



# City of Denton

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## Legislation Text

File #: AF16-016, Version: 1

### Agenda Information Sheet

**DEPARTMENT:** Finance

**ACM:** Bryan Langley

**Date:** September 27, 2016

#### **SUBJECT**

Receive a report, hold a discussion, and give staff direction regarding the City's contract for financial advisory, arbitrage rebate and continuing disclosure services.

#### **BACKGROUND**

September 2010, staff renegotiated three separate contracts with First Southwest ("FSW") into a single contract in an effort to reduce costs and improve efficiencies. The City Council approved the consolidated contract (Ordinance No. 2010-304) on December 7, 2010. Through this effort, the City's fees for arbitrage rebate services were reduced by 15% or \$7,000 per year and a one-time savings of \$39,165 recognized from reduced financial advisory services fees on the GO Refunding Bonds, Series 2010A. While there was no fee reduction for continuing disclosure services, the increased requirements for regulatory disclosures translated to an increase in services for the same cost to the City. Additionally and in conjunction with this effort in 2010, the City also renegotiated its investment advisory services contract with First Southwest Asset Management ("FSAM"), a division of FSW. Investment advisory services are separate services from those provided by FSC. That effort resulted in a savings of \$15,000 and a reduction in fees that continues to today.

February 21, 2012, the City Council adopted Ordinance No. 2012-029 awarding a five year contract to FSW for financial advisory, arbitrage rebate and continuing disclosure services. This contract maintained the fees approved in 2010, and is due to expire on February 20, 2017.

In anticipation of this approaching expiration date, staff requested a proposed fee schedule from FSW for all three services assuming a five year continuous term contract. FSW submitted the following proposed fees:

	Current Fee	Proposed Fee
<b>Financial Advisory Services:</b>		
Base Fee	\$25,000	\$25,000
Plus per 1,000 of Bonds, any size	\$1.00	N/A
Plus per 1,000 of Bonds up to \$25 million	N/A	\$1.00
Plus per 1,000 of Bonds over \$25 million	N/A	\$0.75
<b>Arbitrage Rebate Services:</b>		

Annual Fee per Issue <sup>1</sup>	\$1,260	\$1,260
IRS Refund Request	\$750	\$750
Commercial Paper Calculations - Per Issue	\$1,600	\$1,600
<b>Continuing Disclosure Services:</b>		
Annual Fee per Report <sup>2</sup>	\$3,500	\$3,500
Material Event Disclosure Reports, as needed	\$100 minimum or \$125 per hour, if 5 hours or more	No Fee

<sup>1</sup>Includes a 10% discount since files are provided electronically on a spreadsheet.

<sup>2</sup>FSC currently files three (3) annual reports but only charges for two (2). No proposed change to this practice.

Additionally, FSW has offered to apply their proposed fees for Financial Advisory Services to the City's upcoming Utility System Revenue Bonds, Series 2016 to further demonstrate their willingness to continue their relationship with the City. By doing so, this amounts to a savings of \$42,750 on preliminary estimates for the City's initial sale. FSW has not made this offer contingent upon approval of a contract.

As a due diligence check on fees, staff conducted an informal inquiry into pricing for financial advisory services among various cities. While not all cities are experiencing the same growth as the City of Denton nor are they, in most cases, full service cities, staff did find that most fees are comparable to those charged by FSW. However, staff would note that most other cities pay an additional 1.25 markup on fees for refunding issues, variable rate issues and issues related to federal or state agencies. FSW does not differentiate between types of issues. In addition, hourly fees are also charged for services not directly related to an upcoming issuance. FSW's proposed fees do not include any additional charges since all services may eventually result in a bond issue.

City staff receives excellent service from FSW including development related financial services at no additional costs. Their financial and tax-exempt market expertise are a benefit to the City. FSW is the largest municipal advisor in Texas by number of deals and amount issued. Nationally, FSW has been ranked the number 1 financial advisor in nine of the last ten years by number of issues. Staff has attached (Exhibit 2) FSW's statement of qualifications that provides additional information regarding the firm's experience, knowledge and ancillary services.

If the Audit/Finance Committee concurs staff's recommendation to forward a new five year continuous term contract with FSW to the City Council, staff will plan to place the contract on the Council's November 1, 2016 agenda.

## **RECOMMENDATION**

Staff recommends that a new five year continuous term contract with FSW for financial advisory, arbitrage rebate and continuing disclosure services be forwarded to the City Council for consideration and approval.

## **STRATEGIC PLAN RELATIONSHIP**

The City of Denton's Strategic Plan is an action-oriented road map that will help the City achieve its vision.

The foundation for the plan is the five long-term Key Focus Areas (KFA): Organizational Excellence; Public Infrastructure; Economic Development; Safe, Livable, and Family-Friendly Community; and Sustainability and Environmental Stewardship. While individual items may support multiple KFAs, this specific City Council agenda item contributes most directly to the following KFA and goal:

**Related Key Focus Area:**     **Organizational Excellence**

**Related Goal:**               **1.1 Manage financial resources in a responsible manner**

**EXHIBITS**

1. Current Contract with FSW
2. FSW Statement of Qualifications

Respectfully submitted:  
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