

STAFF REPORT

SUBJECT: Selection of Bond Underwriting Service and Disclosure Counsel for Series 2018/19 Bond Issuance

RECOMMENDED ACTION: By Motion Select for Underwriting Services: Lead Underwriter/Manager – RBC Capital Markets, Co-underwriter – Wells Fargo Securities, And Select Disclosure Counsel – Orrick, Herrington & Sutcliffe LLP

DISCUSSION:

In September, the Board, acting as the San Joaquin County Transportation Authority approved moving forward with a Series 207/18 Bond issuance and authorized staff to begin assembling the financing team. Requests for Proposals were distributed for underwriter and disclosure counsel services.

As a result of the RFPs, seven financial institutions submitted proposals to serve as underwriter and five firms submitted to provide disclosure counsel services.

RECOMMENDATION:

Staff is recommending selection of RBC Capital Markets as lead underwriter and Wells Fargo Securities as co-underwriter and the firm of Orrick, Herrington & Sutcliffe LLP to serve as disclosure counsel.

FISCAL IMPACT:

The cost of issuance, including underwriter's costs and disclosure counsel would come off the gross proceeds and deduct approximately \$500,000 from the total. Staff is coordinating with the agency's financial advisor to structure a transaction that would issue bonds used to defease some or all an existing \$75 million line of credit and/or provide new money to advance regional arterial projects. The expected bonding capacity ranges between \$80 million and \$107 million depending on market conditions and structure of the bonds.

BACKGROUND:

In 2014, SJCOG, acting as the San Joaquin County Transportation Authority (the Authority)

issued \$48 million in bonds to fund a number of local, regional arterial, projects. At the same time, SJCOG restructured its \$167 million commercial paper program, reducing the amount to \$75 million and converting the borrowing to a direct pay line of credit. This line of credit has been extended one time and expires in February 2019. The fiscal benefit of this line of credit was to take advantage of very low interest rates available for short term borrowing. However, as the Federal Reserve has increased short term interest rates, the cost of maintaining this line has increased. Long term interest rates are still historically low and offer the opportunity to defease the line of credit and amortize payments out 21 years.

There is also the opportunity to provide funding for some regional projects that have been in search of funds. SJCOG staff continues to work with local agency staff to develop that program of projects.

The financing team will include the Authority's financial advisory firm of Public Financial Management (PFM), bond counsel Nossaman LLP, the underwriter (and underwriter's counsel) and disclosure counsel. SJCOG general counsel, Neumiller & Beardslee, will also be involved, as necessary.

UNDERWRITER

The Authority, through PFM, issued a Request for Proposal October 1st with the proposal due date on October 12th to financial institutions seeking proposals for the ultimate selection to conduct a financing.

Nine investment firms submitted. Proposals were received from:

- Citi
- RBC
- JPMorgan
- Barclays
- Bank of America/Merrill Lynch
- Morgan Stanley
- Wells Fargo
- Drexel Hamilton
- UBS

Evaluation was conducted by Steve Dial, Deputy Executive Director/CFO and Gracie Orosco, Chief Accountant, assisted by financial advisor PFM using the following criteria:

- Quality of proposal
- Expertise and experience of financing team
- Understanding of the Authority's needs
- Interpretation of market conditions
- Proposed structure of financing
- Proposed credit rating strategies
- Experience in transportation financing

- Experience with California sales tax authorities
- Cost of issuance expense

Based upon those factors, staff is recommending the following financing team:

- RBC Capital as Senior Underwriter receiving 70% of the financing;
- Co-Manager Wells Fargo Securities receiving 30% of the financing.

DISCLOSURE COUNSEL

The Authority, through PFM, issued a Request for Proposal to law firms for proposals for the services of Disclosure Counsel. Four proposals were received from qualified individuals and firms.

- Orrick, Herrington & Sutcliffe LLP
- Hawkins, Delafield & Wood, LLP
- Norton, Rose, Fulbright US LLP
- Nixon Peabody LLP
- Jones Hall LLP

Based upon qualifications and cost proposal, staff is recommending Orrick, Herrington & Sutcliffe LLP.

The team will kick off the process of developing the financing structure within the next two weeks. The Board will be acting on the proposed finance structure prior to final pricing and closing, anticipated in December 2018 or January 2019.