



CITY OF GERMANTOWN

TENNESSEE

1930 South Germantown Road • Germantown, Tennessee 38138-2815
Phone (901) 757-7200 Fax (901) 757-7292 www.germantown-tn.gov

FINANCIAL ADVISORY COMMISSION MINUTES

Tuesday, March 3, 2015, 6.00 p.m.

Economic & Community Development Blue Conference Room
1920 S. Germantown Road, Germantown, TN 38138

Members Present: Sudhir Agrawal, Christy Gilmore, Clint Hardin, Alderman Rocky Janda, David Jackson, Russell Johnson, Julie Klein, Walter Krug, Jason Lowe, Michael McLaughlin, Christine Menzel, Chris Miller, Frederick Miller, Julius Moody, Paul Mosteller, David Rea, and Donnie Rose

Members Absent: Mark Holland, Howard Lasley, Michael New, Dale Stover and Jonathan Turner

Staff Present: Mayor Palazzolo, Patrick Lawton, Ralph Gabb, Sherry Rowell, Jessica Brown, Adrienne Royals and Carmen Richardson

Others Present: Lauren Lowe - The PFM Group, Jen Pignolet -The Commercial Appeal and Michael Stoll

CALL TO ORDER

Chairman Moody called the March 3rd, 2015 Financial Advisory Commission meeting to order at 6:06 p.m.

ESTABLISHMENT OF A QUORUM

Ralph Gabb called roll and announced a quorum was present.

APPROVAL OF THE MINUTES

****MOTION****

Chairman Moody moved to approve the minutes from the June 3rd, 2014 Financial Advisory Commission meeting as presented. Mr. Hardin made a motion to approve and Mr. Miller seconded and the motion passed unanimously.

PURPOSE STATEMENT /ROLE OF COMMISSION/ETHICS FORM

Mr. Lawton explained that the City of Germantown has approximately 19 or 20 different boards and commissions who work with the Board of Mayor and Aldermen and City Staff throughout the year in an advisory capacity. He advised that most of the "heavy lifting" to be done by this commission will take place during the spring months

while working on the City's budget. Items such as the Enterprise Budget, Capital Improvement Plan, the Germantown Municipal School District Budget and the General Fund (Revenues and Expenditures) are some of the main topics that will be discussed. Mr. Lawton further stated that hopefully towards the end of April we will have a recommendation from this body stating that the budget has been interpreted to be sound and can move forward for consideration by the Board of Mayor and Aldermen who will then take it through the three reading ordinance process.

Mr. Lawton spoke briefly on the Ethics Policy for City Officials. He stated that each member is required to review, sign and return the policy to Carmen Richardson or Dotty Johnson.

NOMINATION OF VICE-CHAIR

****MOTION****

Chairman Moody called for nominations for vice-chairman. A unanimous decision was made that Russell Johnson be vice-chair of the 2015 Financial Advisory Commission.

FY16 BUDGET CALENDAR REVIEW

Mr. Lawton suggested that a date be added to the FY16 Budget Calendar for Germantown Municipal School District Superintendent Jason Manuel to present the GMSD budget to Financial Advisory Commission members. Mr. Gabb recommended that we adjust the calendar and include a date once it is closer to time for the approval and review of GMSD's budget.

BMA RETREAT OVERVIEW

Mr. Lawton advised that every year the Board of Mayor and Aldermen (BMA) hold a retreat twice a year. The retreat that is held in January is typically to talk about the key issues that the City will face over the next twelve months, what we need to consider for the budget for the upcoming fiscal year and to provide some direction to City staff on things to work on during the year. A SWOT analysis (strengths, weaknesses, opportunities and threats), a detailed Budget and Performance test and a Financial Trend Monitoring analysis are conducted as well. Mr. Lawton further advised that the City is in excellent financial shape; social and environmental trends such as per capita income, crime rate and other indicators that could impact the City were looked at and discussed.

Per Mr. Lawton, this year's retreat was different in that the School Board and the Superintendent along with his staff were invited to join in. The session proved to be extremely productive. It was learned that in the school system there are needs that have to be addressed such as years of deferred maintenance on the 5 acquired buildings, removal of the portables at Riverdale Elementary and the adding of a seventh and eighth grade wing, and the need for an additional elementary school and the costs that will be associated. The BMA has asked the school administration to go back and look at our Debt Management Policy and then provide a better understanding of what the debt capacity would be if the City were to look at additional capital needs or if the City could even consider issuing that type of debt to support our municipal school system. Mr. Lawton then advised that the City of Germantown has held a AAA rating since 1986 with Moody's and 1994 with Standard & Poor's. While he assured that the AAA rating of our government will not be jeopardized in any way, the School Board has been charged with not only looking at our debt capacity but also to take into consideration our AAA rating and our ability to re-pay the debt for these capital needs.

DEBT CAPACITY OVERVIEW

Ms. Lauren Lowe of The PFM Group presented on Debt Capacity. She stated that the City of Germantown is the longest standing AAA city in the State of Tennessee. It is the backbone of looking at not only the existing financial and debt policies of the City but for planning and moving forward as well. Per Ms. Lowe, PFM partners with the City of Germantown looked at where we are now, where do we want to go and how do we get there. She advised that known capital needs for the schools and likewise, capital needs for the city were used as starting points—what can we afford based on the framework of what we know today is the City's existing Debt Management Policy which has been in place for approximately five years now.

Ms. Lowe explained the following financial and economic indicators:

- **Net Debt Service to General Fund Expenditures (12% cap)** – This is a measure of the debt service as a percent of the City's total operating expense—how much debt service can the General Fund support in any one fiscal year.
- **Direct Debt to Assessed Property Value (4% cap)** – This is a measure of the debt liability to the City's total assessed values for property taxes; the taxable assessed value within the City for both residential and commercial properties and the total amount of the City's Outstanding General Debt Obligation.
- **Direct Debt Per Capita (\$1,500 limit)** – a measure of debt liability to the City's population; amount of the City's Outstanding General Obligation Debt per resident.
- **Per Capita Debt to Per Capita Income (3% cap)** – a measure of the debt liability for the City's population as a percent to their annual income; the affordability of each individual person.

Ms. Lowe stated that this model focuses on ratios and indicators there are impacted when additional debt is issued. Based on the City's financial information from FY 2014, what additional debt could be issued and still bring the City back to what we presently have in place. She reported that the Net Debt Service to General Fund Expenditures is currently at a 9% level; approximately \$16.1 million dollars can be issued in order to not exceed the 12% cap. For Direct Debt Assessed Property Value, taxable assessed value of property as of June 30, 2014 was used to determine that approximately \$28.3 million can be issued to get to the 4% limit. Per Ms. Lowe, the Direct Per Capita Debt right now is at about \$711 per person based on a 40,123 population base; \$31.6 million can be issued in order to not exceed the \$1,500 Debt Policy Limit per person. And lastly, the Per Capita Debt to Per Capita Income of \$31.4 million is calculated in tandem with the aforementioned Debt Per Capita. With that said, Ms. Lowe stated that currently, the City is well within its policy limits.

Ms. Lowe discussed a study where the City of Germantown was compared to other cities across the country that also have AAA ratings (Peer Analysis) through the utilization of the Moody's Municipal Financial Ratio Analysis (MFRA) database. Using FY14 MFRA data for Germantown, it was determined that there are 189 city governments with AAA ratings; Germantown's General Fund Balance as % of Revenues (Savings Account) is higher than the AAA and Aa2 medians. As for Debt Services as % of Operating Expenditures, the Aa2 and the AAA medians track very similar to one another. The Overall Net Debt Outstanding (no policy association) takes into consideration, not only the City of Germantown's debt, but also overlapping jurisdictions which includes Shelby County's debt—based on the tax base, how much of Shelby County's outstanding debt falls on the residents of Germantown? At one time, Germantown was over however, we are now in a more positive (↓) standing falling below the AAA median lines. Also falling well below the AAA and Aa2 median are Direct New Debt Per Capita (\$), Direct Net Debt as a % of Full Value (based on total taxable value of property) and Per Capita Debt/Per Capita Income (%).

Ms. Lowe then talked about a Peer Analysis based on "like" cities or other cities that have some of the same characteristics and/or trends as us. It was determined that 11 cities were comparable to the City of Germantown

based on 1) Location to Metropolitan City (considered part of MSA and borders a larger city), 2) Population Growth (less than 5%), and 3) Per Capita Income (\$40K-60K). These cities include:

Belmont, MA	Fairfax, VA	Simsbury Town, CT
Brecksville, OH	Lake Oswego, OR	Tredyffrin Township, PA
Chesterfield, MO	Madison Town, CT	Upper Arlington, OH
Edina, MN	Montgomery, OH	

Additionally, after discussion with City Officials, PFM included Alcoa, TN, Bartlett, TN, Brentwood, TN, Carmel IN, Carrollton, TX, Cary, NC, Collierville, TN, Coral Springs, FL, Dublin, OH, Franklin, TN, Maryville, TN, Mountain Brook, AL, Peachtree City, GA and Vestavia Hills, AL to the Peer Analysis.

Using the same metrics, all of the above-mentioned cities were compared to the City of Germantown. With the General Fund Balance as % of Revenues, Ms. Lowe advised that Germantown looked to be more in line on a savings level. The Debt Service as % of Operating Expenditures for all cities actually hover around our policy limit while we fall well below it. This shows that their debt policy limits are more than likely greater than our 12% cap. As mentioned before, the Overall Net Debt Outstanding includes Shelby County's debt and was therefore not included as a factor associated with the credit quality of the City of Germantown. It was determined that all of the above city's Net Debt Per Capita (\$) are above the level of \$1,500 per person as well as The Per Capita Debt/Per Capita Income which also have higher percentage levels than the City of Germantown. The same applies to Direct Net Debt as % of Full Value.

In summary, Ms. Lowe stated that she believes there is some flexibility if, in fact the City wishes to re-visit the existing policy and continue to maintain the AAA rating. She suggests that we rely heavily on local government rating criteria to ensure that the most current information from credit agency databases is being used. Additionally, Ms. Lowe recommended that more time be spent to better understand the debt policies and rating reports of the other identified cities.

In an effort to analyze and review the City's existing Debt Management Policy, Chairman Moody asked for volunteers to serve on a Financial Advisory Sub-Committee. The following members offered their services:

1. Alderman Rocky Janda
2. Paul Mosteller
3. Frederick Miller
4. Clint Hardin
5. Michael McLaughlin
6. Walter Krug
7. Ralph Gabb

ADJOURNMENT

Chairman Moody called for the meeting to be adjourned at 7:20 p.m.