

City of Detroit, Michigan
Request for Proposals on Michigan Transportation Fund Bonds
March 23, 2017

Overview

The City of Detroit, Michigan (the “City”), is seeking proposals from qualified investment banks to serve as lead managing underwriter for its proposed Michigan Transportation Fund Bonds issued pursuant to Michigan Public Act 175 of 1952.

Proposed Financing

Michigan Transportation Fund Revenue Bonds

Pursuant to PA 51 of 1951 the State of Michigan collects gas taxes and registration fees that are deposited into the Michigan Transportation Fund (MTF) and subsequently distributed to the state trunkline fund, county road commissions and cities/villages for transportation projects. The amount appropriated is based on a formulaic calculation under which cities and villages are allocated 21.8% of net MTF money after certain deductions. Beginning in 2017 there will be a phased increase of the amount of taxes and fees collected by the MTF until 2021 when the new funding model will be fully implemented.

The City’s FY 16 base appropriation of MTF funds is \$54.2 million, and the City projects that its annual incremental MTF revenue appropriated for roads will be:

FY ‘17	\$10,394,150
FY ‘18	\$15,074,557
FY ‘19	\$20,180,455
FY ‘20	\$26,106,944
FY ‘21	\$35,346,188
FY ‘22	\$36,166,779

The City would like to leverage a portion of these projected incremental MTF funds to accelerate certain transformational projects that will upgrade road infrastructure in various neighborhoods across the City. Tentatively, the City needs \$100 million of spendable proceeds from its proposed 2017 Michigan Transportation Fund Bonds. While certainty of funding is of critical importance to the City, they may spend only a portion of the total proceeds in the 2017 construction season. The financing will likely be issued through the Michigan Finance Authority (MFA) in order to enhance the security and marketability of the bonds. Respondents should assume a 15 year amortization for the proposed debt.

Additional Information

The City is seeking responding firms with the following qualifications and attributes: (1) specific experience in designing and executing a successful transportation fund bond structure with innovative security features, (2) demonstrated capability to structure, market and sell bonds issued by municipal governments with less than investment grade underlying issuer ratings, (3) experience and expertise in formulating and executing a rating approach for an enhanced bond structure with certain new attributes in order to achieve the highest possible rating from one or

more nationally recognized rating agencies (4) a demonstrated ability and willingness to use the firm's balance sheet to achieve the goals of the project, and (5) an appropriate level of experience working with State and local government financings in Michigan. The City will take into consideration the firm's specific experience with similar transactions, if any, the relevant experience of the public finance and underwriting professionals, and the level of creativity and demonstrated overall benefits of the proposed plan of finance. The City expects to select a single firm to serve as senior managing underwriter, as well as some number of co-managers. The City expects to make these selections based on each firm's overall response to this RFP, and the city's determination of which firm(s) can best meet the overall goals of the financing. The proposed compensation of the responding firms will be only one of several factors considered in the selection process.

The City reserves the right to reject all proposals, to negotiate with any proposing firm, and to seek financing through other means. The City may request an interview with one or more of the proposing firms after reviewing the written proposals. If a financing is not completed for any reason, the proposing firms will have no recourse against the City, its financial advisor, bond counsel, or any of their affiliates, agents or representatives of the City for any expenses, losses, damages or liability incurred. ***This RFP and its' contents are strictly confidential, and recipients are prohibited from disclosing such contents to any third party.***

The City is currently rated 'B' with a stable outlook from S&P and 'B2' with a stable outlook from Moody's. The City's fiscal year 2015 Comprehensive Audited Financial Report (CAFR) can be found the following link <http://www.detroitmi.gov/How-Do-I/City-of-Detroit-CAFR-Find-How-Do-I-City-of-Detroit-MI> while the most recent budget documents can be found on the City's website at <http://www.detroitmi.gov/How-Do-I/View-City-of-Detroit-Reports/City-Budget-Information>. The law firm of Miller Canfield has been retained by the City as Bond Counsel for this project/transaction. First Southwest Company, a Division of Hilltop Securities (FirstSouthwest) is serving as the City's Financial Advisor.

Questions regarding Responses

If you have any questions regarding this Request for Proposal, please submit them by email to Lee Donner at Lee.Donner@hilltopsecurities.com and Ben McGuire at Ben.McGuire@hilltopsecurities.com. Please **do not** contact any employee or official of the City. A response will be provided to all questions received before 3 PM EDT on Tuesday, March 28. Subsequently, answers will be sent to all firms that received this solicitation on or about Thursday, March 30.

Response Deadline

Responses must be received 3 PM EDT on Friday, April 7. Please submit a total of five (5) hard copies to;

Mr. John Naglick
Chief Deputy CFO/Finance Director
City of Detroit
2 Woodward Ave., Ste. 1200
Detroit, MI 48226

In addition to the hard copies delivered to the City, please email electronic versions of your responses to Lee Donner and Ben McGuire at the email addresses listed above as well as to John Barton of the MFA at BartonJ@Michigan.gov. Please allow sufficient time for email delivery as late responses will not be accepted. Confirmation emails will be provided by FirstSouthwest.

Submittal Requirements

Proposing firms should answer the questions below. Please limit your Proposal to a maximum of **15 pages**, excluding a cover letter, table of contents and appendices. Brevity in your response is both desired and appreciated. No marketing material should be included.

1. Please identify who from your firm will serve as the lead contact for the proposed transaction and the experience of that individual with transactions for the City, within the State of Michigan, and with other sub-investment grade municipalities. Also, identify other key members of the assigned banking team as well as their role and applicable experience.
2. Describe your firm's experience serving as Senior Manager for long-term, or special circumstance bond issues in the State of Michigan over the past three years. Also, provide any pertinent information with respect to your firm's experience in financings for issues with less than investment grade credit ratings.
3. From the experience detailed in questions 1 and 2 above, please discuss the challenges your firm faced in marketing and pricing debt for the City or other "distressed credit" issuers and how your firm overcame those challenges to obtain favorable pricing terms. Do you see such challenges for this transaction, and how would you address them?
4. Please discuss pros/cons with respect to utilization of any credit enhancement structures available to the City and your firm's recommended structure to effectuate the financing. What are the key considerations and assumptions your firm took into account in arriving at its proposed structure?
5. Please present any alternative financing approaches you feel might benefit the City.
6. **It is not anticipated that a bankruptcy opinion will be given in connection with the proposed bonds or municipal obligations.** In that context, provide a recommendation as to how many ratings you feel are appropriate for the Bonds and which agency or agencies are preferred and why. Also in that context, please indicate the approximate ratings that you anticipate the rating agencies that you are recommending will assign to the proposed bonds.
7. Please comment on the overall marketability of bonds for the City of Detroit in light of its 2013 Bankruptcy filing.
8. Please provide a projected interest rate scale reflective of market conditions as of Wednesday, March 29 and the appropriate spread to the 'AAA' MMD for your firm's proposed structure in consideration of the attributes described above in the Proposed Financing section of this RFP.
9. Please provide your firm's proposed underwriting fee and expenses in the form of the schedule attached as Appendix A to this RFP including any assumptions used in arriving at such fee.
10. Please state your firm's preference for underwriter's counsel on this transaction and list their maximum fee.

APPENDIX A

	<u>Total \$ Amount</u>	<u>Per Bond</u>
Avg. Takedown*:		
Management Fee:		
Expenses**:		
Other:		
Total UW Fee:		

* Please state your firm's takedown by maturity separately from the above table if it is variable based on maturity.

** List total of expenses listed below:

	<u>Total \$ Amount</u>	<u>Per Bond</u>
Underwriter's Counsel		
MAC Fee		
DTC		
Day Loan		
CUSIP		
Other		
Total Expenses		