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**FINANCE & RECORDS**

## **Memo**

To: Gregg Mandsager, City Administrator

From: Nancy A. Lueck, Finance Director

Date: March 9, 2011

Re: Request to Approve Scope of Services and Fee Proposal with Public Financial Management, Inc.

### **Introduction and Background:**

The City has used the services of a financial consultant in connection with the issuance of general obligation bonds and other debt the City issues. Earlier this year the Public Financial Management, Inc. (PFM) representative met with City staff and provided samples of financial analyses they have done for other cities in Iowa including samples of G.O. debt and tax rate analysis, TIF financing, and sewer project financing. After staff review, as well as a review of this information with the City's Audit Committee, it is proposed the City change the provider of financial consultant services to Public Financial Management, Inc. (PFM).

There are several reasons this change is proposed at this time: (1) As noted during the budget review, a long term plan for financing the West Hill Sewer project is needed to meet the EPA Consent Order timeline, and it appears that Local Option Taxes will not be sufficient to cash flow Phase I, (2) We are looking at consolidating the Urban Renewal Areas which would allow TIF funds to be used throughout the city, and (3) to provide additional analysis of future year G.O. debt projects and their impacts on future debt service tax levies.

In prior years the consultant was primarily used for the issuance of debt and the cost of this service was considered part of the debt issuance costs and funded from debt proceeds. Since the City's next bond issuance will not be until 2012 and the financial analysis requested encompasses more than that needed for the next bond issue, it is proposed the City enter into an agreement with PFM on an annual retainer basis for ongoing financial analysis work including G.O. debt and tax rate analysis, sewer project financing, and TIF project financing. The annual retainer in the attached proposed agreement is \$8,000. It is proposed this amount be funded from the WPCP, Collection and Drainage, Local Option Sales Tax, and TIF funds (25% to each fund). In years when the City issues debt, this cost as well as the cost of other services in connection with the debt issuance, will be funded from the debt proceeds.

### **Recommendation:**

Please include this request to approve the attached Scope of Services and Fee Proposal with Public Financial Management, Inc. on the agenda for the March 17, 2011 meeting. Please contact me if you have any questions or need additional information.

**"I remember Muscatine for its sunsets. I have never seen any  
on either side of the ocean that equaled them" — Mark Twain**

# **Scope of Services and Fee Proposal between the City of Muscatine (“City”) and Public Financial Management, Inc. (“PFM”)**

## **I. NAMED INDIVIDUALS**

### **A. Assignment of Named Individuals**

The Financial Advisor shall assign the following individuals to the various projects to be completed under this Agreement:

<u><b>Name</b></u>	<u><b>Title</b></u>
Jenny Blankenship, CPA	Senior Managing Consultant; Project Manager
Jon Burmeister, CFA	Managing Director
Tionna Pooler	Senior Managing Consultant
Mike Maloney	Consultant
Susanne Gerlach	Consultant
Ted Nellesen	Consultant

### **B. Project Manager**

The Financial Advisor shall assign a single individual to serve as Project Manager. The Project Manager shall serve as PFM's primary liaison with the City and shall be directly responsible for the day-to-day management of all financial advisory services provided under this Agreement.

### **C. Changes in Staff**

The City has the right to approve or disapprove any proposed changes in the Financial Advisor's staff from the individuals named in subparagraphs A and B above. The City shall be provided with a resume of any proposed substitute and shall be given the opportunity to interview that person prior to its decision to approve or disapprove. Should the City not approve a suggested change, then PFM shall not make the change or PFM may suggest another proposed substitute.

### **D. Changes Required by the City**

The City has the right to request, for any reason, that PFM replace a member of the Financial Advisor's staff. Should the City make such a request, PFM shall promptly suggest a substitute and the procedures specified in subparagraph C above should be followed until a satisfactory substitute is selected.

## **II. SCOPE OF SERVICES**

PFM shall provide all services customarily provided to governmental entities by financial advisors, such as services related to financial planning and development of planning models and services related to debt transactions. The services provided shall include but not necessarily be limited to the following:

### **1. Services Related to Financial Planning and Development of Planning Models:**

- **Review of City's Audited Financial Statements**
- **Review Current and Projected Financial Status and Capacity of the City**
- **Identification and Determination of City's Existing Taxable Valuation**
- **Review of City's Existing Debt Outstanding and Identify any Refunding Opportunities**
- **Review Capital Improvement Plan and Review Funding Sources for the Capital Projects**
- **Development and Preparation of Several Financial and Capital Planning Models**
  - Debt Service Levy and Debt Service Fund Capital Planning Model (including Debt Sizing and Debt Service Determination for future bond issues based off the City's Capital Improvement Fund)
  - Individual Tax Increment Urban Renewal Plan Cash Flow Models
  - Composite Tax Increment Urban Renewal Plan Cash Flow Model (where Applicable)
  - Sewer Enterprise Fund Financial and Capital Planning Model
  - Stormwater Enterprise Fund Financial and Capital Planning Model (if applicable)
- **Develop Financial Options Analyses (Using Financial and Capital Planning Models Above):**
  - Analysis of the Existing Financial Arrangements
  - Analyze Debt Capacity
  - Identify and Analyze Financing Alternatives and Debt Structuring Options
    - Develop Scenarios
    - Analyze and Compare to Objectives/Constraints
  - Evaluation of Alternative Security Structures
  - Evaluation of Alternative Funding and Financing Approaches
  - Sensitivity Analysis
- **Develop Preliminary Financial Plan Objectives**
  - Review and Revise With City Staff
  - Presentation and Review With City Council
  - Assist With Financial Plan Review and Approval (as Appropriate)
- **Assist City staff with annual TIF Certification**
- **Assist City staff with Continuing Disclosure Requirements**

## **2. Debt Transaction Implementation:**

- **Develop/Update the Financial Models directly associated with the type of bond issue being sold (G.O. Capacity, Tax Analysis, TIF Cashflow, etc.) to make sure that the financing is in place prior to issuance.**
- **Develop/Oversee Financing Schedule**
- **Articulate Final Terms and Conditions**
- **Assist in Selection/Procurement of Other Finance Team Members**
  - Paying Agent
  - Verification Agent
  - Escrow Agent
  - Printing
- **Coordinate with the Other Finance Team Members**
- **Analyze Cost/Benefit if Using Credit Enhancement, including Bond Insurance (as appropriate)**
- **Develop and Implement Credit Review and Credit Strategy**
  - Schedule the credit call with the appropriate individuals
  - Develop and update the credit presentation to use during the credit call
  - Assist City during the credit call
- **Analyze, Negotiate and Review Legal Documents and Offering Memorandum/Official Statement**
  - Analyze and Review Legal Documents
  - Compile a Request for Information from City for the Official Statement
  - Prepare the Official Statement
  - Send the Official Statement to the appropriate individuals for review
- **Analyze and Assist in Development of Final Debt Structure, Terms and Conditions**
- **Assist and Coordinate Marketing of Bonds**
  - Timing of Sale
  - Target Potential Underwriters
  - Marketing Information
    - Disclosure Documents
    - Calls to Underwriters
- **Attend City Council Meetings; Make Presentations, (as requested)**
- **Prepare Sale Details and Conduct Pre-pricing Monitoring Analysis**
  - Review Comparable Issues (Market indices)
  - Assess Market Conditions and Information
  - Review Calendar of Economic Events
  - Target Pricing Analysis
  - Assess Sale Calendar

- **Coordinate Receipt of Competitive Underwriter Bids**
  - Calculate and Verify True Interest Cost Calculations
  - Conduct Final Debt Sizing Schedule
  - Obtain and Coordinate Good Faith Deposit
  - Provide Recommendation on Final Offer to Purchase
- **Prepare and Review Final Financing Documents**
- **Assist with Investment of Bond Proceeds and Arbitrage Compliance (as requested, separate fee and engagement team from our Chicago, IL office)**
- **Assist with Arbitrage Rebate calculations (as requested, separate fee and engagement team from our Harrisburg, PA office)**
- **Arrange and Execute Transaction Closing**

### **III. COMPENSATION AND TERMS OF PAYMENT AS COMPENSATION FOR SERVICES HEREUNDER, THE CITY SHALL PAY PFM THE FOLLOWING:**

The City shall pay the following fees to PFM for each respective scope of services identified in Section II.

**1. Financial Planning and Development of Planning Models Fee**

For all services provided by PFM related to Financial Planning as described under Section II.1., PFM shall receive an annual retainer of not to exceed \$8,000.

**2. Debt Transaction Services Fee**

For services related to publicly offered debt transactions as described under Section II. 2., PFM shall receive the following fees per bond size:

<u>Type of Bonds</u>	<u>Issue Size</u>	<u>Fee</u>
G.O. Bonds	Under \$1.0 Million	1% of Issue Size
G.O. Bonds	\$1.0 Million or Over	\$15,000
G.O. Bonds	\$5.0 Million or Over	\$16,000
Tax Increment Revenue Bonds	Same as G.O. Bonds	Same as G.O. Bonds
G.O. Refunding Bonds	Same as G.O. Bonds	Same as G.O. Bonds
Revenue Bonds	Same as G.O. Bonds	125% of G.O. Bond Fee
SRF Loans	Same as G.O. Bonds	65% of applicable Revenue Bond Fee

### **IV. INFORMATION TO BE FURNISHED TO THE FINANCIAL ADVISOR**

All information, data, reports, and records in the possession of the City necessary for carrying out the work to be performed under this Agreement shall be furnished to the Financial Advisor without charge by the City, and the City shall cooperate with the Financial Advisor in every way possible.

### **V. TERM OF AGREEMENT**

Unless earlier terminated, this Agreement shall terminate three (3) years after the effective date of this agreement. The parties may, by written amendment, extend the term upon mutual agreement. Either party may terminate this agreement at any time upon a 30-day written notice.

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Jenny Blankenship, CPA  
Public Financial Management, Inc.

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Accepted On Behalf of the City of  
Muscatine, Iowa

Effective Date: March 2011