City of Carroll

112 E. 5th Street Carroll, Iowa 51401-2799 (712) 792-1000 FAX: (712) 792-0139

MEMO TO: Honorable Mayor and City Council Members

FROM: Laura A. Schaefer, Finance Director/City Clerk

DATE: September 22, 2016

SUBJECT: $2,290,000 General Obligation Capital Loan Notes, Series 2016B
- Agreement for Municipal Advisory Services

For many years the City has engaged PFM Financial Advisors LLC (PFM) to provide financial services including Senate File 295 Analysis, TIF cash flows, and debt analysis including the issuance of debt.

Effective July 1, 2014, new rules from the Municipal Securities Rulemaking Board (MSRB) went into effect that governs the services that municipal financial advisors offer to their clients. PFM. has been working to implement these new rules which in part state that an agreement needs to be in place detailing the scope of services, the fee for services, if any conflict of interest exists, and a termination clause.

Attached is a resolution approving the agreement which PFM to provide financial services for the issuance of approximately $2,290,000 General Obligation Capital Loan Notes, Series 2016B. This debt issuance is for the construction of the cemetery maintenance building and partial funding for the Third Street Storm Sewer improvement projects. The agreement needs to be in place prior to the closing of the capital loan notes which is scheduled for November 30, 2016.

RECOMMENDATION: Council discussion and approval of the resolution accepting the agreement for municipal advisory services with PFM Financial Advisors LLC for the issuance of approximately $2,290,000 General Obligation Capital Loan Notes, Series 2016B.

RESOLUTION NO. _____

RESOLUTION ACCEPTING THE AGREEMENT FOR MUNICIPAL ADVISORY SERVICES WITH PFM FINANCIAL ADVISORS LLC FOR THE ISSUANCE OF APPROXIMATELY $2,290,000 GENERAL OBLIGATION CAPITAL LOAN NOTES, SERIES 2016B.

WHEREAS, Chapter 17, of the Code of Ordinances of the City of Carroll, Iowa, provides that all contracts made by the City be reduced to writing and approved by the City Council by resolution; and

WHEREAS, an Agreement for Municipal Advisory Services with PFM Financial Advisors LLC for the issuance of approximately $2,290,000 General Obligation Capital Loan Notes for the construction of a cemetery maintenance building and Third Street Storm Sewer Improvement projects has been prepared and is attached as Exhibit A.

WHEREAS, it is determined that the approval of the attached Agreement for Municipal Advisory Services with PFM Financial Advisors LLC for the issuance of approximately $2,290,000 General Obligation Capital Loan Notes, Series 2016B for the construction of a cemetery maintenance building and Third Street Storm Sewer Improvement projects is in the best interest of the City of Carroll, Iowa;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Carroll, Iowa, that the Agreement for Municipal Advisory Services with PFM Financial Advisors LLC for the issuance of approximately $2,290,000 General Obligation Capital Loan Notes, Series 2016B for the construction of a cemetery maintenance building and Third Street Storm Sewer Improvement projects is accepted.

Passed and approved by the Carroll City Council this 26th day of September, 2016.

CITY COUNCIL OF THE
CITY OF CARROLL, IOWA

By: _____
Eric P. Jensen, Mayor

ATTEST:

By: _____
Laura A. Schaefer, City Clerk

PFM®
The PFM Group
Financial & Investment Advisors

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September 19, 2016

Ms. Laura Schaefer
City Clerk/Finance Director
City of Carroll
112 E 5th Street
Carroll, IA 51401

Dear Laura,

The purpose of this letter (this "Engagement Letter") is to confirm our agreement that PFM Financial Advisors LLC ("PFM") will act as financial advisor to the City of Carroll, Iowa (the "Client") in connection with the issuance of approximately $2,290,000 General Obligation Capital Loan Notes. PFM will provide, upon request of the Client, financial planning and debt issuance development services, as applicable and set forth in Exhibit A to this Engagement Letter. Most tasks requested by Client will not require all services provided for in Exhibit A and as such the specific scope of services for such task shall be limited to just those services required to complete the task.

PFM is a registered municipal advisor with the Securities and Exchange Commission (the "SEC") and the Municipal Securities Rulemaking Board (the "MSRB"), pursuant to the Securities Exchange Act of 1934 Rule 15Ba1-2. As of the date of this letter, Client has **not** designated PFM as its independent registered municipal advisor ("IRMA") for purposes of SEC Rule 15Ba1-1(d)(3)(vi) (the "IRMA exemption"). Client agrees not to represent that PFM is Client's IRMA with respect to any aspect of a municipal securities issuance or municipal financial product, without PFM's prior written consent.

MSRB Rule G-42 requires that municipal advisors make written disclosures to its clients of all material conflicts of interest and certain legal or disciplinary events. Such disclosures are provided in PFM's disclosure statement delivered to Client together with this agreement.

PFM's services will commence as soon as practicable after the receipt of this Engagement Letter by the Client and a request by the Client for such service. Any material changes in or additions to the scope of services described in Exhibit A shall be promptly

reflected in a written supplement or amendment to this Engagement Letter. Services provided by PFM which are not included in the scope of services set forth in Exhibit A of this agreement shall be completed as agreed in writing in advance between the Client and the PFM. Upon request of Client, PFM or an affiliate of PFM may agree to additional services to be provided by PFM or an affiliate of PFM, by a separate agreement between the Client and PFM or its respective affiliate.

For the services described in Exhibit A, PFM's professional fees will be paid as provided in Exhibit B. In addition to fees for services, PFM will be reimbursed for necessary, reasonable, and documented out-of-pocket expenses, as outlined in Exhibit B, which are incurred by PFM. Upon request of Client, documentation of such expenses will be provided.

This Engagement Letter shall remain in effect until all related activities associated with this transaction are complete unless canceled in writing by either party upon thirty (30) days written notice to the other party. PFM shall not assign any interest in this Engagement Letter or subcontract any of the work performed under this Engagement Letter without the prior written consent of the Client; provided that upon notice to Client, PFM may assign this Engagement Letter or any interests hereunder to a municipal advisor entity registered with the SEC that directly or indirectly controls, is controlled by, or is under common control with, PFM.

All information, data, reports, and records ("Data") in the possession of the Client or any third party necessary for carrying out any services to be performed under this Engagement Letter shall be furnished to PFM and the Client shall, and shall cause its agent(s) to, cooperate with PFM in its conduct of reasonable due diligence in performing the services. To the extent Client requests that PFM provide advice with regard to any recommendation made by a third party, Client will provide to PFM written direction to do so as well as any Data it has received from such third party relating to its recommendation. Client acknowledges and agrees that while PFM is relying on the Data in connection with its provision of the services under this agreement, PFM makes no representation with respect to and shall not be responsible for the accuracy or completeness of such Data.

All notices given under this Engagement Letter will be in writing, sent by email or registered United States mail, with return receipt requested, addressed to the party for whom it is intended, at the addresses on the first page of this Engagement Letter.

All materials, except functioning or dynamic financial models, prepared by PFM pursuant exclusively to this Engagement Letter will be the property of the Client. Subject to the preceding exception, upon termination of this Engagement Letter, PFM will deliver to the Client copies of any and all material pertaining to this Engagement Letter.

The Des Moines office of PFM will provide the services set forth in this Engagement Letter. PFM may, from time to time, supplement or otherwise amend team members. The Client has the right to request, for any reason, PFM to replace any member of the advisory staff. Should the Client make such a request, PFM will promptly suggest a substitute for approval by the Client.

PFM will maintain insurance coverage with policy limits not less than as stated in Exhibit C. Except to the extent caused by willful misconduct, bad faith, gross negligence or reckless disregard of obligations or duties under this Engagement Letter on the part of PFM or any of its associated persons, neither PFM nor any of its associated persons shall have liability to any person for any act or omission in connection with performance of its services hereunder, or for any error of judgment or mistake of law, or for any loss arising out of any issuance of municipal securities, any municipal financial product or any other financial product or investment, or for any financial or other damages resulting from Client's election to act or not to act, as the case may be, contrary to or, absent negligence on the part of PFM or any of its associated persons, upon any advice or recommendation provided by PFM to Client.

PFM, its employees, officers and representatives at all times will be independent contractors and will not be deemed to be employees, agents, partners, servants and/or joint venturers of Client by virtue of this Engagement Letter or any actions or services rendered under this Engagement Letter.

This Engagement Letter represents the entire agreement between Client and PFM and may not be amended or modified except in writing signed by PFM.

Please have an authorized official of the Client acknowledge receipt of this Engagement Letter and respond to us to acknowledge the terms of this engagement.

Sincerely,

PFM FINANCIAL ADVISORS LLC

Jon Burmeister
Managing Director

Susanne Gerlach
Senior Managing Consultant

EXHIBIT A
SCOPE OF SERVICES

Financial planning and debt issue development services (Includes short term financings, bonds, loans, letters of credit and line of credit). Upon the request of the Client:

- Analyze financial and economic factors to determine if the issuance of bonds is appropriate.
- Develop a financing plan in concert with Client's staff which would include recommendations as to the timing and number of series of bonds to be issued.
- Assist the Client by recommending the best method of sale, either as a negotiated sale, private placement or a public sale. In a public sale, make recommendation as to the determination of the best bid. In the event of a negotiated sale, assist in the solicitation, review and evaluation of any investment banking proposals, and provide advice and information necessary to aid in such selection.
- Advise as to the various financing alternatives available to the Client.
- Develop alternatives related to debt transaction including evaluation of revenues available, maturity schedule and cashflow requirements, if necessary.
- If appropriate, develop credit rating presentation and coordinate with the Client the overall presentation to rating agencies.
- Assist the Client in the procurement of other services relating to debt issuance such as printing, verification agent, escrow agent, paying agent and registrar, etc.
- Identify key bond covenant features and advise as to the financial consequences of provisions to be included in bond resolutions regarding security, creation of reserve funds, flow of funds, redemption provisions, additional parity debt tests, etc.; review and comment on successive drafts of bond resolutions.
- Review the requirements and submit analysis to rating agencies and other professionals as they pertain to the Client's obligation, if necessary.
- Review the terms, conditions and structure of any proposed debt offering undertaken by the Client and provide suggestions, modifications and enhancements where appropriate and necessary to reflect the constraints or current financial policy and fiscal capability.
- Coordinate with Client's staff and other advisors with respect to the furnishing of data for offering documents. PFM will assist the Client in the preparation of the offering document, it being specifically understood that Municipal Advisor is not responsible for the inclusion or omission of any material in published offering documents and that the ultimate responsibility remains with the Client.

- Provide regular updates of bond market conditions and advise the Client as to the most advantageous timing for issuing its debt.
- Advise the Client on the condition of the bond market at the time of sale, including volume, timing considerations, competing offerings, and general economic considerations.
- Assist and advise the Client in negotiations with investment banking groups regarding fees, pricing of the bonds and final terms of any security offering, and make definitive recommendations regarding a proposed offering to obtain the most favorable financial terms based on existing market conditions.
- Arrange for the closing of the transaction.
- Preparation and delivery of bond financing record to Client.

EXHIBIT B
COMPENSATION FOR SERVICES

1. Fixed Rate Transaction Fees

For financial planning and debt issue development services related to the issuance of approximately $2,290,000 General Obligation Capital Loan Notes, PFM will be paid a one-time fee of $15,300, payable upon closing.

2. Hourly Project Fees (Transaction Related)

In the event a financing is started, but cancelled at the Client's request, accrued time will be billed as follows:

Experience Level	Hourly Rate
Managing Director	$250.00
Director	$225.00
Senior Managing Consultant	$200.00
Senior Analyst	$180.00
Analyst	$150.00
Associate	$125.00

3. Reimbursable Expenses

In addition to fees for services, PFM will be reimbursed for necessary, reasonable, and documented out-of-pocket expenses incurred, including travel, meals, lodging, printing, telephone, postage and other ordinary costs which are incurred by PFM. Appropriate documentation can be provided.

EXHIBIT C
INSURANCE STATEMENT

PFM Financial Advisors LLC ("PFM") has a complete insurance program, including property, casualty, comprehensive general liability, automobile liability and workers compensation. PFM maintains professional liability and fidelity bond coverages which total $25 million and $10 million, respectively. PFM also carries a $10 million cyber liability policy.

Our Professional Liability policy is a "claims made" policy and our General Liability policy claims would be made by occurrence.

1. **Deductibles/SIR:**

   Automobile $250 comprehensive & $500 collision
   Cyber Liability $50,000
   General Liability $0
   Professional Liability (E&O) $1,000,000
   Financial Institution Bond $75,000

2. **Insurance Company & AM Best Rating:**

   Professional Liability (E&O).....Indian Harbor Insurance Company; and
   .....Continental Casualty Company; (both are A)
   Financial Institution Bond.....Federal Insurance Company; (A++)
   Cyber Liability.....Indian Harbor Insurance Company (A)
   General Liability.....Great Northern Ins. Company; (A++)
   Automobile Liability.....Federal Insurance Company
   Excess /Umbrella Liability .....Federal Insurance Company
   Workers Compensation.....Pacific Indemnity Company; (A++)
   & Employers Liability

DISCLOSURE OF CONFLICTS OF INTEREST AND OTHER INFORMATION
PFM Financial Advisors LLC

I. Introduction

PFM Financial Advisors LLC (hereinafter, referred to as "We," "Us," or "Our") is a registered municipal advisor with the Securities and Exchange Commission (the "SEC") and the Municipal Securities Rulemaking Board (the "MSRB"), pursuant to the Securities Exchange Act of 1934 Rule 15Ba1-2. In accordance with MSRB rules, this disclosure statement is provided by Us to each client prior to the execution of Our advisory agreement with written disclosures of all material conflicts of interests and legal or disciplinary events that are required to be disclosed with respect to providing financial advisory services pursuant to MSRB Rule G-42(b) and (c) (ii). We employ a number of resources to identify and subsequently manage actual or potential conflicts of interest in addition to disclosing actual and potential conflicts of interest provided herein.

How We Identify and Manage Conflicts of Interest

Code of Ethics. The Code requires that all employees conduct all aspects of Our business with the highest standards of integrity, honesty and fair dealing. All employees are required to avoid even the appearance of misconduct or impropriety and avoid actual or apparent conflicts of interest between personal and professional relationships that would or could interfere with an employee's independent exercise of judgment in performing the obligations and responsibilities owed to a municipal advisor and Our clients.

Policies and Procedures. We have adopted policies and procedures that include specific rules and standards for conduct. Some of these policies and procedures provide guidance and reporting requirements about matters that allows Us to monitor behavior that might give rise to a conflict of interest. These include policies concerning the making of gifts and charitable contributions, entertaining clients, and engaging in outside activities, all of which may involve relationships with clients and others that are important to Our analysis of potential conflicts of interest.

Supervisory Structure. We have both a compliance and supervisory structure in place that enables Us to identify and monitor employees' activities, both on a transaction and Firm-wide basis, to ensure compliance with appropriate standards. Prior to undertaking any engagement with a new client or an additional engagement with an existing client, appropriate municipal advisory personnel will review the possible intersection of the client's interests, the proposed engagement, Our engagement personnel, experience and existing obligations to other clients and related parties. This review, together with employing the resources described above, allows Us to evaluate any situations that may be an actual or potential conflict of interest.

Disclosures. We will disclose to clients those situations that We believe would create a material conflict of interest, such as: 1) any advice, service or product that any affiliate may provide to a client that is directly related to the municipal advisory work We perform for such client; 2) any payment made to obtain or retain a municipal advisory engagement with a client; 3) any fee-splitting arrangement with any provider of an investment or services to a client; 4) any conflict that may arise from the type of compensation arrangement We may have with a client; and 5) any other actual or potential situation that We are or become aware of that might constitute a material conflict of interest that could reasonably expect to impair Our ability to provide advice to or on behalf of clients consistent with regulatory requirements. If We identify such situations or circumstances, We will prepare meaningful disclosure that will describe the implications of the situation and how We intend to manage the situation. We will also disclose any legal or disciplinary events that are material to a client's evaluation or the integrity of Our management or advisory personnel. We will provide this disclosure (or a means to access this information) in writing prior to starting Our proposed engagement, and will provide such additional information or clarification as the client may request. We will also advise Our clients in writing of any subsequent material conflict of interest that may arise, as well as the related implications, Our plan to manage that situation, and any additional information such client may require.

II. General Conflict of Interest Disclosures

Disclosure of Conflicts Concerning the Firm's Affiliates

Our affiliates offer a wide variety of financial services, and Our clients may be interested in pursuing services separately provided by an affiliate. The affiliate's business with the client may be perceived as an incentive for Us to recommend a course of action designed to increase the level of the client's business activities with the affiliate or to recommend against a course of action that would reduce the client's business activities with the affiliate. In either instance, We may be perceived

as recommending services for a client that are not in the best interests of Our clients, but rather are in Our interests or the interests of Our affiliates. Accordingly, We mitigate any perceived conflict of interest that may arise in this situation by disclosing it to the client, and by requiring that there be a review of the municipal securities transaction or municipal financial product to ensure that it is suitable for the client in light of various factors, after reasonable inquiry, including the client's needs, objectives and financial circumstances. Further, We receive no compensation from Our affiliates with respect to a client introduction or referral. If a client chooses to work with an affiliate, We require that the client consult and enter into a separate agreement for services, so that the client can make an independent, informed, evaluation of the services offered.

Disclosure of Conflicts Related to the Firm's Compensation

From time to time, We may be compensated by a municipal advisory fee that is or will be set forth in an agreement with the client to be, or that has been, negotiated and entered into in connection with a municipal advisory service. Payment of such fee may be contingent on the closing of the transaction and the amount of the fee may be based, in whole or in part, on a percentage of the principal or par amount of municipal securities or municipal financial product. While this form of compensation is customary in the municipal securities market, it may be deemed to present a conflict of interest since We may appear to have an incentive to recommend to the client a transaction that is larger in size than is necessary. Further, We may also receive compensation in the form of a fixed fee arrangement. While this form of compensation is customary, it may also present a potential conflict of interest, if the transaction requires more work than contemplated and We are perceived as recommending a less time consuming alternative contrary to the client's best interest so as not to sustain a loss. Finally, We may contract with clients on an hourly fee bases. If We do not agree on a maximum amount of hours at the outset of the engagement, this arrangement may pose a conflict of interest as We would not have a financial incentive to recommend an alternative that would result in fewer hours. We manage and mitigate all of these types of conflicts by disclosing the fee structure to the client, and by requiring that there be a review of the municipal securities transaction or municipal financial product to ensure that it is suitable for the client in light of various factors, after reasonable inquiry, including the client's needs, objectives and financial circumstances.

Disclosure concerning providing services to State and Local Government Clients

We regularly provide municipal advisory services to state and local governments, their affiliates, and component units. While Our clients have expressed that this experience in providing services to a wide variety of clients generally provides great benefit for all of Our clients, there may be or may have been clients with interests that are different from (and adverse to) other clients. If for some reason any client sees Our engagement with any other particular client as a conflict, We will mitigate this conflict by engaging in a broad range of conduct, if and as applicable. Such conduct may include one or any combination of the following: 1) disclosing the conflict to the client; 2) requiring that there be a review of the municipal securities transaction or municipal financial product to ensure that it is suitable for the client in light of various factors, including the client's needs, objectives and financial circumstances; 3) implementing procedures that establishes an "Informational Bubble" that creates physical, technological and procedural barriers and/or separations to ensure that non-public information is isolated to particular area such that certain governmental transaction team members and supporting functions operate separately during the course of work performed; and 4) in the rare event that a conflict cannot be resolved, We will withdraw from the engagement.

Disclosure Related to Legal and Disciplinary Events

As a registered municipal advisor with the Securities and Exchange Commission (the "SEC") and the Municipal Securities Rulemaking Board (the "MSRB"), pursuant to the Securities Exchange Act of 1934 Rule 15Ba1-2, Our legal, disciplinary and judicial events are required to be disclosed on Our forms MA and MA-I filed with the SEC, in **'Item 9 Disclosure Information'** of form MA, **'Item 6 Disclosure Information'** of form MA-I, and if applicable, the corresponding disclosure reporting page(s) ("DRP"). To review the foregoing disclosure items and material change(s) or amendment(s), if any, clients may electronically access PFM Financial Advisors LLC filed forms MA and MA-I on the SEC's Electronic Data Gathering, Analysis, and Retrieval system, listed by date of filing starting with the most recently filed, at:

PFM Financial Advisors LLC (PFMFA):
http://www.sec.gov/cgi-bin/browse-edgar?company=PFM+Financial&owner=exclude&action=getcompany

III. Specific Conflicts of Interest Disclosures – City of Carroll, Iowa

To Our knowledge, following reasonable inquiry, We make the additional disclosure of actual or potential conflicts of interest cited below in connection with the municipal advisory services currently being contemplated for the client.

We currently serve as municipal advisor to certain overlapping entities including the State of Iowa and the Iowa Finance Authority. We do not anticipate this to create a conflict of interest nor to impede Our ability to fulfill Our fiduciary duty to City of Carroll, Iowa.