Sacramento Transportation Authority
901 F Sreet, Suite 210 • Sacramento, California 95814 • (916) 323-0080 • Email: info@sacta.org • Web: www.sacta.org

For Agenda Of:

August 31, 2006
ITEM # 8

To: Sacramento Transportation Authority

Subj: Selection of Investment Banking Firms to Assist with the Issuance of Public Debt

RECOMMENDATION

- Create a pool of investment banking firms from which to solicit bids for the provision of underwriting and related financial services associated with the issuance of public debt through 2012.

- Select the four firms identified below to assist the STA later this year with its inaugural note issuance.

- Select the three firms identified below to serve as interest rate swap counterparties to assist the STA in reducing its borrowing costs and managing future interest rate risk.

DISCUSSION

In order to accelerate the delivery of the capital program as set forth in the ***New*** Measure A Plan of Finance, the STA will need to issue public debt beginning later this year. The Plan of Finance calls for the issuance of revenue anticipation instruments in 2007 and 2008, followed by sales tax and/or development fee-backed bonds in 2009 and every two years thereafter through 2022.

Municipal governments retain *investment banks* to facilitate the issuance of public debt. Investment bankers act as intermediaries between the issuer and private capital markets by purchasing debt instruments (bonds, notes, etc.) from the issuer and offering them for resale to investors. They also advise issuers on effective ways to structure debt instruments to generate more revenue, reduce the cost of issuance, and improve marketability.

On July 31, staff distributed a Request for Proposals (RFP) for investment banking services. Nineteen RFPs were sent directly to representatives of investment banking firms. A notice was also posted in the *Daily Recorder* and on the STA's web site. We received responses from the following firms:

Banc of America Securities, LLC
Citigroup Global Markets, Inc.
First Albany Capital
JP Morgan
Loop Capital Markets, LLC
Merrill Lynch
RBC Capital Markets
Stone & Youngberg
Bear Stearns & Co., Inc.
De La Rosa & Co. Investment Bankers
Goldman Sachs & Company
Lehman Brothers
M.R. Beal & Company
Morgan Stanley
Siebert Brandford Shank & Co., LLC
UBS Investment Bank

Staff (Executive Director and Finance/Accounting Manager) and our consulting financial advisors reviewed each proposal in detail, and then conferred via conference call on August 17th to compare notes and identify a short-list of firms for subsequent interview. Seven firms were interviewed on August 21st. The review team determined that all 16 of the interested firms had particular expertise and ideas that could be valuable to the STA as it approaches the financial markets during the next several years. As such, staff recommends that your Board certify the entire list above as the candidate pool from which we will select specific firms to assist with future public financings. This candidate pool will remain active through 2012. As the time for each future issue (2007, 2009, 2011) nears, we will solicit bids from the pool for the specific functions associated with each financing. The preferred firms will again be brought to your Board for approval. Placement in the pool, of course, does not guarantee any firm that it will ultimately be selected for engagement.

For our inaugural issuance later this year of approximately $104 million of notes, staff recommends that your Board select **Citigroup** as *senior underwriting manager*. The senior manager works closely with the issuer in structuring the financing mechanism, and preparing it for market. He/she manages the book on all associated transactions, and allocates orders among other firms (co-managers) involved with the issue. The Citigroup team demonstrated both a unique understanding of the STA's challenges in implementing the ***New*** Measure A Plan of Finance as a new issuer of public debt, and particular creativity in identifying optional financing mechanisms.

In addition to Citigroup, staff recommends that your Board select **De La Rosa & Co.**, **Morgan Stanley**, and **Siebert Brandford Shank & Co.** as *co-underwriting managers* for the inaugural issue. The co-managers assist with marketing the securities to retail and institutional investors. The review panel determined that each of these firms have the marketing capability to establish the quality of STA's sales tax-backed securities among the financial markets.

Lastly, staff is recommending that your Board select **UBS Investment Bank**, **Goldman Sachs & Co.**, and **Banc of America Securities, LLC** as *interest rate swap counterparties* with the STA. Municipal governments execute interest rate swap agreements as a hedge against future interest rate increases. An interest rate swap allows an issuer to lock in a favorable fixed interest rate for future borrowings. Interest rate swaps do not generate new funding like a loan or bond sale. They provide stability to an issuer by offering some certainty as to future borrowing costs. The ***New*** Measure A Plan of Finance contemplates an interest rate swap as a technique to lock in today's interest rate for the first long-term bond issue in 2009. Based on the investment banker interviews, it appears that STA can lock in a 30-year cost of funds at less than 4%. Several of the other local transportation sales tax authorities in California have executed swap agreements in the past several months. The three recommended firms have considerable experience with municipal agency swap agreements, and all have committed to favorable terms to consummate a deal with the STA.

Our consulting financial advisors will again be on hand at today's meeting to explain the process for engaging the underwriters and swap counterparties, and to answer questions about the financing tools being proposed. We anticipate compiling all of the documentation and associated contracts/agreements for our inaugural note financing for consideration by your Board at the October 12th meeting. Please note that the STA's consulting financial and legal advisors and their affiliated companies were not eligible to compete for this procurement.

Respectfully Submitted,

Brian A. Williams
Executive Director

Attachment

C: Keith Curry – PFM, Inc.
Peter Shellenberger – PFM, Inc.
Mark Harris – The Pineapple Group