

ZONE 7 WATER AGENCY



REQUEST FOR PROPOSAL
for
BOND UNDERWRITING SERVICES

**Zone 7 Water Agency
100 N. Canyons Parkway
Livermore, CA 94551**

Date: November 6, 2017
Due Date: November 21, 2017

I. Introduction to Alameda County Flood Control and Water Conservation District – (“Zone 7 Water Agency”)

Zone 7 Water Agency (“Zone 7” or the “Agency”) is soliciting proposals from qualified firms to act as underwriter in the negotiated underwriting of Zone 7’s first issuance of water revenue bonds. It is expected that the sale will occur in early February 2018 in the amount of approximately \$50 million.

II. Background

Zone 7 Water Agency is part of the Alameda County Flood Control and Water Conservation District, which is a dependent special district of Alameda County. Its purpose is “to provide for the control and conservation of flood and storm waters and the protection of watercourses, watersheds, harbors, public highways, life and property from damage or destruction from such waters; to prevent the waste of water or the diminution of the water supply in, or the exportation of water from said district; and to import water into said district and to obtain all or any of such waters for beneficial use in said district”.

Zone 7 was established by a vote of the residents of the Livermore-Amador Valley area in 1957. Zone 7 is responsible for providing wholesale treated and untreated water, flood control and groundwater management in the Livermore-Amador Valley. The District Act provides for an elected seven-member Board of Directors to govern and control Zone 7 of the Alameda County Flood Control and Water Conservation District.

Zone 7 derives its revenues from property taxes, water sales, development fees, drainage fees, and interest earnings. Zone 7 has broad power to finance, construct and operate a system for the transportation, storage, treatment and distribution of water. Zone 7 has full authority to set rates for services without review by any regulatory agencies.

In conjunction with the California Statewide Community Development Authority (CSCDA), Zone 7 is in the process of forming a Joint Powers Agency (“JPA”) to allow it to issue JPA revenue bonds. It is expected this JPA will be called the Livermore Valley Water Financing Authority and is anticipated to be fully functional for the purposes of issuing bonds by February 2018.

Zone 7 supplies wholesale water to four customers which are the City of Livermore, City of Pleasanton, Dublin-San Ramon Services District (“DSRSD”) and the California Water Service Company and provides water directly to six commercial customers in its service area. These wholesale customers distribute the water to municipal retail, commercial and industrial customers in their respective service territories.

III. Financial Overview

Revenue Pledge: Zone 7 collects water revenues through sales of water to its four large wholesale water customers and through “retail sales” to six commercial water users in its service area. Zone 7 also collects tax revenue to pay debt service on its obligations to the Department of Water Resources for the State Water Project and for certain flood control and watershed management responsibilities. Finally, the Agency collects connection fees for all incremental development within the service areas of its four wholesale water customers.

Note: Only water sales revenue and connection fee revenues will be pledged to repayment of the Bonds. In FY 2017, unaudited water sales and connection fee revenues as described above totaled approximately \$85 million. Operating and ongoing expenses paid from these revenues totaled approximately \$46 million during the period. The CAFR for FY 2015-16 and other financial documents can be found at

<http://www.zone7water.com/publications-reports/financial-documents>.

Post the drought and the economic effects of the recession, the Agency has taken a number of steps to stabilize its annual revenues through adjustments to its rate structure. The first is the adoption of a fixed charge that is levied at 35% of the Agency’s “Revenue Requirement”. This fixed charge is levied and paid regardless of the amount of annual water sales. To address the negative effects of a drought on the variable component of the rate structure, the Agency instituted a “Water Shortage Contingency Plan”. If a water condition, such as drought, results in a mandatory reduction in consumption, the Board can declare a drought emergency and institute a rate surcharge which has the effect of offsetting to a large degree the negative effects on variable water sales revenues.

Capital Improvement Program (“CIP”): Zone 7’s CIP can be found on its website and includes anticipated capital expenditures totaling in excess of \$500 million over the next 10 years. Historically, the Agency has financed its CIP almost entirely on a pay-as-you-go basis and does not anticipate excessively leveraging the system in the future. However, in an effort to keep water rates as low as possible and cash reserves as robust as possible, Zone 7 may selectively finance parts of CIP going forward. Specifically, the Zone 7 Board has approved the financing of approximately \$50 million in costs for Ozone Treatment systems to be added to the Agency’s water treatment facilities.

IV. Scope of Services

The Agency requests the following services from its underwriter:

1. Provide analysis and recommendations regarding the terms and conditions of the new issue, the procurement of ratings from one or more national rating agencies, and a marketing strategy with consideration of the rating agency presentations, an internet roadshow, one-on-one presentations (if necessary), and other methods of developing investor demand.

2. Assist in the preparations of the credit package and credit presentation for the rating agencies, and follow-on discussions to secure ratings for the sale on a timely basis.
3. Review and comment upon all legal documents and the draft official statement.
4. On the day prior to the sale, provide a complete bond pricing proposal supported by recent comparable transactions and insight into technical conditions in the bond market. Be prepared to discuss in detail the pros and cons of alternative couponing choices by maturity, call features and any other structural aspects of the financing to ensure the Agency has all of the information needed to make informed decisions the day of pricing.
5. Market and underwrite the bonds to obtain the lowest True Interest Cost on the bonds.
6. During the bond order period, provide online access to data regarding bond orders in real time.
7. Provide a closing report documenting the results of the sale process and the names of institutional investors and include a recap of market conditions, (supply, technical conditions, etc.), comparable issues priced that day and spreads to AAA MMD.

V. Anticipated Proposal Schedule

Zone 7 has identified anticipated key dates as follows:

RFP Issued	Nov 6, 2017
Deadline for RFP Questions	Nov. 15, 2017
Proposals due	Nov. 21, 2017 2:00 PM PST
Oral Presentations (if needed)	(Week of Dec. 4)

VI. Response Requirements

A. Cover Letter

All responses submitted should include a cover letter signed by an officer that is legally authorized to bind the firm. The cover letter should be no longer than two pages indicating that the response is valid for 90 days and that the officer is legally authorized to contractually bind your firm. The cover letter should also summarize the key points of your firm’s response. The cover letter should be addressed to:

**Mr. Osborn Solitei
Treasurer/Assistant General Manager – Finance
Zone 7 Water Agency
100 N. Canyons Parkway
Livermore, CA 94551**

B. Body of Response

1. **Text:** In consideration of the audience reading your response, please use a minimum 11-pt font.
2. **Length** – Your response to the RFP should be limited to 15 pages in length, excluding the Cover Letter. Given the page constraints, we encourage a minimum of boilerplate marketing material. Deal/transaction lists and resumes will not be included in the page limit and can be included in the Appendix. However, while you are allowed to include additional appendices, there are NO guarantees that these additional appendices will be taken into consideration during the evaluation of your response.
3. **Content** – Please be sure your response is clearly organized such that the reader can easily identify which question/section you are answering. Showing the question (or an abridged representation) at the beginning of each response is encouraged.

C. Submittal Instructions

Submit your response via email to Osborn Solitei at: osolitei@zone7water.com and Garth Salisbury, Agency Financial Advisor at: gusalisbury@sperrycapital.com and two (2) hard copies of your response (1 original and 1 unbound copy) must be submitted to:

Mr. Osborn Solitei
Treasurer/Assistant General Manager-Finance
Zone 7 Water Agency
100 N. Canyons Parkway
Livermore, CA 94551

Mr. Garth Salisbury
Agency Financial Advisor
Sperry Capital Inc.
Three Harbor Drive, Suite 101
Sausalito, CA 94965

Emailed responses must be received at the above address **no later than 2:00 p.m. (Pacific Standard Time) on Tuesday, November 21, 2017.**

Physical copies are due the following day, Wednesday, November 22rd by COB. Late delivery of emailed proposals for any reason may result in disqualification from consideration.

VII. RFP Inquiries & Other Information

A. Point of Contact for Questions Regarding RFP:

**Mr.
Garth Salisbury
Agency Financial Advisor
Sperry Capital Inc.**
Three Harbor Drive, Suite 101
Sausalito, CA 94965
gusalisbury@sperrycapital.com

Inquiries regarding this RFP shall be made in writing to Mr. Salisbury, via email only and must include the words "Underwriter RFP" in the subject line. No questions should be directed to the Agency's Bond Counsel, Disclosure Counsel, or the Agency directly. The final date for submittal of all questions is **5:00 PM PST on November 15, 2017**.

If modifications or clarifications to this RFP are necessary, a written addendum will be issued to all firms sent the original RFP by Financial Advisor. Responders must acknowledge receipt of the addendum, if any, in the cover letter.

B. Request for Zone 7 Water Agency Information

Each firm may have different needs for information. It is incumbent upon each firm to make the inquiries it deems necessary in order to respond to this RFP. If it is determined to be in Zone 7's best interests, questions and responses asked by each firm may be distributed to all of the respondents.

Please refer to Zone 7's website (www.zone7water.com) to download Zone 7's financials, budget, CIP, Reserve Policy, and other information. The Agency makes a great effort to keep all of Zone 7's relevant financial, operational and environmental information easily accessible via its website.

C. Public Record/Proprietary Information

All information submitted in response to this RFP shall become public record upon opening and will be available for public review upon request. If a respondent desires that proprietary information in the response not be disclosed, the respondent is required to identify all such proprietary information in the response to the RFP at the time it submits the response. If a respondent fails to identify clearly all proprietary information for which it is requesting non-disclosure, the respondent agrees by the submission of its response to the RFP that any unspecified sections shall be deemed non-proprietary and made available upon request to the general public under the California Public Records Act.

D. Acceptance/Rejection/Modifications to Proposals

Zone 7 reserves the right to reject any and all proposals, cancel all or part of this RFP, and waive any minor irregularities and to request additional information from firms. Zone 7 reserves the right to seek new proposals when it determines that it is in its best interest to do so.

Zone 7 reserves the right to modify the activities, time line, or any other aspect of the process at any time, as deemed necessary by Zone 7. By requesting proposals, Zone 7 is in no way obligated to proceed with a financing. Zone 7 will not be liable for any costs incurred by the firms in the preparation and production of a proposal, or for the costs of any services performed prior to the selection and the start date.

E. Interviews

Zone 7 reserves the right to interview some, all or none of the firms responding to this RFP based solely on Zone 7’s judgment as to the firms’ qualifications and capabilities.

VIII. RFP Questionnaire

A. Company Background

1. Please provide a brief description of your firm and the firm’s experience as an underwriter in the California municipal utility revenue bond market. Include a list of senior managed California municipal utility transactions \$25 million or greater closed since 2014 using the following format:

Sale Date	Par Amount	Issuer	Name and CUSIP of Issue	Lead Banker

Please highlight any first-time issuers in your list of transactions. This list can be included in Appendix A

2. Please briefly describe your firm’s distribution capabilities for both retail and institutional investors.
3. Select three bond issues from the list in Question A.1. as examples of your pricing effectiveness and show the following sale results data for each in addition to the information in the A.1. listing: TIC%, Arb Yield, Underwriters Discount (\$/Bond), and for each bond maturity, the par amount, coupon, price, yield to call, yield to maturity, AAA MMD yield, and spread to MMD. In a separate table, please provide the last five transactions (not necessarily from your list in Question A. 1.) where your firm underwrote unsold balances. Please provide the name of the issue, date of sale, par size and amount bonds underwritten by your firm. These tables should be included as an Appendix B.
4. Disclose any pending litigation or disciplinary actions taken or pending related to your firm’s municipal finance practice in the past three years by the SEC, MSRB or any other regulatory bodies or law enforcement agencies. Please include any public finance transaction during the past five years in which your firm, or member of

your proposed underwriting team, if applicable, was removed or asked to resign from the financing.

5. Please provide your history, if any, of financial services provided to the City of Livermore, City of Pleasanton, DSRSD and the California Water Service Company.

B. Investment Banking Team

1. Please provide the name, address, telephone number and email address of the primary investment banking contact person in the firm submitting the proposal and the office location from which the majority of the banking services will be provided. Please also provide the name and office location of the underwriter from your firm who will be the Agency's contact on the underwriting desk.
2. Please provide a brief description of qualifications and relevant experience of the core investment banking staff who will be assigned to Zone 7's account. The description should also include their role and responsibilities including identifying who will be the individual charged with the day-to-day responsibility for this engagement. Provide brief resumes for each emphasizing recent relevant municipal water utility financing experience (Resumes may be included as an appendix). What can Zone 7 expect from the core banking team in terms of availability and participation on this financing?
3. Please include the qualifications and relevant experience of additional key personnel who may be involved with a Zone 7 financing including the depth of your firm's analytical capabilities (e.g. personnel assigned to modeling and other quantitative analyses), ability to analyze complex financial models and structures, any credit research analysts, access to economic forecasting staff, marketing/sales personnel or other staff.

C. Approach to the Financing

1. As a first-time issuer, the Agency's goal is to obtain ratings in the AA category. How would you approach structuring the Zone 7 Water credit? What sources of revenues would you include and what revenue sources would you exclude? In your experience, what are the appropriate amount of operating reserves (e.g. Days Cash on Hand) to be maintained by the Agency for a AA rating?
2. Do you think the Agency should fund and maintain a Debt Service Reserve Fund? What would you suggest as appropriate for bond covenants including a Rate Covenant and Additional Bonds Test if the Agency expects to issue debt in the future while minimizing water rate levels?
3. How many ratings should Zone 7 secure and which rating agencies would you recommend approaching?

4. Discuss how your firm would approach marketing the new Zone 7 credit to the institutional and retail municipal bond investor market? Please provide any recommendation Zone 7 can implement to maximize the “buzz” and enthusiasm for the Agency’s bonds given today’s current market conditions. Please consider such topics as investor relations, new investors and investor types, and the timing of bond sales.
5. What do you see as some of the upcoming challenges, if any, in the municipal bond market and how would your firm assist your client in addressing these challenges?
6. Assuming your firm is chosen to be the Senior Manager for this assignment and the Agency decides to include one or more co-managers, briefly summarize the terms that you would propose to include in the Agreement Among Underwriters. Please include your suggested liability splits to be assigned to the co-manager(s), order priority and your firm’s definition of what constitutes a legitimate retail order. Indicate whether or not your firm believes that co-managers would add value to this pricing.
7. Please describe the economic outlook for a bond issuance in early 2018.

D. References

For the firm’s underwriting team assigned responsibility for the engagement, please list a maximum of three references most similar to Zone 7 and the requested scope of services described herein. For each reference, please include name, address, e-mail address, and telephone numbers of the individual qualified to provide information regarding your services. How long have you provided investment banking services to this client?

E. Fees

Please submit your fee proposal for underwriting services expressed on a per \$1,000/bond basis inclusive of management fee with an itemized budget for all expense components, including Underwriters’ Counsel. Please furnish any narrative required to explain the prices quoted. Assume an issue size of \$50 million.

F. Conflict of Interest

Please disclose any professional or personal financial interest, which could be a possible conflict of interest in representing Zone 7. Zone 7 also requires the firm to further disclose arrangements to derive additional compensation from various investment and reinvestment products, if applicable. Zone 7 may reject a Proposal from any firm that, in Zone 7’s opinion, would be in a conflict of interest if the firm is awarded a contract.

G. Disclosures

Indicate whether your firm or any personnel proposed to work for Zone 7 have been investigated or been subject to disciplinary action by FINRA, the SEC, or any other federal or State regulatory body over the past five years. If so, provide a description of such investigation or disciplinary action including the results of any investigation or disciplinary action (this disclosure may be included as an appendix).

H. Additional Information

Why should Zone 7 select your firm for the engagement? Please provide any additional information relevant to the Agency's consideration of your firm's qualifications.

IX. RFP Evaluation and Selection Criteria

Zone 7 will conduct a fair and impartial evaluation of the proposals received in response to this RFP. The factors to be used by Zone 7 in evaluating the proposals will include, but are not limited to, the following:

A. RFP Understanding

1. Approach
2. Clarity
3. Creativity of proposal
4. Ability to provide services outlined in scope of services

B. General Experience and Qualifications of Firm/Assigned Personnel

1. Firm's recent underwriting experience for municipal water agencies in California
2. Experience by key personnel in leading water agencies debt financing
3. Any other resources assigned to Zone 7

C. References

The strength of your firm's three client references with similar projects who would be able to attest to your firm's expertise, the lead banker's experience and qualifications, the results of the relevant transactions and the quality of work and service.

D. Cost/Fee Schedule

The cost of underwriting services for the proposed \$50 million transaction.

E. Oral Presentations

Zone 7 reserves the right to seek clarification of any proposal submitted. Zone 7 may hold oral interviews, if needed, in order to select the proposals that best serve the interests of Zone 7.