SPECIAL FINANCE COMMITTEE MINUTES
FEBRUARY 27, 2019

The Special Finance Committee meeting was held on February 27, 2019 at North Royalton City Hall, 14600 State Road. The meeting was called to order at 6:30 p.m.

PRESENT: **Committee Members**: Chair: Larry Antoskiewicz, Vice Chair Gary Petrusky, Paul Marnecheck; **Council**: John Nickell, Dan Langshaw, Cheryl Hannan, Dan Kasaris; **Administration**: Mayor Robert Stefanik, Law Director Thomas Kelly, Community Development Director Thomas Jordan, Finance Director Eric Dean; **Other**: Gloria Kacik, Matt Stuczynski, Anton Krieger.

NEW BUSINESS

1. **Presentation by Leopardo Companies, Inc. re: energy conservation project**
Mr. Dean said that he has worked on this project for the past year and feels that it will really help with utility cost savings. Mr. Dean gave a brief history of the project bidding, awards, etc. Leopardo was selected for the next step which will take a closer look at the energy savings and use this to pay for upgrades. He said that the idea is that we will finance this project and the financing will be paid for by the savings in utility costs. He said that the savings is guaranteed in the contract and if we don't meet the numbers, Leopardo will pay the difference.

    Matt Stuczynski, MAS Financial Advisory Services addressed the committee regarding the financial options for this endeavor. He said that the financial goal is to align the debt with the useful life of the project which is typically 15 years or shorter. So we need to think about what type of debt issuance might be considered. A bond issue can take 60-90 days to ramp up and can give a good outcome. It is a well-rounded, established way of selling municipal bonds in the marketplace. This is good for large projects that have longer amortizations. He said that another option is having a financial institution buy the debt directly from the city. This is known as direct bank purchases. Instead of a public offering, the city would send out a term sheet that lays out the amortization and the financing alternatives such as lease structure or a general obligation pledge. We would receive submittals from the banks and measure those against each other and perhaps choose one. He said that this provides a faster path to the market place and might be just as competitive from an interest rate standpoint. Most certainly there is less cost of issuance aligned with this option. Unlike with bonds, we are not applying for a rating, we don't need a bond registrar paying agent. A direct bank purchase may result in $25,000-$30,000 in cost of issuance, and a public offering might be $75,000-$80,000. We are trying to determine which path to take; bond issue or direct bank purchase. He said that one of the reasons we gravitate in a scenario like this to a direct bank purchase, and he is giving this recommendation, is that a direct bank purchase offers more options. The city can ask for a rate on a lease, a rate on a general obligation structure bond, optional redemption features. In a long-term bond issue it is usually 8-10 years, but with a direct bank purchase might be 3-5. This might be very valuable in an energy conservation project as you go through the process. He said that the direct bank purchase offers speed, flexibility and lower costs. He said that a direct bank purchase can be done in 3 weeks to a month.

    Mr. Stuczynski reviewed an amortization table with the committee, a copy of which is attached to these minutes.

    Mr. Langshaw asked if Mr. Stuczynski is recommending the direct bank purchase over the general obligation structure bond. Mr. Stuczynski said yes, he thinks it is the most expedient and gives the most flexibility. Mr. Langshaw asked if there are any additional benefits, such as cost. Mr. Stuczynski said with the interest rate differential, generally speaking, the public offering outperforms a direct bank purchase, but we may save the money in the cost of issuance. We won't know this until we see the metrics of what is submitted. He said if we save 20 basis points, we will break even. Mr. Langshaw asked what effect the direct bank purchase would have on our current debt rating. Mr. Stuczynski said that any new debt is a credit negative. He said that the city's deb profile is in a very healthy position and he said carrying the debt for a shorter time as with the direct bank purchase would be a credit positive.

Mrs. Hannan said that this is the first time she has heard of direct bank purchasing and asked if this is something new and if other cities have used this option. Mr. Stuczynski said that banks did not do a lot of this type of lending before 2008. In 2009, Dodd-Frank changed the rules and added a feature that allowed for more financial institutions to buy larger blocks of municipals. Banks have found that this fit a very good profile for their overall profile of loans because municipal debt is stronger than corporate debt. This allowed the banks to build a strong base in their portfolios and has been a very active market through 2017. In 2017 the tax law changed and now municipals are not as valuable to these financial institutions as a result. 2018 was a little more volatile, but they have now got this right sized and the result is a very active appetite for this. Mrs. Hannan asked if there was any correlation to the banks interest in these types of loans and 2008 and the recession. Mr. Stuczynski said yes because corporate credits were weaker and municipals were stronger. He said that it allows the banks to stretch on the corporate side because they know they have a stable portfolio of municipal bonds that will create a foundation for their portfolio. It also allows them a lower capital charge because of the risk factor. Mrs. Hannan asked what negatives does this type of borrowing have on a municipality. Mr. Stuczynski said a slightly higher interest rate. He said that we will have to measure this against what we receive. He said the good news is that we don’t have to accept it. With the bond offering, once you go down the path and incur the costs, you are pretty well paved that you are going forward with the bonding. However, with the direct bank purchase, we can reject all of the solicitations and send them out again. He expects we will get 7-9 proposals. Some banks will not go out beyond 10 years, but some banks are pushing out to 20 years. This is something we have not seen before. Mr. Kasaris asked who chooses the financial institutions. Mr. Stuczynski said that he will make a recommendation to Mr. Dean as to who has participated in the market place in Ohio and we will solicit those institutions. Mr. Kasaris asked if they are Ohio institutions. Mr. Stuczynski said for the most part, yes. Key Bank, PNC, First National Bank, Huntington, First Internet Bank out of Indiana, Zions Bank, BB&T which has merged with Sun Trust, Chase. He said he recently worked in two local communities and received 5 proposals for each community. He said that some may not participate because of the duration of the debt. Mr. Marnecheck asked if we have the ability to adjust the rate during the term. Mr. Stuczynski said no, we fix it out but we will provide the option to repay it early. Mr. Marnecheck said that with the rise of pace financing there are other businesses that are looking to finance energy saving projects, so does it have to be a bank. Mr. Stuczynski said that it does not have to be a bank. These are considered placements and there are funds that do buy this but we have to make sure that they comply with all state statutes and that they understand what they are purchasing. He said that he has seen a fund buy this type of paper in the past. Generally speaking, they are not as competitive because these types of funds look for a higher yield. Mr. Marnecheck asked if $2.8 million is considered large project or a small project. Mr. Stuczynski said that it is in the sweet spot of a lot of institutions in terms of what they are looking for. Mr. Marnecheck asked if the bank we choose could sell this to another institution. Mr. Stuczynski said that we ask them as a matter of course to commit in their content to own the debt for its life, but he does not know that we can hold them to that. Mr. Nickell said as long as they don’t change the terms of the agreement, it shouldn’t matter. Mr. Stuczynski agreed, there is no consequence if this is done.

Mr. Dean said that we were very impressed with Leopardo’s proposals and determined that it was the best one for the city. We were impressed with their experience and presence in Ohio.

Rob Vollrath, Jeremy Brown, John Albrecht and Joe Frankini were present from Leopardo Companies. A handout was provided to the committee and reviewed extensively by Mr. Vollrath, a copy of which is attached to these minutes. In response to some questions asked by Mr. Kasaris, Mr. Vollrah said that they have been in business since 1977, they are headquartered in Chicago and have roughly 500 employees. He said that while they have not done work in Cuyahoga County, they have done multiple projects across the State of Ohio mostly in central and southern Ohio. Discussion was held regarding the street and traffic lighting as well as lighting throughout the various buildings. Mr. Marnecheck asked if they do the work or is it subcontracted out. Mr. Brown said that they would subcontract this work out and procure prices from all local contractors. Mr. Kasaris asked if the lighting upgrades included the sports fields. Mr. Brown said they looked into this and said that it is a pretty capital-intensive project and will not have the payback like the rest of the lighting projects will have because of the limited burn hours in general. This is not a part of the project at this time. Discussion on roofing took place. Mr. Nickell asked if replacing the roofs will result in energy savings. Mr. Brown said minimally, since they will be adding additional insulation and bringing it up to current code standards. He said that some of these items have a pretty short pay back in terms of what it costs up front vs. what they savings will be. He said that roofing is not one of these. The reason these types of projects are utilized is to help address some of the deferred maintenance items that are capital intensive and hard to get budgeted. He said that roofing, windows, etc. are projects that are expensive upfront with little utility return, but they fit nicely into this project because other things will help pay for them. He said that they took core samples and there are signs of insulation saturation and they will need to be replaced in the very near future. Mr. Nickell asked how the IT/Telephone savings was determined. Joe Frankini addressed this question. He said that the city recently did voiceover IP throughout the city and the Police Department was not included in that so they worked with Brian Beals and local contractors to determine what needed to be done in order to get voiceover IP at the Police Station and to capture some saving there. He said that we will be eliminating some lines that are no longer needed and maintenance on certain equipment can be eliminated. He said that there were probably a dozen or so items across the city such as analog fail over systems where each building has lines that they pay for. He said that they will be able to eliminate this because it will now be one integrated voiceover IP system. He said that they are working with Mr. Beals on additional savings that are not included in this program in order to reduce the AT&T bills from their data circuits.

Mr. Nickell asked if we have one person who manages the HVAC systems. Mayor Stefanik said we do not and we suggest not going that route. After talking with the Police and Fire Departments, they would rather have their person on sight that will take care of their individual buildings.

Mr. Marnecheck asked for an explanation of what is meant by cumulative cash flow. Mr. Vollrath explained that the cumulative cash flow is the difference between what you are paying vs. what you are receiving. So right out of the gate in year zero which is the construction period, the city is accumulating savings immediately. This carries over each year so the difference between the payment vs. the savings accumulates each year.

Mr. Kasaris asked how they guarantee the savings. Mr. Albrecht explained that they review all of the utility bills and all of the costs and work with the staff at the city. He said that some buildings run energy models if we are swapping out systems. If we are doing replacements there are more calculations with an expansive spreadsheet, weather data, etc. We look at BTUs per square foot, we energy star rate the buildings and we look at comparisons. He said that they have done a lot of these types of buildings so they have a large data base. At the end, he said that he discounts everything at least 10%. So when we are done a year from now we will come back and go over everything again and provide the data that shows the savings. Mr. Kasaris asked if the saving guarantee is in the contract. Mr. Albrecht said yes. Mr. Antoskiewicz said that the difference between Option 1 and Option 2 is that there about 12 items that are not included in Option 2, most of which are controls, mechanical and the Fire Department roof. Option 2 is about $200,000 less than Option 1, but we will have done 12 less projects that will need to be done at some point using some other method. The 12 projects are estimated to cost $700,000+ on their own, but only $200,000 if we include them in this project. Mr. Langshaw said that whichever option we choose, it will not cost the taxpayers any money and is a benefit for the residents. This is a creative way to accomplish some very comprehensive capital improvement projects that are going to save us money. He asked Leopardo if they are recommending Option 1. Mr. Vollrath said yes, it addresses a lot more needs that will need to be addressed in the next few years anyway at a minimal contribution relative to what we are getting back. Mr. Langshaw agreed that Option 1 is the way to go. Mayor Stefanik said that one of the questions we need to answer whether or not we take the money out of the Future Fire fund and try to pay it down a little bit, or do we just finance it all. He said that he knows that the Chief would like to keep the money in the fund for other projects he was hoping to do this year. Mayor Stefanik said that the administration would like to see the money stay in the fund because it is always good to have healthy balances. Mayor Stefanik said that we take the issue of going into debt very seriously and said that this is more of an investment tool to get these projects completed without having to use tax dollar reserves. Mr.

Stuczynski cautioned that we may need to make sure we are meeting the thresholds of HB 420 if we look at the option without a cash contribution. He said that we must achieve savings equal to, or greater than, the debt service. He said in order to borrow more we are going to have to extend the amortization out farther, maybe to 17 or 18 years. He said that we will lose some financial institutions once we go past 15 years. He said that it would extend the break even point. He would have to run the numbers to see how far out it would be extended. Mr. Antoskiewicz asked if we could break them out separately. Mr. Stuczynski said that perhaps we could issue a separate note for the $400,000+ for the Fire Department. This debt might be outside of HB 420. Mr. Nickell asked what other renovations need to be made at the Fire Department that would keep us from making the down payment. Mayor Stefanik said that there is some equipment that they are looking at for the future. He said that this is why he is throwing this out there to see what the best scenario is. He said right now it looks like the option of taking the $400,000+ out of the Future Fire Capital fund and make the debt smaller. Mr. Nickell said that after hearing what was said tonight, he is in favor of Option 1. Mr. Kasaris said that he does not see any mention of the Wastewater facilities. Mr. Vollrath said that given that this is an enterprise fund, it cannot be a part of the rest of the general fund. Mr. Kasaris asked what the plans are for Wastewater. Mr. Dean said that Wastewater has a big project that will include their roofing needs. They are working on getting these specifications to Council and we plan to fund it through the enterprise fund. He estimates the project cost at $4.8 million and it will include major renovations to the electrical building. Mayor Stefanik said that these improvements were taken into consideration the last time we did a rate increase. All of these improvements were factored into the increase. Mr. Antoskiewicz asked how much money is in the Fire Department fund. Mr. Dean said that they started the year at $740,000. We just completed the purchase of one ambulance and there is another one ordered. There are also the debt payments. He said that they will likely end up with $200,000-$300,000 at the end of the year, but he thinks we could make it work if we have funds in the Future Capital to make up the difference. Mr. Marnecheck asked what the fund receives each year. Mr. Dean said almost $500,000. Mr. Dean said that it looks like we won't make a payment until next year for most of this work so there is time to plan ahead. It was the consensus of the committee that Option 1 was the way to proceed. Mayor Stefanik asked Mr. Kelly what the next step would be. Mr. Kelly said that we would need to prepare legislation to be presented to Council. He felt that it should be ready in time for the next Council meeting. He said that they will work with Leopardo to get the contract prepared. We have already had Bond Counsel look over the documents and they have given us assurances that they are confident and comfortable with moving forward. Mrs. Hannan asked if Bond Counsel is also comfortable with the direct bank purchase vs. a bond. Mr. Kelly said that he has not discussed this with Mrs. Gordon but he can contact her and find out. Mr. Kelly said that we will also need legislation to authorize the financing mechanism once it is determined. Mr. Antoskiewicz asked Mr. Stuczynski if he has any recent results for this type of project from any of the surrounding communities. Mr. Stuczynski said that Moreland Hills was a 15 year issue that came in around 3.05%. Chagrin Falls was a 12 year issue and came in at 2.98%. We did a soft solicitation and 3.20% was the rate that was promoted by Zions Bank. He said that we are going to go to financial institutions that are active in this marketplace. He said that the legislation to issue the debt will include a methodology to allow us to do either financing and he knows that Mrs. Gordon has done direct bank purchases before and has opined on them. Mr. Kasaris said that assuming we pass legislation in March, what would the time frame be from there. Mr. Vollrath said that as soon as the contract is signed and financing is in place, we can then release the subcontractors and get started. He said that there is a procurement phase where we will need to purchase equipment, etc., and then construction will start after that.

ADJOURNMENT

Moved by Mr. Marnecheck, seconded by Mr. Petrusky to **adjourn the February 27, 2019 Finance Committee meeting**. Yeas: 3. Nays: 0. **Motion carried**.

Meeting adjourned at 8:00 p.m.

From:	Eric Dean
To:	Cheryl Hannan; Dan Kasaris; Dan Langshaw; Gary Petrusky; John Nickell; Larry Antoskiewicz; Paul Marnecheck
Cc:	Robert Stefanik; Donna Vozar; Thomas Kelly; Rob Vollrath; Joseph F. Frankini; Jeremy J. Brown; Laura Haller; Dana Schroeder; mas stu
Subject:	2-27-19 Special Council meeting
Date:	Wednesday, February 27, 2019 4:15:08 PM
Attachments:	2-27-19 Special Finance Commitee meeting agenda.pdf 2-27-19 Energy Savings Preformance Contracting presentation.pdf

Please see the agenda for tonight's special finance committee meeting. I have also attached the updated presentation from Leopardo. Feel free to contact me if there are any questions.

2/27/19 Special Finance Committee Meeting
Time: 6:30 p.m.
Location: North Royalton City Hall Council Chambers

1. **Overview of project timeline**
   - Council Authorized to seek proposals for Ohio House Bill 420 authorized Energy Conservation Program -2/6/2018
   - Original Bids due 7/17/2018
   - Rebids were due on 9/21/2018
   - Selection of Vendor on 10/16/2018
   - Ordinance 2018-123 approved letter of intent on 11/26/2018
   - Energy Savings audit was completed
   - **Review and approve the final scope of project 2/27/2019**
   - **Contract placed on 3/5/2019 council meeting**

2. **Finance Options – Matthew A. Stuczynski**
   - Review financing options and current financing market conditions
   - Lease vs. Bonds

3. **Presentation on scope of project – Leopardo**
   - **Options 1**-with Fire department funding paid through Fire Capital Fund
   - **Options 2** –no fire department repairs included

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email: financedep@northroyalton.org

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Energy Savings Performance Contracting

Leopardo

Prepared for:

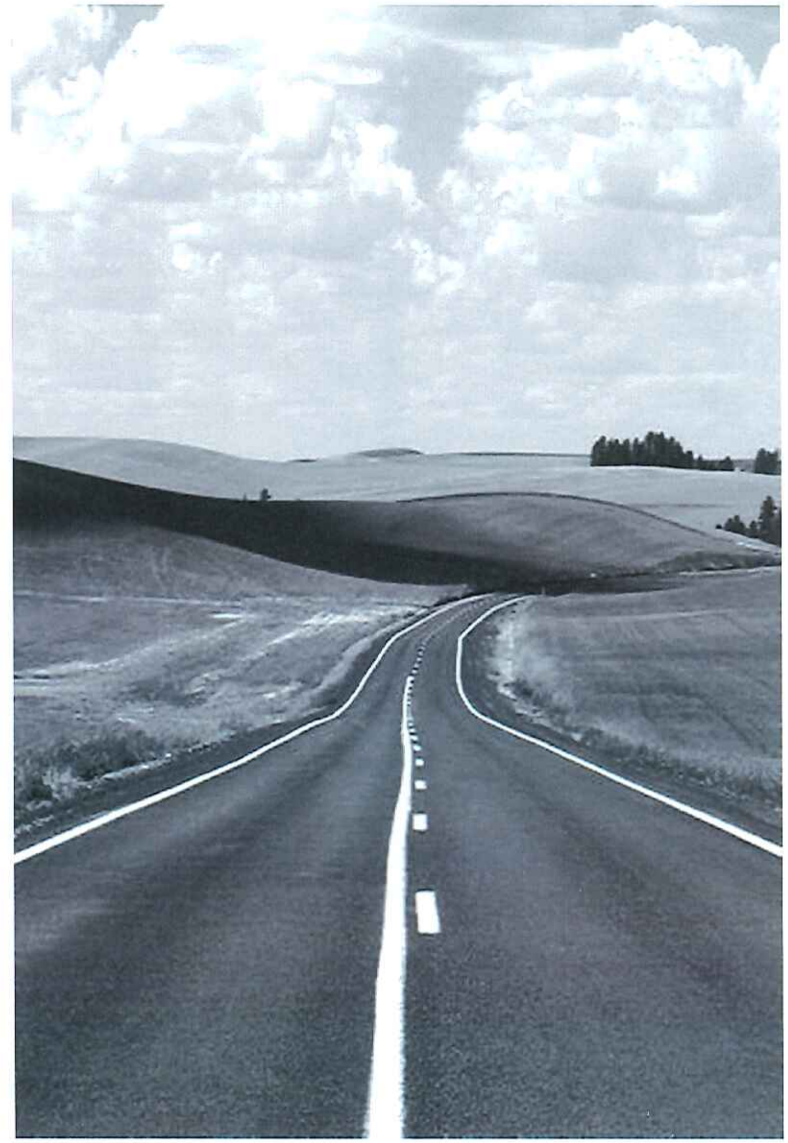
The City of North Royalton

February 27th, 2019

Agenda

Leopardo

1. Energy Saving Performance Contracting (House Bill 420)
2. Guaranteed Savings to North Royalton
3. Project Scope
4. Project Economics – Cash Flow Analysis
5. The Process – Next Steps



House Bill 420 – Energy Savings Performance Contracting

Leopardo

The Ohio General Assembly enacted House Bill 420 which establishes the basis for energy efficiency in state and local government buildings.

This bill authorizes **guaranteed** energy savings performance contracting, which can include private sector financing to fund these projects.

This bill authorizes a program for achieving energy, operational and capital cost avoidance savings in state and local government buildings through ESPCs.

House Bill 420 – Energy Savings Performance Contracting

Leopardo

- **Guaranteed project cost – NO CHANGE ORDERS**
- **Guaranteed savings**
- **Guaranteed equipment performance**
- Avoid using money from capital and operating budgets to address building needs
- Verification of annual savings through a monitoring program
- Update aging equipment with newer, more efficient products
- Reduce maintenance costs
- Single point of accountability
- Ongoing operational support

KEY PROGRAM BENEFITS

Guaranteed Annual Savings

Leopardo engineers have conducted audits to determine energy and operational reductions for the City of North Royalton. The table below shows the total Guaranteed Savings this program will generate, and the amounts that can be used for the funding model of this project.

Guaranteed Annual Cost Savings

	Annual Budget Spend	Future Spend	Savings
Utilities	$393,100	$308,834	**$84,266**
Traffic Signal Maintenance & Repair	$76,100	$44,000	**$32,100**
IT/Telephone	$266,075	$188,191	**$77,884**
Facility Operations, Maintenance and Supplies	$162,574	$114,853	**$47,721**
		Total Savings	**$241,972**

Option 1 – Capital Investment for Additional Fire Department Work

	Lighting	Controls	Mech.	Roofing	Envelope
Animal Control	●		●		●
Cemetery Maintenance Building	●		●	●	●
City Hall	●	●	●		●
Fire Station #1 Park	●				
Fire Department 1	●	●	●		●
Fire Department 2	●	●	●	●	●
Parks Maintenance Building	●	●	●	●	●
Police Department	●	●	●		●
Service Center	●	●	●	●	●
Street and Traffic Lighting	●				

Project Economics – Cash Flow Analysis

Leopardo

Option 1:

Capital Investment for Additional Fire Department Work

Total Project Cost:	**$3,307,667**
Down Payment:	$431,492
Amount Financed:	$2,876,175
Utility Rebates:	$0
Rate of Financing:	3.72%
Term of Financing:	15
Program Cashflow:	**$1,381,986**

Optional Deduct for Decentralized Controls: **-$32,530**

Year	Total Annual Saving	Debt Payment	Ongoing M&V Service	Cumulative Cash Flow
0 (Const. Period)	$120,986	$0	Incl.	$120,986
1	$241,972	$253,558	Incl.	$109,401
2	$243,019	$253,558	TBD	$98,862
3	$244,087	$253,558	TBD	$89,391
4	$245,176	$253,558	TBD	$81,009
5	$246,287	$253,558	TBD	$73,738
6	$247,420	$253,558	TBD	$67,601
7	$248,576	$253,558	TBD	$62,618
8	$249,754	$253,558	TBD	$58,815
9	$250,957	$253,558	TBD	$56,214
10	$252,183	$253,558	TBD	$54,840
11	$253,434	$253,558	TBD	$54,716
12	$254,710	$253,558	TBD	$55,869
13	$256,012	$253,558	TBD	$58,323
14	$257,339	$253,558	TBD	$62,104
15	$258,693	$253,558	TBD	$67,240
16	$260,075	$0	TBD	$327,315
17	$261,483	$0	TBD	$588,798
18	$262,920	$0	TBD	$851,719
19	$264,386	$0	TBD	$1,116,105
20	$265,881	$0	TBD	$1,381,986
Totals:	**$5,185,351**	**$3,803,365**	**TBD**	**$1,381,986**

Option 2 – Self-Funding Program

	Lighting	Controls	Mech.	Roofing	Envelope
Animal Control	●		●		●
Cemetery Maintenance Building	●		●	●	●
City Hall	●	●	●		●
Fire Station #1 Park	●				
Fire Department 1	●	●			●
Fire Department 2	●	●	●		●
Parks Maintenance Building	●	●	●	●	●
Police Department	●	●	●		●
Service Center	●	●	●	●	●
Street and Traffic Lighting	●				

Project Economics – Cash Flow Analysis

Leopardo

Option 2:

Self-Funding Program

Total Project Cost: **$2,663,227**
Amount Financed: $2,663,227
Utility Rebates: $0
Rate of Financing: 3.72%
Term of Financing: 15
Program Cashflow: **$1,574,870**

Optional Deduct for Decentralized Controls: **-$32,530**

Year	Total Annual Savings	Debt Payment	Ongoing M&V Service	Cumulative Cash Flow
0 (Const. Period)	$119,197	$0	Incl.	$119,197
1	$238,395	$234,785	Incl.	$122,808
2	$239,370	$234,785	TBD	$127,393
3	$240,365	$234,785	TBD	$132,973
4	$241,379	$234,785	TBD	$139,568
5	$242,414	$234,785	TBD	$147,198
6	$243,470	$234,785	TBD	$155,883
7	$244,547	$234,785	TBD	$165,645
8	$245,645	$234,785	TBD	$176,505
9	$246,765	$234,785	TBD	$188,486
10	$247,908	$234,785	TBD	$201,609
11	$249,073	$234,785	TBD	$215,898
12	$250,262	$234,785	TBD	$231,375
13	$251,475	$234,785	TBD	$248,065
14	$252,712	$234,785	TBD	$265,992
15	$253,973	$234,785	TBD	$285,180
16	$255,260	$0	TBD	$540,440
17	$256,572	$0	TBD	$797,013
18	$257,911	$0	TBD	$1,054,924
19	$259,277	$0	TBD	$1,314,200
20	$260,670	$0	TBD	$1,574,870
Totals:	**$5,096,641**	**$3,521,771**	-	**$1,574,870**

Process – Next Steps

Presentation to Finance Committee	02/27/2019
Introduce Legislation to City Council	03/05/2019