PUEBLO CITY-COUNTY LIBRARY DISTRICT BOARD OF TRUSTEES
MINUTES FOR THE SPECIAL MEETING ON CAPITAL PROJECT FINANCING

June 4, 2012

I. CALL TO ORDER AND ROLL CALL

The special meeting of the Pueblo City-County Library District Board of Trustees was called to order at the Rawlings Library at 3:04 p.m. by President Sherri Baca.

Board Members Present:	Sherri Baca, President; Marlene Bregar, Vice President; Rhonda Gonzales; Philip Mancha; Roy Miltner; Fredrick Quintana; Jim Stuart
Attorney Present:	Nicholas Gradisar
Staff Present:	Jon Walker, Executive Director; Bill Seidel, Information Technology; others not recorded

II. CORRECTIONS AND MODIFICATIONS TO ADENDA None

III. APPROVAL OF THE MINUTES

Ms. Baca said the 2012 Annual Plan includes the goal of establishing a financing package for upcoming capital projects to include three new libraries in Pueblo County. A committee including Board President Sherri Baca, Executive Director Jon Walker, Financial Advisor Jim Manire, and Chief Financial Officer Chris Brogan has been working through a competitive proposal process to select and recommend the best, lowest cost proposal for the library district for this project. The report and recommendations will be presented.

Mr. Walker welcomed Mr. Manire and provided a brief background of the progress made and the need to move the project forward in a timely fashion. Mr. Walker then turned the discussion over to Mr. Manire.

Mr. Manire distributed a written report and reviewed each of the proposals received in detail. The library is looking at issuing about $10 million in Certificates of Participation (COPs), with $6 million to refinance the Pueblo West COPs with the balance to be used to build three new libraries. Mr. Manire commented that the playing field for municipal financing is very broad, and they were interested in proposals from both underwriting firms and banks, and he explained the differences between direct purchase and the underwriting approach.

Mr. Manire discussed the reasoning behind and results of the proposal from Wells Fargo, noting the proposal was complicated with the 20-year fixed-rate requirement, and the only way to propose on those terms was to propose instead a variable-to-fixed-rate interest rate swap agreement. Mr. Manire said the committee spent a lot of time talking about that mechanism, but at 4.16% it was not really competitive compared with the underwriting houses. Mr. Manire emphasized that the committee gave Wells Fargo a long hard look, and he respected their efforts to get the library's business.

The underwriting proposals received were from George K. Baum & Company, Piper Jaffray, RBC Capital, and Stifel, Nicolaus & Company, and the third page of the report provided a quantitative summary. Interviews were conducted with each firm represented by members of their public finance departments, and the underwriting personnel will meet again at the next part of the process. Mr. Manire said two of the firms have offices in Pueblo and commented that each are capable of doing good work and are all active in the Colorado bond market.

The recommendation that they would like the Board to approve is for the library to proceed with the firm of Stifel Nicolaus. Mr. Manire noted that the process was very precise in terms of getting into the details of the interest rate proposals. Although the rates are not firm commitments, it sent a strong signal about what a reasonable expectation would be. When reviewed from that point of view, Stifel Nicolaus provided about an $80,000-$90,000 improvement over the next best proposal. Stifel Nicolaus offered the best discount rate of 3.58% for a 20-year term with a Standard & Poors rating of A-. Mr. Manire said there may be some efforts to improve the rating by helping us organize the presentation or to see if we want a second rating from Moody, and there may be an opportunity to buy insurance, but there is more to be determined about that.

Mr. Manire said another determining factor was that Stifel Nicolaus provided the lowest fee proposal at $4 per $1000, compared with $4.5 from George K. Baum, $5 from Piper Jaffray, and $5.75 from RBC Capital. That fee was helpful in the overall cost comparison.

Stifel Nicolaus maintains a high degree of activity in the Colorado COP market. Mr. Manire said each proposer was asked to present some results of transactions they had been involved in, but all the firms had that advantage. Mr. Manire also commented on each of the firms experience with COP issues at different levels of government as well as library bonds.

A deposit on the $10 million issue will sit with a trustee for the life of the lease, and any interest earned could be used to offset the lease payments, but they are not relying on that. Stifel Nicolaus prevails in this kind of comparison compared with the other interest rates.

Mr. Manire then offered to respond to any questions. He noted that it was a well thought out process, and he respected what the team brought to this analysis. Ms. Baca thanked Mr. Manire and agreed the proposals were analyzed fairly, and each of the firms represented are considered the best in the business. Ms. Baca said Stifel Nicolaus has a Denver-based trading desk, and their clients buy bonds, even if they are rated A-. They have middle-tier sales and can reach very low buyers.

Mr. Stuart asked how close Stifel Nicolaus's costs were to Ms. Brogan's projections for the costs. Mr. Walker said it comes close, although it is above, but it is still within the library's means.

Dr. Mancha said it looks like Stifel Nicolaus is the lowest, but the library has not necessarily taken the lowest bid unless it is also better, and he asked what else sells him to this recommendation. Dr. Mancha also asked how the firms fared in the recent financial shake-up. Mr. Manire said none of the firms they interviewed were asked, although everybody suffered to some extent, but they were not TARP candidates. Across the board it was not an issue for any of these firms, although Wells Fargo has emerged as a leader since the shake-up. Mr. Manire pointed out that he is not an advocate for any of the firms, and they are relying on the indications in their proposals. The fee $4 per $1,000 is at the low end, but it is still healthy enough, although he has heard of underwriters in California in the $2 range. The $4 fee does not disqualify them in the Colorado market. Mr. Manire added Stifel Nicolaus has 25 years of experience, and they are about the seventh biggest in the country, but not so big they will not be focused on your issue. They have been a market maker, and he expects them to deliver.

There were additional questions addressed about additional research done, contingencies for one of the firms being purchased and whether the bonds would be tax-exempt. There was additional discussion of the interview results, plans and methods of marketing the bonds, potential investors, and international ranking.

Mr. Quintana asked what the A- rating fluctuation is dependent on and how likely is an improvement. Mr. Manire said the next highest rating would be an A rating. The higher you get the lower the interest rating, but it reflects the economy, and your financial flexibility will be part of it, but there are other factors such as foreclosures in the area that the library has no control over. Mr. Manire said they could try to improve that based on financial performance and reserve, and the fact that the library issues a CAFR are all positive factors. Standard & Poors is in the process of revising their rating criteria, so there will be a lot of things in motion. Even if the rating change has not been completed, you will not have to sell them at A- if you get an A.

Ms. Baca added that all of the firms were good firms, but when looking at the numbers, Stifel Nicolaus was clearly the best in terms of saving with all other factors being equal, and ultimately, the decision is made on the best cost.

Mr. Walker wants to make sure the Board understands that this action will allow the library to move forward, but the Board will be asked to approve the debt later. This action is to approve working with the recommended firm. Mr. Walker emphasized that they will not know the actual cost until closing time, but apart from a significant change, they are within about 10% of the costs projected. Mr. Walker also commented that ratings are tied to the economy and the certainty of a continued revenue stream, and because Black Hills was not factored in he believes the library is well positioned.

Dr. Mancha asked what will happen when they come to the moment of decision and it is wildly different. Mr. Walker said that will be for the Board to decide, and it is possible to reach a point where it will not be affordable. The current indications are that rates are extremely low, which is why it is important to move this forward while rates are low, and it was the reason for asking for a Special Meeting.

Mr. Manire explained that a parameters agreement will be prepared for the Board's consideration to authorize staff to complete the transaction within those parameters. If it exceeds those parameters, they would have to come back to the Board, and Mr. Manire pointed out there is both the refunding piece as well as the construction piece, so if we lost 100 basis points, the library may no longer want to do the refund portion.

Ms. Gonzales asked what the interest rate was for Pueblo West, and Mr. Manire said it was around 5%. Ms. Baca added that the rate reduction for Pueblo West will help pay for the new buildings.

Dr. Mancha made a Motion, seconded by Mr. Quintana, to proceed with the firm of Stifel Nicolaus as the underwriter for the COPs. There being no further discussion, MOTION CARRIED 6-0.

Ms. Baca thanked the Trustees for making time to attend this meeting.

IV. ADJOURNMENT There being no further business, Ms. Gonzales made a Motion to adjourn the meeting at 3:58 p.m.

Respectfully submitted,

Jane Carlsen
Secretary