

City of Redondo Beach



Proposed Lease Revenue Bonds to Refinance CalPERS UAL

Summary of Underwriter Statements of Qualifications Municipal Underwriting Services

April 15, 2021



KOSMONT TRANSACTIONS SERVICES, INC.

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April 15, 2020

Mike Witzansky
Assistant City Manager
Marni Ruhland
Finance Director
City of Redondo Beach
415 Diamond Street
Redondo Beach, CA 90277

RE: Summary of Underwriter Statements of Qualifications
Proposed UAL Refinancing

Dear Mr. Witzansky and Ms. Ruhland:

As you are already aware, in preparation for the City of Redondo Beach's ("City") proposed issuance of ±\$210 million of lease revenue bonds to refinance the City's Unfunded Accrued Liability owed to the California Public Employees' Retirement System, Kosmont Transactions Services, Inc. ("KTS"), as the District's Municipal Advisor, issued a Request for Qualifications (RFQ) to qualified municipal bond underwriting firms and received nine (9) Statements of Qualifications ("SOQ") in return.

The attached Summary of Underwriter Statements of Qualifications ("Report") presents each question that was asked, summarizes key elements of each underwriter's responses, and offers KTS's summary view of the quality of each firm's qualifications. This Report was compiled to assist you and the Budget and Finance Commission with choosing an underwriter or team of underwriters to recommend to the City Council for the upcoming potential bond issue.

As discussed in the attached Report, it is KTS's conclusion that Bank of America Securities, Hilltop Securities, Piper Sandler, Ramirez & Co., Raymond James, and Stifel each deserve to be called in for interviews (via videoconference or teleconference).

Please let us know if you have any questions.

Regards,

A handwritten signature in blue ink, appearing to read "Dan Massiello".

Dan Massiello
Senior Vice President/Chief Compliance Officer

cc: Larry J. Kosmont

SUMMARY OF REQUESTS FOR QUALIFICATIONS AND RESPONSES

RFQs DISTRIBUTED

280 CAPITAL MARKETS

BARCLAY'S

BofA SECURITIES

CABRERA CAPITAL MARKETS, LLC

HILLTOP SECURITIES

JP MORGAN SECURITIES LLC

MORGAN STANLEY

MUFG UNION BANK

OPPENHEIMER & CO. INC.

PIPER SANDLER & CO

RAMIREZ & CO., INC.

RAYMOND JAMES

RBC CAPITAL MARKETS

ROBERT BAIRD & CO.

STIFEL

UBS FINANCIAL SERVICES INC.

SOQs RECEIVED

BofA SECURITIES

BARCLAY'S

CABRERA CAPITAL MARKETS, LLC

HILLTOP SECURITIES

JP MORGAN SECURITIES LLC

PIPER SANDLER & CO

RAMIREZ & CO., INC.

RAYMOND JAMES

STIFEL

DECLINED TO SUBMIT SOQ

280 CAPITAL MARKETS

BRANDIS TALLMAN, A DIVISION OF
OPPENHEIMER & CO. INC.

RBC CAPITAL MARKETS

NO RESPONSE

MORGAN STANLEY

MUFG UNION BANK

ROBERT BAIRD & CO.

UBS FINANCIAL SERVICES INC.

CONTENTS OF RFQ

Questions Posed:

Firm Qualifications

- Provide a brief description of your firm, including years in business, corporate headquarters, ownership structure, number of employees and locations of offices in California.
- Provide a description of your firm's underwriting and distribution capabilities, including number of municipal finance professionals (e.g. bankers, underwriters), number of securities trading desks, and number of retail sales locations, both nationally and in California.
- Provide a listing of all municipal securities transactions for which your firm served as sole or senior book running manager for the past three (3) years. Please do not include issues where your firm was co-manager or a sales group member. Please highlight or segregate pension obligation bonds or similar financings where proceeds were used to refinance or restructure unfunded pension or "OPEB" liabilities.
- Provide the name, address, telephone number, and email address of three (3) references for whom the proposed personnel have served as underwriter since 2017 with responsibilities similar to those requested in this RFQ.
- Provide the latest available information regarding your firm's capitalization, including excess net capital and underwriting capacity.
- Provide the resumes and contact information of the personnel who will be working on this assignment for the City.

Proposed Bonds

- Discuss what you see as the key credit issues for the City in refinancing its UAL and how you would approach presenting this credit to rating agencies and bond insurers.
- Discuss your approach to marketing the City's credit to potential investors, including thoughts on how the City might strengthen the credit of the proposed Lease Revenue Bonds.
- Discuss your marketing and distribution plan for the bonds. Who do you anticipate the primary investors will be? What types of investors will your firm target? What strategy will your firm take to broaden the City's current investor base? Would you recommend a retail order period?
- Discuss your initial structuring ideas for refinancing the City's UAL. Should the City refinance 100% of its UAL? Why or why not? If not, what process would you undertake to help the City determine an appropriate funding level target and which discrete/annual underlying UALs to target for refinancing?
- Describe the firm's approach to pricing and marketing taxable bonds in a volatile capital market.

Compliance

Answer the following questions, and, if the response is affirmative, provide details and explanations as necessary in an appendix to your SOQ:

- Within the past 24 months, has your firm and/or any of its employees been the subject of any investigation relating to the municipal industry by the SEC, MSRB, FINRA, or any other state or federal organization that oversees, regulates, licenses or is otherwise responsible for the municipal industry?

- Within the past 24 months, has your firm and/or any of its employees been involved in any litigation, arbitration, disciplinary, or other actions arising from the firm's underwriting, management, derivatives, or municipal securities activities?
- Is there any compensation arrangement or relationship between your firm and any other nonaffiliated firm(s) or individual(s) that may be associated with or impact your possible engagement in the City's financing program? Is your firm receiving or paying any payment or consideration of any kind for securing the City's work?
- Disclose any existing or contemplated relationship which would constitute an actual or potential conflict of interest or appearance of impropriety in connection with the services requested in this RFQ.

CONTENTS OF SOQs

Preliminary Analysis

The City received a robust response to the Request for Qualifications ("RFQ") with nine (9) different firms sending in Statements of Qualifications ("SOQ"), offering the City multiple options from which to choose.

The questions posed above are designed to achieve three things:

- Ascertain whether a particular firm meets certain minimum qualifications to provide Bond Underwriter Services to the City
- Provide the City with certain "empirical" data and information to measure or evaluate the respondents in accordance with any specific policy or criteria the City may wish to apply
- Determine the value each respondent can bring to the City's bond financing if they are selected to be Underwriter

KTS read through each of the SOQs and has formed an opinion about which firms the City might wish to consider inviting to be interviewed, as discussed and summarized herein below.

Minimum Criteria

Each of the nine respondents is qualified to be serve the City as a Bond Underwriter. Each firm has adequate capital, personnel, underwriting experience, and other relevant credentials to fulfil the requirements of this assignment.

Empirical Data

We have summarized the statistics and information for each firm in the table attached as Appendix A.

Value Added

KTS formed our opinion of which firms should be called for interviews based on what we understand the City's needs to be for this process , the responsiveness to the questions as posed in the SOQs, our general professional experience with transacting the issuance of bonds. and how we believe the City can achieve the best overall issuance experience from these criteria.

The first criterion we concerned ourselves with is distribution capability. This goes to the question of “how many firms should be hired”. While every single respondent claimed to be capable of underwriting the entire proposed bond issue (±\$210 million), we believe that some of the “smaller” firms may have a more challenging time distributing all the bonds by themselves. With the number of respondents, the City has its choice and can assemble a team of multiple underwriters to address distribution concerns. At this time, KTS is of the opinion that two (2) or possibly three (3) firms would be sufficient.

The next criterion we used in our evaluation was the overall resources and generally capability of each respondent, based on a combination of the responses to the questions, the “empirical data” provided, our general knowledge of each of the firms, and our experience with bringing deals to market. Of particular importance in this analysis was the capability of each firm to assist with evaluating the optimal percentage of the UAL to refinance.

And finally, we believe that it is important for the City, with the assistance of KTS, to be able to retain control of the deal, including its structure and the timing of the various steps to be taken in the transaction. In other words, which firm(s) would be responsive, nimble, and attentive enough when it comes to the City and this transaction?

KTS Rankings

Based on the foregoing, our analysis for which firms to call for interviews is as follows (in alphabetical order by category):

Best Overall Responses	Worth a Closer Look	Not Recommended for Interviews
Ramirez Stifel	Bank of America Securities Hilltop Securities Piper Sandler Raymond James	Barclay's Cabrera Capital JPMorgan

Brief Summaries of Responses

Recommended for Interviews:

Ramirez & Co., Inc.

- Strong POB experience, a leader in CA as a firm as well as the lead banker who recently moved from Stifel (#3 number of deals; #5 par value among respondents)
- Good salesforce coverage for taxable municipal bonds
- Strong discussion of credit considerations, structuring thoughts, and marketing strategy
- Claims to have proprietary “Pension Optimization Model” that can be used to determine optimal UAL refinancing size
- Performed significant amount of research into City’s budget as well as existing UAL bases of City; provided substantial analysis in SOQ
- Local presence
- One of the smaller firms in terms of capital and personnel
- No CA Underwriting desk; no in-house retail (although this is probably not a retail deal)

Stifel

- A powerhouse of CA bond underwriting; the perennial leader in CA deals with a long CA history
- Strong POB experience (Tied-#1 number of deals; #3 par value among respondents)
- Underwrote City's 2019 taxable bonds
- Strong marketing discussion including novel ideas about premarketing efforts
- Good UAL refinancing analysis and preliminary structuring thoughts
- Local presence
- Two (2) CA underwriting desks, extensive retail network, access to international buyers through European sales force

Bank of America Securities

- Large, multinational investment bank
- Strong taxable bond distribution
- Strong POB experience (Tied-#1 number of deals; #2 par value among respondents)
- Claims to have proprietary system to analyze pension bases to determine optimal UAL refinancing size
- In depth discussion of structuring ideas
- Strong capitalization
- Strong international distribution capabilities
- Large banking firm; (question if City would get personalized attention?)
- No CA underwriter/desk

Hilltop Securities

- Strong "middle market" firm
- Proven innovation: did the West Covina deal that pledged streets as underlying asset
- Has self-described "Pension/OPEB Specialist" on staff to assist with determining proper level of UAL to refinance
- Good City's budget research and credit analysis provided
- In depth discussion of City's street value as assumed asset to be pledged (SOQ did not say)– only respondent to mention street value analysis
- Some of the answers in SOQ were a bit generic and seemed somewhat non-responsive to the specific question posed
- No CA underwriter/desk

Piper Sandler

- Strong CA regional underwriter
- CA underwriting desk
- Three dedicated taxable municipal traders
- Local presence (proposed support banker lives in City)
- Dedicated salesperson that covers municipal buyers (many municipalities invest in taxable municipal bonds)
- Good budget research
- Strong structure discussion
- Strong rating discussion with research of comparable cities included (only one to do so)

Raymond James

- Strong POB experience (#1 par value; #2 number of deals among respondents) including some very large deals
- CA underwriting desk
- Dedicated taxable municipal trader
- Retail sales network is unparalleled
- Self-described “POB Expert” is proposed as co-banker
- Interesting marketing suggestions (e.g. “City residents order priority”)
- Good budget analysis
- Decent rating discussion
- Strong presentation of UAL/outstanding bases analysis and discussion of CalPERS rule changes

Not Recommended for Interviews:

Barclay's

- Strong capitalization
- Good budget analysis
- No UAL analysis discussion
- No CA underwriter/desk

Cabrera

- Decent marketing discussion
- Decent structuring analysis
- No UAL analysis discussion
- No CA underwriter/desk

JPMorgan

- Strong taxable municipal distribution capabilities
- Good City budget research and discussion
- Good POB analysis and structure discussion
- Largest capitalization on all firms (“fortress balance sheet”)

- No CA underwriter/desk
- Large banking firm; (question if City would get personalized attention?)
- Least amount of POB/pension financing experience among respondents

POB/Pension Financing Experience of Each Respondent

Firm	Par (\$millions)	Rank	#Deals	Rank
Raymond James	1,699.560	1	6	4
BofA Securities	1,681.100	2	10	1
Stifel	1,562.480	3	10	1
Barclay's	1,170.300	4	2	9
Ramirez & Co.	683.200	5	7	3
Hilltop Securities	584.054	6	4	6
Piper Sandler	540.020	7	5	5
Cabrera Capital	363.065	8	3	7
JP Morgan	187.000	9	3	7

APPENDIX A
STATISTICAL/EMPIRICAL INFORMATION OF THE RESPONDENTS

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Question 1: Firm Description	Years in Business	Corporate HQ	Ownership Structure	# of Employees	CA Office Locations	Comments
BofA Securities	>200	Charlotte, NC	Public	>200,000	871	
Barclay's	>300	New York, NY	Public	83,000	3	118 CA Employees
Cabrera Capital	20	Chicago, IL	Private	52	1	
Hilltop Securities	74	Dallas, TX	Public	770	8	88 CA employees
JP Morgan Securities LLC	>200	New York, NY	Public	255,000	972	
Piper Sandler & Co.	126	Minneapolis, MN	Public	1,573	4	103 CA employees
Ramirez and Co., Inc.	50	New York, NY	Private	133	1	
Raymond James	59	St. Petersburg, FL	Public	19,984	219	Has an office in Redondo Beach
Stifel	131	St. Louis, MO	Public	8,600	37	2 Public Finance offices in CA, 3 CA-based underwriters

Question 2: Underwriting and Distribution Capabilities	# Muni Finance Profess.	# Trading Desks	# CA Trading Desks	Retail Sales Locations USA	Retail Sales Locations CA	Comments
BofA Securities	238	N/R[1]	U/K	638	76	[1] Assume NYC
Barclay's	137	N/R[1]	U/K	0	0	[1] Assume NYC
Cabrera Capital	7	4	0	2	0	
Hilltop Securities	200	8	1	N/R	N/R[2]	[2]60 retail sales personnel in CA
JP Morgan Securities LLC	153	1	0	13,990	2,055	
Piper Sandler & Co.	150	13	1	N/R	N/R	3 Taxable Municipal Traders
Ramirez and Co., Inc.	67	1	0	3	0	Retail sales and trading operations are headquartered in NYC
Raymond James	171	7*	1	3,100	182	Dedicated Taxable Municipal Bond Desk
Stifel	200	6	N/R	N/R	N/R	2,300 retail salespeople managing \$300B in client accounts

N/R = nonresponsive; U/K = unknown

APPENDIX A
STATISTICAL/EMPIRICAL INFORMATION OF THE RESPONDENTS

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Question 3: Transaction Experience	# Lead/Sole Managed Deals (past 3 years)	# POB/similar Financings (past 3 years)	Comments
BofA Securities	>1,000	11	#1 ranked senior manager of national municipal financings for both negotiated and competitive sales for the last nine consecutive years
Barclay's	296	2	
Cabrera Capital	14	3	
Hilltop Securities	532	11	
JP Morgan Securities LLC	6,339	4	Gave a list of 20 Senior managed Pension UAL Refinancing Deals since 2010
Piper Sandler & Co.	256*	5	*Only specified # of CA deals
Ramirez and Co., Inc.	145*	8*	*Since 2017, not past 3 years. Since 2017, managed 26% of all POBs issued by CA cities
Raymond James	2,003	8	Consistently ranks in top 10 nationally for senior managing negotiated and competitive long-term new issues
Stifel	*578	11	*Only specified CA deals. 1 bond underwriter for CA Public agencies

APPENDIX A
STATISTICAL/EMPIRICAL INFORMATION OF THE RESPONDENTS

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Question 4: References	Reference 1	Reference 2	Reference 3
BofA Securities	Talika Johnson, Dir. Admin. Services City of Azusa (626) 812-5202 tjohnson@azusaca.gov	Steve S. Charelian, Finance Director City of Manhattan Beach (310) 802-5552 scharelian@citymb.info	Nikolai Sklaroff, Deputy Dir., Debt & Treasury City of San Jose (408) 535-7832 Nikolai.sklaroff@sanjoseca.gov
Barclay's	Rose Tam, Finance Director City of Baldwin Park (626) 960-4011 x254 rtam@baldwinpark.com	Ron Hacker, Assistant Supt. Centinela Valley UHSD (310) 263-3220 hackerr@centinela.k12.ca.us	Tim Schafer, Deputy Treasurer, Public Finance State of California (916) 653-2995 Tim.schaefer@treasurer.ca.gov
Cabrera Capital	Michael Solorza, Finance Director City of Montebello (323) 887-1412 msolorza@cityofmontebello.com	Tarik Rahmani, Finance Director City of Carson (310) 952-1755 trahmani@carson.ca.us	David Esparza, Finance Director City of Inglewood (310) 412 5257 desparza@cityofinglewood.org
Hilltop Securities	Dave Carmany, City Manager City of West Covina (626) 939-8401 dcarmany@westcovina.org	Scott Ochoa, City Manager City of Ontario (909) 395-2555 sochoa@ontario.ca.gov	Andy Health, Finance Director City of Grass Valley (530) 274-4301 andyh@cityofgrassvalley.com
JP Morgan	Julia Cooper, Director of Finance City of San Jose (408) 535-7011 Julia.cooper@sanjoseca.gov	Robert McDonald, General Manager Carpinteria Valley Water District (805) 684-2816 x107 bob@cvwd.net	Brian Beelner, AGM/CFO City of Anaheim (714) 765-4620 BBeelner@anaheim.net
Piper Sandler	Dan Buffalo, Finance Director City of Uiah (707) 463-6220 dbuffalo@cityofukiah.com	Jason Caudle, City Manager City of Lancaster (661) 723-6010 jcaudle@cityoflanasterca.org	Tarik Rahmani, Finance Director City of Carson (310) 952-1755 trahmani@carson.ca.us
Ramirez	Martha Garcia, Director of Mgmt. Svcs. City of Monterey Park (626) 307-1349 magarcia@montereypark.ca.gov	Bruce Foltz, Finance Director City of El Monte (626) 580-2075 bfoltz@elmonteca.gov	Felice Lopez, Finance Director City of Hawthorne (310) 349-2923 flopez@cityofhawthorne.org
Raymond James	Don Kent, Asst. CEO/County Fin. Officer County of Riverside (951) 955-1110 drkent@rivco.org	Edward Enriquez, CFO City of Riverside (951) 826-5660 eenriquez@riversideca.gov	Alma Martinez, City Manager City of El Monte (626) 580-2001 amartinez@elmonteca.gov
Stifel	David Bilby, Director of Finance City of Chula Vista (619) 409-3818 Dbilby@chulavista.gov	Sunny Rief, Assistant CFO City of Huntington Beach (714) 536-5907 Sunny.rief@surfcity-hb.org	Will Kolbow, Assistant City Manager City of Orange (714) 744-2235 wkolbow@cityoforange.org

APPENDIX A
STATISTICAL/EMPIRICAL INFORMATION OF THE RESPONDENTS

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Question 5: Capitalization	Total Capital	Excess Net Capital	Underwriting Capacity
BofA Securities	\$237,964,000,000	\$10,976,000,000	\$14.1B
Barclay's	\$10,648,700,550	\$2,872,639,706	\$14B
Cabrera Capital	\$17,012,309	\$8,872,140	\$1.51B
Hilltop Securities	\$442,320,000	\$288,710,000	\$4.1B
JP Morgan Securities LLC	\$41,900,000,000	\$22,600,000,000	No internal or legal limit
Piper Sandler & Co.	\$829,425,000	\$213,812,000	\$3.0B
Ramirez and Co., Inc.	\$37,600,000	\$36,400,000	\$3.16B
Raymond James	\$7,363,000,000	\$1,447,949,535	\$20B
Stifel	\$1,362,282,094	\$463,252,373	\$6.1B