

## FOR BOARD ACTION

Agenda Item # 5

Meeting Date: 3/26/13

**SUBJECT:** Approval of Financing Team for the 2013B Electric Revenue Bond Issue

**PREPARED BY:** Susan Parker, Director of Corporate Services

ITEM DESCRIPTION:

Recently, the RPU board and City Council approved the issuance of electric revenue bonds through a negotiated sale to support the construction of the CAPX 2020 transmission line. RPU has been consulting with the City of Rochester's financial advisor, Springsted Inc., on the financing portion, and the City's bond counsel, Kennedy and Graven, for the legal review and opinions regarding financing issues. RPU has used Springsted and Kennedy and Graven for the previous bond issues.

The consultation with Springsted and RPU staff indicated that the approach to issuing the bonds would be through the selection of a senior underwriter. Springsted lead RPU in communication with the City Finance Director, through a process for proposals to national and regional underwriters, and an evaluation of these proposals and a selection of a short list. Recently RPU and Springsted interviewed the candidates and this process lead to a recommendation for the underwriter for the 2013B electric revenue bonds.

The recommended lead senior manager for the issuance of the bonds is Barclay's. Through the request for proposal and interview process, this team presented he best experience and market access to assist RPU in bringing the project and financing to the bond market, getting the best interest rate, and if necessary having the financial capital to back a bond sale of this level. In addition to Barclay's, it is recommended that BMO Capital serve as co-manager. Their presence will help broaden the market reach regionally selling the bonds. A letter from Springsted discussing the process of the underwriter selection is attached for your review.

FOR CAPITAL PURCHASES/BIDS/MAJOR PROJECTS:

Not Applicable

UTILITY BOARD ACTION REQUESTED:

Management recommends that the Board approve the bond financing team for the 2013B electric revenue bond issue that would include Kennedy and Graven as bond counsel, Springsted Inc., as financial advisor, and Barclay's as senior manager to underwrite the bonds and BMO Capital as co-manager.

  
General Manager

3-21-13  
Date



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March 18, 2013

Mr. Larry Koshire, General Manager  
Ms. Susan Parker, Director of Corporate Services  
Rochester Public Utilities  
4000 East River Road NE  
Rochester, Minnesota 55906-2813

Mr. Dale Martinson, Director of Finance  
City of Rochester  
201 4th Street South East, Room 204  
Rochester, Minnesota 55904-3779

Re: **Electric Utility Revenue Bonds, Series 2013 B**  
**Senior Managing Underwriter Recommendation**

Dear Mr. Koshire, Ms. Parker and Mr. Martinson:

### **Introduction**

Rochester Public Utilities ("RPU") is moving forward with financing its share of the CapX 2020 Transmission project. RPU, through the City of Rochester (the "City"), anticipates issuing up to \$40,000,000 in Electric Utility Revenue Bonds (the "Bonds"). We have previously recommended RPU market the Bonds through a negotiated sale process. The negotiated sale process requires the naming of a senior managing underwriter (the "Senior Manager"). We have also recommended RPU select the Senior Manager through a competitive process. RPU issued a Request for Proposals to obtain underwriting proposals.

### **Results of RFP Process**

RPU received a very large number of responses – 14 – from firms of local, regional and national standing. RPU staff and Springsted reviewed all of the proposals first to determine a short list of firms, and then if consensus existed on a single top ranking firm, that firm was interviewed. The short list of firms included: Barclays, BMO, Citigroup and Goldman Sachs. Barclays was the consensus top ranked firm. An interview was conducted and concluded on Friday, March 15. The results of the interview confirmed the selection committee's opinion of Barclays being the most appropriate firm.

### **Recommendation**

On behalf of the selection committee, Springsted recommends RPU and the City name Barclays as its senior managing underwriter for this issuance.

### **Basis for Recommendation**

Springsted recommended the following selection criteria be used as a general framework for its review:

- Experience in servings as senior managing underwriter in similar electric utility revenue transactions
- Marketing approach and pricing ideas
- Experience of the firm's primary state representatives in structuring and marketing comparable obligations, and
- Cost

The evaluation process compared each firm's responses to these criteria. This first evaluation was on professional credentials only. Cost was only reviewed following the discussion of firms on the short list. In addition, it was noted whether each firm had bid on RPU's recent competitive bond sale as a demonstration of both their interest and ability to market the Bonds. Two respondents bid on the recent competitive sale with one firm, BMO, being the winning bid.

For the firms on the short list, the range of fees was from approximately \$3.40 per \$1,000 of bonds issued to \$5.10. The Barclays cost was \$4.40. We believe this fee to be both a market price and sufficient compensation to advantageously market the bonds.

### **Co-Managers and Selling Group**

RPU and the City reserved the right to name other underwriting firms to the underwriting syndicate to best position a total underwriting effort for this transaction. Each underwriting firm brings certain strengths to a sale process. Providing other firms an opportunity to bring their strengths to complement the Senior Manager facilitates this positioning. We have suggested to RPU they name one firm as a co-manager and, potentially, appropriate Rochester firms as members of a selling group will ensure a broad sales effort. The discussions on this approach and which firms to include are still ongoing with RPU.

Springsted is prepared to respond to any questions regarding this recommendation and the process. We look forward to working again with RPU and the City

Respectfully,



David N. MacGillivray, Chairman  
Client Representative

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## RESOLUTION

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve the financing team for the 2013B electric revenue bonds to include Kennedy and Graven as bond counsel, Springsted, Inc., as financial advisor and Barclay's as senior manager to underwrite the bonds, and BMO Capital as co-manager.

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 26th day of March, 2013.

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President

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Secretary