

Request for Proposal for Sell Side Services City of Milwaukee, Wisconsin Water Works

Questions as of March 25, 2009 at 4:00 pm

Question 1: Is it possible to get a list of those who received the RFPs?

Response:

A notice of the RFP was published in the Daily Reporter and the Bond Buyer. The notice included directions on how to download the RFPs from the City's website. Thus, we do not know who has received the RFPs.

Question 2: Requests additional detailed information on the operating and financial position of the Water Utility

Response:

We understand that additional detailed information would help to provide a more accurate measure of the value of the Water Utility. In order to be fair to everyone's various valuation models, we do not want to unfairly provide some additional information that is critical to one firm without providing other information that would be critical to another firm. As such we are not providing the additional information.

[UPDATE – 3/31/2009] Also, please see the response to Question 5 which details the public sources of information available.

Question 3: Various questions regarding the City's Emerging Business Enterprises firms and the State's Minority Owned Underwriting Firms.

Response:

Periodically, the City selects underwriters for negotiated sales, and uses the State's Minority Owned Underwriting Firms listing in that process.

In the selection of Sell Side Advisor Team, the City is following procurement rules which give favorable consideration only for Emerging Business Enterprise certified firms. We are unable to make special accommodations for State certified Minority Owned Underwriting Firms with this RFP.

We have confirmed with the EBE office that the EBE Business Directory on the City's website has up to date information.

Question 4: Given the number of qualified legal and consulting advisors (each with different strengths and transaction experiences), will a Team Leader's submission comply with the RFP requirements if multiple legal and consulting firms are listed (all of whom agree to work with the Team Leader on this project)?

Response:

[UPDATED 3/31/2009]

There is no limit on the number of firms that can be on a Team. Proposals including alternative team members will be considered. However, the City will evaluate the proposals based in large part on the competence and experience of the proposed team including its constituent firms and related team members. To the extent that the proposal specifies the team composition committed to the project, that will be advantageous compared to proposals including only alternative participants. Note: It is presumed that a Team Leader has a commitment to the Team from all firms and related team members mentioned for inclusion in its proposal.

Question 5: Various questions on operations and deal structure.

Response:

The purpose of the RFP is for selecting a Sell Side Advisor Team to take the City through a privatization process through contract execution. The selected Team will have full cooperation of the City (including DPW staff), and full access to confidential and detailed information, much of which will take time to identify and gather.

We presume that many of the questions requesting detailed information about the water utility relate to RFP Question 6 "Estimated Value". As stated in the RFP: "The purpose of the question is to provide the City with some general range of estimates to confirm the viability of the lease approach." The purpose of the question is not to award points to the Team with the highest valuation. "Estimated Value" is not a material RFP Evaluation criterion. The primary purpose of the question is to provide general idea of what independent, experienced professionals would estimate based on an initial, cursory analysis.

Certain of the requested information is confidential in nature, and would not be appropriate to distribute at this time. Moreover, currently, the City desires only a "back of the envelope" estimate in response to the RFP - an estimate based upon the minimal amount of information made available. An in-depth valuation will be expected during Phase II of the process, and the selected Team will have full access to whatever information is available, or can be reasonably obtained. At this point, however, the City's RFP, this response and the referenced information below are the only information the City is providing.

In addition to providing one number for the Estimated Value, you may also indicate the potential range for the valuation.

Response to Question 5 continued:

The RFP contains information on accessing the 2006 Annual Report for the Water Works, and the 2007 CAFR for the City, which includes some information on the Water Works. The following information may also be of interest:

Milwaukee Water Works past Annual filings with the Public Service Commission of Wisconsin (PSC):

[http://psc.wi.gov/apps/annreport/content/reportlist.aspx?utilid=3720&for=muni&utility=MILWAUKEE+WATER+WORKS+\(3720\)](http://psc.wi.gov/apps/annreport/content/reportlist.aspx?utilid=3720&for=muni&utility=MILWAUKEE+WATER+WORKS+(3720))

Note: The filings contain operational information. The information contained in the filings are unaudited, and have not been reviewed by the Comptroller's Office. By April 1st, the Water Works is expected to provide unaudited 2008 information for the Public Service Commission, and will be posted at the link below when it is received by the Comptroller's Office.

2007 Audited Financial Information for the Water Works; Historical Information on Residential Water rates; and Capital Improvement Plan:

<http://www.city.milwaukee.gov/CityWaterWorksPublicPrivatePartnership.htm>

We would appreciate the inclusion of all major assumptions made in deriving your Estimated Value in your proposal.

Question 6: Prohibited contact with the City.

Response:

It has come to our attention that some contact may have been made with the City other than as provided for in the RFP. We would like to draw your attention to page 4 of the RFP where it states:

“In order to promote an open and fair evaluation of all proposals, proposers shall refrain contacting other City officials, City officers, members of the Public Debt Commission, or Department of Public Works personnel, regarding this proposal. Such contact will be grounds for disqualification.”

We strongly urge you to direct all affected firms and staff not to contact anyone at the City for information in any way connected to this RFP other than as provided for in the RFP. We will enforce the above RFP requirement.

Question 7: The RFP provides a web link to the 2007 financial information. We have not been able to access the information through that link (or through any other means). If you were able to send directly, or suggest another route, it would be much appreciated.

Response:

I believe you are having problems downloading the City's 2007 CAFR. The file is 60 MB in size. The 2007 CAFR can also be downloaded from the NRMSIRs and at:

http://www.4shared.com/file/79509774/ae0154dd/2007_City_CAFR.html

Question 8: For the purpose of providing an estimated fee, please clarify the scope of work defined as Phase 1 and Phase 2.

Response:

Since Phase I involves only the selection of the Sell Side Advisor Team, there is no compensable work in this Phase. The purpose of Phase II – Preliminary Valuation is to bring the City to the point of (but not including) drafting the detailed documents necessary for the solicitation of bids. Phase II work will therefore center on valuing the Water Works facility given the policy parameters to be established with the Mayor, Common Council and Comptroller. RFP Question 5 “General Approach” requests your professional judgment on the timetable, milestones, work segments (scope of work), etc. to be performed. Thus, the objective of Sell Side Advisor work in Phase II is to get the City to the point of final detailed bid documents.

Question 9: The request for proposals indicates Sell Side Service. Please clarify if it is the intent of the City to transfer the ownership of the assets to a private partner (a complete privatization), or if it is the intent of the City to enter into a long term management/concession-type arrangement with a private partner to manage and maintain and develop the assets over a long term period, with the City retaining ultimate ownership of the utility?

Response:

The City's going in assumption is a long term concession agreement where the City would retain ultimate ownership at lease termination. However, other options are possible depending on their economic consequence and the policy parameters established by the City. The greater the loss of control, the greater the City expects to be compensated.

Question 10: Please confirm that the private sector involvement in the Water Works will only be for the treatment and distribution of clean water and associated administration.

Response:

You are correct. By “clean” water, the City is referring to potable drinking water excluding any processes related to sewage collection and treatment. Only the Water Utility is being considered under the proposed PPP arrangement.

Question 11: What is the condition of the underground assets of the Water Works in terms of leakage and how much repair, capital maintenance, and/or replacement is anticipated to these assets? What is the condition of the treatment assets, and how much surplus capacity is there in the system? Please confirm the percentage of the system that is metered, and if meter reading is performed manually or through automated means. Does the Water Works have the right to terminate the connection for non-payment? Would a private partner operating the Water Works under a concession agreement have such termination rights, or would this need to be determined by the City and legal advisors as part of the Sell Side Advisory Team? Regarding raw water costs - what arrangements are in place to ensure the continual access to the raw water supply, and is it the intent for the responsibility for this to be transferred to the private partner or retained with the City or an item to be assessed? Regarding energy costs - are there pre-determined views around the provision of energy arrangements to the Water Works - is it the City's intent for the responsibility for this to be transferred to the private partner, or retained with the City, or an item to be assessed with the support of the Advisory Team? Is it anticipated that billing and collection will be passed over to the private partners, or is this an issue to be assessed with the support of the Advisory Team? Is it anticipated that all Water Works' staff will be transferred to the private partner operating the Water Works, and, if so, have there been any retention arrangements contemplated, or is this an issue to be assessed with the support of the Advisory Team? Please provide historical water rates and revenues and numbers of customers/consumers for past 10 years. Please provide an appraisal of the Water Works' physical plant assets. Please provide the Capital Improvement Plan for the Water Works. Has a water rate study been conducted by the City of Milwaukee in the last three years? Can a copy of that report be provided?

Response:

The questions above are relevant to the work the selected Sell-Side Advisor will need to address in working with the City during the engagement. However, the City's RFP, and these response are the only information the City is providing. In particular, please see the responses to Questions 2 and 5.

Question 12: Will proof of each member of the proposing Sell Side Advisory Team's ability to meet the City's insurance requirements need to be provided with the proposal, or will written assertion of the Team's ability to meet these requirements be sufficient for the proposal, with final certifications arranged before the City engages its preferred Advisory Team?

Response:

Proof is not required with your response. Proof will be required before the selected Team is engaged, and will be solicited at the appropriate time.

Question 13: Regarding the Designation of Confidential & Proprietary information document, is there a copy to be downloaded?

Response:

The document and all other proposal related documents can be found at:

<http://www.city.milwaukee.gov/CityWaterWorksPublicPrivatePartnership.htm>

Question 14: What is the current view of the Common Council on the feasibility of the transaction?

Response:

The Common Council has not expressed an opinion on the feasibility of the transaction. As mentioned in the RFP, the Common Council has passed a resolution directing the Comptroller to select an Advisor for the purpose of examining such a transaction.

Question 15: How long is the Common Council's approval process expected to take at each stage in the process? At what stage(s) will the Council be involved?

Response:

The Common Council will be involved at key decision points - See Section IV of the RFP. Note: The City anticipates the Common Council will be responsive in making its decisions.

Question 16: Is there a valuation threshold that is necessary for the Council to approve the transaction?

Response:

No formal valuation threshold exists.

Question 17: When was the most recent independent third party technical review of the water system? What is the current capacity utilization of the system? Are there currently any ongoing cases with the PSC? How would you characterize the current relationship between the Water Works and the PSC?

Response:

See responses to Questions 2 and 5.

Question 18: The RFP asks for an estimated value to be based on a 99-year lease term. What was the City's logic in selection 99 years?

Response:

For the purpose of the RFP Question #6, it was assumed that a long-term lease would produce a significant financial consideration to the City.

Question 19: When will the 2008 financial information be available?

Response:

Audited financial information for the Water Works is not expected until after the Proposal due date (April 9th). However, unaudited 2008 data may be available. See response to Question 5.

Question 20: On what basis will the 10 additional points for effective utilization of a certified EBE contractor be allocated?

Response:

In order to be awarded up to the 10 additional points, the Proposer needs to provide an opportunity for a Certified EBE firm to participate in a meaningful way. The number of points awarded will be based upon the City's judgment of the meaningfulness of the proposed participation. Merely paying an EBE firm is not considered meaningful. The City is open to any type of participation that develops the expertise of the EBE firm which is also relevant to the contract.

Question 21: The RFP requires that the City contract with one entity and that entity sub-contracts with the remainder of the team. Is the City amenable to monthly or quarterly billing of non-contingent fees?

Response:

The City will consider any fee arrangement, but has a preference for contingent and deferred billing.

Question 22: How will the points for fees be allocated?

Response:

Fees will be estimated based upon an assumed transaction amount. The lowest total fee will initially receive the maximum number of fee points. Adjustments will then be made to factor in contingent vs. non-contingent, deferred vs. on-going payments, etc. As stated in Section VIII, the City reserves the right to negotiate with proposers.

Question 23: Could you confirm our understanding that the Sell Side Advisor and Team to be selected will be mandated for the four phases identified in Section II of the Request for Proposal (“RFP”) from the outset ? i.e. Should you elect to proceed with the Sell Side Advisor’s recommendation upon the Preliminary Valuation (Phase II), please confirm that the same team will be appointed for the subsequent steps and that you do not intend to tender Phase III and IV separately.

Response:

The City selected Sell Side Advisor Team is intended to have the engagement for all the remaining Phases. However, the City reserves the right to terminate the contract at any time.

Question 24: What level of consultation has already occurred with the community and key stakeholders? (Council, Public Service Commission of Wisconsin, Milwaukee Water Works management and employees, Unions, customers...). Do you have any sense as to public opinion in the event the Water Works were to be privatized?

Response:

Generally, there has been discussion of the matter and cautious support in the media. However, there have been no formal public meetings. Articles on the proposed privatization have been published in the local newspaper, The Milwaukee Journal Sentinel: www.jsonline.com.

Question 25: What would be the flexibility of a private operator to re-negotiate the rates with the PSC? What level of resistance to potential rate increases would you expect from competent authorities and users? How does the City plan to organize itself? In undertaking the work, the Sell Side Advisor would expect to work closely with the City, MWW and other key stakeholders. Please provide available information on the Sell Side Advisor's key counterparties throughout the process for each stream or aspect of the mandate (ie legal, regulatory, technical, financial). Will individuals from the City and MWW be assigned to the study ? What is the City of Milwaukee experience with alternative procurement methods for municipal public works projects? Please provide more information on the information to be available for the study and data collection process. Have preliminary studies been conducted (e.g. demand and capacity requirement forecasts, technical reviews of the plants, etc.)? Please provide more information on the Howard Avenue and Linnwood Plants and expected capital expenditures in the short to medium terms.

Response:

Again, these are relevant questions to be addressed during the engagement. City personnel will be assigned to assist the Advisor. The timing and extent of City staff involvement will depend on the final work plan developed with the City. See responses to Questions 2 and 5.

Question 26: Please provide more information on the approval process for the potential alternatives identified in Phase II and associated timing. What is the timing expected by the City for Phase II to IV?

Response:

Actual timing will be driven by the work program the Advisor and the City agree upon. The City wants to execute this transaction as soon as possible. However, we expect the process Phase II through Phase IV to require at least one year depending on the complexity of the valuation, policy options and contract negotiations. Also, see response to Question 8.

Question 27: Would current contracts with neighboring communities be assignable to a private partner under the current terms? What would be the flexibility to renegotiate those contracts? Would a private partner be eligible to potential grants subsidies or various funding sources available to public entities? (e.g. Water Quality Investment Act of 2009) What would be the level of control on the distribution network? We understand that the Southeastern Wisconsin Regional Planning Commission has recommended the construction of 53 miles of water pipes in the region with MWW potentially becoming a key supplier for the region, shipping Lake Michigan water from the City to suburban communities. Have other forecast studies been conducted in this respect? What's your view on the probability, timing and potential impact of such a project?

Response:

See responses to Questions 2 and 5.

Question 28: We would also welcome any views as to whether there was a preference for or any particular constraints or obstacles against a transfer of ownership versus an operating contract model. Equally, we would be interested to whether the City's preference is maximize the upfront payment for the system or retain control. What level of ownership, if any, or control does the City expect to retain?

Response:

See response to Question 9.

Question 29: To determine even a "back of the envelope" valuation for the Utility, a central assumption is the expectation of future rate increases. To ensure we are providing a valuation within the scope of reason, can the City provide us with assumed rates over time?

Response:

Even assuming no intervention by the City, all rate changes must be approved by the Wisconsin Public Service Commission. See responses to Questions 2 and 5 (has link to PSC's website).

Question 30: If our proposal were not to be selected, would there be any restrictions on our acting as advisor to bidding parties or on related [name of firm] affiliates bidding themselves?

Response:

No restrictions if you are not selected.

Question 31: May team members other than the financial advisor (such as legal, engineering or other advisors) submit cost proposals pursuant to the RFP under which payment of a portion of the fees of the team member is contingent on the success of the transaction.

Response:

See response to Question 21.

Question 32: Will the City require continuation of the PILOT payments? Even if the buyer is subject to property tax or the utility gross receipts tax? Will the City require that DPW do all work for repairs and improvements to the distribution system? If so, how will the pricing work? Is there a multi-year capital expenditure plan? Is there a projected long-term capital expenditure plan? Would Milwaukee Water Works please provide copies of any engineering reports, environmental studies and health/safety reports from last five years? Would Milwaukee Water Works please provide copies of any demand studies or forecasts completed during the last five years? What expenses currently incurred by Milwaukee Water Works would materially change or be eliminated if owned / operated by a third party? A few potential examples may be motor vehicle usage and other “related party” transactions as mentioned in the annual report. What would be the rate of delinquent water and sewer accounts receivable, had the City not guaranteed MWW receivables?

Response:

See responses to Questions 2 and 5.

Question 33: Will existing employees have job protection? Wage and benefit protection? Any requirement that the bargaining unit be recognized?

Response:

This matter will no doubt be a factor for the Common Council to consider in its agreement with a set of policy parameters affecting the water works valuation.

Question 34: Will the City or the new “buyer” have the ability to expand the service area in the coming years?

Response:

The City is likely to require its approval of service area expansion. Again, this would be a factor for the Common Council to consider in its agreement with a set of policy parameters affecting the water works valuation.

Question 35: Will the City include as part of this transaction the sale of the “Charges for Shared Services” revenue stream (billing and collection for sewer and other City services)? If not, would it be appropriate to exclude that entire line item from revenue when contemplating a new stand-alone entity?

Response:

For the purposes of RFP question 6 “Estimated Value”, include only revenues related to all Water Works operation and services. Therefore, the revenue from Water Works billing services can be included.

Question 36: I did not see a mention of a pre-proposal meeting, however if there was a meeting I would also appreciate it if you could send me any information that came out of that meeting including an attendance sheet.

Response:

There are no plans for a pre-proposal meeting.

Question 37: Is it possible to get a list of firms who have submitted Intent to Respond letters for the City of Milwaukee, Wisconsin Water Works Sell Side Services RFP?

Response:

Not at this time. That information is confidential until after all bids are opened.

At this time, no material questions have been asked that would result in a Question Addendum needing to be attached to the response.

The Question Period is now closed. However, you are encouraged to check for updates prior to submitting your response in the event a clarification is required.

<http://www.city.milwaukee.gov/CityWaterWorksPublicPrivatePartnership.htm>