



March 22, 2017

**VIA ELECTRONIC MAIL**

Tom Venanzi  
Business Administrator  
Readington Board of Education  
52 Readington Road, Box 807  
Readington, NJ 08889

Dear Tom:

Phoenix Advisors, LLC, as Financial Advisor to the Readington Board of Education (the "Board"), has distributed a request for proposals to provide (1) Underwriting Services (the "Underwriter RFP", and (2) Direct Placement Services (the "Bank RFP") in connection with the refunding of the Board's outstanding Refunding School Bonds, Series 2006 through the issuance of approximately \$9,800,000 School Refunding Bonds, Series 2017 (the "Bonds").

With regard to the Underwriter RFP, a request for proposals was circulated and responses were received from four (4) municipal underwriting firms that are active in the underwriting of bonds similar to the Bonds to be issued by the Board and/or who previously submitted proposals to the Board for the Bonds. The following firms responded: (i) FTN Financial Capital Markets; (ii) PNC Capital Markets; (iii) Raymond James; and (iv) Roosevelt & Cross. A fifth request for proposals was sent to NW Capital Markets which did not respond.

Phoenix Advisors utilized our firm's proprietary underwriter proposal scoring system and the evaluation criteria outlined in the Underwriter RFP to determine which firm's proposal is the most advantageous to help the Board achieve its goal of greatest possible savings. Our analysis was based on a comparison of each firm's: (i) related experience; (ii) past performance; (iii) fee proposal; (iv) proposed interest rate scale, structuring, marketing, and financing ideas; and (v) overall quality of response.

Related Experience

Respondents were asked to provide a list of negotiated and competitive municipal bond issues in New Jersey, with an emphasis on New Jersey school district issuers over the past two years. From this list, Phoenix Advisors analyzed each firm's experience in serving as Senior Manager for issues similar to the Bonds, notably, municipal refunding bonds. We believe that the firm that has experience with bond issues with the same characteristics as the Bonds will attract the most buyers to the sale of the Bonds, resulting in the lowest rates for the Board.

Past Performance

Respondents were asked to provide an analysis showing their three most recent, negotiated, tax-exempt municipal financings. From this information, Phoenix Advisors analyzed the past performance with similar financings of each firm against a benchmark interest rate index. The most points were awarded to the firms that have shown the best selling performance on their most recent issues similar to the Bonds. Ultimately, the ability of the underwriter to obtain the lowest interest rates for a bond issue (usually as measured against a benchmark) will provide the most savings to an issuer.

---

4 West Park Street, Bordentown, New Jersey 08505

Voice: (609) 291-0130

www.muniadvisors.com

Fax: (609) 291-9940

### Fee Proposal

The lowest underwriter's discount does not always generate the best results for a bond issue. The "right" underwriter's discount will provide the proper compensation to incent salespeople to sell the Board's Bonds. A fee that is in line with comparable issues, but not too low as to hamper the sales effort, is only one aspect of yielding a successful financing. Phoenix Advisors utilized a base fee of \$3,215, which is the median of the fees received (the "Base Fee"). We believe the Base Fee, in the case of the Bonds and based on the analysis of similar issues in the market, is reflective of the right underwriter's discount for an issue of this size and final maturity. In analyzing each firm's fee proposals, Phoenix Advisors compared each proposal to the Base Fee. Points were awarded and deducted based on the deviation of the firm's proposal to the Base Fee, with additional points awarded for being the lowest proposal. Each firm's fee is listed below:

<u>Firm</u>	<u>Fee Per \$1,000 of Bonds Issued</u>	<u>Total Fee on Par Amount of \$9,800,000</u>
FTN Financial Capital Markets	\$2.91	\$28,518
PNC Capital Markets	\$3.02	\$29,596
Raymond James	\$3.99	\$39,063
Roosevelt & Cross Inc.	\$3.41	\$33,418

### Structuring, Marketing, Financing Ideas

The most important component of a bond financing is the interest rates achieved which, in the case of a refunding bond issue, directly impacts the savings generated from the refunding. While the lowest underwriting fee does not always translate to the lowest rates on the bond issue, the ability to attract the lowest rates available in the market is critical. Phoenix Advisors analyzed the proposed interest rate scale, structure and marketing plan of each firm. These items demonstrate the firm's ability to effectively market and attract buyers to the Bonds at interest rates beneficial to the Board. Phoenix Advisors placed a particular emphasis on the interest rate scale and structure proposed by each firm. Interest rate scales were based on a specific day's market conditions to allow for a direct comparison between firms. Firms were alerted that their proposed spreads to the Municipal Market Data rate index would be relied upon as those to be applied at the time of pricing. This encourages firms to submit realistic interest rates that reflect their actual perceived ability to sell the Bonds.

Additionally, firms were asked to include a copy of any proposals previously sent to the Board in connection with the Bonds. Additional points were awarded to any firms that have either identified the opportunity to refund the prior bonds or provided refunding proposals prior to the receipt of the request for proposals. This fairly rewards underwriters who have been proactive in providing opportunities for issuers to save money through refinancing existing debt.

### Overall Quality of Response

The overall quality of each respondent's response to the requested information was reviewed. Points were deducted for errors or failure to respond to certain portions of the request.

### Underwriter RFP Scoring Results

The scoring results are summarized in the table below.

	Total Points Possible	<u>POINTS AWARDED</u>			
		<u>FTN</u>	<u>PNC</u>	<u>RJ</u>	<u>Roosevelt</u>
Structuring, Marketing, Interest Rates & Financing Ideas	30	29	27	29	24
Related Experience	25	17	20	19	25
Past Performance	10	7	9	8	10
Fee Proposal	30	29	29	22	29
Overall Quality of Response	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>
Total Score	100	87	90	83	93

With regard to the Bank RFP, a request for proposals was circulated and responses were received from three (3) banking institutions that are active or have expressed interest in the private placement of bonds similar to the Bonds to be issued by the Board. The following firms responded: (i) BB&T; (ii) Webster; and (iii) Signature Bank. Request for proposals were also sent to TD Bank, Peapack-Glaxo Bank and Bank of America, which did not respond.

Criteria for evaluating bank responses are much more straight-forward and are primarily focused on the rate proposed (which the Bank RFP requested be held for a month). Banks are also requested to provide estimates for bank counsel and any other miscellaneous fees, as well as terms of the loan. Of the three responses received, the terms proposed by BB&T and Webster were consistent with those proposed in the Bank RFP. The response received by Signature Bank included terms that will not be acceptable including penalties to be imposed should the tax exemption of the bonds be revoked at some point in the future, and ability to assign the Bonds. The interest rates proposed by BB&T and Webster are shown below:

	<u>BB&amp;T</u>	<u>Webster</u>
Proposed Interest Rate	2.340%	2.475%

#### Recommendation

Based on our analysis of the responses received and the scoring system utilized, we recommend that the Board should pursue a public offering and retain Roosevelt & Cross as its underwriting firm. Roosevelt & Cross earned the highest score in our analysis, and based on current market conditions, and our estimate of bond structure, would generate \$861,606 in budget savings for the Board. (The highest level of savings to be produced based on the responses from underwriters). The bond yield on such a transaction would be 2.19%. This contrasts with the \$840,335 in budget savings that would be achieved based on the BB&T proposal with a bond yield of 2.34%.

Although the actual bond yield for an underwritten transaction will not be set until the day of pricing, yields would need to rise 15 basis points over the next six weeks before the scale proposed by Roosevelt & Cross underperformed that proposed by BB&T. Although there was an increase in short-term rates after the March Federal Reserve meeting, rates have actually dropped slightly since then, and barring any unforeseen events, such an increase over a short period of time seems unlikely.

Consequently, Phoenix Advisors recommends **Roosevelt & Cross** to underwrite the Bonds based on their strong performance on similar bond sales, activity in the New Jersey municipal bond market, interest rate scale which should produce substantial savings, low fee (which we believe is reflective of the market for issues similar to the Board's and will allow them to properly market and place the Bonds), and their marketing ideas for selling the Bonds. Roosevelt & Cross is a regional investment bank with excellent institutional and retail distribution capabilities. Implementing a marketing strategy to combine the distribution strength of both retail and institutional investors will help the Board achieve the lowest borrowing cost.

We believe Roosevelt & Cross will be instrumental in helping the Board achieve the best refunding issue possible in the market, producing the highest amount of savings for the Board.

Please let me know if you have any questions regarding the above recommendation or if you would like to discuss in more detail.

Sincerely,

*/s/ Mary K. Lyons*

Mary K. Lyons  
Managing Director