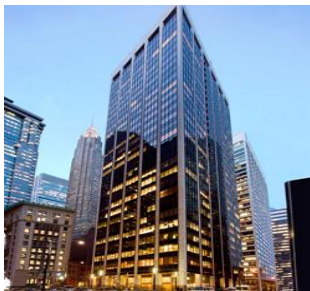


# Committee on Gas

NARUC  Summer  
Policy Summit

# Committee on Gas and Subcommittee on Supplier Workforce and Diversity

## Understanding the Role of Diversity in Utilities' Financing Teams



## UNDERSTANDING THE ROLE OF DIVERSITY IN UTILITIES' FINANCING TEAMS

**GARY HALL – SIEBERT CISNEROS SHANK & Co., L.L.C.  
EQUITY STAKEHOLDER & HEAD OF INVESTMENT BANKING**

## EXECUTIVE SUMMARY

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1. Themes of change in the Utility Sector
2. Exposure to a national platform
3. Benefits of partnering with a M/WBE
4. Strategies to grow M/WBE participation
5. Siebert Cisneros Shank & Co., L.L.C. – Top ranked municipal underwriting firm

### New Infrastructure Awareness

- American Society of Civil Engineers grades U.S. infrastructure give US public works an overall grade of D-
- Identifies a gap of \$1.5 trillion in investment needed over next decade
- Of those challenges, specific utilities challenges are:
  - Energy systems with aging equipment that result in capacity bottlenecks and power interruptions that cost \$150 billion in lost productivity annually
  - Water utilities have 6 billion gallons lead daily
  - Public waterways have 2 billion gallons of untreated sewage daily causing 3 million people to become ill annually
  - 2000+ local water systems have serious drinking water violations
- National politics have put infrastructure and utilizes on the front burner
  - Tax reform, budget challenges, requirements for local matching funds, regulatory relief, global competitiveness, climate change, and cybersecurity
- Infrastructure is at a point of inflection with respect to the uses of technology
  - One-way Generation is becoming two-way generation, with rooftop solar allowing customers to sell back power
  - “Beyond the meter”, new appliances and features in Smart Buildings enable integration with virtual technologies to create the “internet of things”
  - Technology applied to water resources is changing virtually every aspect of the water system
    - Treatment (desalination); conservation measures; Water Re-use, including “grey water”

## DISRUPTIVE FORCES WILL CHANGE THE WAY UTILITIES DO BUSINESS

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### Expected Changes in the Utility Sector

- Utilities have been considered steady, conservative, “iron in the ground”
- The new business environment will be Entrepreneurial, De-regulated, Nimble, Populated by start-ups, Customer-centered, and Interactive
- Utilities will be more essential to our way of life than ever
  - That includes being responsive to population changes
  - For the first time in American history, the majority of first graders are children of color
  - More than one-half of the population growth over the next decade will be persons of color
  - As we strive to sustain a strong middle class, we must include more people of color
  - Utilities must address the new demographics in every aspect of their operations
    - Leadership
    - Workforce
    - Customers
    - Suppliers



# UTILITIES RECEIVE THE BENEFIT OF A NATIONAL PLATFORM

## Boots on the Ground in Several Major Markets

- Repository of both operational and financial information to share lessons learned and best practices
- An appreciation for both national and parochial issues to assist with public policy considerations
- Ability to contextualize credit characteristics from a national prism when selling credit stories to investors
- Broad exposure and experience with stakeholders in the utility industry throughout the nation

### Siebert Cisneros Shank & Co., L.L.C. Offices Nationwide\*



\*Note: SCS maintains dual-headquarters in Oakland, CA and New York, NY

## Milestones for Utility Issuers

### SENIOR & CO-MANAGER RANKINGS WATER & SEWER, FIRST HALF 2017

Full Credit to Book Runner (Equal if Joint)	Par Amount (US\$ mil)	Rank
<b>Siebert Cisneros Shank</b>	<b>5,518.4</b>	<b>1</b>
Bank of America Merrill Lynch	5,339.1	2
Morgan Stanley	4,878.5	3
Citi	4,554.7	4
Ramirez & Co.	3,801.5	5

Source for rankings: Thomson Reuters/SDC

### SENIOR MANAGER RANKINGS WATER & SEWER, FIRST HALF 2017

Full Credit to Book Runner (Equal if Joint)	Par Amount (US\$ mil)	Rank
Bank of America Merrill Lynch	1,814.6	1
Morgan Stanley	1,742.0	2
Citi	1,496.4	3
<b>Siebert Cisneros Shank</b>	<b>1,256.5</b>	<b>4</b>
Barclays	1,190.4	5

Source for rankings: Thomson Reuters/SDC

## BENEFITS OF PARTNERING WITH A M/WBE

### Strengthening Financial Outcomes

- The M/WBE sector provides important aspects of competition in financial services, in an environment in which consolidation of major banks has led to fewer market participants and smaller deal syndicates
- Unlike bulge bracket firms, **M/WBE firms are not subsidiaries of a conglomerate, therefore they oftentimes focus solely on serving public finance customers**, like utilities
  - As such, senior executives commit their attention to providing best-in-class customer service
  - Their respective underwriting desks provide heightened focus for utility clients
  - Capital commitment decisions are client driven and the firm's capital is not restricted for use in an unrelated part of the firm
- Oftentimes **provide access to Tier 2 and Tier 3 investors that are otherwise overlooked by bulge bracket firms** that rely on volume trades
- We also broaden distribution to include larger investment managers with diverse business mandates
  - These additional investors provide the marginal order that allows the underwriter to lower yields on a financing, thereby reducing debt service for the issuer
- Further, **M/WBE's are in the market very frequently** (SCS ranked as the #1 co-manager of negotiated deals in 2016), so they can provide key insights with respect to primary and secondary market activity, structures, deal flow, and investor demand

### Engendering Public Goodwill

- Can enable the financing team to reflect the cultural makeup of the rate paying community
- Allows for **compliance with diversity and inclusion goals** of the organization
- Given that M/WBE firms are often located in underserved communities, **hiring oftentimes leads to a direct increase in economic activity and charitable activity in the communities in which they do business**
- Provides an actionable solution for our nation's well researched and documented gender pay gap
- As M/WBEs are oftentimes small businesses, they **serve as a critical part of our financial ecosystem**



## STRATEGIES TO GROW M/WBE PARTICIPATION

**Many corporations, although not legally bound, realize the benefits in hiring M/WBEs and have utilized several strategies to increase their level of participation**

Considerations	Highlights
Senior-level Sponsorship	<ul style="list-style-type: none"><li>▪ Board level sponsorship of an M/WBE initiative is strongly suggested</li><li>▪ Executive staff sponsorship of an M/WBE initiative is also necessary</li><li>▪ As municipal advisors are oftentimes the gatekeepers, they may need an explicit directive from executive staff or the board to ensure M/WBE participation</li><li>▪ Some issuers use an organization-wide diversity and inclusion policy to ensure M/WBE participation</li></ul>
Engagement with procurement officers	<ul style="list-style-type: none"><li>▪ Some issuers have specific requirements delineated in their procurement documents</li><li>▪ To encourage M/WBE participation, solicitations from procurement officers should be thoughtful about including financial and experience hurdles that may lead to the exclusion of M/WBE's</li><li>▪ Procurement officers may also encourage joint proposals from larger firms and M/WBEs</li><li>▪ If an M/WBE is not selected as senior manager, consider elevating their role to provide an opportunity for meaningful participation and economics</li></ul>
Financing value chain	<ul style="list-style-type: none"><li>▪ Consider allocating a portion of the deal economic credit (a.k.a. "SDC credit") to M/WBE underwriters</li><li>▪ Remember, M/WBE inclusion can be provided along all parts of the financing value chain – from investment bankers and legal counsel to printers and trustees, etc.</li></ul>

## SCS HAS EXTENSIVE EXPERIENCE WITH RELEVANT UTILITIES ISSUERS NATIONWIDE

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- **Core business has been public finance**

- Participated in over **\$1.4 trillion in par amount** of transactions since inception in 1996
- **Ranked 1st in terms of water and sewer market penetration for 2017 YTD** and #5 for 2014 through 2017 YTD\*
- **Raised \$13.7 billion in 16 financings for the largest regulated electric utilities in California since 2004, including Southern California Gas, Southern California Edison, Pacific Gas & Electric Company, and San Diego Gas & Electric Company**
- Served as joint bookrunner in a 30-year First Mortgage Bond offering for Southern California Edison

- **Top ranked minority owned investment bank**

- Top ranked M/WBE firm for senior and co-managed issues each year from 1997-2015
- Ranked in the top 3 nationally for average deal size since the recession<sup>1</sup>
- **First M/WBE to be ranked in the top 10 for a full year**

\*Source: SDC, ranking based on total par amount of all senior and co-managed

<sup>1</sup>Top five underwriters ranked by average deal size selected from the top 15 underwriters of negotiated bonds nationally in 2016, 2015, and 2014 (multiple issues sold with the same sale date, purpose and issuer are counted as one deal); Source: SDC; represents deals from 1/1/2014 through 12/31/2016

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