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Title: RESOLUTION APPROVAL PROPOSED UNDERWRITING TEAM FOR 2020 REFUNDING AND POTENTIAL NEW MONEY TRANSACTIONS

Sponsors: Nicolette Bateson

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Attachments: 1. 7B3 Appendix A Underwriter Selection Procurement Report.pdf, 2. 7B4 Appendix B Comparable Transaction Takedowns.pdf

Date	Ver.	Action By	Action	Result
12/11/2019	1	Board of Directors Workshop Meeting	Approved as Amended	Pass

RESOLUTION APPROVAL PROPOSED UNDERWRITING TEAM FOR 2020 REFUNDING AND POTENTIAL NEW MONEY TRANSACTIONS

Agenda of: December 11, 2019
Item No.: **2019-428**
Amount: N/A

TO: The Honorable
Board of Directors
Great Lakes Water Authority

FROM: Sue F. McCormick
Chief Executive Officer
Great Lakes Water Authority

DATE: December 11, 2019

RE: RESOLUTION APPROVAL PROPOSED UNDERWRITING TEAM FOR 2020 REFUNDING AND POTENTIAL NEW MONEY TRANSACTIONS

MOTION

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

- 1) Approves Citigroup as Bookrunning Senior Managing Underwriter;
- 2) Approves Siebert Williams Shank & Co., LLC as Co-Senior Managing Underwriter;
- 3) Authorizes a Takedown Fee of \$2.50 per bond (plus expenses);
- 4) Approves Goldman Sachs & Co., JP Morgan Securities LLC, Morgan Stanley & Co., Ramirez & Co. and Wells Fargo Securities as Co-Managers; and
- 5) Request that staff develop and present a policy for current and future underwriter selection; and
- 6) authorizes the CEO to take such other action as may be necessary to accomplish the intent of this vote.

BACKGROUND

At its meeting on June 20, 2018, as part of the underwriter selection process related to its 2018 bond transaction, the Great Lakes Water Authority (GLWA) Board of Directors (Board) approved the following list of seven (7) firms that were deemed qualified to act as senior managing underwriters for subsequent GLWA bond issuances:

- Citigroup Global Markets, Inc.
- Goldman Sachs & Co.
- JP Morgan Securities LLC
- Morgan Stanley & Co.
- Ramirez & Co.
- Siebert Williams Shank & Co., LLC (Formerly Siebert Cisneros Shank & Co., LLC)
- Wells Fargo Securities

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. For the proposed 2020 transactions, GLWA solicited Request for Proposals (RFP) from the 7 firms approved by the GLWA Board in 2018 (GLWA RFP 1903828).

The target date to complete the proposed transaction is March 2020. To meet this time schedule, the financing team needs to be finalized as soon as possible to allowing sufficient time and flexibility to approve resolutions, draft and circulate disclosure documents, meet with rating agencies, conduct an effective investor outreach, and price and deliver the bonds - all before the *preferred* March 2020 deadline in advance of asking the Board to adopt a budget and charges.

Proposed Transactions: The outstanding GLWA bonds for the water and sewer systems that are the focus of the refunding plan total approximately \$365 million for the water system and approximately \$675 million for the sewer system. These include the Series 2011A, 2011B, and 2011C senior lien bonds of the Water System, as well as Series 2012A and Series 2014C senior lien bonds and Series 2005A and Series 2006B second lien bonds of the Sewer System. An update related to the potential refunding by PFM Financial Advisors was presented to the Audit Committee on October 18, 2019.

Additionally, GLWA has been working with DWSD to determine if it will need GLWA to issue any new money 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 from the previously approved pool noted above. This schedule and proposed selection processes were reviewed and approved by the GLWA Audit Committee at its October 18, 2019 meeting as we were seeking concurrence to proceed with this possible, and until very recently, unexpected savings opportunity.

Selection Process: GLWA, through its Procurement Group, issued a Request for Updated Proposals from the pre-approved list of the seven underwriters above. All firms responded to the request. Evaluation panelists reviewed the written proposals and participated in an oral interview.

Evaluation Panel: The evaluation panel was comprised of the following members:

- Nicolette Bateson, CPA, Chief Financial Officer/Treasurer, GLWA
- Thomas Naughton, Chief Financial Officer, DWSD
- Jon Wheatley, Public Finance Manager, GLWA
- Robert Rice, Public Finance Manager, DWSD
- Kim Garland, Reporting & Compliance Manager, 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 7 underwriting firms were held on November 22, 2019. The oral interviews and firm 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. The total weighting of the evaluation criteria is shown below.

**Underwriter Solicitation
Scoring Criteria**

Category	Points
Refinancing Plan and Structure	25
Credit and Market Strategy	20
Fees	10
Oral Interview and Project Team	45
Total	<u>100</u>

It should be noted that all seven firms brought top level directors and bankers to the proposal interviews. The creativity, insight, expertise, and, in many instances, willingness to offer their balance sheet support to ensure the success of GLWA’s transaction was remarkable.

Evaluation Panel Recommendation - Bookrunning Senior Managing Underwriter: Based on the panel’s final scoring of the evaluation criteria referenced above, the highest scoring firm is Citigroup. For this reason, it is recommended that Citi be appointed as the Bookrunning Senior Managing Underwriter (see, “Roles of the Underwriter” below). The summary of the evaluation panel’s final scoring is provided in **Attachment A**.

Administrative Recommendation - Co-Senior Manager: Previously, the GLWA has appointed the Co-Senior Manager by selecting the highest scoring firm. This approach, while adhering to the merits of a defined procurement process, is not necessarily the norm. Further, the Board and Administration have struggled with balancing the merits of a proscribed procurement process with considering the merits of assembling and underwriting “team” where the merits of selection decisions

go beyond scores. Areas of concern include: a) ensuring participation among several firms to expand the network of those who are well-informed to speak to the complex GLWA credit story and legal framework; b) strengthening working relationships with each top-notch team that continues to demonstrate an interest in working with GLWA; c) assembling a team that complements, rather than duplicates, strengths and weaknesses; and d) introducing new perspectives to each transaction.

For the reasons stated above, it is proposed that the Board consider adopting a policy for current and future underwriter selection that states that a) the bookrunning senior manager recommendation align with GLWA's competitive procurement process with highest scoring firm being recommended (subject to negotiation of reasonable fees) and b) GLWA administration makes a recommendation for co-manager based upon other considerations which may include maintaining working relationships among a pool of firms that have experience serving as GLWA's Managers and Co-Managers, complements the Senior Manager's team in expertise and resources, and other considerations that are pertinent to the proposed transaction.

With that background, it is recommended that Siebert Williams Shank & Co., LLC be appointed as the Co-Senior Manager for the upcoming calendar year transaction. Reasons include: experience on a transaction for a key peer utility; has relevant historical understanding and perspective of the DWSD system, rationale that resulted in the creation of the authority, and the outstanding debt; experience of key team members in discussing the rating agency approach that appeared to complement the drive that Citi and the GLWA team have in seeking further bond rating upgrades. It should also be noted that two other firms in the pre-selected pool have served as co-senior manager on prior GLWA transactions.

Administrative Recommendation - Co-Managers: 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.
- Wells Fargo Securities

Proposed Underwriter Takedown: The Takedown Fee in a bond transaction is the compensation paid to the underwriter for selling the bonds. It is expressed as a dollar amount per \$1,000 of the par amount of the transaction. A summary of the Takedown Fees proposed by all seven underwriters on the proposed GLWA transaction can be found in **Appendix A**. Citigroup, as the recommended underwriter, bid a takedown of \$2.50 per \$1,000 (not including expenses). The proposed Takedown Fee was not the lowest of the fees proposed however it is within the market range for similar transactions. As a benchmarking comparison **Attachment B** shows the Takedown Fees from GLWA's

2016 and 2018 transactions as well as Takedown Fees from similar transactions as provided by GLWA's Financial Advisor, PFM Financial Management.

As can be seen in the fee benchmarking analysis at **Attachment B**, the \$2.50 per bond Takedown Fee proposed by Citigroup is lower than GLWA's 2016 transaction and the same as GLWA's 2018 transaction. Citigroup's Takedown Fee is well within the range (\$1.64 per \$1,000 for the Southern California Public Power Authority on the low end and \$4.65 per \$1,000 for the City of Bridgeport on the high end) of the average Takedown Fees for comparable transactions.

BUDGET IMPACT

All fees related to the proposed transactions will be paid out of the proceeds of the bonds issued. The budget impact and timing related to financial savings from the refunding is not determinable at this time.

COMMITTEE REVIEW

This matter was reviewed by the GLWA Audit Committee at its meetings on December 6, 2019. The Audit Committee voted to move this item without recommendation to the full Board on December 11, 2019.

Roles of the Underwriters:

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