




CITY OF RIVIERA BEACH

P.O. DRAWER 10682
(561) 845-4180

RIVIERA BEACH, FLORIDA 33419
FAX (561) 842-5105

DIRECTOR OF PURCHASING

TO: Randy Sherman, Director of Finance and Administrative Services

FROM: Dean Mealy, II 
City Purchasing Manager

DATE: 9 February 2016

SUBJECT: Award Recommendation – SPJ 595-15 Special Utility District Underwriter

Consistent with the City of Riviera Beach Code of Ordinance (MUNICODE SECTION 16.5), a Request for Proposal (RFP) was advertised in the "Legal Notices" section of the Palm Beach Post on December 4, 2015 to solicit, insured, and qualified proposers to provide Investment Banking Services for the Utility District in completing the issuance of Utility System Revenue Bonds.

On January 21, 2016 the evaluation committee consisting of the Director of Finance and Administrative Services, Assistant Finance Director, Utility Executive Director, Utility Assistant Executive Director, Public Works Director and Senior Procurement Specialist convened to review and discuss the responses to the RFP for Investment Banking Services.

Firms were evaluated for five key indicators related to investment banking as follows:

Evaluation Criteria
Experience
Strategy – Credit Approach
Strategy – Marketing & Distribution/Pricing
Fee Proposal
Service to the District

Scores for the written proposal were tallied and based upon a measure of average score, the firms ranked as follows:

FIRM	RANKING	AVERAGE SCORE
Stifel Nicolaus and Company	1	2
RBC Capital Markets	2	2.2
Citigroup	3	3.2
JP Morgan	4	4.8
Janney Montgomery Scott	5/6	5
Raymond James	5/6	5
Hutchinson Shockey Erley	7	5.8
FTN Financial	8	8
Blaylock	9	9

The evaluation process has validated that the proposal submitted by Stifel Nicolaus and Company satisfies the requirements established in the RFP and that the firm is qualified to be awarded the contract for the services identified in RFP 595-15.

Accordingly, and consistent with the provisions of the solicitations, it is the consensus of the evaluation committee that the number one (1) ranked firm Stifel Nicolaus and Company be recommended to provide Investment Banking Services for the Utility District.

Attachments

City of Riviera Beach Special Utility District
Investment Banking Services RFP Summary

		Blaylock Beal Van	Citi / Loop
1	Primary Contact Information	Bernard Beal	Michael Hole - Citi Deborah Knox - Loop
2	Investment Banking Team	Personnel Bernard Beal - Engagement Manager Ryan Scott - Day to Day Contact	Michael Hole and Deborah Knox - Engagement Managers & Day to Day Brian Senne and Jonathan Yu - Day to Day assistance
3	Experience since last 3 years (Senior unless otherwise specified)	National	16 issues for approximately \$550 million
		Florida	1 issue for \$25 million
		Water & Sewer	2 issues for \$410 million
		Additional Experience	
			Loop - 113 financings, \$12.2 billion in par Citi - Rank chart shows 3rd by par
			Citi - Rank chart shows 1st by par
			Citi - 90 issues totaling \$11.8 billion
			Various South Florida client experiences referenced
4	Strategy	Credit Approach	Take advantage of "rating shopping" to get the best possible rating and drop lower ones Using Moody's rating would serve the District best, and using the S&P rating could be costly to the District without providing additional investor base
			Suggests sticking with S&P and Fitch List of Fitch and S&P thoughts of the credit's strengths and weaknesses, to be addressed in a rating presentation In presentation, emphasize a willingness to increase rates, the affordability of rates, District financials and stable debt service coverage projections Reserve Fund not expected to be needed to maintain ratings The soft policy of budgeting at 1.50x debt service coverage will be important to highlight
5	Strategy	Marketing & Distribution	Longer premarketing approach than other banks, which would bring in more orders from Tier 2 and Tier 3 accounts (less price sensitive) Target bond funds, SMAs and insurance companies For retail, structure retail-targeted bonds such as bifurcations and trifurcations with par-ish structures, and design a retail order period
		Pricing	Pricing levels estimated to be MMD +60 on the long end of the scale
			District should include professional retail as retail priority Use of marketing and informational materials including an internal sales memo, prospecting letters, e-grams, retail conference calls, and various forms of media outreach Institutional targets: (i) those who currently hold the District's bonds and (ii) large holders of other similar municipal securities
			Pricing levels are estimated to be at MMD +55 on the long end of the scale. Underwriter proposes shopping 3% and 4% coupons in addition to traditional 5% coupon.
6	Fee Proposal	Management Fee	
		Takedowns	\$4,110
		Underwriter's Counsel	\$25,000
		Transaction Expenses	\$6,292
			\$1,935
			\$10,000
			\$8,183
7	Service to the District	Unsolicited financing proposals, and response to Pension Obligation RFP	RFP responses, served as underwriter on previous utility transaction, in person visits to City, and also submitted municipal market overview materials / discussed the POB issuance
	MBE Participation	MBE Firm	Loop and Citi would split the economics 50%/50%, so 50% MBE participation

City of Riviera Beach Special Utility District
Investment Banking Services RFP Summary

		Janney Montgomery Scott	JP Morgan
1	Primary Contact Information	John Kelly	TJ Whitehouse
2	Investment Banking Team	John Kelly - Engagement Manager Wayne Seaton - Senior Banker Matt Davis - LT Underwriter	TJ Whitehouse, Gary Garay - Day-to-day contact Robert Servas - Long Term Syndicate Head
3	Experience since last 3 years (Senior unless otherwise specified)	National	236 issues for \$3.8 billion
		Florida	63 issues for \$7.31 billion
		Water & Sewer	54 issues for \$875 million
		Additional Experience	5,700 secondary market trades in Florida
4	Strategy	Credit Approach	1,661 issues for \$152 billion
			63 issues for \$7.31 billion
			99 issues for \$12.9 billion
			Palm Beach County W&S Revenue Refunding Bonds, Series 2013 - sole manager on transaction
5	Strategy	Marketing & Distribution	<p>Provide a forward-looking cash flow to show how the District will incorporate the new debt service and cost increases from ECR</p> <p>Providing the detail of fund balances and their permitted uses may help the rating agencies give the District credit for holding reserves</p> <p>Fitch does not count the investment in ECR as a fixed asset - perhaps it should be, since if the City were not a member of the ECR, it would have had to build its own facility that would have counted as a fixed asset. Fitch seemed open to this discussion. If they recognized as asset, would improve debt-to-fixed asset ratio from 78% to 60%</p> <p>Preliminary forecast presented in book</p>
		Pricing	<p>JP would provide the rating agencies with education material such as statutory flow of funds, historical and projected revenue, security features including credit enhancements, and debt service coverage ratios</p> <p>JP believes the issuer should obtain at least 2 ratings, similar to previous transaction</p> <p>Table comparing the rating agencies and how they approach W&S credits found on page 6.</p> <p>Rating agency will focus on system operations (including revenues and expenses), customer demographics, system condition (including system losses), and others.</p> <p>Could safely issue without a DSRF, with no drastic impact on ratings or demand for bonds.</p>
6	Fee Proposal	Management Fee	Identify an initial base of anchor buyers, maximize retail demand, and target certain institutional buyers. State Farm provided as an example of an investor that is active in buying District and Florida W&S bonds.
		Takedowns	Retail and Institutional order period, with marketing premium bonds to institutional investors and discount bonds to retail investors
		Underwriter's Counsel	Focus on those who have previously purchased District paper, and institutes that have previously purchased Florida bonds and similar bonds
		Transaction Expenses	Pricing levels are estimated to be at MMD +70 on the long end of the scale.
7	Service to the District	Previous RFP response submissions, as well as secondary market trades of Riviera Beach paper	Pricing Levels estimated to be MMD +70 on the long end of the scale.
		Option of engaging Quoin Capital LLC as a joint bookrunning team. Quoin is a registered MBE firm in Philadelphia	

City of Riviera Beach Special Utility District
Investment Banking Services RFP Summary

		Raymond James	RBC Capital Markets
1	Primary Contact Information	Betsy Hedden-Shafer	Julie Santamaria
2	Investment Banking Team	Personnel Betsy Hedden-Shafer, Natalie Sidor - Day-to-day contact Parker Colvin - Underwriting	Julie Santamaria - Day-to-day contact Jamie Durando and Peter Druhot - underwriting services
3	Experience since last 3 years (Senior unless otherwise specified)	National	532 issues for \$18.9 billion (only 2014)
		Florida	27 issues for \$788 million (only 2014)
		Water & Sewer	336 Water & Sewer issues totaling \$9.6 billion, and 26 Florida W&S issues totaling \$1.1 billion
		Additional Experience	Senior on ECR Bonds and Riviera Beach Pension bonds
4	Strategy	Credit Approach	<p>Focus on the using criteria and research related to water and sewer methodologies, credit ratios and sector outlooks as a starting point</p> <p>Address various strengths of the District as well as weaknesses, including a CIP program, funded primarily with debt, which will impact debt service coverage and debt-to-plant ratios</p> <p>The rate increases are viewed positively by the rating agencies, and provide a foundation for requesting a future rating increase</p> <p>List of items that the District can use to highlight strengthening system are found in proposal, including rate increases and reduction in concentration of top ten taxpayers</p> <p>Possible increase of Additional Bonds Test by using a springing amendment that only applies for future issuances</p> <p>The Rate Study shows operating expenses (not including depreciation) that are almost \$3 million higher than the FY 2014 CAPR - would need to be explained</p> <p>List of additions to the new POS versus old one</p>
5	Strategy	Marketing & Distribution	<p>Bifurcate maturities to structure par and/or discount bonds that attract retail investors</p> <p>Retail investor priority: (1) Palm Beach County Retail Orders; (2) Florida Retail Orders; (3) National Retail Orders</p> <p>Retail priority of 1.) Riviera Beach and Palm Beach County 2) Florida 3) National retail</p> <p>A Green Bond designation will likely generate additional publicity for the District's bonds as it did for ECR, and they will prepare a press release for the District</p> <p>targeting existing holders familiar with the District's credit and new Tier I, II and III investors</p>
		Pricing	<p>Pricing Levels estimated to be MMD +60 on the long end of the scale.</p> <p>Raymond James estimates a yield penalty for the District of 25-35 basis points (0.25%-0.35%) for a discount coupon bond of 3.00%-3.50% versus a 5.00% coupon bond of the same size and maturity</p> <p>Pricing Levels estimated to be MMD +68 on the long end of the scale.</p> <p>Debt service reserve not viewed as necessary.</p> <p>May be able to issue bonds as "Green Bonds", although this has no definitive yield benefit</p> <p>8 year call may make sense, and would allow District to refund Series 2014 and 2016 Bonds at the same time</p>
6	Fee Proposal	Management Fee	
		Takedowns	\$2,580
		Underwriter's Counsel	\$10,000
		Transaction Expenses	\$5,749
7	Service to the District		Unsolicited financing proposals, RFP responses, served as senior manager on pension issue and ECR issuance, and supports the City in secondary market
	MBE Participation		70% / 30% liability share with Academy, an MBE firm

City of Riviera Beach Special Utility District
Investment Banking Services RFP Summary

			Stifel / Siebert
1	Primary Contact Information		Matthew Sansbury - Stifel Jonathan Kim - Siebert
2	Investment Banking Team	Personnel	Matthew Sansbury and Jonathan Kim - Day to day Contacts Alan Murphy and Sherman Swanson - Municipal Underwriting
3	Experience since last 3 years (Senior unless otherwise specified)	National	2,600 issues for \$74 billion (as a team)
		Florida	20 issues for \$1.0 billion (as a team)
		Water & Sewer	208 issues for \$5.2 billion (as a team)
		Additional Experience	
4	Strategy	Credit Approach	<p>Rating agency concerns such as the amount of District's capital plan being funded with long-term debt, debt-to-plant and debt per customer ratios, and the escalating utility rates charged to District customers must be discussed and a long-term strategy should be presented to the rating agencies to ease some of their concerns</p> <p>Chart comparing the City to AA utilities included in proposal</p> <p>Recommends that the District approach both Assured Guaranty Municipal Corp. (AGM) and Build America Mutual (BAM) to get a fee quote for insurance both on a full and partial basis</p>
5	Strategy	Marketing & Distribution	<p>Have a retail order period. Lower coupon maturities would satisfy retail preference for lower coupon structure. Those maturities should come with higher takedowns to incentivize salespeople to market</p> <p>Target holders of the District's bonds, along with those that hold similar Florida credit</p>
		Pricing	Pricing Levels estimated to be MMD +60 on the long end of the scale.
6	Fee Proposal	Management Fee	
		Takedowns	\$2,260
		Underwriter's Counsel	\$15,000
		Transaction Expenses	\$7,043
7	Service to the District		Team has provided 11 unsolicited proposals / presentations to the District, and have responded to District RFPs
	MBE Participation		Stifel and Siebert would split the economics 50%/50%, so 50% MBE participation

Riviera Beach Utility Special District - Series 2016 RFP Evaluation

Bank	Scorer #1	Scorer #2	Scorer #3	Scorer #4	Scorer #5	Average
Stifel	1.0	1.0	3.0	3.0	2.0	2.0
RBC	2.0	2.0	2.0	2.0	3.0	2.2
Citi	3.0	4.0	1.0	1.0	7.0	3.2
JP Morgan	4.0	6.0	6.0	7.0	1.0	4.8
Janney	7.0	3.0	5.0	6.0	4.0	5.0
Raymond James	6.0	5.0	4.0	5.0	5.0	5.0
Hutchinson	5.0	7.0	7.0	4.0	6.0	5.8
FTN	8.0	8.0	8.0	8.0	8.0	8.0
Blaylock	9.0	9.0	9.0	9.0	9.0	9.0

Bank 1 (Winner)	Bank 2	Bank 3
Stifel / Siebert	RBC / Academy	Citi / Loop

SPJ 595-15 SPECIAL UTILITY DISTRICT UNDERWRITERS

CITY OF RIVIERA BEACH UTILITY DISTRICT UNDERWRITERS		MEMBER 1	MEMBER 2	MEMBER 3	MEMBER 4	MEMBER 5
UNDERWRITER(S)	RANK (1-9)					
BLAYLOCK BEAL VAN RESPONSE		9	9	9	9	9
CITIGROUP RESPONSE		3	4	1	1	7
FTN FINANCIAL RESPONSE		8	8	8	8	8
HUTCHINSON SHOCKEY ERLEY RESPONSE		5	7	7	4	6
JANNEY MONTGOMERY SCOTT RESPONSE		4	6	6	7	1
JP MORGAN RESPONSE		7	3	5	6	4
RAYMOND JAMES AND ASSOCIATES RESPONSE		6	5	4	5	5
RBC CAPITAL MARKETS		2	2	2	2	3
STIFEL NICOLAUS AND CO. RESPONSE		1	1	3	3	2