

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

**OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA**

00-044

SYNOPSIS -

AGENDA:

FEBRUARY 7, 2000

SUBJECT:

SELECTION OF
MERRILL LYNCH
AS SENIOR
MANAGING
UNDERWRITER FOR
PARKING SYSTEM
REVENUE BONDS

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

KEVIN RIPER
FINANCE
DIRECTOR

As contemplated by the Recommended 2000-01/2005-06 Capital Improvements Program (CIP), the City continues to anticipate the issuance of approximately \$30-\$40 million of Parking System Revenue Bonds in Spring 2000. Included in this bond issuance would be a refunding of all (approximately \$20 million) outstanding debt from the Series 1990A and 1990B Parking System Revenue Bonds, a new money component to pay for property acquisition and construction of a proposed Eleventh and Market Street Park and Ride Facility, Parking System infrastructure improvement and expansion, and issuance costs.

Iowa law authorizes the City to sell revenue bonds by negotiated sale if the principal amount of the issue is at least \$15 million, and if the Council deems it advisable and in the best interests of the public. As explained in Council Communication No. 99-534 for the December 6, 1999, agenda, this parking revenue bond issue poses significant challenges to underwriters: no general parking rate increase in the last 10 years; resulting significant financial pressure on the Parking Fund; high costs associated with improving and replacing aging infrastructure; and the pending sale of the profitable Seventh and Grand Parking Garage. A complicated security or credit like the Parking System is better handled by a negotiated sale that involves the underwriter at the beginning of the transaction, rather than only at the end (date of sale).

Therefore, by Roll Call No. 99-3660, on December 6, 1999, Council approved the form and issuance of a Request for Proposals (RFP) to solicit a senior managing underwriter for the Parking System Revenue Bonds. Staff mailed the RFP to 36 firms, of which five responded.

Four firms were invited to in-person interviews of two hours each. Combined with reference checks and other information from the RFP responses, the evaluation committee

recommends, and the City Manager concurs in, the selection of Merrill Lynch (David H. Komansky, Chairman and CEO, 400 Locust, Des Moines, Iowa 50309) as senior managing underwriter for the Parking System Revenue Bonds.

FISCAL IMPACT -

Total estimated cost of \$201,446 based on a 20-year \$28.3 million tax-exempt par amount, with 80 percent insured and Aaa-rated, and 20 percent uninsured and Baa-rated. (Since the size of the tax-exempt bond issue may change, and a parallel series of taxable bonds also may be issued, the total cost is likely to be somewhat higher than \$201,446. This evaluation method represents the best "apples-to-apples" comparison of the four finalists' various cost proposals.)

RECOMMENDATION -

Selection of Merrill Lynch as senior managing underwriter for Parking System Revenue Bonds.

BACKGROUND -

The RFP process yielded five respondents from the 36 firms that received the RFP. According to the initial screening process described in the RFP, application of all criteria (except cost) and their corresponding weights resulted in four of the five firms being deemed finalists and offered in-person interviews:

Dain Rauscher and PaineWebber (joint proposal)
J.P. Morgan
Merrill Lynch
US Bancorp Piper Jaffray

The RFP evaluation committee, consisting of the Finance Director, City Traffic Engineer, and Economic Development Coordinator Andrea Hauer, conducted separate two-hour interviews with these four firms on January 25, 27, and 28. The City's financial advisor, Public Financial Management, also participated in the interviews. All four firms proved themselves to be well-qualified, with many original ideas and innovative structuring and distribution approaches.

The evaluation committee used the information obtained from the in-person interviews, the responses to the RFP, reference checks, and other information to compile the following scoring matrix, based on the criteria and weights contained in the RFP:

RFP Scoring Matrix

Dain Rauscher/ Merrill US Bancorp
Criteria PaineWebber J.P. Morgan Lynch Piper Jaffray

Understanding/
Availability/
Experience (30%) 20 25 27 30

Distribution
Capability (20%) 17 15 20 18

Financial
Capacity (15%) 14 14 15 14

References (10%) 10 10 10 10

Subtotal 61 64 72 72

Cost (25%) 20 21 25 21

Total 81 85 97 93

For each criterion, the proposal deemed most advantageous to the City received the maximum points, with the remaining proposals scored proportionately lower in that category.

Merrill Lynch is the highest-scoring proposal, with its lower cost breaking a tie with US Bancorp Piper Jaffray on all other factors combined. (The evaluation committee examined the firms' cost proposals only after completing its evaluation (and scoring) of the first three criteria listed above.) Two years ago, following a similar competitive process to select an underwriter, Merrill Lynch sold on very favorable terms for the City \$42.7 million of Airport Revenue Bonds. City staff are confident that Merrill Lynch will repeat this excellent performance for Parking System Revenue Bonds.



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