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**FINANCE AND BUDGET COMMITTEE
NOVEMBER 14, 2007**

SUBJECT: PROP C BONDS

**ACTION: APPOINT UNDERWRITERS FOR A NEGOTIATED FORWARD
REFUNDING**

RECOMMENDATION

Appoint Banc of America Securities LLC as senior managing underwriter with RBC Capital Markets and De La Rosa & Co. as co-managing underwriters for the negotiated sale of refunding bonds in one or more series through June 30, 2008.

RATIONALE

Due to generally low interest rates and the current flatness of the interest rate yield curve, Metro has the opportunity to refund up to \$170 million of the Prop C 1998-A bonds and lock in as much as \$5 million in present value savings. Approval of the recommendations will position Metro to be able to expeditiously sell the refunding bonds so long as the savings meet the Debt Policy refunding criteria.

Issuance of the bonds will lock in the current interest rates and refunding savings. The bonds will be sold on a negotiated basis using a forward delivery sale, a long delivery sale or current delivery sale, whichever is anticipated to provide the greatest savings on the sale date. The various delivery methods are required in order to minimize cost by addressing the particular credit requirements of investors at the time of the pricing. For tax reasons the outstanding bonds may not be refunded using an advance refunding, which is the more common approach used when bonds are not currently callable. The 1998 bonds are not callable until July 1, 2008, but the refunding bonds may be delivered up to 90 days prior to the call date.

Use of a negotiated bond sale is recommended for this transaction in order to achieve the lowest cost. A negotiated bond sale is justified under the Debt Policy criteria for Method of Bond Sale since forward delivery bonds and delayed delivery bonds are more complex products and have fewer potential investors. To generate strong investor interest the underwriters need to begin early to contact investors to explain the transaction and assist the investors in securing their internal credit approvals needed to purchase the bonds. Additionally, forward transactions have a unique requirement that the investor provide a commitment letter prior to the pricing. These factors necessitate the use of a negotiated sale in order that the underwriters may begin working with investors well before the pricing.

The underwriting team will be retained to transact one or more sales through June 30, 2008 to refund the Prop C 1998-A bonds. Current market conditions are resulting in less than half of the 1998 bonds producing sufficient savings to meet the Debt Policy refunding criteria. If conditions improve, the remaining bonds that then meet the refunding criteria will be refunded in a separate transaction.

FINANCIAL IMPACT

The appointment of underwriters has no financial impact. The costs of issuance for this refunding were not budgeted in FY08 because of the uncertainty related to completing a refunding. If executed, the refunding will generate a favorable variance in debt service interest, project 610307, account 51121, in FY08 to offset costs of issuance.

ALTERNATIVES CONSIDERED

Appointment of the underwriters could be delayed resulting in the delay of the refunding and potential loss of savings. Approval of the recommendation allows Metro to be positioned to take advantage of this refunding opportunity in the face of potentially adverse market fluctuations.

Various bond structuring alternatives were considered including the use of hedging products to lock-in interest rates until the bonds become callable and subject to early redemption in July 2008. The use of an interest rate hedge may provide similar savings to the recommended approach but adds additional complexity and is therefore not recommended.

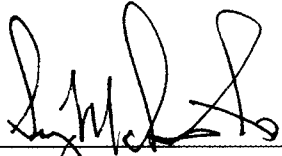
NEXT STEPS

- Select bond counsel and develop the documentation for the sale
- Provide the Preliminary Official Statement to the Board to review prior to the January meeting of the Finance and Budget Committee
- Request Board authorization at the January Board meeting to sell the bonds
- Distribute the Preliminary Official Statement to potential investors and initiate the pre-marketing effort
- Price the bonds in February 2008, or as otherwise advised by our financial advisor
- Hold a document closing following the pricing
- Hold a final closing and deliver the bonds in April 2008

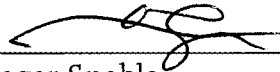
ATTACHMENT

- A. Summary of Underwriter Selection
- B. History of Underwriter Selection

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Terry Matsumoto
Chief Financial Services Officer and Treasurer



Roger Snoble
Chief Executive Officer

Attachment A

Summary of Underwriter Selection
Refunding of the Prop C 1998-A Bonds

Recommended Firms: Banc of America Securities LLC (Senior Manager)
RBC Capital Markets (Co-Manager)
De La Rosa & Co. (Co-Manager)

Proposed Price :

Banc of America Securities LLC - (Senior Manager)

-Takedown: Average of \$2.25 / \$1,000 of bonds, plus expenses

Note that compensation for the co-managers listed below will be at the rate of the senior manager listed above, \$2.25 / \$1,000. The takedowns shown below for the co-managers are their proposed rates if they had been selected to perform as the senior manager.

RBC Capital Markets (Co-Manager)

-Takedown: Average of \$1.50 / \$1,000 of bonds, plus expenses

De La Rosa & Co. (Co-Manager)

-Takedown: Average of \$2.50 / \$1,000 of bonds,

RFP Issued: October 4, 2007

RFPs Mailed: 18

Proposals Received: 14

Proposals Due: October 15, 2007

Evaluation Method: Best Value

Proposing Firms:

List of Proposers
Backstrom McCarley Berry & Co.
Banc of America Securities, LLC
Bear Stearns & Co. Inc.
Citigroup Global Markets, Inc.
De La Rosa & Co., Inc.
Goldman Sachs & Co.
JPMorgan
Lehman Brothers, Inc.
Merrill Lynch & Co.
Morgan Stanley
Ramirez & Co., Inc.
RBC Capital Markets
Siebert Brandford Shank & Co., LLC
UBS Securities LLC

Attachment B

History of Underwriter Selection Refunding of the Prop C 1998-A Bonds

A. Background on Selected Firms

Banc of America Securities LLC is the investment banking, securities trading, and underwriting subsidiary of Bank of America Corporation. Bank of America is one of the world's largest financial institutions, serving individual consumers, small and middle market businesses and large corporations with a full range of banking, investing, asset management and other financial and risk-management products and services. Banc of America Securities is one of the few firms to maintain a full-service underwriting and trading desk in San Francisco. As the largest consumer financial institution in the country, Bank of America Corporation, through its various subsidiaries, has tremendous direct contact with retail customers, including over 2,400 financial advisors.

RBC Capital Markets is an international corporate and investment bank that includes one of the largest municipal finance organizations in the U.S. RBC Capital Markets is part of a leading North American provider of financial services, Royal Bank of Canada, with one of the highest natural credit ratings of any financial institution in the world (Aaa/AA-/AA) and more than \$554.2 billion in assets and a market capitalization of over \$73 billion. RBC serves more than 14 million clients worldwide. Within California, RBC has 16 brokerage offices with 176 representatives; over 63,000 accounts with \$15.5 billion in assets under management, of which \$2.5 billion are municipal assets.

De La Rosa & Co. is a registered investment bank with full-service offices in Los Angeles and San Francisco. Since 1989, they have been providing services in investment banking and securities distribution to help California municipalities finance their capital projects through the issuance of municipal bonds and have structured and sold every type of municipal financing. De La Rosa & Co. is a privately held corporation wholly owned by its employees. There are currently 23 full-time employees – all based in California.

B. Selection Background

This was a negotiated selection process to identify one senior managing underwriter and two co-senior managing underwriters to issue the Prop C Series 2008-A Refunding Bonds.

The Prop C Series 2008-A Refunding Bonds will current refund a portion of the outstanding Prop C 1998-A bonds. The underwriters will facilitate the structuring of the bonds, development of documentation, support development and delivery of presentations to the credit rating agencies, bond insurance providers and potential investors. The underwriters will pre-market the bonds to potential investors, culminating with the pricing of the bonds.

Selection of the senior manager and co-managers was made based on proposal responses and by ranking each according to the selection criteria. The criteria included consideration of the amount and quality of recent and direct experience of the firm, of the relevant investment bankers, bond traders and sales force in marketing and selling forward delivery bonds and sales tax revenue bonds for California issuers and nationally, and the proposed takedown.

Based on higher scores for experience of the firm, experience of the bankers, proposed takedown and quality of the proposed financing plan, Banc of America Securities LLC is recommended to serve as the senior managing underwriter. The firms recommended to serve as co-managers are RBC Capital Markets and De La Rosa & Co. The co-managers are recommended based upon a combination of their proposal responses, market segments served, geographic regions served, and minority status.

C. Evaluation of Proposals

14 proposals were received and evaluated in accordance with the guidelines and criteria established in the RFP.

D. Cost/Price Analysis Explanation

The proposed pricing was determined to be fair and reasonable based upon competition and ranking relative to the other proposers.

