



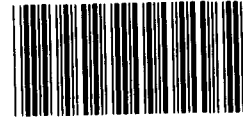
United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-250664

October 23, 1992

The Honorable Jim Sasser
United States Senate



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Dear Senator Sasser:

On September 1, 1992, we briefed members of your staff on information we had obtained in response to your request that we determine whether significant changes had taken place since January 1988 in the extent to which Tennessee Valley financial institutions received deposits from the Tennessee Valley Authority (TVA). A special area of interest was the number of bond underwriting firms, including minority firms¹ and/or firms located in the Tennessee Valley region,² that have been involved in TVA bond sales since October 1989. At the briefing, we were asked to provide you with additional information on the extent to which minority and regional bond underwriters that participated in TVA bond sales were actually located in the TVA service delivery area.

Your staff defined the TVA service delivery area as restricted to those portions of states that actually receive power from TVA. TVA financial management officials, on the other hand, defined the TVA service area as the entire seven states in which TVA provides service. As a result, a bond underwriting firm could be included within the TVA service area under TVA's definition, although the firm may be located in an area in the seven states that does not receive power from TVA. This correspondence provides the results of our analysis using both definitions.

¹TVA defines a minority firm as any firm owned by either minorities or women.

²TVA supplies power to electric distributors serving customers in portions of seven states: Alabama, Georgia, Kentucky, Mississippi, North Carolina, Tennessee, and Virginia.

In summary, we found that the number of underwriting firms considered within the TVA region differs depending on the definition used. Between October 1989 and July 1992, TVA conducted seven bond sales with a total issue value of about \$12.8 billion. Underwriters located in the seven-state region but not necessarily in the TVA service area were responsible for \$970 million,³ or about 7.6 percent of the total. Underwriters actually located within the TVA service area were responsible for \$581 million, or about 4.6 percent of the \$12.8 billion. The total number of underwriters involved in each of the seven sales ranged from 3 to 78. Two examples further highlight the breakdown we found:

- A \$4 billion bond sale in November 1989 involved a total of 78 underwriters. Twenty-three of these underwriters--responsible for \$300 million--were located within the seven-state TVA region. Of these 23 underwriters, 10--responsible for \$183 million--were located in areas actually served by TVA.
- A \$750 million bond sale in July 1992 involved a total of seven underwriters. Three of these underwriters--responsible for \$55 million--were located within the seven-state TVA region. Of these three underwriters, one--responsible for \$25 million--was located in an area actually served by TVA.

Minority underwriting firms participated in all seven bond sales. Four of the seven bond sales included the participation of a single minority firm (the same firm in three of the four instances). In these four sales, the minority firm was responsible for amounts ranging from \$5 million to \$20 million. In a \$2 billion bond sale in January 1992, 17 of the 77 underwriting firms were minority firms. These 17 firms were responsible for \$85 million.

Three of the seven bond sales included participation by two minority firms located in the seven-state TVA region. One such firm participated in the January 1992 bond sale and was responsible for \$5 million. Another regional minority firm was responsible for \$5 million in the January 1992

³For purposes of this correspondence, the dollar figures cited represent the total amount the underwriting firms were committed to sell as outlined in the seven TVA bond-offering circulars.

bond sale, \$9 million in the November 1989 bond sale, and \$10 million in an October 1989 bond sale. Neither firm was located in the area actually served by TVA. Each firm, however, was listed in the National Investment Managers Association's trade group directory and data base, which TVA used to identify minority- and women-owned investment management firms. This directory and data base of more than 100 minority- and women-owned firms did not contain the names of any firms located in the actual TVA service delivery area.

The enclosed table shows the breakdown of the seven TVA bond issues by the total number of underwriters, regional underwriters, and minority underwriters, as well as the amounts for which each group was responsible.

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We obtained information from TVA on bond sales that took place between October 1989 and July 1992. To identify regional and minority firms located within the TVA service delivery area, we interviewed TVA financial management officials. We also obtained and analyzed information from (1) TVA bond-offering circulars; (2) listings maintained by TVA of all bond underwriting firms that participated in the bond sales, including regional and minority firms; and (3) a TVA map showing all areas within the seven states where TVA supplies power to electric distributors.

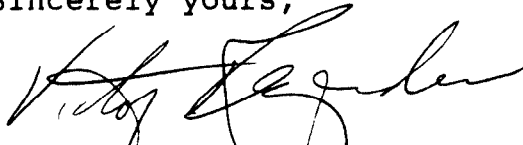
We discussed the information presented in this correspondence with TVA officials, who agreed that it was factual. Specific comments from these officials were incorporated into this correspondence where appropriate. We performed our review between July and October 1992.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this correspondence until 7 days from the date of this correspondence. At that time we will send copies of this correspondence to the Chairman of TVA's Board of Directors and other TVA officials; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others upon request.

B-250664

If you or your staff have any questions about this information, please call me at (202) 275-1441. Major contributors to this work were John Hunt and Johnnie Barnes.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Victor S. Rezendes", written over the typed name and title.

Victor S. Rezendes
Director, Energy and
Science Issues

Enclosure

ENCLOSURE

TVA Bond Issues: Selected Information on Underwriters for the Period July 1992

Dollars in millions

Bond information ^a		Underwriters			Minority	
Bond issue date	Issue amount	Total for each bond issue	Located in seven-state TVA region (dollars)	Located within the TVA service area (dollars)	Total for each bond issue (dollars)	Loc sev TVA (dc
October 1989	\$ 4,000	74	23 (\$342)	9 (\$202)	7 (\$70)	
November 1989	4,000	78	23 (\$300)	10 (\$183)	9 (\$81)	
October 1991	500	3	1 (\$40)	1 (\$40)	1 (\$5)	
January 1992	2,000	77	22 (\$133)	8 (\$63)	17 (\$85)	
April 1992	1,000	22	4 (\$30)	3 (\$23)	1 (\$8)	
July 1992	750	7	3 (\$55)	1 (\$25)	1 (\$10)	
July 1992	500	9	3 (\$70)	2 (\$45)	1 (\$20)	
Total dollars	\$12,750		\$970	\$581	\$279	

^aThe dollar figures cited in this table represent the total amount the underwriting sell as outlined in the seven TVA bond-offering circulars.

^bMinority underwriters are also included in the total underwriter figures. For example, underwriters listed for the October 1989 bond issue were 7 minority firms and 67 no

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