

**TUMWATER BUDGET & FINANCE COMMITTEE  
MINUTES OF VIRTUAL MEETING  
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**CONVENE:** 3:01 p.m.

**PRESENT:** Mayor Debbie Sullivan and Councilmembers Peter Agabi, Michael Althaus, and Eileen Swarthout.

Staff: City Administrator Lisa Parks, City Attorney Karen Kirkpatrick, Finance Director Troy Niemeyer, Fire Chief Brian Hurley, Police Chief Jon Weiks, Communications Manager Jason Wettstein, and Executive Assistant Brittany McClanahan.

**APPROVAL OF  
MINUTES: BUDGET  
& FINANCE  
COMMITTEE,  
APRIL 23, 2024:**

**MOTION:** **Councilmember Althaus moved, seconded by Councilmember Agabi, to approve the minutes of April 23, 2024 as presented. A voice vote approved the motion.**

**DEBT FINANCING –  
APPLICANT  
PRESENTATIONS:** Director Niemeyer reported the new Maintenance and Operations (M&O) facility would be funded by debt financing through the issuance of municipal bonds. The briefing includes two presentations from two well-qualified bond underwriting firms, one of which will be selected to assist the City in the debt financing process.

Lindsay Sovde, Senior Managing Director, Seattle, Washington with HilltopSecurities, introduced team members Tyler Benson Assistant Vice President; Bill Evans, Managing Director in Dallas, Texas; and Ted Chapman, Managing Director in Dallas, Texas. Team members shared their area of expertise and their role as a member of a team supporting the issuance of bonds for the City.

Ms. Sovde said HilltopSecurities provides more than just financial advisory and underwriting services as the firm is a full-service provider to governments across the country for debt-related needs. Kevin Berry serves as a Fixed Income Specialist to assist the City with short-term investments and Colby Jackson is the firm's Arbitrageur Specialist, which will be important to the City when it issues new bonds because the City will need to track the interest rate earned on the proceeds from the bond issue. A team of specialists can assist the City in those calculations. The firm's investment management team provides longer-term investment management for the City and a continuing disclosure team for filing of financial information each year.

Ms. Sovde reviewed the firm's competitive advantages over other bond

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underwriting firms:

- Experience with cities nationwide of nearly 77 years working with governments on municipal financing needs
- Long history of exploring a variety of transactions
- Expert insights from former Moody's and S&P analysts on potential credit rating outcomes
- Integrated development, public finance, corporate finance, and capital markets knowledge providing the best overall financing structure
- Understanding Council goals helps to ensure visions become reality
- Skill in funding a wide variety of public improvement projects
- Team approach, accessibility, and responsiveness

HilltopHoldings based in Dallas, Texas is a publicly traded company comprised of three companies; PlainsCapitalBank, a retail bank located in the Texas, PrimeLending, a mortgage brokerage company, and HilltopSecurities, offering investment banking solutions with offices located in 16 states.

HilltopSecurities is a full service provider and serves as an extension of City staff with or without a bond issue. HilltopSecurities is ranked fifth in national municipal investment banks. HilltopSecurities is ranked the number one provider of financial advisory services to cities in the country. Ms. Sovde shared a list of cities in the state served by the firm since 1999.

Recent issues were purchased for the cities of Edmonds, Richland, Shoreline, and Tacoma. Ms. Sovde described the scope of services to be provided to the City:

- Development of financing program
- Set financing terms
- Coordination of related service providers
- Preparation of documents
- Coordinate rating and credit enhancement process
- Conduct marketing and sale of debt
- Provide ongoing service

Mr. Evans explained that the firm has the team and personnel to guide the City through the phases of the process. He described the responsibilities of several of the team members to assist the City work through the various phases. The company is experienced, reliable, timely, and respected and is ranked the eighth top national underwriter. From 2021 to 2024, the company was the top Washington competitive underwriter. HilltopSecurities cover the full spectrum of investors from

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Tier I Institutions, Tier II & III Investors, Retail, and Exclusive Distribution Platforms. The direct benefit to the City is lowering borrowing costs. In 2023, the company competitively bid on 1,099 issues totaling \$19.28 billion. Mr. Evans shared a spreadsheet of numerous bids executed in 2023. He cited an example of a client seeking to issue \$9.75 million in bonds. When entering the marketplace, the firm was able to sell 43% of the bonds resulting in 57% remaining unsold. The firm assumed the risk of the remaining 57% in bonds that did not initially sell. Essentially, the firm used its own capital to underwrite the bonds.

Mr. Evans explained the difference between negotiated underwriting versus competitive underwriting. In a competitive sale, bonds are advertised for sale. The advertisement or notice of sale includes both the terms of the sale and the terms of the bond issue. Any broker dealer or dealer bank may bid on the bonds at the designated date and time. The bonds are awarded to the bidder offering the lowest interest cost. In a negotiated sale, an underwriter is selected to purchase the bonds. The underwriter sells the bonds to its investor customers. The terms of the bonds are tailored to meet the demands of the underwriter's investor client, as well as the needs of the issuer. Negotiated sales involve a process of a presale where the underwriter seeks customer indications of interest in the issue before establishing final bond pricing. The method of sale is known as a negotiated sale because the terms of the bonds and the sale are negotiated by the issuer and the bond purchaser. The firm's team involved in the process for the City is able to walk the City through each step during a negotiated transaction.

Mr. Evan responded to questions about the timeline and mechanism for locking the interest rate. Following the finalization of all bid documents, the firm sets the date for release of the documentation to the market with a planned date to price the deal. Investors examine the documentation, the amount of the funding request, the City's credit, the date of pricing, and contact the firm with any questions. Throughout the following week, the team advises the City of when the bonds will price. The day before pricing, the team meets with the City's team and reviews all aspects of the offering and the status of the market, which may have changed over the course of several days. Based on market conditions, the team presents any change in numbers. Feedback from perspective buyers is shared with the City in order to submit orders. The team computes the numbers and shares the information with the City for placement of the order.

Mr. Evans was asked about any cost advantage between the negotiated and competitive process. Mr. Evans said it depends because either option can be cost effective in different market environments. Much of

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the firm's PAR (face amount) amount is negotiated with approximately 25%-35% through a competitive process. The competitive process can be risky as it depends on the current market. Since 2020 to the present, the market experienced COVID creating market volatility, inflation, and rising interest rates. The negotiated process provides more assistance, especially if the City is not currently in the market or has not recently issued bonds. HilltopSecurities provides a team of experts to walk staff through the steps, especially if the market is experiencing some volatility as the underwriter can provide guidance on the market, such as recommending a delay of hours or days based on market conditions and activity.

Mr. Evans stressed the importance of ensuring the City is comfortable with the entire process. Funding of \$25 to \$35 million is a substantial amount of money and it is important as the City works through the process to have a team working closely with staff through the steps to ensure everyone is comfortable with the process.

Mr. Benson described the financial plan for the City. The negotiated process can be beneficial during a volatile market. The plan of finance for \$30 million for the M&O Center includes a review of the City's debt capacity and asset value (AV) history. The City's AV history is strong and supports debt capacity. Based on those factors, the City's non-voted debt capacity is approximately \$93.29 million.

Mr. Benson reviewed an example of structuring a \$30 million bond issue. The structure can be tailored to the City's goals and needs and to market demand. The negotiated process includes a pre-marketing process by contacting investors to build demand, enthusiasm, and interest in the City's bond issue.

The team addressed questions from the committee on the types of investors purchasing municipal bonds. An investor, such as Vanguard, has a number of different funds. Vanguard is careful about the types of funds, such as environmental, social, and governance. For example, if the issue was for a private prison, it is likely the bonds would not be purchased by Vanguard funds because the investors prefer not using its funds that do not align with their social or governmental values.

Mr. Evans was asked about the City's lack of presence in the market and whether the marketing aspect would focus on demonstrating the City's reliability or that the City presents a liability because the City has not been in the market for some time. It is likely that within the municipal bond market, the City's bond would create much interest because the City is not the State of Washington that issues \$4 billion in debt each year. The City of Tumwater is not a big city, such as the City

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of Seattle that offers a variety of different credits and bonds. The City of Tumwater is diversified and its current profile implies an S&P rating of AA+. The City's offering would likely receive much interest.

Mr. Chapman provided an overview of credit ratings. A credit rating is an opinion about the relative risk and potential for default associated with a particular security. A credit rating is expressed in alphanumeric symbols across a spectrum from highest to lowest. A credit rating is not a recommendation to buy, sell, or hold a particular security. Ratings are not required, although they are helpful. The three primary rating agencies include Moody's Investors Service, Standard & Poor's (S&P), and Fitch Ratings. The agencies evaluate a borrower's willingness and ability to pay by considering the agency's governance/management, financial position, debt levels, and the local economy. Within the municipal bond market in any given year, approximately \$350 to \$450 billion worth of transactions are completed. Approximately 85% to 90% of the agencies will have at least one rating on the cover of the offering statement. The other 90% will have some rating somewhere within the rating scale with at least one of the rating agencies. For the City's bond, it is likely that only one rating would suffice. The team would provide the Council with all information to ensure the Council is fully informed of all options. Rating agencies have a lot of confidence in local governments within the state. Cities and counties are highly rated with a typical rating below AAA. On average, ratings are higher than other states nationwide.

Mayor Sullivan thanked the team for providing information about the process and the company.

Director Niemeyer introduced Dave Trageser, Managing Director, D.A. Davidson in Seattle. Mr. Trageser has assisted the City in previous bond issues.

Mr. Trageser shared information on his 40-year career within the state. He has been in public finance for 39 years specializing in city, county, and other local governments. He introduced Maura Lentini. Ms. Lentini described her specialty as assisting the City through its rating process, developing a rating strategy, reducing uncertainty about the rating outcome, and positioning the strongest rating case possible.

Mr. Trageser identified the team of experts with D.A. Davidson and their respective roles and specialties. D.A. Davidson is a nationwide company. The company, an employee-owned firm, is based in Great Falls, Montana. As an employee-owned firm, the company is not subject to publicly offered or publicly traded company pressure to provide quarterly income but it is a large and growing company with

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116 locations in 30 states that is well capitalized that can benefit the City when pricing bonds. The company is a highly ranked underwriter both nationally and in Washington as the leader for underwriting bonds.

The company's four values include the highest standards of business ethics of employees, dedicated to delivering exceptional service to clients, being employee-owned, neighborly, and a supportive participant in communities throughout the company's history of 85 years.

The company's national ranking in 2023 was fifth nationally with 220 separate financings. The company serves as the number one underwriter in Washington State over the last several years. Mr. Trageser shared a list of other city clients in the state. The company's history with Tumwater goes back to 1992. In Thurston County, the company's strong commitment includes working with 19 municipalities.

Mr. Trageser reviewed a list of client and business references.

Mr. Trageser reviewed the firm's history with the City to include a review of all bond issues beginning in 1992. More recently, the City has not issued bonds. However, the firm assisted the City redeem some 2011 golf bonds to provide debt service savings. The firm worked with the City when S&P upgraded the City's rating in 2014.

Mr. Trageser described reasons for the City to consider debt for the project. Typically, it is because of the gap of available cash for the project, a desire to spread the cost over time, locking in the current cost of construction, eliminating cost increases, and potential opportunities to leverage other contributions to the project.

Ms. Lentini said a higher bond rating helps to achieve a lower interest rate for the City. The City is currently not rated. The City's AA from S&P was withdrawn in March 2022 after the 2011 bonds were redeemed. Previously, the City's rating was upgraded to AA in March 2014 under new criteria. The City's bond rating is based on multiple factors with many not controlled by the City. The rating is typically comprised of the City's debt factors, the economy, financial performance, and management factors.

Planning for financing a bond involves obtaining a bond rating, completing a financing plan, capital planning, and determining the bond structure. The factors are a major component with other considerations such as the City's financial policies, plan for fund balances next year, practices for reporting to the Council, strategic vision, and the strategic importance of the project. The team assists the City in framing those elements through the rating process.

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Rating outcome correlates directly to the wealth indicator of the City. The City of Tumwater's household incomes are higher than the median but not exceptionally higher. The group of other municipalities rated AA+ are similar to the City's wealth levels. Municipalities rated AAA typically have an income indicator of 150% of median income.

The City of Tumwater reflects a strong city with great cash reserves, fund balances, and very good financial reporting. Many municipalities use cash versus accrual accounting. S&P is not as sensitive as to the financial accounting method but prefers more robust financial reporting. The City of Tumwater is also a strong comparable because of its similar size, operation, and characteristics in common with the City of Olympia, which was recently upgraded from AA to AA+ by S&P. The team believes the City of Tumwater has an excellent chance of receiving an AA+ rating. Another consideration by the City is whether there is interest in issuing bonds with a portion as general obligation bonds and a portion backed by a utility.

The City's financial management policies are important to evaluate whether there might be a need for change to benefit the City. A set of policies promote financial integrity, assist elected officials and staff, and provide continuity over time. Key elements of the policy should include minimum fund balance goal, audit cycle and monthly financial reports, quarterly budget reports and forecasting, equipment replacement plan, use of capital facilities plan, and regular updates to the financial management policy.

Mr. Trageser advised that the company provides a weekly municipal market commentary to track conditions in the market. Recent signs indicate the economy is slowing to some degree. Federal rate cuts are expected in September that would have a positive effect on the market. Federal rates do not necessarily affect bond rates as the federal government can only control short-term taxable rates with the City likely issuing long-term fixed tax-exempt rates in the market.

Mr. Trageser reviewed the types of non-voted bonds that are available. The company assumes the City is considering a limited general tax obligation bond known as councilmatic bonds for the proposed transaction. The bonds are secured by the City's credit and are issued within the City's 1.5% statutory debt capacity using the general fund to pay the debt as well as from a variety of other revenue sources. Some cities with public works projects are issuing half LTGO bonds and half water-sewer revenue bonds that are allocated based on the use of the facility. The team would work with staff to complete any analysis on the types of different allocations or consider issuing a limited tax general obligation bonds as the City's has significant statutory capacity

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for the full amount with payments from different sources determined by the City. One bond issue would simplify the process; however, there are other considerations to review.

As previously mentioned, the City's credit is strong and the team anticipates the City receiving a strong AA rating. The City's statutory debt capacity is approximately \$94 million. Mr. Trageser cautioned that the amount is the statutory debt capacity and is not reflective of the City's ability to pay back the bonds. The City must demonstrate to the market that the City has sufficient cash flow to pay the debt.

Mr. Trageser reported the project team would run models to evaluate options for financing for different loan timelines. There are tradeoffs for any options. For example, a 15-year loan would be paid quicker but with higher payments while a 20-year term would be the standard for GO bonds, as well as 30 and 40-year terms.

Mr. Trageser shared an example of a hypothetical \$30 million LTGO bond issue reflecting a term of 20, 25, and 30 years. Shorter-term financing lowers the interest cost. The example assumes a conservative AA rating. The project team believes the City's rating will be a step higher.

Mr. Trageser shared an example of a timeline and key dates for moving forward with a bond issue. Essentially, 3-1/2 months are required to complete a financing process. One action required by the Council is approval of the delegation bond ordinance approximately two months prior to pricing bonds. The ordinance delegates the authority to staff/Mayor to finalize a transaction subject to certain parameters.

Councilmember Althausser asked about the company's capacity for underwriting if the City was unsuccessful in soliciting sufficient bond sales. Mr. Trageser responded that it is important for any underwriter to be highly capitalized and to have the capacity to buy bonds. Public offerings require selecting a date and time. After opening in the morning, a one-hour order window follows with the underwriter releasing the bond to the market and buyers transmitting orders electronically. Dependent upon the amount of orders and because the market is public, response is based on supply and demand with a higher number of orders equating to a lower interest rate. He explained how sales can be repriced and reoffered dependent upon the response. Should the sale only yield \$20 million in orders for a \$30 million bond, the team typically makes an adjustment and places \$10 million in inventory to resale the bonds to enable completion of the City's transaction. The role of the underwriter is to buy and sell. The company also retains in inventory, a sum of stock in bonds for



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customers.

Mr. Trageser reviewed federal tax-exempt rules. An issuance of bonds includes a reasonable expectation to spend bond proceeds within three years. If the City can comply with a two-year spend-down requirement, the City may keep arbitrage earnings. The City is required to comply with Electronic Municipal Market Access (EMMA) continuing disclosure requirements. Documentation is typically submitted in September of each year.

Mr. Trageser summarized the reasons for selecting D.A. Davidson. As the number one underwriter in the state, the company has a substantial commitment to city finance and to the City of Tumwater with service to the City over the last 32 years. The company serves the largest number of municipalities.

Mayor Sullivan thanked the team for providing information about the process and the company.

**AUDIT  
ENGAGEMENT  
LETTER:**

Director Niemeyer reported the State Auditor's Office (SAO) has initiated an audit of the City for fiscal year 2023 including an audit of financial statements, a federal compliance audit, and an accountability audit. SAO has requested the City execute an audit engagement letter. The total audit cost is estimated to be approximately \$80,000. Staff recommends placing the audit engagement letter on the September 3, 2024 Council Consent Calendar with a recommendation to approve and authorize the Mayor to sign.

**MOTION:**

**Councilmember Althaus moved, seconded by Councilmember Agabi, to place the audit engagement letter with the State Auditor's Office on the September 3, 2024 Consent Calendar with a recommendation to approve and authorize the Mayor to sign. A voice vote approved the motion unanimously.**

**EXECUTIVE  
DEPARTMENT FTE  
ADJUSTMENTS AND  
NEW POSITION:  
ECONOMIC  
DEVELOPMENT  
COORDINATOR:**

City Administrator Parks reported the request is to create a new position of Economic Development Coordinator, as well as confirm the total number of FTEs assigned to the Executive Department.

The City has encountered difficulties in filling the position of Economic Development Program Manager after Austin Ramirez left earlier in the year. At that time, Manager Ramirez proposed a series of adjustments to reflect the actual working conditions of the position, including the type of work and the most effective reporting structure. Some adjustments were initiated to the class specification (job description). The position was also moved from the Community Development Department to the Executive Department as a direct report to the City

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Administrator. Manager Ramirez also recommended adding another position to assist in advancing the City's brownfield redevelopment initiatives that have recently emerged as economic development strategies, as well as, addressing the workload, including managing federal and state grants the City obtained, and managing and coordinating the consultant team and stakeholder collaboration involved in those projects

Despite a robust recruitment process and offering the position to two candidates, both candidates declined the offer. To ensure important economic development functions of the City can progress, staff is proposing a new approach to implement many of Austin's recommendations to increase the pool of applicants.

The strategy includes two basic components of (1) filling the existing Assistant City Administrator position after adjusting the class specification to include oversight and management of the City's economic development programs, and (2) create a new Economic Development Coordinator position to support the Assistant City Administrator, with specific emphasis/focus on brownfield redevelopment. The position would be a level below the Economic Development Program Manager position.

The proposal requires Council action to create the new position and approve a salary range. Council action is requested to affirm/confirm seven FTE's within the Executive Department. The recommendations do not require a budget adjustment because of savings achieved in the budget because of the vacant positions.

Councilmember Agabi inquired as to whether the new position would include on-the-job training for the position since the salary range is lower. City Administrator Parks said the position is not considered an entry-level position but rather is a technically skilled position that would have some work and experience in brownfield redevelopment and grant administration. She added that non-represented employees are significantly paid less than the market. At this time, the City is obligated to offer the current salary range; however, many new hires are placed in a higher step within the grade, such as step 7, 8, or 9 to ensure the position is competitive with the market. The position advertisement would also include the salary range, as well as a statement that the City is proposing a market rate adjustment for the City's non-represented positions.

City Administrator Parks reported in 2023, the Executive Department was assigned five FTEs. In 2024, changes in the Executive Department staffing included adding the Economic Development Program Manager.

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If the proposal is approved, the action would also affirm and acknowledge that seven FTEs are assigned to the Executive Department. Additionally, the proposal does not eliminate the approved Economic Development Program Manager position at this time other than it would not be filled. However, filling the position would require either a budget amendment or including the salary in the next biennial budget. The proposal does not include a budget amendment, as funds are included in the current budget to fill the positions. The proposed request establishes a new position and affirms the total FTE count for the Executive Department. Staff is seeking a recommendation of approval to the City Council either as Consent Calendar item or under Council Considerations at the September 3, 2024 Council meeting.

Councilmembers Althaus and Swarthout recommended forwarding the committee's recommendation as an item under Council Consideration.

City Administrator Parks described the responsibilities of the Economic Development Coordinator and the Assistant City Administrator. The proposal creates more capacity in the Executive Department to complete more work. The advertisement of the Assistant City Administrator with economic development experience will expand the recruitment market, as it is a skill set that encompasses a wide range of experience.

City Administrator Parks described some of the desired experience the City is seeking in candidates applying for the Assistant City Administrator position.

**MOTION:** Councilmember Althaus moved, seconded by Councilmember Agabi, to recommend the City Council approve establishment of a new position of Economic Development Coordinator with a 2024 salary range of \$6,049 to \$7,368 (Grade 54); and confirm the departmental FTE count for the Executive Department to be seven at the September 3, 2024 Council meeting under Council Consideration. A voice vote approved the motion unanimously.

**ADJOURNMENT:** With there being no further business, Mayor Sullivan adjourned the meeting at 5:35 p.m.