



**FINANCE AND BUDGET COMMITTEE
JANUARY 16, 2008**

SUBJECT: REFUNDING OF PROP A AND PROP C BONDS

ACTION: APPOINT UNDERWRITERS FOR TWO NEGOTIATED REFUNDINGS

RECOMMENDATION

Appoint underwriters to serve as co-senior managing underwriters and broker/dealers for the negotiated sales and ongoing remarketing of variable rate multimodal refunding bonds in one or more series for each refunding.

- A. Appoint Banc of America Securities LLC and Morgan Stanley to refund the Prop C 1998-A Bonds; and,
- B. Appoint Merrill Lynch Global Markets and Investment Banking, JP Morgan, De La Rosa & Co. and UBS Investment Bank to refund the Prop A 1999-A and Prop A 1999-B Bonds.

RATIONALE

Due to generally low interest rates and the current flatness of the interest rate yield curve, we have the opportunity to refund up to \$170 million of the Prop C 1998-A Bonds (the "1998 Bonds") and up to \$266 million of the Prop A 1999-A and Prop A 1999-B Bonds (jointly the "1999 Bonds") to lock in present value savings up to \$10 million and \$12 million, respectively. These savings are available by using interest rate swaps or other hedging techniques in negotiated bond sales which provide greater savings than competitively bid fixed rate bonds.

Appointment of underwriters is the first step of a two step process for issuing these refunding bonds. The second step is the approval of the specific refunding transaction documents that will be brought to the Board at a subsequent meeting.

FINANCIAL IMPACT

The appointment of underwriters has no financial impact. The costs of issuance for these refundings will be addressed in the separate reports requesting approval of the transactions.

ALTERNATIVES CONSIDERED

Appointment of the underwriters could be delayed resulting in the possible delay of the

prepare the appropriate transaction documents so as to be positioned to recommend the specific transactions for Board consideration.

DISCUSSION

Use of a negotiated bond sale is recommended for these transactions in order to achieve the lowest cost. Negotiated bond sales are justified under the Debt Policy criteria for Method of Bond Sale. The bonds will be issued as multimodal bonds, likely having an initial reset period of 7-days. For variable rate bond issues a broker/dealer agreement is required between us and each broker/dealer. Additionally, the bonds are remarketed or auctioned every seven days, so it is necessary to have a single broker/dealer be responsible for a particular series of bonds to ensure the bonds get placed.

Depending on market conditions, it is possible that not all the appointed underwriters will be utilized if substantially less than all the prior bonds are refunded. Minimum and maximum series sizes will be determined by us in consultation with our financial advisor. Bonds will be allocated to underwriters based on their rankings as indicated in Attachment A, with "1" being the highest ranking. The bonds will be allocated in series of approximately equal size until the greatest number of firms is participating while exceeding the minimum series size. Having appropriately large series for each underwriter enhances liquidity for investors and the underwriters, which tends to favorably affect the price.

NEXT STEPS

- Select bond counsel to assist in developing the interest rate swap solicitation and subsequent documentation.
- Provide the Preliminary Official Statement to the Board to review prior to approval.
- Request Board authorization at the February or March Board meeting for the specific refunding transactions.

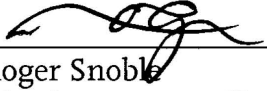
ATTACHMENT

- 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 (listed in ranking order):

- 1) Banc of America Securities LLC (Co-Senior Manager)
- 2) Morgan Stanley (Co-Senior Manager)

Rankings will be used to allocate bonds among the underwriters in order for each series to exceed the minimum size guidelines that will be established by us, with "1" being the highest ranking. It is not assured that all firms appointed by this report will be allocated bonds.

Proposed Price : (Each firm will be compensated at its proposed price)

Banc of America Securities LLC (Senior Manager)

Auction Rate Securities

- Takedown: \$2.25 / \$1,000 of bonds, plus expenses
- Annual Fees \$0.25 / \$1,000 of bonds

Variable Rate Demand Obligations

- Takedown: \$1.00 / \$1,000 of bonds, plus expenses
- Annual Fees \$0.05 / \$1,000 of bonds

Morgan Stanley (Co-Senior Manager)

Auction Rate Securities

- Takedown: \$2.50 / \$1,000 of bonds, plus expenses
- Annual Fees \$0.25 / \$1,000 of bonds

Variable Rate Demand Obligations

- Takedown: \$0.90 / \$1,000 of bonds, plus expenses
- Annual Fees \$0.05 / \$1,000 of bonds

Refunding of the Prop A 1999-A Bonds and Prop A 1999-B Bonds

Recommended Firms (listed in ranking order):

- 1) Merrill Lynch Global Markets & Investment Bank (Co-Senior Manager)
- 2) JP Morgan (Co-Senior Manager)
- 3) De La Rosa & Co. (Co-Senior Manager)
- 4) UBS Investment Bank (Co-Senior Manager)

Rankings will be used to allocate bonds among the underwriters in order for each series to exceed the minimum size guidelines that will be established by us, with "1" being the highest ranking. It is not assured that all firms appointed by this report will be allocated bonds.

Proposed Price : (Each firm will be compensated at its proposed price)

Merrill Lynch Global Markets and Investment Banking (Senior Manager)

Auction Rate Securities

- Takedown: \$2.50 / \$1,000 of bonds, plus expenses
- Annual Fees \$0.25 / \$1,000 of bonds

Variable Rate Demand Obligations

- Takedown: \$0.50 / \$1,000 of bonds, plus expenses
- Annual Fees \$0.07 / \$1,000 of bonds

JP Morgan (Co-Senior Manager)

Auction Rate Securities

- Takedown: \$2.50 / \$1,000 of bonds, plus expenses
- Annual Fees \$0.25 / \$1,000 of bonds

Variable Rate Demand Obligations

- Takedown: \$0.75 / \$1,000 of bonds, plus expenses
- Annual Fees \$0.055 / \$1,000 of bonds

De La Rosa & Co. (Co-Senior Manager)

Auction Rate Securities

- Takedown: \$2.00 / \$1,000 of bonds, plus expenses
- Annual Fees \$0.25 / \$1,000 of bonds

Variable Rate Demand Obligations

- Takedown: \$1.00 / \$1,000 of bonds, plus expenses
- Annual Fees \$0.07 / \$1,000 of bonds

UBS Investment Bank (Co-Senior Manager)

Auction Rate Securities

- Takedown: \$2.50 / \$1,000 of bonds, plus expenses
- Annual Fees \$0.25 / \$1,000 of bonds

Variable Rate Demand Obligations

- Takedown: \$.50 / \$1,000 of bonds, plus expenses
- Annual Fees \$0.07 / \$1,000 of bonds

RFP Issued: November 14, 2007

RFPs Mailed: 18

Proposals Received: 12

Proposals Due: November 27, 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
RBC Capital Markets
UBS Securities LLC

Attachment B

History of Underwriter Selection

A. Background of the Recommended 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.

Morgan Stanley is a highly rated and well capitalized global financial services company and investment bank, providing products and services to governments, corporations, financial firms and institutions. Morgan Stanley is a leading solution provider in global finance. The various services of Morgan Stanley are offered by four of its business units namely, Institutional Securities, Global Wealth Management Group, Investment Management, and Credit Services.

Merrill Lynch Global Markets and Investment Banking is one of the world's leading wealth management, capital markets and advisory companies, with offices in 38 countries and territories and total client assets of approximately \$1.8 trillion. Merrill Lynch offers a broad range of services to private clients, small businesses, and institutions and corporations, organizing its activities into two interrelated business segments - Global Markets & Investment Banking Group and Global Wealth Management, which is comprised of Global Private Client and Global Investment Management. As an investment bank, it is a leading global trader and underwriter of securities and derivatives across a broad range of asset classes and serves as a strategic advisor to corporations, governments, institutions and individuals worldwide.

JP Morgan is a leading global financial services firm with assets of \$1.5 trillion and operations in more than 50 countries. The firm is a leader in investment banking, financial services for consumers, small business and commercial banking, financial transaction processing, asset management, and private equity. A component of the Dow Jones Industrial Average, JPMorgan Chase has its corporate headquarters in New York and its U.S. retail financial services and commercial banking headquarters in Chicago. Under its JPMorgan and Chase brands, the firm serves millions of consumers in the United States and many of the world's most prominent corporate, institutional and government clients.

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.

UBS Investment Bank is a leading global investment banking and securities firm that provides a full spectrum of products and services to institutional and corporate clients, intermediaries and governments. UBS is the world's leader in wealth management, a leading institutional asset manager and mutual fund provider. UBS has 81,000 employees and is represented in every major financial center worldwide and has offices in 50 countries. UBS is a Swiss public corporation and is listed on the New York Stock Exchange. As of October 2007, UBS's combined market capitalization exceeded \$111 billion. UBS's municipal securities group is headquartered in New York City.

B. Selection Background

The process to identify six co-senior managing underwriters to serve as broker/dealers or remarketing agents was conducted on a "best value" basis.

Selection of the co-senior managers was made based on proposal responses and by ranking each according to the selection criteria. 1) The criteria included consideration of past performance of the firm with comparable auction rate or variable rate demand obligations. 2) Total expected price or cost, including takedown, expenses, and projected interest cost on the bonds. 3) Quality of the proposed financing strategy, given the objectives of the financing.

Based on the overall scores for each firm, Banc of America Securities LLC and Morgan Stanley are recommended to refund the 1998 Bonds and Merrill Lynch Global Markets and Investment Banking, JP Morgan, De La Rosa & Co. and UBS Investment Bank are proposed to refund the 1999 Bonds.

C. Evaluation of Proposals

12 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.