



**TENNESSEE LOCAL DEVELOPMENT  
AUTHORITY NOVEMBER 26, 2019  
AGENDA**

1. Call Meeting to Order
2. Consideration and approval of staff recommendation of Financial Advisor for the Tennessee Local Development Authority
3. Adjourn



JUSTIN P. WILSON  
*Comptroller*

JASON E. MUMPOWER  
*Deputy Comptroller*

**MEMORANDUM**

Date: November 26, 2019

To: Members of the Tennessee Local Development Authority

From: Sandi Thompson, Director, Office of State and Local Finance

Re: Staff Recommendation to the Tennessee Local Development Authority  
on Selection of Financial Advisor

On Monday, October 21, 2019, the Office of State and Local Finance distributed a request for proposal (RFP) seeking a financial advisor for the State to serve the State Funding Board (for general obligation debt) and the two State-level revenue debt issuers: Tennessee Local Development Authority (TLDA) and Tennessee State School Bond Authority (TSSBA) (together "the Issuers") for the period from January 1, 2020, through December 31, 2022. The RFP and draft contract were distributed to the board members and staff in late October.

The RFP was electronically sent to the following 14 independent financial advisory firms. The list of firms was compiled by the Office of State and Local Finance from the list of top financial advisors from The Bond Buyer's 2019 in Statistics Annual Review and included other financial advisory firms doing business in the state of Tennessee.

Acacia Financial Group  
BLX Group  
CSG Advisors, Inc  
Cumberland Securities  
Frasca & Associates, LLC  
Hilltop Securities  
Kaufman, Hall & Assoc.

KNN Public Finance  
Lamont Financial  
Kidwell & Company  
Piper Jaffray  
Ponder & Co.  
Public Financial Management, Inc. (PFM)  
Public Resources Advisory Group (PRAG)

Proposal questions were due by email on Monday, October 28, 2019. There was only (1) one question submitted during the period. The question and answer are listed below.

- **Question:** Will the Office of State and Local Finance be open Monday, November 11<sup>th</sup> (Veteran's Day) to receive packages?
- **Answer:** Our office will be closed on the 11<sup>th</sup> in observance of Veteran's Day.

In addition, our office received an email from Ponder & Co. thanking us for including them in the RFP process. They stated that they would need to pass on the opportunity because the focus of their firm is on not-for-profit health systems.

Our office also received a phone call from a representative with Piper Jaffray. He wanted to speak with someone that would address his concerns with the RFP requirement that the potential financial advisor be an independent financial advisory firm. It was his view that the requirement was discriminatory to larger firms that provide multiple services, including underwriting. We responded to the representative that this requirement was a top priority of the Comptroller, and that he specifically instructed our office to include it in the RFP for financial advisory services.

The Technical and Cost proposals were due by 12:00PM, noon CST, Tuesday, November 12, 2019. One proposal was received from Public Financial Management, Inc., (on Friday, November 8, 2019). A copy of the Technical proposal was distributed to the board members and staff last week. The Cost proposal was opened on Tuesday afternoon, November 19, 2019, for the purpose of preparing an analysis of the costs for the staff meeting to be held on Wednesday, November 20, 2019.

The staff to the boards met on Wednesday, November 20, 2019, to review and discuss the proposal. It was communicated and understood that due to one proposal being received, there would be no in-person interviews. Staff concluded that PFM: i) is the current financial advisor; ii) was the only firm to respond to the RFP; iii) is the largest financial advisory firm in the country; iv) has the greatest resources and v) is the most qualified to serve the Issuers.

The pricing proposal, attached to this memo, was distributed and evaluated by staff representing the board members. An analysis was performed of the current pricing proposal, and it was noted that the cost of the current contract in the amount of \$714,960 for a three-year contract period was \$575,040 less than the three-year contract amount of \$1,290,000 proposed by PFM in 2014. It was determined that most of the variance in cost was a combination of an increase in retainer fees in the amount of \$77,460, and a decrease in the advisory fees (transactional fees) in the amount of \$634,000. The decrease in advisory fees reflected the impact of the Tax Reform Act of 2018 with the elimination of tax-exempt advance refundings.

A copy of the pricing proposal and the analysis was presented to the Comptroller for his review. Based on a preliminary review of the proposal, it appeared that the pricing was reasonable.

Based on the foregoing discussion, staff concluded that it would make its recommendation for PFM to serve as financial advisor for the period of January 1, 2020 through December 31, 2022. This recommendation is to be presented to the State Funding Board at its reconvened meeting on November 26, 2019, as well as the Tennessee State School Bond Authority and Tennessee Local Development Authority at their scheduled meetings on that date as well.

# COST PROPOSAL

(Note, all fees and expenses must be disclosed on this form)

Proposer: PFM Financial Advisors, LLC

(Firm name)

By: Lauren Lowe

## ANNUAL BUDGETED BILLINGS\*

	Fiscal Year 2020 (6 mos.)	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023 (6 mos.)
Advisory Fees	(no transactions)	\$75,000	\$85,000	\$320,000
Advisory Fee Expenses		\$3,000	\$3,000	\$9,000
Debt Service Schedule – new money (per schedule)**		No charge	No charge	No charge
Debt Service Schedule – refunding issues (per schedule)***		No charge	No charge	No charge
Special Project – establishing a new program	\$24,000			
Retainer Fees	\$30,000	\$61,200	\$62,424	\$31,836
Retainer Fee Expenses	\$1,750	\$3,500	\$3,500	\$1,750
<b>TOTAL</b>	<b>\$55,750</b>	<b>\$142,700</b>	<b>\$153,924</b>	<b>\$362,586</b>

\* Any subcontracted financial advisory services must be included in the maximum contract cap.

\*\* Assume 100 projects.

\*\*\* Assume 300 projects.

## COST PROPOSAL (cont'd)

### HOURLY RATES

Hourly Rate(s) per contract year for each employee listed in IX.A Names	Fiscal Year 2020 (6 mos.)	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023 (6 mos.)
<b>Managing Directors</b>	<b>\$350</b>	<b>\$357</b>	<b>\$364</b>	<b>\$371</b>
Lauren Lowe	\$350	\$357	\$364	\$371
Lisa Daniel	\$350	\$357	\$364	\$371
Todd Fraizer, CFA	\$350	\$357	\$364	\$371
Bjorn Reigle	\$350	\$357	\$364	\$371
Daniel Kozloff	\$350	\$357	\$364	\$371
Nelson Bush*	N/A*	N/A*	N/A*	N/A*
<b>Directors</b>	<b>\$300</b>	<b>\$306</b>	<b>\$312</b>	<b>\$318</b>
Katia Frock*	N/A*	N/A*	N/A*	N/A*
Christopher Harris, CFA, CAIA*	N/A*	N/A*	N/A*	N/A*
Randall Bauer	\$300	\$306	\$312	\$318
<b>Senior Managing Consultants</b>	<b>\$255</b>	<b>\$260</b>	<b>\$265</b>	<b>\$271</b>
Nick Yatsula	\$255	\$260	\$265	\$271
Marcie Lewis, CIMA	\$255	\$260	\$265	\$271
Seth Williams	\$255	\$260	\$265	\$271
<b>Senior Analysts/Analysts</b>	<b>\$225</b>	<b>\$229</b>	<b>\$234</b>	<b>\$239</b>

\*Services provided by PFM Financial Advisors LLC's affiliate, PFM Asset Management LLC, would be provided as needed under separate agreement and fee schedule.

- Are the hourly rates listed above applicable for special projects?

The hourly rates for special projects is \$350/hour

- Would the financial advisory fee vary based on the identity of the Issuer, the size or structure of the issue and whether the sale is competitive or negotiated?

Yes, our budget assumes a minimum fee of:

\$50,000 for State of TN General Obligation transactions

\$65,000 for TN State School Bond Authority transactions

### MAXIMUM CONTRACT CAP

State procurement policy requires that every contract have a maximum cap for the period of the contract. Please provide your not-to-exceed cap for services and for expenses for the contract period Jan. 1, 2020 through Dec. 31, 2022.

Advisory Fee	\$ 504,000 _____
Retainer Fee	\$ 185,460 _____
New Money Debt Service Schedules	\$ 0 _____
Refunding Debt Service Schedules	\$ 0 _____

Expenses  
Total

\$ 25,500  
\$ 714,960

1. As a service provider do you believe there is a more efficient way to price your services? If so, please describe this pricing and quantify the savings benefit to the Issuers.

Our contracts are generally structured with three fee components: (1) a retainer for general advisory services that are not related to a debt transaction, (2) for debt transactions, a per bond fee structure with a minimum fee and a maximum cap and (3) the ability to budget special projects or assignments based upon a budget of time and hourly rates. We believe this structure offers clients the most flexibility to draw on our resources as needed. In some cases, contracts are tailored to meet the specific needs of our clients. We are open to exploring different structure ideas with the State.

<b>FINANCIAL ADVISOR REQUEST FOR PROPOSAL</b>			
<b>COST PROPOSAL - MAXIMUM CONTRACT CAP</b>			
	2010	2014	2019
Not-to-Exceed Cap for Services and Expenses for the Contract Period January 1, 2010 through December 31, 2012 in comparison to Contract Period January 1, 2015 through December 31, 2017 and Contract Period January 1, 2020 through December 31, 2022	Public Financial Management	Public Financial Management	Public Financial Management
Advisory Fee (includes special project)	\$ 803,000	\$ 1,138,000	\$ 504,000
Retainer Fee	108,000	108,000	185,460
Debt Service Schedules - New Money	156,000	No Charge	No Charge
Debt Service Schedules - Refunding	141,000	No Charge	No Charge
Expenses	57,000	44,000	25,500
Failed to include special projects as proposed			
<b>Total as Proposed</b>	<b>\$ 1,265,000</b>	<b>\$ 1,290,000</b>	<b>\$ 714,960</b>
<b>Number of Proposed Issuances</b>	<b>19</b>	<b>16</b>	<b>5</b>



FINANCIAL ADVISOR REQUEST FOR PROPOSAL																
COST PROPOSAL - ANNUAL BUDGETED BILLINGS																
Proposer:		Marlin Mosby, Managing Director					Lisa Daniels, Managing Director									
Public Financial Management					Public Financial Management					Public Financial Management						
	FY 2010 (1/2 year--assume 4 issuances)	FY 2011 (full year--assume 8-9 issuances)	FY 2012 (full year--assume 4 issuances)	FY 2013 (1/2 year--assume 2 issuances)		FY 2015 (1/2 year--assume 3 issuances)	FY 2016 (full year--assume 5 issuances)	FY 2017 (full year--assume 5 issuances)	FY 2018 (1/2 year--assume 3 issuances)		FY 2020 (1/2 year--assume no issuances)	FY 2021 (full year--assume 1 issuance)	FY 2022 (full year--assume 1 issuance)	FY 2023 (1/2 year--assume 3 issuances)		
Advisory Fees	\$				\$					\$						
Each issuance	2)	40,000	42,222	40,000	42,500	2)	64,833	71,900	74,300	64,833	2)	-	75,000	85,000	106,667	
Total for the period (based on 9 issuances for consistency)		160,000	380,000	160,000	85,000		194,500	359,500	371,500	194,500		-	75,000	85,000	320,000	
Advisory Fee Expenses		12,000	27,000	12,000	6,000		6,000	10,000	10,000	6,000		-	3,000	3,000	9,000	
Debt Service Schedule--new money (per schedule) assume 130/year (100/year FY2020-FY2023)																
Each schedule		300	300	300	300	3)	-	-	-	-	3)	-	-	-	-	
Total for the issue	1)	19,500	39,000	39,000	19,500		-	-	-	-		-	-	-	-	
Debt Service Schedule--refunding issues (per schedule ) assume 300 in two of the years																
Each schedule		300	300	300	300	3)	-	-	-	-	3)	-	-	-	-	
Total for the issue		90,000	90,000	90,000	90,000		-	-	-	-		-	-	-	-	
Special Project--establishing a new program (propose 60 hrs for entire contract)		18,000				4)	18,000	0	0	0		24,000				
Retainer Fees		18,000	36,000	36,000	18,000		18,000	36,000	36,000	18,000		30,000	61,200	62,424	31,836	
Retainer Fee Expenses		0	0	0	0		3,000	3,000	3,000	3,000		1,750	3,500	3,500	1,750	
Column Totals with Assumptions		227,500	572,000	337,000	128,500		239,500	408,500	420,500	221,500		55,750	142,700	153,924	362,586	
Column Totals as proposed		247,000	572,000	337,000	148,000		230,200	408,500	420,500	221,500		55,750	142,700	153,924	362,586	
Total All Columns with Assumptions		1,265,000					1,290,000					714,960				
Total All Columns as proposed		1,304,000					1,280,700					714,960				
Difference	\$	(39,000)					9,300					-				
<b>Assumptions:</b>	1)	Proposer calculated a full year in this amount and it was changed to reflect one-half year.														
	2)	Calculated by Cost Proposal Coordinator														
	3)	Calculated by Cost Proposal Coordinator. Unit price was required per RFP.														
	4)	Proposer misunderstood requirement. Special project														