

**MINUTES OF THE FINANCE COMMITTEE
VILLAGE OF SHOREWOOD HILLS**

Wednesday, February 15, 2017

(Review and approved at the March 15, 2017 meeting of the Finance Committee)

1. Call to Order

The meeting was called to order by Mark Sundquist, acting for the Chair, Fred Wade at 5:35 PM.

2. Roll Call

Committee members present were Mark Sundquist, Karl Wellensiek, Gard Strother, and Treasurer Sean Cote. Fred Wade, Dave Ahmann, and Carl Gulbrandsen were excused. Village Administrator Karl Frantz, Village Clerk Cokie Albrecht, Administrative Assistant David Sykes, and Brad Viegut from R.W. Baird and Co were also present. Stephanie Nelson and Leia Wipperforth from Baker Tilly, introduced themselves at the beginning of the meeting, then left to resume their work on the annual Village audit.

3. Meeting Notice

Karl Frantz confirmed compliance with the open meetings law.

4. Review/approve previous minutes

Mr. Wellensiek moved and Mr. Cote seconded to approve the October 26 minutes. Motion passed unanimously, 4-0.

5. Review of Village capital plan and financing with possible recommendations on 2017 issue for refunding purposes, tax incremental projects and storage building.

The attached documents, "Status of Capital Fund and Future Capital Financing," "Capital Fund Advances to Utilities and Payback Plan," and "Capital Fund Projects," were presented by Mr. Frantz.

The first indicated that 2016 year-end deficit in the Capital Improvement Fund will be nearly cancelled by the net TIF III and IV 2016 year-end proceeds, with \$18,252 remaining debt. Adding in the anticipated 2017 projects of Locust Drive, the cold storage building, the Village will need to borrow about \$900K in 2017.

The second document indicated that the Water and Sewer utilities will re-pay the general fund \$458K over the next four years, or about \$114.5K per year.

The third document listed the smaller capital fund projects (and equipment) by year from 2017 through 2022, indicating that the repayments from the water and sewer utilities could in principle cover the costs of these smaller projects (and equipment) through 2020.

Mr. Frantz also noted that if the “Arbor 2” project is built then there would likely need to be a separate borrowing for associated TID #3 expenses.

The discussion then moved on to the means of borrowing. Mr. Viegut presented a series of spreadsheets showing the yearly Debt service on the current Village debt of \$4.22M from 2017 through its retirement in 2024. Mr. Viegut suggested that to borrow the \$900K by itself would not be efficient, either in anticipated interest rate, 2.33% or covering the fixed costs of the bond issue. To borrow from the State Trust Fund would entail an interest rate of 3.5%, but since there would be no extra borrowing costs, the net result was that the inefficient bond issue was slightly less expensive over the life of the loan, i.e., \$1.0254M for the bond versus \$1.0776M for the STF loan.

To do better, Mr. Viegut suggested that the Village refinance (refund) the last four years of principle of the existing debt and combine that with the new \$900K. Depending on the actual interest rate at the time the bond is fixed, it could save up to \$85K on the existing debt, and at the same time give the best interest rate on the new \$900K borrowing. Debt service calculations were then presented suggesting that the new borrowing could be amortized over a relatively short period, 10 years, and the existing debt at the same schedule it has now, and in that case the Village would – depending on the interest rate changes between now and bond issuance – have the headroom before hitting Village policy and state statute debt limits to be able to borrow as much as \$2M in 2020 and \$1.5M in 2022.

After much discussion, the committee agreed that combining the existing and new debt in a single bond issue looked like the best approach.

Mr. Viegut then discussed two methods of bond issuance. The first was the public bid method that the Village has used for all the bond issues in the last 10-15 years. In this case Baird acts as the Village “financial advisor,” and prepares the very specific request for bid documents for us.

The second method is the “negotiated method of sale,” in which Baird acts as the Village’s underwriter. They basically cover the bond issuance initially, then re-sell it with considerable flexibility over the period leading to the closing date, presumably giving the Village the best possible terms.

Mr. Viegut also explained the fee structure for both methods.

As advisor with a public bid, Baird would charge a fixed \$22K as advisor, and there would be an additional 0.5 to 1% of the bond issue charged by the actual underwriters who win the bid process. This would amount to between \$40K and \$58K for this issue.

As underwriter, Baird would charge 1% of the bond amount, _____, and this would be \$36k.

He noted that Middleton always uses the negotiated method, and that other municipalities such as Appleton and Neenah use one method for refinancing and the other for new borrowings.

Mr. Cote asked whether Village debt allocated to TIF would need to be repaid by the general fund if it is not used in the TIF. The answer was no, that it would remain TIF debt and be handled like any other TIF surplus.

Mr. Wellensiek raised the possibility of significant interest rate as the Fed is signaling a rise in rates soon. The committee felt that it was best to move as quickly as possible on this bond issue, and only approve the refinancing portion if the final interest rate is beneficial to the Village.

Mr. Viegut noted that if the Village Board were to authorize Baird to proceed, then the bond could be issued near the end of March.

Mr. Wellensiek moved and Mr. Cote seconded that the Village Board proceed with \$2.79M plus \$900K bond issue to be combined using the negotiate method of sale with Baird as underwriter and to consider a parameter resolution at the March Board meeting with a minimum total debt service savings of 2% of the refunded bonds.

Motion passed unanimously, 4-0.

6. Future meeting date: no action was taken.

7. Meeting was adjourned at 6:46PM.

Respectfully submitted by Mark Sundquist,
Lame Duck Village President