

TO: Candidates For Senior Managing Underwriter

FROM: Office of the State Treasurer  
State of Vermont

DATE: February 18, 2005

RE: Request For Proposal To Serve As Senior Manager for:

- 1) \$15 Million General Obligation Vermont Citizens Bond Issue – March/April 2005
- 2) Possible General Obligation Refunding Bond Issue

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## Background

The Office of the State Treasurer, State of Vermont, (the “State”), is requesting proposals from a select number of underwriting firms for the purpose of selecting a senior managing underwriter for the above-referenced transactions. Prior to this negotiated \$15 million new money Vermont Citizens Bond issue and possible refunding bond issue (the “Issues”), the State issued \$26 million of new money general obligation bonds on a competitive basis from a solicitation of underwriting firms throughout the country. Our desire is to target the Citizens Bonds (and a significant portion of the potential refunding bonds) to Vermont retail purchasers. Since Vermont retail purchasers have historically preferred shorter maturities, the shorter average life of the Issues, in comparison to the longer average life for the competitive issue, offers an opportunity to the State to target the Issues more efficiently to Vermont’s retail customers. While this request for proposal is being issued for the purpose of retaining a senior managing underwriter for the Issues, the State also expects to rely on the submitted proposals for establishing other roles in the distribution process, including selling group membership.

While the State expects that the term of the appointment as senior manager for the Citizens Bond program resulting from this request for proposal will be two years, the State reserves the right to terminate the relationship at any time. The appointment of a senior manager for any other negotiated general obligation debt transaction will be subject to a selection process through the issuance of another request for proposal.

The State has evaluated a series of its outstanding general obligation bond issues to determine the extent refinancing opportunities exist in the current market and has concluded that there are several series of such bond issues that represent potential candidates for refunding purposes. A suggested listing of the outstanding general obligation bond issues that are candidates for possible refunding is included following Exhibit 1 of this request for proposals. This listing is not exhaustive; if your firm determines that there are other candidates that should be considered for refunding purposes, please include those in your proposal.

The refunding bonds could be issued concurrently with the Citizens Bonds in a separate refunding series with the size of the sale to be determined, based upon the State’s criteria for inclusion of outstanding bonds. As a general policy matter, the State must achieve at least 3% present value savings in aggregate and at least 2% present value savings by individual maturity except in those instances when there is little likelihood that another refunding can be accomplished in advance of the particular bonds being retired at maturity; in addition, it may be appropriate for certain bonds to be refunded for less economic savings in order to streamline the State’s debt management operations. For example, with respect to each series of bonds, it may be in the State’s best interest for administrative reasons to refund an entire debt issue if only one or two maturities would remain should the other maturities in that issue be selected for refunding purposes.

It should be emphasized that the Citizens Bonds issue must allow retail purchasers to invest in \$1,000 denominations up to \$5,000. Bonds offered in the \$15 million Citizens Bond issue will be serial bonds from one to ten years in maturity in the amount of \$1.5 million per maturity.

The selected firm will work with representatives of the State, with Palmer & Dodge, bond counsel, and with Government Finance Associates, Inc., financial advisor, to ensure that the Issue(s) are completed in a timely, cost-effective and efficient manner and the securities are well received by the market. The State will take responsibility for liaison with the rating agencies.

## **Proposal Preparation**

Proposals must be submitted as described herein. Restate each question (A through F) prior to each response. Excluding requested tabular material and schedules, please limit your proposal to the specified number of pages.

### **A. Letter of Transmittal** (not to exceed two pages)

Each proposal should be accompanied by a letter of transmittal, signed by an officer authorized to enter into a contractual relationship with the State on behalf of the firm, which summarizes the key points of the proposal. The letter of transmittal should, at a minimum, describe the firm's long-term commitment to Vermont and to public finance generally. In addition, please include the name, address and telephone number of the key contacts at the firm who will be assigned to this transaction.

### **B. Firm Qualifications and Experience** (not to exceed two pages)

List the negotiated tax-exempt bond issues in the State of Vermont for which your firm has served as senior manager since January 1, 2002. Please identify whether those issues were sold for new money or refunding purposes. Please provide a summary sales report for each issue including the percent sold retail. Also for each issue, specify the capacity in which your firm served (i.e., sole senior or co-senior). Provide a description of each issue, including the par amount, use of credit enhancements and underlying ratings, if any.

### **C. Personnel Assigned** (not to exceed two pages)

Please list the persons who will be assigned to the transaction. Indicate whether each person is trading, syndicate, sales, research and/or public finance personnel. Set forth a brief bio for each of these individuals with particular attention to their experience with and participation in tax-exempt debt programs. Respondents are advised that the inclusion of specific personnel will be considered by the State to be a commitment by the firm that those designated persons will be available to perform the roles represented in the proposal submitted.

### **D. Proposed Structure** (not to exceed three pages, excluding numerical schedules)

Provide your structuring recommendations for the possible refunding.

For both issues, include interest rate scales based on market conditions as of close of business on Tuesday February 22, 2005. Please indicate with respect to each proposed issue (Citizens Bond issue and refunding issue) rates for each maturity as well as spreads relative to MMD AAA uninsured rates by maturity.

Base your numerical analyses on the following assumptions:

General Obligation Bonds:

Current underlying ratings: "Aa1 (Stable)" by Moody's Investors Service  
"AA+ (Stable)" by Standard & Poor's and  
"AA+" by Fitch

Dated: Date of Delivery  
Settlement: March 30, 2004

Interest Payment Dates: Semi-annually on each March 1 and September 1, commencing September 1, 2005

For purposes of the refunding analysis, use amounts from your proposed Fees and Expenses (Exhibit 1). We do not think that bond insurance will be cost-effective, based on recent State of Vermont bond issues.

**E. Marketing Plan** (not to exceed two pages)

The marketing strategy should identify your firm's view as to the mix of potential buyers for the refunding issue (i.e., Vermont retail, bank trust, money managers, other) and your recommended method of pre-sale marketing to maximize local retail distribution. Describe your firm's marketing and distribution capabilities, municipal research services and any publications your firm routinely uses or distributes to inform buyers of bonds sold by Vermont issuers. Please note that the State will direct the underwriting team to establish a priority of orders at the time of pricing that favors individual in-State retail investors. Discuss briefly your firm's marketing recommendations in the context of expected market conditions at the time of the sale of the refunding bonds.

**F. Fees and Expenses** (not to exceed one page, excluding the requested form for each issue)

**Citizens Bond Issue:** The total spread in dollars per thousand (per bond) derives from the State's recently offered \$26 million competitive 2005 Series A G.O. bond offering and is \$5.94 per thousand (per bond). This spread includes all components of underwriters' spread including underwriters' counsel and other underwriters' expenses. *Please state that you understand this non-negotiable spread determination and accept it as part of the terms of the Citizens Bond transaction.*

**Refunding Bond Issue:** Include a firm indication of the total proposed spread (in dollars/\$1,000). Complete the fees and expenses form provided as Exhibit 1. All fees and expenses must be provided on a not-to-exceed basis. For purposes of your refunding analyses, please assume other issuance expenses (does not include underwriters' spread) for the State of \$125,000 (rating agency fees, bond counsel fees, printing, etc.).

**G. Form of Submission**

Questions may be directed to J. Chester Johnson, Government Finance Associates, Inc., at 212-521-4090. Each of the following should receive three proposals from your firm by 2:00 p.m. (New York time) on Wednesday March 2, 2005. Make sure that you send your proposal so that it arrives at both locations no later than the deadline. Each proposal must be bound separately and no fax or email proposals will be allowed. Please make sure you use font size no smaller than 12.

George B. "Jeb" Spaulding  
State Treasurer  
State of Vermont  
133 State Street  
Montpelier, Vermont 05633-6200  
Tel: 802-828-2301

J. Chester Johnson  
Chairman  
Government Finance Associates, Inc.  
590 Madison Avenue, 21<sup>st</sup> Floor  
New York, NY 10022  
Tel: 212-521-4090

## **H. Selection Criteria**

Proposals will be evaluated based upon the following criteria:

1. Firm experience/performance
2. Personnel assigned
3. Proposed structure
4. Marketing plan
5. Fees and expenses

*The State reserves the right to reject any one and all proposals, to waive any informality with respect to any proposal, and to modify or amend, with the consent of the bidder, any proposal prior to acceptance, as the State, in its sole judgment, may deem to be in its best interests. The State can give no assurance that the proposed transaction(s) will take place. Neither the State nor GFA shall be liable for any damages or harm suffered by the bidders under any circumstances. Neither the State nor GFA shall be liable for any expenses incurred in the preparation of any response to this request for proposal.*

Please refrain from contacting State officials; the only contact during the selection process should be with the State's financial advisor. Please be advised that the State expects to complete the transaction(s) in the time frame indicated. The State appreciates your continuing interest in the debt management operations of the State of Vermont and looks forward to receiving your proposals.

**EXHIBIT 1**

**State of Vermont  
General Obligation Refunding Bonds  
Fees And Expenses Worksheet**

Total Spread (in dollars per thousand):

(1)	Average Takedown	\$ _____
(2)	Management Fee	\$ _____
(3)	Underwriter's Expenses*	\$ _____

**Total Spread:** \$ \_\_\_\_\_

\*Breakdown of Underwriter's Expenses (actual dollar amount):

(1)	Underwriter's Counsel (1)	\$ _____
(2)	Travel	\$ _____
(3)	Fed Funds (2)	\$ _____
(4)	Document Printing (3)	\$ _____
(5)	Overnight Delivery	\$ _____
(6)	Other (specify)	\$ _____

**Sub-Total Expenses:** \$ \_\_\_\_\_

Submitted by: \_\_\_\_\_

Title: \_\_\_\_\_

Firm Name: \_\_\_\_\_

Telephone: \_\_\_\_\_

1. Assume separate underwriter's counsel; provide fee for such legal services on a "not-to-exceed" basis.
2. Assume closing with same-day funds.
3. Exclude POS/OS printing; the financial advisor will oversee printing of the Official Statement.

SUGGESTED LIST OF POTENTIAL REFUNDING CANDIDATES

STATE OF VERMONT  
GENERAL OBLIGATION BONDS

1997 Series A

1997 Series B

1998 Series B

1998 Series C

1999 Series A

2002 Series A

2004 Series B