

FINANCE AND BUDGET COMMITTEE
AUGUST 19, 2004

SUBJECT: BOND FINANCING PROCESS

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file this report detailing the timeline for the issuance of bond financing.

ISSUE

Director Burke asked staff to explain why it takes so long to prepare a bond issue for sale .

DISCUSSION

Summary - Competitive transactions have the shortest apparent timelines. The timeline for some negotiated transactions can be compressed to the equivalent timeline with changes to traditional MTA procedures.

Transactions - Two processes, negotiated and competitive, and two purposes, new money and refunding, impact the timeline from the perceived beginning to the end of the transaction.

<u>Process</u>	<u>Impact on time</u>
Competitive	Baseline
Negotiated	Underwriter selection and approval by the Board adds time.
<u>Purpose</u>	
New Money	Analysis step is usually not included in the timeline of the bond sale because the need is determined by other actions such as adoption of an annual capital budget or project specific long-term financing plans. Baseline.
Refunding	Certain Debt Policy criteria must be met before completing a refunding transaction. There may be multiple ways to structure transactions in order to achieve specific policy goals, such as a forward refunding. The Analysis step is more extensive and time critical, cannot be completed too far in advance due to potential volatility in the market place.

Timeline - There are several steps that are common to each of the combinations of the selling process. The transactions in order of increasing timeline are:

Competitive, New Money
Competitive, Refunding
Negotiated, New Money
Negotiated, Refunding

The attached charts represent typical timelines for each of the transactions.

Competitive, New Money – Since the need to issue bonds is determined by other processes, the Analysis phase is shown prior to the transaction’s starting point.

Competitive, Refunding – The transaction’s beginning point is when IRS regulations, market conditions and other technical factors indicate that Debt Policy criteria will be met. Accordingly, the start of Analysis phase is the beginning of this timeline.

Negotiated, New Money – Since the need to issue bonds is determined by other processes, the Analysis phase is shown prior to the transaction’s starting point. The additional steps of underwriter selection and Board approval add time to this type of transaction.

Negotiated, Refunding - The transaction’s beginning point is when IRS regulations, market conditions and other technical factors indicate that Debt Policy criteria will be met. Accordingly, the start of Analysis phase is the beginning of this timeline. The additional steps of underwriter selection and Board approval add time to this type of transaction.

Critical Path Factors

Competitive, New Money – State law requires that the Board approve the transaction and official offering documents. Federal and State laws require that the disclosed information be current. Therefore, the documents must be up to date at the time of Board consideration. The Board approval cycle time is an MTA process. Federal securities law imposes a 15-day minimum notice period for accepting bids on the bonds to be sold.

Competitive, Refunding – Same factors as above.

Negotiated, New Money – Current MTA practice is to obtain Board approval of the underwriter(s) prior to the Board’s consideration of the transaction steps noted for competitive transaction above. While there is no statutory notice period, the earliest that a sale can take place is approximately five days after Board approval and posting of the offering documents.

Negotiated, Refunding – Same factors as above.

Key Transaction Steps

Analysis, New Money – The Analysis step is completed by other actions such as adoption of the budget or project specific long-term financing plans, typically well in advance of a specific bond sale.

Analysis, Refunding – Refunding opportunities become available due to favorable market and other technical conditions. Staff generated alternatives and unsolicited financing proposals from underwriters must be evaluated and verified. Due to the market assumptions that are key to the analyses, this step must be as up to date as possible in order for staff to recommend a specific transaction to the Board and is, therefore, part of the transaction’s timeline.

Counsel Selection – This step is required in any transaction. County Counsel conducts the competitive selection process in accordance with its procedures on behalf of the MTA. The minimum duration is approximately 3 weeks. The selection process is not a critical path process because it can be initiated at any time to meet critical path requirements.

Documentation Development – This step is required in any transaction. In order to meet the requirement that information be current at the time of Board consideration, this step cannot be concluded in advance. The minimum duration is approximately 4 weeks.

Underwriter Selection – This step is only required for negotiated transactions. Based on the Analysis step, staff prepares a request for proposals, allows for “time on the street”, evaluates proposals received, including interviews of the underwriters, and concludes its recommendation in approximately 5 weeks.

Board Approval – Under current MTA procedures, the Board approval cycle time is approximately six weeks from the CEO’s approval to Board’s consideration for action. The Board regularly meets 11 times a year and Board Committee dates must be observed.

Opportunities for Timeline Savings

Competitive – There are no opportunities to shorten the process. The critical time items are the Board approval cycle and the mandatory 15-day notice period. On an on-going basis, the MTA’s independent financial advisor monitors market conditions and recommends the timing and structure of all proposed New Money and Refunding transactions.

Negotiated - The process of Underwriter Selection is the incremental time element of this type of transaction. Choosing an underwriter in advance, before transactions are formalized, will shorten a specific transaction's cycle time since this Underwriter Selection and Board approval of the underwriter will be concluded before the specific transaction's starting point. Alternatively, a time savings could be achieved if a staff-selected underwriter would be willing to be "at risk" for the costs of development of documents for approval of both the underwriter and documents concurrently. However, by State law, the Board must separately approve the transaction documents

Board Approval – Bringing an item directly to the full Board when there is a risk of losing refunding savings could shorten the Board approval process.

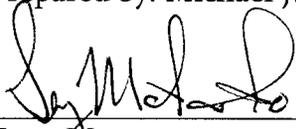
The Board adopted Debt Policy states that MTA will use a competitive bond sale when the competitive method will provide the lowest interest cost for the bonds. As a result, staff initially approaches each sale as competitive sale and then looks to determine if any of the criteria that would justify a negotiated sale are present and need to be addressed.

FINANCIAL IMPACT

There is no financial impact.

ATTACHMENT

Prepared by: Michael J. Smith, Assistant Treasurer



Terry Matsumoto
Executive Officer, Finance and Treasurer



Roger Snoble
Chief Executive Officer

Attachment

Transaction Timeline for Competitive New Money Bond Sale

Transaction Step	Prior	Timeline in Weeks																											
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28
Transaction Analysis	ANALYSIS																												
Counsel Selection	COUNSEL																												
Documentation Development					DOCUMENT																								
Board Authorization of Bond Sale & UW Selection						BOARD APPROVAL																							
15-Day Notice Period																													
Sale and Funding																													

Transaction Timeline for Competitive Refunding Bond Sale

Transaction Step	Prior	Timeline in Weeks																											
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28
Transaction Analysis	ANALYSIS																												
Counsel Selection	COUNSEL																												
Documentation Development					DOCUMENT																								
Board Authorization of Bond Sale & UW Selection						BOARD APPROVAL																							
15-Day Notice Period																													
Sale and Funding																													

Transaction Timeline for Negotiated New Money

Transaction Step	Prior	Timeline in Weeks																											
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28
Transaction Analysis	ANALYSIS																												
Counsel Selection	COUNSEL																												
UW RFP & Selection	UW SELECTION																												
Board Cycle for UW Approval	BOARD APPROVAL																												
Documentation Development	DOCUMENT																												
Board Authorization of Bond Sale	BOARD APPROVAL																												
Sale and Funding	SALE																												

Transaction Timeline for Negotiated Refunding

Transaction Step	Prior	Timeline in Weeks																											
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28
Transaction Analysis	ANALYSIS																												
Counsel Selection	COUNSEL																												
UW RFP & Selection	UW SELECTION																												
Board Cycle for UW Approval	BOARD APPROVAL																												
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Sale and Funding	SALE																												

