a guide for selecting financial advisors and underwriters

WRITING RFPs AND EVALUATING PROPOSALS

BY PATRICIA TIGUE

GOVERNMENT FINANCE OFFICERS ASSOCIATION
Guide for Selecting Financial Advisors and Underwriters

Writing RFPs and Evaluating Proposals

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GOVERNMENT FINANCE OFFICERS ASSOCIATION
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Financial advisors and underwriters are key players in the issuance of bonds by state and local governments. The quality of the services provided by firms serving in these roles is integral to the ability of a government to meet important financing objectives and obtain the lowest overall costs of financing. Issuers need to have confidence that the professionals they have chosen are knowledgeable and will work actively on their behalf. A request for proposals (RFP) is a tool that can help an issuer select the best firms to provide financial advisory and underwriting services.

*A Guide for Selecting Financial Advisors and Underwriters: Writing RFPs and Evaluating Proposals* is the second publication in the "Documents on Disk" series offered by the Government Finance Officers Association (GFOA). This publication stems from work undertaken by the Subcommittee on Recommended Practices of the GFOA's Committee on Governmental Debt and Fiscal Policy in preparing a recommended practice on this topic. Subcommittee members agreed that a more detailed discussion of this topic was needed, and several members of the subcommittee and the full committee have reviewed this publication.

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Jeffrey L. Esser
Executive Director
Introduction

Selecting the finance team is one of the most important steps in the preparation for a bond sale. A financial advisor is one of the first team members employed by the issuer. If the issuer is contemplating a negotiated sale, the senior managing underwriter will also play a central role. Issuers must feel comfortable that the team they have chosen has the necessary experience and qualifications to complete the sale of bonds at the lowest cost given market conditions and to accomplish other important issuer objectives for the sale. Issuing a request for proposals (RFP) and selecting the firm on the basis of responses to the RFP can help a governmental issuer select the most qualified firms to serve as financial advisor and senior managing underwriter.

This booklet provides guidance on how to develop a good RFP process for the selection of financial advisors and senior managing underwriters. While specifically focused on these two functions, the advice provided is also applicable to the selection of other members of the issuer's finance team, such as bond counsel, investment advisors, or rebate consultants. The publication provides a written overview of the roles typically played by financial advisors and underwriters, elements to include in an RFP for these services, and advice for designing an evaluation process. A diskette containing a set of sample RFPs for financial advisors and underwriters for various types of issues also is included. These sample items have been chosen to provide practical guidance for preparation of an RFP for these services. The RFPs are accessible in both WordPerfect 6.1 and ASCII text formats.
Section 1
Advantages of an RFP Process

When procuring the services of financial advisors and underwriters, a primary objective of the issuer is to select firms that can best meet its particular financing needs. An issuer has greater assurance that this objective will be achieved if the procurement process is structured to promote competition and to ensure equal access to all firms interested in providing the service. In this way, the issuer can compare qualifications of firms and select the one that it considers best able to accomplish these goals. Procuring services through a competitive bidding process also may be required by state or local law. The request for proposals (RFP) is an essential part of a competitive procurement process.

A request for proposals is a document that is used by governments to formally solicit bids for goods and services. The RFP defines the scope of services to be provided, identifies terms and conditions of the work engagement, and relates instructions on how bids are to be submitted and evaluated. Using an RFP process to select financial advisors and underwriters offers a number of benefits, including the following:

- facilitates comparisons of the qualifications of firms and individuals;
- permits initial price comparison;
- makes clear what is expected, including roles, responsibilities and tasks; and
- encourages an objective evaluation of each firm.

Should an RFP process always be used? In some circumstances, a government may find it advantageous to select firms without going
through a formal RFP process. For example, a government may want to use the services of a firm that brings to it a particularly innovative idea that helps it achieve important objectives. Very small governments with few resources may find that selecting a firm based on the recommendations of others may be the most efficient means of obtaining services. These practices may be reasonable, but governments should be cautious when selecting a firm in this manner. At a minimum, governments need to be sensitive to how such a selection process will be perceived by the public and by those firms not selected. The selection process may generate unfavorable publicity for the government or result in legal challenges from other firms. Governments that choose firms in this manner should be sure that good documentation exists to justify its selection decision.

It is important for governments employing a financial advisor or underwriter for an extended period of time to periodically rebid these services, even if they are generally satisfied with their current service providers. While an RFP process does take time, it helps to ensure that firms continue to offer their best ideas and provides assurance to the government that it is getting the best available service.

Rather than issue an RFP, issuers sometimes use a mechanism that is similar to a request for proposals—a request for qualifications (RFQ). This procurement option is used when governments desire to create a pool of qualified professionals from which they may procure services as needed. The RFQ process is similar to the one described in this publication for RFPs, and will not be discussed separately.
Section 2
Decisions Needed Before
Issuing the RFP

Before issuing an RFP, the issuer needs to develop an understanding of policy goals to be achieved and its overall service needs. It is important to take the time to think through these issues early so that issuer expectations can be clearly communicated in the RFP. This helps firms responding to the RFP better address issues that are likely to be of greatest interest to the issuer.

An evaluation of policy objectives is the first step in writing a good RFP. The government must be sure that financial or programmatic policy objectives are clearly understood and how the services being contemplated relate to achieving those objectives. If a bond sale is planned, the government's debt policies should be reviewed carefully to identify any constraints that may limit financing plans. Another type of policy that should be considered is issuer goals for participation of minority- or women-owned firms both in terms of their inclusion on the finance team and the allocation of bonds to these participants. There also may be goals regarding the participation of local or regional firms in the planned bond sale. Governments that have specific policy objectives need to be clear about these goals up front and consider how they should be communicated in the RFP.

Issuers should consider a variety of factors when defining their service needs. Among the questions the issuer should ask itself are the following:

- What role does the issuer intend to play? How much involvement will it have in completing various tasks and which tasks will be delegated?
• Will a firm be used to provide general assistance in developing financing alternatives in the context of capital planning activities or will it provide advice related to the sale of bonds?
• Will the services of a firm be used for an extended period of time or for one transaction only?
• If a bond issue is planned, what type of issue is being considered (e.g., general obligation bonds v. revenue bonds, bonds for specific uses such as transportation or housing, etc.)? Are there particular characteristics of the planned offering that could make the issue difficult to market (e.g., complex security features, credit concerns)?
• What are the issuer's expectations regarding the method of sale--competitive, negotiated or private placement?¹

Answers to these questions will assist the issuer in designing an RFP that helps in achieving its particular goals.

Section 3
Role of the Financial Advisor and Underwriter

One of the first tasks of the issuer in preparing an RFP is to define the scope of services that is required. The issuer will need to have an understanding of how it plans to use its financial advisor or underwriter in order to make sure its expectations are adequately conveyed in the RFP. The range of tasks that are normally undertaken by these firms is described in this section.

Financial advisor

The financial advisor can provide valuable assistance in reviewing the capital plan and evaluating alternative financing options before any decision is made to issue bonds. At times, issuing bonds may not be the optimal method to finance a capital project. The financial advisor can assist the issuer in determining which financing options can best accomplish the issuer's goals. The financial advisor can provide recommendations on the mix between capital projects financed with debt and available cash, the suitability of other types of financing vehicles such as leases or public/private partnerships, and legal or statutory changes that might be needed to take advantage of particular financing methods. If debt is outstanding, the financial advisor can evaluate the impact of additional debt on the jurisdiction's financial outlook, debt ratios and credit rating. If a government desires, the financial advisor also can provide assistance in developing a comprehensive capital financing plan.

If the issuer decides to issue bonds, the financial advisor may assist in developing requests for proposals for bond counsel, senior
managing underwriter, trustee, paying agent/ registrar, escrow verification agent or printer if these firms have not already been selected. The financial advisor also can evaluate proposal responses and make a recommendation to the issuer on the most qualified firms.

Other responsibilities of the financial advisor in the bond issuance process will depend on whether the bonds will be sold competitively or through a negotiated sale. In a competitive sale, the financial advisor provides advice on the size and structure of the bond issue. The financial advisor works with bond counsel to develop the necessary documents for the bond sale, including the official statement, notice of sale and bond ordinance. Other tasks, such as developing the presentation to the rating agencies, evaluating market conditions in order to determine when to enter the market, soliciting bids for and analyzing the cost-effectiveness of bond insurance, and scheduling the sale date, are also coordinated by the financial advisor.

As the date for the sale of bonds approaches, the financial advisor and bond counsel ensure that the notice of sale is published in accordance with state or local law. Advertisements for bids are placed in order to maximize interest and participation in the sale by underwriting firms. The financial advisor often takes a lead role in any pre-bid conference to clarify how bids will be calculated and to address any other concerns of potential bidders. The financial advisor also may follow up with calls to broker/dealers to generate further interest in the sale and to answer any questions regarding the offering or the sale process. On the date of the sale, the financial advisor will assist in evaluating bids, including verification of the true interest cost of each bid. Finally, the financial advisor will assist in closing the transaction, and, if requested by the issuer, provide a follow-up analysis on the bond sale.

The financial advisor serves in a different capacity when employed for a negotiated sale. In this case, the senior managing underwriter often takes the lead role in sizing and structuring the bond sale and evaluating market conditions to determine the timing of the bond sale. The financial advisor’s role is to serve as a watchdog for the issuer and ensure the issuer’s interests are represented. The financial advisor may be given primary responsibility for certain tasks such as the rating agency presentation, and may assist with other tasks such as preparing the official statement. During the pricing process, the financial advisor reviews the
preliminary pricing scale based on its own information to ensure that the proposed interest rates and take-down for each maturity appear reasonable given market conditions. The firm also may be asked to review or help negotiate other components of the underwriters’ discount, such as expenses or management fee. As the pricing progresses, the financial advisor makes recommendations about possible repricing of maturities that appear to be over- or under-subscribed, either by adjusting yields or take-downs. The senior managing underwriter generally provides an analysis of the sale once completed; however, the issuer may also request a separate analysis from its financial advisor in order to have an independent perspective on the outcome. Exhibit 1 provides a summary of the functions typically performed by the financial advisor.

Financial advisory services are most commonly provided by investment banks, commercial banks and firms that are subsidiaries of commercial banks, and “independent” financial advisory firms that are not affiliated with an investment or commercial bank. Regardless of the type of firm chosen, the issuer must feel comfortable with the firm and the individuals who will be working on the transaction. In particular, the firm selected must demonstrate its ability to provide objective advice based on a thorough knowledge of market conditions.

A practice that should be clearly avoided is to use a broker/dealer firm to serve as financial advisor, and then permit that firm to underwrite the bonds. Many states flatly prohibit financial advisors participating in underwriting any bonds for which they have acted as financial advisor. Even if not expressly prohibited, issuers need to be aware that a potential conflict of interest exists. For example, the financial advisor may recommend a unique structure based on a particular investor to which it has access, thereby limiting the number of bids on certain maturities the issuer will receive.

To minimize any conflict of interest, issuers deciding to employ a firm with underwriting capabilities to act as financial advisor

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2 The takedown is compensation to the underwriters for selling the bonds.

3 The Municipal Securities Rulemaking Board (MSRB), a self-regulatory body with rulemaking authority over dealers, dealer banks, and brokers in municipal securities, has adopted rules in this area. In a negotiated sale, the MSRB requires that

- the financial advisory relationship with respect to the bond issue has ended, as evidenced by a written document, and the issuer has consented in writing to have that firm underwrite its bonds,
should avoid permitting the firm to later underwrite its bonds. Issuers should consider limiting the ability of a firm serving as financial advisor to underwrite its bonds for a period of at least a year after its engagement as financial advisor has ended.

**Underwriter**

Issuers may choose to use a negotiated sale if they expect the offering will be difficult to market, due to factors such as:

- a unique or poor credit is being offered,
- market conditions are volatile or otherwise difficult,
- an unusual structure is being contemplated or
- the bonds are unrated.

In a negotiated sale, the underwriter is employed early in the process. This permits the issuer to take advantage of a particular underwriter’s knowledge of the market and assistance in pre-marketing the bonds before the sale, including development of an approach to respond to investor concerns regarding unique structural features or unfavorable perceptions of credit quality. These steps can improve the receptivity of the offering in the municipal market and reduce the overall interest cost paid by the issuer. In order to achieve these benefits, however, the issuer needs to allow sufficient time in the schedule and provide appropriate oversight to ensure that pre-marketing efforts are occurring.

The major responsibilities of the underwriter in a negotiated sale are to prepare the issue so that it can be brought to market and to purchase bonds from the issuer and market them to investors.

- the broker/dealer firm has notified the issuer in writing that a conflict of interest may exist in switching roles from financial advisor to underwriter, and
- the broker/dealer firm has notified the issuer in writing of the amount of compensation expected to be earned in addition to the amount received as financial advisor.

In a competitive sale, the issuer must agree in writing to permit a firm serving as financial advisor to then bid on its bonds. The MSRB has proposed an amendment to this rule to address potential conflicts of interest that may arise if a financial advisor is permitted to serve as a remarketing agent for variable rate demand obligations. The proposed rule would preclude a firm from serving a financial advisor and remarketing agent as the same time and require disclosures similar to those required for firms switching from a financial advisory role to a remarketing agent.
Exhibit 1
KEY RESPONSIBILITIES OF THE FINANCIAL ADVISOR
(All methods of sale)

- Assists in evaluating capital funding alternatives and developing a financing plan
- Assists with obtaining required authorizations, including referenda
- Provides advice on method of sale (where appropriate)
- Develops RFP for financing team
- Evaluates proposal submissions
- Recommends timing of bond sale
- Identifies tasks, responsibilities, and dates for completing activities leading up to bond sale
- Designs debt structure
- Provides advice on approach to ratings and assists with rating presentation
- Evaluates use of and obtains bids for credit enhancement (if appropriate)
- Assists in producing and reviewing documents, including preliminary and final official statements
- Conducts pre-marketing of issue (competitive sale)
- Evaluates bids, including accuracy of TIC calculation, and recommends award (competitive sale)
- Reviews pricing and allocation of bonds (negotiated sale)
- Assists with closing arrangements
- Provides advice on investment of bond proceeds (if appropriate)
- Provides advice related to compliance with arbitrage regulations

Typically, a group of firms, or syndicate, is selected to underwrite the bonds. The underwriting syndicate is composed of a senior managing underwriter, who coordinates the activities of the syndicate and several co-managers. The senior managing underwriter works most closely with the issuer in getting the issue ready for market, and is generally hired before the co-managers are selected.
Exhibit 2 presents a summary of some of the most common activities undertaken by the senior managing underwriter in a negotiated sale.

Co-managers share the risk of underwriting the bonds with the senior manager. These firms are generally chosen on the basis of their particular marketing strengths. Certain firms are better able to sell to institutional buyers while others are known for their strength in the retail market. The selection of co-managers also may be guided by policy goals seeking broad participation by minority firms or regional firms. Issuers should be especially diligent in making sure that an objective process is used to select co-managers, since this is an area prone to abuse. Firms should not be rewarded with co-manager slots for favors to elected officials or based on other relationships that may create a conflict of interest for the issuer. In selecting firms to serve as co-manager, care should be taken to make sure that each firm meets the issuer's objectives in contributing to the sales effort for its bonds.

A separate RFP can be developed to solicit proposals from firms interested in serving as co-managers. Some issuers use the RFP for senior managing underwriter as a means to identify and select co-managers. The RFP would ask firms to indicate whether they would be willing to be a co-manager if not selected as senior managing underwriter. Responses to questions on marketing strengths could then be evaluated to assess whether a particular firm has the desired qualifications to sell the bonds. In developing the RFP for senior managing underwriter, the issuer also may want to include a question regarding the size and composition of the underwriting syndicate to be used in making decisions on co-managers.
Exhibit 2
KEY RESPONSIBILITIES OF THE SENIOR MANAGING UNDERWRITER
(Negotiated sale)

- Recommends timing of bond sale
- Identifies tasks, responsibilities, and dates for completing activities leading up to bond sale
- Designs debt structure
- Provides advice on approach to ratings and assists with rating presentation
- Evaluates use of and obtains bids for credit enhancement (if appropriate)
- Assists in producing and reviewing documents, including preliminary and final official statements
- Conducts pre-marketing of issue
- Prepares preliminary pricing analysis prior to planned sale date
- Distributes preliminary and final official statements
- Coordinates syndicate activities in pricing and allocating bonds
- Purchases bonds from issuer for sale to final investors
- Assists with closing arrangements
- Completes sales report including designations and allotments
Section 4
Achieving Widespread Distribution of the RFP

An important objective of the procurement process is to encourage competition so that firms submit their best ideas, identify the most qualified staff and propose the lowest price. The fewer the number of firms submitting proposals, the less likely these objectives are to be achieved. Governments are able to foster competition by ensuring the RFP is distributed as widely as possible. Of course, governments may want to impose some limitations if they have particular needs that only certain firms can meet or if they are aware of particular firms that do not have the qualifications that are needed. Within these constraints, an effort should be made to identify as many qualified firms as possible given staff resources.

Identifying firms to include on a list of potential bidders should start with the knowledge of the issuer’s needs. If bonds are expected to be issued, the nature of the financing should be generally understood—that is, what type of issue it is, the marketing objectives for the issue (institutional v. retail) and policy objectives. This information can be used to target firms that are known to have experience in particular areas, and to ensure that firms that can help in meeting issuer objectives are aware of the solicitation.

There are a number of ways issuers can collect information about potential bidders. One of the most comprehensive compilations of firms providing underwriting, financial advisory and other services related to the municipal finance industry is The Bond Buyer’s Municipal Marketplace (sometimes referred to as the “Red Book”). This publication categorizes firms by type of service (broker/dealer, advisor, etc.) and location. Another option is to contact other governments to determine which firms they have considered. Firms
sometimes market themselves to issuers, either through advertisements in trade publications or more directly through presentations at conferences, workshops or on-site visits.

Issuers should develop and periodically update a list of firms that can provide financial advisory and underwriting services based on these contacts. The process of identifying potential bidders can initially involve some time. The financial advisor, if employed early in the process, can assist in identifying candidates for other services needed by the issuer, including underwriters. Once the initial legwork has been undertaken, the issuer only needs to update its lists periodically.
Section 5
Preparing the RFP

This section presents a proposed format and approach for preparing an RFP for services of a financial advisor and senior managing underwriter. Many governments have general procurement policies and procedures that dictate the form and content of the RFP. It should be possible to modify the format proposed below to conform with procurement policies and practices and any legal requirements.

General guidelines

The RFP will normally be divided into several sections, including an introductory section that provides information about the issuer and its financing plans and needs, a section describing the scope of services required by the issuer, a section describing the qualifications desired and questions to assist the issuer in selecting a firm, a section explaining how proposals will be evaluated, and a section describing the selection process. Exhibit 3 provides a general outline for preparing an RFP for financial advisors and underwriters.

The RFP should contain information that assists proposers in responding effectively to the issuer’s needs and should request information from proposers that helps the issuer determine whether a firm is capable of meeting those needs. It is also important to develop an RFP that limits the firm’s ability to rely on standard “boilerplate” responses. Including questions on specific problems or goals of the issuer is one way to accomplish this objective. Limiting the page length of responses can also provide an incentive
Exhibit 3
GENERAL FORM OF REQUEST FOR PROPOSAL

I. Name of Issuer and Purpose of Request
   • Name and (if applicable) brief description of issuer
   • Type of service being requested (financial advisor, senior managing underwriter)

II. Description of Issuer and Summary of Relevant Information
   • Pertaining to Financing Plans
   • Overview of organization, purpose, administrative functions, etc.
   • Legal authority to issue debt
   • Capital plans/projects to be financed
   • Planned issuances/refundings
   • Outstanding debt, maturity schedules, interest rates, debt service payments
   • Ratings

III. Scope of Services
   • Specific services desired (see Exhibits 1 and 2)
   • Duration of contract and options for renewal

IV. Selection Criteria
   • Criteria used to evaluate proposals (See Exhibit 4)
   • Weighting of each criterion

V. Timetable to Award Contract
   • Date for pre-bid conference (if any)
   • Deadline for proposal submissions
   • Schedule for proposal review
   • Date(s) for oral interviews (if any)
   • Date for final decision/legislative action, if needed and award of contract

VI. Instructions for Submitting Proposals
   • Date and time due
   • Office/individual to whom to address proposals
   • Issuer contact to whom questions may be addressed and any limitations
   • Special instructions (if any)

VII. Miscellaneous
   • Terms and conditions
   • Documents to conform with state/local procurement law or policy
to proposers to include only the most important information in their submission. Some issuers specifically state in the RFP that boilerplate responses are not desired.

The RFP often includes instructions on how proposers are to organize their responses. It is common to ask each proposer to summarize in a cover letter the key points of their proposal. The letter should be succinct—no more than two or three pages. The remainder of the proposal presents the firm’s qualifications and other required information to be used by the issuer in the evaluation process.

Creating opportunities for disadvantaged business enterprises

An important policy goal for many governments is to create opportunities for meaningful participation in the bond issuance process for minority-owned or woman-owned enterprises (M/WBEs), or other targeted business enterprises, sometimes collectively referred to as disadvantaged business enterprises (DBEs). The RFP can be used to communicate the issuer’s goals for inclusion of these firms and participation in the transaction.

There are many options for the issuer to engage DBE firms in a transaction. One approach is to use two or more firms to serve in a financial advisory capacity on the transaction, with a designated role for a DBE firm. The RFP would describe how the issuer plans to select each firm, including specific tasks or a percentage of the work that would be allocated to each firm. Alternatively, the issuer can encourage proposers to form their own teams with DBE participation based on issuer goals. Each team would be asked to submit a joint proposal. The RFP can also be used to identify targeted business enterprise candidates for other slots on the financing team. In an RFP for senior managing underwriter, for example, some governments will ask for recommendations on DBE firms to fill co-manager or underwriter’s counsel positions.

In developing policies for including disadvantaged business enterprises, the issuer must be sure that the firms chosen add value to the transaction. If the issuer decides to meet DBE goals by hiring more than one firm in the same capacity, roles and responsibilities of each firm need to be carefully assigned and coordinated. Tasks
should be structured in a manner that minimizes duplication of work, such as by allocating discrete tasks to each firm serving as a co-financial advisor. Although it is recommended that governments not pay financial advisors on a per-bond basis, those that choose to provide compensation in this manner should be sure that the per-bond amount to co-financial advisors is based on the level of work performed and that the combined per-bond cost for financial advisory work does not exceed the amount that would be paid if only one firm were doing the work. If a targeted firm is included in the underwriting syndicate, the issuer should be sure that the firm is given a fair share of bonds to sell, including bonds in desirable maturities, and contributes to the sales effort. The more active the issuer is in exercising oversight, the less likely it will incur higher costs resulting from overlapping functions and the more likely the government will achieve the goals of its DBE program.

Developing selection criteria

One of the keys to preparing a good RFP is devising evaluation criteria that permit the issuer to compare the experience and qualifications of each proposer on an equal basis. Criteria should be specific and useful to the issuer in making a decision. This helps firms proposing their services to focus their attention on only the most relevant information. A summary of key areas that proposers should be required to address is found in Exhibit 4. These include the qualifications of the firm and key personnel, the proposer's understanding of the government's financing needs, legal issues and conflicts of interest, and proposed fees.

Many issuers devise weights for each of the evaluation criteria in a manner reflecting their importance to the overall selection process. This helps proposers decide where to focus their attention when preparing responses. However, the issuer gives up some flexibility in defining the weighting in advance, which could become problematic if a proposal identifies a particularly good idea in an area that is not weighted as highly. To preserve flexibility, the issuer can either not specify weights, specify a weighting range, or include a provision stating that the issuer reserves the right to reconsider the weighting if it is in the best interests of the jurisdic-
Exhibit 4
STRUCTURE OF PROPOSAL

I. Introductory Section
Letter of introduction signed by an authorized representative of
the firm (2–3 pages maximum) that identifies position sought and
provides executive summary highlighting major points of the
proposal

II. Qualifications of Firm and Key Personnel
A. Description of firm, including:
   1. Size (national and regional/local)
   2. Experience with transactions in the same state/region,
      and of similar issue type and size
   3. Organizational structure of public finance function, and
      how the structure can benefit the issuer
   4. Affirmative action goals (if applicable)
   5. Level and types of insurance carried, including the
      deductible amount, to cover errors and omissions,
      improper judgments, or negligence
   6. For broker/dealers, the amount of net capital and excess
      net capital and the ability and willingness of the firm to
      purchase the entire offering of the issuer, if necessary
   7. Affirmative action

B. Description of key personnel, including:
   1. Name, address, and phone number of the individual with
      day-to-day responsibilities for the transaction
   2. Qualifications (e.g., education, position, years of
      experience, etc.) of individuals with primary responsibility
      for transaction, and percentage of time allocated to
      issuer's account
   3. Experience of primary contact in the structuring and sale
      of similar bond offerings
   4. References for key personnel (minimum of 3 suggested)

C. Analytic capabilities
   1. Services, software, or informational databases that will
      be made available to the issuer
   2. Sources of information to assist in bond pricing, such as
      access to trading desks or informational databases
   3. On-going employee training programs

III. Proposer’s Understanding of Jurisdiction’s Financing Needs
A. General financing approach
B. Bond-related questions
Exhibit 4 (cont.)

1. Market for the bonds
2. Strategies for bond issuance (timing, amounts, structures, use of insurance, etc.)
3. Credit strengths and weaknesses to be addressed in order to maintain/improve rating
4. Recommendation for co-managers (number and strengths)
C. Other questions on specific financing problems or concerns (e.g., related to financing plan, security provisions or other structural considerations, marketing plan)

IV. Legal Issues/Conflicts of Interest
   A. Violations of federal, state or local regulations/laws within past three years
   B. Pending or current litigation
   C. Arrangements with other firms that could pose a conflict of interest

V. Cost of Services
   A. For financial advisors, a proposed fixed fee or hourly rate (by key personnel and allocation of time)
   B. For underwriters, a proposal for the takedown based on current market conditions, and a specified structure and credit quality

An issuer needs to carefully justify its selection when using this approach to preserve the perceived fairness of the process.

Obtaining information about the firm and key personnel

Among the most important of the selection criteria will be the qualifications of the firm providing the services and the personnel who will work directly with the issuer. Several questions should be included to determine whether the firm and staff assigned to work with the issuer have the necessary qualifications to accomplish important issuer objectives. Questions regarding the firm’s qualifications may include the size of the firm and its municipal finance
department (both nationally and regionally); the total volume of tax-exempt bonds for which the firm has served as financial advisor or underwriter over a specific time period (e.g., the past three years), and for the underwriter, the role played in the transaction (senior or co-manager); the number and dollar amount of transactions of a similar nature (e.g., water/sewer bonds, transportation, general obligation bonds of a particular issue size) over a designated time period; the number and dollar amount of in-state transactions; the analytical capabilities of the firm; and the type and amount of insurance coverage carried by the firm for omissions, negligence, errors.

In the case of underwriting firms, it is important to understand the market strengths of the firm and how these strengths relate to the plan for marketing the issuer's bonds. Large investment banking firms with a national presence are likely to have strengths in selling bonds to institutional buyers that possess or control considerable assets, such as financial institutions, bond funds, or insurance companies. Some firms specialize in retail sales to individual investors or small institutions. Many of the larger investment banks fall into this category, as do smaller broker/dealer firms with a regional or local presence. Institutional and retail buyers have particular appetites for amounts and maturities, and the deal's structure and marketing approach must be designed to attract a particular type of buyer.

Another important question for underwriting firms relates to its net capital and excess net capital position, which provides a measure of the firm's financial stability. Broker/dealers must comply with Securities and Exchange Commission (SEC) rules regarding net capital requirements. Many issuers include a question about the firm's willingness to commit to purchasing their entire offering if necessary, and the firm's excess net capital provides an indication of its ability to make this commitment. Such a commitment by an underwriting firm can be important if market conditions change suddenly during the sale period and the issuer cannot postpone the sale until a later date.

Questions in the RFP also should address the qualifications of individuals who will be assigned to work with the issuer. It is especially important to know who is the person with day-to-day responsibility for the account, his or her educational background, years of experience in municipal finance, experience in specific areas identified in the scope of services, and the percentage of time
that individual will spend on the account. At least three references for this individual should be provided. Additionally, proposals should identify the analysts assigned to the issuer's account, their experience, and the allocation of their time, and should list other key individuals and their qualifications, such as those responsible for sales and syndication activities.

Evaluating a proposer's understanding of the issuer's needs

It is often difficult to distinguish one firm from another based on qualifications and experience alone. Therefore, the RFP will normally include a set of questions designed to focus on specific financing needs and concerns of the issuer. These types of questions can help the issuer to more clearly determine which firms have taken the time to understand its financing needs and how capable they are of developing a proposed financing plan, structure, or marketing approach based on the particular circumstances of the issuer.

When preparing questions for this section of the RFP, governments should give careful consideration to financing issues on which the financial advisor or underwriter will be expected to provide advice. For example, an RFP for general financial advisory services could include a question on a recommended approach for funding capital needs, including alternatives to be considered and strengths and weaknesses of these options in terms of the jurisdiction's financial outlook, credit quality and other relevant concerns.

If the RFP is for services related to a bond sale, proposers should be asked to comment on their perception of the market for the offering, the marketing approach that would be used to solicit investor interest, strategies for obtaining a credit rating, and ideas for structuring the offering to meet issuer goals and financing constraints. RFPs for bond refundings often ask proposers to identify bond series and maturities that would be included in the refunding and the expected present value savings based on a set of market condition assumptions. Additionally, issuers may want to prepare one or two questions on a specific financing problem they face in order to assess the firm's knowledge of possible financing options and its creativity in proposing a solution.
One criterion that larger issuers who sell bonds using both competitive and negotiated sales may want to consider when selecting senior underwriters for a negotiated sale is evidence of a firm's support for their competitive bond sales. This approach rewards firms who bid on a government's competitive sales, thereby helping to increase interest among underwriting firms for bonds sold in this manner.

Uncovering legal violations and conflicts of interest

It is important for issuers to have full confidence in the finance team they have chosen. For this reason, it is essential to explicitly ask about any legal or regulatory violations, pending or actual investigations by the SEC or other regulatory agencies, or other legal action (such as litigation) in which the firm is involved for a specified time period, such as within the past three years.

Moreover, since an important goal of the issuer is to be sure it is receiving objective advice that will lead to the best overall financing approach, proposers should be required to identify any arrangements with other firms, such as finder's fees or fee splitting arrangements that could encourage the firm to recommend an approach that may not be in the issuer's best interests. The GFOA recommends that issuers also consider including a provision in the RFP restricting any firm from engaging in activities on behalf of the issuer that produce a direct or indirect financial gain for the firm, other than the agreed-upon compensation, without the issuer's informed consent.

Obtaining cost information

The RFP will typically include a section addressing the cost of providing services. While cost is an important factor, it is more important to ensure that the issuer is obtaining high-quality services. Selecting a financial advisor or underwriter that charges the lowest up-front fees can be shortsighted if the firm is unable to develop a structure or marketing approach that is attractive to investors.
Ultimately, the interest cost over the life of the bonds will be more significant to the issuer’s overall costs of financing than the fees paid up front.

Some issuers address this issue by dividing the RFP into two sections: one section is the “technical proposal” that requires the issuer to present its qualifications and the second section is the “price proposal” identifying fees. Technical qualifications are reviewed prior to opening the price proposal. Firms that are judged not to be qualified on technical merits are eliminated before costs are considered.

Cost comparisons are easier to make if proposers are required to submit price information in a standard format. Issuers should make clear in the RFP how they expect fee proposals to be presented and what services are covered by the fee proposal. Fees presented on an hourly basis should be presented for each individual assigned to the account. If fees are to be presented on a fixed fee or per bond basis, proposers should be asked what percentage of each individual’s time is assumed.

**Compensation to financial advisors.** Financial advisory firms are normally compensated in one of two ways: either on a retainer (using a fixed fee or hourly rate), or based on the amount of bonds sold. It is important that the method of compensation fairly reflect the amount and complexity of work being undertaken. This is often more difficult when paying on a per bond basis. Further, providing compensation on a per-bond basis creates an incentive on the part of the financial advisor to recommend the sale of bonds. For these reasons, the GFOA recommends that financial advisory firms not be paid on a per bond basis. Some issuers also require fees to be presented on a “not-to-exceed” basis for a defined scope of services, and ask for quotes on hourly rates of key personnel if additional services are desired.

**Compensation to the underwriter.** Compensation to the underwriter is known as “underwriters' discount” or “gross spread.” This amount is often presented on a per-bond basis (e.g., $10 per bond would translate into an underwriters’ discount of $100,000 for a $10 million bond sale). The underwriters' discount consists of four components.

- **Takedown** rewards the sales effort of the firm for placing bonds with final investors.
- **Management fee** compensates the underwriter for providing
### Exhibit 5
CALCULATION OF TAKEDOWN BY MATURITY

<table>
<thead>
<tr>
<th>Maturity</th>
<th>Par Amount of Bonds (000s $)</th>
<th>Takedown Per Thousand of Bonds(^1)</th>
<th>Total Takedown ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>935</td>
<td>+(\frac{3}{8})</td>
<td>3,506.25</td>
</tr>
<tr>
<td>Year 2</td>
<td>965</td>
<td>+(\frac{3}{8})</td>
<td>3,618.75</td>
</tr>
<tr>
<td>Year 3</td>
<td>1,010</td>
<td>+(\frac{1}{2})</td>
<td>5,050.00</td>
</tr>
<tr>
<td>Year 4</td>
<td>1,055</td>
<td>+(\frac{1}{2})</td>
<td>5,275.00</td>
</tr>
<tr>
<td>Year 5</td>
<td>1,105</td>
<td>+(\frac{1}{2})</td>
<td>5,525.00</td>
</tr>
<tr>
<td>Year 6</td>
<td>1,160</td>
<td>+(\frac{3}{8})</td>
<td>5,800.00</td>
</tr>
<tr>
<td>Year 7</td>
<td>1,220</td>
<td>+(\frac{1}{2})</td>
<td>6,100.00</td>
</tr>
<tr>
<td>Year 8</td>
<td>1,285</td>
<td>+(\frac{1}{2})</td>
<td>6,425.00</td>
</tr>
<tr>
<td>Year 9</td>
<td>1,355</td>
<td>+(\frac{1}{2})</td>
<td>6,775.00</td>
</tr>
<tr>
<td>Year 10</td>
<td>1,430</td>
<td>+(\frac{1}{2})</td>
<td>7,150.00</td>
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<td>Year 11</td>
<td>1,510</td>
<td>+(\frac{5}{8})</td>
<td>9,437.50</td>
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<td>Year 12</td>
<td>1,595</td>
<td>+(\frac{5}{8})</td>
<td>9,968.75</td>
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<td>Year 13</td>
<td>1,690</td>
<td>+(\frac{5}{8})</td>
<td>10,562.50</td>
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<td>Year 14</td>
<td>1,790</td>
<td>+(\frac{5}{8})</td>
<td>11,187.50</td>
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<td>Year 15</td>
<td>1,895</td>
<td>+(\frac{5}{8})</td>
<td>11,843.75</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$20,000</strong></td>
<td></td>
<td><strong>$108,225.00</strong></td>
</tr>
</tbody>
</table>

\(^1\) This column shows the takedown associated with selling bonds of each maturity. For example, the sales commissions for the bonds maturing in Year 1 is \(\frac{3}{8}\)ths of one percent, or $3.75 for every $1,000 in par amount of bonds sold. Similarly, a takedown of \(\frac{1}{2}\) represents a sales commission of $5.00; and a takedown of \(\frac{5}{8}\)ths represents a sales commissions of $6.25. As is normally the case, in this example the takedown is higher for longer maturities. The average takedown per bond is $108,225/$20,000 = $5.41 per bond.

Source: Adapted from example in "Pricing Bonds in a Negotiated Sale: How to Manage the Process," by J.B. Kurish, GFOA, 1994, p. 16.
advice to the issuer in bringing the bonds to market, including structuring the offering, assisting with the rating presentation, premarketing the bonds to investors, and other related activities.

- The *expense component* provides reimbursement to the underwriter for expenses incurred on behalf of the issuer such as travel, printing and mailing, and closing costs. Fees to underwriters' counsel frequently are included in this component.

- *Underwriters' risk* compensates the underwriting syndicate for risks they incur in agreeing to purchase the issuer's bonds if all bonds have not been sold at the time the bonds are awarded for purchase.

The takedown represents the largest component of the underwriters' discount and is the most difficult component to determine through the RFP process, since it is tied to market conditions and the sales effort of the underwriter. The takedown is calculated on a maturity-by-maturity basis; generally, the takedown increases with the length of the maturity of the bonds. The takedown is often expressed in fractions representing percentage points charged per thousand dollars of bonds. Exhibit 5 is an example of how the takedown would be presented, and how it is calculated.

While the actual takedown for an issue cannot be fully determined until the pricing, it is common to ask firms to include a representative takedown figure in their proposals. The issuer will specify a set of assumptions to be used (e.g., regarding market conditions, structure of the issue) and ask for a quote of the takedown for each maturity and/or the average takedown (calculated as a weighted average of takeds for individual maturities). This information can be useful to the issuer as a reference point during the actual pricing process.

The other components of the underwriters' discount tend to be easier to pin down through the RFP process, but represent a smaller share of the total compensation. Issuers should expect the underwriter to provide an estimate of the management fee in its proposal, and, unless there are extenuating circumstances that justify a higher amount (e.g., a more complex structure or marketing approach is needed), should expect that the proposed amount is firm. In some cases, the underwriter may offer to reduce the management fee in exchange for the right to invest bond proceeds. Issuers should use extreme caution in accepting such proposals, and be particularly
vigilant to ensure that investment instruments are purchased at fair market value.\(^4\)

An issuer should have a clear understanding of what expenses are expected to be incurred by the underwriter on its behalf. The GFOA recommends that firms proposing to serve as senior managing underwriter present in their proposal an itemized list of expenses for the transaction, and whether these expenses are expected to be reimbursed by the issuer.\(^5\) The RFP can be used to describe what expenses the issuer recognizes as legitimate and reimbursable. Such costs might include:

- compensation to underwriters' counsel,
- travel,
- Dalcomp/Dalnet fees for transmitting information on interest rates, takedowns and priority of orders,
- interest/day loan costs,
- charges for communication (e.g., rating agency presentation materials, mailing, printing, telephone expenses),
- documented clearing charges and
- closing costs.

The RFP should clearly describe any fees expected to be capped, such as compensation to underwriters' counsel.

The final component is underwriters' risk. In a negotiated sale, the risk to the underwriter should theoretically be very small: the underwriter will generally not agree to purchase the bonds until it knows it has arrived at a price that is acceptable to the market. Thus, it is common for issuers to pay nothing for underwriters' risk. Some amount may be justified if some bonds are left at the time the underwriter agrees to purchase the offering and the issuer is satisfied that the bonds have been priced aggressively.

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Other items to include

The final section of the RFP should describe the selection process. Among the items to include are the time frame for completion of the evaluation, including key milestones; the date for proposed oral

\(^4\) See the GFOA Recommended Practice entitled, "Investment of Bond Proceeds" (1996).

\(^5\) See the GFOA Recommended Practice entitled, "Payment of the Expense Component of Underwriters' Discount" (1996).
interviews and requirements for who should attend; and procedures for notification of contract award. The RFP should also present information on contacting the issuer, including identifying the individual to whom questions or concerns may be addressed and laying out rules for proposer contact with the issuer such as the period of time in which contact is permitted and restrictions on contact with elected or other key officials. Any other information relevant to the selection process may be included.

In addition to the general framework for the RFP described in Exhibit 3, issuers should include any items needed to conform with state and local laws. Documents needed to show compliance with procurement laws or goals should also be included, as appropriate. It is recommended that an attorney review the RFP to ensure that the document conforms to laws governing the procurement process and that no part of the RFP or the process described for making the selection will result in legal challenges.
Section 6
Evaluating the RFP and Selecting a Firm

The evaluation process starts with identification of who is involved and the activities that need to occur. Typically, the finance director or designated finance staff will play a lead role in evaluating proposals. Others that may be involved include the jurisdiction’s attorney, chief executive officer and purchasing officer. The individual or department responsible for developing the capital improvement plan may also be represented. If a financial advisor has already been engaged, it may also assist in the selection process as deemed necessary by the issuer.

Elected officials should be discouraged from being a part of the evaluation process. They should only be involved at a point when the governing body is presented with a recommendation on the award of a contract. This helps to keep the selection process as objective as possible and reduces actual or perceived conflicts of interest.

Members of the evaluation team should be asked to rank proposals on each of the evaluation criteria using the weighting scheme developed for the selection process. A written record should be kept of each member’s ranking on each criteria. To facilitate the ranking process, a matrix may be developed with each criterion listed on one axis and each firm on the other axis. The matrix is used by reviewers to award points to each firm for each of the criteria and to arrive at an overall score.

An important component of the selection process are oral interviews. The issuer is engaging in an extended relationship with firms selected to serve as either financial advisor or underwriter, and it is important to ensure that the individuals working on a
day-to-day basis with the issuer are knowledgeable and that a good working relationship among all team members is possible. Oral interviews can also be used to follow up on particular aspects of a proposal that weren't clear or need further elaboration. Issuers may choose to schedule oral interviews with all firms that have submitted proposals or only with firms scoring above a predetermined threshold on the written proposal.

When scheduling oral interviews, issuers should make clear that they expect the individuals in charge of the day-to-day management of the account to be present and to take a lead role in presenting materials and answering questions. Each member of the issuer’s selection team should attend the interview and document their impressions of each firm. In order to facilitate comparisons among firms, a set of questions that will be asked of each firm in the oral interview process should be developed.

Once the interviews are complete, the next step is to decide on one or two firms that demonstrate the best understanding and ability to meet the government’s needs. Reference checks of the individual charged with day-to-day management of the account should be undertaken. It is recommended that one individual be charged with checking all references. This helps to promote consistency in asking questions and interpreting replies. A standard set of questions should be asked of each individual serving as a reference in order to facilitate comparison of responses. The results of the reference checks should be included with other documents used in the selection process.

The final step is for the evaluation team to make a recommenda-
tion, and present the recommendation to the governing body as required by law or policy. An ordinance or resolution may need to be prepared authorizing selection of a firm to serve as financial advisor or underwriter.

Before the selection process is completed, however, the issuer needs to be sure that a written record documenting the selection process is placed in the central files of the government. This is important should any challenge to the selection be made or if the media or others request information regarding the selection process.
Conclusion

The financing team selected by the issuer will play a critical role in determining how successful an issuer will be in meeting important financial and policy goals. Ultimately, the issuer needs to feel confident that the individuals working on its behalf will obtain the lowest possible financing costs given market conditions and complete the transaction in a timely manner so that projects may proceed as planned. It is essential that the finance team have the necessary experience and skills to ensure that these goals are achieved. A sound RFP process can help a government select the best professionals for its financing needs. Issuers should give careful consideration to the process established for preparing and evaluating the RFP. The GFOA has developed a recommended practice summarizing key points that should be kept in mind in designing an RFP, found in Exhibit 6.
Exhibit 6
GFOA RECOMMENDED PRACTICE
Preparing RFPs to Select Financial Advisors
and Underwriters (1997)

Background. Governmental issuers frequently employ underwriters for a negotiated sale and financial advisors for either a competitive or negotiated sale to assist in the structuring and issuance of debt. A request for proposal (RFP) can help issuers to select the most qualified professionals.

Recommendation. The Government Finance Officers Association (GFOA) recommends the use of an RFP process when selecting underwriters and financial advisors because it promotes fairness and objectivity, allows the issuer to compare respondents, and helps the issuer to obtain the best price and level of service. Issuers should have a clear understanding of their needs (transaction-specific or on-going) and should develop an RFP that complies with state and local bidding requirements. Additionally, the RFP should:

- provide a clear and concise description of the scope of work, specify the length of the contract, and indicate whether joint proposals with other firms are acceptable;
- include objective selection criteria and explain how proposals will be evaluated;
- require all fee structures to be presented in a standard format and ask proposers to identify which fees are to be proposed on a "not-to-exceed" basis, describe any condition attached to their fee proposal, and explicitly state which costs are included in the fee proposal and which costs are to be reimbursed;
- require at least three references from other public-sector clients.

RFPs should include questions related to the areas listed below to distinguish firms' qualifications and experience, including:

- relevant experience of the firm and the individuals assigned to the issuer, identification of the individual in charge of day-to-day management of the issuer's financing, and the percentage of time committed for each individual assigned to the account;
- the respondent's ideas on how the issuer should approach the financing, including the structure of the offering, credit rating strategy, and investor marketing strategy;
- the analytic capability of the firm and assigned individuals, and on-going employee training programs;
- the availability of sources of information to assist in bond pricing;
Exhibit 6 (cont.)

- the amount of uncommitted capital available and the ability and willingness of the firm to purchase the entire offering of the issuer, if necessary, in the case of underwriting firms;
- the level and types of insurance carried, including the deductible amount, to cover errors and omissions, improper judgments, or negligence; and
- any finder's fees, fee splitting, or other contractual arrangements of the firm that could present a real or perceived conflict of interest, as well as any pending investigation of the firm or enforcement or disciplinary actions taken within the past three years by the SEC or other regulatory bodies.

Fees paid to financial advisors should be on an hourly or retainer basis reflecting the nature of the services to the issuer. They should not be contingent on the sale of bonds to remove the potential incentive for the financial advisor to recommend the issuance of bonds. Issuers may want to include a provision in the RFP restricting any firm from engaging in activities on behalf of the issuer that produce a direct or indirect financial gain for the firm, other than the agreed-upon compensation, without the issuer's informed consent. Ongoing contracts should be reviewed periodically. No firm should be given an unfair advantage. Procedures should be established for communicating with potential respondents, determining how and over what time period questions will be addressed, and determining when contacts with proposers will be restricted. Additionally, issuers should:

1. Take steps to maximize the number of respondents by using mailing lists and advertisements.
2. Give at least one week for firms to develop their responses to the RFP, and longer depending on the nature of the RFP.
3. Establish evaluation procedures and a systematic rating process, conduct interviews with proposers, and undertake reference checks. Where practical, one individual should check all references to promote consistency. To remove any appearance of a conflict of interest resulting from political contributions or other activities, elected officials should not be part of the selection team.
4. Document how the final selection was made and the rankings of each firm.
Several RFPs for financial advisors and underwriters were chosen to be included on the enclosed diskette for your reference and use. Please note that the Government Finance Officers Association is not endorsing any of these RFPs as models, but has provided them for your reference. In some cases, sections of the RFPs have been reduced or removed if they were not germane to the discussion presented herein. The names of bond counsel, financial advisors, or other consultants referenced in the RFPs also have been removed.

Exhibits 7 and 8 are tables that summarize key elements of RFPs for financial advisors and underwriters, and where each of these elements can be found in the selected samples. Note that Part I.A means the section can be found within major heading “I,” subheading “A.” Also, I.A-C means that information is included in subheadings “A” through “C.”

The document names for each RFP included on the diskette in WordPerfect format are as follows:

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>File Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Kansas City, KS</td>
<td>kanscity.wpd</td>
</tr>
<tr>
<td>Lehigh County, PA</td>
<td>lehigh.wpd</td>
</tr>
<tr>
<td>City of Portland, OR</td>
<td>portland.wpd</td>
</tr>
<tr>
<td>Santa Clara Valley Water District</td>
<td>santclar.wpd</td>
</tr>
<tr>
<td>South Essex Sewerage District</td>
<td>soessex.wpd</td>
</tr>
<tr>
<td>Western Riverside County Regional Wastewater Authority</td>
<td>westriv.wpd</td>
</tr>
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</table>
RFP for Financial Advisor
Cobb County, GA
State of Florida
City of La Quinta, CA
City of Norfolk, VA
City and County of San Francisco, CA
cobbc.co.wpd
florida.wpd
laquinta.wpd
norfolk.wpd
sanfran.wpd

It is important to remember that these RFPs were developed to meet the goals of particular jurisdictions. While these documents may serve as a starting point, it is the responsibility of each government to prepare its own RFP consistent with its goals and policies. Selection criteria and questions should be included that help the government select the best firms for its financing needs.
Exhibit 7
MAJOR COMPONENTS OF SAMPLE RFPS: UNDERWRITERS

<table>
<thead>
<tr>
<th>Issue Type:</th>
<th>Kansas City</th>
<th>Lehigh County</th>
<th>Portland Oregon</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Utility Revenue</td>
<td>General Obligation</td>
<td>Tax-Exempt/ Taxable Revenue</td>
</tr>
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</table>

**DESCRIPTION OF FINANCING NEEDS**
- Issuer Name and Purpose of Request: Part I, Introduction
- Description of Issuer: Part I
- Scope of Services: Part I, Introduction

**INFORMATION PROVIDED ON RFP PROCESS**
- Proposal Form and Content: Part VI, Part I, Part II, Part V
- Instructions for Submission: Part X
- Date and time due: Part II, Part I, Part VI
- Where to send proposals: Part II, Part I, Part VI
- Limitations on contact: Part IV, Part IX.1
- Terms and Conditions: Part VIII, IX, Part IX
- Selection Process: Part VII, Part VII
- Schedule for review: Part VI.G, Part IX
- Final decision: Part VI.G, Part I

**SELECTION CRITERIA**
- Qualifications of Firm and Key Personnel:
  - Size/organizational structure: Part VI.F1, 2, Part III.5e-f, 4, 5, Part V.3
  - Experience with similar transactions: Part VI.B, F3, 4, Part III.
  - Level and types of insurance: Part VI.E, Part II.3a-d, Part IX.7
  - Net capital and excess net capital: Part VI.C, Part III.7
  - Qualifications of key personnel: Part VI.J
  - References for key personnel: Part VI.K
  - Analytic capabilities: Part VI.K
  - Affirmative Action: Part IX.3

**Financing Approach**
- General financing approach: Part VI.A
- Market for the bonds: Part VI.F5.6
- Strategies for Issuance: Part VI.A, D, Part II.9-10
- Credit objectives: Part VI.A, Part III.8
- Recommendation on co-managers: Part VI.F4, G, Part III.6
- Transaction-specific issues: Part VI.F5, V.7A, B

**Legal Issues/Conflicts of Interest**
- Violations of laws or regulations: Part VII.L
- Pending or current litigation: Part VI.M
- Conflicts of interest: Part V.7C

**Cost of Service**
- Part VI.H, 1, Part II.11, Part V.6
## Exhibit 7 (cont.)

| Issuer Name: | Santa Clara Valley Water | South Essex Sewerage Revenue | Western Riverside Auth. | | |
|--------------|--------------------------|-------------------------------|------------------------|---|
| **Issue Type:** | Refunding | Sewerage Revenue | | |

<table>
<thead>
<tr>
<th>DESCRIPTION OF Financing NEEDS</th>
<th>Part I</th>
<th>Part I</th>
<th>Cover</th>
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<td>Description of Issuer</td>
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<td>Part III</td>
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<td>Scope of Services</td>
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<table>
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<th>Part IV, VII.B</th>
<th>Cover</th>
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<td>Part V, VI</td>
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<td>Selection Criteria</td>
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<td>Instructions for Submission</td>
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<tr>
<td>Date and time due</td>
<td>Part V</td>
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<td>Where to send proposals</td>
<td>Part IV</td>
<td>Part VII.C</td>
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<td>Limitations on contact</td>
<td>Part V, IX</td>
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<tr>
<td>Terms and Conditions</td>
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| Qualifications of Firm and Key Personnel | Part VIII.3c-f | Part IV.B1-5, B8 | | |
| Size/organizational structure | Part VIII.3a | Part IV.A2 | Part B | |
| Experience with similar transactions | Part VIII.3g | Part IV.A4, A5 | | |
| Level and types of insurance | Part VIII.5 | Part IV.B6 | Part A | |
| Net capital and excess net capital | | | | |
| Qualifications of key personnel | | | | |
| References for key personnel | | | | |
| Analytic capabilities | | | | |
| Affirmative Action | | | | |

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## Exhibit 8
### MAJOR COMPONENTS OF SAMPLE RFPS: FINANCIAL ADVISORS

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| INFORMATION PROVIDED ON RFP PROCESS |                  |                          |
| Proposal Form and Content           | Part III          | Part IV                   |
| Selection Criteria                  | Part IV           | Part VI                   |
| Instructions for Submission        | Part I.H          | Part VIII                 |
| Date and time due                  | Part I.H          |                          |
| Where to send proposals             | Part VIII         |                          |
| Limitations on contact              | Part VIII         |                          |
| Terms and Conditions               | Part I.J-Q        | Part IV.7, V               |
| Selection Process                  | Part I.I          | Part VI                   |
| Schedule for review                 |                  |                          |
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| SELECTION CRITERIA |                  |                          |
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| Size/organizational structure        | Part III.3a      | Part IV.2                 |
| Experience with similar transactions| Part III.3a, b, c | Part IV.2                 |
| Level and types of insurance         |                  |                          |
| Qualifications of key personnel      | Part III.3d       | Part IV.3                 |
| References for key personnel         |                  |                          |
| Analytic capabilities                | Part III.4f       | Part IV.2, 3              |
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| Strategies for issuance             | Part III.4b       | Part IV.4.1-4          |
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| Transaction-specific issues         |                  |                          |

| Legal Issues/Conflicts of Interest  |                  |                          |
| Violations of laws or regulations   |                  |                          |
| Pending or current litigation       |                  |                          |
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| Cost of Service |                  |                          |
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