MEMORANDUM

TO: Office of Community Investment and Infrastructure Commissioners

FROM: Tiffany Bohee
Executive Director


EXECUTIVE SUMMARY

On September 12, 2014 the OCII Commission adopted Resolution 83-2014 (Attachment C), authorizing the issuance of refunding tax allocation revenue bonds, in an aggregate amount not to exceed $300,000,000 (the “2014 Refunding Bonds”), subject to Oversight Board and Department of Finance approval.

Resolution 83-2014 also approved in form and authorized the execution of Bond Purchase Contracts (Attachments A and B) with underwriters to be approved at a later date. This Resolution approves the selection of those underwriters as well as the co-managers who will participate in the sale of the bonds.

Subsequent OCII Commission action will be required to approve the Preliminary Official Statement before the transaction can be completed.

Staff recommends approval of this resolution so that the refinancing transaction can proceed without delay.

DISCUSSION

Background

Underwriters in a negotiated sale are compensated for their services through the “underwriter’s discount.” This is the difference between the price they pay the issuer for the bonds and the price at which they sell them to investors on the day of the bond pricing. It is stated as a percentage of the face amount of the bonds issued. This amount compensates the underwriter for their work in structuring and marketing the bonds. The sale of the bonds by the issuer, to the underwriter, is governed by the Bond Purchase Contract, which specifies the underwriter’s discount also setting forth the representations, warranties, required legal opinions and other obligations of the parties with respect to the sale. The final terms of the sale, which must be within the limits set forth in Resolution 83-2014, will be known and written into the Bond


Purchase Contracts on day the bonds are priced. Those Contracts will then be executed on the day of the sale by an OCII Authorized Officer as directed by Resolution 83-2014.

The OCII does not make the payment to the underwriters and the underwriter’s discount is therefore not budgeted or included in the ROPS. Resolution 83-2014 approved the Bond Purchase Contracts in form and set the maximum levels of Underwriters discount for the 2014 Refunding Bonds. This action has been approved by the Oversight Board and is under review by the Department of Finance. OCII with the advice of its financial advisors will negotiate the final underwriter’s discount on the day the bonds are priced. It may be less than the not-to-exceed levels approved in Resolution 83-2014, but it cannot exceed those levels.

The final dollar amount of the underwriters discount will depend not only upon the final underwriters discount percentage but directly upon the face amount of the bonds sold. This in turn will depend upon market conditions and savings to be realized on each refunded bond. For instance, if rates go up, fewer bond series will be included in the refunding transaction, the size of the transaction will decrease and overall underwriter compensation will drop proportionately.

**Selection Process**

Section IX.C.5 of the Purchasing Policy authorizes OCII staff to select a Contractor from a City panel that was established using the City’s competitive selection process, to the same extent that OCII staff may select a Contractor from an OCII panel authorized under the OCII Purchasing Policy.

On June 27, 2014, PFM, at the direction of OCII staff issued to the City’s underwriter panel a request for proposal ("RFP") for managing underwriters and co-managers for the 2014 Refunding Bonds. Fourteen firms responded to the RFP by the submission deadline of July 11, 2014. A selection panel was comprised of Bob Gamble of PFM (OCII’s financial advisor), Gary Kitahata (OCII’s co-financial advisor), Nadia Sesay of the City Controller’s Office of Public Finance, and John Daigle, OCII Senior Financial Analyst.

The panel evaluated the proposals on the following criteria: experience in selling California tax allocation bonds, especially since January 1, 2012 (i.e. post dissolution); the number and size of financings in which the firm and the primary service providers participated; the relevance of that experience to the 2014 OCII refunding transaction; the depth and quality of the discussion of the structure, credit and marketing of the 2014 Refunding Bonds; and the proposed underwriter’s discount. The panel also endeavored to fulfill the OCII’s goals with respect to SBE and LBE hiring.

The panel made the following recommendations:

- For the Series 2014B bonds, Piper Jaffray as managing underwriter, and Stifel Nicolaus and Company and Stinson Securities, LLC (LBE and SBE) as co-managers; and
• For the Series 2014C bonds, Backstrom McCarley Berry & Company (SBE) as managing underwriter, and Stifel Nicolaus and Company and Blaylock, Beal Van, LLC (SBE) as co-managers.

The Piper, Stifel and Backstrom proposals showed a combination of in-depth knowledge, pertinent experience and strong market penetration for California redevelopment bonds. Backstrom has served as co-manager for most of the OCII bonds in recent years and the panel felt that their strong proposal and historical performance warranted the managing underwriter position for this transaction. Stinson and Blaylock were the strongest choices among the remaining LBE or SBE firms responding.

In their proposals, Piper suggested an underwriter’s discount of .462% for the Series 2014B Bonds and Backstrom, an underwriter’s discount of .387% for the Series C Bonds. Backstrom requested a not-to-exceed amount of .45% to allow for the cost of risk that it may incur under adverse market conditions at the time of the bond sale. Piper requested no further allowance. The OCII with the advice of its Financial Advisors retains the right and is granted the authority to negotiate the underwriter’s discounts at the time of the sale. Depending on market conditions the final discounts may be lower, but may not be higher than the .462% and .45% not-to-exceed numbers approved in Resolution 83-2014.

Next Steps

• November 18: Commission will consider approval of the Preliminary Official Statement. This will be the final Commission action prior to the sale and issuance of the bonds.
• November 18: the Financing Authority will meet to approve execution of the Redemption Agreements.
• November 28 (or sooner): DOF approval expected.
• Early December: bond pricing
• Prior to December 31: closing of transaction.

California Environmental Quality Act

The approval of bond underwriters is not a “project,” as defined by the California Environmental Quality Act (“CEQA”) in CEQA Guidelines Section 15378(b) (5), because the action will not result in a physical change in the environment and therefore is not subject to environmental review under CEQA.

(Originated by John Deale, Sr. Financial Analyst)

Tiffany Bonhee
Executive Director

Attachment A: Bond Purchase Contract, Series 2014B
Attachment B: Bond Purchase Contract, Series 2014C
Attachment C: Resolution 83-2014