September 10, 2019

Pre-Sale Report for

City of Stoughton, Wisconsin

$1,900,000 Waterworks System Revenue Bonds, Series 2019B

Prepared by:

David Ferris, CPA
Municipal Advisor

Philip Cosson, CIPMA
Senior Municipal Advisor

Executive Summary of Proposed Debt

Proposed Issue:	$1,900,000 Waterworks System Revenue Bonds, Series 2019B
Purposes:	The proposed issue includes financing for the following purposes: • 2019 and 2020 water system capital improvements
Authority:	The Bonds are being issued pursuant to Wisconsin Statute(s): • 66.0621 The Bonds are not general obligations of the City but are payable only from and secured by a pledge of income and revenue to be derived from the operation of the Water System.
Term/Call Feature:	The Bonds are being issued for a term of 15 years. Principal on the Bonds will be due on May 1 in the years 2020 through 2034. Interest is payable every six months beginning May 1, 2020. The Bonds will be subject to prepayment at the discretion of the City on May 1, 2027 or any date thereafter.
Bank Qualification:	Because the City is expecting to issue no more than $10,000,000 in tax exempt debt during the calendar year, the City will be able to designate the Bonds as "bank qualified" obligations. Bank qualified status broadens the market for the Bonds, which can result in lower interest rates.
Rating:	The City's most recent bond issues were rated by Moody's Investors Service. The current ratings on those bonds are "A1". 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 in the event that 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 Bonds as a suitable option based on: • Net system revenues available for debt service that provide sufficient coverage for the estimated principal and interest payments of the proposed Bonds and existing parity debt. • The City's past practice of using revenue bonds to finance enterprise system improvements.

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. For this issue of Bonds, any premium amount received may: be retained; used to reduce the issue size; or combination thereof. These adjustments may slightly change the true interest cost of the original bid, either up or down. 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 Bonds intended to achieve the City's objectives for this financing.
Other Considerations:	The Bonds 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 Bonds. This makes your issue more marketable, which can result in lower borrowing costs. In the event that 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 has contracted with Ehlers to prepare and file the reports.
Arbitrage Monitoring:	Because the Bonds tax-exempt obligations, the City must ensure compliance with certain Internal Revenue Service (IRS) rules throughout the life of the issue. These rules apply to all gross proceeds of the issue, including initial bond proceeds and investment earnings in construction, escrow, debt service, and any reserve funds. How issuers spend bond proceeds and how they track interest earnings on funds (arbitrage/yield restriction compliance) are common subjects of IRS inquiries. Your specific responsibilities will be detailed in the Tax Exemption Certificate prepared by your Bond Attorney and provided at closing. We recommend that you regularly monitor compliance with these rules and/or retain the services of a qualified firm to assist you. We also recommend that you establish written procedures regarding compliance with IRS rules.
Investment of and Accounting for Proceeds:	In order to more efficiently segregate funds for this project and maximize interest earnings, we recommend using an investment advisor, to assist with the investment of bond proceeds until they are needed to pay project costs. Ehlers Investment Partners, a subsidiary of Ehlers and registered investment advisor, is available to discuss an appropriate investment strategy with the City.
Risk Factors:	**Utility Revenue:** The City expects to pay the Bond debt service with: • Water Revenues In the event utility revenues are insufficient to pay debt service, the Common Council is committing to consider appropriating funds from any other available sources in an amount sufficient to cover the shortfall. If it chooses to do so, the City may levy a tax to make up a shortfall. Any amount levied for this purpose is exempted from levy limits. While the City is not required to appropriate the funds necessary to remedy any shortfall in revenues needed to pay debt service, failure to do so would result in either a lack of access to capital markets in the future, or access at a substantially higher cost.

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 if there are Term Bonds **Rating Agency:** Moody's Investors Service, Inc.

Proposed Debt Issuance Schedule

Pre-Sale Review by Common Council:	September 10, 2019
Due Diligence Call to review Official Statement:	To be determined
Distribute Official Statement:	Week of October 14, 2019
Conference with Rating Agency:	To be determined
Common Council Meeting to Award Sale of the Bonds:	October 22, 2019
Estimated Closing Date:	November 14, 2019

Attachments

Estimated Sources and Uses of Funds

Project Listing

Estimated Proposed Debt Service Schedule

Bond Buyer Index

Ehlers Contacts

Municipal Advisors:	David Ferris	(262) 796-6194
	Philip Cosson	(262) 796-6161
Disclosure Coordinator:	Peter Curtin	(262) 796-6187
Financial Analyst:	Kathy Myers	(262) 796-6177

The Preliminary Official Statement for this financing will be sent to the Common Council at their home or email address for review prior to the sale date.

Water Utility Capital Financing Plan & Sizing

	Preliminary
Projects	
Water	
Water System Projects - 2019	1,044,600
Water System Projects - 2020	693,400
Project Needs	1,738,000
Debt Service Reserve	
New Debt Service Reserve Requirement	344,852
Transfer from Prior Issue Debt Service Reserve funds	(252,000)
Additional Debt Service Requirement Needs	92,852
Issuance Expenses	
Municipal Advisor	18,960
Bond Counsel	11,000
Disclosure Counsel	6,600
Paying Agent If terms	850
Rating	13,000
Underwriter Fees	23,750
	74,160
Total Funds Needed	1,905,012
Less Interest	(8,690)
Rounding	3,678
Size of Issue	1,900,000

THE CITY OF STOUGHTON

EHLERS LEADERS IN PUBLIC FINANCE

Water Utility Capital Projects – 2019 - 2020

Description	Funding Source	2019	2020
2019-2024 Main Replace Engineering	Revenue Bonds	117,500	61,000
2019 Main replace - Monroe: Main to Lowell	Revenue Bonds	386,000	-
2019 Main replace - Monroe: Main to Patterson	Revenue Bonds	71,000	-
2019 Main replace - Lowell: Monroe to Page	Revenue Bonds	259,300	-
2019 Main replace - Patterson	Revenue Bonds	149,800	-
2020 Main replace-Grant: Prospect to Taft	Revenue Bonds	-	77,000
2020 Main replace- Prospect: Page to Mckinley (O)	Revenue Bonds	-	323,000
2020 Hydrant replace - Roby Road	Revenue Bonds	-	20,000
Chemicals	Utility Reserve	18,000	20,000
Generator Testing - Wells 5 & 7, Tower II	Utility Reserve	1,500	3,000
Large Meter Replacements	Revenue Bonds	28,000	25,000
Large meter testing	Utility Reserve	-	6,000
Lead Service Replacements	Revenue Bonds	8,000	75,000
Meters - New and Replacements	Revenue Bonds	25,000	26,500
Seal Coat Driveways	Utility Reserve	-	2,500
Water Service Truck #23 (2010)	Revenue Bonds	-	35,000
Water System Study	Revenue Bonds	-	30,000
Water Valve Adustments For Street Dept. Projects	Utility Reserve	8,000	-
Water Valve Adustments For Street Dept. Projects	Revenue Bonds	-	20,900
WDNR Regulations Samples	Utility Reserve	15,000	15,000
		$ 1,087,100	**$ 739,900**

	2019	2020
Revenue Bonds	$ 1,044,600	$ 693,400
Utility Reserve	42,500	46,500
	$ 1,087,100	$ 739,900

Water Utility Capital Financing Plan & Sizing

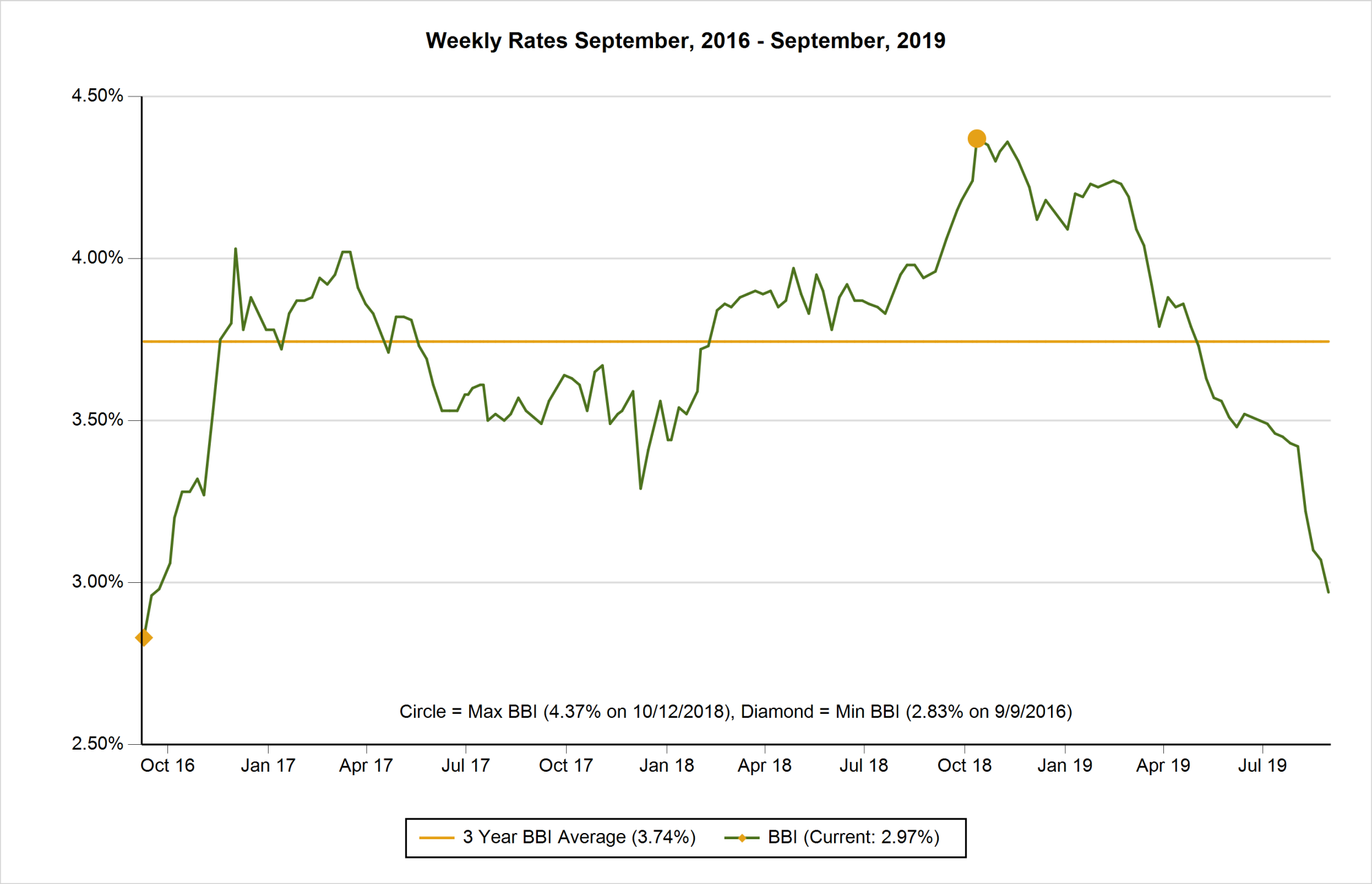
YEAR	System Revenues		Debt Service								Coverage Ratios		YEAR
			Existing Debt			Water Utility Revenue Bond, Series 2019A							
	Total	Net	Principal	Interest	Total	Principal	Rates	Interest	Total	Total Payments	Debt	Capacity	
2019	2,121,101	747,553	314,173	40,257	354,430					354,430	2.11	580,011	**2019**
2020	2,121,101	747,553	339,952	35,760	375,711	110,000	1.42%	37,434	147,434	523,145	1.43	411,296	**2020**
2021	2,121,101	747,553	335,751	30,735	366,486	110,000	1.46%	37,282	147,282	513,768	1.46	420,674	**2021**
2022	2,121,101	747,553	326,571	25,415	351,986	115,000	1.55%	35,587	150,587	502,573	1.49	431,868	**2022**
2023	2,121,101	747,553	352,414	19,560	371,974	115,000	1.67%	33,736	148,736	520,709	1.44	413,732	**2023**
2024	2,121,101	747,553	168,278	14,714	182,992	120,000	1.79%	31,702	151,702	334,694	2.23	599,747	**2024**
2025	2,121,101	747,553	174,166	10,720	184,886	120,000	1.93%	29,470	149,470	334,356	2.24	600,086	**2025**
2026	2,121,101	747,553	180,078	5,890	185,967	120,000	2.04%	27,088	147,088	333,055	2.24	601,386	**2026**
2027	2,121,101	747,553	36,014	2,960	38,974	125,000	2.11%	24,545	149,545	188,518	3.97	745,923	**2027**
2028	2,121,101	747,553	36,974	1,999	38,974	130,000	2.18%	21,809	151,809	190,783	3.92	743,659	**2028**
2029	2,121,101	747,553	37,961	1,013	38,974	130,000	2.26%	18,923	148,923	187,897	3.98	746,545	**2029**
2030	2,121,101	747,553			0	135,000	2.34%	15,875	150,875	150,875	4.95	783,567	**2030**
2031	2,121,101	747,553			0	135,000	2.40%	12,675	147,675	147,675	5.06	786,766	**2031**
2032	2,121,101	747,553			0	140,000	2.48%	9,319	149,319	149,319	5.01	785,122	**2032**
2033	2,121,101	747,553			0	145,000	2.54%	5,742	150,742	150,742	4.96	783,700	**2033**
2034	2,121,101	747,553			0	150,000	2.60%	1,950	151,950	151,950	4.92	782,491	**2034**
			2,302,332	**189,023**	**2,491,355**	**1,900,000**		**343,134**	**2,243,134**	**4,734,488**			

NOTES:

Rates based upon 8/26/19 sale of A- rated Water/Sewer Revenue Bond + 0.25.

[1]Total system revenues available for debt service is based upon the 2018 audit.

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

EHLERS
LEADERS IN PUBLIC FINANCE