

February 7, 2003



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Authority

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TO: BOARD OF DIRECTORS

THROUGH: ROGER SNOBLE
CHIEF EXECUTIVE OFFICER

FROM: TERRY MATSUMOTO
EXECUTIVE OFFICER, FINANCE & TREASURER

SUBJECT: BOND SALE PROCESSES

ISSUE:

The Board asked staff to respond to its observation that bond sales take “too long.”

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>
<ul style="list-style-type: none"> Competitive 	Baseline
<ul style="list-style-type: none"> Negotiated 	Underwriter selection and approval by the Board adds time.
<u>Purpose</u>	
<ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> 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:

1. Competitive, New Money
2. Competitive, Refunding
3. Negotiated, New Money
4. 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 saving 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.

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 all debt issuances are to be executed on a competitive basis unless the Board approves another method.

For further information, please call Terry Matsumoto, Executive Officer, Finance and Treasurer, at 213.922.2473.

Attachments

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									15-Days																					
Sale and Funding											SALE																			

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									15-Days																					
Sale and Funding											SALE																			

Transaction Timeline for Negotiated New Money

Transaction Step	Timeline in Weeks																														
	Prior	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	Timeline in Weeks																															
	Prior	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					