



DATE: APRIL 14, 2015

FROM: DEBT & TREASURY

SUBJECT: RESOLUTION NO. _____ TO ESTABLISH A POOL OF INVESTMENT BANKING FIRMS TO PROVIDE UNDERWRITING, REMARKETING AND INVESTMENT BANKING 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 financing needs.

The Harbor 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. 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, Citigroup Global Markets Inc., Goldman Sachs, J.P. Morgan Securities, LLC, Loop Capital Markets, LLC, Morgan Stanley & Co. Inc., Ramirez & Co. Inc., RBC Capital Markets, Siebert Brandford Shank & Co., LLC, Stifel, Nicolaus & Co. Inc., US Bank, and Wells Fargo Bank Municipal Products Group.
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.

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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. In addition, investment banks are able to offer advice and insight on financing options and market conditions. 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 an essential course of action.

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 rates or a limited investor base; a 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 fifteen firms in the previous pool that was established in January 2012, Resolution 12-7248. The Department selected firms from that pool for two transactions. In July 2012, the Harbor Department exercised its option to extend its commercial paper dealer agreements with two members of the pool, Morgan Stanley & Co., Inc., and Loop Capital Markets. In September 2014, the Harbor Department selected two co-senior and four co-managers from the pool to underwrite and market a \$337 million transaction that refinanced previously issued debt for debt service savings and financed the Harbor Department's ongoing capital program. Prior to the 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 5, 2015, the Harbor Department issued a Request for Qualifications (RFQ) for underwriting, remarketing and investment banking services. This RFQ was submitted electronically to 53 firms doing business in California, utilizing the listing in the latest edition of the Bond Buyer's Municipal Marketplace. The RFQ was also posted to the Department's website as well as on the City of Los Angeles' Business Assistance Virtual Network (LABVN).

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Twenty-six statements of qualifications were received by the January 26, 2015 deadline with four being deemed as non-responsive. The remaining 22 statements (Transmittal 1) were reviewed and evaluated by a selection panel comprised of five professional level finance staff, four of whom are Harbor Department employees and one is employed by the Department of Airports.

The selection panel evaluated and ranked the firms based on the criteria listed under Exhibit E in the RFQ (Transmittal 2). From the twelve firms that are being recommended, nine are large firms, and three are small, minority, or woman owned businesses. All twelve proposed firms were scored 80 and above 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. All twelve proposed firms have offices in the City of Los Angeles.

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.

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

This Board action will have no direct employment impact in the five-county region.

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FINANCIAL IMPACT:

Establishment of the proposed pool of investment banks involved Harbor Department resources that were accounted for in the fiscal year 2014/2015 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 Board approved financing transaction is required and will be paid out as a cost of issuance from the bond proceeds.

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: [Signature] (initials)



SOHEILA SAJADIAN
Director, Debt & Treasury Division



MARLA BLEAVINS
Chief Financial Officer

APPROVED:

FOR 
EUGENE D. SEROKA
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