



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

**TENNESSEE STATE SCHOOL BOND AUTHORITY
NOVEMBER 26, 2019
AGENDA**

1. Call meeting to order
2. Consideration and approval of staff recommendation of Financial Advisor for the Tennessee State School Bond Authority
3. Adjourn



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MEMORANDUM

Date: November 26, 2019

To: Members of the Tennessee State School Bond Authority

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

Re: Staff Recommendation to the Tennessee State School Bond 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 11th (Veteran's Day) to receive packages?
- **Answer:** Our office will be closed on the 11th 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 |
| TOTAL | \$55,750 | \$142,700 | \$153,924 | \$362,586 |

* 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.) |
|--|---------------------------|------------------|------------------|---------------------------|
| Managing Directors | \$350 | \$357 | \$364 | \$371 |
| 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* |
| Directors | \$300 | \$306 | \$312 | \$318 |
| 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 |
| Senior Managing Consultants | \$255 | \$260 | \$265 | \$271 |
| Nick Yatsula | \$255 | \$260 | \$265 | \$271 |
| Marcie Lewis, CIMA | \$255 | \$260 | \$265 | \$271 |
| Seth Williams | \$255 | \$260 | \$265 | \$271 |
| Senior Analysts/Analysts | \$225 | \$229 | \$234 | \$239 |

*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.

| FINANCIAL ADVISOR REQUEST FOR PROPOSAL | | | |
|--|-----------------------------|-----------------------------|-----------------------------|
| COST PROPOSAL - MAXIMUM CONTRACT CAP | | | |
| | 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 | | | |
| Total as Proposed | \$ 1,265,000 | \$ 1,290,000 | \$ 714,960 |
| Number of Proposed Issuances | 19 | 16 | 5 |

| 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 | | | | | - | | | | |
| Assumptions: | 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 | | | | | | | | | | | | | | |