

# REGIONAL TRANSIT AUTHORITY

## MOTION NO. 98-27

### Underwriters and other investment banking services BACKGROUND AND COMMENTS

Meeting:	Date:	Agenda Item:	Staff Contact:	Phone:
Finance Committee	4/16/98	No. 8B	Jan Hendrickson Brian McCartan	206-689-3148 206-684-1603

#### Action:

Authorizes the Executive Director to appoint firms to underwrite bonds and provide other investment banking services to the Agency. Together with bond counsel and financial advisor firms, they will comprise the RTA's financing team.

#### Background:

The *Sound Move* financial plan calls for the issuance of over \$1.0 billion in bonds (1995\$). In order to issue debt, the RTA will require the services of underwriting firms to sell the bonds to retail and institutional investors. The RTA can sell bonds either (1) by a competitive sale; or (2) through the use of a competitively selected underwriting team. While the competitive sale approach may be appropriate for later RTA debt issues, the complexity of an initial bond sale makes the use of a pre-selected underwriting team highly advantageous. The RTA will be able to use the investment banking expertise of its chosen firms to properly structure its bond covenants, ratings strategy, liens, call features, and other key aspect of its debt obligations. Investment banking firms can also execute other financial transactions for the agency, such as lease financing arrangements.

The attached motion authorizes the Executive Director to appoint firms to underwrite bonds and provide other investment banking services to the Agency. Under the motion, individual firms can be added and removed from the team by the Executive Director, with notification to the Board.

#### Selection Process:

The RTA published requests for qualifications (RFQ) for the investment banking services on January 14, 1998. Seventeen firms responded to the RFQ. The RTA selected eight firms to receive requests for proposals (RFP). The Selection Committee recommended that of E.J. De La Rosa, Goldman Sachs, Lehman Brothers, and Salomon Smith Barney as the most qualified firms to provide investment banking services. (Please note that E.J.

De La Rosa is a certified MBE firm.) The Executive Director concurred with the Committee's recommendation. Prior to a particular bond sale, the RTA would name a firm to lead the sale (and receive the greatest compensation), based on performance of the firm within the team.

If the Finance Committee approves the attached motion, it is the intention of the Executive Director to name the four firms as the RTA's initial team of investment banks, for a term of five years. The firms would underwrite bonds sold by the RTA at its initial sale. The Board would still have to approve separately, by resolution, any issuance of debt by the Agency. The firms would also provide the full range of investment banking services to the RTA, including debt structuring, marketing, innovative financial analysis, and execution of other financial transactions. The RTA would not have a contractual relationship with the firms until the time of sale of bonds, at which point the RTA would sign a bond purchase agreement with the lead firm on the sale.

#### **Relevant Board policies and previous actions:**

- Sound Move Financial Policies.
- Motion 48; approving selection of Preston Gates & Ellis and Foster Pepper & Shefelman as bond counsel.
- Motion 98-26, approving selection of Boyea Capital and Piper Jaffrey as financial advisors.

#### **Key Features of Agreement:**

- Authorizes the Executive Director to name a team of investment banking firms to underwrite RTA bonds and to provide investment banking services as required to the RTA.
- Authorizes the Executive Director to pay such fees as are reasonable and customary for investment banking services.
  - The firms would be compensated through bond proceeds, as is typical in public finance.
  - The RTA would not have a contractual relationship with the firms expect as necessary for a particular bond sale.
  - At today's rates, the firms could receive up to \$500,000 on a \$100 million bond sale.
- Authorizes the Executive Director to remove firms from the Agency's financing team, with prior notification to the Finance Committee.

#### **Consequences of Delay**

A delay in action will postpone the formation of the RTA's financing team. With current low interest rates, it may be advisable for the RTA to issue debt in 1998. In order to be in position to issue debt this year the investment banking firm need to begin work as soon as possible.

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A motion of the Finance Committee of the Regional Transit Authority for the Pierce, King and Snohomish Counties region authorizing the Executive Director to appoint investment banking firms to serve as underwriters of debt obligations and to provide other investment banking services for the Agency.

### Background:

The *Sound Move* financing plan includes debt issuance as a necessary component of the financing of the 10-year transportation improvements. The RTA will require the services of investment banking firms to underwrite its debt obligations and execute other financial transactions. Investment banking firms will be key participants in the RTA's finance team that will allow the RTA to optimize its access to capital markets and maximize its financial resources.

### Motion:

It is hereby moved by the Finance Committee of the Regional Transit Authority that:

- 1) The Executive Director is authorized to appoint competitively selected firms to underwrite debt obligations and to provide other investment banking services as required to execute the Agency's financial plan, with prior notification to the Finance Committee, subject to the terms and conditions usual and customary for governmental agencies. Members of the initial underwriting team are E.J. De La Rosa, Goldman Sachs, Lehman Brothers, and Salomon Smith Barney.
- 2) The Executive Director is authorized to pay such fees as are reasonable and customary for investment banking services. Authorization of such fees is subject to the provisions of Resolution No. 78-1.
- 3) The Executive Director is authorized to remove firms previously appointed to provide investment banking services, with prior notification to the Finance Committee.

Approved by the Finance Committee of the RTA Board at a regular meeting thereof on 7 May, 1998.

ATTEST:

Marcia Walker  
Marcia Walker  
Board Administrator

Greg Nickels  
Greg Nickels  
Finance Committee Chair