

*****FEBRUARY 23, 2006*****

The Town Council of the Town of Signal Mountain held a special work session on February 23, 2006, at 6 p.m. in the Town Hall. Those present were:

Mayor William O. Leonard, III
Councilmember Robert V. Linehart, Jr.

Also present were:

Diana Campbell, Town Manager
Phillip Noblett, Town Attorney
Sherry Morrison, Acting Town Recorder
Joe Muscatello, Jr. Tennessee Municipal Bond Fund

Mr. Joe Muscatello, from Tennessee Municipal Bond Fund was present to explain funding options for the new Signal Mountain High School. He explained that in the 1970s when interest rates were very high, the bond fund was started and that had saved Tennessee cities millions of dollars. He said that cities needed insurance and needed to borrow money. The TML insurance pool for cities was already in existence and working well. He said the TML bond fund was formed using the same idea as the insurance pool and was started at that time as a small pool. He said they have been growing ever since. In response to a question as to whether counties were able to borrow from the pool, he explained that the counties saw the need for a pool but instead of starting their own pool they contacted the TML bond fund and were added as participants.

He said the bond fund averaged about 200 billion dollars a year. He explained that when cities borrowed money they were using the credit rating of the TML Bond Fund which was the highest rating so the cities get a better rate. He said their program is a true draw down program. Cities only pay interest on the amount they draw down from their loan. The cities are not really going on the bond market. He explained that the bond fund goes on the bond market one time. He said the bond fund had acquired 200 million dollars the week before. Due to the economies of scale they have been able to cut down the cost. He said it didn't matter if the city was Dunlap, Signal Mountain, or Chattanooga the cost would be the same. The costs or closing fees would be on a percentage basis or .7% if the loan.

There were several questions from Councilmember Linehart about how the draw down would work. Mr. Muscatello explained that if the Town made a loan for \$7,700,000, the Town would have three years to request the money. He said as the County requested the Town make payments to them during the construction, the Town could request only the money needed at that time. The Town would only pay monthly interest on the amount that had been drawn out of the loan.

The timing of the payments to the County was discussed and it was noted that the Town may need to make payments to the County beginning in the summer of 2006. The

approximately \$750,000 accumulated by the Town from the ½ cent sales tax was discussed. It was noted the money could be used to make payments to the County. Councilmember Linehart said the Town would have to make a decision on that money. During the discussion it was noted that the earliest time the high school tax could be levied would be for 2007 tax year and not collected until October of 2007.

Mr. Muscatello said the bond fund required a principal payment once a year and that would be in May. He said the principal payments would only start after the full amount had been drawn down (but not more than three years.) He said they require the principal payments in May because that helps cities when they are preparing their budgets. He suggested the Town be conservative and budget 4 percent interest. He said if cities budget conservatively they would be okay. He explained the Town would not have to purchase bond insurance. He said the Town would not have an underwriting fee. He said the Bond Fund would prepare a resolution but they would need a request for the resolution stating how much money the Town wanted to borrow and for how many years. Then the Council would pass the resolution and they would be ready with the money. He explained the Town would have a letter of approval. He said when the Town first asked for money that would be when the loan actually started. He said they would get the required state approval for the Town. He said once they had the steps all together the Town would sign the loan agreement and they would start the process. He explained the Town Manager would send them a request for money and two days later the Town would have the money. He said that by 30 days after the Council made a decision Town would have money.

Councilmember Linehart asked about the current bonds outstanding. Mr. Muscatello talked about interest rates for the loans. He said there would not be a fee for paying off the loan early. He explained that the loan could be structured any way the Town wanted. He said the Town could use various procedures for fixing the interest rate including "swaps" and "caps." Mr. Noblett asked would there be an upfront cost with the variable rate and a swap. Mr. Muscatello explained there would only be a fee once and that would be at the time the swap was done. He said there might be a \$500 fee. He also explained there would have to be another resolution. He said Bank of America would be issuing the bonds and Suntrust would be the trustee and do the billing. The closing cost rates have always been low he said. He said the closing costs are add-on fees of 8 basis points or .8% for Bank of America for making the loan. There would be 15 basis points or .15% for the Bond Fund and 25 basis points or .25% for the letter of credit fee for a total of .48%. He explained that all of those costs are included in the interest rate show on the examples. He said the five year average for interest has been 2.7% but his examples show 3.18% which includes the .48% for the fees. He explained that Bank of America remarkets the tax-exempt bonds to large corporations that have excess money on an overnight basis. He said the corporation buy the bonds one night and sell them back the next day. They are will to take a smaller interest rate because the bonds are tax exempt interest and safe. He said that Bank of America is the largest dealer in the country for this time of bonds.

He pointed out other cities and towns that had borrowed money and the booklet he presented contained a list of those. He said they went to a daily rate and by going to a daily rate the cities could get a better interest rate. He said there would be an annual trustee fee of 100 a month. He said the Town would fax a request to Suntrust for money.

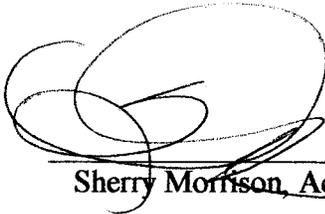
Councilmember Linehart said that the Town could only levy \$.35 cents per hundred for the school. The amount of the payments for principal and interest was discussed. Mr. Muscatello suggested setting the payments up for a term that the Town would be able to meet and then pay the loan off earlier if more money was available. He said the Bond Fund could set the loan repayments for up to 28 years. He said after the loan begins they could change the schedule of payments to a higher amount if the Town had more money. Ms. Campbell said they had talked about doing a 25 year loan just to be safe. Mr. Muscatello said the difference would be about \$75,000 a year if you went from 20 to 25 year pay off the loan. Mayor Leonard explained that the Town was working in conjunction with Hamilton County on the school. He said the Town's obligation is \$7.7 million. He said he could see them coming back and asking for help with a football field or something.

Mr. Muscatello said their program had worked for a lot of cities. He said the Town should tell them what the Town needs and they would tailor the loan for the Town. He said they could be very flexible.

Councilmember Linehart thanked Mr. Muscatello and said that Mr. Muscatello had helped him better understand this.



William O. Leonard, III, Mayor



Sherry Morrison, Acting Town Recorder