

OCTOBER 24, 2016 SPECIAL VOTING COUNCIL MEETING MINUTES

The October 24, 2016 Council Meeting was called to order at 7:04 P.M. in Council Chambers at the Municipal Building. Mayor Sara Kuhn presiding.

APPROVAL OF AGENDA ITEMS

Mayor Sara Kuhn – It being 7:04 P.M. I am calling the Special Voting Meeting to order. The Agenda will be amended. We will have following the meeting an Executive Session regarding Real Estate. All other items will stand as presented. Will you please stand for the Pledge of Allegiance.

PLEDGE OF ALLEGIANCE

All stood for the Pledge of Allegiance.

ROLL CALL

Mr. Brodnicki
Mrs. Sapp
Mr. Underwood
Dr. Kincaid
Mayor Kuhn

Also present were Rayan, Municipal Manager, Sorce, Manager's Secretary, Dice, Solicitor, Schrecengost, Finance Director and Blackwell, Planning Director.

Mayor Kuhn - The first matter of business would be before I ask for a Motion it was at my request at the last Council Meeting to have I removed it from the Agenda because of the fact that I needed some further information from the Manager and the Business Manager and I wasn't comfortable with having it presented without that information being given to Mayor & Council and we have since received that information. So may I have a Motion for **ORDINANCE NO. 2016-2489.**

Dr. Kincaid made a motion to approve **Ordinance No. 2016-2489** - authorizing the incurring of Nonelectoral Debt for the purpose of providing Funds for financing certain Capital Improvements by The Issuance of General Obligation Bonds in The Aggregate Principal Amount not to exceed \$11,500,000.00; finding a sale by negotiation to be in the best interest of the Municipality; providing for Maturities, Interest Rates and Redemption Features; covenanting to pay Debt Service; pledging Full Faith, Credit and Taxing Power for the payment of the Bonds; appointing a Paying Agent, Registrar and Sinking Fund Depository; establishing a Sinking Fund; appropriating the Bond Proceeds; accepting a Proposal; ratifying prior Advertisement and directing further Advertisement; authorizing the Payment of Expenses; ratifying the Preliminary Official Statement; authorizing approval of the Final Official Statement; authorizing the Opening

of a Clearing Fund; adopting a Form of Bond; authorizing the Execution and Delivery of a Disclosure Agreement; and repealing Inconsistent Ordinances.

Mr. Brodnicki seconded the motion.

Mrs. Getsy - 151 Crescent Hills Road - inaudible.

Mayor Kuhn - Before I wanted to give the audience a chance but I do have before we go into comments from the audience and Mayor & Council I did want to ask Chris if he could stand up and give me some information. Before you start your presentation Chris believe it or not I read through this entire Ordinance but that being said I have several things underlined that I needed to address but I of course am not an attorney, I am a layperson and I am not the Bond Council nor the solicitor but I did think if we could on the record before we go into any questions from the audience and Council there were some terms that I thought needed to be clarified or a description of what they meant. O.K. do you have a pencil I have six of them.

Chris Shelby - with me tonight also is Pat Healy, Bond Council.

Mayor Kuhn - well come up and we will if there are any questions that you can help us with also. What I want like I said is like a definition because of the fact these terms are very important and they go through the Ordinance several times and I would like it to be clear for myself and for Council and anyone who is in the audience to understand what the terms mean if they are going through them. So the first one is the Clearing Account, second one is Sinking Fund, third is paying agent, the fourth is a Bond Insurance Policy now that is on Page 20 so I would like you if you could go into that a little bit and also on Page 20 is the Disclosure Agreement and the Registrar is on Page 4 and then the Bond Registrar and that is on Page 5. Paying Agent is on Page 5 and 15, Sinking Fund is on Page 4 and 10 and the Clearing Account is on Page 13. Now as I said I did read through these and these terms come up but I want to make sure what I believe they meant to be accurate, you don't have to go into a long detail because you will lose us anyhow but if you could just put it into layman's term exactly what these terms mean so that when we are going through this again we understand exactly what they are.

Chris Shelby - I am going to defer to Council but I don't want you to think for a second I couldn't answer this probably better than he would but go ahead.

Mayor Kuhn - I don't think that for a second.

Pat Healy - the Clearing Fund is a Fund that is a temporary fund and it is used in mostly all bond issues that I am aware of where it is a Fund that is established by your Paying Agent which we will get to. So it is a temporary fund that they open where the proceeds of the Bonds from the Bond Sale are deposited into initially and

Mayor Kuhn - that is where initially the proceeds from the selling of the Bonds go into.

Pat Healy - right, and from there then immediately directed to either in your case in this transaction a Construction Fund will be established from which you will withdraw as you make payments on the construction project and then the balance will be paid to the professionals in the transaction according to the fees that will be set forth in what is called a Settlement Sheet which is part of the closing documentation when the bond issue closes. Those settlement costs are expenses are your bond council, the bond insurance policy, the premium which we can discuss, the paying agent, disclosure agent what other kinds of fees would come out of there, the printing of the official statement and the preliminary official statement. Qsup which is an entity that assigns numbers to each of the securities so if you have five different maturities, five different bonds one of the bonds matures in 2018, 2019, 2020 in different amounts so when you add them all up it equals your bond. They have individual assigned numbers on them which the Qsup Service Bureau which is a national thing

Mayor Kuhn - so it is basically the first holding of the money once we sell the bonds that is where the first holding that sale goes into.

Chris Shelby - right they all go into that account. All the proceeds net proceeds go into that account and then as Pat said there will be a summary sheet that you will have seen well in advance of that which shows the distribution of those monies most particularly the monies going into your own capital account for the Municipal Building and the balance of the money is going toward the cost of issuance related and maybe the only other thing Pat said or maybe didn't say was Bond Insurance would be part of that but to clear that up even though Bond Insurance wasn't referenced in the document we do not in the past use it.

Mayor Kuhn - o.k. and not to go on to another definition but while we are discussing this the money that goes into this fund from the sale of the bonds is that only are we only permitted to draw on for the construction and the professional costs for the building is that correct?

Chris Shelby - pretty much because that is what you set forth to do with that money. And as an expectation using your tax exempt status you follow what your reasonable expectations where.

Mayor Kuhn - o.k. so none of that money that we are borrowing for the new complex that cannot be used for General Funds?

Chris Shelby - absolutely not.

Pat Healy - my goodness no.

Mayor Kuhn - o.k. I just wanted that clarified too. O.K. and the next one is the Sinking Fund.

Pat Healy - Sinking Fund is a Fund where you when the bonds are issued and you have bonds that are outstanding now you make payments every six months, principal payments and interest payments and principal is once a year and interest payments are every six months. You send the money to the paying agent, the paying agent then sends it onto the bond holders, that sinking fund is the fund that your money goes into when you make those payments. It is held by the paying agent and your twice a year interest payments to the paying agent and once a year principal payment to the paying agent go into that fund and that is called the Sinking Fund. That is the only purpose of that fund.

Mayor Kuhn - o.k. so the Sinking Fund monies come from our General Budget as far as payment, correct?

Pat Healy - correct.

Mayor Kuhn - o.k. I just wanted to clarify that too that the Sinking Fund money is what we have budgeted in our budget to pay the payment and the interest, correct?

Pat Healy - correct.

Mayor Kuhn - o.k. two for two.

Chris Shelby - each time you pay your debt goes down.

Mayor Kuhn - right so I just wanted to make sure that has nothing to do with the bonds that we are selling, the money in the Sinking Fund comes from our General Budget.

Chris Shelby - that is correct.

Mayor Kuhn - then we have Paying Agent.

Pat Healy - the Paying Agent is the bank entity in this case it is Bank of New York, Mellon Trust Company.

Mayor Kuhn - so is that the person who is selling the bonds for us or no that is the person who is in charge of the sale of the bonds.

Chris Selby - I don't mean to jump in but the Paying Agent actually will be the one to receive the funds to hold the Clearing Fund if you will and then make the distributions on your behalf. He also will be in charge of receiving debt service payments and he is responsible for forwarding those payments through to the bond holders. So

Mayor Kuhn - so really the Paying Agent is the person who is handling all of the funds that we are receiving from the bond sale?

Chris Shelby - basically handles the transfer of funds. He typically won't be holding funds for you except for payments that you make for debt service that may come in a day or two early he will hold them and then make the payment but he is kind of there making distribution of the funds on your behalf?

Mayor Kuhn - will you be paying then the construction people and the materials, are you doing that or would the Municipality be doing that?

Chris Shelby - the Municipality will be doing that and it will be the Finance Department of the Municipality to decide where those funds should be when they are received and those funds can only be invested in certain ways under Pennsylvania Law and basically that is a good thing for everyone to know because they must be backed directly by U.S. Treasury no matter what investment is made they must be secured and collateralized in that manner but where those funds will be I defer to your Finance Department and to Moe and they will be making that decision at that decision will be made at the time you receive the funds. First off you will get the funds in the Clearing Fund the day we close the bond issue and then BNY Bank of New York as your Paying Agent will probably have directions at that time. All these things come together simultaneously as to where to transfer those funds as to what account to put those in but regardless of what account they are in they have to be secured and invested only in U.S. Direct Treasuries so that nobody has to worry about anything. That is the law.

Mayor Kuhn - o.k. so Ed is that funding going to come through your office then and you will be in charge of disbursing, correct?

Pat Healy - it will be a segregated account.

Chris Shelby - for this project right.

Ed Schrecengost - so this not going to be a draw down?

Chris Shelby - if you want to keep it with BNY this would be an option they would hold it, they would invest it and you would give them some form of a draw down schedule as you contemplate it knowing all draw down schedules change they would maintain a certain amount of liquidity in the account but they would also be under the same law that you are under and that is to only invest on behalf of you in legal investments again being collateralized.

Mayor Kuhn - let me ask one question Chris, let's say when we sell the bonds we get \$11,000,000.00 o.k. now we aren't going to spend that \$11,000,000.00 in four

months, six months or what have you so the amount of money that we are not drawing down are you stating that we are able to collect interest on that money?

Chris Shelby - you are able to collect interest on all the money until it is drawn down. The only thing that will be examined will be what will your potential drawn down schedule be. In other words to say there is \$10,000,000.00 you know you might need \$5,000,000.00 in six months and you know you won't need the other \$5,000,000.00 until the second six months. So what you want to do with that other \$5,000,000.00 is minimally put it in a six month investment which would pay you a little bit more than an overnight investment or a money market account so there is going to be a little bit of you know you obviously have to maintain the liquidity of the account but at the same time you know you aren't going to spend it all at once so you attach that to a draw down a contemplated draw down schedule which is never right but it is general.

Mayor Kuhn - right, it gives you a base and then that way the additional amount is not just sitting in an account that if we take say the \$5,000,000.00 and you have \$6,000,000.00 left the \$6,000,000.00 until we use that whole amount or whatever amount we use whatever isn't used will be collecting interest.

Chris Shelby - that is correct.

Mayor Kuhn - o.k. now while I am on record Ed you are telling me that you are not retiring until this building is complete, am I right, I want a yes.

Ed Schrecengost - yes, Mayor.

Mayor Kuhn - thank you very much. We do have the Bond Insurance. Now you stated that we don't contemplate using it, does that mean that we are not going to have it or

Chris Shelby - we do not contemplate using it. As we have not in the past in behalf of the Municipality. The Municipality's credit rating being in the AA category is basically equivalent to the rating that would be received if you were to underwrite or have to be underwritten with Bond Insurance. That is why I can't remember when the last time we used Bond Insurance at the Municipality because your credit rating is so good and therefore with that type of credit rating what you have done is what many Municipality's can't do and that is to avoid the cost of insurance to acquire the rating that you have.

Mayor Kuhn - because I did see that it states if required.

Chris Shelby - we don't contemplate it being required what so ever.

Mayor Kuhn - I wanted it clarified exactly if we are getting it or if we don't have to get it. So if it is required it may be.

Chris Shelby - on behalf of Council just so you know and as a reminder cause I know you aren't doing bond issues everyday is that that insurance is only required if you pay a premium for that insurance and it is capitalized in the bond issue so it paid as a cost right out of the bond issue through the clearing account on the day we close but that premium the savings that generated by having the insurance on your bonds has to exceed the present value of that premium so as to say if that premium is \$50,000.00 you better be saving on a present value basis well more than \$50,000.00 to make sense of making that payment. Right now the market doesn't require you to do that you Penn Hills many other people it does but you it does not require that because you are accomplishing the same rates with your own rating without the acquisition of insurance. So think of it as savings. It is one reason why your credit rating and the strength of the Municipality is very important when you go to market.

Mayor Kuhn - o.k. and then on Page 20 is the Disclosure Agreement and it states that the Municipality will provide certain financial and operating information on an annual basis. So that means if it takes us two years we have to give to who our financial information?

Pat Healy - there is a Federal Law that requires all issuers of Municipal Obligations to provide and enter into these MSRB requirements. Enter into an agreement that they will provide annual financial information as well as certain operating data in the official statement which a lot of times is already in the annual audits so you have I think in your case we have 270 days at the end of your fiscal year within which to provide that information to a dissemination agent or disclosure agent that works on your behalf to post this information to your financials to what is called EMMA and it is Electronic Municipal Market something I forget what the other A is for.

Mayor Kuhn - well if you don't know I am sure I don't.

Pat Healy - but it is a national data base that you can actually access on the internet. It provides all of the issuers throughout the Nation.

Mayor Kuhn - now what is the purpose of that just to make sure that because the bonds have already been sold so is that to make sure that we are able to pay the payment on the bond, is that what that is?

Chris Shelby - this is for those people who not only own your bonds but maybe trading your bonds because once your bonds are in the market they may go to a hundred different places thereafter.

Mayor Kuhn - so if someone purchases our bonds and then they choose to sell them there has to be financial information to show that we are a sound investment if they want to purchase the bonds.

Chris Shelby - your budget, your audit, basically your operating data has to be reported annually and it must be reported it is not a maybe anymore. The SEC has absolutely slammed the hammer down.

Mayor Kuhn - I just didn't understand why when they are already sold we had to continue to give that but as you stated if someone buys one of our bonds and then down the road wants to sell one then the new purchaser has the right to make sure that the Municipality is sound financially.

Chris Shelby - you can go on to EMMA and you will see it right on the Internet and pull up EMMA and you have an option to pull up Penn Hills Municipality and you will see everything about you with regard to your debt.

Mayor Kuhn - the next one is Registrar. O.K. the first one is on Page Four.

Pat Healy - Registrar and Bond Registrar mean the same thing and when your bonds as you were talking are traded in a secondary market then sells their bond to a new purchaser two years from now they need to keep track of who those people are.

Mayor Kuhn - o.k. so it is just like a register. If you buy a bond it is registered and then if you sell it to a secondary person that person is registered. O.K. I bet I could become a bond attorney after all of this information here.

Chris Shelby - well in the old days the old bonds use to have these coupons on them and could rip them off but didn't have a name on them so that is why they were actually live instruments in terms of almost like cash and that is why they could be moved around so they have just gone to full registrar. So if you own a bond you are going to be registered.

Mayor Kuhn - o.k. so then you are telling me that the Bond Registrar and the Registrar they are one in the same?

Pat Healey - correct.

Mayor Kuhn - and then for the Bond Council if you could just give an explanation of what the difference is in what the Bond Council does and what our Solicitor does?

Pat Healy - Bond Council has the expertise if you will in the specific laws that govern your issuance of debt. In this case it is the Local Government Unit Debt Act which is where 99% of these terms came from. It is a state law as well as the federal tax laws that overlay this. It is a very narrow area of expertise if you will so you know it and you become good at it by doing it a lot. So Bond Council that is what I do I do it a lot I know these specific laws, federal tax laws that impact this are well it is something that your Solicitor would not have any reason to come in contact with in a normal basis. The Solicitor on the other hand deals more with the day to day operation that you are

duly authorizing the Ordinance that you are duly organized because when the issue is done you have to be organized all those good things so the Solicitor plays that part of the puzzle, fits into that puzzle piece.

Mayor Kuhn - so to give a simple explanation it would be more or less if you had a health problem. The Solicitor would be your PCP who takes care of your personal problems and the Bond Council would be a Specialist if you had to go to a Specialist.

Pat Healy - I am going to use that. That is very good. Thank you.

Mayor Kuhn - I like to put things into easy terms. I do want to say that the Manager has assured me that you are very well qualified to be the Bond Council and also that we have used you several times and that you are very fair and your pricing to the Municipality too so I thank you for that.

Pat Healy - thank you very much I appreciate it.

Mayor Kuhn - that being said did that answer some of your questions? Can you come up to the mike.

Andrea Getsy - 151 Crescent Hills Road - it was really the basic question was that you had if I can find it here that you choose to go this private route, is this what this is?

Mayor Kuhn - is that was this is called Moe because I know we had told the residents that we were looking at different avenues of funding. Is that what you are wanting to know Andrea?

Moe Rayan - when we first discussed that we were either going to go to a financial institution like a bank to take out a bank loan or to issue bonds and that is the route we went issuing bonds because the banks they weren't able to give us the length of time that we needed to pay the bond back or pay the money that we borrowed back.

Andrea Getsy - see I found it finding a sale by negotiation to be in the best interest of the Municipality. It was language I didn't understand what is sale by negotiation mean?

Mayor Kuhn - basically if I am not mistaken Moe exactly what you had said you had looked into different avenues of funding to see negotiating with banks to see which would be in the best interest in the best way for the Municipality to go.

Moe Rayan - that is why we elected to go the bond route because the banks couldn't do it. It has to be paid within ten years and then they were not able to do that. They can't give you that much money and then hold it for twenty or twenty five years that is why we ended up going with the bond issue.

Andrea Getsy - but whenever it was described the presentation was made by you a month or so ago it was as if you were attaching your debt on to some other bond that you already had.

Moe Rayan - the wrap around. Chris can probably explain this.

Chris Shelby - sure I would be happy to. What the Municipality is doing which is typically the method of which they have structured their debt throughout they are trying to come up when they do a borrowing with two things. The lowest annual debt service payment that the Municipality can realize from the get go and at the same time pay the bond off as quickly as possible as well. So what you do is you look at the existing debt of the Municipality, general obligation debt not the sewer debt and if that debt is tailing off say it is a level debt service payment for ten or eleven years then all of a sudden the debt service starts declining and essentially starts to disappear. What you do with a project like this is you go interest only in those years where the debt service is now at its maximum level and as soon as these existing issues start paying off then you start adding principal in big blocks using the money that is coming free from other obligations that are then being paid off and then by accelerating that you shorten the debt service life as much as possible and get into an extremely low interest rate environment so the couple of things that the Municipality is doing is they are doing a wrap around that is what Moe said that means that we are wrapping new debt around old but it is almost like you had a car payment and then you went and wanted to get your mortgage but you couldn't do it but you said I have a \$600.00 a month car payment for the next four years so I would just really like to pay interest only tell the bank I just want interest only on my mortgage and we will start principal in five years when my car payment is gone and then I can start paying. That is exactly how this is working. We can't do that as individuals, banks can't typically do that through their loan process but the Municipality has the ability doing their own bond issue which they have a long history of having done of shaping the debt to keep the lowest possible debt. This isn't a sales pitch either. This is the way it works. This is to get the lowest possible payment in their budget for this new Municipal Building but at the same time pay it off as quickly as possible and with all those ingredients together we are estimating an all in interest rate for this loan probably under three percent and payable probably within twelve years so this whole thing it is going to be a fast and efficient process. But most of the debt the largest amount of principal payment on debt for the Municipality right now is probably ending around the year 2025 or 26 that is when it really starts to drop off. That is when we start to accelerate the payments and probably in about a three year period the whole new Municipal Building is paid off so it is going to be a very short term. That is one of the reasons the Municipality has maintained a very strong rating in the market place is because they have kept their debt short and they tailor it to keep it that way and tailor it also to minimize new payments that are attributable to new debt. I hope that kind of answers your question.

Andrea Getsy - thank you.

Mayor Kuhn - I wanted some explanations for the Public and Council because you and Michael deal with this every day.

Chris Shelby - yes unfortunately we do.

Mayor Kuhn - I am sorry Patrick. So you some time assume that everyone understands the terminology so I appreciate the explanation and I thank you for that it has made it much clearer to me and I think also to Andrea.

Chris Shelby - and just one thing just as an attribute to this whole thing the timing of this whole thing and I should probably always keep my mouth shut when you are done you are done I was always told that but on behalf of the Municipality getting this bond issue in this year and closing in this year now opens up next year to three potential refunding issues you have of existing debt next year. Every time we have done a refunding I know that you have saved a lot of money. With what is being borrowed this year is now done you have a clean slate for a new \$10,000,000.00 bank qualified slate for next year not meaning you are going to borrow next year you are going to get a better interest rate on each of the refunding.

Mayor Kuhn - and you have explained that to us numerous times that that \$10,000,000.00 figure is the figure that we want to stay under.

Chris Shelby - right that is why we wanted to get this one out this year and next year you have a clean slate for those other things that are going to be beneficial for you.

Mayor Kuhn - right because over that

Chris Shelby - then you go non bank qualified which categorically puts you in a slightly higher interest rate.

Mayor Kuhn - o.k. thank you very much. Don't sit down because those were just my questions. Anyone from Council?

Cathy Sapp - Yes I just have a couple of questions and it went back in the beginning to Sara's definitions so she pretty much captured all of mine. Thank you so much for answering those so clearly but I was not clear with the Bond Insurance you said we don't contemplate on using it but we will or we will not have it?

Chris Shelby - you will not have it.

Cathy Sapp - because we will be saving because we won't pay the premium?

Chris Shelby - right the only time you acquire bond insurance again is because you want to lift your own rating which you received as AA- you want to lift it up to the

rating of the bond insurance which is AA. O.K. so the difference between AA and AA- does not justify the expense of buying that insurance. You are better off on your own and save the insurance premium.

Cathy Sapp - o.k. that is what I thought you said and back on four I only have two more. So the interest rate back on page four where it says the bond shall bear interest from the appropriate June 1 and December 1 we don't know that information at this point, right?

Chris Shelby - no we will know that this Wednesday when it is actually locked in but we have been monitoring the issue virtually daily and as of today we can be up with a true interest cost on the loan right now in today's market if it was sold today it was at 2.73% so that might end up tomorrow at 2.76% or 2.68% or somewhere but the market is moving a little bit here and there.

Cathy Sapp - and then one last question was still be on page 4 whose name any bond is registered? Bottom of last paragraph.

Chris Shelby - that will be when we were talking about Registered Bonds that means your name when you own it it has to go on the bond and it will only be the name on that bond whatever that states fifteen days preceding to the actual payment date so you have to have your name on that bond fifteen days, somebody will and that means if even if somebody sells that bond fourteen days before that payment date they would get the interest and the buyer would know he is not getting that the next day. The Registrar has to know where the money goes and never have that in question.

Cathy Sapp - that is it for me. Thank you.

There being no further discussion the motion was approved by a 5-0 vote.

RESOLUTION

Mr. Brodnicki made a motion to approve **Resolution No. 2016-059** - ratifying the action of The Municipal Manager to enter into a Five-Year Lease Renewal Agreement with Toshiba Business Solutions to provide ten (10) new, upgraded copiers to be delivered to various departments of the Municipality of Penn Hills.

Dr. Kincaid seconded the motion.

Dr. Kincaid - if the information is available the question is relevant to the renewal agreement in reference to the maintenance aspect, will that remain the same as it has been in the previous contracts or did it increase?

Moe Rayan - no everything as far as the maintenance remains the same actually rental price went down a couple hundred dollars a month I believe. I can get the exact

number for you but the new lease agreement is less than what we are paying right now and it is under the Co-Star Program as well, it is a Government Contract.

There being no further discussion the motion was approved by a 5-0 vote.

Mayor Kuhn - o.k. we will have an Executive Session on Real Estate.

ADJOURNMENT

Mayor Kuhn entertained a Motion to adjourn.

Dr. Kincaid made a Motion to adjourn.

Mr. Underwood seconded the Motion.

The meeting was adjourned at 7:42 P.M.

DATE

MAUREEN M. SORCE
MANAGER'S SECRETARY