

APPROVED
By the Board of Directors of 8-4
The Metropolitan Water District
of Southern California
at its meeting held



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

JUN 13 1995

Darwin E. Duff
EXECUTIVE SECRETARY

May 22, 1995

To: Board of Directors (Finance and Insurance Committee--Action)
From: General Manager
Subject: Selection of a Second Broker/Dealer for the Commercial Paper Program

RECOMMENDATION:

It is recommended that the Board of Directors authorize the General Manager to enter into an agreement, in form approved by General Counsel, with Lehman Brothers for broker/dealer services for the commercial paper program.

John R. Wodraska
General Manager

Submitted by:

Lambertus H. Becker

Lambertus H. Becker
Chief Financial Officer

Concur:

John R. Wodraska
for John R. Wodraska
General Manager

Attachment

CGP.jg
1995bkdl.doc

BRIEF DESCRIPTION:

It is planned to expand the District's commercial paper program to the full authorization of \$200 million. In order to enhance the District's competitive position in the market and to provide flexibility for remarketing the District's debt, it is considered prudent to engage the services of a second broker/dealer to market some of the additional commercial paper. In response to a request for proposals, the District received 8 proposals for broker/dealer services.

The proposals outlined each firm's experience, distribution strength, capital resources, fees, responsible persons, affirmative action policy and commitment to the District's program. After careful review, with assistance from the District's financial advisor, Lehman Brothers was selected as the successful bidder.

<p style="text-align: center;"><u>CONTRACT TYPE</u></p> <p><input checked="" type="checkbox"/> NEW</p> <p><input type="checkbox"/> AMENDED</p> <p style="text-align: center;"><u>CONTRACT FORM</u></p> <p><input type="checkbox"/> LEASE</p> <p><input checked="" type="checkbox"/> PROFESSIONAL SERVICES</p>	<p style="text-align: center;"><u>FUNDING</u></p> <p><input checked="" type="checkbox"/> CAPITAL</p> <p><input type="checkbox"/> O & M</p> <p style="text-align: center;"><u>BUDGET STATUS</u></p> <p><input type="checkbox"/> FY 94/95 AMT. _____</p> <p><input type="checkbox"/> OUT-YEAR AMT. _____</p> <p><input checked="" type="checkbox"/> NON-BUDGET AMT. _____</p>	<p style="text-align: center;"><u>TYPE OF COMPETITION</u></p> <p><input type="checkbox"/> RFQ</p> <p><input checked="" type="checkbox"/> RFP NO. *</p> <p><input type="checkbox"/> INFORMAL RFP</p> <p><input type="checkbox"/> OTHER COMPETITION</p> <p>_____</p> <p><input type="checkbox"/> SOLE SOURCE</p> <p><small>* No MWD number. RFP prepared and sent by financial advisor.</small></p>
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PURPOSE/BACKGROUND:

By separate letter your Board is being asked to authorize a line of credit agreement to support increasing the size of the current commercial paper program. As explained in that letter, it is planned to increase the program by the remaining \$140 million of the authorized \$200 million during the 1995-96 fiscal year. In order to enhance the District's competitive position in the market and to provide flexibility for remarketing the District's debt, it is considered prudent to engage the services of a second broker/dealer to market some of the additional commercial paper. Morgan Stanley & Co. is the broker/dealer for the current \$60 million commercial paper program at a fee of nine basis points of the outstanding notes per year. They have agreed to lower their fee to six basis points on the original \$60 million issuance (which is not backed by a line of credit) and five basis points on the new issuance.

In response to a request for proposals, the District received 8 proposals for broker/dealer services.

Proposals were received from the following firms:

- Artemis Capital Group, Inc.
- Lehman Brothers
- JP Morgan
- Smith Barney Inc.
- Bear Stearns
- Goldman Sachs
- MR Beal & Co.
- PaineWebber Inc.

The proposals outlined each firm's experience, distribution strength, capital resources, fees, responsible persons, affirmative action policy and commitment to the District's program. After careful review, with assistance from the District's financial advisor, Lehman Brothers was selected as the successful bidder. The matrix attached to this letter shows the relative evaluation of all the proposals.

Lehman Brothers has extensive experience serving as broker/dealer for tax-exempt commercial paper. They currently manage commercial paper programs in excess of \$2.3 billion. In addition Lehman maintains a corporate capital base of \$14.7 billion, providing significant security to their financial performance. The fee bids for the 8 proposals ranged from 4 basis points to 12.5 basis points per year on the outstanding balance. Lehman Brothers' proposal of 5 basis points per year was not the lowest; however, Lehman offered the strongest commitment to purchase unsold notes. They agreed to provide a written commitment to purchase the District's notes for up to 30 days at prevailing tax exempt rates and at no additional cost to the District, should the notes not be remarketable due to temporary market dislocations.

Lehman Brothers submitted their 1995 Affirmative Action Plan with their proposal. The plan is on file with the Chief Financial Officer.

MBE/WBE:

Two MBE/WBE Firms submitted proposals:

Artemis Capital Group (WBE)
MR Beal & Company (MBE)

Based on the evaluation criteria which included (1) commitment to inventory unsold notes; (2) fees offered; (3) capital position; and (4) commercial paper experience, neither firm was selected. There is no opportunity for sub-contracting in commercial paper marketing; therefore, no MBE/WBE goals were set.

CEQA COMPLIANCE / ENVIRONMENTAL DOCUMENTATION:

The recommended action is exempt from provisions of the California Environmental Quality Act because it can be seen with certainty that it can have no significant effect on the environment.

RFP STATISTICS

14 FIRMS REQUESTED RFP
8 FIRMS SUBMITTED PROPOSALS
4 FIRMS WERE SHORT-LISTED

CONTRACTS WITH CONSULTANT

TOTAL NO. 0
 MAXIMUM DOLLAR AMT. 0

EVALUATION CRITERIA

EXPERIENCE, MARKET STRATEGY FEES, COMMITMENT
TO INVENTORY, CAPITAL, PERSONNEL QUALIFICATIONS
EEOC, LITIGATION

CONTRACTUAL DETAILS

ANTICIPATED DURATION OPEN
 HOURLY RATES N/A

SOLE SOURCE JUSTIFICATION: (OPTIONAL)

N/A

Executive Summary
Proposals for Commercial Paper Broker/Dealer Services

Firm	Annual Fee	Expenses	Commitment to Inventory	Capitol	TECP Experience Since 1992	Marketing Strategy Submitted
Lehman Brothers	5 bp	\$15,500	Written 30 days TER *	\$14.7 billion	\$2.3 billion	Yes
B	4 bp	5,500	Not written no terms	1.0 billion	1.2 billion	Yes
C	4 bp	11,200	Written overnight TR **	3.9 billion	0.9 billion	Yes
D	5 bp	10,000	Written no terms	3.0 billion	0.7 billion	Yes
E	5 bp	0	Not written no terms	4.5 billion	1.2 billion	Yes
F	7 bp	6,500	Not written no terms	5.8 billion	0.2 billion	Yes
G	7.5 bp	2,500	Not written no terms	Not shown	0.2 billion	Yes
H	12.5 bp	35,000	Secondary commitment	Not shown	None	No

* TER = Tax-exempt rate

** TR = Taxable rate

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