



**FINANCE AND BUDGET COMMITTEE
JUNE 16, 2005**

SUBJECT: REFUNDING OF PROPOSITION A BONDS

**ACTION: APPOINT UNDERWRITERS FOR A NEGOTIATED REFUNDING OF
THE PROPOSITION A BONDS**

RECOMMENDATION

Appoint Goldman Sachs & Co., Morgan Stanley, Merrill Lynch, and De La Rosa & Co. as co-senior managing underwriters and remarketing agents for one or more series of auction rate securities.

RATIONALE

Due to continuing low interest rates, we currently have the opportunity to refund up to \$250 million of currently outstanding Prop A bonds and lock in present value savings of \$26 million utilizing an interest rate swap.

The primary factor influencing the recommendation to use a negotiated bond sale is the need for long-term remarketing contracts because the variable rate bonds are assigned to a particular remarketing agent, underwriter, for the life of the bonds.

Authorization documents will be presented at a subsequent meeting. The interest rate swap provider will be selected through a competitive bid process.

FINANCIAL IMPACT

The appointment of underwriters has no financial impact. The costs of issuance for a refunding are not budgeted because of the uncertainty related to completing a refunding. If executed, the refunding will generate a favorable variance in debt service interest, project 610306, account 51121, in FY06 to offset any unfavorable variance to costs of issuance.

ALTERNATIVES CONSIDERED

Appointment of the remarketing agents could be delayed resulting in the delay of the refunding. Approval of the recommendation allows us to be positioned to take advantage of this refunding opportunity and reduce the risk of potentially adverse market changes.

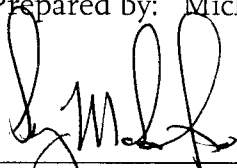
NEXT STEPS

- Develop bond documents and interest rate swap documents
- Request Board authorization to sell bonds and enter into interest rate swaps whenever market conditions meet Debt Policy guidelines.
- When policy guidelines for refundings are met, distribute the official statement to potential investors, initiate pre-marketing efforts, price the bonds, price the interest rate swaps, and deliver the bonds.

ATTACHMENTS

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

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Terry Matsumoto
Executive Officer, Finance and Treasurer



Roger Snoble
Chief Executive Officer

Attachment A

Summary of Underwriter Selection
Proposition A Refunding Bonds 2005

- Recommended Firms:
- De La Rosa & Co. (Co-Senior Manager)
 - Goldman Sachs & Co. (Co-Senior Manager)
 - Merrill Lynch (Co-Senior Manager)
 - Morgan Stanley (Co-Senior Manager)

Proposed Price

De La Rosa & Co.

Auction Rate Bond Issue

- Takedown: \$2.50 / \$1,000 of bonds, plus expenses
- Annual Fee: \$2.50/ \$1,000 of bonds outstanding

Goldman Sachs & Co.

Auction Rate Bond Issue

- Takedown: \$2.50 / \$1,000 of bonds, plus expenses
- Annual Fee: \$2.50/ \$1,000 of bonds outstanding

Merrill Lynch

Auction Rate Bond Issue

- Takedown: \$3.00 / \$1,000 of bonds, plus expenses
- Annual Fee: \$2.50/ \$1,000 of bonds outstanding

Morgan Stanley

Auction Rate Bond Issue

- Takedown: \$3.00 / \$1,000 of bonds, plus expenses
- Annual Fee: \$2.50/ \$1,000 of bonds outstanding

RFP Issued: May 09, 2005

RFPs Mailed: 20

Proposals Received: 11

Proposals Due: May 19, 2005

Evaluation Method: Best Value

Proposing Firms:

List of Proposers
Banc of America Securities, LLC
Bear Stearns & Co. Inc.
Citigroup Global Markets, Inc.
E.J. De La Rosa & Co., Inc.
Goldman Sachs & Co.,
J. P. Morgan Securities, Inc.
Lehman Brothers, Inc.
Loop Capital Markets, LLC
Merrill Lynch & Co.
Morgan Stanley
UBS Financial Services, Inc.

Attachment B

History of Underwriter Selection Refunding of the General Revenue 1996-A Bonds

A. Background on Selected Firms

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.

Goldman Sachs & Co. is a leading global investment banking and securities firm, that provides a full range of investing, advisory, and financing services worldwide to a client list that includes governments, corporations, financial institutions and individuals. Headquartered in New York, Goldman Sachs has 55 offices in 25 countries and employs more than 19,000 people worldwide. In the United States, Goldman Sachs has 26 regional offices, including offices in San Francisco and Los Angeles.

Merrill Lynch is the largest securities firm in the United States. Their activities include domestic and international investment banking, project financing, derivative structuring, retail brokerage/financial planning, and sales and trading of corporate, government, and municipal securities. Nationwide, Merrill Lynch has offices in all 50 states. Worldwide, Merrill Lynch ranks as one of the largest securities firms, with 50,000 employees providing services in 36 countries. Merrill Lynch has over \$135 billion of total consolidated capital and over \$2.6 billion of excess net capital.

Morgan Stanley is a top-ranked global financial services firm with one of the industry's largest total consolidated capital positions of \$82.7 billion. Morgan Stanley also maintains leading market positions in its three primary business areas of securities, asset management, and credit services. The firm holds \$595 billion in assets on behalf of its 4.6 million customer accounts, including \$46 billion in directly held municipal bonds. Within California, the firm has approximately 2,401 financial advisors managing 955,000 accounts with \$106.2 billion in assets.

B. Selection Background

This was a negotiated selection process to identify two co-senior managing underwriters to perform as both the underwriters and remarketing agents to issue the Proposition A 2005 refunding bonds as a variable rate issuance of auction rate securities.

The Prop A 2005 refunding bonds will advance refund currently outstanding Prop A bonds. The co-senior managers (no co-managers will be used) will initially place the bonds with investors and will then provide ongoing weekly or monthly remarketing services over the life of the bonds.

Selection of the co-senior managers was made based on proposal responses and negotiation with firms in the competitive range 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 setting up and operating auction rate securities programs and in structuring and selling fixed rate transportation or similar California issuer bonds. Related to the selection of auction rate remarketing agents, weight was given to demonstrated results in providing the lowest interest rates for existing clients.

Based on higher scores for experience and demonstrated results in lowering costs, Goldman Sachs & Co., Morgan Stanley, Merrill Lynch, and De La Rosa & Co. are recommended to serve as the co-senior managing underwriters and remarketing agents.

C. Evaluation of Proposals

11 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.

