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Metro

FINANCE AND BUDGET COMMITTEE
JULY 19, 2006

SUBJECT: PROP A BONDS

ACTION: APPOINT UNDERWRITERS FOR A NEGOTIATED FORWARD REFUNDING OF PROP A BONDS

RECOMMENDATION

Appoint UBS Securities LLC as senior managing underwriter with Morgan Stanley and Siebert Branford Shank & Co., LLC as co-managing underwriters for the negotiated sale of forward delivery bonds.

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 $50 million of the Prop A 1997-A bonds and lock in as much as $2.3 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.

A forward delivery bond sale is proposed to lock in the current interest rate and refunding savings. For tax reasons the bonds to be refunded may not be refunded using an advance refunding, which is the more common approach used when bonds are not currently callable. These bonds are not callable until April 2007.

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 are a more complex product and have far fewer potential investors. To generate investor interest the underwriters need to begin early to contact investors and explain the transaction. Due to the delayed delivery of the bonds, there are contractual and credit matters that must be resolved 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 and generate as much investor demand for the bonds as possible.

FINANCIAL IMPACT

The appointment of underwriters has no financial impact. The costs of issuance for this refunding were not budgeted in FY07 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 FY07 to offset costs of issuance.

ALTERNATIVES CONSIDERED

Appointment of the underwriters could be delayed resulting in the delay of the refunding. 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 issuance of auction rate securities in combination with a LIBOR indexed interest rate swap or the use of hedging products to lock-in interest rates until the bonds become callable and subject to early redemption in July 2007. The interest rate swap alternative does not currently produce sufficient savings to meet the Debt Policy refunding criteria. 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

- Provide the Preliminary Official Statement to the Board in a board box report to review and provide comments prior to the July meeting of the Finance and Budget Committee.
- Request Board authorization at the August Board meeting to sell the bonds.
- Distribute the Preliminary Official Statement to potential investors
- Initiate pre-marketing effort
- Price the bonds in September.
- Deliver the bonds in April 2007

ATTACHMENT

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

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Executive Officer, Finance and Treasurer

Roger Snoble
Chief Executive Officer

Attachment A

Summary of Underwriter Selection
Refunding of the Prop A 1997-A Bonds

Recommended Firms:	UBS Securities LLC (Senior Manager) Morgan Stanley (Co-Manager) Siebert Branford Shank & Co., LLC (Co-Manager)

Proposed Price :

UBS Securities LLC - (Senior Manager)
-Takedown: Average of $2.50 / $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, $2.50 / $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.

Morgan Stanley (Co-Manager)
-Takedown: Average of $3.00 / $1,000 of bonds, plus expenses

Siebert Branford Shank & Co., LLC (Co-Manager)
-Takedown: Average of $4.50 / $1,000 of bonds,
Management Fee of $0.50 / $1,000 of bonds, plus expenses

RFP Issued:	May 17, 2006
RFPs Mailed:	20
Proposals Received:	15
Proposals Due:	May 30, 2006
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.
First Albany Capital, Inc.
Grigsby & Associates, Inc.
Goldman Sachs & Co.
Lehman Brothers, Inc.
Loop Capital Markets, LLC
Merrill Lynch & Co.
Morgan Stanley
Siebert Brandford Shank & Co., LLC
Stone and Youngberg
UBS Securities LLC

Attachment B

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

A. Background on Selected Firms

UBS Securities LLC is a leading global securities and investment banking firm, providing a full spectrum of products to institutional and corporate clients, governments and hedge funds worldwide. UBS is one of the world's most highly capitalized financial institutions, with a market value of $80 billion and $1.8 trillion of assets under management. The UBS municipal securities group is headquartered in New York and is responsible for the sales, trading, underwriting, marketing and distribution of municipal securities.

Morgan Stanley is a top-ranked global financial services firm with one of the industry's largest total consolidated capital positions of $134.3 billion. Morgan Stanley also maintains leading market positions in its three primary business areas of securities, asset management, and credit services. The firm holds $633 billion in assets on behalf of its 3.8 million customer accounts, including $49 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.

Siebert Brandford Shank & Co., LLC is a full-service municipal finance firm, headquartered in Oakland, which provides investment banking, sales and trading, and financial advisory services to clients across the nation. Siebert Brandford Shank is a limited liability company established in 1996. Siebert Brandford Shank is the largest minority-owned investment bank in the country. The firm has annually ranked as number one minority-owned firm for negotiated senior managed underwriting since 1998.

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 A, Series 2006-A Refunding Bonds.

The Prop A, Series 2006-A Refunding Bonds will current refund a portion of the outstanding Prop A 1997-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 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 marketing and selling forward delivery bonds and sales tax revenue bonds for California issuers and nationally.

Based on higher scores for experience of the firm, experience of the bankers and quality of the proposed financing plan, UBS Securities LLC is recommended to serve as the senior managing underwriter. The firms recommended to serve as co-managers are Morgan Stanley and Siebert Brandford Shank, LLC. 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

15 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.