

**REQUEST FOR PROPOSALS
TO SERVE AS UNDERWRITER
FOR THE
CITY OF RAPID CITY, SOUTH DAKOTA

FOR THE ISSUE OF WATER IMPROVEMENT REVENUE BONDS**

General Information

The City of Rapid City (City) is a community of 70,092 people located in western South Dakota. The City's water is supplied from both surface and groundwater sources. One of the City's oldest, most reliable, and highest quality water sources is the Jackson Springs Complex. The City received a letter, dated August 10, 2004, from the South Dakota Department of Environment and Natural Resources (SDDENR) stating that the SDDENR had evaluated the City's Jackson Springs Infiltration Gallery (JSG) and concluded the ground water source has a high risk of direct surface water influence. Therefore, the JSG was reclassified as "Ground Water Under the Direct Influence of Surface Water".

The classification dictated that the Jackson Springs Gallery become subject to the regulatory requirements of the U.S. Environmental Protection Agency's (EPA) Surface Water Treatment Rule. As a result, the City was required to either modify the JSG water treatment methods, or discontinue use of JSG within 18 months (i.e. by February 10, 2006). After analyzing the treatment improvements necessary to comply with the EPA's regulation regarding surface water treatment, the City chose to temporarily discontinue the use of the JSG as mandated by the SDDENR. However, the JSG remains an important source of drinking water for the City in terms of both quantity and quality. The City needs to resume utilizing the water from JSG in order to meet the long term needs of the community.

To continue utilizing this valuable water source, the City must construct a new water treatment plant and related water distribution piping. In 2008, the City conducted a Water Utility Rate Study to determine the best way to fund these necessary improvements. The City has chosen to pursue issuance of water revenue bonds for funding of the improvements. The City has implemented a water rate ordinance that will generate the revenue needed for issuance of the bonds. The City of Rapid City invites your firm to submit a proposal to serve as the City's underwriter for these water revenue bonds.

Additional information about the City may be found at the City's website: www.rcgov.org.

The City of Rapid City Water Division's 2008 annual report is at:

http://www.rcgov.org/pubworks/yearendreports/annual_reports/2008%20Water%20Division%20Report.pdf

The City's current water rate ordinance is at:

[http://www.amlegal.com/nxt/gateway.dll/South%20Dakota/rapidcity_sd/title13publicutilitiesandservices/chapter1304waterservicesystem?f=templates\\$fn=altmain-nf.htm\\$q=13.04.590%20\\$x=server\\$3.0#LPHit1](http://www.amlegal.com/nxt/gateway.dll/South%20Dakota/rapidcity_sd/title13publicutilitiesandservices/chapter1304waterservicesystem?f=templates$fn=altmain-nf.htm$q=13.04.590%20$x=server$3.0#LPHit1)

Proposed Projects & Finance Plan

No construction has occurred to date. However, components of the project are at various stages of design. The City has passed a reimbursement resolution to fund costs being incurred prior to the sale of the bonds. The projects to be funded include repayment for property purchased prior to the sale of the bonds, engineering costs and construction and materials purchases. The projects and the amounts to be funded with bond proceeds are shown in the following table:

Lukens Property	\$ 167,000
School District Property	386,000
Nettleton Property	170,000
SDGF&P Property	20,000
Jackson Springs engineering	1,914,500
Jackson Springs finished water pipe construction	3,300,000
Pactola & St. Martin's reservoir payment	2,781,000
Jackson Springs & Pump station construction	<u>27,361,000</u>
Total:	\$36,099,500

Under South Dakota law, in order that the Bonds (i) may be issued without an election and (ii) do not count against the City's debt limit, the City must establish a surcharge on its water utility rates and charges for the payment of the Bonds and the operation and maintenance costs of the facilities paid for with the proceeds of the Bonds. As a result, the Bonds will be payable from the proceeds of the surcharge which constitute revenues of the Project, not the revenues of the full water utility system.

Outstanding Debt

The City has a single outstanding Water Improvement Bond, the Water Improvement Revenue Refunding Bonds, Series 2006. The final maturity on that bond is November 1, 2009.

Plan of Finance

During 2008, the City undertook an analysis of the financing options for the proposed projects and looked at various revenue streams, bond structures and repayment schedules to determine the ability of the City to successfully fund the proposed projects. The City has reviewed multiple options with regard to the structure of the new bonds. After a review of the options and in light of current economic and financial conditions, the City has preliminarily determined that fixed rate debt would provide the best option of low cost, financial flexibility and compliance with the City's debt policy and integration with outstanding debt. However, the City is willing to look at all financing options. This preliminary financing plan is subject to modification depending on market conditions at the time of the sale and the input of the underwriting firm to be selected by the City.

The City has conducted a number of public hearings on the projects and the anticipated change to water rates to finance the overall improvement plan. The presentations may be viewed at:

http://www.rcgov.org/pubworks/utility_rate_study/utility_rate_study_home.htm

Costs of issuance, a bond reserve, and capitalized interest, if necessary, will be added to the amount of project costs funded by the bonds. The total bond issue size is not expected to exceed \$41 million.

The City anticipates amortizing the bond principal over a term of between 20 and 30 years with annual debt service that matches the projected revenue stream from the surcharge imposed with respect to the improvements financed with the Bonds.

The sources of debt service repayment are expected to be revenue from the surcharge imposed with respect to the improvements financed with the Bonds.

The City will consider obtaining credit support in the form of either a bond insurance policy or other liquidity facility for the bonds.

The primary objectives of the City are to receive the lowest net cost on the debt, maintain acceptable covenants related to the bonds and future debt of the City and to minimize the rate increase necessary to obtain funding and still provide high quality service.

Ratings

The City has a credit rating from Moody's Investors Service (Moody's) of A2 with a stable outlook. This rating was most recently updated in March 2008. A copy of the most recent credit rating report is included as an attachment with this Request for Proposal.

The City expects to obtain an underlying rating from Moody's for the bonds. The City has not had discussions with either Standard and Poor's or Fitch Ratings Service about this financing program.

Bond Insurance, Letter of Credit, Liquidity Facility

The City seeks advice from responders to this Request for Proposals regarding the utility and advantages of obtaining credit enhancement in the form of bond insurance, a letter of credit, and/or a liquidity facility.

Financial Information about the City

To provide you with information about the financial performance of the City, a copy of the Audited Financial Statement for fiscal year 2007 is available on the City's web site, <http://www.rcgov.org/finance/financehomepage.htm>. The CAFR for 2008 is not yet available.

Receipt of Proposals

Five copies of the Proposal should be delivered by **mail** not later than 5:00 PM, MDT on July 21, 2009 to:

James Preston, Finance Officer
300 Sixth St.
Rapid City, South Dakota 57701

Please also submit a fee proposal in a separate envelope, which may be included with your Proposal submission, by **mail** not later than 5:00 PM, MDT on July 21, 2009 to Mr. Preston.

In addition, the proposal and your fee proposal must be sent in separate e-mails to the following party for receipt not later than the close of business MDT on July 21, 2009:

Barry W. Fick, Senior Vice President
Springsted Incorporated
bfick@springsted.com

City Consultants

Proposers should be aware the City has been assisted by advisors in relation to the financing. The City has issued its prior debt using a negotiated sale process. The prior negotiated sale by the City was underwritten by Dougherty and Company, LLC.

Financial Advisor: Springsted Incorporated
Saint Paul, MN

Bond Counsel: Verlane Endorf, Esq.
Dorsey & Whitney
Minneapolis, MN

Nondiscrimination Policy Statement

In compliance with Title VI of the Civil Rights Act of 1964, Section 504 of the rehabilitation act of 1973, the age discrimination act of 1975, the Americans with disabilities act of 1990, and other nondiscrimination authorities it is the policy of the City of Rapid City to provide benefits, services, and employment to all persons without regard to race, color, national origin, sex, disabilities/handicaps, age, or income status. No distinction is made among any persons in eligibility for the reception of benefits and services provided by or through the auspices of the City of Rapid City.

If you have any concerns regarding the provisions of services or employment on the basis of disability/handicap you may contact our ADA/Section 504 coordinator, Kay Rippentrop at telephone no. (605) 394-4110.

Questions on the Proposal and Contact with the City

All questions should be directed to:

Mr. Barry W. Fick, Senior Vice President
Springsted Incorporated
(651) 223-3042
bfick@springsted.com

Contact with City Staff, either directly or indirectly, relating to this RFP is prohibited without prior approval from Mr. Fick.

Proposal Design and Content

In preparing for submission of your Proposal, **no extraneous promotional materials are requested and therefore, do not include general corporate brochures and related promotional material in your proposal.**

The City will accept joint proposals under the terms of this Request for Proposals. Please clearly describe the roles of each firm in a joint proposal.

Your response to the Request for Proposals should include the following information:

1. Experience in Financing Municipal Water System Projects

Briefly describe your recent (past 18 months) municipal finance experience. **Provide the following information in summary form:**

- A. Highlight financing experience for South Dakota issuers
- B. Highlight financing experience with municipal utility financings
- C. Describe your experience with the City of Rapid City in a financial capacity
- D. Describe your experience with Build America Bonds

2. Organizational Capacity

Describe your firm's public finance organizational structure, with a focus on your municipal utility specialists. Indicate the principal personnel who would be available to the City and describe their experience and responsibilities for this financing. Include resumes of the individuals included on the project team for this transaction. A list of recent comparable financings performed by the assigned staff should be detailed if different from the issues listed in (1) above.

Describe your firm's marketing approach to this issue. Discuss retail and institution purchasers.

Please comment on your willingness and experience working with other underwriting firms.

3. Structure

As noted above, the primary objectives of the City are to receive the lowest net cost on the debt, maintain acceptable covenants related to the bonds and future debt of the City and to minimize the rate increase necessary to obtain funding and still provide high quality service.

The City anticipates structuring the issue as a fixed rate financing. The City anticipates funding a debt service reserve with bond proceeds. The City will consider other financing options that do not expose them to tax risk or rate risk. Please outline any other financing options you suggest for consideration by the City.

The City will consider variable rate financing for the proposed financing, or a combination of fixed and variable financing.

Please indicate any specific structuring, security or marketing issues you anticipate which would be unique to the proposed issue.

Discuss the application of the following items to this financing:

- a. Maximum repayment period (20 years, 25 years, 30 years)
- b. Credit enhancement (insurance, letter of credit, liquidity facility)
- c. Fixed and Variable combination
- d. Use of Build America Bonds for the Water projects

In light of current market conditions, discuss the advisability of either maintaining or refunding the City's outstanding debt.

4. Interest Rate Swap (if applicable)

With regard to any proposed swap please discuss:

- a. Do you propose to act as the swap counterparty? If not, describe whom you would propose to so act or how you propose to select the swap counterparty.
- b. Describe collateral requirements you anticipate for the swap.
- c. Outline rating downgrade provisions you anticipate for the swap.
- d. Discuss the expected spread to mid-market rate that you expect the City to achieve.

5. **Notice of Litigation/Regulatory Action**

Provide information regarding any filed, pending or threatened litigation or regulatory action during the last five years against your firm or related firms involving any Federal, State or local government unit or instrumentality or Federal, State, local, or industry regulatory body or instrumentality.

Provide information about any Internal Revenue Service, Securities and Exchange Commission, or other government entity inquiries or subpoenas that your firm has had in the past 18 months related to public finance, investment services or investment bidding you provide to clients.

In your response to this question, please note any issues or inquiries your firm or related firms have received for Auction procedures, interest rate swap pricing issues, investment agreement yield adjustments, or any related item.

6. **Potential Conflicts of Interest**

Please indicate any current or historical engagement or relationship with any public or private party that could potentially create a conflict of interest with the City.

7. **References**

Please provide the names, addresses and telephone numbers of not more than three (3) persons for whom you have acted as managing underwriter or as co-managing underwriter on recent and relevant municipal utility financings who may be contacted by the City or its consultants.

8. **Fees**

The proposer should submit a fee proposal for this transaction with your proposal. **Your fee proposal should be submitted in a separate submittal.** Insofar as possible, indicate separately for the fixed rate component and the variable rate component the information requested in items (A) through (C) below.

- A. Please quote an expected takedown per bond assuming current market conditions and the structuring assumptions indicated above. The maximum takedown quoted will be regarded as the not to exceed commitment, and will be used as a reference figure for negotiating actual takedowns at the time of sale.
- B. Quote a not to exceed management fee on a per bond basis.
- C. Indicate those estimated other expenses for which you would expect to be reimbursed.
- D. Indicate which firm you would expect to use as Underwriter's counsel on this issue and who from that firm would be involved in the transaction, a brief description of that individual's experience as Underwriter's counsel on similar transactions, and the specific tasks you would expect Underwriter's counsel to perform. Include a maximum fee quote for Underwriter's counsel with your response to this RFP.
- E. For variable rate debt, quote a remarketing agent fee on an annual basis point basis.
- F. For interest rate swaps, please discuss the expected spread over mid-market.

In preparing your fee proposal, please note that the Underwriter's Counsel will be responsible for preparation of the Official Statements for the bonds.

With regard to the proposed variable rate bonds swapped to fixed rates, indicate if your fee would be different depending on whether your firm is counterparty to the swap or otherwise participates in the swap transaction.

Please note that the underwriter will not bid on or place any investment agreement associated with the construction fund or any debt service reserve fund.

The City reserves the right to negotiate fees with any Underwriter prior to selecting the Underwriter.

9. Authorization and Signatures

A completed Signature Page (page 8 of this Request for Proposal, reproductions are acceptable), signed by an Authorized Representative of your firm, must accompany your Proposal.

Selection Process & Projected Schedule

The City and its consultants intend to review the Request for Proposals upon receipt. The proposal submitted will be the primary document on which each proposer will be evaluated.

The City is under no obligation to conduct interviews, but may choose to conduct interviews with selected proposers. Interviews, if held, will be either in person at the City School Administration Complex or by phone. Interview candidates will be notified to schedule a time for an interview.

The City anticipates selection of an Underwriter by early August 2009.

The City reserves the right to select or reject any or all proposals submitted, to waive any formal proposal requirements, to investigate the qualifications and experience of any proposer, to reject any provisions in any proposal, to obtain new proposals, to negotiate the requested services and contract terms with any proposer, or to proceed to do the work otherwise. The City is not responsible for any costs incurred by proposers in preparing responses or attending meetings during the selection process.

The City reserves the right to retain all proposals and information submitted and to use in the bond issue any idea or concept contained in any submitted information, regardless of whether that firm is selected. Submittal of a proposal indicates acceptance by the proposer of all these terms and conditions.

The tentative schedule of events for the financing is as follows:

Distribution of Request for Proposals	July 7, 2009
Submission of responses	July 21, 2009
Interviews (if requested by City)	week of July TBD, 2009
Selection of Underwriting Team	August, 2009
Initial Scoping Meeting @ Rapid City	TBD, 2009
City of Rapid City Council meeting – 1 st & 3 rd Monday	July/Aug/Sep, 2009
Distribution of Bond Documents	TBD, 2009
Document drafting	TBD, 2009
Mail Preliminary Official Statement	TBD, 2009
Sale of Fixed Rate Bonds	TBD, 2009
Bond closing	Oct __, 2009

SIGNATURES

By submission of this proposal, the undersigned certifies that the proposer has the full authority to execute the proposal and to execute any resulting contract awarded as the result of, or on the basis of, the proposal.

I hereby certify that the attached proposal has been prepared in compliance with the specifications.

Authorized Representative: _____

Signature: _____

Title: _____

Company Name: _____

Address: _____

City, State, Zip: _____

Phone Number: _____

FAX Number: _____

E-Mail address: _____