

**Virginia Department of the Treasury**  
**Request for Proposals DM-007 for Underwriters**  
**for the**  
**Securitization of Tobacco Settlement Revenues**

**PURPOSE AND REQUIREMENTS:**

The Virginia Tobacco Settlement Financing Corporation (the “Corporation”), is soliciting proposals from qualified investment banking firms to serve as Underwriters in connection with the proposed securitization of a portion of the Commonwealth of Virginia’s (“Commonwealth”) share of payments under the Master Settlement Agreement dated November 23, 1998 (the “MSA”). Based on responses to this Request for Proposals (“RFP”), the Corporation intends to select one firm to serve as lead or “bookrunning” Senior Managing Underwriter, one or more Co-Senior Managers, one or more Senior Co-Managers and one or more Co-Managers that will share in the underwriting liability of the issue(s). The Corporation expects to select one or more additional firms to comprise the selling group.

The period engagement will run through December 31, 2009, unless extended. At the option of the Corporation, the engagement may include subsequent securitizations that may be authorized by the Virginia General Assembly. The Corporation reserves the right to alternate or adjust the Senior Manager role(s) or any management group for subsequent transactions, if any, as it deems appropriate.

The Corporation reserves the right to proceed with one or more transactions, or to not proceed with any transaction, in its sole discretion. The Senior Manager(s) and members of the management group, their attorneys and/or consultants, if any, will only be compensated through the underwriters’ spread as determined by the issuing entity for the obligations when, and if issued.

**BACKGROUND:**

The Corporation was authorized under Chapter 488 of the 2002 Acts of the Virginia General Assembly (“Chapter 488”) to securitize the portion of the MSA allocable to the Tobacco Indemnification and Community Revitalization Commission (“TICR”) (i.e., 50% of Virginia share of the MSA). On May 12, 2005, the Corporation issued \$448,260,000 of its Tobacco Settlement Asset-Backed Bonds, Series 2005 (the “2005 Bonds”), representing the securitization of 25% of Virginia’s share of the MSA. These bonds were issued on a tax-exempt basis. In accordance with Chapter 488, the proceeds of the issue were placed in an endowment used to further the purposes of the TICR. On January 10, 2007, the TICR requested the Governor and the Corporation to proceed with the restructuring/refinancing of the 2005 Bonds and the securitization of the remaining amount allocable to the TICR.

**ORGANIZATION OF THIS RFP:**

- Firms to be considered for role of bookrunning senior manager or co-senior manager should submit proposals based on Section I of this RFP.
- Firms wishing to be considered for a senior co-manager or co-manager role should submit proposals based on Section II of this RFP.

- Firms not selected for bookrunning senior manager or senior manager will automatically be considered for a senior co-manager or co manager's role. It is not necessary to submit proposals for both Sections.

## **SCOPE OF SERVICES**

The selected senior manager(s) underwriter team will work with the Corporation, professionals selected by the Corporation and staff to the Corporation in the negotiated sale of bonds for refunding and/or new money purposes. Services provided by the underwriters may include but are not limited to:

- a. Recommend transactions which will maximize the value of the tobacco settlement revenues.
- b. Recommend structures and alternatives to minimize overall issuance costs.
- c. Participate in discussions regarding future legislation, if any, to facilitate bond issuance.
- d. Assist in drafting and reviewing bond documents.
- e. Assist in preparations, discussions and meetings with the Corporation, rating agencies and investors.
- f. Obtain bids for credit enhancements, investment contracts, verification agent, and other services that may be required upon request of the Corporation.
- g. Secure tobacco industry forecast from a nationally recognized provider.
- h. Identify financing or refinancing opportunities available to the Corporation.
- i. Provide post-closing analysis of any transactions resulting from this solicitation, including pricing, orders, allotments, comparables, etc.
- j. Provide underwriting and investment banking services as requested by the Corporation.

## **SECTION I - BOOKRUNNING SENIOR MANAGER/CO-SENIOR MANAGER**

### **MINIMUM REQUIREMENTS FOR BOOKRUNNING SENIOR MANAGER/CO-SENIOR MANAGER:**

The Corporation intends to select one Bookrunning Senior Manager and one or more Co-Senior Managers to structure and carry out one or more transactions. A firm must meet the following minimum requirements to be considered as Bookrunning or Co-Senior Manager:

- 1) Firm and/or key staff experience as a Bookrunning Senior Manager or Co-Senior Manager for at least two securitization transactions where the transaction was secured by tobacco settlement revenues under the MSA. **Firms that do not have senior manager experience in Tobacco bonds will not be considered for a senior role.**
- 2) Firm must hold all licenses required by the NASD, MSRB, SEC or any other regulatory agency.

Firms eligible, but not selected to serve as Bookrunning Senior Manager or Co-Senior Manager(s) will be considered for positions as Senior Co-Manager(s) or Co-Manager(s).

## **SELECTION CRITERIA:**

**Proposals for Bookrunning Senior Manager or Co-Senior Manager(s) should respond to Questions 1 - 11.** Proposals shall be limited to a maximum of 8 pages, not including your firm's cover letter and any Appendices provided in response to questions 1, 4, & 5. Font size should be no smaller than 10. Proposals violating the 8 page maximum will be disqualified. The selection and the award of the contract shall be made of the Offeror(s) deemed to be fully qualified and best suited among those submitting proposals on the basis of the following evaluation factors and questions:

- ◆ Soundness of Approach (40 %)
- ◆ Offeror's Qualifications (30%)
- ◆ Pricing (25%)
- ◆ Participation of Small, Women-Owned, and Minority-Owned Businesses (5%)

### **Approach**

1. Provide the optimal structure for securitizing 50% of the Commonwealth's payments under the MSA allocable to the TICR as authorized under Chapter 488. The base case should be limited to the use of current interest bonds with a maximum maturity of 40 years with a refinancing/restructuring of the Series 2005 Bonds. Provide up to two alternate strategies that the Corporation should consider. Your alternate structures may incorporate any strategy your firm deems reasonable (e.g., CABs, subordinated debt, maturity extension, etc.), however **your plan should (i) assume no state enhancements, (ii) avoid non-investment grade debt, and (iii) assume the non-refunding portion will be issued on a taxable basis.** Comment on optimal size, amortization, net proceeds, term bond structure, reserve funds, and pros and cons of the various alternatives.
2. What rating agency would you recommend? How many and which agencies would you pursue? How would changes in the structure affect your recommendation?
3. Comment on the factors affecting the current market demand for tax-exempt and taxable tobacco securitization bonds. Describe your firm's strategy to market the bonds, particularly in light of the use of taxable bonds.
4. Assuming selection of Bookrunning Senior Manager by February 1, 2007, provide a realistic time schedule to complete the proposed tobacco transaction.

### **Experience**

5. Identify each issue of tobacco bonds in which the firm or key staff, has been involved. Include the principal amount, the date of issuance, the firm's role, bond structure, ratings achieved and any defining attributes of the issue.

6. Identify key staff that would be involved in the transaction and highlight their experience in the issuance of tobacco bonds.
7. Describe your firm's sale and distribution capabilities, highlighting your ability to distribute bonds secured by tobacco settlement revenues. Describe your firm's secondary market support for tobacco bonds.
8. Describe your firm's experience and capabilities in the distribution of taxable debt.
9. Identify any existing or potential conflict of interest, or any relationship that might be considered a conflict of interest, that may affect or involve transactions for the Commonwealth.

**Pricing**

10. Provide the proposed underwriters' spread for the transaction. Detail all components of the underwriters' spread. Identify proposed underwriter counsel.

**Participation by Small, Women-Owned, and Minority-Owned Businesses**

11. Describe current and planned utilization of Small, Women-Owned, and Minority-Owned Businesses.

**SECTION II – PROPOSALS FOR SENIOR CO-MANAGER(S)/CO-MANAGER(S)**

**MINIMUM REQUIREMENTS FOR CO-MANAGERS:**

A firm must meet the following minimum requirements to be given further consideration as Co-Manager:

- 1) Firm must hold all licenses required by the NASD, MSRB, SEC or any other regulatory agency necessary to perform the services required by the Corporation.

Firms not selected for Co-Manager may be considered for inclusion in the Corporations's selling group.

**Proposals for Co-Manager(s) should respond to Questions 12-17.** Proposals shall be limited to five pages with a font size no smaller than 10.

12. Identify issues of tobacco bonds in which your firm has been involved in a senior, co-manager, or selling group role, and your participation (i.e., orders placed and allotments received) in the issue.
13. Describe your firm's sale and distribution capabilities, highlighting your ability to distribute bonds secured by tobacco settlement revenues. Describe your firm's secondary market support for tobacco bonds.

14. Describe your firm's experience and capabilities in the distribution of taxable debt.
15. Describe your firm's physical presence in Virginia, including offices, employees, etc.
16. Indicate if your firm is registered as a Small, Women-Owned, and/ or Minority-Owned Businesses.
17. Identify any existing or potential conflict of interest, or any relationship that might be considered a conflict of interest, that may affect or involve transactions for the Commonwealth.

**DELIVERY OF INFORMATION:**

To be considered for selection as part of the underwriting team, submit your paper or electronic proposal no later than **12:00 noon (EST) on Monday, January 29, 2007**. If submitted electronically, 5 paper copies of your proposal must be received within 24 hours of your electronic submission. The Corporation reserves the right to select an underwriting team based solely on the proposals submitted. No joint proposals will be accepted.

Proposal submissions must identify which underwriting role is being sought (i.e., Bookrunning Senior Manager/Co-Senior Manager OR Senior Co-Manager/Co-Manager, *RFP# DM-007*) and delivered or mailed as follows:

Electronic submissions should be emailed to [Kelley.Denton@trs.virginia.gov](mailto:Kelley.Denton@trs.virginia.gov)

**Delivery Address:**

Kelley S. Denton  
Procurement Officer  
Department of the Treasury  
101 North 14<sup>th</sup> Street, 3<sup>rd</sup> Floor  
Richmond, Virginia 23219

**Mailing Address:**

Kelley S. Denton  
Procurement Officer  
Department of the Treasury  
P.O. Box 1879  
Richmond, Virginia 23218-1879

**QUESTIONS AND INFORMATION REQUESTS:**

Please direct questions to:

Kelley S. Denton, Procurement Officer, at (804) 786-4741, or FAX (804) 225-3187, or email at [Kelley.Denton@trs.virginia.gov](mailto:Kelley.Denton@trs.virginia.gov).