

**CITY OF CEDARBURG  
FINANCE COMMITTEE  
April 22, 2025**

A special meeting of the Finance Committee of the City of Cedarburg, Wisconsin, was held online on Tuesday, April 22, 2025, utilizing the Zoom app.

Council Member Jim Fitzpatrick called the meeting to order at 1:00 p.m.

Roll Call: Present - Council Member Jim Fitzpatrick, Jack Arnett, Tim Voeller, Allan Lorge, Jeff Slater, Mary Kay Bourbulas and Michael Bradburn.

Also Present- City Administrator Mikko Hilvo, Deputy Treasurer Maureen Hartjes and Ehlers representative Harry Allen.

**STATEMENT OF PUBLIC NOTICE**

Deputy Treasurer Hartjes confirmed proper legal notice of the meeting had been given.

**COMMENTS & SUGGESTIONS FROM CITIZENS**

None.

**NEW BUSINESS**

Mr. Allen from Ehlers presented two borrowing options for 2025 and 2026 street improvements. Mr. Allen said the goal of the Finance Committee is to combine debt issuances, when possible, to cut down on issuance costs and to stay under \$5 million to still qualify for the small issue or exemption rebate as it pertains to arbitrage. Mr. Allen stated the City could combine the 2025 and 2026 street project borrowing along with the Washington Avenue project for an estimated total borrowing of \$5.4 million. Mr. Allen stated that Ehler's arbitrage team reviewed this borrowing scenario and did not have any concern with the City spending down the funds within the required eighteen months.

Mr. Allen said with the larger borrowing scenario the City could earn interest earnings to offset some of the issuance costs shown in Table 2. Mr. Allen said 3% was used as the interest rate and that could be low but could result in around \$140,000 in interest earnings which could decrease the amount of debt the City would need to borrow. Mr. Allen presented a ten-year principal and interest schedule using current interest rates and mentioned that there has been a spike in interest rates over the past couple of weeks including a change of about 45 basis points. Mr. Allen said there has been a lot of movement in the municipal market for one month and in the last week and a half they have stabilized but we don't know where the rates will go.

Mr. Allen said with this debt coming out in 2025 he wanted to be sensitive to how the levy will step up over the next couple of years. Mr. Allen stated to match what was shown in the FMP there is a slightly lower payment in 2026 and then a step up in 2027 and staying flat in future years.

Mr. Allen reviewed the Financing Plan Tax Impact (Table 4) noting the increase in total net Debt Service levy. Mr. Allen said the 2025 Debt Service levy was around \$950,000 which was lower due to the City utilizing debt service fund balance. Mr. Allen said there is a step up in 2026 to \$1.6 million, another increase in 2027 to around \$2 million and then it drops off for future debt to slot in with limited impact.

Mr. Slater asked if the City is contemplating borrowing \$2 million every other year forever. Administrator Hilvo stated the City would borrow every two years for street projects and that next year there is a larger project due to Washington Avenue. Mr. Arnett asked if this was part of the FMP and Mr. Allen said that it was included and while this is contemplated in the short term, it is not intended to be the 10-year plan. Mr. Lorge said interest rates had bounced about 40-45 basis points and asked Mr. Allen if that was reflected. Mr. Allen said current market rates were used, and it was based on a sale Ehlers had this month and he said he increased it by 35 basis points and this is probably a little higher than the current market. Ms. Bourbulas stated the municipal market has had huge outflows recently and because of the volatility in the bond market and less overall buyers in the municipal market, municipals are trading cheap versus treasuries right now and therefore not the best time to borrow in the municipal market.

Mr. Arnett asked for clarification on the \$2.695 million borrowing and asked if this amount represented this year's street project plus a few other catch-up type projects. Administrator Hilvo stated the \$2.695 million is for the City's regular 2025 and 2026 street projects and typically the City allocates a little over \$1.3 million for street projects every year. Mr. Arnett asked if the City had \$1-\$2 million in the budget for street repairs in the base levy. Administrator Hilvo said that the City did not. Mr. Arnett asked if the City, to stay under the \$5 million to remain a small issue, could borrow \$4.999 million and then if needed a chunk from the State Loan Pool. Mr. Allen said the City could do that if this was the only tax-exempt debt that was issued this year but unfortunately the City issues the Safe Drinking Water Fund loans on behalf of Cedarburg Light and Water. Mr. Allen stated this would count towards the City's \$5 million limit and since this year's loan is more than \$1 million it eats into the \$5 million cap quickly.

Council Member Fitzpatrick asked how the spend down works and if the City would need to spend under that \$5 million within 18 months. Mr. Allen said there are certain amounts the City would need to have spent by certain dates and within 6 months the City would need to have a certain percentage of proceeds spent and then another percentage in 12 months and after 18 months, 95% of the proceeds must be spent down. Mr. Allen said if you hit those different percentages, the City can avoid any arbitrage liability. Mr. Arnett asked if the City is required to spend the proceeds specifically on roads or if the City could use proceeds on a previously budgeted item such as a truck. Mr. Allen said that this would be allowed under the G.O. Note statute and that the statute is very broad. Mr. Allen stated the City could pay for items if the item that is paid for is an eligible use of tax-exempt proceeds. Council Member Fitzpatrick said the City should be confident the City will be able to appropriately spend down and the chances of being unable to meet those thresholds are low. Administrator Hilvo agreed and added that he is not concerned about the City spend down but is concerned about how the borrowing affects the taxpayers.

Mr. Allen briefly discussed the City's G.O. Debt capacity and said the City's utilization is low. Mr. Allen said it is going to be about the same in both scenarios and therefore hitting a max of 20% and staying under are no concerns with this borrowing.

Mr. Allen went on to discuss the second scenario of two borrowings, one in 2025 and another in 2026. One borrowing would be for general street improvements and the other for Washington Avenue. Mr. Allen said there

is a duplication of the issuance costs since most of the fees are about the same per issue. Mr. Allen said another difference is a decrease in the assumed interest earnings given that the \$2.5 million of proceeds would be borrowed later and then invested for a shorter period of time. Mr. Allen said this scenario would be about \$5.6 million across the two borrowings and the first scenario was \$5.485 million and about a \$135,000 increase in total debt being issued. Mr. Allen said the 2025 issue is structured level with principal and interest payments exactly what was shown in the FMP and then the second issue would be the same structure for level principal and interest payments. Mr. Allen stated he kept the interest rates the same in this model as we don't know where interest rates will be one year from now. Mr. Allen said the tax impact with this scenario is going to be the same as the last schedule where the Debt Service levy steps up to \$1.6 million in 2026 and then \$1.9 million in 2027. Mr. Allen pointed out the summary at the bottom of Table 9 showed the difference between the two scenarios and said the difference is due to \$135,000 more debt being issued and then less interest on Scenario 2 due to the fact Scenario 1 assumed a ten-year term and delayed principal payments in the first year which resulted in a higher interest rate. The total net difference is \$106,597 between the two scenarios.

Mr. Arnett asked if Mr. Allen had any recommendations. Mr. Allen stated he didn't have a recommendation but the considerations for the City are the interest earning periods and how long the City will hold the proceeds, the issuance costs per issue and then the term of the debt. Mr. Allen suggested considering an eleven-year repayment for Scenario 2, which could get the same kind of structure and may help slot in future debt issues as the payments in these combined years would be a bit lower. Mr. Allen stated it would add interest cost but could be considered.

Council Member Fitzpatrick said he can't see a reason for the City to break this into two issues. Administrator Hilvo agreed and stated issuing all at once does make sense if arbitrage is not a concern. Mr. Lorge asked if there are any other alternatives than for the city to go straight to G.O. Debt. Mr. Allen said G.O. Debt has the lowest costs. Mr. Allen stated there are potentially differences in the interest rate received but as far as what credit you're pledging General Obligation is the strongest credit that the City can pledge to debt, and will get you the lowest cost of borrowing, kind of regardless of how you sell it. Mr. Lorge asked if the City can borrow from the State Trust Fund. Mr. Allen stated that the program does still exist, but the rate is not competitive right now and currently it is around 5.5% whereas open market for a ten-year term is under 4% and still about 3.7%-3.8%. Mr. Allen said it is a significant difference, and the State Trust Fund loan would still have a General Obligation pledged which would mean the City is essentially issuing the same type of debt under both scenarios just at different interest rates. A discussion ensued comparing issuance costs between the two scenarios and how future interest rates are unknown. The Finance Committee thanked Mr. Allen for his time and work on this presentation.

Administrator Hilvo presented a loan proposal from Port Washington State Bank which was a rate of 1.5% over the 5-year Treasury Rate. Administrator Hilvo said there are less fees with using the bank. The Finance Committee agreed Port Washington State Bank's rate was not competitive.

Administrator Hilvo presented two loan proposals from Bank First; one option is to do two borrowings, a \$2.8 million in 2025 and then \$2.625 million in 2026; the second option would be one borrowing for \$5.4 million; both with an interest rate of a 7-year U.S. Treasury Yield + 0.375%, with bank fees not to exceed \$5,455 and bond counsel estimated at around \$15,000. Council Member Fitzpatrick said these rates are very competitive and the City would not have to pay rating agencies or an underwriting fee. Ms. Bourbulas said what the bank does is a buy and hold and the loan is then in their investment portfolio. Ms. Bourbulas. stated the only downside for the City is the large prepayment fee of 7% and if the rates go the other way the City really can't prepay. Ms. Bourbulas stated Bank First is using bond counsel and this would be considered a municipal issue. Ms. Bourbulas stated the

bank does their own due diligence and their own internal rating. Mr. Bradburn stated the proposal is a strong proposal and the Muni market is messed up right now. Mr. Bradburn stated the City would have the ability to prepay the loan in the last three years since the prepayment penalty decreased 1% per year.

Administrator Hilvo stated there are advantages of working with Ehlers for borrowings as they are fiduciaries for the City and act in the City's best interest as well as provide various scenarios regarding financing and tax impact calculations. Administrator Hilvo stated he did not want to put more work on the Finance Department. Ms. Bourbulas stated it wouldn't be any different than the City borrowing from the State Trust Fund and informing Ehlers about the new debt.

Council Member Fitzpatrick stated he cannot come up with a reason why the City would not pursue this loan. Mr. Voeller stated the City would have to hire additional counsel to represent the City. Ms. Bourbulas stated we could ask the Common Council first. Deputy Treasurer Hartjes stated she talked to Quarles and Brady and the fee for Borrowing Counsel would be around \$1,000. Council Member Fitzpatrick stated the City should start with the City Attorney Herbrand to see what he recommends. Mr. Arnett stated the City should reach out to Mr. Allen and ask him to run the two Bank First loan scenarios within the FMP since the City has a few hours in the FMP budget left. Mr. Slater stated the only real difference between the two proposals is the impact on the 2025 budget. Administrator Hilvo said if the City must pay debt that was not budgeted for in 2025 the City may have to use fund balance. Administrator Hilvo stated if the City utilizes fund balance it affects the long-term and the City will have to borrow more for other things sooner.

Ms. Bourbulas stated that she is on the Bank First board but is not involved in this at all. Ms. Bourbulas said the City can ask the bank for a different repayment. A discussion ensued regarding tax impact, rates and payment schedules. Council Member Fitzpatrick asked when the issuance would occur. Administrator Hilvo stated it would occur in the next 60-90 days as invoices are starting to come in for work done on the 2025 street projects. Administrator Hilvo asked the Finance Committee if everyone agrees to borrow all at once and utilize Bank First. Administrator Hilvo stated the City may have to use fund balance if needed to pay interest in 2025 and the City will ask Mr. Allen to utilize FMP hours to update the FMP model with the new loan information. Council Member Fitzpatrick asked if any action needed to be taken. The Finance Committee agreed to move forward.

A motion was made by Mr. Lorge to recommend the Bank First borrowing of \$5,454,750 for 2025 and 2026 Street Improvements and the Washington Avenue Project to the Common Council and was seconded by Mr. Bradburn. Motion passed unanimously. Ms. Bourbulas abstained from this vote.

**Identify future agenda items, and action thereon**

Discussion of Ehlers Investments - Tami Olszewski

**Confirm Next Meeting Date** May 15, 2025, at 10:00am

**ADJOURNMENT**

Motion made by Mr. Arnett, seconded by Mr. Voeller to adjourn the meeting at 2:07 p.m. Motion carried without a negative vote.

Maureen Hartjes  
Deputy Treasurer