



Legislation Text

File #: 07338, Version: 1

Fiscal Note

The total cost of financial advisory services for general obligation and utility debt issues during 2007 are expected to approach \$100,000. These costs are financed along with other transaction costs of the debt issues and will be paid from the Debt Service Fund. No impact on the property tax levy or Expenditure Restraint Program eligibility.

Title

Authorizing the City to continue to purchase financial advisory services from Springsted, Incorporated on a sole source basis for the remainder of 2007.

Body

PREAMBLE

Summary

The City of Madison receives independent financial advisory services from the firm of Springsted, Incorporated. Originally retained on a sole source basis, Springsted has provided an array of continuing services related to Madison's general obligation notes and utility bond sales for the past 15 years. As the City's financial advisor, Springsted has provided excellent service, and the stable relationship with a highly qualified municipal advisory firm has helped maintain the City's high credit rating. Springsted has continued to provide services during the current year in preparation for the upcoming City general obligation borrowing and the Water Utility's planned revenue bond issue later this fall.

However, the cost of the various services performed by the financial advisory firm annually exceeds the amount that would now normally require a competitive procurement process, unless the Common Council authorizes a "sole source" exception pursuant to Sec.4.26(4), of the Madison General Ordinances. Given that a change in financial advisor at this time would be highly disruptive to the planned issuance of City of Madison and utility debt already scheduled for this year, staff requests Council authorization to continue to obtain financial advisory services from Springsted on a sole source basis for the remainder of this year. The City Comptroller, along with staff of the City's utility operations that issue revenue debt, will conduct a competitive procurement process to select a financial advisory firm for 2008 and future years.

Background

For many years the City has relied heavily upon the services of Springsted, Incorporated, an independent professional financial advisory firm, to play a key role in the issuance of its long-term debt. This has been the case for all general obligation debt issues as well as revenue debt issued by the Sewer Utility, Water Utility and other utility operations. Prior to each note or bond sale, the financial advisor makes recommendations about the structure and appropriate method of sale. In the case of a revenue bond issue, the financial advisor must also prepare specific debt coverage calculations to determine the utility's capacity to incur additional debt.

After discussions about the proposed structure, size and terms of sale, the financial advisor calculates projected debt service schedules and prepares the Preliminary Official Statement for distribution to potential buyers in the bond market. The financial advisor participates in consultations with bond rating agency analysts as they prepare to update the City's bond rating for each new issue. The financial advisory firm then conducts the actual competitive bond sale on behalf of the City, using its facilities to advertise the sale, receive electronic responses, evaluate the bids and publicly communicate sale results in a timely manner. The financial advisor may also provide advice concerning any unusual or unexpected circumstances that may arise during the sale process.

Following each debt sale, the financial advisor performs all of the necessary final calculations and arranges the closing needed to complete the borrowing transaction. The City's financial advisor also submits the continuing annual reports to the Nationally Recognized Municipal Securities Information Repositories as required by the Securities and Exchange Commission throughout the life of the debt issue.

In addition to the services outlined above, the financial advisory firm provides ongoing consultation about other debt related topics throughout the year and as specific questions or complex issues arise. In recent years, such consultation has been particularly beneficial during the City's refinancing of outstanding pension debt, discussions of Overture Center financing, the refunding of high cost debt issues related to the construction of Monona Terrace and the review of economic development financing alternatives.

The City of Madison has received independent financial advisory services from Springsted, Incorporated for more than 15 years. Springsted is a mid-west firm based in Saint Paul, Minnesota. Madison and many other Wisconsin clients are served from the firm's Milwaukee office. The City did not conduct a competitive RFP or RFQ process when Springsted was initially selected as financial advisor.

A stable relationship with a qualified financial advisor can be a valuable resource when considering financing alternatives available to the City. Such a relationship is also viewed as a positive factor by the bond rating agencies when they evaluate the quality of the City's financial management. Such a relationship may well help maintain the City's strong credit worthiness.

Municipal financial advisors are typically compensated through fees and cost reimbursements charged at the conclusion of a successful bond sale. The amount of these charges is based on the size and nature of each bond issue. If a planned bond sale does not occur, the financial advisor usually receives no fee for preparatory or advisory work performed.

During the past several years, payments to Springsted have amounted to about .15% of the City's annual tax exempt general obligation note sales. For the much smaller and more complex utility revenue bond issues and taxable general obligation issues for TIF purposes, the financial advisory fees have fallen in the range of .45% to .82% of proceeds, depending on the characteristics of each specific issue. As the size and number of individual issues has grown in recent years, so have the total fees. When added together, total fees paid to Springsted by the City, the Sewer Utility and the Water Utility for four separate debt issues reached \$150,000 in 2006.

This level of compensation exceeds the current City ordinance limits requiring a competitive service procurement process for consulting services. The Common Council can, however, grant an exception to that requirement in cases where services have been provided by a particular consultant on a similar or continuing project in the recent past, and it would be economical to the City on the basis of time and money to retain the same consultant. The City has planned for its fall general obligation note sale using the services of Springsted, Incorporated, consistent with past practice. Springsted has also been working with the Water Utility on its planned capital borrowing. This revenue bond issue has been delayed for several months, awaiting Public Service Commission approval of new water rates. Staff believes that it would be impossible to complete this year's planned note and bond sales in a timely manner if the City were to change financial advisory firms at this time.

WHEREAS, the City and its associated utility operations have received independent professional financial advisory services from Springsted, Incorporated for the past 15 years, and

WHEREAS, the level of total compensation paid to the financial advisory firm would normally require a competitive procurement process under current ordinances unless an exception is authorized by the Common Council, and

WHEREAS, Springsted has continued to provide high quality services in preparation for the City's planned 2007 general obligation note and utility revenue bond issuances, and

WHEREAS, it would be economical to the City on the basis of time and money to retain Springsted for continued financial advisory services for the remainder of this year,

NOW, THEREFORE, BE IT RESOLVED, that the Common Council authorizes the City to continue to purchase financial advisory services from Springsted, Incorporated on a sole source basis for the remainder of 2007, and

BE IT FURTHER RESOLVED, that the City Comptroller, along with staff of the City's utility operations that issue revenue debt, will conduct a competitive procurement process to select a financial advisory firm for 2008 and future years.