



JULY 26, 2007

AGENDA ITEM # **7**

**SELECTION OF INVESTMENT BANKING FIRMS TO ASSIST WITH THE ISSUANCE OF PUBLIC DEBT**

**Action Requested:** Approval

**Key Staff:** Brian Williams, Executive Director

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**Recommendation**

Select the four firms identified below to assist the STA later this year with its second issue of short-term Notes.

**Discussion**

In order to accelerate the delivery of the capital program as set forth in the **New** Measure A Plan of Finance, the STA issued approximately \$100 million in short-term Notes late last year. The Note proceeds were earmarked for delivery and construction of 11 capital projects. To date, slightly more than half of the associated proceeds have been expended. The **New** Measure A Plan of Finance that your Board adopted in July 2006 calls for the issuance of revenue anticipation instruments (short-term Notes) in 2006 *and* 2007, followed by sales tax and/or development fee-backed Bonds in 2009 and approximately every two years thereafter through 2022.

The Plan of Finance projected that the 2007 Note issue would approximate \$70 million. During May and June, staff conferred with each of the sponsoring local jurisdictions to update their anticipated project cash flow requirements relative to the expected availability of **New** Measure A funds. Based on that update, we are proposing that the STA plan to issue an additional \$83,205,740 of short-term Notes in October 2007. The associated proceeds would be earmarked for 20 projects as depicted in the right-hand column of the table attached to this report. Two of the projects—**Greenback Lane** (Citrus Heights) and **Sunrise Blvd** (Rancho Cordova)—are shown here for the first time. When the Plan of Finance was compiled last year, the relevant project sponsors indicated that no Measure A contributions were needed to complete these projects. They have since asked for consideration to include them in the 2007 Note.

Municipal governments retain investment banks to facilitate the issuance of public debt. Investment bankers act as intermediaries between the issuer and the 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.

Last year, after a comprehensive competitive bid process, your Board certified 16 investment banking firms as the candidate pool from which to select specific firms to assist with future public financings. The candidate pool will remain active until 2012. Seven of the firms assisted the STA last year with its inaugural debt issue (Series 2006) and the execution of three forward-starting interest rate swap agreements.<sup>1</sup>

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<sup>1</sup> Citigroup; De La Rosa & Co; Morgan Stanley; Siebert Brandford Shank & Co; Banc of America Securities; Bear Stearns; Goldman Sachs & Co

For our second issuance later this year of approximately \$83.2 million of Notes, staff recommends that your Board select **Lehman Brothers, Inc.** 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 Lehman Brothers municipal finance team has shown keen interest in the challenges of implementing the **New** Measure A Plan of Finance, and they have been creative in identifying potential alternative financing mechanisms.

In addition to Lehman Brothers, staff recommends that your Board select **MR Beal & Co., Merrill Lynch & Co., and Stone & Youngberg, LLC** as *co-underwriting managers* for this second issue. The co-managers assist with marketing the securities to retail and institutional investors. Each of these firms has the marketing capability to establish the quality of STA's sales tax-backed securities within the financial markets.

Our consulting financial advisors will attend today's meeting to present updated Measure A revenue and expenditure assumptions, and to explain the process for engaging the underwriters. They will also answer questions about the type and sizing of the financing being proposed. We anticipate compiling all of the associated documentation for our second Note financing for consideration by your Board at the August 30<sup>th</sup> meeting. If approved by your Board, the Notes would then be issued in early October.

Please note that the STA's consulting financial and legal advisors and their affiliated companies were not eligible to compete for the investment banking procurement.

*Attachment*