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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Sara E. Duff
EXECUTIVE SECRETARY

December 26, 1995

Office of the General Manager

To: Board of Directors (Finance and Insurance Committee--Action)

From: *L* General Manager

Submitted by: Lambertus H. Becker
Chief Financial Officer

Wilbur Smith
Lambertus H. Becker

Subject: Selection of Underwriting Team for Issuance of Water Revenue Bonds

RECOMMENDATION(S)

It is recommended that the Board of Directors approve the selection of the underwriting team named in Attachment 1 for services associated with future sales of Metropolitan's water revenue bonds for the next two to three year period.

EXECUTIVE SUMMARY

In September 1995 staff solicited proposals from investment banking firms to establish an underwriting team for future revenue bond financings. Written proposals were received from 29 firms, including 9 minority and 2 women-owned firms. After careful review of the proposals, 14 firms were shortlisted for interviews. After the interview process it was decided to recommend all 14 firms interviewed to be members of the financing team (shown on attachment 1). Staff believes, based on information obtained through the RFP process, that the underwriters have the financial capacity as a group to effectively manage projected bond sales and assume the risk of holding bonds should demand for bonds change after individual purchase contracts have been executed.

DETAILED REPORT

As reported in the Long Range Finance Plan, financing of the District's Capital Improvement Program over the next two to three period will require several water revenue bond sales, together with pay-as-you-go and other alternative financing vehicles. It is anticipated that the bond sales will be relatively large and may involve complex financial structures in order to minimize costs. Sales of this nature are usually made on a negotiated basis to insure efficient management and market timing. It is important to have a team of underwriters in place so that the financing process will be orderly and effective. Generally, smaller less complex sales are done on a competitive bid basis.

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The designation of an underwriting team for the next two to three years expresses Metropolitan's plan for financings during that period, reflecting the outcome of the underwriter selection process. Bond purchase agreements with members of the recommended financing team will be required for each bond issue authorized by your Board. In the past, to permit execution of a bond purchase agreement when market conditions were favorable, Board meeting schedules were not a consideration, because bond resolutions have delegated authority to approve bond purchase agreements to an Ad Hoc Committee consisting of your Chairman, the Chairman of the Finance and Insurance Committee and the General Manager. Your Board, acting through the Ad Hoc Committee, if future bond resolutions so provide, will approve the makeup and roles of the underwriting team as well as other terms of the purchase agreement. It is anticipated that based upon performance the roles and responsibilities of the senior managers will be rotated among certain members of the underwriting team. Also based on performance, some changes in the team designated in Attachment 1 also could occur over the period.

Based on the RFP and interview process three large firms were identified as Co-Senior managers. In addition, it is planned to include an MBE/WBE firm as a Co-Senior manager on each of the District's future sales. The three firms that will be Co-Senior managers are Bear Stearns, Paine Webber, and Smith Barney.

The District is planning to issue approximately \$400 million in water revenue bonds in mid-1996. All 14 team members will be included in the sale. The book running senior manager for this sale will be Paine Webber. Co-Senior managers will include Bear Stearns, Smith Barney, and M.R. Beal (see attachment 2).

As reported to your Board in November 1995, staff is preparing to refund certain outstanding waterworks revenue bonds and water revenue bonds. The amount of outstanding revenue bonds to be refunded will be in the range of \$200 plus million. The refunding is expected to occur in early 1996, depending on market conditions and in accordance with the Board's stated goal of trying to achieve at least a 5 percent present value savings for advance refundings and a 3 percent present value savings on current refundings. The book running senior manager for the refunding was established by the Ad Hoc Committee in accordance with provisions of Resolution 8387, adopted by your Board in 1993. The proposed underwriting team for the anticipated 1996 refunding is shown on Attachment 3.

The actions recommended in this letter are exempt from the provisions of the California Environmental Quality Act because it can be seen with certainty that there is no possibility that such actions may have a significant effect on the environment.

Attachments

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ATTACHMENT 1**Underwriting Team**

Artemis Capital Group**
Bear Stearns
E.J. de la Rosa & Co.*
Grigsby, Brandford & Co.*
JP Morgan
Lehman Brothers
M.R. Beal & Co.*
Merrill Lynch
Morgan Stanley
Paine Webber
Prager, McCarthy & Sealy
Prudential Securities
Samuel A. Ramirez & Co.*
Smith Barney

* Minority-owned Business Enterprise

** Woman-owned Business Enterprise

ATTACHMENT 2**New Money Issue Mid-1996**

Co-Senior Managers: Paine Webber
Bear Stearns
Smith Barney
M.R. Beal & Co.*

Artemis Capital Group**
E.J. de la Rosa & Co.*
Grigsby, Brandford & Co.*
JP Morgan
Lehman Brothers
Merrill Lynch
Morgan Stanley
Prager, McCarthy & Sealy
Prudential Securities
Samuel A. Ramirez & Co.*

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ATTACHMENT 3

1996 Refunding Issue

Co-Senior Managers: Smith Barney
Bear Stearns
Paine Webber
Grigsby, Brandford & Co.*

Co-Managers: E.J. de la Rosa & Co.*
JP Morgan
Lehman Brothers
Merrill Lynch
M.R. Beal & Co. *

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