

# Agenda Report

August 8, 2016

**TO:** Honorable Mayor and City Council

**THROUGH:** Finance Committee

**FROM:** Water and Power Department

**SUBJECT: AUTHORIZATION TO ENTER INTO A CONTRACT WITH PUBLIC RESOURCES ADVISORY GROUP FOR INDEPENDENT FINANCIAL ADVISOR SERVICES FOR THE WATER AND POWER DEPARTMENT FOR A PERIOD OF THREE YEARS, WITH TWO OPTIONAL, ONE YEAR EXTENSIONS IN AN AMOUNT NOT TO EXCEED \$250,000**

## **RECOMMENDATION:**

It is recommended that the City Council:

1. Find that the proposed contract is exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15061(b)(3); and
2. Authorize the City Manager to enter into a contract with Public Resources Advisory Group Corporation ("PRAG") for independent financial advisor services for Water and Power Department ("PWP") for an amount not to exceed \$150,000 over a period of three years with two optional one-year extensions not to exceed \$50,000 per year, subject to the approval of the City Manager. If all options are exercised, the total value of the contract will be \$250,000 over a five-year term. Competitive bidding is not required pursuant to City Charter Section 1002(F), contracts for professional or unique services. Competitive bidding is not required pursuant to City Charter Section 1002(F), contracts for professional or unique services.

## **BACKGROUND:**

Pursuant to Section 1413 of Article XIV of the Pasadena City Charter ("Charter"), PWP issues revenue bonds on a competitive basis to finance the costs of acquisition and construction of additions, extensions, improvements and repairs to the City's Electric and Water Systems. The revenue bonds are limited obligations of the City and do not constitute an indebtedness of the City's General Fund. The Electric and Water Revenue Bonds are secured by funds from each respective system. Neither the full faith and credit nor the taxing power of the City is pledged to the payment of debts

service on the bonds. Funds from the Electric and Water Systems are maintained separately and used in accordance with the Charter of the City. As of June 2015, PWP had \$202.8 million of electric revenue/refunding bonds outstanding and about \$75.3 million of water revenue/refunding bonds outstanding. PWP expects to fund both the Electric System and the Water System 5-year capital expenditures plans through a combination of equity and debt financing. The current 5-year capital expenditures plans for PWP's Electric and Water Systems are approximately \$256.9 million and approximately \$81.3 million, respectively.

PWP requires the services of an independent financial advisor ("Financial Advisor") and economic market expert to provide advice and assistance on existing and new debt issuances, evaluate financing structuring, pricing, timing of issuance, call provision options, and rating agency strategy. The Financial Advisor is also expected to coordinate the administration and issuance of debt, communicate with rating agencies, work with bond and tax counsel in advance of securities offerings to ensure acceptance of the financing structure and delivering of an unqualified opinion and tax certificate, assist in negotiations with bond insurers and/or letter of credit providers, and fulfill all the pre-issuance and post-issuance disclosure information.

In addition, the Financial Advisor is expected to assist in the formulation and evaluation of cost-effective and financially-sound financing plans and schedules, including presentations of alternative financial programs and strategies, consideration of appropriate debt structures, timing of bond sales, impact on ratepayers, credit rating, tax laws and assessment of capital market conditions, investment of bond proceeds and compliance with arbitrage regulations, and post-issuance compliance. Furthermore, the Financial Advisor is expected to provide continuing updates and advice on the impact of current or proposed state or federal legislation and market conditions that could affect PWP's financial plans, identify options that balances varying priorities and risks, competing objectives of minimizing cost and risk, and perform other financial advisory services as needed, including advising PWP on refunding opportunities.

### **REQUEST FOR PROPOSALS AND PROPOSAL EVALUATION**

On May 19, 2016, a Request for Proposals ("RFP") was posted on the City's PlanetBids Vendor Portal for a qualified professional firm to act as an independent financial advisor and economic market expert, provide advice and assistance on debt issuance, structuring, timing of issuance, call provision options, rating matters, and on existing and proposed financial arrangements. Twenty-three prospective proposers downloaded the RFP, including a Pasadena company, and no specific outreach was conducted. The following two qualified professional firms responded and submitted proposals by the June 16, 2016 deadline:

1. Public Resources Advisory Group ("PRAG")      Los Angeles, CA
2. Fieldman, Rolapp & Associates                      Irvine, CA

The proposals were evaluated by a panel of PWP and Finance Department staff based on the specific criteria stated in the RFP including ability and specific experience of the firm, qualifications of specific individuals assigned to the engagement, approach and

specific method to providing financial advisory services, fees, and local or small/micro business. The review panel awarded the highest score to PRAG as follows:

<b>Evaluation Criteria</b>	<b>Public Resources Group (Los Angeles, CA)</b>	<b>Fieldman, Rolapp &amp; Associates (Irvine, CA)</b>
Ability & Specific Experience of the Financial Advisor (25%)	24	22
Qualifications of Specific Individuals Assigned to the Engagement (35%)	34	24
Approach to Providing Financial Advisory Services and Specific Method and Techniques (15%)	15	14
Fee (15%)	10	14
Local Pasadena Business Preference (5%)	0	0
Small and Micro-Business Preference (5%)	0	5
<b>Total Points</b>	<b>83</b>	<b>79</b>

PRAG demonstrated a good understanding of the public finance market and underlying legal and credit structures as well as federal tax and state law restrictions. PRAG also has extensive experience in providing financial advisory services to municipal electric and water utilities as well as intimate knowledge of the City of Pasadena and PWP's debt portfolios. In addition, the individuals that PRAG will assign to the financial advisory engagement have strong backgrounds in both electric and water utility-related financial advisory services, and specific and relevant experience that meets the requirements specified in the RFP.

It is recommended that PRAG be awarded a contract in an amount not to exceed \$150,000 for an initial period of three years with two optional one-year extensions not to exceed \$50,000 per year, subject to the approval of the City Manager. The \$150,000 for

the initial period represents an estimated 468 base hours and the \$50,000 for each optional one-year extension represents an estimated 156 base hours. The base hours cover non-transactional services only. Actual compensation will be based on services rendered. If all options are exercised, the five-year contract will be valued at \$250,000. The proposed contract fully complies with the Competitive Bidding and Purchasing Ordinance P.M.C. 4.08 and the rules and regulations promulgated thereunder.

Since 2012, PRAG has been awarded three contracts by PWP with overall expenditures of approximately \$71,000. The proposed contract will be managed by staff in the PWP Finance and Administration Division.

**COUNCIL POLICY CONSIDERATION:**

This action supports the City Council's strategic goal to maintain fiscal responsibility and stability.

**ENVIRONMENTAL ANALYSIS:**

The proposed contract for an independent financial advisor and economic market expert to provide advice and assistance on existing and new debt issuances to PWP is exempt from CEQA Guidelines Section 15061(b)(3). This contract is covered by the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to the provisions of CEQA.

**FISCAL IMPACT:**

The total cost of this action, including the two optional extensions, is \$250,000 over a five-year term. This amount includes \$150,000 for the initial three-year term for an estimated 468 base hours for non-transactional services, and \$50,000 for each one-year for estimated 156 base hours per year for non-transactional services. Funding for this action will be addressed by the utilization of fiscal year 2017 budgeted appropriations in account 42009230 - 811400.

The following table presents a contract summary:

Contract Amount - Initial Three-Year Term	\$150,000
Two optional one year extensions (\$50,000 per year)	\$100,000
<b>Total Fiscal Impact for Five Years</b>	<b>\$250,000</b>

The anticipated impact to other operational programs or capital projects as a result of this action will be none.

Respectfully submitted,



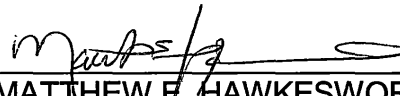
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