



April 11, 2018

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Agreement for Financial Advisory Services

Overview

The Treasury/Public Finance Department of the Orange County Transportation Authority relies on the services of a financial advisory firm to provide assistance with new debt issuances, ongoing reporting requirements of the Transportation Infrastructure Finance and Innovation Act loan, assistance with the investor relations program, and investment advisory advice on an as-needed basis. Proposals were received in accordance with the Orange County Transportation Authority's procurement procedures for professional and technical services. Board of Directors' approval is requested to select a firm to provide financial advisory services.

Recommendations

- A. Approve the selection of Sperry Capital Inc., as the firm to provide financial advisory services.
- B. Authorize the Chief Executive Officer to negotiate and execute Agreement No. C-7-2137 between the Orange County Transportation Authority and Sperry Capital Inc., in the amount of \$495,500, for a three-year initial term through April 30, 2021, with one, two-year option term, to provide financial advisory services.

Discussion

The Orange County Transportation Authority's (OCTA) financial advisor is responsible for providing analysis, consultation, and support for financial, investment, and other related matters affecting capital and operating decisions.

OCTA has issued over \$1.8 billion in debt since the early 1990s and currently has over \$421.6 million outstanding. In addition to previous debt issuances, OCTA entered into a Transportation Infrastructure Finance and Innovation

Act (TIFIA) loan in 2017 for the Interstate 405 Improvement Project (405 Project) and secured a \$900 million line of credit. With these different debt instruments, OCTA has evolved into a large and sophisticated issuer of municipal debt over the past decade. As a result, OCTA is one of the highest rated sales tax and toll road debt issuers in California.

Over the next several years, OCTA will be issuing debt for Measure M2 (M2) projects. New debt requirements will be derived from cash flows comparing projected expenses from Board of Directors (Board)-approved projects with anticipated revenues. The largest need will be for the general purpose lanes for the 405 Project. It is anticipated that issuances will occur in fiscal years 2019 and 2021. OCTA's financial advisor will assist with these evaluations and subsequent financing transactions.

In addition to these debt issuances, OCTA's financial advisor will assist with the financial reporting requirements of the TIFIA loan. OCTA is required to provide an updated financial model and report each year to the Build America Bureau and the Federal Highway Administration for the loan.

Lastly, the financial advisor will assist staff with the Investor Relations Program. The Investor Relations Program includes annual visits to New York for meetings with investors, liquidity providers, and the rating agencies. OCTA provides a comprehensive presentation on OCTA's programs and services during these meetings.

Procurement Approach

This procurement was handled in accordance with OCTA's Board-approved procedures for professional and technical services. Various factors are considered in the award for professional and technical services. Award is recommended to the firm offering the most comprehensive overall proposal, considering such factors as prior experience with similar projects, staffing and project organization, work plan, as well as cost and price.

On December 22, 2017, Request for Proposals (RFP) 7-2137 was issued electronically on CAMM NET. The project was advertised in a newspaper of general circulation on December 22 and 27, 2017. A pre-proposal conference took place on January 4, 2018, with three attendees representing three firms. Two addenda were issued to make available the pre-proposal conference registration sheets and presentation, as well as respond to questions related to the RFP.

On January 31, 2018, five proposals were received. An evaluation committee consisting of OCTA staff from Contracts Administration and Materials Management, Express Lanes Programs, Finance and Administration, Financial Planning and Analysis, M2 Program Office, and Highway Programs met to review all proposals received. The proposals were evaluated based on the following evaluation criteria and weights:

- Qualifications of the Firm 30 percent
- Staffing and Project Organization 25 percent
- Work Plan 25 percent
- Cost and Price 20 percent

Several factors were considered in developing the evaluation criteria weights. Qualifications of the firm was weighted at 30 percent as the firm must demonstrate experience with various types of financing, such as sales tax revenue bonds, toll road revenue bonds, transit financings, commercial paper programs, and TIFIA loans. Staffing and project organization was weighted at 25 percent to emphasize the importance of the proposed project team's qualifications related to rating agency and investor relations management, refunding analysis and advice, TIFIA financial models, congestion management pricing for managed lanes and/or toll road facilities, as well as assisting transportation agencies with analyzing investment options for bond proceeds portfolios. Work plan was also weighted at 25 percent to ensure the firm demonstrated its understanding of the project requirements. Cost and price was weighted at 20 percent to ensure OCTA receives competitive pricing and value for the services provided.

On February 13, 2018, the evaluation committee reviewed the proposals based on the evaluation criteria and short-listed the two most qualified firms listed below in alphabetical order:

PFM Financial Advisors, LLC (PFM)
San Francisco, California

Sperry Capital Inc. (Sperry)
Sausalito, California

On February 20, 2018, the evaluation committee conducted interviews with the two short-listed firms. The interview consisted of a presentation to demonstrate the firms' understanding of OCTA's requirements. The firms were instructed to prepare a mock presentation to key investors regarding a proposed transaction for OCTA. The firms' project managers and key team members had an opportunity to present each team's qualifications and respond to the evaluation

committee's questions. Questions were asked relative to the firms' role as OCTA's financial advisor, familiarity with the latest changes in toll road revenue and sales tax revenue financing programs, and approach to future TIFIA loan-related financings, as well as handling potential conflicts of interest. In addition, each team was asked specific clarification questions related to their proposal.

At the conclusion of the interviews, firms were requested to submit a best and final offer (BAFO) to provide more competitive pricing. Both firms adjusted their proposed hourly rates.

After considering the responses to the questions asked during the interviews and the information provided in the BAFO, the evaluation committee reviewed the preliminary ranking and made adjustments to individual scores. However, the overall ranking of the firms did not change as a result of the interviews and BAFO.

Based on the evaluation of the written proposals, information obtained from the interviews, and BAFO, the evaluation committee recommends Sperry for consideration of the award. The following is a brief summary of the proposal evaluation results.

Qualifications of the Firm

Both firms are qualified and demonstrated extensive experience in providing financial advisory services.

Sperry is the incumbent firm and has provided financial advisory services to OCTA since its inception in 1994. Located in the City of Sausalito, the firm has 11 employees and has worked with multiple California transportation agencies, including San Francisco Bay Area Rapid Transit (BART), Southern California Regional Rail Authority, California Department of Transportation, and Los Angeles County Metropolitan Transportation Authority, as well as public entities outside of California, such as the Grand Parkway Transportation Corporation. The firm detailed relevant experience with sales tax revenue bonds, toll road revenue bonds, transit financings, commercial paper programs, as well as TIFIA loans, which includes assisting OCTA in securing its TIFIA loan for the 405 Project.

PFM is a large, national firm with 55 employees within its locations in the cities of San Francisco and Los Angeles and has been providing financial advisory services for over 40 years. The firm detailed vast experience supporting many transportation agencies around the country with various types of financing. PFM

has an extensive list of clients, which includes the Bay Area Toll Authority, Transportation Corridor Agencies, San Diego Association of Governments, Chicago Transit Authority, Illinois State Toll Highway Authority, New York Metropolitan Transportation Authority, and the North Carolina Turnpike Authority.

Staffing and Project Organization

Sperry proposed the same project manager and day-to-day support as its previous contract to provide financial advisory services to OCTA. The proposed project manager has worked with OCTA in this capacity for the past 23 years. The individual has almost 30 years of experience handling different transactions, such as sales tax revenue bonds for BART and TIFIA loan amendments for the Transbay Joint Powers Authority. The other individual proposed to provide day-to-day support has 15 years of experience and has supported OCTA for the past six years. The proposed project team demonstrated experience with rating agency and investor relations management, refunding analysis and advice, TIFIA financial models, and congestion management pricing for managed lanes and/or toll road facilities. In addition, the team members have passed the Series 50-Municipal Advisor Representative Examination, which is required in order to engage in municipal advisory activities. Furthermore, Sperry is committed to ensuring that all team members are available to support and represent OCTA in the event of any conflicts of interest with other regional agencies that Sperry represents. Sperry provides in-house financial modeling, which will be helpful in analyzing future financing transactions. During the interview, Sperry's team best demonstrated a comprehensive understanding of OCTA's finances and programs.

PFM proposed a knowledgeable project team and all team members have passed the Series 50-Municipal Advisor Representative Examination. The proposed project manager has over 20 years of financial advisory experience. The proposed transportation specialist has over 25 years of experience with vast experience in toll road financing; however, the individual was not present for the interview to answer any related questions. In addition, when asked how the team would handle any potential conflicts of interest between OCTA and other regional agencies that PFM represents, PFM indicated that there is a firewall process that does not allow team members to communicate with each other. This would be a disadvantage to OCTA, as it would have limited access to certain individuals whose expertise is crucial to OCTA's financial decisions. Although the team presented well, their responses to questions were general in nature and lacked detail.

Work Plan

Sperry presented a comprehensive work plan that addressed all elements of the scope of work. The firm demonstrated a clear understanding of OCTA's financial needs by outlining specific activities OCTA should undertake and how the project team would assist OCTA in those endeavors, such as planning and updating the TIFIA financial models and managing OCTA's relationships with credit rating agencies. The firm discussed challenges and recommendations for issuing M2 sales tax revenue bonds, as well as its process for ensuring the best price for any short or long-term financings. In addition, Sperry proposed that OCTA consider recent regulatory requirements, which were not explicitly identified in the scope of work, but are relevant to OCTA's financings and reporting requirements, such as Senate Bills 1029 and 450.

PFM demonstrated a good understanding of OCTA's programs and financial needs. The firm has an in-house group of advisory professionals dedicated to following and analyzing municipal market activities to ensure the best price for short- and long-term financings. While PFM discussed its approach for completing elements related to OCTA's debt program, the firm did not elaborate on what activities would be undertaken and who of the project team would perform them. In addition, PFM did not detail how it would provide investment advisory support to OCTA.

Cost and Price

Pricing scores were based on a formula which assigns the highest score to the firm with the lowest weighted average hourly rate, and scores the other proposals' weighted average hourly rates based on their relation to the lowest weighted average hourly rate. Although Sperry did not propose the lowest weighted average hourly rate, pricing was competitive with the other proposing firms.

Procurement Summary

Based on the evaluation of the written proposals, the firms' qualifications, as well as the information obtained from the interviews and BAFOs, the evaluation committee recommends the selection of Sperry as the top-ranked firm to provide financial advisory services. Sperry delivered a comprehensive proposal and an interview that was responsive to the requirements of the RFP.

Fiscal Impact

Initial funds were included in the approved OCTA Fiscal Year 2017-18 Budget in the Local Transportation Authority Fund, the 91 Express Lanes Fund, and the 405 Express Lanes Fund. Future amounts will be budgeted in subsequent years.

Summary

Based on the information provided, staff recommends the Board authorize the Chief Executive Officer to negotiate and execute Agreement No. C-7-2137 with Sperry Capital Inc., in the amount of \$495,500, for a three-year initial term, effective through April 30, 2021, with one, two-year option term, to provide financial advisory services.

Attachments

- A. Review of Proposals – RFP 7-2137 Financial Advisory Services
- B. Proposal Evaluation Criteria Matrix (Short-Listed Firms) – RFP 7-2137 Financial Advisory Services
- C. Contract History for the Past Two Years – RFP 7-2137 Financial Advisory Services

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