



**THE PORT  
OF LOS ANGELES**

Executive Director's  
Report to the  
Board of Harbor Commissioners

**DATE: JANUARY 18, 2012**

**FROM: DEBT & TREASURY**

**SUBJECT: RESOLUTION NO. \_\_\_\_\_ TO ESTABLISH A POOL OF  
INVESTMENT BANKING FIRMS TO PROVIDE UNDERWRITING  
SERVICES**

**SUMMARY:**

The City of Los Angeles Harbor Department (Harbor Department) proposes to establish a pool of investment banking firms for a period of three years to provide underwriting services and access to capital markets in order to meet its funding needs.

**RECOMMENDATION:**

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

1. Approve and appoint the following fifteen investment banking firms for a period of three years to provide the Harbor Department with investment banking services: Backstrom McCarley Berry & Co., LLC, Bank of America Merrill Lynch, Barclays Capital, Cabrera Capital Markets, Citigroup Global Markets, De La Rosa & Co., Inc., Estrada Hinojosa & Co., Inc., Goldman, Sachs & Co., J.P. Morgan, Loop Capital Markets, Morgan Stanley & Co., Inc., Ramirez & Co., RBC Capital Markets, Siebert Brandford Shank & Co., and Wells Fargo.
2. Adopt Resolution No. \_\_\_\_\_.

**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 money 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.

Investment banks play a key role in the Harbor Department's financing team as these underwriters assist the Harbor Department in the structuring, marketing and distribution

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of bonds. 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. In addition, investment banks are able to offer advice and insight on financing options and market conditions. Based on the nature 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 in its financial needs is an essential course of action.

This will be the second time that the Harbor Department is establishing a pool of underwriters. Prior to establishing a pool, the Harbor Department selected underwriters through a competitive selection process immediately prior to each transaction. Most of the Harbor Department's recent transactions were undertaken through a negotiated sales method, due to the complexity of the transactions and the volatile market environment that required greater amounts of pre-sale work in terms of investor presentations and deal structuring. Having a pool does not preclude using the competitive method of sale. However, it is expected that the Harbor Department will continue to use the negotiated method for its bond funding needs.

There were eight firms in the previous pool of underwriters that was established in 2008 and expired in 2011. During that time, the Harbor Department issued 2009 Series A, B, and C Bonds. In 2009, the Harbor Department selected two Broker/Dealers from the pool to market its Commercial Paper notes. In 2011, the Harbor Department issued 2011 Series A and B Bonds to refund its 2001 Series A and B Bonds on their ten-year call date. Prior to each transaction, the firms in the pool were surveyed through a questionnaire focusing on bond structuring and marketing strategies, and fees as the basis to select the senior and co-managers on each transaction. Each of the firms in the pool participated in one of these transactions. All of the above transactions were approved by the Board.

Pool Selection Process – On August 29, 2011, the Harbor Department issued a notice inviting Requests for Qualifications (RFQ) for underwriting services relating to issuance of both fixed rate and variable rate bonds. This RFQ was express-mailed to 58 firms doing business in California, utilizing the listing in the latest edition of the Bond Buyer's Municipal Marketplace. Additionally, the RFQ was published in the Bond Buyer, China Daily News, the Daily Breeze, La Opinion, the Los Angeles Sentinel, and Metropolitan News, as well as posted on the Harbor Department's website and City of Los Angeles's Business Virtual Network (LABVN) for public viewing.

Thirty-seven statements of qualifications were received by the September 26, 2011 deadline (Transmittal 1). The statements were reviewed and evaluated by a selection panel comprised of the Harbor Department's Chief Financial Officer, its Director of Debt

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& Treasury, and the Debt & Treasury section's Financial Manager and Financial Analyst, as well as a Finance Specialist from the Office of the City Administrative Officer of the City of Los Angeles.

The selection panel evaluated and ranked the firms based upon the history, experience, and references of the firm, the availability, qualifications and experience of the assigned staff, the firm's project approach, overall fees and costs, and whether the response met the overall requirements of the RFQ (Transmittals 2 and 3). The maximum score that could be earned by a firm was 100. Only two firms had an average score of 90 and above, therefore the selection range was expanded to include firms scoring 80 and above. Fifteen firms scored 80 and above by the selection committee. These are the firms being recommended to participate in this pool. From the fifteen proposed firms all have offices in Los Angeles – including one firm that is headquartered in Los Angeles, and two with head offices in the San Francisco Bay Area.

Of the fifteen firms that are being recommended, eight are large firms and seven are designated small- or minority-owned businesses. 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. The firms that are being recommended, including their designations and office locations are listed in Transmittal 4.

Other City Departments also use investment banking firms for issuing debt. The Los Angeles World Airports pool includes 12 firms, the Department of Water and Power's pool includes 12 firms with the intention to increase to 18 firms in February 2012, and the City Administrative Office has 22 firms in five pools. The process for selecting these firms is very similar to the Harbor Department's.

Services to be Performed – The pool includes firms deemed eligible to serve as senior managers and/or co-managers. 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 and how firms within the pool respond to those requirements. The Harbor Department will enter into agreements with the underwriters at the time of each transaction detailing responsibilities and expectations from each firm.

The prospective upcoming transactions in 2012 may include refunding \$18 million of 2002 Series A Bonds in May (ninety days prior to their ten-year call date) providing the refunding yields a present value savings of three percent or better, and refunding of \$100 million in commercial paper notes with long-term fixed rate bonds, contingent upon favorable interest rates and market conditions.

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**ENVIRONMENTAL ASSESSMENT:**

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

**ECONOMIC BENEFITS:**

The appointment of investment banks to the pool of underwriters does not have a direct employment effect in the 5-county region. All firms either have local offices or are based in the area and therefore in the event of any financing the Harbor Department is helping to keep residents in the State or Los Angeles area employed.

**FINANCIAL IMPACT:**

Establishment of the proposed pool of investment banks involved Harbor Department resources (staff time and materials) that were accounted for in the fiscal year 2011/2012 adopted budget. There are no other costs beyond staff time and materials associated with the compilation 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 financing transaction is required and will be paid out as a cost of issuance resulting from the transaction proceeds.

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**CITY ATTORNEY:**

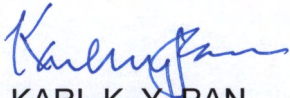
The Office of the City Attorney has reviewed this Board Report and finds there are no legal issues to address at this time.

**TRANSMITTALS:**

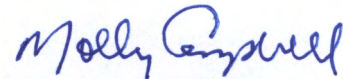
1. List of Investment Banking Firms Responding to RFQ
2. Evaluation Forms for Firms Offering Bond Underwriting Services
3. Ranking of Firms by Score
4. Recommended Investment Banking Firms

FIS Approval: KK (initials)

CA Approval: MC (initials)



KARL K. Y. PAN  
Chief Financial Officer



MOLLY CAMPBELL  
Deputy Executive Director

APPROVED:



GERALDINE KNATZ, Ph.D.  
Executive Director

Author: S. Sajadian  
DT 12012 FY 2011-2012