



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the
Board of Harbor Commissioners

DATE: MAY 8, 2018

FROM: DEBT & TREASURY MANAGEMENT

**SUBJECT: RESOLUTION NO. _____ TO ESTABLISH A THREE-YEAR
POOL OF INVESTMENT BANKING FIRMS TO PROVIDE
UNDERWRITING, REMARKETING AND INVESTMENT BANKING
SERVICES**

SUMMARY:

Staff requests adoption of the Resolution authorizing approval of a pool of twelve investment banking firms for a period of three years to provide underwriting services and access to the capital markets in order to meet Harbor Department's financing needs.

The Department will enter into agreements with the underwriters at the time of each transaction detailing responsibilities and expectations from each firm.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners (Board):

1. Find that the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II, Section 2(f) of the Los Angeles City CEQA Guidelines;
2. Approve and appoint the following twelve investment banking firms to a pool for a period of three years to provide the Harbor Department with investment banking services: Bank of America Merrill Lynch; Barclays Capital Inc.; Drexel Hamilton, LLC; Goldman Sachs & Co., LLC; J.P. Morgan Securities, LLC; Jeffries, LLC; Loop Capital Markets, LLC; Morgan Stanley & Co., Inc.; RBC Capital Markets, LLC; Samuel A. Ramirez & Co. Inc.; Siebert Cisneros Shank & Co., LLC; UBS Financial Services Inc.; and
3. Adopt Resolution No. _____.

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DISCUSSION:

Background – Section 609 of the City of Los Angeles (City) Charter authorizes the Harbor Department to borrow money and to issue bonds, refunding bonds, notes and other evidences of indebtedness for any lawful purpose. Such borrowings are payable from the revenues of the Harbor Department and from any other sources lawfully available to the Harbor Department or under its control, in the form and manner approved by the Board. In order to fund capital projects and meet short-term financing needs, the Harbor Department has from time-to-time issued long and short term debt instruments in the form of bonds and commercial paper notes.

Investment banks play a key role in the Harbor Department's financing team as these underwriters assist in the structuring, marketing and distribution of bonds and commercial paper notes. The banks' market reach, access, and understanding of the needs of the investor base provide a direct benefit to the Harbor Department in the form of wide distribution and efficient cost of borrowing. Based on the complexity of the work to be completed, market conditions, and the financial risk associated with large-scale financing transactions, using investment banks to aid the Harbor Department is warranted.

The Harbor Department is able to issue debt through either a competitive bond sale or a negotiated bond sale. In a competitive sale, the Harbor Department selects a date for the sale and accepts sealed bids from underwriters. The firm offering the lowest interest rate wins the bid. In a negotiated sale, the Harbor Department selects the underwriters from the previously approved investment banking pool and works closely with them to structure and market the bonds. Negotiated sales tend to be used over competitive sales when the bond sale requires greater marketing efforts due to challenging marketing conditions such as volatile interest rate environment; limited investor base; new credit, or a complex transaction. Harbor Department staff recommends whether to use a negotiated sale or a competitive sale subject to the approval of the Board of Harbor Commissioners and the City Council on a case by case basis.

There were twelve firms in the previous pool that was established in April 2015, pursuant to Resolution 15-7798. The Department selected firms from that pool for the following three transactions which were approved by the Board:

- In July 2015 the Department extended its commercial paper liquidity agreement for \$200 million through August 24, 2018 and selected two firms of US Bancorp,

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and Samuel A. Ramirez & Co. a minority business enterprise (MBE) from the pool as dealers for a period of three years.

- In September 2015, the Department selected Siebert Brandford Shank & Co., LLC (MBE) and RBC Capital Markets from the pool to refund 2005 Series A & B Bonds by issuing 2015 Series A Bonds for \$37 million resulting in net present value savings of \$5.7 million.
- In October 2016, the Department selected RBC Capital Markets, Citigroup, and Loop Capital Markets (MBE) from the pool to refund its 2006 Series A, B & C Bonds by issuing 2016 Series A, B, & C (Green Bonds) for a total of \$201.6 million resulting in net present value savings of \$33.7 million.

Prior to each transaction, the firms in the pool were surveyed through a questionnaire focusing on bond structuring, marketing strategies, and fees as primary selection criteria.

Pool Selection Process – On January 30th, 2018, the Harbor Department issued a Request for Qualifications (RFQ) for underwriting, remarketing and investment banking services. This RFQ was submitted electronically to 43 firms doing business in California, utilizing the latest edition of the Bond Buyer's Municipal Marketplace, a leading directory of public finance professionals. The RFQ was also posted to the Department's website as well as on the City of Los Angeles' Business Assistance Virtual Network (LABVN).

Twenty nine statements of qualifications (SOQ) were received by the February 20th, 2018 deadline. The SOQs (Transmittal 1) were reviewed and evaluated by a selection panel comprised of six professional level finance staff, five of whom are Harbor Department employees and one is employed by the Los Angeles Department of Airports.

The selection panel evaluated and ranked the firms utilizing the criteria listed under Exhibit E in the RFQ (Transmittal 2). Based on the evaluation process, staff is recommending the inclusion of 12 firms in the pool, eight are large firms and the remaining four or 33% are small, minority, woman, and disabled veteran owned business enterprises (SBE/MBE/WBE/DVBE). All twelve proposed firms were scored 80 and above, the minimum scoring threshold, by the selection panel. Creating a diverse pool of underwriters provides the Harbor Department with access to a wider range of investors. The banks being recommended would allow the Harbor Department to obtain the broadest range of financing choices when the need arises.

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Services to be Performed – The pool includes firms deemed eligible to serve as senior managers and/or co-managers for fixed rate debt, remarketers for variable rate debt, and/or dealers for commercial paper. The Harbor Department will select firms from the pool on an as-needed basis to perform investment banking services based on the specific needs of future financings. The Harbor Department will enter into agreements with the underwriters at the time of each transaction detailing responsibilities and expectations from each firm. All transactions require Board and City Council approval.

Prospective transactions over the course of the next 18 months may include refinancing previously issued debt to lower debt service costs at lower interest rates.

ENVIRONMENTAL ASSESSMENT:

The proposed action is a Resolution to establish a pool of underwriters to provide investment banking services for the Harbor Department, which is an administrative activity. Therefore, the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

There are no costs beyond staff time and materials associated with the establishment of a pool of investment banks. Costs associated with utilizing the services of one or more of the investment banks in the proposed pool will be incurred when a Board approved financing transaction is required, and will be paid out as a cost of issuance from the bond proceeds.

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CITY ATTORNEY:

The Office of the City Attorney has reviewed this Board Report and finds there are no legal issues to address at this time.

TRANSMITTALS:

1. List of Responding Firms
2. Selection Evaluation Form (Exhibit E)
3. Ranking of Firms by Score

FIS Approval: MB (initials)
CA Approval: gmc (initials)



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APPROVED:



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MB/SS
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**Underwriting, Remarketing, and Investment Banking Services
Statements of Qualifications Received - February 20, 2018**

	Firm	Designation*	Address	City/State	ZIP CODE
1	280 Securities	SBE/VSBE	575 Market St., Suite 3800	San Francisco, CA	94105
2	Academy Securities, Inc.	MBE/DVBE	140 East 45th St., Suite 5A	New York, NY	10017
3	Backstrom McCarley Berry & Co., LLC	SBE/VSBE/MBE	115 Sansome St., Mezz A	San Francisco, CA	94104
4	Bank of America Merrill Lynch	OBE	333 S. Hope St., Suite 2310	Los Angeles, CA	90071
5	Barclays Capital Inc.	OBE	745 Seventh Ave. 19th Floor	New York, NY	10019
6	Blaylock Van, LLC	MBE	350 Frank H. Ogawa Plaza, 10th Floor	Oakland, CA	94612
7	Cabrera Capital Markets, LLC	MBE	633 West 5th St.	Los Angeles, CA	90071
8	Citigroup Global Markets Inc.	OBE	444 South Flower St., 27th Fl.	Los Angeles, CA	90071
9	Drexel Hamilton, LLC	SBE/DVBE	350 Rhode Island St., Suite 240	San Francisco, CA	94103
10	Estrada Hinojosa & Company, Inc.	MBE	5757 West Century Blvd., Suite 700	Los Angeles, CA	90045
11	Fidelity Capital Markets	OBE	100 California St., Suite 1100	San Francisco, CA	94111
12	FTN Financial Capital Markets	OBE	633 W. 5th St., Suite 2600	Los Angeles, CA	90071
13	Goldman Sachs & Co. LLC	OBE	2121 Avenue of the Stars, Suite 2600	Los Angeles, CA	90067
14	Hutchinson, Shockey, Erley & Co.	SBE	811 Wilshire Blvd., Suite 1810	Los Angeles, CA	90071
15	J.P. Morgan Securities LLC	OBE	1125 17th St., Floor 02	Denver, CO	80202
16	Jefferies LLC	OBE	11100 Santa Monica Blvd., 12th Fl.	Los Angeles, CA	90025
17	Loop Capital Markets LLC	MBE	12100 Wilshire Blvd., Suite 605	Los Angeles, CA	90025
18	Morgan Stanley & Co. LLC	OBE	555 California St., 21st Floor	San Francisco, CA	94104
19	RBC Capital Markets, LLC	OBE	777 S. Figueroa St., Suite 850	Los Angeles, CA	90017
20	Rice Securities, LLC	MBE	55 Broad St., 27th Fl.	New York, NY	10004
21	Samuel A. Ramirez & Co., Inc.	MBE	445 S. Figueroa St., Suite 2310	Los Angeles, CA	90071
22	Siebert Cisneros Shank & Co., LLC	SBE/MBE/WBE	660 S. Figueroa St., Suite 1720	Los Angeles, CA	90017
23	Stern Brothers & Co.	WBE	14724 Ventura Blvd., Suite 809	Sherman Oaks, CA	91403
24	Stifel, Nicolaus & Company, Inc.	OBE	515 South Figueroa St., Suite 1800	Los Angeles, CA	90071
25	TD Securities (USA)	OBE	31 West 52nd St., 2nd Fl.	New York, NY	10019
26	The Williams Capital Group, L.P.	SBE/MBE	650 Fifth Ave., 9th Floor	New York, NY	10019
27	Tribal Capital Markets, LLC	SBE/MBE	42 Broadway, 3rd Floor	New York, NY	10004
28	UBS Financial Services Inc.	OBE	555 California St., Suite 4650	San Francisco, CA	94104
29	Wells Fargo Bank	OBE	333 S. Grand Ave., 5th Floor	Los Angeles, CA	90071

* Designations are as follows: SBE - Small Business Enterprise; VSBE - Very Small Business Enterprise; MBE - Minority Business Enterprise; WBE - Woman Business Enterprise; DVBE - Disabled Veteran Business Enterprise; OBE - Other Business Enterprise

EXHIBIT E

RFQ SELECTION EVALUATION FORM

PROJECT: UNDERWRITING, REMARKETING AND INVESTMENT BANKING SERVICES

SCORING GUIDELINES:

Rater's Score: (Range 0-5) - 0=not included/non responsive; 1=Marginal Abilities, Serious Deficiencies; 2=Adequate with Minor Deficiencies; 3=Adequate, Standard-Acceptable; 4=Well Qualified; 5=Exceptionally Well Qualified.

Weighting Factor: Input using a range of 1 through 6, with 1 being of relative lower importance and 6 being relative highest importance. You may use each number (1 through 6) more than once; however, in establishing weights, the total of all the weighing factors (A - E) must equal 20. Example: 3+2+6+4+5=20 or 3+3+3+6+5=20

Weighted Score= Rater's Score multiplied by (x) Weighing Factor. Totals should be calculated for each criterion.

Total score = Sum of all weighted scores.

Firm Name	Evaluated by	Date

CRITERIA TO BE RATED	RATER'S SCORE	WEIGHING FACTOR	WEIGHTED SCORE
A. Firm Qualifications, Experience and References	Has the company done similar work? Level of expertise in financings comparable to the Port's needs.	5	
B. Personnel, and Experience of the Assigned Key Personnel	Qualification and experience of proposed personnel for requested services.	5	
C. Ability of the Firm to Address the Financing Needs of the Port	Has the company demonstrated an understanding of the Port's financing needs and provided options and approaches to meet the Port's objectives?	4	
D. Proposed Costs/Fees	Competitive rates and expenses proposed?	3	
E. Clarity and Comprehensiveness of the Proposal	Is the proposal clear, comprehensive, and understandable?	3	
		A+B+C+D+E =20	Maximum points possible = 100

Large Firms		Rater 1	Rater 2	Rater 3	Rater 4	Rater 5	Rater 6	Average Score
1	Firm A	96	85	85	91	92	91	90
2	Firm B	96	85	90	94	87	83	89
3	Firm C	91	86	94	91	92	82	89
4	Firm D	96	89	94	94	89	89	92
5	Firm E	96	83	82	85	97	94	89
6	Firm F	91	89	85	88	82	82	86
7	Firm G	86	85	94	97	92	94	91
8	Firm H	81	97	94	91	86	94	91
SBE/MBE/WBE/DVBE Firms		Rater 1	Rater 2	Rater 3	Rater 4	Rater 5	Rater 6	Average Score
1	Firm I	80	82	90	85	84	80	84
2	Firm J	91	83	87	87	80	82	85
3	Firm K	96	86	85	82	80	84	85
4	Firm L	96	88	84	81	88	91	88
Designations are as follows: SBE- Small Business Enterprise; MBE – Minority Business Enterprise; WBE –Woman Business Enterprise; DVBE – Disabled Veteran Business Enterprise								