



Selection of Senior Underwriter

ATTACHMENT 8E

Agenda of: June 27, 2016
Item No.: 2016-06-05
Amount: TBD

TO: The Honorable
Board of Directors
Great Lakes Water Authority

FROM: Sue McCormick
Chief Executive Officer
Great Lakes Water Authority

DATE: June 27, 2016

RE: Selection of Senior Underwriter

MOTION

Upon recommendation of Nicolette Bateson, Chief Financial Officer (CFO)/Treasurer, the Board of Directors (Board) of the Great Lakes Water Authority (GLWA):

- a) Approves the recommendation of the evaluation panel to approve Citigroup as Bookrunning Senior Managing Underwriter and Goldman Sachs as Co-Senior Managing Underwriter on the inaugural GLWA bond issuance which is expected to include refunding and new money issuance;
- b) Authorizes the Chief Executive Officer (CEO) and/or the Chief Financial Officer to negotiate the final fees with the selected Bookrunning Senior Managing Underwriter prior to the sale of the bonds; and
- c) Concurs with the finding that any of the ten (10) firms listed below be considered qualified to act as a senior managing underwriter for subsequent GLWA bond issuances and directs that in the event of a subsequent GLWA bond issuance, the Chief Procurement Officer shall:
 - 1) Convene an evaluation panel to interview and review the qualifications of each of the ten (10) firms listed below to serve as Bookrunning Senior Managing Underwriter or Co-Senior Managing Underwriter for that issuance; or
 - 2) Issue a Request For Proposals (RFP) to select a Senior Managing Underwriter(s) for that transaction.

- d) Recognizing that from time-to-time the GLWA may issue bonds or a series of bonds that are exclusive to the City of Detroit and that in such circumstances Detroit will have primary responsibility for ensuring that appropriate revenues are raised within its rates to allow for the timely repayment of that issuance, the Board indicates that in such a situation it is the Board's desire that the GLWA's Chief Procurement Officer consult with representatives of the City of Detroit regarding that issuance, the issuance process and the evaluation of that issuance; and**
- e) Authorizes the Chairman and Vice-Chairman to establish a Committee to review issues raised pertaining to this matter and the GLWA Procurement Policy with the members of that Committee to be selected within 30 days following adoption of this Motion;**
- f) The report and recommendation of the Procurement Review Committee shall only be presented to this Board for its review and disposition at a time when all six (6) members of the Board have been appointed and are present; and**
- g) Authorizes the Chief Executive Officer and the Chief Financial Officer/Treasurer to take such other action as may be necessary to accomplish the intent of this vote.**

BACKGROUND

On February 5, 2016, Public Financial Management, Inc. ("PFM") presented a timeline for the proposed issuance of refunding bonds. As part of that timeline, the GLWA needs to select a senior underwriter for the refunding transaction as well as the new money issuance for the water capital improvement plan. Since this is GLWA's inaugural bond transaction, a request for proposal was issued to create a pool of underwriters. All qualified respondents are considered to be in the pool for present and future consideration as Underwriter (also referred to as Senior Manager, Lead Manager, or Bookrunner) or as members of the Underwriting Syndicate (also referred to as Co-Managers). See Attachment 1 - Roles and Responsibilities: The Financing Team in an Initial Municipal Bond Offering prepared by the Municipal Securities Board. See also Attachment 2 - Government Finance Officers Association Best Practice for Selecting and Managing Underwriters.

With the assistance of PFM and GLWA Procurement, a Request for Proposals ("RFP") for Underwriting Services (CS-041) was drafted and advertised on the Michigan Intergovernmental Trade Network (MITN) on March 14, 2016. On April 6, 2016, fourteen responsive proposals were received as defined by the procurement policy. Of the proposals received, twelve met the minimum requirements identified in the RFP and ten were identified for consideration as senior managers and two for co-managers based upon vendor self-identification in the proposal response.

On May 25, 2016, a motion to approve the underwriter selection was presented to the Board. The Board raised several questions and concerns during its discussion of that motion. Ultimately the motion was not approved by a tie vote. The current motion before the Board revises that motion to add for further detail regarding the selection of Senior Underwriters for subsequent debt issuances by the GLWA and the process to be employed should the GLWA issue debt specific to a customer community or a series of bonds or notes specific to a customer community as a part of a larger debt issuance.

JUSTIFICATION

The evaluation team scored the proposals received from twelve underwriting firms. The firms were evaluated based on their written responses to criteria as outlined in the request for proposal. This included their specific water and sewer financing experience, number and size of transactions, ability and willingness to hold bonds in inventory, firm financial capacity, analytical capabilities, and proposed strategies for marketing GLWA and its bonds and rating agency strategies. After the initial scoring, the five highest scoring firms were selected for in-person interviews with the panel. The interviews were held on May 2, 2016 and each firm was allowed to make brief presentations followed by questions from the panel. Interview questions explored who would be assigned to the GLWA team and their overall responsibility, rating firm strategy, investor relations, developing the plan of finance, achieving diversity of the team including co-manager firms, and managing risk. After the interviews, the scores were finalized by the evaluation team. The final scores for the qualified senior manager underwriters are in the following table:

Percent of Maximum Possible Score	Firm Scoring Order	Firm Name	Total Technical Score
96.3%	1	Citigroup	68.6
89.7%	2	Goldman Sachs	63.9
84.7%	3	Morgan Stanley	60.3
80.5%	4	JP Morgan	57.4
78.7%	5	Barclays	56.1
60.2%	6	PNC	42.9
59.3%	7	Wells Fargo	42.2
58.0%	8	Ramirez & Co	41.3
56.8%	9	Siebert, Brandford & Shank, LLC	40.5
52.0%	10	Piper Jaffray	37.1

After the scoring, the fees submitted by each firm were opened and tabulated. As shown at Attachment 3, fees were calculated utilizing an estimated transaction size of \$600 million (uninsured) to achieve a comparable basis for comparison. Summary results are below.

Firm	Total Fees (\$1 bond)	Est. Total Fees (\$) Assumed \$600 million uninsured transaction
Citi (2) (4)	3.01	1,805,000
Goldman Sachs (3)	2.90	1,740,000
JP Morgan	2.73	1,635,000
Morgan Stanley	2.73	1,635,000
Barclays (1)	2.45	1,467,000
PNC	4.23	2,535,000
Wells Fargo	2.23	1,335,000
Ramirez & Co.	4.71	2,823,000
Siebert Brandford (4)	3.24	1,945,000
Piper Jaffray	3.49	2,091,000
Average	3.17	1,901,100

- (1) Barclays excluded underwriter's counsel; assumed at \$75,000 for this analysis for Barclays and all others.
- (2) Citi left management fee at GLW A option; assumed at \$0 here.
- (3) Goldman Sachs bid range of management fee at \$0.35-1.00; assumed at midpoint of \$0.675 here.
- (4) Different takedown fee bid for insured bonds; Both Citi and Siebert at \$2.00 for insured bonds.

An additional measure of evaluating the underwriting fees is shown in Attachment 4. The main component of an underwriting fee is the sales commission also referred to as "take down" which represents the amount paid to the firm's sales force for selling the Authority's bonds. The amount of the commission or takedown varies based on various factors including the par amount of the bonds, the type and security of bonds, the rating, the maturity date, and type of investor among other things. The commission or takedown proposed by the five firms selected for interviews ranged from \$2.00 to \$3.25 per \$1,000 of bonds. In reviewing this information, it should be noted that the fees proposed were comparable to other large utility financings throughout the country despite GLWA's ratings being lower than the majority of the issuances.

As was discussed by the Board in its May 25, 2016 meeting, the motion currently before the Board recognizes that we are in a period of market volatility and that there may be a need for subsequent debt issuances in the months or years to come.

The motion currently before the Board recognizes that fact and offers the Chief Procurement Officer two options for a subsequent debt issuance: 1) interview all qualified senior managers who wish to be considered for lead manager for that issuance or 2) issue a new RFP for that issuance. It is assumed that option 1 would be used if that subsequent debt issuance were to take place within the next 12 to 18 months and option 2 if the debt were contemplated at a later date.

Finally, the Board raised a concern regarding debt issued for the City of Detroit. While it is anticipated that like other customer communities, Detroit has and will continue to participate in GLWA procurements consistent with its Procurement Policy. It is also recognized that there may from time to time be debt issued or a series of debt issued, exclusive to the City of Detroit. The revised motion reflects the sense of the Board that in such circumstances the affected community, which will ultimately bear repayment responsibility, should be consulted regarding the GLWA's procurement process.

RECOMMENDATION

Based on the deliberations and the final scoring referenced above, the evaluation team recommends selecting Citigroup as the Bookrunning Senior Managing Underwriter and Goldman Sachs as the Co-Senior Manager for the upcoming refunding and new money bond sale (see, "Roles of the Underwriter" below).

In addition to the above participants, other co-managers have been selected by the financing team and that recommendation by the GLWA CFO/Treasurer is presented to the Board separately at today's meeting.

It is also recommended that the pool of all ten qualified responses received be utilized to select senior and co-managers to use on the upcoming and future bond sales to achieve the best outcome for GLWA and diversity among the financing team. The members of future underwriting teams will be determined by GLWA based on the specific details of the proposed transaction and market conditions at that time in the bond purchase agreement.

It is also recommended that the GLWA Administration consider expanding the Selling Group Member base to achieve additional market access and diversity as deemed appropriate at the time of the transaction.

BUDGET IMPACT

Any fees paid to the selected senior underwriter will be paid from the proceeds of the refunding or new money bond transaction. There is no direct effect on the budget.

COMMITTEE REVIEW

This matter is being presented directly to the full Board as it presents additional new information relative to the matter considered by the Board at its May 25, 2016 meeting.

SHARED SERVICES IMPACT

This item does not impact the Shared Services Agreement between the GLWA and the City of Detroit.



Great Lakes Water Authority Board of Directors

General Certification

The undersigned hereby certifies that (i) the Resolution 2016-06-05 "Selection of Senior Underwriter" attached hereto is a true and complete copy of the Resolution duly passed by the Great Lakes Water Authority Board of Directors at a meeting held on June 27, 2016 at which meeting a quorum was present and remained throughout, (ii) the original thereof is on file in the records of the Great Lakes Water Authority Board of Directors, (iii) the meeting was conducted, and public notice thereof was given, pursuant to and in full compliance with the Open Meetings Act (Act No. 267, Public Acts of Michigan, 1976, as amended) and (iv) Minutes of such meeting were kept and will be or have been made available as required thereby.

YES: Robert J. Daddow, Gary A. Brown, Joseph Nardone, Brian Baker, and
Freman Hendrix
NO: None
ABSTAIN: None
ABSENT: None

Dated: June 27, 2016

By: Rechanda L. Willis
Title: Executive Board Assistant