

OVERSTRAND MUNICIPALITY

TENDER NO. SC 918/2010

LOAN FINANCE FOR CAPITAL PROJECTS

30 JULY 2010

Ask for: Bernard King

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DIRECTORATE: FINANCE
Accounting Services & Budget Office

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Dear Sir or Madam

TENDER NO. SC 918/2010
INVITATION FOR PROPOSALS
PROVISION OF LOAN FINANCE TO OVERSTRAND MUNICIPALITY

You are hereby invited to submit firm proposals for the provision of R160 million of term loan finance to the Overstrand Municipality.

A. BACKGROUND

An analysis of the Overstrand Municipality funding requirements for its capital expenditure indicates the need to borrow externally approximately R160 million of medium/long term finance.

Loan 1: R60 million for capital projects on the 2010/2011 capital budget.

Loan 2: R100 million over a period of three years for two specific infrastructure projects, the Hermanus water treatment works and Hermanus sewage treatments works.

The two proposals will be considered and evaluated separately.

Interested "A" rated (or equivalent) banks and finance institutions are invited to submit funding proposals. The loan procurement process will be conducted in accordance with the applicable terms of Chapter 6 of the Municipal Finance Management Act, 2003 and the Overstrand Municipality Procurement Policy.

B. LOAN SPECIFICATIONS

The requirements of the Overstrand Municipality in respect of the loan are as follows:

B.1 Loan amounts

The Overstrand Municipality requires to borrow an estimated R60 million for new capital projects for the 2010/2011 capital budget and R100 million for specific infrastructure projects. Proposals will be considered and awarded separately for the two loans.

B.2 Drawdown of loans

Loan 1:

The estimated drawdown on the loan amounting to R60 million will be as follows:

1. A minimum of R30 million immediately after the signing of the agreement.
2. The balance will be drawn before 30 June 2011.

Loan 2:

The estimated drawdown on the loan amounting to R100 million will be as follows:

1. Financial year 2010/2011: R40 million
2. Financial year 2011/2012: R50 million
3. Financial year 2012/2013: R10 million

The Overstrand Municipality reserves the right to draw down less than R60 million and R100 million respectively and to cancel any undrawn portion of the approved loan by 30 June 2011 and 30 June 2013 respectively.

B.3 Period of loan

The estimated useful life of the fixed assets to be financed will exceed the period of the loan.

Proposals must be submitted for a minimum of 15 years loan period.

B.4 Repayment of loan

Loan 1:

1. The loan capital will be repaid by equal bi-annual instalments over the term of the loan. Interest will also be paid bi-annually on the reducing capital balance of the loan.
2. An early repayment option is required.

Loan 2:

1. The loan capital will be repaid at the end of the term of the loan.
2. A redemption fund will be established to redeem the loan at the end of the term.
3. Interest will be paid bi-annually on the capital balance of the loan.

B.5 Denomination of loan

The loan must be denominated in South African Rand.

B.6 Loan Security

Loan 1 will be unsecured.

Loan 2 will be secured by a redemption fund in the form of a long term growth investment, that will be ceded to the successful bidder, to the maximum of the loan capital drawn down.

B.7 Interest rate options

The Overstrand Municipality requires the option to draw down on a floating interest rate basis, with the option to subsequently convert from an initial floating rate, to a fixed rate.

B.8 Tax risk

The Overstrand Municipality will not accept any tax risk relating to any funding structure which a prospective lender may propose.

B.9 Variation of interest rate

The Overstrand Municipality will accept any increase/decrease in the interest rate charged on the loan over the term of the loan arising from any change in or introduction of any tax, levy, monetary or fiscal banking requirement.

C. INFORMATION REQUIRED

You are required to submit the following information in your proposal:

C.1 Pricing

You are requested to quote firm prices for the loan in the form of a fixed margin above:

Floating base rate: 6 month JIBAR

The margin should be the all-in fully inclusive margin including internal funding costs, commitment fees, credit spread, liquid assets cost, reserving costs, stamps and other. No other fees/margins/commissions/expenses etc. will be borne by the Overstrand Municipality other than those included in the quoted all-in rate, clearly identified and quantified in a fully transparent manner.

C.2 Cash flows

You are requested to submit schedules of cash flows over the term of the loan showing capital redemption and interest payable by the Overstrand Municipality, where applicable.

C.3 Credit approval

Bidders are required to obtain their credit committee's approval in advance for the loan amount for which they are submitting an offer. Evidence of this approval must be submitted with your proposal.

C.4 Functionality details

Bidders should supply sufficient information to allow an evaluation of the areas of functionality listed under D.1.1 below. This should include the wording of the relevant clauses in your proposed loan agreement relating to special conditions, undertakings, negative pledges etc.

Variation options differing from the tender may be submitted.

1. These options will not qualify for adjudication purposes, and
2. These options may be negotiated with the successful bidder.

D. EVALUATION OF PROPOSALS

Proposals will be evaluated in accordance with the Overstrand Municipality procurement policy using the 100 preference point system. The proposal(s) scoring the highest number of points will normally be selected as the lender(s) of choice for the amount and period tendered. However, the Overstrand Municipality reserves the right (a) to accept any offer of its choice, (b) not to accept any of the offers, or (c) to accept amounts less than the amounts offered.

D.1 Functionality, Price and PPPFA

D.1.1 Functionality

A total of 5 points will be allowed for functionality. The following areas of functionality will be evaluated and scored:

- Availability of early loan redemption option (1 point) and cost of same (4 points).

Note: A draft loan agreement with clauses relating to the above items must be submitted.

D.1.2 Price

A total of 85 points will be allowed for price. The following formula will be used to calculate the points allowed for price:

$$Ps = ((1 - (Pt - Pmin)/Pmin))$$

Where Ps = Points allowed for price under consideration
Pt = Price under consideration
Pmin = Price of lowest acceptable proposal

Price, in this context, refers to the all-in margin quoted under C.1 above, in basis percentage points.

D.1.3 PPPFA

A total of 10 points will be allowed for PPPFA. The following areas will be evaluated and scored:

Historically Disadvantaged Individuals:

- | | | |
|-------|---|---|
| (i) | who had no franchise in national elections before the 1983 and 1993 Constitutions | 6 |
| (ii) | who is a female | 2 |
| (iii) | who has a disability | 2 |

Note: draft loan agreement clauses relating to the above items must be submitted.

E. SUBMISSION OF PROPOSALS

E.1 Addressee

Please deposit your proposal, in a sealed envelope marked "Tender no. SC918/2010: Provision of loan finance", in the official tender box number 4, Overstrand Municipality, Magnolia Avenue, Hermanus 7200 before 12h00 on 27 August 2010.

Proposals received after the closing date and hour will not be considered.

E.2 Declaration

The Bidder must declare that (a) the information provided in the proposal is true and correct and (b) the signatory to the proposal document is duly authorised.

F. FURTHER INFORMATION

Any queries or requests for further information relating to this tender should be directed to Bernard King on (028) 313 8154.