

MEMORANDUM

To Banking Committee
From: Board Office
Subject: Electronic Bidding – Board of Regents Bonds
Date: November 5, 2001

Recommended Actions:

1. Receive a report on electronic bidding for Board of Regents Bonds.
2. Recommend that the Board adopt A Resolution (see G.D. 3) Approving Electronic Bidding Procedures.

Executive Summary: The 2000 General Assembly passed a law permitting the use of electronic bidding for bonds and notes by a public body.

Springsted, Inc., the Board's financial advisor, has used electronic bidding for a number of its clients and reports positive results by offering bidders this option.

There is no cost to the issuer to use electronic bidding.

The electronic bid option would not be used to the exclusion of other methods of submitting a bid, but is an additional option available to an issuer to enhance the bidding process.

Springsted recommends that the Board provide the electronic bid option to bidders using the Parity system (the most widely used and preferred system by underwriters), beginning with the January 2002 sale of Dormitory Revenue Bonds for Iowa State University. (See B.C. 4 - Proposed Bond Issuance Schedule for Calendar Year 2002.)

Barry Fick of Springsted reports that he has discussed this option with the universities and they are amenable to adding this option; Mr. Fick will discuss this option with the Banking Committee at its November meeting.

The electronic bid option supplements and expands the options available to issuers for accepting bids on bonds. It offers a number of advantages (detailed later in this memorandum) and is being used by more and more issuers to take advantage of the accuracy and speed provided by electronic communications.

Electronic bidding has proven to be accurate and secure, and is backed by independent verification of the calculations the system makes.

To offer the electronic bid option, the Board must adopt a resolution providing for this option and determining that the procedure adopted will provide reasonable security and maintain the integrity of the competitive bidding process.

Ahlers has prepared the required resolution, which is included in the Regent Exhibit Book.

Background:

Statutory Provisions – Electronic Bidding As detailed in Iowa Code Chapter 75.14 (attached as Appendix A to this memorandum), bids for bonds may now be received by electronic, internet or wireless communication, a proprietary bidding procedure or system, or by facsimile transmission to a location deemed appropriate by the governing body.

Current Method – Bid Openings These statutorily permitted methods are in addition to the current method used by the Board whereby bids are submitted to Springsted where they are tabulated and verified for mathematical accuracy and compliance with the bid parameters included in the Notice of Sale.

The bids are then relayed by phone to the Springsted representative at the bid opening, who places each of the bids in a sealed envelope. The Executive Director's designated representative then opens the bids.

Electronic Bidding Services Three firms currently offer electronic bidding services: Bloomberg, Muni-Auction, and Parity. Issuers have the option of using one, two or all three firms to accept bids.

Springsted's experience is that the use of more than one firm does not result in any perceived advantage to an issuer and may result in confusion among bidders as they do not know which bidding service to use. Springsted believes that the use of one electronic bidding service should be offered as an option to bidders.

Parity System / BidComp Pricing System Springsted reports that the most widely used system by underwriters is the Parity system; the firm that produces the Parity system also markets a pricing system to the underwriting community under the brand name BidComp.

The BidComp system allows underwriters to enter data into the program and determine their production (profit) on a bond issue.

- The program also allows underwriters to enter their pre-sale orders for bonds by maturity into the program; this provides the underwriter with an instant review of the status of sales of the bonds.

- The use of the BidComp system also allows underwriters the option to adjust their pricing for coupons and yields up until the final moments before a bid is due.
- With the BidComp system, members of a bond syndicate or selling group can view the information over a secure link on the internet. Syndicate members can also enter their orders for bonds into the system, thereby providing additional information to the managing underwriter about their bid prior to submitting it.
- After entering the information into the BidComp system, the underwriter may submit its bid to Parity by a simple electronic transfer.
- Underwriters pay a fee for the BidComp software, which links to the Parity system at no charge.

The ability to set up their bid, review orders and submit their bid with one system provides operating efficiencies for underwriters and has resulted in the Parity system becoming the preferred format for electronic bidding.

Analysis:

Recommendation Springsted recommends that the Board begin the use of electronic bidding, as one method for submitting bids for Regent bonds, utilizing the Parity system described above. Springsted reports that its experience with electronic bidding has been very positive.

Advantages The use of electronic bidding offers advantages to the Board of Regents in the receipt of bids for bonds.

Accuracy Using an electronic bid removes the need to enter the bid information from one form to another, reducing the possibility of transcription and typing errors.

Access The Board currently receives one or two bids for each bond issue. Each bid consists of two or three co-managers and a number of member firms.

Electronic bidding, combined with the current use of electronic posting and distribution of the offering documents, will allow firms the option of submitting a bid individually or in a smaller group.

Use of the Parity system with the BidComp underwriter system will allow underwriters greater information about presale orders, reducing the uncertainty about having to market unsold bonds.

*Instantaneous
Results*

After the closing time for bids, the bidders would be ranked immediately by interest cost, from lowest to highest. (Springsted would independently verify the mathematical accuracy of the bids.)

The reoffering rates are shown immediately, reducing the time required to determine the exact underwriter compensation in par bid sales and calculating true interest cost in other sales.

*Security and Equal
Access*

The issuer can view the results of the electronic bidding by connecting to the secure Parity internet site.

Access to the site is restricted by use of a multi-password log-in and a secure transmission is used for data integrity.

The issuer can view, in real time from any remote location, the name of the underwriters who submit bids.

A timer counts down the time until all bids are due and bids are not accepted after the specified time. All bidders have access to the same information about the sale, so no one has an unfair information advantage.

The information on the Parity system may not be changed, altered or in any way modified by a person viewing the information on a computer.

The internet site is accessed through a secure connection using a User Identification Number and a Password. The use of the Number and Password prohibit unauthorized persons from viewing the bid screen.

These security features enhance the integrity of the competitive bid process by allowing access, yet maintaining confidentiality and restricting access to authorized entities.

No one has access to information about bids until after the deadline for submitting them has passed. This applies to underwriters submitting bids, to the issuer and to anyone who has access to the internet bid site.

Problems

Springsted reports that on occasion bidders have been unable to access the Parity system, but this has usually been a connection problem rather than a problem with the Parity system.

Any potential problems with access are mitigated by the fact that in any sale, bidders have more than one option for submitting bids to an issuer.

In the case of the Board of Regents, the use of electronic bidding would not be the exclusive method of submitting a bid.

Appendix A
Iowa Code Chapter 75.14
(as passed by 2000 General Assembly)

Electronic Bidding
Statute

Notwithstanding contrary provisions of this chapter, a public body authorized to issue bonds, notes, or other obligations may elect to receive bids to purchase such bonds, notes or other obligations by means of electronic, internet or wireless communication; a proprietary bidding procedure or system; or by facsimile transmission to a location deemed appropriate by the governing body, in each instance as may be approved by the governing body and provided for in the notice of sale. An electronic bid shall be submitted in substantial conformity with the requirements of chapter 554D and any rules adopted pursuant to that chapter with respect to the acceptance of electronic records by a governmental agency. Additionally, before approving the use of an electronic bidding procedure, the public body shall find and determine that the specific procedure to be used will provide reasonable security and maintain the integrity of the competitive bidding process, and facilitate the delivery of bids by interested parties under the circumstances of the particular sale.