



City of Sacramento City Council

915 I Street, Sacramento, CA, 95814
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Meeting Date: 11/20/2012

Report Type: Staff/Discussion

Title: Establishment of City's Pool of Underwriting / Investment Banking Providers

Report ID: 2012-00900

Location: Citywide

Recommendation: Pass a Resolution approving 1) a pool of firms qualified to provide underwriting and investment banking services to the City during fiscal years 2012/13 through 2016/17; and 2) authorize the City Treasurer to select firms from the pool as needed to participate on City financing projects.

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Presenter: Russell T. Fehr, City Treasurer, (916) 808-5832, Office of the City Treasurer

Department: City Treasurer

Division: City Treasurer

Dept ID: 05001011

Attachments:

- 1-Description/Analysis
- 2-Background
- 3-Resolution

City Attorney Review

Approved as to Form
Joseph Cerullo
11/9/2012 1:17:53 PM

City Treasurer Review

Reviewed for Impact on Cash and Debt
Janelle Gray
11/1/2012 1:17:53 PM

Approvals/Acknowledgements

Department Director or Designee: Russell Fehr 11/7/2012 3:37:27 PM

Description/Analysis

Issue: In the past, the City Treasurer, with the City Council’s approval, has established a “pool” of firms eligible to provide underwriting or investment-banking services to the City during a five-year period, and the City Treasurer, at his discretion, has selected firms from the pool to underwrite the City’s bond financings.

The current pool was established in October 2007 and has now expired. During this time, the City has issued three cash-flow notes but has not issued any long-term debt. Over the next five years, the City anticipates issuing various types of debt for which underwriting or investment-banking services will be required. Therefore, it is necessary to establish a new pool of underwriters and investment bankers.

Policy Considerations: Establishing a pool for underwriters and investment bankers to provide services during a specified period of time is a typical practice of cities and other local governments that issue debt in the municipal-bond market, and the State of California also has a very large pool. This practice provides staff with immediate access to specialty expertise, maintains continuity for City projects, and ensures competitive exposure and access to the financial markets.

Economic Impacts: None.

Environmental Considerations:

California Environmental Quality Act (CEQA): Not applicable, as the recommendation does not constitute a “project” and thus is exempt from CEQA.

Sustainability: Not applicable.

Commission/Committee Action: None.

Rationale for Recommendation: During the five-year term of the proposed pool, the City anticipates issuing water- and wastewater-revenue bonds, cash-flow notes (a.k.a. TRANS), and new and refunding land-secured bonds (for Mello-Roos community facilities districts and assessment districts). Establishing the pool of investment-banking and underwriting firms allows the City to take advantage of the firms’ combined financing expertise and distribution strengths. Additionally, there are several on-going, long-term, complex projects (e.g., Downtown Railyards, J-K-L corridor, water & wastewater program) that may require the expertise of investment banks; the five-year period provides continuity for these projects.

Financial Considerations: There are no budget implications associated with the recommendation. Compensation for underwriters and investment bankers is negotiated at the time of each financing, with payment contingent upon the sale of bonds and payable exclusively from the bond proceeds.

Emerging Small Business Development (ESBD): None of the recommended firms is certified under the City's ESBD program.

Background

In the past, the City Treasurer, with the City Council's approval, has established a pool of firms eligible to provide underwriting or investment-banking services for a period of five years. The current pool was established in October 2007 and has now expired. On August 31, 2012, the Office of the City Treasurer began establishing a new pool by releasing a Request for Qualifications (RFQ) seeking Statement of Qualifications (SOQ) from firms interested in providing underwriting or investment-banking services during the next five years. The SOQs were due on October 5, 2012, and the City received SOQs from 28 respected and qualified firms. The Office of the City Treasurer has carefully evaluated the SOQs, with the overarching goal of establishing a pool with the broad experience needed to meet the City's needs and the specific goal of including firms with the backgrounds and capacities required in certain critical areas that will be important to the City in coming years:

- Extensive experience in structuring utility revenue bonds.
- Experience in complex infrastructure financing relevant to projects such as the Railyards and replacing financing by the defunct redevelopment agency.
- Capital to purchase bonds if necessary.
- Sales and distribution networks to ensure bonds are sold.

Based on that evaluation, the Office of the City Treasurer recommends that the pool for the next five years consist of the following six firms:

- E.J. De La Rosa & Co., Inc.
- Goldman Sachs & Co.
- Merrill Lynch, Pierce Fenner & Smith Incorporated
- Morgan Stanley
- Siebert Brandford Shank & Co. LLC
- Stone & Youngberg, A Division of Stifel Nicolaus

At his sole discretion, the City Treasurer will select firms from the pool on an as-needed basis to perform underwriting and investment-banking services. A firm's inclusion in the pool does not guarantee that it will be selected to serve on a financing.

Establishing a pool of firms eligible to provide underwriting or investment-banking services during a five-year period meets several objectives of the City:

- It enables the City to periodically evaluate and identify its financing needs and determine which firms can best meet these needs.
- It allows the City to evaluate changes in the industry and the capabilities of firms to adapt to these changes.
- It sizes the pool relative to the anticipated volume and type of debt to be issued over the five-year term; although firms in the pool are likely to participate in a financing, participation is not guaranteed.
- It provides incentives and continuity on long-term complex projects.



RESOLUTION NO. 2012-XXXX

Adopted by the Sacramento City Council

November 20, 2012

ESTABLISHING THE CITY'S POOL OF UNDERWRITERS AND INVESTMENT BANKERS FOR FISCAL YEARS 2012/13 THROUGH 2016/17

BACKGROUND

- A. In the past, the City Treasurer, with the City Council's approval, has established a pool of underwriters and investment bankers eligible to provide financial expertise and services to the City for its debt-financing needs. The current pool was established five years ago in October 2007 and has expired.
- B. The City Treasurer desires to establish a new pool of underwriters and investment bankers that can meet the City's debt-financing needs during fiscal years 2012/13 through 2016/17. With such a pool in place, the City Treasurer will be better able to access specialty expertise, maintain continuity with complex projects, and ensure that a competitive cost of borrowing is available for City projects.
- C. On August 31, 2012, the City Treasurer distributed a Request for Qualifications ("**RFQ**") to underwriting and investment-banking firms capable of providing the needed financial services.
- D. In response to the RFQ, 28 firms submitted statements of qualifications ("**SOQs**") to the City. After reviewing the SOQs, the City Treasurer recommended that the pool consist of the following six firms: E.J. De La Rosa & Co., Inc., Goldman Sachs & Co., Merrill Lynch, Pierce Fenner & Smith Incorporated, Morgan Stanley, Siebert Brandford Shank & Co. LLC, and Stone & Youngberg, A Division of Stifel Nicolaus.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

- Section 1. The City Treasurer's recommendation to establish a pool of firms eligible to provide the City with underwriting and investment-banking services during fiscal years 2012/13 through 2016/17 is hereby approved, with the pool consisting of the following six firms: E.J. De La Rosa & Co., Inc., Goldman Sachs & Co., Merrill Lynch, Pierce Fenner & Smith Incorporated, Morgan Stanley, Siebert Brandford Shank & Co. LLC, and Stone & Youngberg, A Division of Stifel Nicolaus.
- Section 2. The City Treasurer is authorized, at his discretion and in his judgment, to select from the pool the firm or firms that will participate on the City's financing projects during fiscal years 2012/13 through 2016/17.