



CITY OF GERMANTOWN TENNESSEE

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FINANCIAL ADVISORY COMMISSION MEETING MINUTES

Thursday, December 1, 2015, 6:00 pm
Economic & Community Development Blue Conference Room
1920 S. Germantown Road

Members Present: Sudhir Agrawal, Clint Hardin, Mark Holland, Alderman Rocky Janda, Russell Johnson, Juliet Klein, Walter Krug, Michael McLaughlin, Christine Menzel, Chris Miller, Julius Moody, Paul Mosteller, Michael New, David Rea, Donnie Rose and Dale Stover

Members Absent: Christy Gilmore, David Jackson, Howard Lasley, Jason Lowe, Frederick Miller, and Jonathan Turner

Staff Present: Patrick Lawton, Ralph Gabb, and Debbie Wiles

Others Present

- Jason Manuel – Germantown Municipal
- Lauren Lowe – The PFM Group
- Nick Yatsula – The PFM Group
- Stewart Smith – A2H
- David Smith – A2H
- Michael Stoll

CALL TO ORDER

Chairman Moody called the December 1, 2015 Financial Advisory Commission meeting to order.

ESTABLISHMENT OF A QUORUM

Ralph Gabb called roll and announced that a quorum was present.

CONSIDERATION OF THE MINUTES

****MOTION****

Mr. Hardin moved to approve the minutes from the April 28, 2015 and the minutes as corrected from the August 20, 2015 Financial Advisory Commission meetings. Ms. Klein seconded and the motion passed unanimously.

CHAIRMAN COMMENTS

No comments made.

REVIEW CAPITAL

Mr. Lawton began by commenting that the Financial Advisory Commission (FAC) usually does not meet in the month of December. He reminded everyone that in the month of August when Superintendent Jason Manuel and his staff was present there was discussion regarding the City's request to open the FY16 Budget for an amendment to include funding for capital improvement projects for the Germantown Municipal School District (GMSD). There was lengthy discussion about the consideration of two projects—1) An Expansion at Houston High School--\$2 million and 2) The Riverdale Addition--\$10 million. In an interest to move forward, we asked the FAC for a recommendation to amend the budget. Shortly after this meeting it became apparent to administration and the City's staff that these numbers may not be adequate. The City's direction back to GMSD and their consultants was to stop until there was a firmer handle on what these costs really are. It was decided that once at about 60-70% into the final design phase, this would be brought back before the FAC for consideration; per Mr. Lawton, this is where we stand as of now. Based on revised costs estimates, Mr. Lawton explained that after careful re-evaluation, consideration will now be given to only one (Riverdale Elementary School addition), not two projects. With that, he turned the floor over to GMSD Superintendent Jason Manuel.

Superintendent Manuel directed everyone's attention to a handout; he explained that this is the same exact document except for the "Exclusions as of 12/1/2015" chart on the back. All of these items (Soil Borings, Special Testing, A/E Fees, etc.) were listed before but did not have a value. He said as the School Board was going through the process of reviewing the projects, there was a tough decision to make—either two projects could be done without the quality of work that was expected or one project that could be done well. This is when it was decided that the Houston High School expansion would have to be postponed in order to make sure that the cash flow for the district was not compromised. Superintendent Manuel said they are now to the point where there is a detailed document that describes the types of tile, carpeting, ceiling and other materials to be used for the proposed facility.

Mr. Stewart Smith of A2H Consultants said after meeting with key people, he and his staff determined a program that managed division and square foot. Mr. Smith advised that he met with various City commissions and groups to discuss the project to make sure there wasn't anything pending or that needed to be included in the project. Per Mr. Smith, services were outsourced to a group out of Atlanta that has built five large schools recently on a national level. Once a cost budget was done, Mr. Smith said that they felt very comfortable with the numbers in which they checked and reviewed several times. Now, according to Mr. Smith, we have a detailed cost estimate for the project with a 5% contingency. Superintendent Manuel added that the reality for the district now is that they are able to carry more than a million dollars in their reserve just in case there are charges that go beyond the \$500,000 construction contingency and the \$750,000 design contingency.

Referring to the handout, Superintendent Manuel explained there are 57,973 square feet. This figure was derived from input collected at a meeting between the School Board and groups that included teachers, parents and school administrators. The increase in square footage was based solely on the needs of this group and program stakeholders. Also, the need for a multi-purpose room to accommodate middle school lunches and stem classes added to the increased square footage.

Mr. Lawton pointed out the \$11,650,000 total project cost. He explained that administration is recommending in the terms of a budget adjustment that the budget be opened for \$11 million to be added to the Capital Improvements Program (CIP) for FY16; anything above or over this amount will come from the School District's

reserve. Mr. Manuel advised that approximately 60% of architecture fees have already been paid out for the design phase of the project (\$518,000 x 60% = \$310,800). He also advised that the Soil Borings (\$10,000) and other fees have already been paid for; therefore the remaining fees and charges will come from the General Fund.

Mr. Lawton advised that a Memorandum of Understanding had been passed by the School Board. This is a statement of intent between the School District and the City that says how they will move forward with the issuance of the bonds or the construction of the facility. It also identifies the fact that the School District will pay back \$4 million of the \$11 million bond issuance. Because we won't know what the interest cost will be until the bond sale in February, there will be another agreement that the City and School District will execute that will clearly identify the principal and interest to be paid back by the district over the next thirty years based on the \$4 million. Mr. Lawton then stated that the budget adjustment that will be taken to the Board of Mayor and Aldermen (BMA) to amend the FY16 budget will be for an additional \$11 million.

After much discussion and questions from commission members, it was suggested that a recommendation be made to the Board of Mayor and Aldermen that the City budget be amended for \$11 million. Alderman Janda asked that a FAC meeting be called again to update commission members as there are some concerns. He stated that everyone will need to be on the same playing field in order for this to be great.

****MOTION****

David Rea moved to recommend to the Board of Mayor and Aldermen that the FY16 Budget be amended for \$11 million. Clint Hardin seconded the motion and members voted as follows:

Sudhir Agrawal-yes; Clinton Hardin-yes; Mark Holland-yes; Alderman Rocky Janda-yes; Russell Johnson-no; Julie Klein-yes; Walter Krug-yes; Michael McLaughlin-yes; Christine Menzel-yes; Chris Miller-yes; Julius Moody-yes; Paul Mosteller-yes; Michael New-yes; David Rea-yes; Donnie Rose-yes and Dale Stover- yes.

With a 15 to 1 vote, the motion passed.

BOND SERIES 2016 AND CITIZEN BONDS

Lauren Lowe with Public Financial Management (The PFM Group) stated that PFM's role is to advise the City on the process of borrowing funds whether it be for the City of Germantown or now for GMSD. She referred to a handout showing numbers that are based on current market conditions along with a recap of City projects to be pursued. She advised that the City project amount is approximately \$3.5 million. According to Ms. Lowe, this transaction will not be closed any earlier than February, 2016 however, it will be financed over twenty years as a Level Debt Service or as we know it, principal and interest every year. The "All-In" cost of capital for the City project is currently at 3.1%. The school project broken down into two pieces include \$7 million of which the City is responsible for and \$4 million which is a debt service that will be paid for by GMSD. Per Ms. Lowe, the PFM Group will be going to the market with a total transaction for both pieces. She further advised that the market is not focused on whether this is a school project or a City project—they are looking strictly at the City of Germantown's credit quality and it's full faith in credit behind this debt. Per Ms. Lowe, the FED is scheduled to meet later this year and it is expected that rates will be increased. It has been noted that total school projects will total \$12 million of which \$1 million will be paid from GMSD's reserves.

Ms. Lowe then spoke on Citizen Bonds. She explained that Tennessee state law stipulates that if a local government borrows debt with their full faith and credit, they have to go through a competitive process. With that,

Ms. Lowe said she assumes that calls are received from Germantown citizens and others wanting to know how to purchase Germantown bonds. As of right now, there is no avenue to tell them to pursue therefore, the City has asked her group to once again (explored in the late 1980s) look into this matter. This is a process allowed by State law to solicit local residents to purchase City debt. This is different because it is still considered a bond issue with the City's credit behind it however, with this arrangement, the citizen is partnered with an underwriting team. Restrictions include a maximum of \$3 million in citizen bonds. Also, there can't be only one holder or investor in Germantown and no one investor can hold more than 25%. And finally, it must be structured over twenty years as opposed to thirty. Ms. Lowe said cost should definitely be factored in because there are two transactions versus the one (\$150,000 x 2). Also how it prices is another factor; because there is not a repository or an abundance of this type of bond arrangement to look at or compare to makes it harder to manage.

****MOTION****

Russell Johnson made a motion that The PFM Group continue to explore the possibility of Citizen Bonds for financing. Alderman Janda seconded and the motion passed unanimously.

OTHER BUSINESS

Chairman Moody acknowledged the retirement of Finance Director, Ralph Gabb. After a round of applause, Mr. Gabb stated that this was a hard decision to make and then he spoke kind words of his grandchildren.

Alderman Janda thanked everyone and said that he hopes all members will reapply for next year's commission.

Mr. Lawton added to that by commenting on the conversations that took place over the past year. He said the members of this commission have respected and learned from each other's opinion. Per Mr. Lawton, this is critical when it comes to the decision making process.

Mr. Gabb echoed Alderman Janda by reminding members to reapply for the FAC commission. He commented that everyone was very professional and has served the commission well.

Ms. Klein announced that this was her last meeting as she would not be reapplying next year. She told everyone that it was a pleasure to have worked with them.

Mr. Lawton announced that the City is presently in the recruitment process for the Finance Director's position. He asked members to let him know of any interested individuals or candidates who might have the right qualifications. He said the deadline for submitting applications is Friday, December 4th.

ADJOURNMENT

The meeting adjourned at 7:29 p.m.