



Board of Trustees

LOS ANGELES COMMUNITY COLLEGE DISTRICT
770 Wilshire Boulevard, Los Angeles, CA 90017 213/891-2000

AGENDA

LOS ANGELES COMMUNITY COLLEGE DISTRICT
BOARD OF TRUSTEES
BUDGET & FINANCE COMMITTEE
Los Angeles Pierce College
Student Community Center/Great Hall – Building 1900
6201 Winnetka Avenue
Woodland Hills, CA 91371
Wednesday, February 10, 2016
3:00 p.m. – 3:55 p.m.

Committee Members

- Sydney K. Kamlager, Chair
- Ernest H. Moreno, Vice Chair
- Mike Eng, Member
- Scott J. Svonkin, Alternate
- Jeanette L. Gordon, Staff Liaison
- Marvin Martinez, College President Liaison
- Renee D. Martinez, College President Liaison (Alternate)

Agenda

(Items may be taken out of order)

- I. ROLL CALL
- II. PUBLIC SPEAKERS*
- III. REPORTS/RECOMMENDATIONS/ACTION
 - A. Bond Issuance/Underwriter Selection Recommendations
- IV. FUTURE DISCUSSION/AGENDA ITEMS
- V. FUTURE BUDGET & FINANCE COMMITTEE MEETING DATES
 - February 24, 2016
- VI. NEW BUSINESS
- VII. SUMMARY – NEXT MEETING Sydney K. Kamlager
- VIII. ADJOURNMENT

*Members of the public are allotted three minutes time to address the agenda issues.

If requested, the agenda shall be made available in appropriate alternate formats to persons with a disability, as required by Section 202 of the American with Disabilities Act of 1990 (42 U.S.C. Section 12132), and the rules and regulations adopted in implementation thereof. The agenda shall include information regarding how, for whom, and when a request for disability-related modification or accommodation, including auxiliary aids or services may be made by a person with a disability who requires a modification or accommodation in order to participate in the public meeting.

To make such a request, please contact the Executive Secretary to the Board of Trustees at 213/891-2044 no later than 12 p.m. (noon) on the Tuesday prior to the committee meeting.

Date: February 1, 2016

To: Francisco Rodriguez, Chancellor
 Jeanette Gordon, Chief Financial Officer
 Los Angeles Community College District

From: David Brodsky and Justin Rich
 KNN Public Finance

Re: LACCD 2016 General Obligation Bond Underwriter Syndicate

The following is the recommended syndicate structure for the District’s upcoming general obligation bond issue, as discussed among the review committee and the Chancellor. This recommendation reflects the intention of the District’s Debt Policy to widely spread its underwriting business, and a desire to create a syndicate that balances the skills, capital and experience required to perform the underwriting while relying on firms of various sizes. These recommendations are particularly attentive to the use of minority-owned businesses, with 40% of the underwriting liability recommended to be assigned to the three such firms in the District’s underwriting pool; compensation roughly follows liability. Following the recommendation is a summary of the underwriter selection process and the rationale for appointments.

Position	Underwriter	Liability
Senior Manager	J.P. Morgan	40%
Co-Senior Manager	Backstrom McCarley Berry (MBE)	20%
Co-Managers	Bank of America Merrill Lynch	10%
	Citigroup	10%
	Ramirez & Co. (MBE)	10%
	Siebert Brandford Shank (MBE)	10%

1. Underwriter Selection Process: Late in 2014, the District established an underwriting pool (“the Pool”) from which to select the firms that will underwrite bond issues for a period of three years. To date, three bond issues have been issued through members of the Pool. Below is a summary of the appointments from the Pool to date.

Position	2008 Election Series G/ 2015 Refunding Series A (\$1.796 Billion Tax-Exempt)	2008 Election Series H/ 2015 Refunding Series B (\$97.1 Million Taxable)	2015 Refunding Series C (\$312 Million Tax-Exempt)
Senior Manager	Morgan Stanley (40%)	Ramirez (MBE) (100%)	Goldman Sachs (45%)
Co-Senior Manager	Siebert (MBE) (20%)	None	Stifel (30%)
Sr. Co-Managers	Ramirez (MBE) (10%)	None	None
Co-Managers	All Eight Others (3.75%)	None	Piper Jaffray (10%), RBC (10%), Backstrom (MBE) (5%)

Supplemental Request for Information: To help inform the selection of firms for the next transaction, the District issued a supplemental Request for Information (“RFI”) from the underwriting firms in the Pool. The RFI requested recommendations for the upcoming issuance (i.e. marketing approach, syndicate size and structure, compensation, etc.) as well as updated information regarding each firm. The RFI was distributed to members in the Pool on November 29, 2015 and responses were due by December 14, 2015.

The District’s CFO, Accounting Manager, and financial advisors (“FA”) all reviewed and discussed the responses to develop recommendations. We also consulted with the Chancellor and the District’s bond counsel to solicit additional input and feedback, although they did not review the proposals themselves.

Debt Policy: The District’s debt policy lists procedures applicable to selecting the underwriting syndicate for each debt offering. The procedures include:

- Syndicate selection: the CFO, in conjunction with the FA, will prepare and submit to the Board his or her choices for the syndicate, detailing the senior and/or co-senior manager and the co-managers.
- Rotation of positions: the CFO shall rotate the senior and/or co-senior manager positions so that no underwriter shall serve as either senior or co-senior manager on two consecutive public offerings.
- Allocations of debt instruments: the CFO shall establish allocations of debt instruments among members of the Pool in a fair manner, taking into account past performance on the District’s prior debt issues.

Additional Factors Considered: The following are additional factors that were considered by the review team in developing recommendations for the underwriting team.

- Additional rotations of positions: the review team discounted the appointment of the senior firms from the prior December 2014 tax-exempt transactions, due to the large combined size (\$1.8 billion), in order to ensure that the District’s underwriting business is fairly spread among the members of the Pool.
- Quality of proposal: particular attention was paid to advice and recommendations regarding the upcoming issuance.
- Prior performance: we reviewed available data for the level of orders on the prior transactions, as well as the firms’ secondary market trading activity. Because of the tendency of orders to favor the senior manager, it was difficult to meaningfully assess this data. We do note that two of the recommended co-managers did win recent competitive sales of the District’s bonds.
- District support of disadvantaged businesses: when the Finance Committee and the Board of Trustees reviewed the appointment of firms to the underwriting pool and to the first two transactions, there was significant interest in ensuring significant participation by minority-owned firms. This recommendation regarding the next financing attempts to accommodate that policy emphasis. In considering the appropriate roles for minority-owned firms, we took into account each firm’s prior participation (and compensation), being cognizant of each firm’s underwriting capital, and ensuring that overall the team is sufficiently capitalized.
- Syndicate structure: the recommended size, structure and liabilities were informed by recommendations from the RFI responses.

2. Recommendations

Syndicate Structure

Based upon the responses to the recent RFI, the general recommendation was a syndicate structure of one senior manager, one co-senior manager, and two to four co-managers. We are recommending a syndicate structure at the larger end of that spectrum to provide opportunities for several firms without over-diluting the incentives of each firm to support the underwriting.

Senior Manager

Based on the District's debt policy, certain firms are expressly precluded (Goldman Sachs and Stifel) from serving in senior positions. Further, in keeping with the spirit of the policy, we believe the firms in the two senior positions in the immediately prior \$1.8 billion tax-exempt transaction (Morgan Stanley, Ramirez and Siebert Brandford) should not be selected for senior roles for the next bond issue given the extraordinary size of that prior transaction.

We recommend J.P. Morgan to serve as senior manager for the next transaction, with a 40% liability. In order to accommodate using Backstrom as co-senior (see discussion below), and due to the size of the transaction, we recommend having a well-capitalized bank to serve as the senior manager. The recommendation for J.P. Morgan is based on the strength of both their original response in connection with the pool and to the RFI, and the fact they have not yet had a senior position with the District. We also believe their experience working with LA County K-14 issuers provides value for the District in the upcoming issuance. We note that based on information from the California Debt and Investment Advisory Commission, J.P. Morgan has senior managed (or sole managed) the most transactions of \$350 million or more since 2013 of the underwriters in the Pool.

Co-Senior Manager

For the role of co-senior manager, we recommended the minority-firm of Backstrom McCarley Berry, who to date has only served as a co-manager for the District. Backstrom has an office location in the District. Given the large size of the transaction relative to Backstrom's capitalization, the firm proposed serving as a co-senior manager, which we agree is appropriate. Their liability would be 20%.

Co-Managers

We recommend four co-managers to be included in the syndicate. We have recommend that the other two MBE firms in the pool be appointed as co-managers, and that two larger banks serve as additional co-managers to bolster capital and distribution. Each firm would be assigned 10% liability.

Siebert Brandford Shank and Ramirez & Co. are both minority-owned firms with Los Angeles presences. Both firms have performed senior-level assignments for the District in the recent past. We recommend two large firms to round out the co-manager pool—Bank of America Merrill Lynch and Citigroup. These two firms were recommended because they have access to a broad range of buyers and have not had a recent position of substance up to this point (other than as co-manager on the large tax-exempt deal that included the entire Pool). Both of these firms won a part of the District's last competitive bond sale, and both wrote compelling proposals.