

NORTHLAND  SECURITIES

January 13, 2015

Chris Ziegler

City Administrator

City of Winnebago

140 Main Street South

Winnebago, Mn 56098

Re: Northwest Area Street and Utility Improvements

City of Winnebago, Minnesota

Dear Chris,

Last week I meet with you, the public utility commission and your city engineer (Travis Winter) to discuss the financing options for the city on the above referenced matter. This letter is a summary of what I presented to the group.

Page 6 of the engineer's report states that the total cost of municipal improvements to the Northwest Street and Utility project will be \$6,606,880 over a phase 1,2 & 3. These improvements will be paid back from sewer, water and storm sewer rates and charges along with assessments to benefited property. The city will also need to levy an annual real estate tax to finance the above ground improvements.

I am enclosing copies of the financing plan that I presented for your files.

I will try to summarize what I told the commission last week.

Pages 1 & 2 of my analysis shows a bond issue for phase 1 of the project. This tax exempt issue will need to be approx... \$2,715,000 in size to pay all the hard and soft costs that will be incurred in construction season 2016. The sewer and water costs will (by state law) need to be covered 100% by rates and charges to the water and or sewer systems. The city wide increase in sewer and water rates needs to be \$7.80 a month per average user to pay the debt service associated with the hard costs of sewer and water improvements. (This is the area in blue on page 2). The city wide increase in the storm sewer enterprise will need to go up an additional \$5.10 a month per average user to pay the debt service associated with the hard costs of the storm sewer improvements. (This is the area in pink on page 2).

The remainder of the costs for assessments of above ground improvements will be paid from special assessments levied against benefited property and an annual tax levy to be spread over all taxable property within the city.

Phase 2 (pages 3 & 4 of my analysis) is proposed to be constructed in the year 2017 and is almost identical to phase 1. Phase 2 will require another raise in the sewer and water rates of approx... \$5.30 a month per average user. The storm sewer rates will need to be raised another \$4.20 per month per average user. Another increase in tax levy and more assessments will need to be levied to pay the costs that are not picked up by the utility increases.

Phase 3 (pages 5 & 6 of my analysis) is proposed to be constructed in the year 2018 and is structured the same as phase 1 & 2. Phase 3 will require another raise in the sewer and water rates of approx... \$5.20 a month per average user. The storm sewer rates will need to be raised another \$1.15 per month per average user. Another increase in tax levy and more assessments will need to be levied to pay the costs that are not picked up by the utility increases.

Page 7 of my analysis shows the 3 new bond issue tax levies with the 4 existing bond issue tax levies.

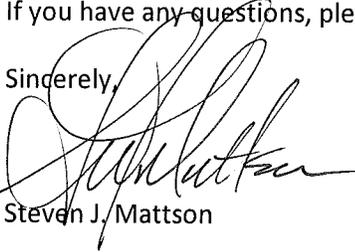
Page 8 is the real estate tax levy impact of various homestead properties and commercial and industrial properties.

The bottom line is..... the city will need to increase the sewer and water rates a total of \$18.30 over the next 3-4 years. The storm sewer monthly fee will need to be raised a total of \$10.45. The total together is an increase of \$28.75 over the existing current monthly fees. If you live in a \$150,000 market value home your average tax levy increase will be \$333.29 per year for 20 years.

I have been in the Minnesota bond business over 43 years and I have seen it all. I need to tell you and your city officials that I am concerned about adding these rates and charges and tax levies on you taxpayers. Northland Securities is the leading underwriter of tax-exempt bonds and I question if we would even underwrite your bonds at these costs. I strongly suggest that you make application with any and all governmental originations to inquire about grants and or below interest rate loans to finance this project.

If you have any questions, please feel free to contact me.

Sincerely,



Steven J. Mattson

Executive Vice President and Co Founder

Northland Securities, Inc.