

STAFF REPORT

City of Lancaster

CC 13
1/9/2024
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Date: January 9, 2024

To: Mayor Parris and City Council Members

From: George N. Harris II, Finance Director

Subject: Award of Contracts to City's Financial Advisors to NHA Advisors, LLC for Financial Advisory Services.

Recommendation:

Authorize the City Manager and/or his designee, with the concurrence of the City Attorney, to negotiate, finalize, and execute the contracts and all related documents and addendums with NHA Advisors, LLC for Financial Advisory Services.

Fiscal Impact:

The fiscal impact is contingent on a time and expense basis, with a schedule of hourly billing rates for the proposed personnel and a fixed fee contingent on obtaining bond financing. As such, NHA Advisors, LLC (NHA) utilizes a two-phase compensation structure that separates general advisory and initial work on a potential financing transaction into two separate tasks (Task 1 and Task 2). Task 1 involves hourly compensation for on-call financial consulting and general municipal advisory services. Rates and fees (refer to Section IV. Cost Proposal) will remain the same for the five-year contract term. Task 2 involves a fixed, contingency financing fee based on the City's decision to implement a specific financing strategy. Generally, this task is structured on a contingent basis, whereas compensation is paid from bond proceeds at the time of closing of a transaction. For potential bond financings, NHA has proposed a contingent fixed fee ranging from \$29,500 to \$87,500 depending on the financing structure, complexity, method of sale of the financing, the extent of NHA's tasking and, generally, how much time it will take to complete the financing (Refer to Section IV. Cost Proposal for further details).

At this time, staff recommends an annual not to exceed the amount of **\$87,500** for a term of five years (**for a total authorization of \$437,500, assuming financing is required in each of the five years**). If public financing occurs, NHA's fees will be funded from the financed proceeds. If financing is deemed not required, then NHA will only be paid from the General Fund consulting services account in the finance department.

Background:

The City of Lancaster (the City) prepares a five-year capital plan (Plan) that identifies City-funded capital improvement projects. The current focus is on completing multiple Agency and enterprise-funded projects from the Plan's last major update in Fiscal Year 2023/2028. An update to the five-year plan is underway and anticipates proceeds from special revenue and prior bond issues. The City of Lancaster is seeking financial advisory services from **NHA Advisors, LLC**, to assist with these infrastructure projects for a contract term of five years with the option to renew two additional five-year terms, which may be exercised at the City's discretion. Requested financial advisory services may include, but are not limited to, assisting the City to:

- Provide as-needed financial advice regarding market conditions and trends, financial products, credit and credit analysis, third-party alternative financing, and special facility financing.
- Review the City's long-range financing strategy, particularly with respect to its capital improvement program.
- Assist City staff with potential refunds and new money issues, including but not limited to analyses and evaluations of underwriter proposals, financing structure, pricing, rating and insurance proposals, reserve fund (re)investment, assistance with preparation and review of related documents, and coordination of the financing team and schedules.
- Review the City's existing Debt Policy, establishing the principles, controls, and guidelines for issuing and managing City debt.
- Participate in rating agency presentations.
- Assist with preparing a Request for Proposals and serve on an evaluation committee for selecting underwriting firms and Bond Council for the City's potential refunding and new money issues.
- Assist with preparing presentations to the City Council/Agency Board; attend Council/Board meetings as needed.
- Attend meetings with the Finance Director and City Manager's staff as needed.
- Provide other financial services as requested.

The planned update includes three significant projects with NHA Advisors' assistance, which will be the focus of the subsequent bond financing. The three projects are:

I. AV Event Center and Regional Evacuation Center

The proposed Event Center project will include renovations to expand and upgrade existing facilities and may include constructing a new building. The new Event Center is anticipated to be approximately 100,000 to 160,000 square feet. The Event Center will be a permanent facility designed and constructed to host a multitude of large-scale events, including, but not limited to, sporting events, concerts/performances, rodeos, circuses, and graduations.

The intent is that the new Event Center will allow existing and new facilities to double as a

Regional Evacuation Center. Ideally, the location identified and selected for improvement will be uniquely set up for expansion, as it will already offer some protection from the elements, large-scale parking accommodations, an on-site maintenance facility with equipment, sufficient infrastructure for electrical, water, broadband, Wi-Fi, on-site hook-ups for RV's and office trailers, kitchen facilities, refrigerated storage, and the framework for its micro-grid. This facility is scoped to cost approximately \$96M. Approximately half of the funds are provided by other sources (e.g., the City of Palmdale for \$10M, AVUHSD for \$10M, County of Los Angeles for \$10M, and State of California Grant for \$20M), leaving the balance of \$46M to be financed.

II. Public Safety Operations Facility

This year, the City Council acted to approve the establishment of the City of Lancaster Police Department. Formally known as the Public Safety Department, the new police department will handle Parking Enforcement Code Enforcement and assist the Sheriff's department in conducting report-taking, surveillance, and non-urgent investigations to ensure that lower acuity crimes do not fall through the cracks. The new department will have eight sworn armed personnel and arrest abilities. Currently, no facility exists to house this new City function.

In Fiscal Year 2022/2023, the City of Lancaster purchased an old facility previously owned by the Lancaster School District to house the new Police Department. Current estimates to rehab the facility for Police Use are \$2.5 - \$5M.

III. Baseball Stadium conversion for Professional Soccer Team

In October 2023, the City of Lancaster introduced a new professional soccer team to play at the existing professional baseball venue owned and operated by the City of Lancaster. The existing baseball stadium (Lancaster Municipal Stadium) will be transformed into a soccer stadium for the purpose of staging professional and amateur men's and women's soccer competitions on a year-round basis as part of the United Soccer League.

The renovation costs are yet to be determined but are a condition of the lease with the team. Funding for the renovations is a priority of the City and the community, so securing the appropriate funding is vital to the program's success.

Request for Proposals (Bidding process)

After all the data was collected from multiple departments, Request for Proposal (RFP) NO. 805-24 for Financial Advisory Services was drafted and released. The RFP listed multiple criteria in order to submit a proposal for consideration, while the City put greater emphasis (weight) on Firm Overview, Personnel and References, Responsiveness, Long-term Strategic Financial Planning Experience, Timing Strategy/Pricing Information, and Costs and Expenses proposal. The RFP initially received four proposals from multiple Financial Advisory firms. These four proposals were evaluated through a rigorous committee evaluation process and advanced to the final round, the Proof of Capabilities (POC) evaluation. The four firms invited to demonstrate their services during separate one (1) hour-long interviews were BLX Group LLC, NHA Advisors LLC, PFM Financial Advisors LLC, and Wulff, Hansen & Co. The interviewers for these proposals included Trolis Niebla (Assistant City Manager), George Harris (Finance Director), Jaime Alvarez (Senior Analyst), and Laura Norman (Purchasing Agent).

After the round of interviews and evaluations, NHA Advisors was the top candidate among the group for proposing the most comprehensive understanding of the City's project goals and needs, and as such, was considered the best option for the City's proposal (RFP NO. 805-24).

Ultimately, the majority of evaluators rated NHA Advisors as "Exceeds Expectations". NHA Advisors offered a robust and creative set of financing options that fit the City of Lancaster's needs assessment. In addition, the City has an established relationship with NHA Advisors. The firm has previously served as the City of Lancaster's Municipal Advisor for multiple financings and on-call consulting projects, including most recently, the City's 2021 Lease Revenue Refunding Bonds and the Lancaster Power Authority's 2021 Taxable Revenue Refunding Bonds for the solar renewable energy program.

NHA Advisors, LLC

I. Firm Overview

NHA Advisors, LLC ("NHA"), a California limited liability company, is an Independent Registered Municipal Advisor registered with the SEC and MSRB and headquartered in San Rafael, California. The firm has been in existence since 1996, with two name changes over the last 20 years. The first name change came in 2000 when they became Northcross Hill & Ach, Inc. In 2011, they then became NHA Advisors, LLC. Since 2012, NHA has provided comprehensive financial and consulting services to over 170 public agencies throughout California, focusing on California Cities. NHA's bond and consulting groups are working with 74 public agencies to develop project funding solutions, financial policies, pension liability strategies, and compliance requirements.

NHA's municipal department is the firm's sole department. NHA's professional team of 10 registered municipal advisors is dedicated to California cities and special districts. All 10 NHA professionals are headquartered in one office in San Rafael and work remotely from various locations. NHA is led by Principals Craig Hill, Eric Scriven, and Mark Northcross, each of whom has 30+ years of public finance experience. The Principals are supported by three Vice Presidents (each with nearly two decades of experience), an Assistant Vice President, an Associate, a Senior Analyst, and an Analyst. All 10 NHA professionals maintain their Series 50 License. Principal Eric Scriven maintains his Series 54 License.

Beyond bond financing, many clients rely on NHA for strategic financial planning, policy advice, cross-collaboration with other consultants, and general support to staff on a wide range of issues. NHA formed 8 practice groups to address areas of most concern to their clients. They made it their business to become experts in areas such as climate change impacts (i.e., wildfire risks, rising sea levels), pensions, P3/economic development negotiations, and continuing disclosure to provide meaningful ideas and advice to their clients when those issues arise.

II. Personnel and References

Proposed Day-to-Day Team

NHA will designate Eric Scriven (Principal) as the day-to-day point of contact and primary person responsible for managing the relationship with the City. Mr. Scriven has previously led financing projects for the City, most recently on the City's 2021 Lease Revenue Refunding Bonds and the Lancaster Power Authority's 2021 Taxable Revenue Refunding Bonds for the solar renewable energy program. The firm has proposed that all ten NHA team members be available to execute assignments on behalf of the City depending upon the project scope, timing, and required deliverables. All assigned team members will be committed to providing the City with rapid response, full attention, and comprehensive service. NHA will designate Matt DeFilippis, Roy Kim, Christian Sprunger, and Leslie Bloom to provide any computer financial analysis services. See below for the full proposed team:

- **Eric Scriven, Principal.** *Role: Day-to-day contact & Relationship Manager*
- **Mark Northcross, Principal.** *Role: Resource/Practice Area Expert*
- **Craig Hill, Managing Principal.** *Role: Resource/Practice Area Expert*
- **Leslie Bloom, Vice President.** *Role: Quantitative/Project Lead*
- **Christian Sprunger, Assistant Vice President.** *Role: Quantitative/Project Lead*
- **Roy Kim, Associate.** *Role: Quantitative/Project Support*
- **Matt DeFilippis, Senior Analyst.** *Role: Quantitative/Project Support*

Additional NHA Resources:

- **Rob Schmidt, Vice President**
- **Mike Meyer, Vice President**
- **Adrian Gonzalez, Analyst**

Full resumes for NHA's team can be found in **Appendix I of NHA Advisors, LLC** proposal. (See Attachment)

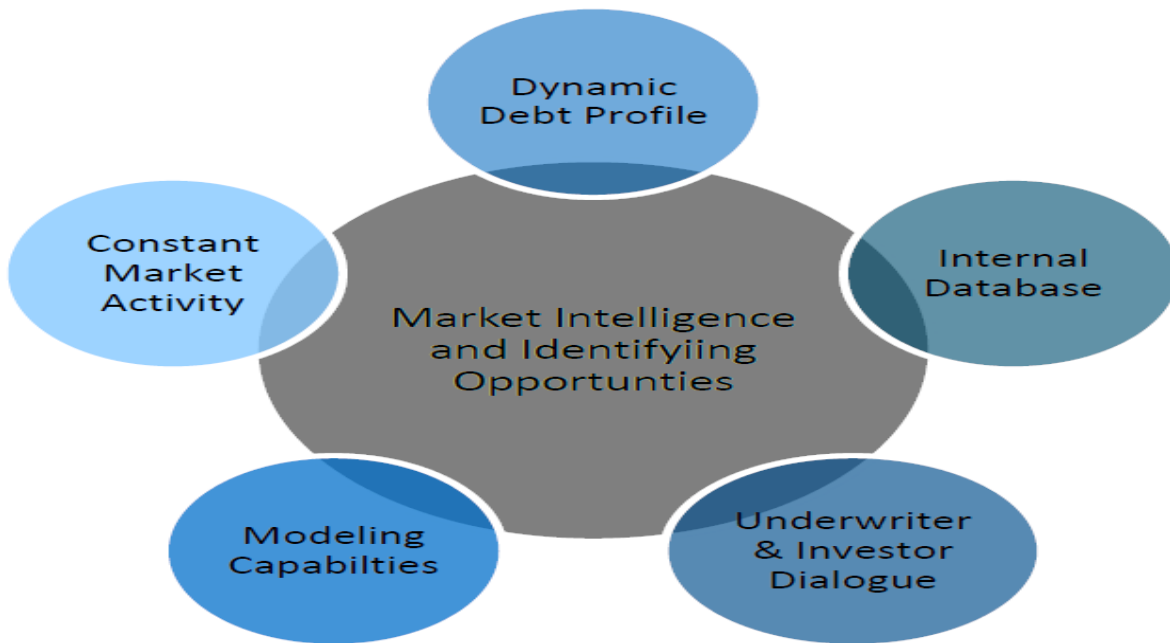
III. Market Experience, Timing Strategy and Pricing information

NHA constantly monitors the pulse of the municipal market, relaying this information to the City of Lancaster, and ultimately helps the City identify potential opportunities and assess financing costs based on the most accurate assumptions. In addition to the market intelligence gained from their diverse financing experience (all credit types, structures, public issuances, private placements, competitive offerings negotiated offerings, Federal/State grants, etc.), NHA also maintains a comprehensive database of every relevant California city bond issue that prices in the market. This database tracks details of each financing, including the coupons, yields, call features, amortization structures, credit ratings, credit enhancement, and underwriting information. NHA will have constant conversations with the major underwriters in the California market who can provide additional, more nuanced, "color" on the market due to their daily investor contact. See below for NHA's expertise offerings in multiple markets and industries:

- *Debt Profile Monitoring*
- *Modeling Capabilities*
- *Interest Rate Derivatives and Non-Traditional Financing*
- *Method of Sale Evaluation*
- *Public Offering vs. Private Placement*

- *Negotiated Sale vs. Competitive Sale (Public Offering)*

The following chart (next page) provides a snapshot of the market experience, timing strategy, and pricing information.



With regards to NHA Advisors pricing strategy, the firm utilizes TM3 (The Municipal Market Monitor) and EMMA (Electronic Municipal Market Access) to maintain a database of bond market data, including all deals that have priced (detailing coupons, yields, take-downs, etc.), general interest rate data like MMD (Municipal Market Data), U.S. Treasury data, and general market supply/demand information. NHA develops comparable scales and analyzes the proposed underwriter pricing scales for every public offering to ensure that the City of Lancaster receives the most aggressive pricing (lowest interest rates and yields).

NHA considers pricing successful when the City secures borrowing at the lowest possible cost of funds. For a public offering, NHA evaluates the underwriter's proposed scales and pricing activities considering this objective. They would also actively verify the underwriter's comparable scales and assumptions with their own assessment of municipal markets during a pre-pricing call (usually the day before the bond price). For a private placement, NHA ensures a wide distribution of investor solicitations and monitors investor bids relative to recently placed bonds to ensure reasonable rates. NHA actively discusses the City's credit with potential investors to ensure that key credit strengths are clearly communicated to those parties. As such, NHA provides the greatest opportunity for the City of Lancaster to obtain its pricing strategy goals and needs.

IV. Cost Proposal and Reimbursement For "Out-Of-Pocket" Expenses

NHA proposes a two-phase compensation structure, which breaks their work into a Task 1 (On Call General Municipal Advisory Services) and a Task 2 (Financing Execution). See below for details of each task:

Time and Expense - *Compensation on a time and expense basis, with a list of hourly billing rates for the proposed personnel, any proposed increases in such rates during the contract term, and the types of reimbursable expenses with proposed charges.*

Task 1: Hourly On Call Financial Consulting and Municipal Advisory Services

NHA prefers a two-phase compensation structure that separates general advisory and initial work on a *potential* transaction into a Task 1 which includes hourly compensation (subject to rate structure below which shall remain the same for the contract term).

Expenses (Out-of-Pocket)

All expenses will be billed directly at cost to the City. Expenses will be limited to those necessary for the completion of the project. California travel expenses will not be reimbursable to NHA. Third-party expenses paid by NHA at direction of City, in writing, shall be a reimbursable expense.

Staff Allocation	Hourly Rate
Principal	\$350
Director / Senior Vice President	\$325
Vice President	\$300
Assist. Vice President / Sr. Associate	\$275
Associate	\$250
Senior Analyst	\$225
Analyst	\$200
Administrative	\$100

Refer to the NHA Proposal (See attachment) for a full detailed list of general advisory services provided by the firm.

Fixed, Contingency Financing Fee - *Compensation on a cents-per-bond or per \$5,000 notional amount to be paid contingent on specific financing issues. proposed under this contract.*

Task 2: Bond Financing

Upon the City's decision (either at the staff or Council level) to implement a financing strategy, NHA will pivot to *Task 2 services*. This work would be structured on a contingent basis (paid from bond proceeds at the time of closing). For potential bond financing(s), NHA proposed a contingent fixed fee ranging from \$29,500 to \$87,500 depending on the financing structure, complexity, method of sale of the financing, the extent of NHA's tasking and, generally, how much time it will take to complete the financing. Expenses such as California travel will not be expensed. All project-related expenses, if paid by NHA upon written direction of the City, will be invoiced at cost (and typically paid from proceeds of the financing).

Expenses (Out-of-Pocket)

All expenses will be billed directly at cost to the City. Expenses will be limited to those necessary for the completion of the project. California travel expenses will not be reimbursable to NHA. Third-party expenses paid by NHA at direction of City, in writing, shall be a reimbursable expense.

Refer to the NHA Proposal (See attachment) for a full detailed list of services provided by the firm for Task 2.

After a thorough and detailed analysis of the multiple proposals received for the City's infrastructure projects (RFP NO-805-24), NHA Cost Proposal and fees were comparable to market for their general advisory services (*tasks*) combined with their robust knowledge and experience within the bond financing markets. As such, NHA was considered the most beneficial, cost-effective, and reasonable option that would meet the needs and goals of the City of Lancaster's infrastructure projects.

Conclusion

Engaging the services of NHA Advisors, LLC would allow the City of Lancaster to obtain the following goals in the most cost-effective manner:

1. Receive as-needed expert financial advice regarding municipal bonds and notes, market conditions and trends, financial products, credit and credit analysis, third-party alternative financing, and special facility financing to fund the City's infrastructure projects.
2. Evaluation of the City's long-range financing strategy, particularly with respect to its capital improvement program (infrastructure projects). In addition, a thorough analysis of the City's existing Debt Policy establishes the principles, controls, and guidelines for issuing and managing City debt.
3. Assistance with preparing a Request for Proposals and serving on an evaluation committee for selecting underwriting firms and Bond Council for the City's potential refunding and new money issues. In addition, NHA would participate in rating agency presentations.
4. Provide assistance to City staff on potential refunds and new money issues, including but not limited to analyses and evaluations of underwriter proposals, financing structure, pricing, rating and insurance proposals, reserve fund (re)investment, assistance with preparation and review of related documents, and coordination of the financing team and schedules.

Based on the thorough analysis of the factors above and the professional judgment of the City of Lancaster, NHA Advisors, LLC is the most suitable and appropriate firm to address the City's requirements. In addition, NHA has a proven and successful track record in regard to previous projects with the City and has successfully completed similar proposals to other prominent California cities. As such, the City of Lancaster has chosen to award the contract to RFP-805-24 (Financial Advisory Services) to NHA Advisors, LLC.

Attachments:

1. Proposal – NHA Advisors LLC
2. RFP 805 – 24: Financial Advisory Services