

**ADMINISTRATION AND FINANCE COMMITTEE
CITY COUNCIL CHAMBERS
140 WEST PINE STREET
MISSOULA MONTANA
September 15, 2010, 10:05am**

Members present: Stacy Rye, Chair; Ed Childers; Renee Mitchell; Jason Wiener; Lyn Hellegaard; Roy Houseman; Dave Strohmaier; Jon Wilkins; Bob Jaffe.

Members absent: Pam Walzer; Dick Haines.

Others present: Mayor John Engen, Gail Verlanic, Brentt Ramharter, Mae Nan Ellingson, Marilyn Marler, Dee Andersen.

I. Administrative Business

A. Approve committee minutes dated: [September 8, 2010](#) and [August 25, 2010](#)-approved as submitted.

B. **Public Comment on items not listed on the agenda-None**

II. Consent Agenda

A. Approve claims (accounts payable). -Consent Agenda (Brentt Ramharter)

MOTION: The committee recommends the City Council approve [claims](#) totaling \$1,308,531.42 ([Detailed claims](#)) 09/21/2010

B. Confirm the appointment of W. Jordan Hess to the Missoula Urban Transportation District Board for a term commencing immediately and ending December 31, 2011. ([memo](#))—Regular Agenda (Mayor Engen) (Referred to committee: 09/13/10) **REMOVE FROM AGENDA**

MOTION: The committee recommends the City Council confirm the Mayor's appointment of W. Jordon Hess to the Missoula Urban Transportation District Board for a term of commencing immediately and ending in December 31, 2011.

Mayor John Engen said there were a number of applications that were submitted for the position. He said Mr. Hess has done some intern work with Mountain Line and recommended him for the position.

Jason Wiener moved the confirmation.

Stacy Rye thanked Mayor Engen for choosing a younger person for the MUTD Board, but pointed out that there is not one woman on that board and she requested they recruit a woman for the position. She said she will abstain from the voting.

Upon a voice vote the motion passed, with Rye abstaining. Ms. Rye asked that the item be placed on the consent agenda.

C. Administrative services agreement between the City of Missoula and Allegiance Benefit Plan Management, Inc for third party administration of medical, life and dental claims arising from the City's self-funded health benefit program. ([memo](#))—Regular Agenda (Gail Verlanic) (Referred to committee: 09/13/10) **REMOVE FROM AGENDA**

MOTION: The committee recommends the City Council authorize the Mayor to sign the administrative services agreement between the City of Missoula and Allegiance Benefit Plan Management, Inc.

Gail Verlanic, Human Resources Director, explained this is the contract is for the fee that Allegiance charges to administer claims and negotiate our stop loss carrier. Last year, they were set to take a rate increase. Through some negotiating, they agreed not to, but said this year they would need a 3.5% increase.

Ms. Rye said the total cost of the contract is \$97,000.

Mr. Houseman moved to approve the contract.

Upon a voice vote the motion passed unanimously.

III. Regular Agenda

- A. Resolution authorizing the negotiated sale of \$11,500,000 (maximum par amount) of Taxable Sewer System Revenue Bonds, Series 2010 (Recovery Zone Economic Development Bonds. ([memo](#))—Regular Agenda (Brentt Ramharther) (Referred to committee: 09/13/10) **REMOVE FROM AGENDA**

MOTION: The committee recommends the City Council consider a resolution relating to up to \$11,500,000 taxable sewer system revenue bonds, series 2010 (recovery zone economic development bonds); authorizing the issuance of the bonds through a negotiated sale thereof; authorizing the Mayor and City Finance Director/Treasurer to select an underwriter through a request for proposal process; and making certain declarations to satisfy the reimbursement regulations of the internal revenue code

Brentt Ramharther, Finance Director, explained that there will be a different approach taken with the sewer revenue bonds than in the past years. Historically we have used the State Revolving Fund (SRF) Loan money. But because of the size of this project, there wasn't enough money in total to handle the financing for our project request, so we will have to go out to the market place to sell these bonds. The main question has been what route to take, competitive or negotiated. He referred to the [recommendation](#) letter provided by the City's financial advisors, Springsted Inc. The recommendation suggests a negotiated sale, whereby our financial advisor would screen potential underwriters who can market and sell these taxable bonds.

This particular bond issue is backed by our rates in our sewer fund. Our sewer fund is \$6 million in size and we are anticipating an A credit rating for this. There is a possibility that we could fall to the B/AA category, which is still investment grade. However, interest rates vary significantly as credit ratings fall. One big benefit to the City would be the recovery zone assistance available that would take the interest rates down to \$10.875 million with a true interest cost of 3.5%. We need to pass the resolution for more than that, as they haven't yet explored the possibility of insurance. If we do buy interest insurance, it will bring the interest rate down even further. We feel its best to screen the potential underwriters; we will obtain a stronger interest rate and better credit rating as well.

Jason Wiener asked if Mr. Ramharther thinks we will wind up with a smaller underwriting discount.

Mr. Ramharther said we could end up with a higher underwriting discount but with at better rates.

Mr. Weiner asked if it will be an RFQ that will come back to Council.

Mr. Ramharther said what they are requesting, is that he or the Mayor be authorized to execute the contract to keep the bond sale on track. He, along with the financial advisors and bond attorney will pick the very best one with the proposed pricing back to Council.

Mae Nan Ellingson, Bond Counsel, with Dorsey Whitney, clarified the process. She said the underwriter would be selected to assist and would agree to underwrite the bonds. During the selection process however, no actual pricing or determination of interest rates or underwriters discount would be available, just the selection of the underwriter. The underwriter would then help us all by putting together the official statement and getting the rating. On Oct 18, 2010 there will be a potential pricing, wherein Mr. Ramharther, the financial advisor, and the underwriter will be talking to their trading desk and making proposals about what other bonds are selling for in the market that day. They will then make a tentative recommendation on the amount of underwriters discount and interest rate. Then it will come to Council that Monday night and Council would make the final determination of whether to award the sale to the underwriter at those prices.

Dave Strohmaier asked if we go the competitive sale route and we only get one bid that we did not like, is there no recourse to reject the bid.

Ms. Ellingson replied there is the recourse to reject the bid, the problem is the timing. The fact is that you need to get the money sooner rather than later. If you only received one bid then it would seem likely that you wouldn't get more bidders in the next go round. If we start at the beginning with the underwriter we know we have a buyer for these bonds, we are not taking a risk.

Rene Mitchell asked when you do a traditional bond sale, is it often that you get only one bid

Ms. Ellingson replied that it depends on the nature of the bond. The fact that we are trying to do this to take advantage of the recovery zone economic development bonding authority, gives the City 25% more benefit. We are going to sell these bonds at a taxable rate, and then the federal government will reimburse the City 45% of the interest payment. The calculation results in a bigger savings to the City than the traditional tax exempt bond. Not every bidder is interested in that kind of bond however.

Mr. Ramharter said if we go tax exempt the interest rates will be 25% higher, so you will get more benefit.

Mr. Wiener asked in a negotiated sale situation, what are the underwriters competing on if not pricing.

Mr. Ramharter said they will be looking at their prior experience selling these types of bonds. They will interview staff and come up with criteria that would distinguish one over the other. The number of these bonds out there is limited.

Ms. Ellingson said they will look at their experience in marketing Montana bonds, experience with water and sewer revenue bonds, experience in working with rating agencies and insurers, the retail market and how available the are. Those are the things they will be looked at.

Mr. Wiener moved the resolution and commented that this resolution is not an authorization to expend funds.

Mr. Childers asked how the money comes back to the sewer fund.

Ms. Ellingson explained that 15 days prior to an interest payment, the city files a form with the IRS for the amount of the interest due, the IRS sends a check to the City that will go into the debt service fund created in the bond resolution for these bonds.

Mr. Childers asked if there is lag time with the IRS

Ms. Ellingson said we will not miss any payments no matter what; we will set up a debt service reserve fund. For any reason if they are late we would transfer the money from our debt service reserve fund to make the payment and when the IRS check came in, it would be deposited back into that reserve fund account. We will not risk a late payment.

Mr. Ramharter stated that the debt service reserve fund will be in the \$1 million range. The reserve will come back to the sewer fund as the last payment. So for that year, instead of budgeting for the last payment we use the reserve fund and then we are done.

Mr. Childers asked if there is there a chance on Oct 18, we wouldn't have a buyer.

Ms. Ellingson said if they don't find anyone that is interested in underwriting these bonds, we will let you know well before October 18th.

Ms. Mitchell said it seems like time is of the essence, if you sell these bonds competitively, how much longer would it take.

Mr. Ramharter replied that it wouldn't take any longer; it just puts us in a more vulnerable situation. We want to cover any uncertainties and close the loop because we think we can get better pricing this way.

Mr. Jaffe asked what the bottom line is and where do you think we will end up using this method.

Mr. Ramharter said he thinks we will be 25% better off; we are anticipating our net interest costs to be 3.5%. It would cost us hundreds of thousands of dollars more over the life of the bond if we don't go this method.

Lynn Hellegaard said just to clarify we are borrowing a million dollars for the reserve fund, in case the feds are late in their payment.

Ms. Ellingson said not just for that reason. On any revenue bond like this for sewer or water, you always have to fund a debt service reserve to make them marketable. For example, if one of your biggest industries went out of business and your rate base included receiving a significant amount of money from them, you may experience a temporary drop in revenue and the bond market doesn't want to take that chance. If they do, they make you pay for it with higher interest rates. So it's just a given that you would have a debt service reserve. Ultimately it protects your credit rating. As a municipality you never want to have a default.

Upon a voice vote the motion passed with Hellegaard and Mitchell voting nay.

IV. Held in committee

- A.** Approve claims. (Ongoing) (Consent Agenda)
- B.** Approve journal vouchers. (Ongoing) (Consent Agenda)
- C.** Approve budget transfers. (Ongoing) (Consent Agenda)
- D.** An ordinance amending the municipal code as it relates to bike licensing. ([A&F](#)) (Returned from council floor: 12/15/08)
- E.** Implications of establishing maintenance districts. ([memo](#)) – Regular Agenda (Bob Jaffe) (Referred to committee: 05/11/09)
- F.** Clarify position of council member who also serves on the board of a non-profit agency that has dealings with the city. ([memo](#)) – Regular Agenda (Ed Childers) (Referred to committee: 07/20/2009)
- G.** [Resolution](#) of the Missoula City Council establishing a tourism business improvement district consisting of non-contiguous lands within the City of Missoula for the purpose of aiding tourism, promotion and marketing within the district. ([Exhibit A](#)) ([Exhibit B](#)) ([memo](#)) ([A&F](#)) (Returned from Council floor: 10/05/09)
- H.** Review the FY 2011-15 capital improvement projects (CIP). ([memo](#)) – Regular Agenda (Brentt Ramharter) (Referred to committee: 04/19/2010)
- I.** Amend Council rules to change the Council's regular meeting schedule to two meetings per month ([memo](#)).—Regular Agenda (Marty Rehbein) (Referred to committee: 06/07/10)
- J.** CDBG/Home allocation process briefing. ([memo](#))—Regular Agenda (Jason Wiener) (Referred to committee: 09/13/10)

V. Adjournment