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TO: City of Madison, Wisconsin
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FROM: Joseph M. Murray, CIPFA
Vice President

DATE: November 27, 2012

SUBJECT: Water Utility Revenue Bonds, Series 2012

Springsted Incorporated solicited bids today on behalf of the City of Madison and the Madison Water Utility. I am pleased to inform you that the City/Utility experienced a very successful sale. Below is a summary of the transaction for your information. Bond counsel is prepared the appropriate award resolution for consideration by the Water Utility Board and ultimately the Common Council.

Water Utility Revenue Bonds, Series 2012

Par Amount of Sale:	\$21,095,000
Method of Sale:	Competitive
Number of Bidders:	10
Winning Bidder:	Raymond James & Associates
True Interest Rate on New Debt (TIC):	2.413%
Bid Spread High to Low:	0.12% (12 basis points)
Bid Premium:	\$1,623,071
Moody's Rating:	Aa1 - Negative

As noted, the results were very good. In developing our recommendations for the sale we had anticipated the City/Utility receiving a TIC of 2.903%, thus today's bid reflects a savings of 0.49% or 49 basis points (bps).

The winning bid also provided the City/Utility with a premium bid. The premium is part of an underwriter's bidding strategy whereby in return for placing higher coupon interest rates throughout the series (making them easier to sell to their investors), the underwriter provides the City/Utility with a higher purchase price (cash) to help the City/Utility pay the interest cost and thus reduce the True Interest Cost (TIC). In this instance, however, the higher coupon interest rates resulted in the City/Utility having to increase its required Debt Service Reserve Fund (DSRF) from an estimated \$1,307,528 to \$1,404,603. However, the balance of the premium and rounding amount will be deposited in the project funds, providing \$1,528,194 for additional projects. Had the City/Utility elected to not use the premium

for additional project funds, the size of the issue would have been correspondingly decreased in size and allowed the City/Utility to correspondingly save a like amount in debt service.

Today's large number of bids (10) and the narrow spread (only 12 bps) between them also indicate that the City/Utility attracted a high level of interest and competition. Looking at past sales, the City/Utility had not attracted more than 8 bidders, most frequently attracting 5-6 bids. For the Water Utility Revenue Bonds, Series 2011, the City/Utility attracted 8 bids for a very similar issue (\$19,370,000) and a TIC of 3.19%, thus reflecting today's sale beating last year's markets by 78 bps.

Moody's Rating Scale and Comments

In paraphrasing from the Moody's report, the Aa1 – negative outlook rating reflects:

- Satisfactory debt service coverage levels
- Stable and diverse economy that benefits from the presence of the University of Wisconsin-Madison and the State capital
- Recent improvements in liquidity, yet narrow;
- Concerns about the lack of control in rate setting and PSC review/approval timelines
- Manageable debt burden;

The report notes that the financial position and operations at the Water Utility are improving, however, the rating agency would like to see results continue to improve for a few years before removing the negative outlook.

	Moody's	S & P	Fitch
Highest	Aaa	AAA	AAA
	Aa1	AA+	AA+
	Aa2	AA	AA
	Aa3	AA-	AA-
	A1	A+	A+
	A2	A	A
	A3	A-	A-
	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
Lowest	Baa3	BBB-	BBB-
(Investment Grade)			

On behalf of Springsted, I would like to thank the City of Madison and the Madison Water Utility for the opportunity to help you with this project. If you have any questions or would like to discuss today's sale results any further, please feel free to contact me at 414.220.4257 / jmurray@springsted.com.