



## Financial Services Audit Committee Communication

**Date:** June 15, 2018

**To:** Great Lakes Water Authority Audit Committee

**From:** Jon Wheatley, Public Finance Manager

**Re:** Proposed Underwriter Selections for the for the 2018 Financing Program

**Background:** At its meeting on June 27, 2016, as part of the underwriter selection process related to its inaugural 2016 bond transaction, the Great Lakes Water Authority (GLWA) Board of Directors (Board) approved the following list of ten (10) firms that were deemed qualified to act as senior managing underwriters for subsequent GLWA bond issuances.

- Barclays Capital, Inc.
- Citigroup Global Markets, Inc.
- Goldman Sachs & Co.
- JP Morgan Securities LLC
- Morgan Stanley & Co.
- Piper Jaffray & Co.
- PNC Capital Markets
- Ramirez & Co.
- Siebert Brandford (Cisneros) Shank
- Wells Fargo Securities

Furthermore, the GLWA Board directed that in the event of a subsequent 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.*

**Justification:** To begin preparations for GLWA's proposed transactions as outlined below, GLWA is required to select the Senior (Book Running) Underwriter as directed by the GLWA Board, for the proposed bond issues. The target date to complete the proposed transactions is October 1, 2018. To meet this time schedule, the financing team needs to be finalized by July 1, 2018 so that there is sufficient time to approve resolutions, draft and circulate disclosure documents, meet with the rating agencies and investors as well as price and deliver the bonds before the October deadline.

**Proposed Transactions:** The outstanding GLWA bonds for the water and sewer systems that are the focus of the refunding plan total approximately \$178 million for the water system approximately and approximately \$190 million for the sewer system. These include the current refunding of Series 2001C second lien bonds of the Water System, the current refunding of the senior lien 1998A, 1998B, and 2001 C2 Sewer System Bonds, as well as the potential taxable advance refunding of the senior lien Series 2001 C1 Sewer System Bonds. Additionally, GLWA has been notified by DWSD that it will need GLWA to issue approximately \$75 million of new money sewer bonds on its behalf.

**Time Schedule:** GLWA put together an aggressive time schedule of less than 30 days to advertise and select the Senior Underwriter. This schedule and proposed selection processes were reviewed and approved by the GLWA Audit Committee at its May 22, 2018 meeting and by the GLWA Board of Directors at its May 23, 2018 meeting. Below is the time schedule for the underwriter solicitation process.

Underwriter Solicitation Time Schedule		
Category	Date	
Review Strategy at Audit Committee	May 22, 2018	✓
Review Strategy with Board of Directors	May 23, 2018	✓
Send out Underwriter Solicitation	May 24, 2018	✓
Solicitation Responses Due	June 7, 2018	✓
Scoring of Written Responses	June 11, 2018	✓
Meeting with Underwriters	June 12, 2018	✓
Final Evaluations/Recommendation	June 12, 2018	✓
Audit Committee Review of Recommended Underwriting Team	June 15, 2018	
Board Approval of Underwriting Team	June 27, 2018	

**Selection Process:** GLWA, through its Procurement Group, issued a Request for Updated Proposals from the pre-approved list of the 10 underwriters above. An evaluation panel was assembled to represent GLWA, DWSD and the member communities in the selection process. The panel evaluated all 10 firms that responded to the request, based on their written proposals and oral interviews.

**Evaluation Panel:** To accomplish the objective of selecting the Senior Underwriter, an evaluation panel was selected in accordance with the Board's direction of having 3 GLWA representatives, 2 DWSD representatives and one member community representative. The evaluation panel was comprised of the following members.

Nicolette Bateson, CPA, Chief Financial Officer/Treasurer, GLWA

Thomas Naughton, Chief Financial Officer, DWSD

Jeff McKeen, General Manager, Southeast Oakland County Water Authority

Jon Wheatley, Public Finance Manager, GLWA

Robert Rice, Public Finance Manager, DWSD

Kim Garland, Public Finance Management Professional, GLWA

**Proposal Scoring:** The scoring of the proposals was based on the written responses to the proposals, which included recommended financing plan and structure, rating agency strategy and investor marketing strategy. The scoring for the written responses was completed prior to the oral interviews. The oral interviews with all 10 underwriting firms were held on June 12, 2018. The oral interviews and team members were also scored as part of the evaluations. After the written response and oral interview scoring, the fees were also scored, based on the separate submissions by the firms, as summarized in **Attachment B**, which was prepared by GLWA’s financial advisor, PFM. The total weighting of the evaluation criteria is shown below.

**Underwriter Solicitation  
Scoring Criteria**

<b>Category</b>	<b>Points</b>
Refinancing Plan and Structure	25
Credit and Market Strategy	20
Fees	10
Interview Presentation	45
Total	100

**Panel Recommendation:** Based on the panel’s final scoring of the evaluation criteria referenced above, it was the unanimous recommendation of the evaluation panel to select Citigroup as the Bookrunning Senior Managing Underwriter and Wells Fargo Securities as the Co-Senior Manager for the upcoming refunding and new money bond sales (see, “Roles of the Underwriter” below). The summary of the evaluation panel’s final scoring is shown in **Attachment A**.

In addition to the Bookrunning Senior Manager and Co-Senior Managers selected above, the evaluation panel also recommends the following list of co-managers for the upcoming transactions:

- Goldman Sachs & Co.
- JP Morgan Securities LLC
- Morgan Stanley & Co.
- Ramirez & Co.
- Siebert Cisneros Shank & Co.

**Proposed Action:** Audit Committee recommends that the GLWA Board approve Citigroup as Bookrunning Senior Managing Underwriter, Wells Fargo Securities as Co-Senior Managing Underwriter at a Takedown fee of no more than \$2.50 per bond (plus expenses) which will be subject to negotiation prior to the final pricing of the bonds. The Audit Committee further recommends the Co-Managers of Goldman Sachs & Co., JP Morgan Securities LLC, Morgan Stanley & Co., Ramirez & Co. and Siebert Cisneros Shank & Co.

## ***Roles of the Underwriters<sup>i</sup>:***

### **Senior (Book Running) Underwriter-**

- Manages the affairs of any underwriting syndicate formed in connection with a new issue;
- In a negotiated offering:
  - works with state or local government and municipal advisor to design the plan of finance, develops the bond structure
  - assists in determining timing to sell bonds based on market conditions – assists in the development of the bond documents
  - assists in preparing any rating agency strategy and presentation
  - “runs numbers” providing quantitative analysis of financing structure – manages the pricing process
  - executes pre-sale marketing – solicits price views from syndicate members, which provides preliminary pricing indications among underwriters and customers about the offering range of a new issue
  - prepares distribution analysis
  - works with the state or local government to determine how orders are filled from the bond pricing order period – executes the bond purchase agreement with the municipal government on behalf of the syndicate
- Provides proceeds at closing and obtains funds from investors

### **Co-Manager (also known as Underwriting Syndicate)-**

- Under the direction of the senior manager, purchases an initial bond issue from state or local government and offers it for resale to investors
- Provides sufficient capital to purchase an issue
- Shares the risks of underwriting the issue with the senior manager
- Distributes the bonds to investors

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<sup>i</sup>From the MSRB website- Roles and Responsibilities: The Financing Team in an Initial Municipal Bond Offering  
<http://msrb.org/msrb1/pdfs/Financing-Team.pdf>