

***The State of Delaware***

**REQUEST FOR BIDS  
FOR  
QUALIFIED ZONE ACADEMY BONDS**

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## **I. Purpose & Background**

The State of Delaware ("the State") is interested in providing funding for primary and secondary education improvements through Qualified Zone Academy Bonds ("QZABs") authorized by Section 1397E of the Internal Revenue Code of 1986, as amended. Section 1397E was added to the Internal Revenue Code by the Taxpayer Relief Act of 1997. Final IRS regulations have been published (26 CFR Section 1.1397E, Volume 65, No. 187 of the Federal Register) relating to QZABs. The purpose of this Request for Bids (RFB) is to solicit bids from qualified firms (the "Bidders") to purchase the State's General Obligation Qualified Zone Academy Bonds, Series 2006 ("2006 QZABs").

### **QZAB Overview**

A QZAB is a taxable bond issued by a state or local government, the proceeds of which are used to improve certain eligible public schools. In lieu of receiving periodic interest payments from the issuer, an eligible holder of a QZAB is generally allowed annual federal income tax credits while the QZAB is outstanding. These credits compensate the holder for lending money to the issuer and function as payments of interest on the QZAB. Similar to interest payments on a taxable loan, the QZAB tax credits are taxable to the recipient. The intent of the tax credit is to permit the QZAB to be issued with little or no stated interest or original issue discount.

"Eligible holders" entitled to receive the QZAB tax credit include (1) banks, (2) insurance companies and (3) corporations actively engaged in the business of lending money. An eligible holder of a QZAB receives the tax credit on each anniversary of the QZAB issuance date ("Credit Allowance Date"). The amount of the tax credit is determined by multiplying the applicable tax credit rate by the face amount of the QZAB held by the eligible holder on the Credit Allowance Date.

The U.S. Secretary of the Treasury determines the applicable tax credit rate on the day the QZAB is issued. The credit rate changes daily and is published on the Bureau of Public Debt web site at [www.publicdebt.ustreas.gov/spe/speqzab.htm](http://www.publicdebt.ustreas.gov/spe/speqzab.htm).

### **Maximum Term of QZAB**

Section 1397E(d)(3) of the Code requires the Secretary of the Treasury to establish a maximum term of a QZAB. The maximum term can be found on the Bureau of Public Debt website and is updated monthly. The maximum term of a QZAB issued in October 2006 is 16 years.

### **QZAB Issuance in Delaware**

Pursuant to the federal statute, the State currently has capacity to issue \$1.433 million of QZABs. In December 2002, December 2003, and December 2004, the State issued \$760,000, \$908,000 and \$224,177 in QZABs respectively. These funds were used to renovate the Charlton School in the Caesar Rodney School District.

## **II. Overview of State of Delaware**

The State is located on the eastern seaboard of the United States and is bordered by the Atlantic Ocean and the Delaware Bay, as well as by the states of New Jersey, Pennsylvania and Maryland. It has a land area of 1,955 square miles, ranking 49<sup>th</sup> in area in the United States. As the first state to ratify the United States Constitution on December 7, 1787, Delaware is known as “The First State.”

A copy of the State’s Audited Financial Statements for fiscal year ended June 30, 2005 is available on the State’s web page at <http://www.state.de.us/account/cafrdefault.shtml>. In July 2006, the State’s portfolio of general obligation bonds outstanding received ratings of Aaa (Outlook: Stable) from Moody’s Investors Service, AAA (Outlook: Stable) from Standard & Poor’s and AAA (Outlook: Stable) from Fitch.

## **III. Overview of Public School Funding**

The State pays between 60% and 80% of the cost of capital improvements for public school districts upon approval of such cost by the State Board of Education. The school districts pay the remaining percentage. The State issues bonds for 100% of the cost of approved school district projects pursuant to Authorization Acts and the school districts issue their own bonds to the State for their 20% to 40% share of capital costs at an interest rate not exceeding  $\frac{1}{4}$  of 1% above the interest rate on the corresponding State bonds. As debt service payments on the State’s bonds becomes due, school districts are required to pay their share from their tax receipts into the State’s budgetary General Fund, and the State pays the total debt service from its budgetary General Fund appropriation. No school has ever defaulted on any such obligation to the State. This policy allows the local district to borrow capital funds at very competitive rates and to lessen the associated costs of issuance and market access.

To be eligible to issue QZABs, a school must have, among other things, private business partners who donate money, goods and services to the school with a present value totaling ten percent (10%) of the amount of QZABs issued. The State has organized and led efforts on behalf of the school districts to raise this private business contribution.

The QZAB proceeds will be used in conjunction with the State of Delaware’s General Obligation bond proceeds in FY 2006. The State provides 60-80% of the capital funding to local school districts in the form of non-repayable appropriation, of which the QZAB will assist in funding this commitment. The entire QZAB proceeds will fund a portion of the renovations underway at four of the schools located in the Cape Henlopen School District which serves the easternmost portion of southern Delaware bordered by the Atlantic Ocean and the Delaware Bay. The Lewes School, Milton Elementary School, Rohoboth Elementary School, H.O. Brittingham Elementary School are being renovated to 1) upgrade electrical systems for the support of technology and air conditioning in classrooms and common areas, 2) replace boilers and 3) install and acquire systems for energy efficiency, life-safety and handicap accessibility.

The State anticipates defining the “Qualified Zone Academy” as the K-12 academic program at the elementary and secondary schools with populations meeting the free lunch eligibility thresholds, among other requirements. The authorization to issue QZABs was provided via the FY 2006 Capital Improvements Act, Section 61, which reads, “Preference for use of the authorization

shall be given to eligible special schools that are funded with 100 percent state funds and subsequently, schools authorized under this Act with the highest percentage of free and reduced lunch counts for the 2001-2002 school year that elect to participate in the QZAB program as determined by the Department of Education.”

#### **IV. Scope of Services**

The Bidder shall provide various services to the State for the planned issuance of the 2006 QZABs by the State. The scope of services includes, but is not limited to, the following:

- A key financing team member that will be involved in all facets of this transaction including planning, structure and strategy and will be expected to provide both leadership and support to the entire working group;
- Attendance at various working group, State and other appropriate meetings;
- Assistance in structuring of the 2006 QZABs within the guidelines established by the Federal and state legislation governing the program; and
- Purchasing the 2006 QZABs.

The State may extend the contract resulting from this solicitation for bids for up to two (2) subsequent issues under the same terms and conditions.

#### **V. Bid Preparation and Submission Requirements**

##### **Bid Deadline**

All bids must be clearly marked: “Bid for The State of Delaware General Obligation Qualified Zone Academy Bonds, Series 2006.” Bids may be submitted by e-mail or delivered to the address shown below. Bids must be submitted to the State by Friday, October 27, 2006 by 12:00 noon EST.

State of Delaware  
ATTN: Stephanie Scola, Director of Bond Finance  
Department of Finance  
Carvel State Office Building, 8<sup>th</sup> Floor  
820 N. French Street  
Wilmington, DE 19801  
(302) 577-8988  
[stephanie.scola@state.de.us](mailto:stephanie.scola@state.de.us)

A copy of the bid should be e-mailed or delivered to the State’s Financial Advisor at the address shown below:

Public Financial Management, Inc.  
ATTN: Geoffrey Stewart, Senior Managing Consultant  
Two Logan Square  
18<sup>th</sup> & Arch Streets  
Suite 1600

Philadelphia, PA 19103  
(215) 567-6100  
[stewartg@pfm.com](mailto:stewartg@pfm.com)

## **Bid Preparation**

An authorized representative of the Bidder shall sign responses. All information requested should be submitted. Failure to submit all information requested may result in a response being considered "non-responsive" and, therefore, rejected.

Bids should be prepared simply and economically, providing straightforward, concise responses to satisfy RFB requirements. Emphasis should be on completeness and clarity of content. Where appropriate, statistical information should be shown in tabular form and text information in bullet form. No printed brochures or materials other than written responses to the specific requirements should be provided. Your response should be limited to direct responses to the questions indicated.

## **Specific Questions**

Bids should contain direct responses to the following questions or requests for information and be organized so that the specific question being responded to is readily identifiable. Responses should be as thorough and detailed as possible so that the selection committee may properly evaluate your capabilities to provide the required services.

- 1) **Letter of Transmittal** -- Each bid should be accompanied by a letter of transmittal not exceeding two pages which summarizes key points of the bid and which is signed by an officer of the firm who is responsible for committing the firm's resources.
- 2) **Basic Information Requirements** -- Please provide the following information:
  - a) Name of the firm making the bid.
  - b) Name and title of individual preparing and responsible for the bid. This person may be different from the individual signing the transmittal page.
  - c) Mailing address.
  - d) Telephone and facsimile numbers of Bidder.
  - e) E-mail address.
  - f) Statement that individual signing the bid has the authority to commit the firm to the terms bid.
- 3) **Understanding of Scope of Work, Qualifications and Experience**
  - a) Describe your firm's understanding of the QZAB program and issuance of QZABs to date. Include in your response your understanding of the requirements which impact the financial structure of a QZAB.
  - b) Describe your qualifications for this engagement. In particular describe your experience with QZABs or other tax credit type bonds. Indicate the team of individuals who will work with the State on this financing and their relevant experience.
  - c) Please describe your previous participation on any State of Delaware financings or those of entities related to the State (i.e., the Delaware Transportation Authority, Delaware State Housing Authority, Delaware Economic Development Authority, etc.)

**Plan of Finance**

- d) It is the State's objective to maximize funds available for its projects by obtaining a pricing of the 2006 QZABs at a premium, par, or minimal discount. Please indicate the price you would offer for the State's General Obligation QZABs, Series 2006, assuming a tax credit rate of 5.64% (rate published on October 2, 2006), a term of 16 years with no principal amortization (all principal is due in the year 2022), and market conditions as of October 2, 2006. The QZABs' will not be subject to prepayment provisions. Please include any financial analysis which you have developed and on which you have based this price. Explain how your pricing will change with changes in the credit rate and/or the maximum QZAB term.
- e) Comment on your willingness and ability to execute each of the following three structures. Indicate the appropriate coupon or price you would require for each structure under the stated market conditions. For any of these options would you require annual Sinking Fund deposits by the State? If so, what would be the schedule for deposits? Describe any additional requirements on the sinking fund regarding its investment and the beneficiary of sinking fund earnings.

	<b>Option A</b>	<b>Option B</b>	<b>Option C</b>
Market Conditions as of	October 2, 2006	October 2, 2006	October 2, 2006
Tax Credit Rate (i)	5.64%	5.64%	5.64%
Par Amount	\$1.433 million	\$1.433 million	\$1.433 million
Final maturity (ii)	16 years	16 years	16 years
Coupon	0%	0%	Bidder should indicate
Purchase price	100% of par	Bidder should indicate	100% of par
Principal Amortization	Due in full at maturity	Due in full at maturity	Due in full at maturity
Sinking Fund Income	Split with the State & QZAB bondholder. Bidder should describe how sinking fund would operate and how income would be divided.	Market rate; accrues to benefit of the State	Market rate; accrues to benefit of the State

Notes:

- (i) Actual tax credit rate as published by the Bureau of Public Debt as of October 2, 2006.
- (ii) Actual maximum term for QZABs issued in October 2, 2006. Assumes the State will issue the QZAB for the maximum term allowable under the Regulations.

- f) The State will not seek ratings on the 2006 QZAB. Please outline your firm's procedures and timing for credit approval. Please indicate any additional information your firm will require for credit approval. Include in your response to this RFB an

indication as to whether your firm expects any difficulties or delays in receiving credit approval within a reasonable amount of time.

- g) Aside from the structures presented herein, please describe any QZAB structures your firm is willing to offer which provide financial advantages to the State.
- h) If selected, would your firm hold the State's QZAB in your portfolio and use the tax credit yourself or would you reoffer the security?

#### **4) Legal Counsel**

- a) What documentation, if any, would your firm require to execute the 2006 QZAB financing? The State's Bond Counsel will prepare or provide the following documentation, at the expense of the State:
  - i) All ordinances and/or resolutions of the State deemed necessary by Bond Counsel to authorize the issuance and sale of the 2006 QZABs;
  - ii) Evidence satisfactory to Bond Counsel that the State has received written commitments from private entities sufficient to satisfy the ten percent (10%) private business contribution requirement;
  - iii) Written certifications in the forms prescribed by Bond Counsel that the State has satisfied all of the other conditions required under federal and state law for the valid issuance of the 2006 QZABs; and
  - iv) An opinion of Bond Counsel, subject to customary qualifications and exceptions, that (a) the 2006 QZABs are validly authorized, issued and enforceable general obligations bonds of the State and (b) the 2006 QZABs are "qualified zone academy bonds" under Section 1397E of the Internal Revenue Code of 1986, as amended, to the extent permitted by Section 1397E.
  - v) The State will not prepare an offering statement in conjunction with this financing, but copies of the State's most recently audited annual financial statements will be made available to the successful Bidder.
- b) Would you retain outside counsel to assist you in this financing? Please provide the names of up to three law firms that you would propose to serve as legal counsel. The State reserves the right to approve the firm selected to serve as legal counsel.

#### **Fees & Expenses**

Provide a firm indication of the fees and expenses to be paid by the State, such as origination fees, legal fees of counsel to the Bidder and any others to be charged to the State. These numbers will be considered as fixed not to exceed amounts and will constitute one of the criteria for selection. State the basic financing assumptions on which these are predicated and factors that would affect these charges. If more than one plan of financing is

being proposed, indicate how your fee would deviate, if at all, for each of these alternatives. Please do not provide ranges, as the high-end of any range will be recorded as your response.

## **VI. Evaluation and Award**

### **Evaluation Criteria**

Bids shall be evaluated by the State using the following criteria:

- 1) Understanding the Scope of Work
- 2) Bidder's Qualifications
- 3) Soundness of Approach
- 4) Reasonableness of Costs

### **Award Process**

Selection shall be made from the Bidders deemed to be fully qualified and best suited among those submitting bids on the basis of the above evaluation. Interviews and negotiations may be conducted with selected Bidders. The interviews may include oral presentation to a committee of State staff. Oral presentations and interviews will be held at the option of the State and may not be conducted; therefore written bids should be complete. After interviews, and negotiations if any, have been conducted with each Bidder so selected, the State shall select the Bidder that, in its opinion, has made the most advantageous bid to the State and shall award the 2006 QZAB contract to that Bidder. The State may cancel this Request for Bids or reject bids at any time prior to an award, and is not required to furnish a statement of the reasons why a particular bid was not deemed to be the most advantageous. The State reserves the right to reject any or all bids, to waive any irregularities in any bid or the bidding process, and to negotiate with any bidder.