321st MEETING OF THE
STATE ENVIRONMENTAL IMPROVEMENT
AND ENERGY RESOURCES AUTHORITY
EIERA Office
425 Madison Street, Second Floor
Jefferson City, Missouri
September 8, 2015
11:30 a.m.

1. Call to Order

2. Approval of Minutes

   Approval of Minutes from the 320th Meeting of the Authority held July 23, 2015, in Jefferson City, Missouri

3. State Revolving Fund Program

   A. Update
   B. Selection of Book Running Senior Managing Underwriter for Potential SRF Bond Refunding
   C. Other

4. Other Business

   A. Opportunity for Public Comment (Limit of Four Minutes per Individual)
   B. Next Meeting Date
   C. Other

5. Closed Meeting Pursuant to Section 610.021(1), (3) and (11) RSMo. (as needed)

6. Adjournment of Closed Meeting and Return to Open Meeting

7. Adjournment of Open Meeting

The Authority may vote to close a portion of the meeting in conjunction with the discussion of litigation matters (including possible legal actions, causes of action, any confidential or privileged communications with its attorneys and the negotiation of items of a contract), real estate matters, personnel matters (including the hiring, firing, disciplining or promoting of personnel), or specification for competitive bidding pursuant to Section 610.021 (1), (3) or (11) RSMo.

Members to be Present:	Andy Dalton, Chair LaRee DeFreece, Secretary Deron Cherry, Vice-Chair, Treasurer
Staff to be Present:	Karen Massey, Director Joe Boland, Deputy Director Genny Eichelberger, Office Support Assistant
Legal Counsel to be Present:	David Brown Lewis Rice LLC

State Environmental Improvement and Energy Resources Authority
321st Board Meeting
September 8, 2015

CONFIDENTIAL UNTIL DISCUSSED IN OPEN SESSION

Agenda Item #3B
RECOMMENDATION FOR BOOK-RUNNING SENIOR MANAGING UNDERWRITER FOR STATE REVOLVING FUND REFUNDING 2015

Issue:

Selection of a Book-Running Senior Managing Underwriter for a potential refunding of State Revolving Fund (SRF) Bonds.

Action Needed:

Select the Book-Running Senior Managing Underwriter for a potential refunding of SRF Bonds and authorize the Director or her designee to negotiate and enter into an agreement in connection therewith.

Staff Recommendation:

Staff recommends that the Board select Jefferies LLC to serve as Book-Running Senior Managing Underwriter for the potential SRF refunding subject to preliminary analysis of tax implications by Bond Counsel.

Staff Contact:

Joe Boland

Background:

During the 318th Board meeting on March 18, 2015, Authority Staff was given the approval to release a Request for Proposals (RFP) seeking the services of a book-running senior managing underwriter for a potential refunding of EIERA SRF bonds. Interest rates continue to fluctuate near all-time lows, still making the refunding of certain SRF bonds cost effective.

The Authority's agreements with the current underwriters intentionally do not provide for the program Senior Managers to perform book-running, senior managing services for refunding transactions. The Board has retained the flexibility to award that position to investment firms that bring high value transactions to the Authority or are selected by a competitive process. The designated firm then performs book-running, senior managing services and the existing underwriters perform either co-senior or co-managing services relating to the refunding according to their existing contracts.

Criteria

The Authority reviewed the proposals with three main goals in mind: savings, program simplification and eliminating or mitigating the risk of troubled investment contracts. Proposals were evaluated by looking at the experience of the firm and assigned staff in handling similar transactions; the structure of the transaction and how it demonstrates an understanding of and meets the Authority's needs and goals; and costs. It should be noted that the amount of savings was scrutinized for reasonableness and, as with all professional service solicitations, costs were important, but not the sole consideration.

Refunding transactions for SRF reserve fund programs are uniquely complex on several levels requiring skill sets beyond what is normally required for typical municipal bond transactions. We need a book running senior manager that can meet these complex challenges quickly, efficiently and accurately, while being sensitive to the needs of the Authority, DNR and the rest of the financing team. The selected book-runner should have:

- significant experience sizing and pricing refunding bonds for SRF or other complex pooled financing programs;
- assigned staff with significant SRF experience at all levels;
- a well-rounded knowledge of SRF program requirements, including an understanding of the historic and current structure of the Missouri program, and impacts related to the DNR accounting system;
- demonstrated ability to price and sell bonds at yields comparable to then-current market yields or be sufficiently capitalized to underwrite any unsold balances;
- strong quantitative abilities; and
- proposed costs for providing these services within reasonable norms.

The RFP was sent to all eight underwriters on the current finance team and two other firms that had reached out to the Authority with refunding ideas within the last several months. Proposals were received from 7 of the firms; Bank of America Merrill Lynch, Citigroup Global Markets Inc., J.P. Morgan Securities LLC, Jefferies LLC, Siebert Brandford and Shank, Stern Brothers & Co., and Wells Fargo Securities. Stern Brothers' proposal was not to act as book-running senior, but a solicitation to become one of the co-managers of the transaction. The remaining six proposals were very well written and provided insight to each of the firms' strengths.

The proposals were reviewed by a team composed of staff from the Authority, DNR and Columbia Capital Advisors using the evaluation tool previously approved by the Board. Their responses were collated to determine the selected underwriter. We also requested Bond Counsel to conduct a preliminary review of the tax consequences of the top firms' approaches. This was necessary to verify that the outstanding Authority bonds will maintain their tax-exempt status.

Issuing Taxable Bonds

Our previous refundings were accomplished through a "Senior/Subordinate" model, where a strip of originally issued bonds are left outstanding (Remaining Outstanding Bonds or ROBs) to allow the associated reserve account to remain intact and continue to earn at its higher yield. These ROBs then remain outstanding until maturity.

Four of the firms put forth the idea of issuing taxable bonds to take out these ROBs and then reallocate the underlying reserve fund earnings to the new bonds. This approach relies on a rule change proposed by the Internal Revenue Service (IRS) in 2013. Prior to this change, a taxable refunding of tax-exempt bonds with an overfunded reserve would force a mark-to-market yield valuation on the reserve. Following the rule change, a taxable refunding of tax-exempt bonds allows the reserve fund to be transferred at their calculated present value as opposed to market value. This means that in most cases, there would no longer be a requirement to rebate the higher-yielding earnings from the reserves, thus providing an additional savings opportunity.

This approach was very appealing but required quite a bit of additional analysis and review by Staff and Bond Counsel. In the end, the Authority's Bond Counsel determined that the application of the universal cap and release of proceeds at present value is impermissible because of the financing structure utilized in the original advance refundings.

Although the exact approach suggested by these firms is not permissible (mark-to-present value), there may still be opportunities to "clean up" some of the ROBs using the mark-to-market valuation of the reserves. Many of the outstanding bond issues with ROBs have sufficient accrued negative arbitrage amounts, that valuation of those reserves at fair market value could possibly yield the same results as valuation at present value.

A brief summary of each firm is provided below.

Bank of America Merrill Lynch (BAML)
BAML is one of our co-senior underwriters and was the book runner for the 2011A and 2013A refunding transactions. BAML has been the top ranked underwriting firm in municipal finance having served as senior manager on 984 negotiated financings with a total par amount of $113 billion since 2012. They also have a strong SRF presence evidenced by senior managing 12 negotiated SRF issues totaling over $1.6 billion over the same period. Their distribution network includes 16,000 Financial Advisors in 704 offices nationwide (including 10 retail offices in MO). Their institutional efforts are represented by 381 salespersons in 28 offices, including 21 sales people who are exclusively dedicated to selling municipal securities. BAML is well capitalized and has demonstrated its willingness and ability to underwrite unsold bonds if necessary. Their proposal indicated a very good understanding of our program structure and included a good discussion of refunding bonds with a shortened maturity or shorter call period to take advantage of the lower end of the yield curve. They also proposed issuing taxable bonds to refund Remaining Outstanding Bonds (ROBs) from previous refundings.

Citigroup Global Markets (Citi)
Citi is also one of the leading firms in municipal finance having been the number 1 ranked senior manager of negotiated municipal bond transactions for thirteen of the last eighteen years. Citi has also senior managed 10 SRF and pooled transactions totaling over $1.3 billion since 2013. Citi's municipal sales force is ranked #1 by both Institutional Investor and the Greenwich Associates Survey of municipal investors for the last three consecutive years. Citi is well capitalized with a regulatory net capital of $6.2 billion, which was $4.8 billion in excess of the minimum requirement. Citi's approach to refunding is

designed to streamline our debt portfolio through a full refunding of our ROBs with taxable bonds in addition to a typical advance refunding with tax-exempt bonds. They also had an innovative suggestion to use *put* bonds to lower debt service on the refunding bonds even further.

J.P. Morgan Securities
J.P. Morgan is a leading underwriter of municipal debt having underwritten 2,000 negotiated and competitive bond issues for $190.7 billion in par since 2012, and senior managed $1.3 billion of SRF bonds since 2013. J.P. Morgan's retail distribution platform has access to over 30,000 registered representatives through a partnership with Charles Schwab and UBS. They also have 16 institutional sales personnel that cover the 500 largest buyers of municipal bonds in the country. The firm is well capitalized and committed over $1.8 billion of capital for transactions in which J.P. Morgan participated in 2014. Their refunding discussion was straightforward and only discussed a conventional advance refunding of tax-exempt bonds. They also presented the idea of terminating outstanding GICs to apply the proceeds toward redeeming ROBs, but fell short of a full discussion of the realistic tax consequences. J.P. Morgan provided an example of using taxable bonds in a Texas transaction, but did not include the approach of taxables in the Authority's refunding. The fee structure offered by J.P. Morgan was the lowest average takedown suggested by any of the firms.

Jefferies LLC
Jefferies is the largest full-service investment bank in the U.S. Since 2013, they have served as book-running senior manager on $606.2 million of negotiated SRF and pooled financings. Although one of the smaller firms, they are currently senior managing a $360 million deal for New York Counties Tobacco Trust and a $250 million new money SRF transaction for the Texas Water Development Board. According to their proposal, Jefferies operates one of the largest municipal sales, trading and underwriting desks on Wall Street with 35 professionals dedicated to institutions, professional retail accounts and high net worth individuals. For added retail exposure, Jefferies has an agreement with E*TRADE which permits new issue municipal securities to be sold to their retail accounts. They have $5.5 billion in equity capital and $837 million in excess net capital. Jefferies' refunding approach was a combination issuing tax-exempt bonds for a conventional advance refunding and taxable bonds to refund all the ROBs left from previous refundings. Due to a proposed change in IRS tax regulations, they argue that the underlying reserve investments for the ROBs can now be transferred to help fund the taxable bonds with no rebate penalty. Regardless of the permissibility of the taxable approach, Jefferies also performed a detailed analysis of all the Authority's Guaranteed Investment Contracts (GIC) and determined which ones would, and would not be terminated upon a refunding. They further demonstrated which GICs had negative arbitrage balances and the savings that could be generated if they were terminated. Jefferies' proposal was very well written and indicated an excellent understanding of our program and its needs. The depth of their research was very apparent in the detailed explanation of options relating to our individual Guaranteed Investment Contracts and whether they could or could not be terminated to provide additional savings for the transaction. This was a very informative proposal. The fee structure offered by Jefferies was the second lowest average takedown suggested by any of the firms.

Siebert Brandford Shank & Co.
Siebert has served as book-running senior manager on two SRF and pooled transactions since 2013 totaling approximately $266 million in par. In 2014, the firm senior managed more than $5.1 billion in negotiated municipal issues and ranked 12th as Senior Manager nationwide. Siebert accesses retail buyers through their affiliation with Muriel Siebert &Co. and retail distribution agreement with Credit Suisse. Institutional distribution is handled through 18 staff located in New York and Oakland CA. Siebert has $17.9 million in equity capital and $14.9 million in excess net capital. The firm's refunding approach included issuing both tax-exempt and taxable bonds, however there wasn't discussion on why taxable bonds would be issued. For the tax-exempt portion, Siebert provided a breakdown of current versus advance refunding bonds. They also suggested that we consider a guarantee program for projects that normally fall below DNR's funding line. This would increase the lending capacity of the program with minimal effect on available capital.

Wells Fargo Securities
Wells Fargo is also a co-senior underwriter and was the book runner for our 2010B and 2015A new money transactions. In 2014, Wells was the fifth ranked senior managing underwriter in overall negotiated and competitive transactions nationally and third ranked in Missouri. Wells Fargo has the third largest retail distribution network nationwide consisting of over 15,000 Financial Advisors, including 261 advisors within the state of Missouri. Their institutional sales force consisting of 16 institutional sales professionals focuses on Tier 1 buyers nationwide. They are well capitalized and have indicated a willingness to underwrite unsold bonds if necessary. Wells' proposal provided several interesting refunding scenarios which involved different options for GIC management/termination. As was proposed for our last refunding, they suggest terminating the GICs with make-whole premiums and offsetting termination premium (if received) with negative yield reduction liability to provide the best savings approach for the Authority.

The table below shows a summary of the average scores of each proposal.

Proposal	Average Score	Average Rank
Jefferies LLC	104.25	1.25
Bank of America	102.25	2.0
Citi Global Markets	101.75	2.25
Wells Fargo Securities	97.25	3.5
JP Morgan Securities	89.25	4.25
Siebert Brandford & Shank	71.25	5.25

Recommendation
Staff found all the proposals to be very good. In fact, there is no doubt that each of the firms could accomplish a refunding. However, after due consideration of all the proposals, staff found the proposal from Jefferies LLC, to be the most fitting of our goals. Jefferies' proposal was specifically written for the needs of the Authority which was evidenced by the excellent discussion and detail throughout. Their innovative approach will certainly provide good savings for the Authority and simplify administrative issues for DNR.

Therefore, staff recommends that Jefferies LLC be awarded the book running senior managing position for the potential refunding.

If the Board approves the recommendation, we will work to structure a transaction but will continually evaluate it in light of current market conditions. If a decision is made to move forward with a refunding transaction, we will come to the Board for the appropriate authorizations.

JB:ge

Attachment