

Using RFPs to select financial providers



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Sofia Anastopoulos, CFA
Principal
sofia@pfundsconsulting.com
Chicago, Illinois
(312) 519-1637

Relationships with financial institutions

Relationships with financial institutions – banks, depositories, broker-dealers, custodians, investment advisers – are amongst the most important for the public treasury

- Access to information and advice/expertise
- Facilitate banking, investing, custody

The selection, engagement and on-going maintenance of all financial relationships is key.

Competitive procurement of financial institutions

Competitive procurement is essential

- ❑ Competition enhances government knowledge
 - ✓ technical
 - ✓ pricing
- ❑ Competition promotes “fairness”
 - ✓ vendors more likely to participate, support government
 - ✓ citizens and interested parties appreciate government’s care of their monies

Generally.....

- ❑ Relationship should be partnership that benefits both parties – you and the financial institution

- ❑ Prior to RFP – maintain open dialogue
 - ✓ unrealized needs
 - ✓ new products/services
 - ✓ responsiveness on day-to-day and long-term position
 - ✓ problem resolution
 - ✓ value and familiarity

RFP process

□ How often?

- ✓ State statutes
- ✓ Local ordinance
- ✓ Board mandates
- ✓ Expiration of existing contract
- ✓ Change in internal needs, software, procedures, regulation
- ✓ Change in current relationship

RFP process

- Inventory current usage and consider needs
- Create RFP
- Develop scoring matrix
- Identify potential respondents
 - ✓ Who to invite?
 - ✓ Media - Web placement
 - ✓ Delivery type (**GREEN**)
- Field questions
- Review proposals
 - ✓ technical
 - ✓ pricing
- Interviews
- Governing body approval process
- Ensure contract exemplifies GFOA best practice

Creating the actual RFP

- ❑ Review RFPs of comparable governments for comparable services
 - ✓ Colleagues
 - ✓ GFOA, WGFOA
 - ✓ Internet – google searches
 - ✓ Engage consultant

- ❑ Understand your requirements - make sure your RFP is for services you need

- ❑ Include products/services you want to learn about

- ❑ Draft RFP, technical answer template and pricing
PF C template - word format

RFP Components

- Contact info
- Background
- Summary of RFP – why issuing? terms of engagement?
- Scope of services sought in RFP
- Timeline
- Identify evaluation process (criteria)
- List information respondents must provide
- Identify your governments procurement requirements
- Identify any other required attachments
- Questionnaire

RFP components

- Define format for response
 - ✓ Specify order of response
 - ✓ Define maximum length
 - ✓ Define acceptable attachments
 - ✓ Consider including template
- Due date for proposals
- Timeline of selection events
- Contact person for questions

Information to request in R-FP

Firm organization

- ✓ Ownership & history
- ✓ Client / asset base
- ✓ Types of clients
- ✓ Retention of clients
- ✓ Account losses
- ✓ Any planned changes?

Personnel

- ✓ Team approach or individual PMs
- ✓ Detailed biographies of key people

Information to request in RFP

- Philosophy, approach
- Suggested solution
 - ✓ Additional items they would suggest
 - ✓ Technology
 - ✓ training
- Financials
- Required registrations
- Insurance
- References – comparable
- Ask about distinguishing features
- Cost????

Review of RFP responses

- Create evaluation task force
- Verify firms meet minimum requirements
- Develop matrix for selection criteria
- Develop list of finalists
 - ✓ Can interview respondents as part of initial review, and/or
 - ✓ Interview finalists
- Check references
- Consider reviewing cost separately

What to look for, generally

☐ Service

- ✓ Quality of reports
- ✓ Willingness/ability to tailor services and reports to your government's needs and preferences
- ✓ Experience with like governments
- ✓ Compatibility working with provider staff
- ✓ References from current (comparable) clients

What to look for, generally

- Service
- Professionalism
- Products vis-à-vis the competition
- Quality of reports
- Willingness/ability to tailor services and reports to your government's needs and preferences
- Experience with like governments
- Compatibility working with provider staff
- References from current (comparable) clients

What to look for, generally

- Determine structure of interview
 - ✓ Presentations by finalists
 - ✓ Question-and-answer format
 - ✓ Specific questions – provided beforehand
 - ✓ Limited interview time

- Evaluate firm's responsiveness to questions

- Will you like working with these people?

What to look for, specifically - Banks

- ❑ Taking inventory
 - ✓ Wire transfer services
 - ✓ ACH
 - ✓ Availability of funds
 - ✓ Monthly statements and account analysis
 - ✓ Collection and deposit services
 - ✓ Remote deposit services
 - ✓ Lockbox (wholesale and retail)
 - ✓ Online banking services

What to look for, specifically - Banks

- ❑ Taking inventory (continued)
 - ✓ Electronic storage of documents
 - ✓ Vault services
 - ✓ Overdraft processing
 - ✓ Controlled disbursement services
 - ✓ Account reconciliation service
 - ✓ Positive pay or “payee” positive pay service
 - ✓ Stop payment services
 - ✓ Safekeeping

What to look for, specifically - Banks

- ❑ Taking inventory (kind of related, but.....)
 - ✓ Third-party custody for investments
 - ✓ Collateralization of deposits
 - ✓ Merchant card processing services
 - Interactive voice response/Interactive web response (IVR/IWR) functionality
 - ✓ Purchasing cards (P-cards, ghost cards)
 - ✓ Stored value cards

What to look for, specifically – Investment advisers

- Philosophy
- Process
- Suggested strategy for you
- Team or individual approach
- Staffing
- Technology resources
- Reporting
- Compliance check
- Meetings
- Designations
- GIPs compliance
- Extras in it for you/your staff
- Comfort level

Your questions



RFP- More science than art

A discussion on issuing RFP's

Andrew Smith, Government Banking

April 15, 2016

What's important to a bank?

- Plenty of lead time, 4-6 weeks to respond
- Analysis statements or monthly volumes
- Clearly laid out response instructions
- ACH needs
 - Do you originate? Can you create a NACHA format file?
 - What are your ACH needs besides payroll?
 - Dollar amounts needed for credit underwriting
- Wire needs
- Investment Policy
 - Does it allow for other options?
- Do you allow for alternative solutions to what is requested?
- Implementation Timeline



What's important to you?

- Local Presence- IS that important?
- SLY- Safety Liquidity Yield
- Strength of the bank
- Your evaluation team
- The proposing bank's references
- The proposing bank's experience with municipalities
- The proposing bank's capabilities
- Does this proposal offer efficiencies needed to combat lower budgets?
- Is this RFP worth the change?



We're Going to Change Banks?!

Western Technical College's Banking
RFP Process

THE RFP PROCESS



IMPLEMENTATION TIMELINE

- June 2015 – RFP Issued
- August 2015 – RFPs due
- Aug-Sept 2015 – review RFPs/Interviews
- Sept 2015 – Award RFP
- Sept-Nov 2015- Preparation
- November 2015 – Training and go live
- Feb 2016 – Close old bank account

Preparation

Notify vendors
Work with Computer Services
Lots of paperwork!

One Step at a Time

- Nov 18 – last day to write checks out of old bank
- Nov 29 – 1st day to write checks out of new bank
- Nov 20 – last day to send deposits to old bank
- Nov 23 – 1st day to send deposits to new bank
- Dec 1 – switch ACH and Wires to new bank
- Dec 31 – last day voided checks can be cashed at old bank
- Feb 29 - Close old bank accounts

LESSONS LEARNED

- COMMUNICATION
 - New banking partner
 - Old banking partner
 - Staff
- PROCESS REVIEW
 - Refine internal controls
 - Eliminate old processes
 - Provide training for staff
- FLOW OF MONEY
 - Keep track of what goes into and out of your account



RFP for Banking & Investment Services

What is an Investment Advisor and a Broker-Dealer?

BRIAN HEXTELL

SENIOR VICE PRESIDENT

PRUDENT MAN ADVISORS, INC.

PMA SECURITIES, INC.

PMA FINANCIAL NETWORK, INC.

April 15, 2016

Questions We Will Address Today

- What is an Investment Advisor?
- What is a Broker-Dealer?
- What is a Municipal Advisor?
- What is a Fiduciary Duty?
- How are Advisors and Brokers Compensated?
- When Should Our Community Hire a Broker-Dealer or an Investment Advisor?

What is an Investment Advisor?

- As defined by the Investment Advisors Act of 1940:
 - a "person or firm that, for compensation, is engaged in the act of providing advice, making recommendations, issuing reports or furnishing analyses on securities, either directly or through publications."
- The "anti-fraud" provision of the Investment Advisors Act of 1940 imposes a fiduciary duty on Investment Advisers:
 - Unlawful for an investment adviser to engage in fraudulent, deceptive, or manipulative conduct

What is an Broker-Dealer?

- As defined by FINRA (Financial Industry Regulatory Authority):
 - “a person or company that is in the business of buying and selling securities—stocks, bonds, mutual funds, and certain other investment products—on behalf of its customers (as broker), for its own account (as dealer), or both”
- Although many broker-dealers are "independent" firms solely involved in broker-dealer services, many others are business units or subsidiaries of:
 - Commercial banks
 - Investment banks or
 - Investment companies



Let's Make It Simpler

- **Broker-Dealer – Self-directed investments**
 - You make all investment decisions
 - Sell investment products (Treasuries, Agencies, Corporates)
- **Investment Advisor – Investment management**
 - Discretionary or Non-discretionary management
 - Separately managed accounts
 - Investment funds/pools

What is a Municipal Advisor?

- “A municipal advisor and any person associated with such municipal advisor shall be deemed to have a fiduciary duty to any municipal entity for whom such municipal advisor acts as a municipal advisor....”
- Advisors are required to exercise due care when advising all clients, including state and local governments, other municipal entities and non-municipal entities obligated to repay the bonds.
- This “duty of care” entails a responsibility to possess the requisite knowledge and conduct appropriate research to provide informed advice and make suitability determinations for recommendations to their clients.
- Further, when dealing with municipal entities, municipal advisors owe a duty of loyalty and must act with utmost good faith and put their clients’ interests ahead of their own under the federal fiduciary duty established by the Dodd-Frank Act.

What is a Fiduciary Duty?

- Requires the firm to act in the best interest of their clients, putting their clients' interests ahead of their own at all times
- The firm must avoid conflicts of interest
 - A fiduciary must be sensitive to the conscious and unconscious possibility of providing less than disinterested advice.

Does a Broker-Dealer Have a Fiduciary Duty?

- Only Broker-Dealers that are a Municipal Advisor have a fiduciary duty and then only for certain accounts:
 - The fiduciary duty only applies to the investment of bond proceeds and not to other investment accounts such as operating funds.
- Under the suitability rule, brokerage firms are required to deal fairly with their customers.
 - Firms and their associated persons “must have a reasonable basis to believe” that a transaction or investment strategy involving securities that they recommend is suitable for the customer.

Comparison of Broker-Dealers and Investment Advisors

	Broker-Dealers	Investment Advisors
FEES	<ul style="list-style-type: none">• Transaction fee, mark-up or commission	<ul style="list-style-type: none">• Fee based on assets under management
TRANSACTING	<ul style="list-style-type: none">• Self-Directed	<ul style="list-style-type: none">• Managed Accounts
RESPONSIBILITY	<ul style="list-style-type: none">• Suitability• Fiduciary Duty for Municipal Advisors on investment of bond proceeds	<ul style="list-style-type: none">• Fiduciary Duty

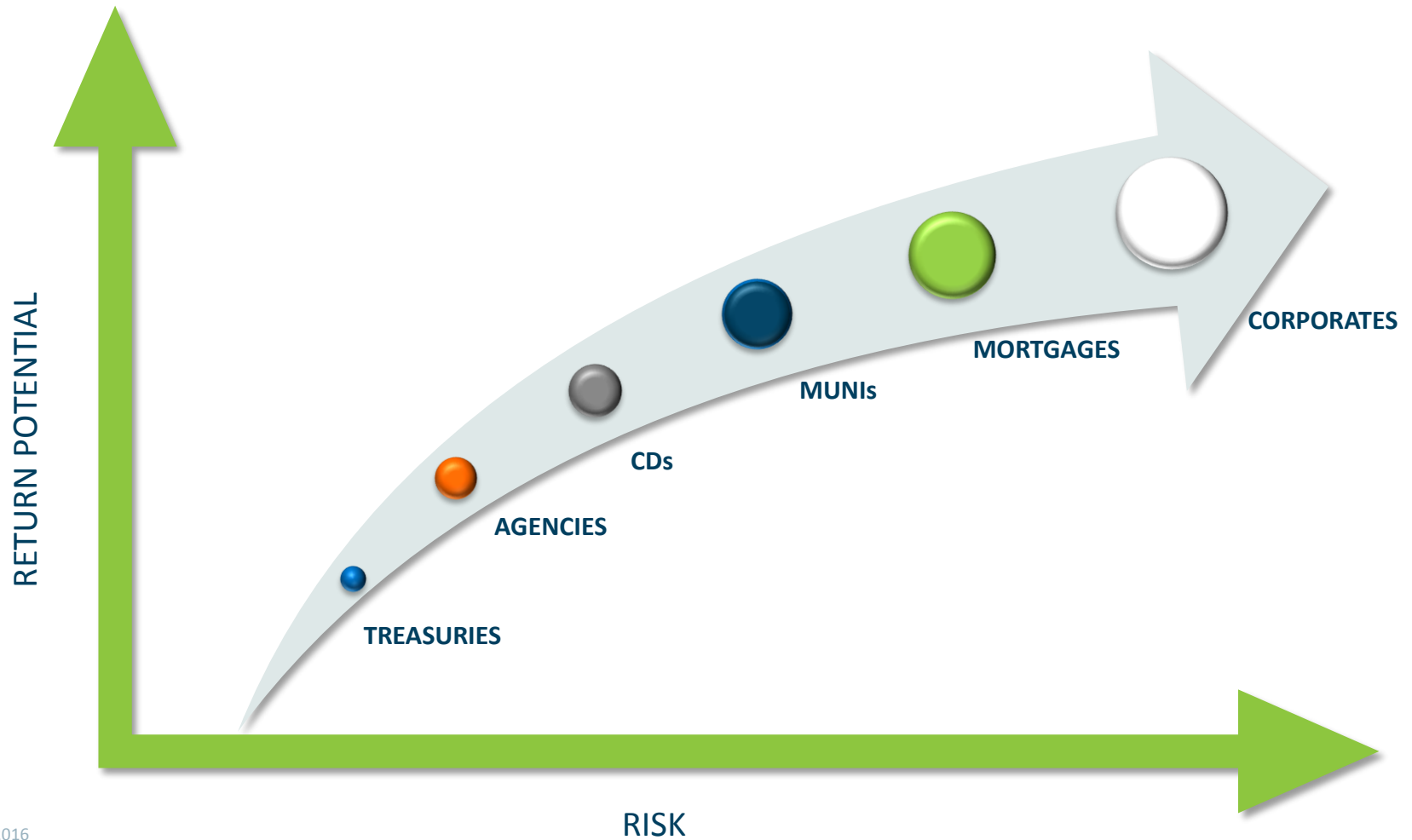
Comparison of Broker-Dealers and Investment Advisors

	Broker-Dealers	Investment Advisors
NATIONAL REGULATORS	<ul style="list-style-type: none"> • <u>SEC</u> - Securities and Exchange Commission • <u>FINRA</u> - Financial Industry Regulatory Authority • <u>MSRB</u> - Municipal Securities Rulemaking Board 	<ul style="list-style-type: none"> • <u>SEC</u> - Securities and Exchange Commission
STATE REGULATORS	<ul style="list-style-type: none"> • Applicable State Regulators 	<ul style="list-style-type: none"> • Applicable State Regulators

When Should We Hire an Investment Professional?

- What types of investments do we plan to make?
- What types of investments are offered by the banks, brokers and advisors we work with?
- Do we have the ability to analyze and understand the investments?
- How long will our investments be?
- How involved do we want to be in daily investment decisions?

Investment Types

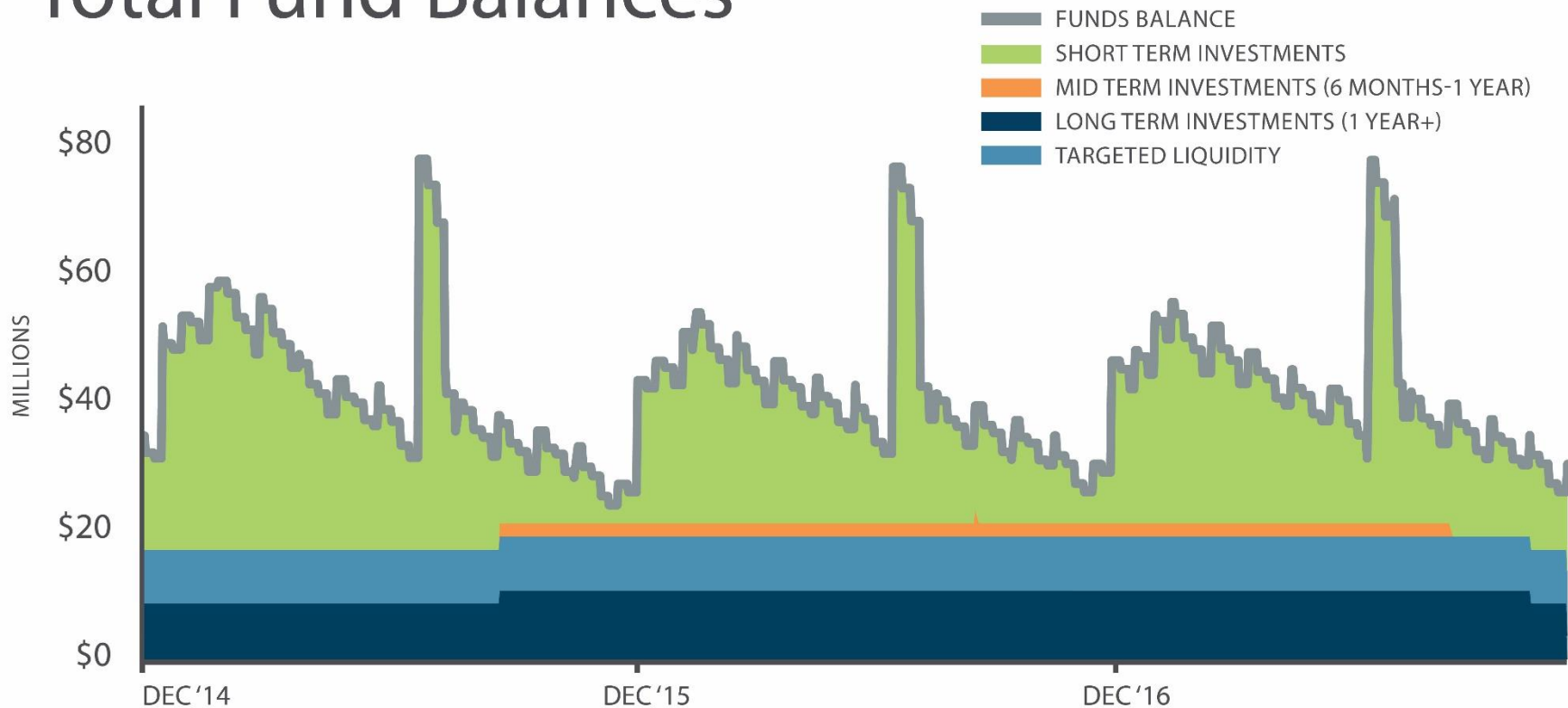


When to Utilize?

Asset type	LGIP	Broker/Dealer Bank Products	Investment Advisor
Highly Liquid Funds < 9 month	+	+	↔
Medium Term Funds > 1.0 to 2.0 years	↔	+	+
Core Funds > 2.0 years	↔	↔	+
Bond Proceeds (depends on use)		↔	↔
Self Insurance Assets			+
OPEB/Pension Assets			+

Sample Cash Flow

Total Fund Balances



The analysis or information presented here is based on hypothetical projections and/or past performance that have certain limitations. No representation is made that it is accurate or complete or that any results will be achieved.

When Should We Hire an Investment Professional?

- Assess Your Needs
 - Determine your objectives
 - Review your Investment Policy
 - Assess your expertise
 - Consider your time



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