' market value grew by 4.4% over the past year to $879.0 million in 2019. The county unemployment rate was 8.4% in 2020.

Grand Rapids, 80 miles northwest of Duluth, is an economic hub for the surrounding area. The city has a mix of residential and commercial/industrial (including personal) properties, which represent 50% and 48% of net tax capacity, respectively. Market value increased 2.7% in fiscal 2021 but has grown by less than 6% overall in the past five years. Due to increased acceptance of remote work during the pandemic, management expects to see above-average growth in the real estate market. With the city having a rental vacancy rate of about 1%, management sees plenty of demand for the three housing developments under construction. In addition, there are commercial, hotel, and other developments in progress. To date, we understand that top employers and taxpayers are stable, with the hospital even adding staff, and that there has been minimal lasting negative economic impact from the pandemic. For our latest views on the pandemic and the economic recovery, see S&P Global Economics' report, "Economic Outlook U.S. Q4 2021: The Rocket Is Leveling Off," published Sept. 23, 2021, on RatingsDirect.

There is some concentration among the top 10 taxpayers, which account for 18.7% of net tax capacity. Blandin Paper Co. is the largest taxpayer (5.4%) and the fifth-largest employer (225 employees, down from 400 due to the elimination of paper lines).

Itasca County's unemployment rate has historically been elevated relative to both state and national levels although it was only 3.2% in September 2021, according to the Bureau of Labor Statistics.

Strong management

We view the city's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The city conducts line-by-line budgeting, relying on five years of historical information to determine trends. The budget can be amended if needed, and the council receives a quarterly budget-to-actual report. Grand Rapids maintains a budget-plus-three-year financial forecast model. The city also annually updates its five-year capital improvement plan, which identifies projects by category as well as funding source. It has its own investment policy, but only reports holdings and performance annually in its financial statements. It does not have a debt management policy. Grand Rapids has a formal fund balance policy and revenue stabilization policy and is currently in compliance with both.

Adequate budgetary performance

Grand Rapids' budgetary performance is adequate in our opinion. The city had surplus operating results in the general fund of 5.1% of expenditures, but a deficit result across all governmental funds of 5.5% in fiscal 2020.

We adjusted audited fiscal 2020 data to include recurring transfers out of the general fund as expenditures. We also adjusted total governmental fund expenditures downward to account for spending of bond proceeds and some cash on hand to finance nonrecurring projects and capital projects funded in part through grant proceeds.

The fiscal 2021 budget was structured for break-even results, and management reports that through the first three quarters of the year, revenues and expenditures were in line with the initial budget projections and there is no expectation of any change in tax collections needed. Grand Rapids will receive $1.1 million from the American Rescue Plan Act to aid in street extensions. The operating budget is funded primarily from local property taxes and local government aid (LGA), both of which have been stable through the current fiscal year. Management indicates that the city has capacity to absorb any LGA cuts, should they materialize, due to its healthy fund balance.

The city is currently working on the 2022 budget. Officials expect the final budget to be structured similar to previous years.

Very strong budgetary flexibility

Grand Rapids' budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 57% of operating expenditures, or $5.8 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

We include the city's committed general fund balance ($926,000) as part of its available reserves because it is designated for budget stabilization. City policy requires that Grand Rapids maintain 10% of the previous year's revenues in its committed balance to mitigate the effects of a recession. The committed balance is currently under the 10% mark, but the city is increasing the balance annually as per the formula determined in its policy.

In addition, Grand Rapids has a fund balance policy to maintain 50% of the following year's general fund property tax levy as an unassigned fund balance for cash flow purposes. Given these city policies and historical reserve levels, we expect budgetary flexibility will remain very strong over the next two years, likely well in excess of six months of total expenditures, as has been the case historically.

Very strong liquidity

In our opinion, Grand Rapids' liquidity is very strong, with total government available cash at 54.2% of total governmental fund expenditures and 3.4x governmental debt service in 2020.

Available cash and liquid investments came to about $10.6 million at the end of fiscal 2020. Grand Rapids has strong access to external liquidity if necessary, given its frequent issuances of GO bonds over the past 20 years, although it has not needed to use external liquidity for cash flow borrowing, nor do we expect it will need to. Investments are primarily in highly rated government securities, U.S. Treasury notes, certificates of deposit, and mutual funds, and we do not believe they expose GrandRapids to significant liquidity risk. The city does not have any direct purchase or variable-rate debt.

Weak debt and contingent liability profile

In our view, Grand Rapids' debt and contingent liability profile is weak. Total governmental fund debt service is 15.8% of total governmental fund expenditures, and net direct debt ($26.0 million) is 144.4% of total governmental fund revenue. Approximately 85.1% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

We adjusted Grand Rapids' debt burden to account for GO debt that is fully supported by the city's utilities. The Grand Rapids Public Utilities Commission is a component unit that issues separate financial statements.

Grand Rapids has no definite plans to issue debt within the next 12 months. Management reports that within one-to-two years, the city will also consider issuing new money debt to support the renovations of its civic center, although the par amount of the prospective issuance will depend on the availability of state funding for the project, toward which the city has already received a $5 million grant.

The city's current debt burden is high compared with that of peers with similar economic characteristics, and although we expect Grand Rapids' debt profile will remain stable, the rating could be pressured if the city were to take on significant new leverage beyond what we expect without seeing corresponding growth in the economic base sufficient to offset the increased liability, were it to materialize.

Pensions and other postemployment benefits (OPEB) liabilities:

- We do not believe that pensions represent a significant credit pressure for Grand Rapids, with moderately well-funded plans that represent a small share of the budget and minimal OPEB liability. Although we see some risk of increasing cost pressures in the future, we think the city could absorb them, with a balance of modest spending offsets or levy increases.

Grand Rapids participates in the following defined-benefit plans:

- The Minnesota General Employees Retirement Fund (GERF, as of June 30, 2020): 79.1% funded using a 7.5% discount rate, with a city share of the plan's net pension liability of $3.1 million;
- The Public Employees Police and Fire Fund (PEPFF, as of June 30, 2020): 87.3% funded using a 7.5% discount rate, with a city share of $1.7 million;
- The Grand Rapids Fire Department Relief Association (Relief Plan, as of Dec. 31, 2020): 181% funded using a 5% discount rate, with a net pension asset of $1.4 million; and
- Retiree health care plan (OPEB, as of Dec. 31, 2020): 0% funded using a 2.9% discount rate, with a net OPEB liability of just over $21,000.

Combined costs for pension and OPEBs came to 3.3% of governmental fund expenditures in fiscal 2020. Plan-level contributions to GERF and PEPFF (the largest plans) were both below our minimum funding progress metric but above static funding levels, meaning some forward progress was made toward full funding, but not enough that we view positively. Annual contributions are based on a statutory formula that has typically produced contributions less than the actuarially determined contribution (ADC), which we view negatively, as this increases risk of underfunding over time, more so given that the comparative ADC for both plans are somewhat weak based on long amortizations with moderately high deferrals based on payroll growth assumptions. The pension plan discount rates are based on investment rate of return assumptions that indicate acceptance of high levels of market risk and increased exposure to funding volatility that could lead to future contribution increases. OPEB contributions to the Medicare bridge plan are capped at $100 per member per month and are pay-as-you-go, but total costs have minimal impact on the budget.

Strong institutional framework

The institutional framework score for Minnesota cities with a population greater than 2,500 is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020