

OHLONE COMMUNITY COLLEGE DISTRICT

MEMORANDUM

TO: Board of Trustees

FROM: Douglas Treadway

DATE: April 13, 2005

SUBJECT: Approval of Contracts for Bond Financial and Underwriting Services

Recent cash flow projections indicate that by the end of September, the District will deplete its remaining cash proceeds from the \$40 million 2002 Series A Bond issuance. Therefore, time is of the essence in the approval of current agreements for financial advising and underwriting services related to the next bond issuance. Based on previous experience with the Series A Bond issuance, staff recognizes that it can take more than four months for the issuance process. The most critical steps in the process are: Board approval of contracts for investment services, Board adoption of a resolution to authorize the issuance of additional general obligation bonds, staff preparation of materials for bond rating agencies, actual team presentations to the bond rating agencies, the sale of the bonds, and finally the receipt of the cash proceeds.

The Series A Bond issuance was a very successful financial transaction. The bonds were sold at a premium. After paying all issuance costs, \$534,000 was available to deposit into the District's Debt Service Fund which reduced the tax payers' overall debt obligation. That transaction was handled by a very competent financial consulting team: Bond Counsel – Mr. David Casnocha of Stradling, Yocca, Carlson & Rauth, Financial Adviser – Mr. Robert Barna of Sutro & Co., and Underwriter – Mr. Tim Carty of UBS/Paine Webber.

Mr. Barna, the Financial Adviser, is no longer with Sutro & Co. That firm was bought by RBC Dain Rauscher Inc. Mr. Barna is now with Citigroup Global markets, Inc. but has continued to assist staff with annual communications with the Alameda County Auditor-Controller's Office. This is the Office that ensures that tax rates are appropriately reflected on residents' property tax bills. Mr. Barna has ensured that these tax rates comply with promises made to tax payers during the campaign that the rate would never exceed \$22.90 per \$100,000 during the life of the bonds.

Mr. Barna proposes a somewhat different arrangement than the previous agreement for his services. The previous arrangement was solely for the services of Financial Adviser

for a fixed fee. Mr. Barna has proposed to provide all the services delineated in the previous financial adviser agreement for no additional fee. However, he wishes to split the underwriting fees with Mr. Tim Carty of UBS Financial Services.

Under the new arrangement, Mr. Barna and Mr. Carty would serve as co-Senior Managers splitting the underwriting discounting fees and related expenses 50/50. Mr. Barna would serve as the book running manager and handle all day-to-day management of the issuance. The underwriter's discount fee split by the two Senior Managers would be 0.50% per bond issuance inclusive of all out-of-pocket expenses other than out-of-state travel. No fees would be payable until bonds are actually issued.

In early 2002 District staff sent out requests for proposals for underwriting services to financial services firms. Three firms were interviewed and the proposal selected was from the firm of UBS Financial Services for a discount fee of 0.50% per issuance. Mr. Carty from UBS Financial Services is agreeable to splitting 50/50 the underwriting fees and expenses with Mr. Barna of Citigroup Global Markets, Inc., at the previous fee level.

There are benefits to the District with the new arrangement. First of all, the District retains the same team that was so successful in handling the first bond issuance. Secondly, by utilizing two underwriters, the District will have the two largest distribution networks to sell the bonds. Because Mr. Barna will not be charging a separate financial advising fee, the overall issuance costs will be lower. Mr. Barna will be present at the Board meeting to answer any questions concerning the proposed agreement.

Attached is a proposed agreement for investment banking services from Mr. Barna of Citigroup. Also, is a letter that has been signed by Mr. Carty of UBS Financial Services indicating his acceptance of an arrangement whereby he and Mr. Barna are Co-Senior Managers splitting the discount fees and expenses 50/50.

RECOMMENDATION:

The President/Superintendent recommends that the Board of Trustees authorize the following: 1) a contract for bond underwriting and financial advisory services with Citigroup Global Markets, Inc., for a bond discount fee of 0.50% of 50% of bonds issued inclusive of all costs with the exception of out-of-state travel; and 2) amendment to the contract with UBS Financial Services for a bond discount fee of 0.50% of 50% of bonds issued inclusive of all costs with the exception of out-of-state travel.