

ARIZONA STATE TREASURER'S OFFICE

1700 WEST WASHINGTON STREET
PHOENIX, ARIZONA 85007



REQUEST FOR QUALIFICATIONS /
PRICE QUOTATIONS
FOR THE PURCHASE OF
TREASURER'S WARRANT NOTES

September 3, 2009

Dean Martin, State Treasurer

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I INTRODUCTION

1. Introduction

This document constitutes a Request for Qualifications and Price Quotations from qualified organizations to perform the Scope of Work set forth herein for the State of Arizona (the "State").

2. Background

Under Arizona law, the State Treasurer may issue Treasurer's Warrant Notes (TWN(S)) when no operating monies are available in the State Treasury to pay warrants. Once issued, a TWN has a first lien on all general fund revenues received by the State of Arizona and may be issued for up to 90 days. A TWN may bear an interest rate that does not exceed the rate established by the State Loan Commission, which is currently 200 basis points above the 3-month LIBOR. While TWNS can be issued for up to 90 days at a time, in practice, TWNS serve as short-term notes and are issued and redeemed on a daily basis. For the initial 3-6 months of the facility term (and possibly for the entire term of the facility), it is the State's intent to issue and redeem each TWN on a daily basis. Each TWN is issued in sequence, must be redeemed in sequence, and can be issued in exchange for a previously issued TWN.

The daily amount of TWNS needed is calculated by Noon Arizona time each business day by the Treasurer's office. The calculation is based upon all receipts received and processed by the State's servicing bank, all warrants presented for payment to our office by 8:30 a.m. and after all investment and divestment decisions have been recorded by 10 a.m. that day.

3. RFP Goals and Objectives:

The Arizona State Treasurer (the "Treasurer") is seeking proposals to establish a TWN facility (the "Facility") in an amount up to \$500 million to meet the operating cash flow needs of the State. The Facility will take the form of an agreement to purchase up to \$500 million of TWNS on a daily basis. Proposals should incorporate the requirements of Arizona Statutes, specifically Title 35, Chapter 1, Article 5, Sections 35-181.01 through 35-197, which allow for the issuance, re-issuance and custody of TWNS. (See Appendix C - Excerpts of Arizona Revised Statutes)

The term of this contract shall be effective from the date of offer acceptance through June 30, 2010. The contract may be extended for two (2), one year renewal periods.

The State of Arizona's current long term ratings are Aa3 (stable outlook) from Moody's Investors Service and AA (negative outlook) from Standard & Poor's.

II SCOPE OF WORK

1 General Requirements

The Treasurer will appoint the successful bidder(s) (hereinafter called the "Institution(s)"), as his agent for the purchase, and custody of TWNS.

Entities are encouraged to provide the Treasurer's office with proposals for the most cost-effective method for issuing TWNS for the three-year time period. Methods to purchase TWNS may include, but are not limited to, a public or private sale or a bank agreement to purchase all TWNS.

Please include all anticipated costs and requirements associated with your proposal. Respondents are not limited to one method in their proposals and may outline multiple approaches to assist the State in meeting cash flow needs for the next three years.

Institutions are expected to familiarize themselves with the requirements of ARS 35-185.01 and 185.02 which detail the legal requirement for TWNS. (See Appendix C - Excerpts of Arizona Revised Statutes)

In connection with the establishment of the Facility, the Institution will be expected to perform and provide the following:

- Undertake all necessary actions to implement the Facility in a timely manner;
- Provide day-to-day maintenance and supervision of the Facility;
- Prepare and provide relevant documentation including reports for the Treasurer and State Auditor General (the "Auditor") to include a full accounting of transaction details.

The term of this contract shall begin on the date of offer acceptance and will end on June 30, 2010. The contract may be extended for two (2) one year renewal periods.

Audits will be performed by the Auditor General pursuant to law and as desired by the Treasurer, who (or who's authorized representative) will be entitled to verify applicable records in the Institution's possession at reasonable intervals. All information furnished with respect to audits or confirmations to any department or agency of the State other than the Treasurer will be the responsibility of the Institution.

III SPECIAL INSTRUCTIONS TO BIDDERS

1 Proposal

Proposals are due at the address listed below on or before 2:00 p.m. (MST), September 23, 2009. Responses must include an original plus five (5) additional copies that will be used in the evaluation process. The original copy of the proposal should be clearly labeled "ORIGINAL". The material should be in sequence and related to the Request for Proposal. Proposals received after the date and time specified herein will not be considered. Proposals shall be opened publicly at the time and place designated on the cover page of this document. The name of each bidder shall be read publicly and recorded. All other information contained in the proposals shall be confidential so as to avoid disclosure of contents prejudicial to competing bidders during the process of negotiation. Prices will **NOT** be read. Proposals will not be subject to public inspection until after contract award. Proposals shall be irrevocable offers for sixty (60) days after the proposal due date. Please limit proposals to no more than 10 pages and exclude all marketing materials.

Office of the State Treasurer
Attn: Klint Tegland, Deputy Treasurer of Operations
1700 W. Washington
Phoenix, AZ 85007

A pre-bid conference will take place at 11:00 a.m. on Wednesday, September 16, 2009 in the office of the State Treasurer, 1700 W. Washington, Phoenix, AZ, 85007. We will also provide instructions to all interested bidders to participate in the pre-bid conference via on-line access. At the pre-bid conference additional information on the TWNS process will be presented and discussed. Please submit any specific questions you may have and want answered (in writing) at the pre-bid conference by Friday, September 11, at 2:00p.m. to Mark Swenson, Deputy Treasurer, Strategic Planning and Research (marks@aztreasury.gov).

Each proposal should provide the following information:

- (a) Firm Information - Please state the name of your firm, address, telephone number, fax number and the name, title and email address of the person(s) who will serve as the State's key contact(s) with your firm on a daily basis under the Facility. Please also identify who will serve as the lead professional(s) in relation to the Facility. Please provide brief resumes for these individuals.
- (b) Financial Condition - Please provide a summary of your firm's financial condition, including assets, liabilities and capital base as of December 31, 2008. Please provide both the short-term and long-term credit ratings of your firm from all rating agencies currently maintaining such ratings. Please indicate if any of your current ratings are under review by any credit rating agency.
- (c) Firm Qualification - Provide a brief summary of your firm's ability and qualifications to provide a TWN Facility for the purpose stated herein.
- (d) Firm Experience - Please describe your firm's experience in serving as a provider for similar facilities. Please provide a listing of all such facilities that your firm has provided, including:
 - Authorized amount
 - Current amount of the facility
 - Number of institutions associated with the facility if more than one
 - Daily average amount provided
 - Fees charged

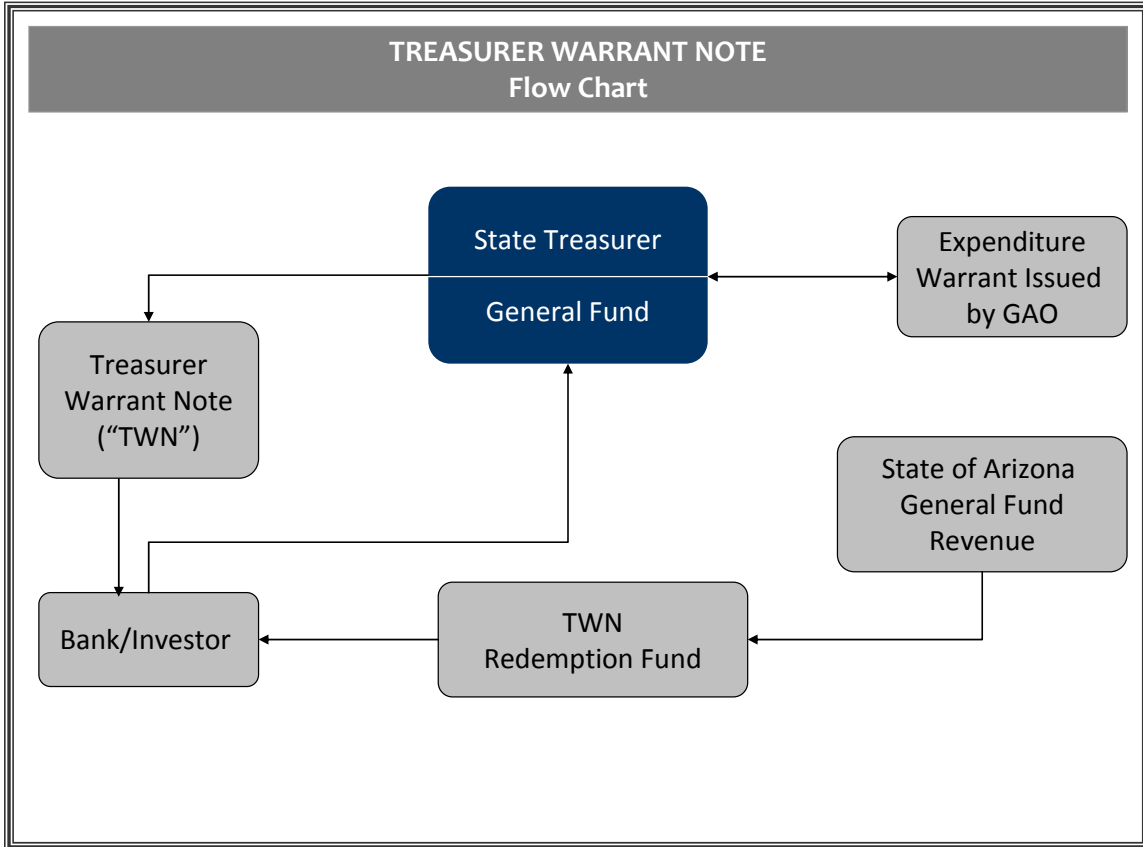
- (e) References - Please provide contact information for three clients for whom your firm has served as liquidity provider in similar transactions.
- (f) Draw Conditions - Please provide specific terms, if any, for the purchase of TWNS.
- (g) Describe the pricing that you propose to implement the Facility to meet the State's cash flow requirements.
 - Please provide the proposed interest rate index, spread to the proposed index, and proposed fee and expense structure;
 - Please provide pricing on a tax-exempt and/or taxable basis;
 - Please provide the maximum amount of your proposed facility.
- (h) Special Events - Please provide the circumstances, if any, under which the firm may terminate the Facility without notice.
- (i) Additional Information - Please state the period for which your fee quotes are firm and any closing conditions that are assumed. Also please provide any additional information that you regard as relevant to your proposal, including any stipulations for providing such services or any remarketing firms the selection of which would adversely affect your firm's proposal.

2 Evaluation

An award shall be made to the responsible bidder(s) whose proposal is determined in writing to be the most advantageous to the State based upon the evaluation criteria listed below. The bidder is cautioned that it is the bidder's sole responsibility to submit information related to the evaluation categories and that the State of Arizona is under no obligation to solicit such information if it is not included with the bidder's proposal. Failure of the bidder to submit such information may cause an adverse impact on the evaluation of the bidder's proposal as to the responsiveness of the proposal and the responsibility of the bidder. The award will be based on the following factors:

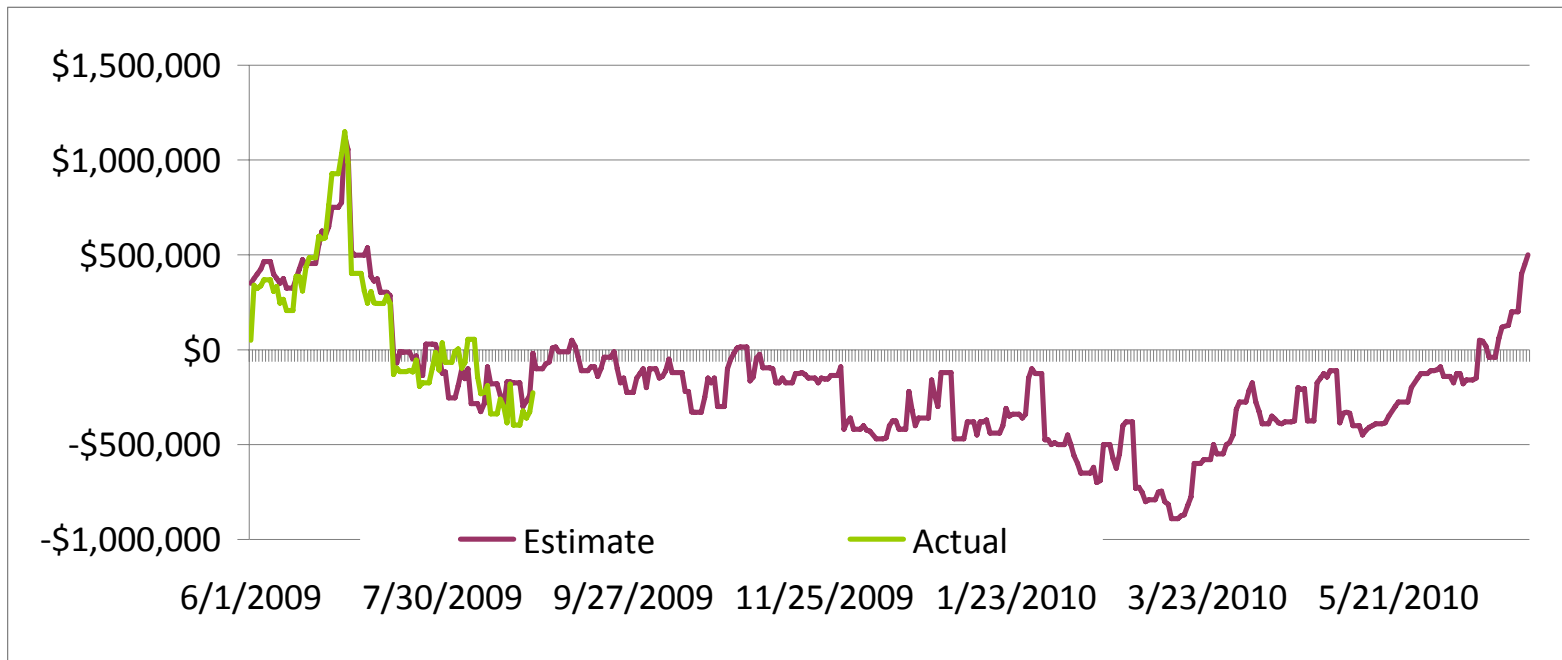
- a. Terms of the Facility, including proposed rate structure, facility amount, fees and charges
- b. Qualifications and Experience
- c. Firm's financial condition

TREASURER'S WARRANT FLOW OF FUNDS CHART

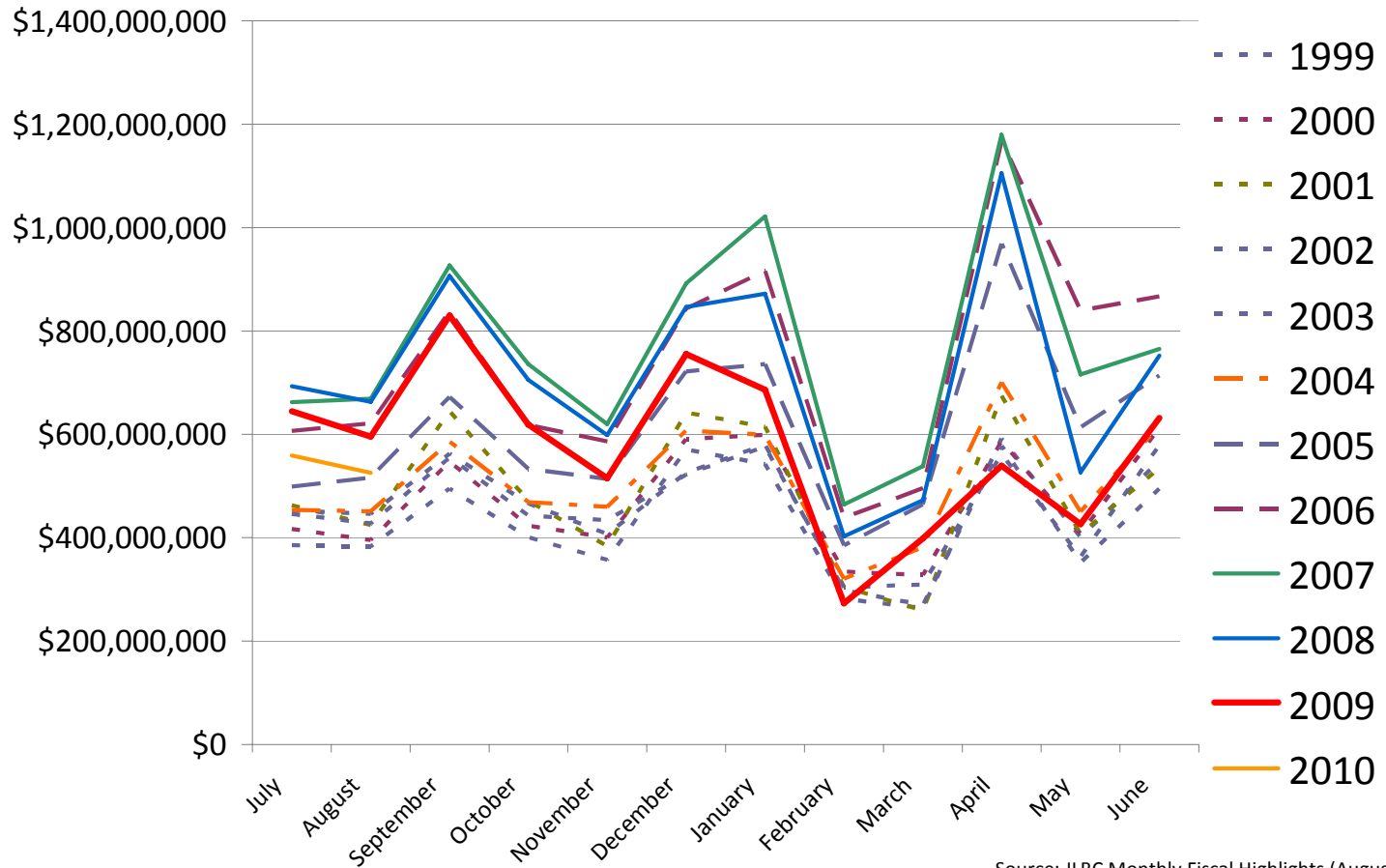


STATE OF ARIZONA GENERAL FUND PROJECTED CASH FLOWS

(06/01/09 - 06/30/10)

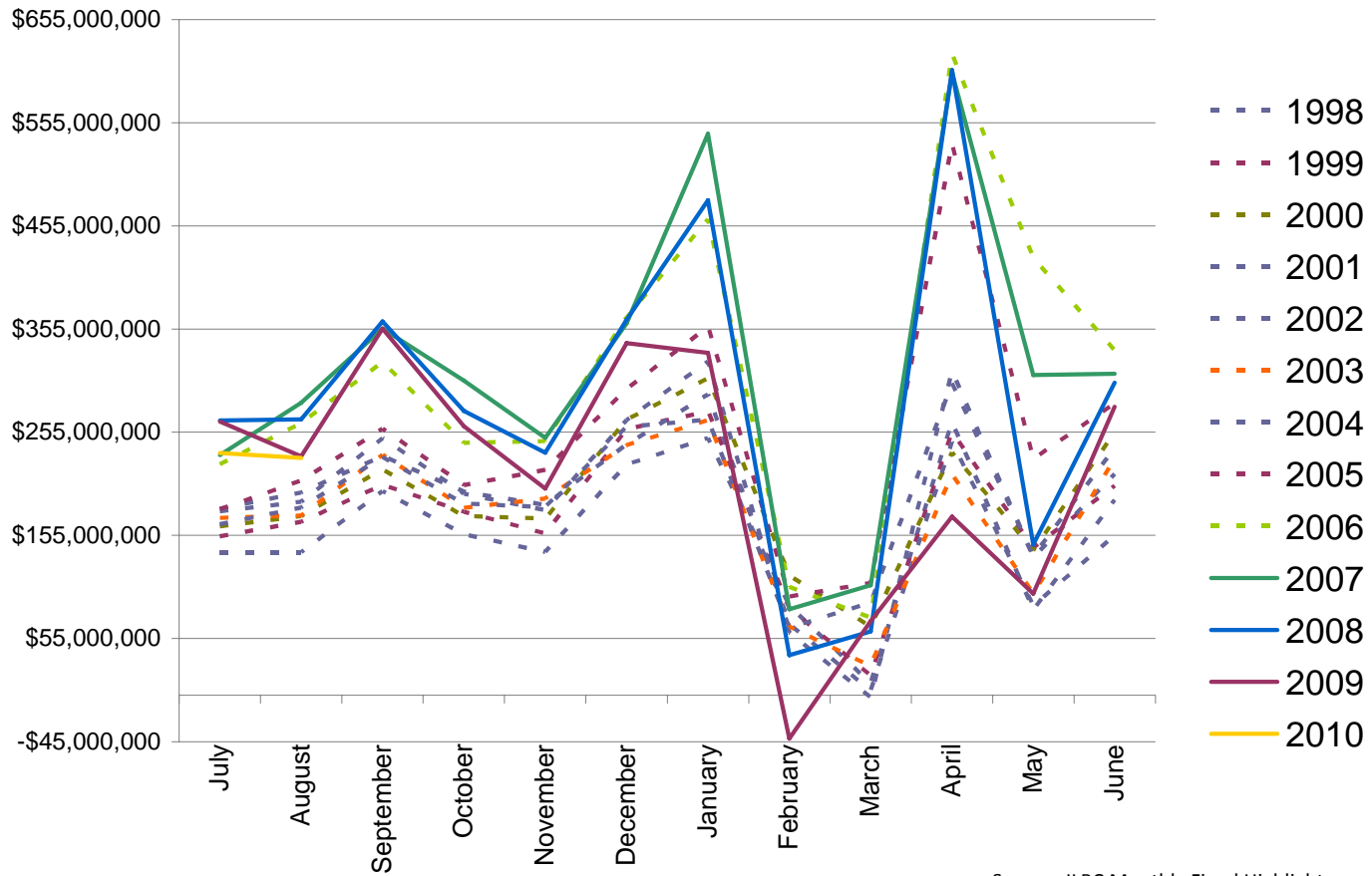


Combined General Fund Revenue from Sales and Income Taxes (Big 3)

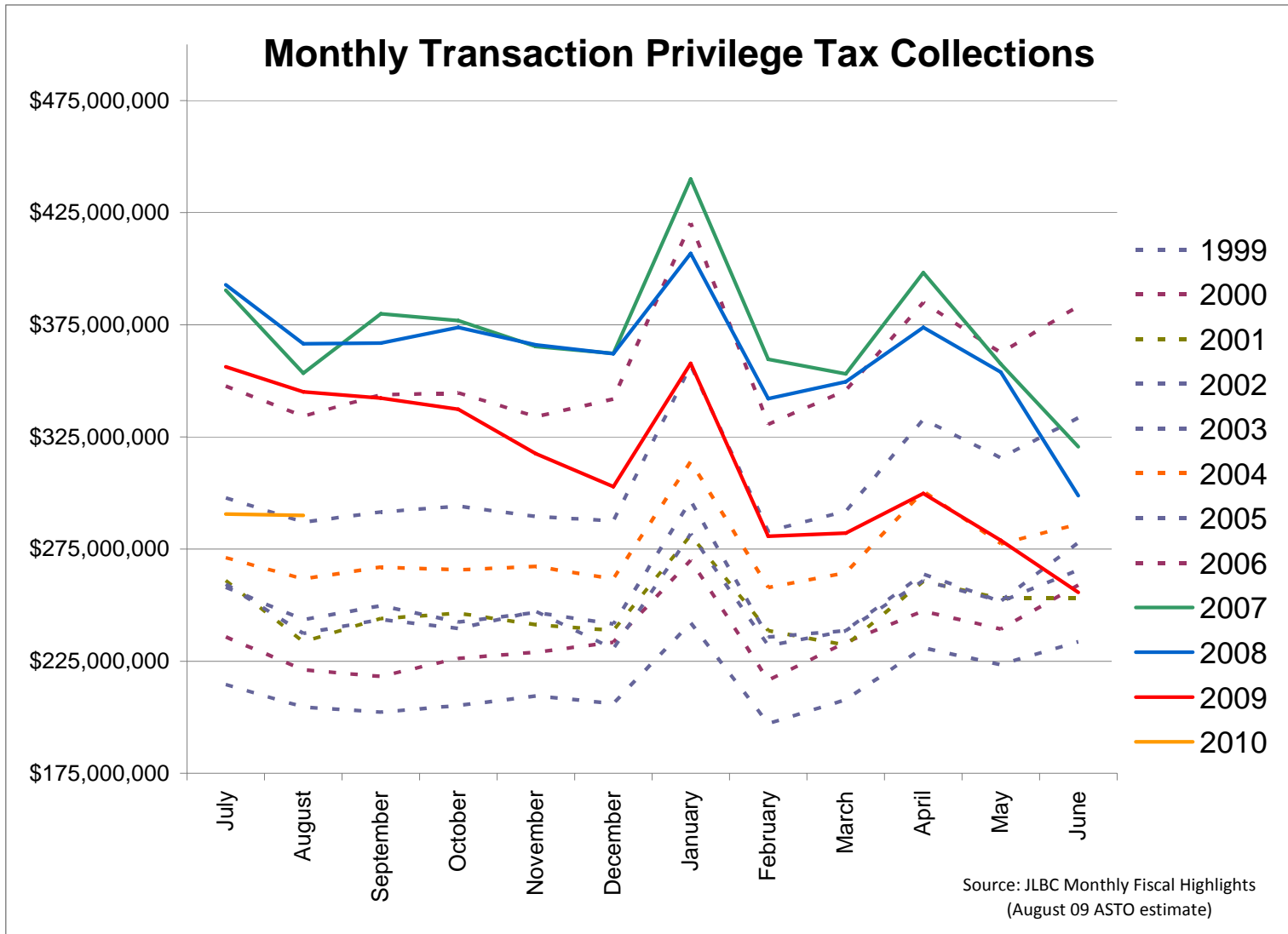


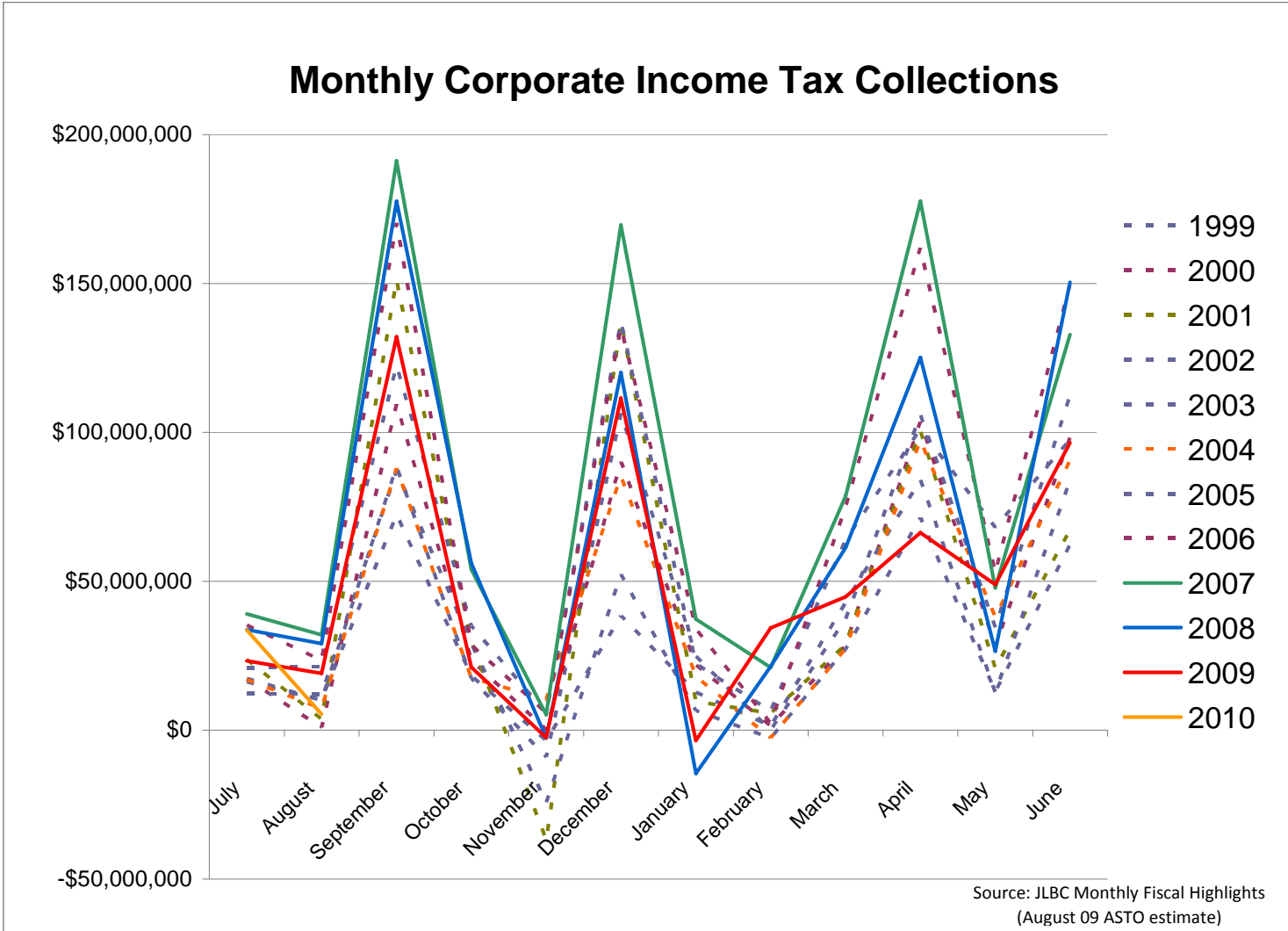
Source: JLBC Monthly Fiscal Highlights (August 09 ASTO estimate)

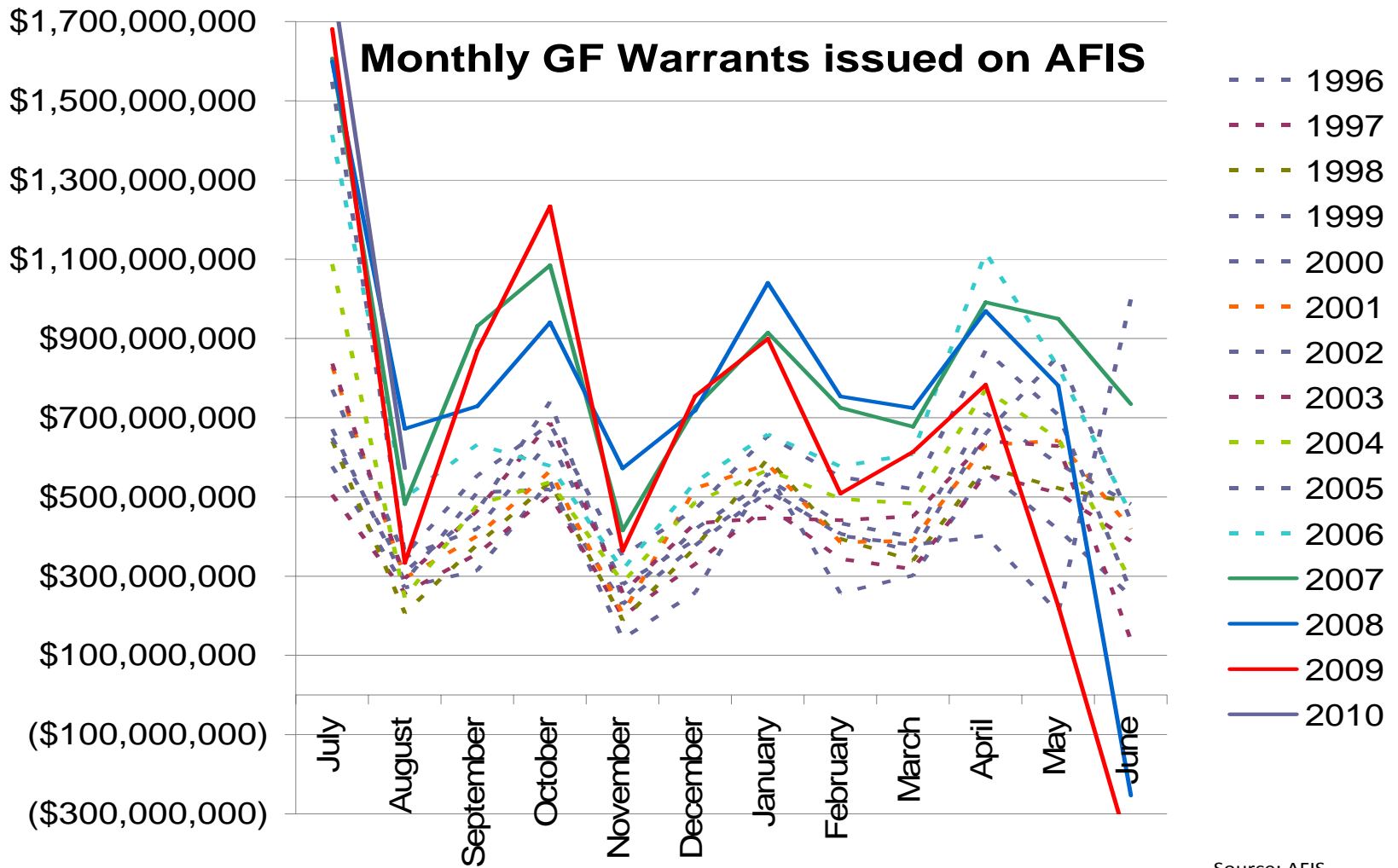
Monthly Individual Income Tax Collections



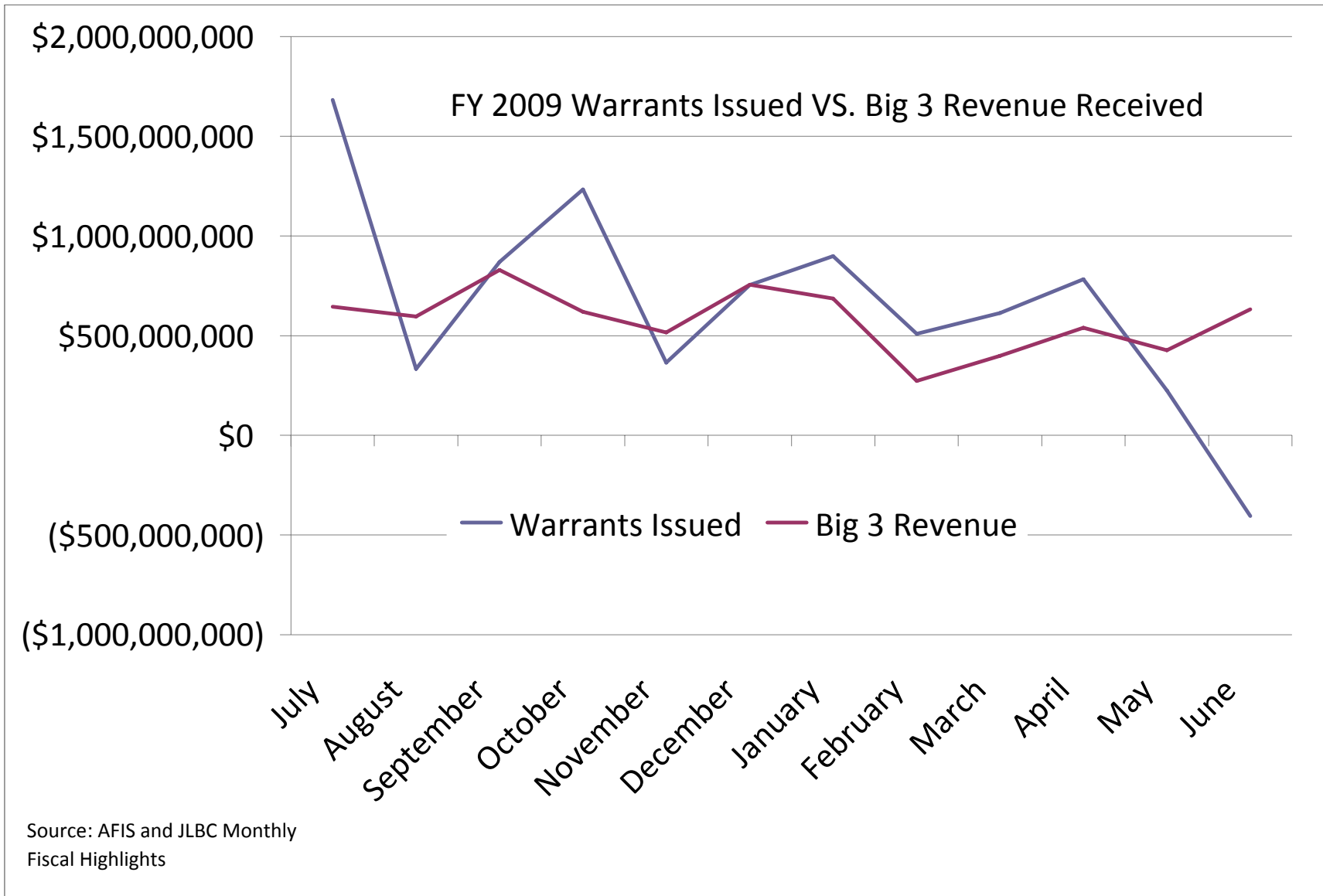
Source: JLBC Monthly Fiscal Highlights
(August 09 ASTO estimate)







Source: AFIS



EXCERPTS OF ARIZONA REVISED STATUTES

Arizona Revised Statutes - TREASURER WARRANT NOTES - Sections 35-185.01 & 35-185.02

ALL REFERENCES TO ARIZONA STATUTES ARE QUALIFIED BY THE TERMS OF SUCH STATUTES IN THEIR ENTIRETY

Section 35-185.01 Treasurer's warrant notes; form; redemption; exception

A. If no monies are available for payment of warrants or electronic funds transfer vouchers of the department of administration presented to the state treasurer pursuant to section 35-185, the treasurer in lieu of payment shall issue and shall exchange or sell a treasurer's warrant note or notes in the amount or amounts equal to the sum of the face value of the warrants or electronic funds transfer vouchers presented for payment. Treasurer's warrant notes shall be issued in lieu of payment of general fund warrants or electronic funds transfer vouchers only or in exchange for previously issued treasurer's warrant notes.

B. The face value of a treasurer's warrant note may be equal to the sum of any combination of warrants presented for payment. The treasurer may sell warrant notes at public or private sale and shall use the proceeds of such sale for payment of warrants previously presented pursuant to section 35-185. Treasurer's warrant notes shall not be sold at a price below their face value.

C. Each treasurer's warrant note sold or exchanged shall be dated the date the respective warrants are presented for payment. If the date of delivery of a treasurer's warrant note that is sold is later than the date of presentment of the respective warrant or warrants, the purchaser of the treasurer's warrant note shall pay such accrued interest as an additional purchase price. Such accrued interest shall be paid to the holder of the respective unpaid warrant or warrants which shall be deemed to bear interest at the same rate as the respective treasurer's warrant note from presentment to payment from the proceeds of warrant notes sold.

D. The treasurer shall establish a maturity date for each treasurer's warrant note of not longer than ninety days from the date of initial issue. The treasurer may specify that treasurer's warrant notes may be called for redemption at any time before the specified maturity date.

E. The treasurer shall pay interest from the treasurer's warrant note redemption fund on the face value of each warrant note at the rate established by the state treasurer at the time of issuing the warrant note. Interest shall be paid from the date of the treasurer's warrant note until the maturity date or redemption date. The treasurer shall establish the interest rate before the exchange or sale of warrant notes at a rate not in excess of the maximum rate permitted by the state loan commissioners.

F. The state loan commissioners, at a meeting called and chaired by the state treasurer, shall fix or change the maximum rate of interest that may be paid on warrant notes. No change of the maximum allowable rate of interest as established by the state loan commissioners shall affect warrant notes issued before the date of the change.

H. Treasurer's warrant notes may be exchanged or sold for the combined face value of any number of treasurer's warrant notes previously issued. Except for those treasurer's warrant notes issued in exchange for or to redeem treasurer's warrant notes previously issued, no treasurer's warrant notes may be issued, exchanged or sold except in payment of or to provide monies for the payment of a warrant or warrants presented for payment as provided in section 35-185.

I. Treasurer's warrant notes issued in any fiscal year shall be numbered consecutively beginning with the number one. Treasurer's warrant notes shall be redeemed in numerical order. If the treasurer has sufficient

monies to pay only a portion of the lowest numbered outstanding warrant note, he may deposit such monies with the paying agent pursuant to subsection K of this section or call in such lowest numbered warrant note, before maturity according to its terms, and pay the bearer the amount available and issue to the bearer a new warrant note bearing a number that will preserve, for the new warrant note, the priority of the partially paid warrant note and bearing a value equal to the amount of principal and interest remaining unpaid. The new warrant note and the partial payment of principal and interest on the partially paid warrant note shall be exchanged for the partially paid warrant note. The new warrant note shall pay interest at the same rate as the partially paid warrant note. The treasurer may make such changes in the form and date of the new warrant note as necessary to reflect the amount of unpaid interest on the partially paid warrant note.

J. The treasurer may include in the form of the treasurer's warrant notes such provisions regarding the redemption and payment of treasurer's warrant notes before maturity as are consistent with subsections I and K of this section and section 35-185.02. If prior redemption is to be a provision of a treasurer's warrant note, the note shall provide a method of notification of the holder of the note by publication or written, telegraphic or electronic means as chosen by the treasurer.

K. The treasurer may appoint a paying agent for the purpose of facilitating the redemption and payment of treasurer's warrant notes. Monies deposited with the paying agent shall be allocated to the payment of the principal of, interest on and any prior redemption premiums associated with treasurer's warrant notes in numerical order. A treasurer's warrant note shall be deemed paid for all purposes of this section and section 35-185.02 when there is deposited with the paying agent sufficient monies to pay all amounts when due on the treasurer's warrant note and all amounts when due on all outstanding treasurer's warrant notes bearing a lower number. A paying agent appointed pursuant to this subsection shall provide security deposits as required by the treasurer.

L. When the treasurer or the paying agent, if payment is made to a paying agent, pursuant to subsection K of this section, pays treasurer's warrant notes or when such warrant notes are redeemed he shall mark on the face of such treasurer's warrant notes the word "cancelled" indicating the date of cancellation and shall promptly present such notes to the director of the department of administration who shall give the state treasurer a receipt therefore.

M. If the state loan commissioners determine that it will result in a lower net effective interest rate on one, some or all warrant notes to be issued by the treasurer during the current fiscal year, the commissioners may authorize the treasurer to purchase letters of credit and to incur and pay insurance premiums, attorney fees or other related costs incurred with respect to treasurer's warrant notes. All such payments shall be treated in the same manner as interest to be paid on treasurer's warrant notes and shall be paid from the treasurer's warrant note redemption fund.

N. If treasurer's warrant notes are to be exchanged for warrants held by banks or savings and loan associations, the treasurer may enter into agreements with such banks or savings and loan associations to provide for the issuance, reissuance and custody of treasurer's warrant notes, the fixing of the interest rates on such treasurer's warrant notes and the method of giving notice to the holders of the notes. Such agreements may provide for a book entry system for the treasurer's warrant notes or may provide for the issuance of one note with an appropriate grid on the reverse, which shall show the advancements made by the banks or savings and loan associations and also the payments of interest and reductions of principal. Such agreements may be continuing in nature, may be executed at any time and may apply to any treasurer's warrant notes exchanged for either warrants or treasurer's warrant notes at any time during the remainder of the fiscal year in which the agreement is made. The agreements shall provide a method to preserve the priority of, interest rate on and other terms of each treasurer's warrant note exchanged pursuant to the agreement. No such agreement shall become effective until approved by the state loan commissioners.

Section 35-185.02 Treasurer's warrant note redemption fund; receipt; appropriation

A. The treasurer's warrant note redemption fund is established. Any time that treasurer's warrant notes have been issued and remain outstanding, all monies that would otherwise be paid into the state general fund, except for amounts sufficient to pay the salaries of constitutional officers of this state, shall be deposited into the treasurer's warrant note redemption fund. All monies in the treasurer's warrant note redemption fund shall be used exclusively to pay the principal of and interest on treasurer's warrant notes, and to pay the fees and charges authorized by this chapter. Monies in the treasurer's warrant note redemption fund shall be invested by the state treasurer, or a paying agent appointed pursuant to section 35-185.01, subsection K, and shall be credited to the treasurer's warrant note redemption fund.

C. All monies deposited in the treasurer's warrant note redemption fund are appropriated to the state treasurer to pay the principal of and interest on outstanding treasurer's warrant notes and to pay any fees and charges authorized by this chapter. The amount appropriated to the treasurer pursuant to this subsection constitutes a continuing appropriation and shall not exceed the sum of the face values of the treasurer's warrant notes issued plus an additional one-fifth of that sum for payment of interest on the treasurer's warrant notes and fees and charges authorized by this chapter. The state treasurer may, if authorized by the state loan commission, provide for the payment of a premium upon redemption and payment of warrant notes before the maturity date established at the time of issuance.

E. All amounts deposited in the treasurer's warrant note redemption fund are pledged and held in trust for the benefit of the holders of the treasurer's warrant notes for the exclusive payment of the principal of and interest on outstanding treasurer's warrant notes and the payment of the fees and charges authorized by this chapter. All monies so pledged and received by the treasurer to be placed in the treasurer's warrant redemption fund shall be immediately deemed assigned to and held in trust, without notice or recording of any nature whatsoever, for the holders of outstanding treasurer's warrant notes and other persons to be paid as provided by this article.