Questions and Responses—Set Number 1

1) Given that Tasks 1 and 2 of the Scope of Work relate to Audit Objectives 2, 3, 6 and 7 only, how does the Bureau's budgeted amount for this RFP relate to the $218,000 (plus travel and administrative expenses plus the possible costs related to an outside consultant) indicated on page 23 of the RFP (i.e., Section V of Attachment A, under Resource Requirements)? In other words, what is the outside consultant contractor budget for this RFP?

   The budget for an outside consultant is not included in the 2,180 hours of audit work or the $218,000 described in the audit analysis and included on page 23 of the RFP. Until the bureau analyzes the consultant proposals requested under this RFP, it is not in a position to budget for any consultant-related work.

2) Under Deliverable Two (page 5 of the RFP), the date range for the activity is through March 31, 2011. However, the Public Meeting Phase (Phase VI, on page 9) is through June 30, 2011. Should these ending dates be the same?

   Yes, June 30, 2011 should be the date in both instances. However, the bureau does not anticipate needing significant levels of consultant services for this engagement after March 31, 2011.

3) Under Phase II – Fieldwork Phase (page 6 of the RFP), the date range for Phase II under (i) is through November 19, 2010, however under (iii) and (iv) the date range extends to December 6, 2010. Should these ending dates be the same?

   No, the dates as indicated in the RFP are correct. Sections (iii) and (iv) under (b) Phase II in Paragraph 4 acknowledge that the preparation of workpapers may take longer than the end date of fieldwork (November 19, 2010) and require that these workpapers be delivered in conjunction with the draft report on December 6, 2010.

4) Would the Bureau be willing to extend the Proposals Due Date, by one week, until September 27, 2010, so as to allow us to prepare a responsive bid for this RFP?

   Because the audit must be published by February 2011, as requested by the Joint Legislative Audit Committee (audit committee), the Bureau cannot extend the date by which proposals are due.

BSA responses are in bold italics.

Questions and Responses—Set Number 2

1. Do you expect the consultant's analyses for Task 1 of the audit to include preparing projected cash flows to show the long-term impact on the Agency's liquidity and net worth of its outstanding assets and bond and other liabilities?

   The emphasis of Task 1, which coincides with the emphasis of audit objective 7 approved by the audit committee, is on CalHFA solvency—particularly on the ramifications of the December 2012 expiration of temporary credit and liquidity arrangements with federal government-sponsored enterprises. Consequently, the first priority of the analysis should be on solvency in the short-run (i.e. the next two to three years). Projections of CalHFA's liquidity or net worth in the long-term (i.e. 20 to 30 years), while not necessarily outside of the scope of the audit, are less of a priority.

2. Do you expect that respondents could or would prepare detailed cash flow projections of performance of the agency's assets and liabilities?

   <u>Background for Question 2 (as submitted to the bureau with minor edits and reformatting)</u>

   A long-term sensitivity analysis of what happens to CalHFA's General Fund and each of its indentures provides the only in-depth, systematic basis for analyzing its long-term financial health. However, this type of analysis requires a major level of computer analysis both in level of effort and updating, reviewing and evaluating information on individual assets, liabilities, swaps, investment agreements, and would probably require a longer period of time than that provided in the RFP.

   Alternatively, an analysis that does not include this level of work could potentially:

   - Be based on simply reviewing the agency's most recent consolidated cash flows of individual indentures prepared for the rating agencies. While many assets and almost all liabilities are included in such cash flow projections, they do not include projections of other Agency assets including the General Fund and do not indicate how the various risks of Agency components inter-act. Finally, this analysis would be based solely on rating agency assumptions, rather than independent assumptions developed with the Bureau's input.

- Be based on a static analysis of the agency's assets and liabilities without regard to impacts of future changes in interest rates and prepayment speeds. This very simple model is not likely to provide any systematic basis for assessing the Agency's future solvency under precisely the types of scenarios that housing finance agencies would need to be tested for.
- Be based on the consultant developing with the Bureau a detailed list of assumptions and scenarios to be tested over the first several weeks and then asking CalHFA's cash flow staff to run such scenarios. The consultant with the Bureau would then review the results and actual runs, check outcomes, verify sample runs themselves, and ask for any additional (potentially riskier) runs to be made with additional assumptions in the same way. While this relies on agency's own staff to provide the needed cash flows, such analyses can be tested for internal consistency, relationship to past submissions to rating agencies and checks on the numbers.

Some form of cash-flow analysis appears to be necessary to answer the core question of CalHFA solvency over the next two to three years. The Bureau encourages proposals that leverage the varying capacities and skill sets of all potential bidders. As long as the outcome will fulfill what is being requested in Task 1 on page 4 of the RFP, working with existing cash-flow models and supporting software appears to be a potentially valid option. Regardless of the model or software used, the successful bidder must validate that the cash-flow model and supporting software used performs as intended.