CITY OF SHEBOYGAN

REQUEST FOR FINANCE AND PERSONNEL COMMITTEE CONSIDERATION

ITEM DESCRIPTION: Res. No. 131-21-22 by Alderpersons Mitchell and Filicky-Peneski. A resolution providing for the sale of approximately $2,134,000 General Obligation Promissory Notes, series 2022A.

REPORT PREPARED BY: Finance Director Kaitlyn Krueger

REPORT DATE: February 8, 2022 **MEETING DATE:** February 14, 2022

FISCAL SUMMARY:

Budget Line Item: N/A
Budget Summary: N/A
Budgeted Expenditure: N/A

STATUTORY REFERENCE:

Wisconsin Statutes: N/A
Municipal Code: N/A

BACKGROUND / ANALYSIS:
The City of Sheboygan is presently in need of approximately $2,134,000 for the public purpose of refunding outstanding obligations of the city, to wit: the callable maturities of its General Obligation Corporate Purpose Notes, Series 2022A dated April 13, 2022.

STAFF COMMENTS:
The City of Sheboygan completes an annual review with its consultant, Ehlers Public Financial Advisors, Inc., in relation to borrowing needs for capital projects and TIDs. These discussions also include review of existing debt and in some instances, it is advisable for the city to call early some existing debt. The review looks at the savings opportunities related to interest rate and amount along with the structure of the new debt in relation to the city's annual debt service.

ACTION REQUESTED:
Motion to recommend the Common Council adopt Res. No. 131-21-22 by Alderpersons Mitchell and Filicky-Peneski authorizing the city to issue sale of approximately $2,134,000 General Obligation Refunding Notes, Series 2022A.

ATTACHMENTS:

I. Res. No. 131-21-22
II. Ehlers Public Financial Advisors, Inc. Pre-Sale Report

February 14, 2022

Pre-Sale Report for

City of Sheboygan, Wisconsin

$2,215,000 General Obligation Promissory Notes, Series 2022A

EHLERS
PUBLIC FINANCE ADVISORS

Prepared by:

Ehlers
N21W23350 Ridgeview Parkway West, Suite 100
Waukesha, WI 53188

Advisors:

Philip Cosson, Senior Municipal Advisor
David Ferris, CPA, Senior Municipal Advisor

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EXECUTIVE SUMMARY OF PROPOSED DEBT

Proposed Issue:

$2,215,000 General Obligation Promissory Notes, Series 2022A

Purposes:

The proposed issue includes financing for the following purposes:

2022 Capital Projects

- Fire Equipment (Ambulance and Rescue Pumper). Debt service will be paid from ad valorem property taxes.
- Park Projects (Evergreen & ADA Improvements). Debt service will be paid from ad valorem property taxes.
- Storm Water Management Plan. Debt service will be paid from ad valorem property taxes.
- Streets Projects (North Avenue). Debt service will be paid from ad valorem property taxes.
- TID 16 (Street Lighting Upgrades). Debt service will be paid from ad valorem property taxes.

Authority:

The Notes are being issued pursuant to Wisconsin Statute(s):

- 67.12(12)

The Notes will be general obligations of the City for which its full faith, credit and taxing powers are pledged.

The Notes count against the City's General Obligation Debt Capacity Limit of 5% of total City Equalized Valuation. Following issuance of the Notes, the City's total General Obligation debt principal outstanding will be approximately $62 million, which is 36% of its limit. Remaining General Obligation Borrowing Capacity will be approximately $109 million.

Term/Call Feature:

The Notes are being issued for a term of 10 years. Principal on the Notes will be due on April 1 in the years 2023 through 2032. Interest is payable every six months beginning April 1, 2023.

The Notes will be subject to prepayment at the discretion of the City on April 1, 2029 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 Notes 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 Notes.

If the winning bidder on the Notes 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:

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 Notes as a suitable option based on:

- The expectation this form of financing will provide the overall lowest cost of funds while also meeting the City’s objectives for term, structure and optional redemption.

Method of Sale/Placement:

We will solicit competitive bids for the purchase of the Notes 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 Notes 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 more than 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.

For this issue of Notes, any premium amount received that is more than the underwriting discount and any capitalized interest amounts must be placed in the debt service fund and used to pay a portion of the interest payments due on the Notes. We anticipate using any premium amounts received to reduce the issue size.

The amount of premium allowed can be restricted in the bid specifications. Restrictions on premium may result in fewer bids but may also eliminate large adjustments on the day of sale and unintended results with respect to debt service payment impacts. Ehlers will identify appropriate premium restrictions for the Notes intended to achieve the City's objectives for this financing.

Other Considerations:

The Notes will be offered with the option of the successful bidder utilizing a term bond structure. By offering underwriters the option to "term up" some of the maturities at the time of the sale, it gives them more flexibility in finding a market for your Notes. This makes your issue more marketable, which can result in lower borrowing costs. If the successful bidder utilizes a term bond structure, we recommend the City retain a paying agent to handle responsibility for processing mandatory redemption/call notices associated with term bonds.

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 prepares and files its own reports. The City may continue to prepare and file its own reports or contract with Ehlers to do so.

Arbitrage Monitoring:

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

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 Tax Exemption Certificate (the "Tax Compliance Document") prepared by your Bond Attorney and provided at closing.

The Notes 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.

We recommend that the City review its specific responsibilities related to the Notes with an arbitrage expert to utilize one or more of the exceptions listed above. We also recommend that you establish written procedures regarding compliance with IRS rules and/or contract with Ehlers to assist you.

Investment of Note Proceeds:

Ehlers can assist the City in developing a strategy to invest your Note proceeds until the funds are needed to pay project costs.

Risk Factors:

GO with Planned Abatement: The City expects to abate a portion of the City debt service with tax incremental revenues. In the event these revenues are not available, the City is obligated to levy property taxes in an amount sufficient to make all debt payments.

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, 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: Quarles & Brady LLP

Paying Agent: Bond Trust Services Corporation

Rating Agency: Moody's Investors Service, Inc.

PROPOSED DEBT ISSUANCE SCHEDULE

Pre-Sale Review by Common Council:	February 14, 2022
Conference with Rating Agency:	Week of March 7, 2022
Due Diligence Call to review Official Statement:	Week of March 7, 2022
Distribute Official Statement:	March 14, 2022
Common Council Meeting to Award Sale of the Notes:	March 21, 2022
Estimated Closing Date:	April 13, 2022

Attachments

Estimated Sources and Uses of Funds

Estimated Proposed Debt Service Schedule

Tax Impact Analysis

Bond Buyer Index

EHLERS' CONTACTS

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EHLERS PUBLIC FINANCE ADVISORS

Existing Debt Service Sources of Repayment and Levy Impact Analysis (Base Case)

	Debt Service			*Abatement Sources*							*Projected Rate Impact*					
YEAR	General Obligation Debt	Lease Payments	Total of All Obligations	Total Paid By TID Funds	Other Transfers In	Tourism Fund	Interest Income	Misc Income	Funds Applied / Misc Difference	Total Abatement Sources	Net Debt Service Levy	Levy Change	Projected Equalized Value	% Change	Debt Service Tax Rate	YEAR
2021	6,806,484	75,497	6,881,981	(2,643,218)	(492,965)	(329,629)	(73,432)	(103,067)	601,131	(3,041,180)	3,840,801		3,080,099,100	12.86%	1.25	2021
2022	7,009,359	75,497	7,084,856	(2,708,183)			(39,000)	(103,067)	(383,554)	(3,233,804)	3,851,052	10,251	3,156,346,500	2.48%	1.22	2022
2023	5,824,689		5,824,689	(1,712,062)						(1,712,062)	4,112,626	261,574	3,229,187,030	2.31%	1.27	2023
2024	6,287,438		6,287,438	(1,809,978)						(1,809,978)	4,477,460	364,834	3,473,873,471	7.58%	1.29	2024
2025	6,408,776		6,408,776	(1,918,508)						(1,918,508)	4,490,269	12,809	3,543,350,940	2.00%	1.27	2025
2026	5,734,039		5,734,039	(1,584,413)						(1,584,413)	4,149,626	(340,643)	3,614,217,959	2.00%	1.15	2026
2027	5,512,390		5,512,390	(1,763,490)						(1,763,490)	3,748,900	(400,726)	3,686,502,318	2.00%	1.02	2027
2028	5,036,995		5,036,995	(1,719,370)						(1,719,370)	3,317,625	(431,275)	3,760,232,364	2.00%	0.88	2028
2029	4,947,570		4,947,570	(1,761,580)						(1,761,580)	3,185,990	(131,635)	3,835,437,012	2.00%	0.83	2029
2030	4,075,280		4,075,280	(1,623,235)						(1,623,235)	2,452,045	(733,945)	3,912,145,752	2.00%	0.63	2030
2031	2,850,015		2,850,015	(1,611,315)						(1,611,315)	1,238,700	(1,213,345)	3,990,388,667	2.00%	0.31	2031
2032	2,849,828		2,849,828	(1,632,068)						(1,632,068)	1,217,760	(20,940)	4,070,196,440	2.00%	0.30	2032
2033	2,986,555		2,986,555	(1,640,305)						(1,640,305)	1,346,250	128,490	4,151,600,369	2.00%	0.32	2033
2034	2,585,340		2,585,340	(1,636,490)						(1,636,490)	948,850	(397,400)	4,234,632,376	2.00%	0.22	2034
2035	1,985,300		1,985,300	(1,640,700)						(1,640,700)	344,600	(604,250)	4,319,325,024	2.00%	0.08	2035
2036	1,965,230		1,965,230	(1,632,630)						(1,632,630)	332,600	(12,000)	4,405,711,524	2.00%	0.08	2036
2037	1,953,280		1,953,280	(1,632,680)						(1,632,680)	320,600	(12,000)	4,493,825,755	2.00%	0.07	2037
2038	1,854,480		1,854,480	(1,630,880)						(1,630,880)	223,600	(97,000)	4,583,702,270	2.00%	0.05	2038
2039	1,032,268		1,032,268	(1,032,268)						(1,032,268)		(223,600)	4,675,376,315	2.00%	0.00	2039
2040	1,029,120		1,029,120							(1,029,120)			4,768,883,842	2.00%	0.00	2040
2041													4,864,261,519	2.00%	0.00	2041
TOTALS	**78,734,434**	**150,994**	**78,885,428**	**(33,333,371)**	**(492,965)**	**(329,629)**	**(112,432)**	**(206,134)**	**217,577**	**(35,286,074)**	**43,599,354**					**TOTALS**

NOTES:

Financing Plan & Issue Sizing

			GO Notes 2022
Projects			
Street Improvement Projects			455,000
Fire Department Equipment			932,365
Park Projects			325,000
TID 16 Projects			171,400
Stormwater Projects			250,000
Project Needs			2,133,765
Issuance Expenses			
Municipal Advisor			23,800
Bond Counsel			12,000
Disclosure Counsel (Estimated)			7,200
Rating			14,000
Paying Agent			850
Underwriter Fees			22,150
Total Funds Needed			2,213,765
	Rate	Months	
Less Interest Earnings	0.05%	3	(267)
Rounding			1,502
Size of Issue			2,215,000

Projected Impact of Capital Financing Plan

Existing Debt Payments

YEAR	Equalized Value Projection	Change in Value	Total of All Obligations	Total Abatement Sources	Net Debt Service Levy	Debt Service Tax Rate
2021	3,080,099,100	12.86%	6,881,981	(3,041,180)	3,840,801	1.25
2022	3,156,346,500	2.48%	7,084,856	(3,233,804)	3,851,052	1.22
2023	3,229,187,030	2.31%	5,824,689	(1,712,062)	4,112,626	1.27
2024	3,473,873,471	7.58%	6,287,438	(1,809,978)	4,477,460	1.29
2025	3,543,350,940	2.00%	6,408,776	(1,918,508)	4,490,269	1.27
2026	3,614,217,959	2.00%	5,734,039	(1,584,413)	4,149,626	1.15
2027	3,686,502,318	2.00%	5,512,390	(1,763,490)	3,748,900	1.02
2028	3,760,232,364	2.00%	5,036,995	(1,719,370)	3,317,625	0.88
2029	3,835,437,012	2.00%	4,947,570	(1,761,580)	3,185,990	0.83
2030	3,912,145,752	2.00%	4,075,280	(1,623,235)	2,452,045	0.63
2031	3,990,388,667	2.00%	2,850,015	(1,611,315)	1,238,700	0.31
2032	4,070,196,440	2.00%	2,849,828	(1,632,068)	1,217,760	0.30
2033	4,151,600,369	2.00%	2,986,555	(1,640,305)	1,346,250	0.32
2034	4,234,632,376	2.00%	2,585,340	(1,636,490)	948,850	0.22
2035	4,319,325,024	2.00%	1,985,300	(1,640,700)	344,600	0.08
2036	4,405,711,524	2.00%	1,965,230	(1,632,630)	332,600	0.08
2037	4,493,825,755	2.00%	1,953,280	(1,632,680)	320,600	0.07
2038	4,583,702,270	2.00%	1,854,480	(1,630,880)	223,600	0.05
2039	4,675,376,315	2.00%	1,032,268	(1,032,268)		0.00
2040	4,768,883,842	2.00%	1,029,120	(1,029,120)		0.00
2041	4,864,261,519	2.00%				0.00
2042	4,961,546,749	2.00%				0.00
2043	5,060,777,684	2.00%				0.00
2044	5,161,993,238	2.00%				0.00
TOTALS			78,885,428	(35,286,074)	43,599,354	

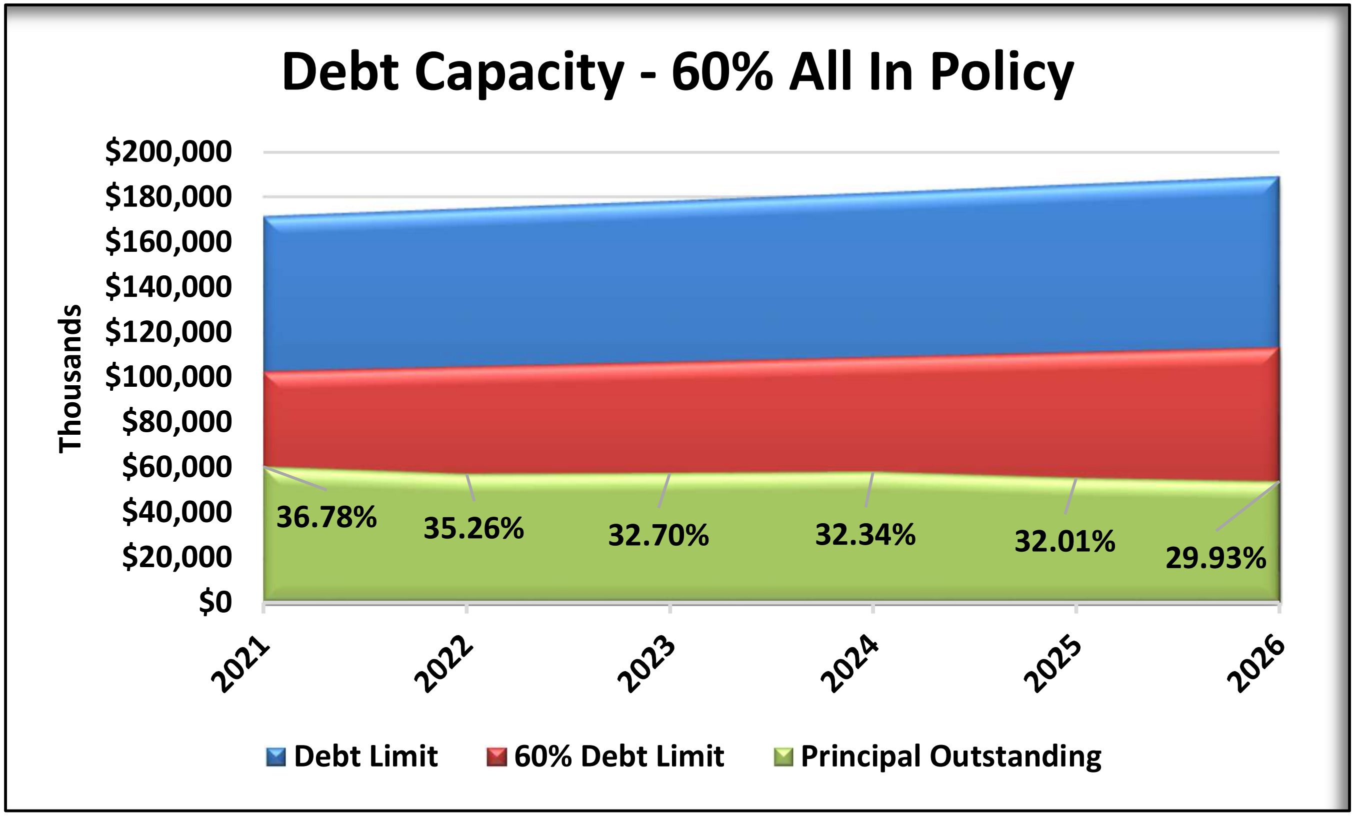
Projected Debt Service

	General Obligation Notes, 2022 $2,215,000 Dated 4-13-22				Less Abatements	Total Projected Debt Service Less Abatements	Net Debt Service Levy	Levy Change	Debt Service Tax Rate	Impact on $ 100,000 of Value		Debt Service Tax Rate @ 3% Growth	
YEAR	Prin (4/1)	Rate	Interest	Total	TID 16 Projects					Taxes	Change		YEAR
2021							3,840,801		1.25	124.70		1.25	2021
2022							3,851,052	10,251	1.22	122.01	(2.69)	1.22	2022
2023	270,000	0.95%	53,069	323,069	(14,598)	308,471	4,421,097	570,045	1.37	136.91	14.90	1.36	2023
2024	100,000	1.15%	33,918	133,918	(13,015)	120,903	4,598,363	177,266	1.32	132.37	(4.54)	1.30	2024
2025	100,000	1.35%	32,668	132,668	(12,890)	119,778	4,610,047	11,684	1.30	130.10	(2.27)	1.27	2025
2026	250,000	1.55%	30,055	280,055	(12,745)	267,310	4,416,936	(193,111)	1.22	122.21	(7.89)	1.18	2026
2027	230,000	1.65%	26,220	256,220	(12,585)	243,635	3,992,535	(424,401)	1.08	108.30	(13.91)	1.04	2027
2028	245,000	1.75%	22,179	267,179	(27,284)	239,895	3,557,520	(435,015)	0.95	94.61	(13.69)	0.90	2028
2029	220,000	1.85%	18,000	238,000	(26,834)	211,166	3,397,156	(160,364)	0.89	88.57	(6.04)	0.83	2029
2030	270,000	1.95%	13,333	283,333	(26,359)	256,974	2,709,019	(688,137)	0.69	69.25	(19.33)	0.64	2030
2031	330,000	2.00%	7,400	337,400	(25,865)	311,535	1,550,235	(1,158,784)	0.39	38.85	(30.40)	0.36	2031
2032	200,000	2.05%	2,050	202,050	(30,308)	171,742	1,389,502	(160,733)	0.34	34.14	(4.71)	0.31	2032
2033							1,346,250	(43,252)	0.32	32.43	(1.71)	0.29	2033
2034							948,850	(397,400)	0.22	22.41	(10.02)	0.20	2034
2035							344,600	(604,250)	0.08	7.98	(14.43)	0.07	2035
2036							332,600	(12,000)	0.08	7.55	(0.43)	0.07	2036
2037							320,600	(12,000)	0.07	7.13	(0.42)	0.06	2037
2038							223,600	(97,000)	0.05	4.88	(2.26)	0.04	2038
2039								(223,600)	0.00		(4.88)	0.00	2039
2040									0.00		0.00	0.00	2040
2041									0.00		0.00	0.00	2041
2042									0.00		0.00	0.00	2042
2043									0.00		0.00	0.00	2043
2044									0.00		0.00	0.00	2044
TOTALS	2,215,000		238,890	2,453,890	(202,483)	2,251,409	45,850,763						TOTALS

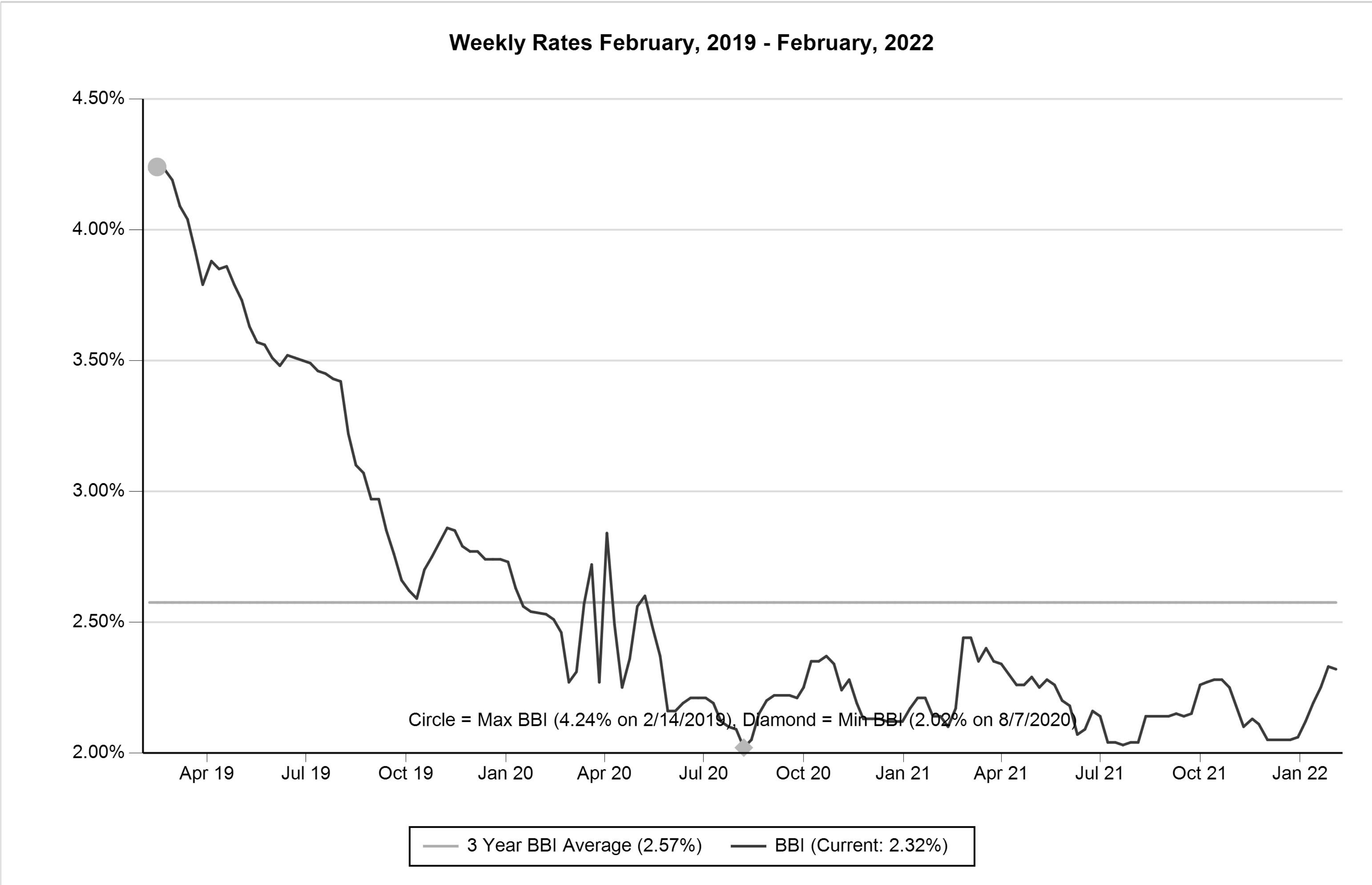
NOTES

Rates based on A1 1/18/22 sale + 0.35

Debt Limit Calculation



3 YEAR TREND IN MUNICIPAL BOND INDICES



The Bond Buyer "20 Bond Index" (BBI) shows average yields on a group of municipal bonds that mature in 20 years and have an average rating equivalent to Moody's Aa2 and S&P's AA.

Source: The Bond Buyer

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