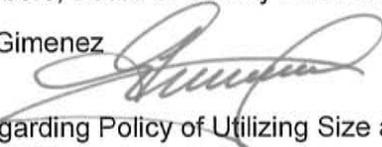


Date: August 21, 2012

To: Honorable Chairman Joe A. Martinez
and Members, Board of County Commissioners

From: Carlos A. Gimenez
Mayor 

Subject: Report Regarding Policy of Utilizing Size and Capital When Allocating Bonds to Underwriting Firms

This report is in response to Resolution R-62-12, sponsored by Commissioner Barbara J. Jordan and adopted by the Board of County Commissioners on January 24, 2012, which directs a market study of other municipal and government issuers regarding their policies of utilizing size and capital when allocating bonds to underwriting firms in negotiated bond transactions. More specifically, R-62-12 directed staff to study other municipal and government issuers to determine whether:

1. any, and if so, how many, issuers separate underwriting firms into divisions based on the amount of the underwriting firm's capital or other formulation;
2. any issuers limit the amount of bonds that may be allocated to an underwriting firm based on capital, and in particular, 15 times in capital, or based on another formulation; and
3. any policies utilized by other issuers in the selection of underwriting firms on negotiated transactions that may be more effective than the County Policies in promoting the development of small underwriting firms.

Background

The County has enacted Ordinances 99-73 and 04-202 (Underwriter's Ordinance), authorizing the selection of underwriters, and the assignment of the underwriters to a bond transaction. Pursuant to the Underwriter's Ordinance, the County issues a Request for Qualifications for underwriters to be selected to an underwriter pool (Pool). The Pool is divided into two divisions:

- Underwriters in Division 1 must have net capital of less than \$5,000,000 before haircuts (small firms). A haircut is the computation of net capital for purposes of Securities Exchange Commission rules. However, firms with up to \$10,000,000 may opt to be in Division 1 in response to the solicitation.
- Underwriters in Division 2 must have capital in excess of \$5,000,001 (large firms).

The highest rated firms are selected for the Pool and separated into the two divisions based on their capital. All firms selected to the Pool, whether in Division 1 or Division 2, may fill the role of Senior Manager, Co-Senior Manager or Co-Manager. Ordinance 99-73 defines the County's goal is to "achieve the most aggressive price in the marketplace by selecting a pool of underwriting firms and to make assignments based solely on each firm's financial expertise and capabilities, specifically capital strength and ability to underwrite and market bonds effectively."

The Senior Manager, Co-Senior Manager, or Co-Manager are the members of the underwriting syndicate; however, the Senior Manager is the lead firm conducting the business transaction and generally takes the largest underwriting commitment. More specifically, the Senior Manager handles negotiations when issuing a bond transaction and allocates securities among the members of the syndicate according to the terms of the agreement among underwriters and the orders received.

Per the Underwriter's Ordinance, for transactions of \$75 million or less the syndicate is selected from Division 1 and there shall be one Senior Manager, two Co-Senior Managers, and three Co-Managers. For transactions greater than \$75 million, the Senior Manager shall be appointed from Division 2 and the number of Co-Senior Managers and Co-Managers to be assigned to the transaction and from which Division they come from is based on the size of the transaction. More participants are needed in the syndicate to cover all potential purchasers of bonds in the market in large transactions.

Per the Securities Exchange Commission, an underwriter may only underwrite 15 times their capital. The County would expect the underwriters to underwrite or purchase any unsold bonds.

Market Study Analysis

To comply with the market study requested in R-62-12, Miami Dade County surveyed through its current financial advisors 14 government issuers of municipal bonds. The government municipal bond issuers surveyed were comparable or larger in size to Miami-Dade County.

There were five municipal issuers from the East:

- New York City (general obligation bonds, Transitional Finance Authority bonds, Water Authority bonds), New York;
- New York State Authorities;
- Mecklenburg, North Carolina;
- State of Georgia; and
- Washington, District of Columbia.

There were five municipal issuers from the Midwest:

- City of Dallas, Texas;
- Dallas-Fort Worth International Airport;
- City of Houston, Texas;
- Port of Houston, Texas; and
- State of Illinois.

There were four municipal issuers from the West:

- City of Los Angeles, California;
- Clark County Nevada;
- Clark County Airport; and
- Las Vegas Convention and Visitors Authority.

Each municipal bond issuer was contacted and answers were transcribed by the surveyor. The survey questions asked:

- 1) Does the issuer have any criteria for the selection of underwriting firms that are based on their capital, particularly, net capital which is also known as "capital before haircuts" (capital) or some other formulation?
- 2) Are underwriting firm separated into divisions based on their capital or some other criteria?
- 3) Is an underwriting firm required to meet a minimum capital threshold in order to serve as Senior Manager?
- 4) Do you restrict the amount of bonds you allot for sale to an underwriting firm to not more than 15 times its capital?
- 5) Do you have a small business/minority underwriting firm program that is utilized when appointing the underwriting team? If so, please describe.
- 6) Do you utilize a pool of underwriting firms when making assignments to bond transactions? If so, how was it established and how are assignments made, i.e. rotation, type of bonds, etc?

Findings on the Use of Pools and Separation of the Pools into Divisions

The survey shows that there is a wide range of practices in the use of a Pool for underwriters and how the Pools are divided into Divisions. All entities select underwriters, regardless of the use and structure of pools, through a solicitation process.

- Three entities do not use a pool of underwriters:
 - Las Vegas Convention and Visitor Center and the State of Georgia sell all bond transactions competitively.
 - Mecklenburg, North Carolina solicits underwriters with an RFP for each bond transaction.

- Eleven entities do use pools:
 - Six entities use pools and divide the pool into some sort of division.
 - Dallas/Fort Worth International Airport; State of Illinois; and Washington, District of Columbia use role (i.e. Senior Manager, Co-Senior Manager, etc.) as the division;
 - City of Los Angeles, California utilizes five Pools and divides each Pool by type of bond (i.e. fixed rate long term, fixed rate short term, variable rate and commercial paper, land secured, and unique transactions) to be issued;
 - The City of Dallas, Texas has two Pools and each one has three national firms, three regional firms and three WBE/SBE firms; and
 - Clark County, Nevada has one Pool and uses four large national or regional firms and one WBE/SBE firm.
 - Five entities use pools of underwriters that are not divided into divisions.
 - New York City; the New York State Authorities; and the Port of Houston use open competitive pools with each underwriting firm competing for entrance to the pool and each underwriter will be rotated equally in the role of Senior, Co-Senior, or Co-Manager and
 - Clark County Airport; and City of Houston, Texas use pools for which assignment to the role in each bond transaction is based on various criteria.

Findings on Capital Thresholds

- Four entities have minimum capital requirements to participate in a Pool or on a bond transaction.
 - Clark County Airport, Nevada uses net capital as a determining factor in the determination of underwriting capacity. Underwriting capacity is a determinate in being selected to one of the two underwriting Pool.
 - Dallas-Fort Worth International Airport has a minimum capital requirement based on an internal matrix that determines each firms underwriting capacity and strengths and weaknesses on different types of debt.
 - Las Vegas Convention and Visitor Center sells all bonds competitively. Having sufficient capital to underwrite the bond transaction is a requirement to bid on a competitive transaction.
 - The State of Illinois requires firms who will be Senior to have capital capacity to underwrite \$500 million of bonds and firms who will be Co-Senior to have capital capacity to underwrite \$250 million of bonds. Failure to meet these requirements will result in the firm being skipped as Senior or Co-Senior. Pool is divided into Senior, So-Seniors/Co-Managers and Co-Managers.
- Five entities (City of Dallas, Texas; Port of Houston; City of Los Angeles, California; State of Georgia, and Washington D.C;) have no minimum capital requirement to be part of a bond transaction or selected to a Pool, but capital is requested and considered in participation in a Pool or bond transaction.
- Five entities (Clark County Nevada, New York City, the New York State Authorities, Mecklenburg, North Carolina; and City of Houston, Texas) have no capital requirements in the selection of the underwriters to their bond transactions, nor is capital a consideration in the role an underwriter plays in the transaction. In Clark County, Nevada net capital is observed but does not formally weigh in the "final scoring" of the request for inclusion in the Pool.

Findings on Selection of the WBE/MBE/SBE Firms

- The City of Dallas, Texas; Washington DC; Clark County, Nevada; New York City, New York; the New York State Authorities; and Port of Houston all have set aside policies for WBE/MBE/SBE underwriting firms. The amount of the set aside ranges from 19.6 percent down to 5 percent. The firm's participation in the sale is not limited to the set aside amount. In other words, the firm can sell more, if the firm can place more orders, than the amount set aside.
- Dallas-Forth Worth International Airport; City of Houston, Texas; Mecklenburg, North Carolina; City of Los Angeles, California; and Clark County Airport all have no formal policy to include WBE/MBE/SBE firms in their bond transactions, but they provide for WBE/MBE/SBE firms

participation through an imposed goal of participation, inclusion in the Pool, or assigning WBE/MBE/SBE firms as Co-Managers.

- Two entities (the State of Illinois and the State of Georgia) require WBE/MBE/SBE firms to competitively compete with all respondents to the requests for participation in a bond transaction. Competition is with all underwriting firms.
- The Las Vegas Convention and Visitor Center bids all their transactions competitively. As such participation on a bond transaction is solely based on the WBE/MBE/SBE firms submitting a winning bid or being part of a syndicate of the winning bidder. The winning bidder would allow the WBE/MBE/SBE firm to participate in their syndicate solely at their discretion.

Findings on the Allocation of Bonds

In a bond transaction, there is a Senior Manager, who manage the transaction on behalf of the underwriting syndicate; Co-Senior Managers, who will step into the Senior Manager's role if the Senior Manager is unable to fulfill the role; and the Co-Managers who, in addition to the Senior and Co-Senior, sell the bonds. Senior Manager also accepts all orders from the syndicate members and then fills the orders after all orders have been placed. If not enough orders have been placed to purchase the entire bond transaction, the Senior Manager decides at what interest rate they will be willing to purchase all un-purchased bonds (underwrite). All bonds within a maturity will bear the same interest rate whether an order has been placed for those bonds or the syndicate has underwritten any un-purchased balance. If the maturity is oversubscribed with orders, the Senior Manager decides which order is filled and which order is not filled (Allocation). The underwriter that submitted the filled order is entitled to the sales commission.

All the surveyed entities indicated that the Senior allocates the bonds.

The Board by passing Underwriter's Ordinance wants each of the underwriters from both Divisions to participate in the bond deal. In order to ensure the Senior does not fill their orders prior to filling the other members of the teams orders, County staff and the County's Financial Advisor allocates the bonds, trying to ensure that the Underwriter's Ordinance policy of full participation is adhered to.

Summary and Conclusion

The County's Finance staff and Financial Advisors believe the County's Underwriter Ordinance strikes the right balance between financial prudence and the encouragement of small business participation. Like the County, nine out of 14 entities surveyed use capital as a requirement for participation in a bond transaction, of which four divide the pool based on capital capacity. The remaining five out of 14, while not using capital directly as a requirement, predominately use large national firms in conjunction with fewer small capitalized firms. In summary, capital is a key component in all bond transactions. This occurs because all governmental entities must ensure that its underwriting teams, regardless of composition, must be financially capable of meeting their obligations.

If you have any questions or concerns, please feel free to contact Deputy Mayor Edward Marquez at 305-375-1541, or me directly.

Attachment

c: Robert A. Cuevas, Jr.
Office of the Mayor Senior Staff
Charles Anderson, Commission Auditor

Matrix on Utilizing Size and Capital When Allocating Bonds to Underwriting Firms

Entity	Use of Pools and Separation into Divisions	Use of Capital	Selection of WBE/MBE/SBE Firms
Clark County Airport, NV	Pools are used and role assignment for each bond transaction is based on some criteria.	Net Capital is a determining factor in the determination of underwriting capacity. Underwriting capacity is a determinate in being selected to one of the two underwriting Pools.	No formal WBE/MBE/SBE policy exists, but participation included.
Clark County, NV	Pools are divided by size of firm only (i.e. national firm, regional firm, etc.)	No Capital requirements in the selection of the underwriters to their bond transactions, nor is Capital a consideration in the role an underwriter plays in the transaction.	Set-Aside policy exists for WBE/MBE/SBE underwriting firms.
Dallas, TX	Pools are divided by size and type of firm (i.e. national firm, regional firm, etc.)	No minimum Capital requirement to be part of a bond transaction or selected to a pool, but Capital is requested and considered.	Set-Aside policy exists for WBE/MBE/SBE underwriting firms.
Dallas-Fort Worth International Airport	Pools are divided by role (i.e. Senior Manager, Co-Senior Manager, etc.)	Minimum Capital requirement based on an internal matrix that determines each firm's underwriting capacity and strengths and weaknesses on different types of debt.	No formal WBE/MBE/SBE policy exists, but participation included.
Georgia, State of	No use of Pools. Bond transactions sold competitively.	No minimum Capital requirement to be part of a bond transaction or selected to a pool, but Capital is requested and considered.	No formal WBE/MBE/SBE policy exists, and all firms must compete.
Houston, TX	Pools are used and role assignment for each bond transaction is based on some criteria.	No Capital requirements in the selection of the underwriters to their bond transactions, nor is Capital a consideration in the role an underwriter plays in the transaction.	No formal WBE/MBE/SBE policy exists, but participation included.
Illinois, State of	Pools are divided by role (i.e. Senior Manager, Co-Senior Manager, etc.)	Because Pools are divided by role, Senior Managers required to have Capital capacity to underwrite \$500 million of bonds and firms who will be Co-Senior to have Capital capacity to underwrite \$250 million of bonds. Failure to meet these requirements will result in the firm being skipped as Senior or Co-Senior.	No formal WBE/MBE/SBE policy exists, and all firms must compete.
Las Vegas Convention and Visitors Authority	No use of Pools. Bond transactions sold competitively.	Capital to underwrite the bond transaction is a requirement to bid on a competitive transaction.	No formal WBE/MBE/SBE policy exists, and all firms must compete.
Los Angeles, CA	Pools are divided by type of bond (i.e. fixed rate, variable rate, commercial paper, etc.)	No minimum Capital requirement to be part of a bond transaction or selected to a pool, but Capital is requested and considered.	No formal WBE/MBE/SBE policy exists, but participation included.
Mecklenburg, NC	No use of Pools. Underwriters solicited through an RFP for each bond transaction.	No Capital requirements in the selection of the underwriters to their bond transactions, nor is Capital a consideration in the role an underwriter plays in the transaction.	No formal WBE/MBE/SBE policy exists, but participation included.
Miami-Dade County	Pools are divided into two divisions by Capital.	Senior Underwriter is required to have Capital sufficient to underwrite the entire transaction. Seniors are not eligible to be Senior unless they have minimal Capital equal to the par amount of the bonds to be sold divided by 15. Co-Senior and Co-Managers must have enough Capital to underwrite their positions percentage of participation.	County has no MBE/WBE requirements and as such MBE/WBE firms will be selected for a position in their respective Pool on a competitive basis. It is a County goal to assign Division 1 firms a minimum of 32% of each bond transaction to sell.
New York City, NY	Pools are open with each underwriting firm competing for entrance into the pool and the role they play once in the pool.	No Capital requirements in the selection of the underwriters to their bond transactions, nor is Capital a consideration in the role an underwriter plays in the transaction.	Set-Aside policy exists for WBE/MBE/SBE underwriting firms.

Matrix on Utilizing Size and Capital When Allocating Bonds to Underwriting Firms

Entity	Use of Pools and Separation into Divisions	Use of Capital	Selection of WBE/MBE/SBE Firms
New York State Authorities	Pools are open with each underwriting firm competing for entrance into the pool and the role they play once in the pool.	No Capital requirements in the selection of the underwriters to their bond transactions, nor is Capital a consideration in the role an underwriter plays in the transaction.	Set-Aside policy exists for WBE/MBE/SBE underwriting firms.
Port of Houston, TX	Pools are open with each underwriting firm competing for entrance into the pool and the role they play once in the pool.	No minimum Capital requirement to be part of a bond transaction or selected to a pool, but Capital is requested and considered.	Set-Aside policy exists for WBE/MBE/SBE underwriting firms.
Washington, DC	Pools are divided by role (i.e. Senior Manager, Co-Senior Manager, etc.)	No minimum Capital requirement to be part of a bond transaction or selected to a pool, but Capital is requested and considered.	Set-Aside policy exists for WBE/MBE/SBE underwriting firms.