Stoughton Utilities
600 South Fourth Street
P.O. Box 383
Stoughton, WI 53589-0383
Serving Electric, Water & Wastewater Needs Since 1886

Date: November 3, 2009

To: Laurie Sullivan
Stoughton Director of Finance and Economic Development (E-Mail and Hard Copy)

From: Robert P. Kardasz, P.E.
Stoughton Utilities Director

Subject: Item For A Future Stoughton Finance Committee Meeting Packet.

The agenda item referred from the October 26, 2009 Stoughton Utilities Committee Meeting is enclosed.

Agenda:

1. Financing Summary – East Water Tower. (**Approve the Stoughton Utilities Committee recommendation and recommend to the Stoughton Common Council.)**

Encl.

cc: Mayor Jim Griffin, Chairperson - Stoughton Utilities Committee (E-Mail)
Luann J. Alme – Stoughton City Clerk and Personnel Director (E-Mail)
Sean O Grady - Stoughton Utilities Operations Superintendent (Transmittal Memo)
Kim M. Jennings, CPA - Stoughton Utilities Finance and Administrative Manager (Transmittal Memo)

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Stoughton Utilities Committee Consent Agenda: Utilities Director Robert Kardasz presented and discussed the Stoughton Utilities Committee Meeting Consent Agenda Items. Discussion Followed. Motion by Citizen Member David Erdman, seconded by Alderperson Paul Lawrence, to approve the following consent agenda items as presented: Draft Minutes of the September 14, 2009 Regular Meeting, the September 22, 2009 Joint Meeting with the Stoughton Finance Committee, and the October 13, 2009 Special Meeting of the Stoughton Utilities Committee, Stoughton Utilities August 2009 Financial Summary, Stoughton Utilities August 2009 Statistical Information, Stoughton Utilities Communications, Stoughton Utilities Committee 12-Month Calendar, Stoughton Utilities September 2009 Activities Report and the Status of the September 14, 2009, September 22, 2009, and October 13, 2009 recommendations to the Stoughton Common Council. Carried unanimously.

Stoughton Utilities Management Team Verbal Reports:

Stoughton Utilities Finance and Administrative Manager Kim Jennings explained the following:

- A mini-audit is currently underway at Stoughton Utilities in preparation for our 20098 annual audit.

Stoughton Utilities Proposed 2010 Budget And Twenty-Year (2010-2029) Capital Projects Program: Stoughton Utilities Director Robert Kardasz presented and discussed the proposed Twenty-Year (2010-2019) Capital Projects Program, with the East Main Street Water and Sanitary Sewer Project moved from 2010 to 2011. Discussion followed. Motion by Alderperson Paul Lawrence, seconded by Citizen Member Norval Morgan, to approve the Stoughton Utilities Twenty-Year (2009) Capital Projects Program, and recommend it to the Stoughton Common Council. Carried unanimously.

Financing Summary East Elevated Water Tank Project: Stoughton Utilities Director Robert Kardasz and Stoughton Utilities Finance and Administrative Manager Kim Jennings presented and discussed the available financing opportunities. Discussion followed. Motion by Alderperson Paul Lawrence, seconded by Citizen Member David Erdman, to approve and recommend to the Stoughton Finance Committee and the Stoughton Common Council that the Stoughton Utilities borrowing for the East Water

Tower and Connecting Water Mains Project be made in a joint general obligation borrowing with the City of Stoughton in the first quarter of 2010, with the bond issuance costs and legal fees being split based on principal amounts. Carried Unanimously.

Municipal Electric Utilities Of Wisconsin (MEUW) District Meetings: Stoughton Utilities Director Robert Kardasz invited the Stoughton Utilities Committee to participate in one of the MEUW District Meetings. Discussion followed.

Labor Negotiations: Stoughton Utilities Director Robert Kardasz presented and discussed the status of the two labor union negotiations, that there would be no cost of living proposal for Stoughton Utilities non-represented employees at this time, and that a compensation adjustment proposal for the Stoughton Utilities Office and Information Systems Supervisor would be forthcoming.

Timm Smith Utility Surge Claim: Stoughton Utilities Director Robert Kardasz presented and discussed the Timm Smith Claim.

City Purchasing Gasoline From Stoughton Utilities: Stoughton Utilities Director Robert Kardasz presented, discussed, and provided a tour of the Stoughton Utilities fueling station. The following pertinent facts were provided:

- The fueling station is about 10 years old.
- The facility consists of a 550-gallon unleaded gasoline tank and 1,000 gallon diesel fuel tank.
- In 2008, we paid an average of $3.054 per gallon for unleaded gasoline and $3.505 per gallon for diesel fuel.
- In 2009, we have paid an average of $2.21 per gallon for unleaded gasoline and $2.42 per gallon for diesel fuel.
- The tanks are serviced about every two weeks.
- Due to the fueling station location, our vehicles are fueled during different time windows to preserve vehicle regular ingress and egress and to minimize gate operations.
- During storm events, it is unclear if the fueling station will accommodate total needs of other Department(s).

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Date: October 22, 2009

To: Stoughton Utilities Committee

From: Kim M. Jennings, CPA
Stoughton Utilities Finance and Administrative Manager

Robert P. Kardasz, P.E.
Stoughton Utilities Director

Subject: Financing Summary – East Water Tower

Utility staff has been reviewing available options for financing the East Water Tower and connecting main construction project. Attached is a comparison of financing options prepared by Todd Taves of Ehlers and Associates. Currently, a tax exempt general obligation borrowing in conjunction with the City of Stoughton borrowing for 2010-11 capital outlays is the most economical option for the Utility. On October 1, 2009, the Bond Buyer Index, an industry measure of the tax exempt bond market was the lowest it has been in over 40 years! Also, with a joint borrowing, the bond issuance costs and legal fees could be split between the City and Stoughton Utilities based on principal amounts. The recommendation of Stoughton Utilities staff is to pursue a joint general obligation borrowing with the City in the first quarter of 2010.

Accordingly, it is requested that the Stoughton Utilities Committee approve and recommend to the Stoughton Finance Committee and the Stoughton Common Council that the Stoughton Utilities borrowing for the East Water Tower and connecting water mains project be made in a joint general obligation borrowing with the City of Stoughton in the first quarter of 2010, with the bond issuance costs and legal fees being split based on principal amounts.

Encl.

cc: Sean O Grady
Stoughton Utilities Operations Superintendent

Laurie Sullivan
Stoughton Finance Director and Treasurer

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October 6, 2009

To: Kim Jennings, CPA, Finance & Administrative Manager, Stoughton Utilities

From: Todd Taves, Ehlers & Associates

Re: Debt Service Estimates

You have requested that Ehlers prepare an estimate of financing costs for your water tower project using a Tax-Exempt General Obligation Bond, a Tax-Exempt Utility Revenue Bond, and a Wisconsin State Trust Fund Loan with a "Build America Bond" designation.

The attached two-page exhibit provides a bond or loan sizing for each option, and the associated estimated debt service. The following are the assumptions used and some qualifications with respect to the analysis:

- All bonds or loans are dated March 1, 2010 (date interest begins accruing).
- All debt service is structured based on level payments with a term of twenty years.
- Competitively bid bond issues with terms of 20 years are customarily pre-payable (callable) by the issuer in the 10th year. State Trust Fund Loans can be pre-paid at anytime annually between the dates of January 1 and September 30.
- Interest rates assumed:
  - G.O. Bond –Village of Grafton (rated Moody's A1) August 17th bond sale results.
  - Revenue Bond – above rates, plus an additional .25% to reflect higher interest rates associated with a revenue pledge as security.
  - State Trust Fund Loan – 5.50% which is the current program rate for loans with terms of 11 – 20 year.
  - These rates are reflective of current market conditions. Prior to proceeding with any financing, you would want to revisit this analysis as changes in the rate environment may result in different conclusions as to which alternative may provide the greatest benefit.
- General Obligation Bond Option
  - The issue has been sized as if it were a stand alone financing, however, it could be combined with the City's planned 2010 bond issue to economize the issuance costs. I would estimate the savings to be a reduction of $15,000 to $20,000 in the amount of the bond issue allocated to the water utility.
  - Principal payments would be due 3/1 annually. Interest payments would be due 3/1 and 9/1 annually. The issue we are currently planning for the City uses these dates, so I kept them consistent.

www.ehlers-inc.com

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- Revenue Bond option
    - For the revenue bond option, we have assumed that the reserve requirement would be 10% of the issue size. Since the water utility has existing revenue bonds outstanding, further calculations would be needed to determine the exact sizing of the reserve requirement based on the parity test requirements.
    - Furthermore, as a pre-condition to issuance, it would need to be demonstrated that the utility's current rate structure is generating sufficient revenues to meet the debt service coverage requirements of all existing revenue bonds plus the new bonds. We have not undertaken this analysis.
    - Principal payments would be due 5/1 annually. Interest payments would be due 5/1 and 11/1 annually (to match the schedule of existing revenue bonds, which is a requirement to allow the additional bonds to be issued).
- State Trust Fund Loan Option
    - The maximum loan currently allowed by the Fund is $1,000,000, and it is anticipated that the program will soon have exhausted its available loan funds (this is due to the popularity of using these loans with a Build America Bond designation).
    - Principal and interest payments on State Trust Fund Loans are due annually on March 15th. Accordingly, we would expect additional funding availability and a higher loan limit after March 15th 2010 when the fund receives payments.

The analysis indicates that a State Trust Fund Loan with a Build America Bond designation would save approximately $50,000 versus a General Obligation Bond (or about $30,000 to $35,000 if we factor in the issuance expense savings assuming the General Obligation Bond were issued in conjunction with a larger City borrowing). Again, we would note that a State Trust Fund loan is not an available option at present due to the loan limit and funding availability, but it may come back into play by the time the project is ready to begin.

We would also note that a Build America Bond designation can be combined with a General Obligation Bond or Revenue Bond option, but would require that the bonds be issued on a taxable basis (interest rates would be about 1% to 1.5% higher). Recent analysis we have done has shown that the State Trust Fund, combined with the Build America Bond designation, provides lower costs of financing than using this designation with other types of taxable bonds, but this could change by the time the project moves forward and could warrant further analysis

Please contact me or Jim Mann if you have questions pertaining to this analysis.

Stoughton Utilities

Comparison of Debt Financing Options - Bond Sizing

For Discussion Only	*G.O. Bond*	*Revenue Bond*	*State Trust Fund Loan*
	TAX-EXEMPT	*TAX-EXEMPT*	*TAXABLE/BAB*
Capital Projects			
Water Tower/Estimate[1]	2,000,000	2,000,000	2,000,000
Subtotal	2,000,000	2,000,000	2,000,000
Reserve Fund[2]		229,500	
Estimated Issuance Expenses			
Financial Advisor (Ehlers & Associates, Inc.)	18,000	28,000	18,000
Bond Counsel (Quarles & Brady LLP)	7,500	10,000	7,500
Maximum Underwriter's Discount (Bid Item)[3]	20,450	28,688	0
Rating Fee (Discounts May Apply)	5,900	7,500	0
TOTAL TO BE FINANCED	**2,051,850**	**2,303,688**	**2,025,500**
Estimated Interest Earnings[4]	(10,000)	(10,000)	(10,000)
Rounding	3,150	1,313	0
NET BOND SIZE	**2,045,000**	**2,295,000**	**2,015,500**

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NOTES:

[1] Water tower project cost estimate per Kim Jennings 10-8-2009.

[2] Reserve Fund sized at 10% (parity requirments of existing water utility revenue bonds have not been reviewed).

[3] Allowed discount of 1.0% for general obligation notes or bonds, and 1.25% for revenue bonds.

[4] Assumes 6 month spend down with temporary investment at 1.0%.

Stoughton Utilities

Comparison of Debt Financing Options

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G.O. Bond

	General Obligation Bond $2,045,000 Dated 3-1-10			
YEAR	Prin (3/1)	Est. Rate[2]	Interest	Total
2010			34,022	34,022
2011	80,000	0.820%	67,717	147,717
2012	80,000	1.150%	66,929	146,929
2013	80,000	1.500%	65,869	145,869
2014	80,000	1.850%	64,529	144,529
2015	85,000	2.200%	62,854	147,854
2016	85,000	2.450%	60,877	145,877
2017	85,000	2.750%	58,667	143,667
2018	90,000	3.000%	56,149	146,149
2019	95,000	3.250%	53,255	148,255
2020	95,000	3.450%	50,072	145,072
2021	100,000	3.600%	46,634	146,634
2022	105,000	3.700%	42,891	147,891
2023	105,000	3.800%	38,954	143,954
2024	110,000	3.900%	34,814	144,814
2025	115,000	4.000%	30,369	145,369
2026	120,000	4.100%	25,609	145,609
2027	125,000	4.200%	20,524	145,524
2028	130,000	4.300%	15,104	145,104
2029	135,000	4.370%	9,359	144,359
2030	145,000	4.420%	3,205	148,205
TOTALS	2,045,000		908,397	2,953,397

Revenue Bond

	Water System Revenue Bond $2,295,000 Dated 3-1-10			
YEAR	Prin (5/1)	Est. Rate[2]	Interest	Total
2010			55,031	55,031
2011	85,000	1.070%	82,091	167,091
2012	85,000	1.400%	81,042	166,042
2013	90,000	1.750%	79,659	169,659
2014	90,000	2.100%	77,927	167,927
2015	90,000	2.450%	75,879	165,879
2016	95,000	2.700%	73,494	168,494
2017	95,000	3.000%	70,787	165,787
2018	100,000	3.250%	67,737	167,737
2019	105,000	3.500%	64,274	169,274
2020	110,000	3.700%	60,402	170,402
2021	110,000	3.850%	56,249	166,249
2022	115,000	3.950%	51,860	166,860
2023	120,000	4.050%	47,159	167,159
2024	125,000	4.150%	42,135	167,135
2025	130,000	4.250%	36,779	166,779
2026	135,000	4.350%	31,080	166,080
2027	145,000	4.450%	24,918	169,918
2028	150,000	4.550%	18,279	168,279
2029	155,000	4.620%	11,286	166,286
2030	165,000	4.670%	3,853	168,853
TOTALS	2,295,000		1,111,919	3,406,919

State Trust Fund Loan (Build America Bond)

	State Trust Fund Loan $2,015,500 Dated 1-Mar-10				Debt Service Net of Direct Payment Credit	
YEAR	Prin (3/15)	Est. Rate[3]	Interest	Total	BAB Credit	Total
2010					@ 35%	
2011	53,944	5.500%	115,104	169,049	(40,287)	128,762
2012	60,868	5.500%	108,181	169,049	(37,863)	131,185
2013	64,511	5.500%	104,538	169,049	(36,588)	132,460
2014	68,059	5.500%	100,990	169,049	(35,346)	133,702
2015	71,802	5.500%	97,247	169,049	(34,036)	135,012
2016	75,496	5.500%	93,553	169,049	(32,744)	136,305
2017	79,904	5.500%	89,145	169,049	(31,201)	137,848
2018	84,298	5.500%	84,750	169,049	(29,663)	139,386
2019	88,935	5.500%	80,114	169,049	(28,040)	141,009
2020	93,620	5.500%	75,429	169,049	(26,400)	142,649
2021	98,975	5.500%	70,074	169,049	(24,526)	144,523
2022	104,419	5.500%	64,630	169,049	(22,620)	146,428
2023	110,162	5.500%	58,887	169,049	(20,610)	148,438
2024	116,076	5.500%	52,973	169,049	(18,540)	150,508
2025	122,605	5.500%	46,444	169,049	(16,255)	152,793
2026	129,348	5.500%	39,701	169,049	(13,895)	155,154
2027	136,462	5.500%	32,586	169,049	(11,405)	157,643
2028	143,899	5.500%	25,150	169,049	(8,802)	160,246
2029	151,882	5.500%	17,166	169,049	(6,008)	163,040
2030	160,236	5.500%	8,813	169,049	(3,085)	165,964
TOTALS	2,015,500		1,365,474	3,380,974	(477,916)	2,903,058

	G.O. Bond	Revenue Bond	State Trust Fund Loan
LESS RESERVE FUND APPLIED (FINAL PYMT)		(229,500)	
ESTIMATED TOTAL COST OF FINANCING	2,953,397	3,177,419	2,903,058

NOTES:

[1] Rate scale is Village of Grafton (Moodys A1) 8-17-2009 sale results (2010 and 2029-2030 maturities extrapolated based on 8-14-2009 MMD A Scale

[2] Rate scale is G.O. scale plus additionl 25 basis points (.25%).

[3] Rate scale is current State Trust Fund Loan Program rate for loans with terms of 11 to 20 years.

For Discussion Only