

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-BANK)
BOND FINANCING PROGRAMS**

STAFF REPORT

ISSUE: Staff requests approval to establish a list of pre-qualified financial advisory Firms (Firms) eligible for appointment by the Executive Director as financial advisor for one or more proposed pooled bond issuances to be undertaken by the I-Bank. The list is for a period not to exceed three years from the date of I-Bank Board approval of the list.

BACKGROUND INFORMATION: The I-Bank intends to pursue pooled bond opportunities, primarily those resulting from new public finance mechanisms authorized by the American Recovery and Reinvestment Act of 2009 (ARRA). ARRA created significant new public financing vehicles for state and local governments by expanding the types of projects that can be financed with tax-exempt and taxable bonds, and giving issuers the temporary ability to issue governmental obligations as either taxable tax-credit bonds or interest subsidy bonds. The majority of these provisions are temporary and only apply to obligations issued in 2009 and 2010.

The new types of bonds included in ARRA are: Build America Bonds; Recovery Zone Economic Development Bonds (RZEDBs); Recovery Zone Facility Bonds; Clean Renewable Energy Bonds; Qualified Energy Conservation Bonds; Qualified School Construction Bonds, and Qualified Zone Academy Bonds. One or more of these new types of bonds may be issued by the I-Bank on a pooled basis to maximize the use of available allocations, and/or to reduce financing costs by (i) strengthening credit through the pooling of repayment streams, (ii) improving the availability of credit enhancement, and (iii) spreading costs of issuance amongst participants.

Currently, the I-Bank is working with several California local governments that have expressed an interest in participating in a pooled bond issuance for RZEDBs. The I-Bank anticipates initially issuing RZEDBs as a pooled financing during late 2009 or early 2010. Additionally, the I-Bank intends to pursue other ARRA pooled bond opportunities in the near future, as well as other unique and innovative pooled financings.

The I-Bank anticipates the need for one or more financial advisors to advise on structuring each pooled bond issuance, and anticipates that such bonds will include a highly diverse universe of borrowers and revenue streams. The scope of work will include the Firm's participation from initial transaction structuring discussions to closure of the pooled bond issuance, and include but not be limited to the following:

1. Participate in meetings and conference calls with I-Bank staff, potential borrowers, borrowers and other bond financing team members as needed.
2. Analyze the cost benefits of different bond structuring and pricing options. This includes, but is not limited to, fixed rate versus variable rate bonds,

- insured versus uninsured bonds, callable versus non-callable bonds, and par versus discounted bonds.
3. Assist I-Bank staff in rating agency and/or bond insurer presentations or investor meetings related to the particular financing.
 4. Analyze the cost benefits of purchasing bond insurance.
 5. Perform credit analysis and assist with structuring a variety of credit types and repayment streams for individual credits to be included in the pooled bond issuances.
 6. Participate in all pricing discussions. Based on direction from the I-Bank staff, provide data on market comparables and different indices that can be used in pricing discussions.
 7. Participate in bond document review and due diligence sessions. Coordinate with the I-Bank staff and counsel to ensure compliance with federal tax law.
 8. Participate in reviewing the underwriter's quantitative analysis related to the bond sizing, structure and flow of funds.
 9. If requested by the I-Bank staff, assist in reviewing the underwriter's proposed allocation of the bonds.
 10. Review and provide input on the preliminary and final official statements.
 11. Participate in post-financing review as directed by I-Bank staff. At a minimum, this work will include a report addressing how the I-Bank's bonds priced relative to market indices, comparables and any goals established prior to sale.

In order to meet the compressed time-frame of the ARRA provisions, and to address the possibility that borrower pools will be segregated to meet structuring proposals identified during the establishment of a borrower pool, staff proposes the establishment of a pool of pre-qualified Firms that can be selected to provide financial advisory services for these proposed pooled bond transactions.

On July 14, 2009, the I-Bank sent Requests for Qualifications For Pre-Qualified List of Financial Advisory Firms for Pooled Bond Issuances (RFQ) to every firm on the current Financial Advisor Pool List maintained by the State Treasurer's Office (STO) and to other interested firms. Eight responses were received and were evaluated by a three-member panel of I-Bank staff.

The eight Firms submitting proposals were:

1. Backstrom, McCarley, Berry & Co., LLC
2. CSG Advisors
3. First Southwest Company
4. KNN Public Finance
5. Lamont Financial Services Corporation
6. Public Financial Management, Inc.
7. Sequoia Financial Group LLC and Urban Futures, Inc. (joint application)
8. Swap Financial Group

EXPERTISE OF RECOMMENDED FIRMS:

Six Firms were determined to meet the RFQ minimum qualifications requiring:

- The Firm to be on the State Treasurer's Office (STO) Financial Advisor Pool List as of the final filing date for proposals (August 5, 2009);
- Satisfactory responses to questions regarding outstanding or pertinent legal proceedings;
- Sufficient staffing, financial and physical resources to perform the scope of services, with a primary Firm contact in based in California and accessible by a mobile device;
- The Firm must have errors and omissions insurance of at least \$1 million; and
- Certification and signature by an individual authorized to bind the Firm.

The I-Bank staff performed a rigorous analysis of the remaining six RFQ respondents as outlined below:

- a. Firm's Qualifications and Experience. The quality and depth of the Firm's staff expertise, capability and prior experience in providing the services identified in the RFQ including, but not limited to, past performance with respect to such services of comparable magnitude and complexity in California.
- b. Competitiveness of proposed fees.
- c. Overall quality of the written response to the RFQ.

For the reasons discussed above, staff believes that the six Firms have the sufficient expertise to warrant placement on a pre-qualified list of financial advisory Firms for pooled bond issuances. Prior to initiation of a pooled bond financing, I-Bank will enter into a Letter of Engagement with the selected Firm or Firms, detailing the scope of responsibility as well as the fact that compensation shall be made from bond proceeds upon successful issuance and sale of pooled bonds.

While the ARRA bonds are to be issued prior to the end of 2010, staff recommends that the list be maintained for a period not to exceed three years from the date of I-Bank Board approval of the list in the event that the Federal government extends the issuance period for the new type of bonds authorized under ARRA, and to address the possibility that the I-Bank is able to take advantage of other (non-ARRA dependent) unique and innovative pooled financings.

At such time as a financial advisor is selected from the pool and an Engagement Letter is entered into, the Executive Director will report such action to the Board at the next succeeding meeting of the Board.

RECOMMENDATION: Staff recommends approval of Resolution 09-36 authorizing establishment of the attached list (Exhibit A) of financial advisory firms eligible for appointment by the Executive Director as financial advisor for one or more future pooled bond issuances undertaken by the I-Bank, with a list term for a period not to exceed three years from the date of I-Bank board approval of the list.

EXHIBIT A

California Infrastructure and Economic Development Bank
ARRA Pooled Financings
Proposed List of Pre-Qualified Financial Advisor Firms

CSG Advisors Incorporated
First Southwest Company
KNN Public Finance
Lamont Financial Services Corporation
Sequoia Financial Group LLC and Urban Futures, Inc.
The PFM Group