Proposal to Provide
Financial Advisory Services

to the

Marina Coast Water District

Submitted by

CSG | advisors

One Post Street, Suite 575
San Francisco, CA 94104
(415) 956-2454

May 8, 2015

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San Francisco, CA 94104
Phone: 415.956.2454

LETTER OF TRANSMITTAL

Via Email Delivery

May 8, 2015

Ms. Kelly Cadiente
Marina Coast Water District
11 Reservation Road
Marina, CA 93933
kcadiente@mcwd.org

Re: Proposal to provide Financial Advisory Services

Dear Ms. Cadiente:

CSG Advisors is pleased to submit this proposal for providing financial advisory services to the Marina Coast Water District. Our qualifications to serve the District are distinguished by particular strengths:

- ***Broad Municipal Financial Expertise & Strategic Approach.*** CSG personnel have been engaged in a broad array of municipal financing approaches since 1978. During that time, CSG has assisted public agencies in over $62 billion of bond transactions. Unlike many other advisory firms, CSG is not exclusively transaction-oriented and does not limit its work to providing bond pricing input and limited advice on structuring individual municipal bond transactions. We spend at least one-third of our time providing strategic financial advice and consulting services to public agency and non-profit clients.

- ***Independence.*** CSG acts solely as an independent financial advisor and is a registered "municipal advisor" by the SEC and MSRB. Public finance is the firm's exclusive line of business, and public agencies are our primary clients. We do not represent bond underwriters, for-profit developers or credit enhancers. CSG does not underwrite bonds or any other financial securities and has no relationship with broker-dealer firms. The firm is owned by a group of its employees.

- ***Commitment to Service.*** CSG realizes the District has many choices in seeking financial advisory firms for this role, including larger firms with longer firm-wide transaction lists. Mr. Smith believes his municipal bond experience is on par with any individual within any firm in the State. Further, he has always prioritized a high level of integrity, service and support to his issuer clients, while still maintaining a competitive cost structure. This commitment to a high level of service sets us apart from many of our competitors.

- ***Acknowledgments.*** CSG proposed Project Manager is Scott Smith, Principal, One Post Street, Ste. 575, San Francisco, CA 94104, Phone: 415-956-2454. The proposal shall remain valid for not less than 90 days from the date of this submittal. The below signee is an authorized representative of CSG binding the firm to the terms of the proposal.

Thank you for your consideration of CSG for this role.

Sincerely,

Scott Smith
Principal

COMPANY NAME, ADDRESS, TELEPHONE NUMBER, FAX NUMBER, CONTACT NAME AND EMAIL ADDRESS

The following individuals are proposed to provide services to the:

CSG Assigned Personnel	***Title***	***Role***	***Contact Information***
Scott Smith	Principal	Lead Day-to-day Contact	Ph. (415) 830-8894 ssmith@csgadvisors.com
Gene Slater	Chairman	Back-up, as needed	Ph. (415) 956-2454 gslater@csgadvisors.com

Office Location
One Post Street, Ste. 575, San Francisco, CA 94104
Phone Number (415) 956-2454 | Fax Number (415) 956-2875

Scott Smith is proposed as Project Manager. Gene Slater would provide back-up support on an as-needed basis. Scott and Gene are located in our San Francisco office. Together Scott and Gene provide over 45 years of municipal bond experience and over $28 billion of transactions served. Brief resumes are included in our proposal.

TYPES OF SERVICES. Since 1978, CSG has provided a wide range of financial advisory, program design, and real estate services to cities, counties, states, specialized public agencies (such as housing authorities and redevelopment agencies) and 501(c)(3) non-profit corporations. CSG is a registered Municipal Advisor with broad and deep national experience in:

- Community Facilities District (Mello-Roos) bonds and assessment district finance;
- Tax increment financing;
- Utility Revenue, lease revenue bonds, certificates of participation and general obligation bonds;
- Special revenue bonds; and
- Multifamily and single-family revenue bonds.

MSRB / SEC MUNICIPAL ADVISOR REGISTRATION. CSG is committed to the highest standards of professional ethics including those required or otherwise advised by the SEC or MSRB. We are registered advisors with the SEC and MSRB. CSG's MSRB Number is K0547, our SEC number is 867-00266.

LEGAL STRUCTURE & HISTORY. CSG is a privately held Subchapter S Corporation entirely owned by employees. CSG has no financial relationship with investment banking or other broker-dealer firms. We have no other formal or informal fee or other compensation arrangements with other firms. The firm originated in 1978 with the formation of Gressel Gressel & Slater. In 1991, the firm became Caine, Gressel, Midgley, Slater. In 1991, the firm became CGMS, Inc., and in 1998, the firm was reorganized to become CSG Advisors Incorporated. In each case, the name change was as a result of a partnership change. Since 1978, Gene Slater has been partner and part-owner of the firm. Gene is the current Chairman of CSG Advisors, and is the manager of the San Francisco office, where the proposed assigned personnel are located.

CONFLICT OF INTEREST STATEMENT. CSG is unaware of any engagement which may interfere with the firm's ability to provide independent and unbiased advice to the District.

LITIGATION STATEMENT. There are no past or threatened litigation against the firm.

RESIGNATION OR REMOVAL. There has not been a public finance transaction during the past five years in which CSG was removed or asked to resign from the financing.

EXPERIENCE OF THE FIRM / ASSIGNED PERSONNEL

EXPERIENCE. Since 1982, CSG has provided a wide range of financial advisory, program design, and real estate services to cities, counties, states, specialized public agencies (such as housing authorities and redevelopment agencies) and 501(c)(3) non-profit corporations. CSG specializes in financing structures backed by real estate assets and revenues, with broad and deep national experience in:

- Community Facilities District (Mello-Roos) bonds and assessment district finance;
- Tax increment financing;
- Utility Revenue, lease revenue bonds, certificates of participation and general obligation bonds;
- Special revenue bonds; and
- Multifamily and single-family revenue bonds.

Below, CSG provides a summary of their experience and approach in each of these areas and provides case studies that are meant to provide reference to our range of expertise.

CSG EXPERIENCE – GENERAL FUND LEASE / UTILITY REVENUE FINANCINGS

Since 1982, CSG has assisted cities, counties and other public agencies with lease, project revenue and general obligation bond financings or financial strategies involving a vast array of public facilities and economic development, including:

- Stadiums and sports arenas;
- Government office buildings ranging from multi-story high rise (as much as 1 million sf) to single-story expansion;
- Large-scale and small-scale regional infrastructure, including roads, freeway interchanges, storm drain facilities, etc.;
- Public utilities, like water and sewer;
- Regional and local parks;
- School facilities and administrative offices;
- Parking garages and surface lot improvements;
- Zoos, soccer complexes, aquariums, museums and other cultural facilities;
- Port facilities;
- Multi-family and single-family housing;
- Land assembly; and
- Restructuring existing debt.

CSG's approach in developing and executing such financing techniques depends on the goals and objectives, and credit and cash flow characteristics of our public agency client.

General Fund Lease and Utility Revenue Financing Approach. CSG's approach as financial advisor to local California agencies is to develop a comprehensive understanding of a particular agency's financial condition, development and/or financing goals, and its opportunities and constraints. Our most important concern is to affirm that the bond structuring best reflects the agency's objectives both in the short and long term. Local government finance in California in the post-Proposition 13 era has become extremely complex and fragmented. Local agencies need a financial advisory with this broad array of financing experience to help determine the broadest available alternatives for the local agency to evaluate and execute. Helping an agency determine or effectively manage its financing alternatives and capacity is multi-faceted and requires a focused effort among members of the finance team. Among the elements that CSG helps local agencies evaluate are:

- Multi-year cash flow and operating budget needs (historical and projected costs and volatility);
  - Staffing and administrative costs;
  - Operations and maintenance;
  - Capital planning;
  - Retirement and health benefits;
  - Existing debt or other obligations (including restructuring opportunities and constraints).

- Available revenues (i.e., historical and projected revenues and volatility) including:
  - enterprise revenues (or the creation of enterprise revenues);
  - sales taxes;
  - property taxes;
  - vehicle licensing, and other fees, taxes and charges;
  - special revenue funds which may or may not be carved-out from the general fund to pay for special obligations (i.e., sports, entertainment or cultural facilities, parking revenues, etc.).
- Short- and long-range community and economic development objectives;
- Alternative funding or financing sources like redevelopment, Mello-Roos, creation of special revenue fund, affiliated special districts, state revolving loan programs or private developer contributions (or whether such funding sources can be created and reimburse the general fund at a later date);
- Alternative lending sources, such as the State (and its affiliates), public markets and private placements;
- Trends in state and federal budget and law;
- Ability to fund projects through the creation of a special ordinance (e.g., a Charter city);
- Ability to levy new fees, taxes or establish new general obligation;
- Manner in which public facilities will be constructed or acquired (e.g., will the local agency construct the project, acquire existing facilities, or pay for design-build?);
- What are the local agency's tolerance for risk, underlying credit rating objectives, credit enhancement or other financial objectives? What are the potential impacts on the general fund, or on rate or tax payers?
- Are there important political or other factors that affect the financing (or potential alternatives)?

Rating Agency Approach. CSG is very experienced with preparation for rating presentations and typically provides templates for our public finance clients in preparation for the rating presentations. Based on our experience, we can anticipate what agency analysts are especially concerned about for a given credit to be sure both the client and the reference materials are developed to anticipate and respond to their concerns. It is our approach that analysts will look for weak links or "chinks in the armor" of a given credit, and our clients must be prepared to confront such issues and be prepared to respond to them. In this way, the client is not put on the defensive, and gives the analysts the sense that the client is on top of and proactive with regard to issues and problems that they are confronted with. CSG also helps the public agency prepare cash flows that better demonstrate both the agency's cash position, and revenues relative to expenses, so that we ensure that rating analysts do not attempt to gleam such information from the agency's financial statements in a misleading or erroneous way.

General Fund Lease & Utility Financing – Recent Case Studies of Our Work. The following are case studies in which Scott Smith served as Project Manager.

City of Ontario – 2013 $70 Million Water Revenue Bonds. In 2004, we assisted the City with water revenue fund financing which refunded old bonds, financed new water facilities and paid off the City's share of a $110 million Chino Basin Desalter Authority Adjustable Rate Bonds which had been issued earlier in the year. The Desalter Authority consisted of members of the Inland Empire Utilities Agency ("IEUA") including the cities of Chino, Chino Hills, Norco and Ontario (the City's share was approximately $22 million). The Desalter Authority bonds were issued as auction rate securities, and the City was concerned with its exposure to this variable rate financing vehicle given the cost of the financing relative to the City's revenue fund. They were also concerned with how the variable rate structure would impact their credit rating and additional bonds test under its newly defined water revenue fund pledge (in its existing pledge it would be treated perhaps as senior indebtedness, whereas under the new pledge it would be an operating cost). CSG assisted with the analysis of the cost to prepay the City's portion of this auction rate debt and the design of the new revenue pledge. In early 2008, resets of auction rate securities including the Desalter bonds have failed and IEUA paid a significant cost to resolve these bonds. The City's concern about variable rate risk was prescient. Although some cost of the failure of the auction rate market may filter back to the City as member of the IEUA that added cost to the City is not nearly as high given the prepayment. In 2013, the City issued $70 million of bonds that refunded the 2004 bonds and added a new money component. Under this financing, we were able to "modernize" the pledge (because other debt would no longer be outstanding), and CSG produced a detailed credit presentation that showed how, since 2004, the City had created a more diversified and sustainable water supply system. They were also able to demonstrate with this recent accomplishment, its ability to manage future growth (as the City is expected to double in size with the development of the New Model Colony annexation area).

City of Corona – Sewer and Water Revenue Bond Refunding 2012 & 2013 Public Utility Authority Revenue Bonds. In 2003 and 2005, prior to CSG's engagement with the City, the City of Corona issued $97 million Public Utility Authority bonds, which financed water, sewer and electrical utility improvements. The bulk of the financing paid for an electric power plant so the City could effectively become a primary electric utility provider for the City's residents. However, in order to credit enhance the electric utility start-up, the City needed a triple-barreled pledge of all the utility revenues to the Utility Authority Bonds. There were however several underlying installment purchase agreements which related to each particular utility as the primary source of revenue to pay the corresponding obligation. After issuance of the bonds, the City determined to sell the electric power plant to the City of Riverside. Riverside agreed to pay the debt service attributable to the power plant and then pay off the bonds at the time of their first initial call date. In the run up to the call dates, CSG prepared a spreadsheet model to parse out which portion of debt service is attributable to each utility and the relative economics of refunding such debt. In 2012, the City issued $36 million of Water Revenue Bonds (the City monetized the savings and slightly extended the term to raise some new money) and in 2013 issued $21 million of Sewer Revenue Bonds (the City used the same approach to issue a small amount of new money), to take out the prior debt attributable to each utility enterprise fund. The 2013 issue was completed in tandem with Riverside's issuance to complete their purchase of the power plant. Riverside's finance team used CSG's spreadsheet model to structure their portion of the refunding. CSG's role then was to determine the allocations, help develop a refinancing strategy, help develop new utility revenue pledges from each utility enterprise, assist in developing the credit presentations as stand-alone credits, and help manage the concurrent Corona / Riverside refinancings (CSG is now a financial advisor to Riverside on some types of financings, but not currently to their public utility agency.) The total present value savings of the water and sewer refundings was $8.1 million, with $16.2 million raised to fund new projects without increasing annual debt service for either utility. CSG also provided an analysis to staff that during the time of issuance of the water/sewer bonds, California utility bond issuers paid underwriting fees on average of $6.19/$1,000 of bonds issued, while the City paid approximately $3.30/$1,000 of bonds issued (a 47% savings in underwriting fees on average).

County of San Bernardino County Service Area 64 (Spring Valley Lake) Water Utility Cash Flow Model. Mr. Smith is currently financial advisor to the County of San Bernardino Special Districts Department, which oversees water and sewer service for several county service areas. Mr. Smith has helped the Department develop a financing plan for the Spring Valley Lake CSA near Victorville. The financing plan included estimated tax rates for Mello-Roos or General Obligation bond measures the County might undertake with the homeowners, and determination of financing capacity of the CSA's water utility. CSG also created a detailed cash flow model to help the County staff determine what revenues needed to be over the next five years to meet certain capital financing objectives (i.e., not a rate study, but a debt capacity study). Mr. Smith helped demonstrate that recent past year volatility made it unwise to engage in public financing until the County completed additional years of planned water rate increases. Mr. Smith also helped the staff to determine ways to meet shorter-term needs knowing that any borrowing would need to be delayed for at least a couple more years. In 2013, the model was further refined to show that while additional rate increases would be needed "to catch up," the CSA system could meet capital needs without borrowing if slightly adjusting its capital improvement plan. This is an example of how CSG's work is not completely transactional.

Case studies in Municipal Lease Revenue Bond Financing. Mr. Smith provides an example of his past work on lease revenue bond financings for reference.

2014 City of Salinas Monterey Street Parking Garage COPs. In 2014, CSG assisted the City of Salinas in a refunding of a City lease financing that was backed by an RDA-City reimbursement agreement. The City litigated successfully with the State to affirm the reimbursement agreement as an enforceable obligation. For the prospective refunding of the prior lease obligation and other City leases, the City solicited proposals from private placement banks. The finance team, in analyzing the winning proposal, found that the private placement approach outperformed the public sale approach because the private placement lender did not require a cash reserve fund. This increased the City's savings significantly. CSG prepared work product to submit to DOF for their approval, which DOF expedited to meet the City's tight financing schedule. Also importantly, with a simultaneous City COP refunding, CSG helped develop an alternative financing structure that permitted the City to provide private commercial use in the tax exempt bond-financed National Steinbeck Center in which City lease payments had been partially paid from a local 501c3 entity operating the museum.

CSG EXPERIENCE – MELLO-ROOS SPECIAL TAX BONDS

For many years, CSG has helped a number of special utility districts acting as lead issuer for Mello-Roos financing.

CSG has provided financial advisory services for land district financings since 1982. Among our other land district financing experience, we assisted the District of Columbia in developing land district financing legislation to assist in the redevelopment of the Anacostia River Initiative. In the 1990's, the Resolution Trust Corporation hired CSG (then CGMS) to serve as its national financial advisor with respect to resolving defaulted or troubled land districts throughout the United States at the time of the Savings & Loan financial crisis.

CSG has assisted with a number of public agencies in implementing public financings or real estate negotiations that included a land district-financing component. The firm's broad experience with economic development finance and especially our familiarity and experience with California land district financing law help us provide the best service to California agencies. CSG has assisted cities, counties and other public agencies with bond financings or financial strategies using land district financing on a variety of approaches to help our clients meet their development objectives, including:

- Mitigate regional transportation needs (e.g., freeway interchange design and construction);
- Balance needs of local schools with other community infrastructure;
- Protect special tax or assessment levy capacity for ongoing operations and maintenance costs;
- Create tax structures that promote or protect particular land uses classes (e.g., office and commercial uses);
- Fund major off-site improvements for large master-planned communities;
- Bridge funds for public improvements until redevelopment tax increment is generated;
- Require additional credit enhancement in appropriate circumstances; and
- Resolve defaults or troubled districts.

Land District Financing Approach. CSG's approach in developing and executing such financing techniques depends on the goals of the local agency and the characteristics and economics of the proposed development. We regularly consult with public agencies regarding the use of land-based financings to develop and improve infrastructure in residential, industrial, and commercial areas; restructure existing districts in distress; and refund or restructure districts to capture debt service savings for property owners or for additional public improvements. For land district financings, CSG's acts in the public agency's interest to ensure that:

- proper due diligence is carried out with respect to the developer and the development plan;
- the timing of development and developer experience are appropriate for the use of this financing vehicle;
- the financing meets the public agency's CFD financing objectives; and
- this financing is within the policies and guidelines of the issuer, State law, and CDIAC guidelines.

Mello-Roos Financing – Recent Case Studies of Our Work. The following are examples of financings for which Scott Smith served as financial advisor.

2014 Special Tax Bonds, Successor Agency of the City and County of San Francisco – CFD 7 (Hunter's Point Shipyard). In July 2014, Mr. Smith served as financial advisor for the initial CFD financing for the redevelopment of the Hunter's Point Shipyard (a former Superfund site) with Lennar Urban, totaling over $36 million. The pricing for this CFD was exceptionally beneficial to the project with the long term bond due in 2044 priced to yield to call at 4.73% or 135 bps to the AAA MMD scale, while there is a significant amount of undeveloped property with a value to lien at or less than 3:1 (a standard minimum market benchmark). Among the assistance that Mr. Smith provided was presentation of key credit parameters to top institutional investors on a site tour of the project. He also provided advice and memoranda to staff in determining to waive certain policy criteria (as proposed by Lennar) related to credit enhancement for the bond issue. Mr. Smith's preparation of staff on such issue allowed for smooth presentation to the Successor Agency board for final approval. He also prepared a report to DOF as required under the Dissolution Act, and DOF responded that they did not think their approval was required given the nature of the credit (no tax increment pledge to bonds). Finally, due to the complexity of the Agency's financial arrangement with the developer, the financing plan for the project, and the undeveloped nature of the district, much effort was put into the bond offering document to insure the market had an adequate understanding of the project and its risks.

Lee Lake Water District – Toscana Project. Mr. Smith is currently working with the Water District on a CFD financing strategy for the new development of approximately 600 homes for this project located in western Riverside County. The Project has major backbone water and wastewater needs. The CFD is proposed to finance up to $20 million of public improvements. As a first step, Mr. Smith worked with a two-member committee of the Board of Directors, the Finance Manager, and the Exectutive Director in developing updated Local Goals & Policies for the issuance of Mello-Roos Bonds. Mr. Smith prepared drafts and presented policy "options" for the Board members and staff to consider. The Board has since adopted the policies and is now working on CFD formation.

Calaveras County Water District AD 604 (New Hogan/La Contenta Regional Development) Bond Default – CCWD sought assistance in determining how best to resolve the AD 604 (New Hogan/La Contenta Regional Development) bond default and sell the defaulted parcels at Sheriff's auction. Bonds were sold to fund water/sewer improvements, but the development was never completed and certain development entitlements expired (CSG was not the advisor on the initial bonds issued). CCWD hired CSG to prepare an analysis which evaluated the District's options and provide a recommended course of action. To assist with this evaluation, CCWD engaged The Concord Group, a firm specializing in real estate marketing analysis, to analyze the defaulted real estate to determine its highest value use. CSG examined AD 604 documents and reports, interviewed CCWD staff and bond counsel, and considered Concord's analysis. Based on this review and with the written approval of the District's general and bond counsel, CSG recommended that the District auction the defaulted parcels when the estimated value of any parcel, assuming all then outstanding delinquent assessments were added to the foreclosure judgment, substantially exceeded the estimated payoff amount of the AD 604 bonds. This option provided the advantage of creating financial flexibility and motivation for purchasers of parcels to pay ongoing assessments, thereby reducing the District's risk of engaging in future foreclosure of district parcels. A 3:1 value-to-lien test is the standard used by municipal issuers to authorize new land-secured bond financings; and a 2:1 test provides a strong standard that allows existing bondowners to capture additional value for their bonds. The approach was also adaptive to development and credit bid proposals submitted to CCWD by prospective purchasers or developers. In 2005, investors saw most of the originally loaned principal paid back to them.

CSG ASSIGNED PERSONNEL. CSG's proposed assigned staff are Scott Smith (Principal), Project Manager, and Gene Slater (Chairman), as needed for support. Mr. Smith may also engage a senior associate from time to time for support as needed. All assigned staff are based in CSG's San Francisco office. Mr. Smith is the proposed lead day-to-day contact to the District and is responsible for all tasks of CSG for the

Work Plan described under the "Firm Approach" section. Brief resumes for Mr. Smith and Mr. Slater are as follows below.

Scott Smith, Vice President	Role: Lead contact and relationship manager for all financings

Mr. Smith joined CSG in June 1998. Since coming to CSG, Mr. Smith has assisted in the structuring of over $3 billion in public agency issued bonds primarily related to Mello-Roos, general-fund lease revenue, and tax allocations bonds in California. Mr. Smith's public financing practice is significant and varied. He has assisted with implementing over $1.5 billion in tax allocation bond financings in California and helped develop tax increment financing strategies in Washington DC around the Anacostia Waterfront. He has also completed more than $600 million in CFD financings. Mr. Smith provides a personal transaction list from the beginning of 2013 as an Appendix A.

He has recently helped develop major new utility financing pledges for Corona and Ontario; and has implemented major lease financing strategies for San Francisco, Alameda County, Ontario, Anaheim, Fontana, and other cities in California. For Orange County, he evaluated the most efficient method for Orange County to defease bankruptcy-related debt from $267 million in litigation settlement proceeds. For the District of Columbia, he provided financial capacity analysis for the Anacostia Waterfront Initiative, including multiple redevelopment project areas planned around or near the new Washington Nationals baseball stadium. This work has involved determining debt capacity, timing, and layering of land district, tax increment, and special revenue financings to fund public improvements along the waterfront corridor, developer proposals of the stadium financing, and short-term bridge-financing mechanisms until tax increment is generated. For the County of Alameda, he conducted a financial analysis for the acquisition of a $50 million building in downtown Oakland that housed the County's social services agency (this involved a complicated review of federal and state accounting rules for reimbursements for lease and operating costs).

One of his specializations is land-district financing where he has helped resolve complicated defaulted Mello-Roos Bond transactions from the early 1990's in Fontana and the City of Ione. He has helped implement major land district financing strategies in Los Angeles, San Francisco, Ontario, Fontana, Alameda County, and Washington DC. He has assisted the Romoland School District in unincorporated Riverside County in negotiations with private developers on land acquisition for four separate school sites (2 schools constructed to date) and approximately $500 million in assorted public facilities to be financed from Mello-Roos bonds. He assisted LA County in developing policies and procedures to award over $300 million of Recovery Zone Facility and Economic Development Bond allocation available under the ARRA.

Mr. Smith serves his community as Board Chair of Berkeley, CA-based Satellite Affordable Housing Associates, Inc., a non-profit 501(c)(3) affordable housing owner, manager and developer of over 3,000 units around the Bay Area. He has a Bachelor of Science in Business Administration from Pepperdine University, and a Masters in Public Policy from the University of California, Berkeley.

Gene Slater, Chairman	Role: Back-up support for financings

Gene Slater, Chairman of CSG Advisors, has more than 25 years of experience structuring financings, development programs, and real estate transactions for public agencies throughout the United States. Gene has served as financial advisor on more than $24 billion of municipal financings. Many of these financings link tax-exempt bonds and tax credits with public land and a wide range of federal, state and local resources.

Mr. Slater has helped public agencies negotiate and structure major public-private development projects. For the City of Anaheim, he conducted the City's successful fiscal and financial negotiations for seven years with the Walt Disney Company for its second theme park, leading to selection of the Anaheim site, $2 billion of public-private development, expansion of the Convention Center, and a financial structure that protected the City from risks of the transaction. He helped design a major public-private partnership to acquire 1,300 units of officer housing from the Air Force for low and moderate-income first-time homebuyers and the infrastructure financing for the new 10th campus of the University of California. He also led negotiations of the Washington DC Southwest Waterfront mixed-use redevelopment, which involved over $100 million in public improvements.

Gene is a graduate of Columbia University (Summa Cum Laude) and the Massachusetts Institute of Technology (Master of City Planning). He attended the London School of Economics on a special traveling fellowship awarded to one student annually by Columbia University. He received a Loeb Fellowship from Harvard University.

REFERENCES

In the section on firm experience above, CSG describes two significant engagements performed recently which are similar to the proposed engagement:

- Ontario Public Financing Authority, $74,545,000, 2013 Water Revenue Bonds
- Corona Utility Authority, $35,880,000 2012 Water Revenue Bonds & $20,890,000 2013 Sewer Revenue Bonds

Scott Smith served as lead contact and financial advisor for these financings. Client contacts are as follows:

Grant Yee Administrative Services Director City of Ontario 303 East B Street Ontario, CA 91764 Ph. 909-395-2355 gyee@ci.ontario.ca.us	Kerry Eden Finance Director City of Corona 400 South Vicentia Avenue, Suite 320 Corona, CA 92882 Ph. 951-736-2315 kerry.eden@ci.corona.ca.us

WORK PLAN

CSG tailors its services to try to meet the issuer's needs in each specific transaction. The time needed to complete the task may vary depending on the nature and timing of the project, the resources of District staff, municipal market conditions and other factors. The following is a summary of tasks undertaken or managed by CSG in the course of a financing. Scott Smith as Project Manager is responsible for the Work Plan and with understanding the needs and policy direction from District staff.

Before the Transaction Begins
• *Issuer and Staff Objectives.* We begin each assignment by working to understand the objectives of public agency and its staff, including development, programmatic, budgetary, and administrative objectives. Our goal is to represent the District, not the transaction. We have helped establish detailed debt issuance policies for many issuers, addressing concerns relating to rating requirements, subordinate bonds, refunding procedures, etc., to help make sure that each individual financing serves our public client's long-term goals.
• *Staff Training.* In some cases, there has been staff turnover or certain staff lack experience with a particular financing approach. CSG has designed and conducted training sessions for a variety of types of obligations, alternative bond structures, and specialized presentation materials. We

also develop presentations materials on types of public financings, best practice policies, current public finance issues, or whatever a particular client needs. The cost of these services can either be included in our fixed fee or provided as an additional service depending on context and agreement with District staff.

- *Refunding Analysis.* CSG has provided complex refunding analysis to clients and also reviewed refunding proposals submitted to its issuer clients by underwriters. Often underwriters may not be familiar with the issuer objectives or internal constraints. CSG helps the District determine whether a refunding proposal or opportunity makes sense to pursue and/or fits with its broader objectives or circumstances. Our technical analysis takes into account the District's whole debt profile and not just an individual financing.

  - *Financial Modeling.* CSG's primary asset is the technical and analytical expertise of it professional staff. Our staff has prepared extensive financial models to measure bond capacity, real estate and/or other financial feasibility, or provide other technical analysis to our clients. Financial models include but not limited:

    - Financing capacity models for utility revenue, city general fund, and redevelopment agency financings; and
    - Real estate proformas including multifamily housing projects using of tax credits and bonds.

CSG has produced under contractual arrangement, specialized capacity models for our clients own use.

For debt sizing, CSG uses DBC bond sizing software. For housing bond transactions, CSG uses DBC Housing software. For market data, CSG uses TM3, Municipal Market Data and BondBuyer subscription services, publicly available data sources and contacts at underwriting desks of major firms.

CSG has an extensive array of contacts including specialized real estate and revenue consultants, credit enhancers, private lenders, investment banking professionals and underwriting desks, legal counsel and other relevant public financing specialists to draw from as potential resources for the District.

CSG does not provide legal advice. However, given our extensive public finance experience, CSG has a vast library of legal documents from financing transactions with provisions that may be of resource for the District and its legal counsel.

Transaction Execution

- *Developing an Effective Finance Team.* CSG often provides advice to clients in the selection of other finance professionals including bond and disclosure counsel, investment bankers, revenue consultants and other specialized participants to ensure qualified and effective execution of individual financings. We have prepared RFP's and run selection processes for issuer counsel, bond counsel, disclosure counsel, investment bankers, trustees and fiscal and other feasibility consultants. Given our broad experience, we try to match particular lawyers and underwriters that have particular strengths in one financing area to a particular financing of the public agency client to ensure that the District gets the best support in achieving its financing objective.

- *Manage the Transaction.* Based on feedback we receive from other financing professional, CSG provides more active management of the financing process and the team than most other financial advisory firms. Among the parts of the execution phase we manage actively:

- *Setting the Schedule.* We make sure all individuals on the finance team are aware of key dates to provide key documents, meet agenda deadlines, organize and participate in team meetings and conference calls.
- *Setting agendas.* We make sure there is an agenda for each meeting or conference call so that key issues are not missed and finance team expectations are met.
- *Maintain distribution list.* We ensure all parties to the transaction receive key documents to fulfill their role.
- *Manage the Team.* We often refer to ourselves as the chief ankle-biter to ensure work is timely prepared and at the needed level of service and quality.

– ***District as Key Decision Maker.*** A key issue for us at CSG is to be sure that the District staff is presented with alternatives on key policy decisions and provided with the necessary information to choose among such alternatives, including pros and cons (or costs and benefits), and recommendations from appropriate parties.

- *Structuring.* We carefully analyze the proposed financing structure to insure the most cost effective and revenue efficient borrowing. We also work with the finance team to develop alternative approaches, where appropriate, for the public agency to consider. Structuring considerations may include: yield curve shape, reinvestment rates, budgetary constraints, available revenues and project area plan limitations (from original areas to added project sub-areas) and dealing with the revenue constraints from previous bond issues. We use DBC software to assist in structuring and refunding analysis. Other elements of structuring are listed below.

  A. *Private Placements.* In very recent years for shorter term obligations, certain banks and financial institutions have become increasingly competitive in provided direct loans to municipalities which a financially more economic than traditional public financing. We have assisted in developing solicitations, presenting the credit, negotiating terms or otherwise evaluating such approaches. Key aspects of such an approach may include reduced time for execution, better financing terms or rate, reduced issuance or reserve fund costs.

  B. *Rating Agency and Bond Insurance Contacts.* CSG's regular contact with each of the major rating agencies and bond insurers allows us insight into understanding their standards and concerns. In turn, this experience helps us achieve optimal pricing and to negotiate favorable covenants for issuers.

  C. *Credit Enhancement.* We bring in-depth experience with a wide variety of credit enhancements, having worked on bond issues secured by more than 45 guarantors, including all of the major bond insurers and major financial institutions to assist in obtaining the most cost effective credit enhancement.

  D. *Linking Bonds with Other Funding Sources.* CSG has unprecedented expertise in linking bonds with other funding sources to enhance project feasibility. We have worked on bond financed projects variously leveraged with general fund dollars, utility revenues, foundation grants and guarantees, Mello-Roos pledges, CDBG, HOME, low income housing and historic tax credits, bank loans, HOPE VI grants, developer equity, HCD loans, FHLB assistance and housing set-aside revenues.

  E. *Taxable v. Tax-Exempt Analysis.* CSG has worked with many issuers, and their tax counsels to analyze projects for which taxable bonds seem necessary. By working carefully to understand the issuer's goal with respect to a project we have often been able to suggest approaches that keep borrowings tax exempt at lower cost. Our goal is always to maximize flexibility while trying to minimize costs.

– *Document Review.* Experience reviewing documents for hundreds of transactions helps us provide meaningful commentary and helps the issuer to avoid problems encountered elsewhere.
– *Rating Agency Presentation.* CSG can provide a template to cover major elements of the rating agency presentation so that the public agency client is prepared to respond to questions and issues that are relevant and important to the rating agency analysts.
– *Public Agency Presentation.* CSG often is requested to make presentations to debt advisory committees (made up of key staff and/or elected leaders), Board of Directors, or Executive Directors as needed.
– *Selling the Bonds.* CSG brings together a combination of resources to evaluate and understand bond pricing, market timing, basis for competitive vs. negotiated sales, marketing, and pricing of the bonds. These include Thompson's TM3 and MMD service, work for other issuers and regular contact with the underwriting desks of many investment banks.
After the Bond Sale
• *No Cost Follow Up.* CSG is also available for follow-up work with public agency staff and bond trustees, upon request, to better understand and manage outstanding debt and to assure compliance with indenture/loan/lease document, arbitrage, rebate and investment requirements. We do not charge for this work unless there are extraordinary circumstances – like potential need for work-out or to deal with amendments or issuer consents to change bond terms.

CSG FEES FOR EXAMPLE PROJECTS. The table below provides the fees paid to CSG for the example projects described in the Firm Experience section and the References Section:

Financing	Date	Par Amount	CSG Fee
Ontario Public Financing Authority 2013 Water Revenue Bonds	9/10/13	$74,545,000	$60,000
Corona Utility Authority 2013 Sewer Revenue Bonds	6/26/13	$20,890,000	$37,500
Corona Utility Authority 2012 Water Revenue Bonds	8/1/12	$35,880,000	$42,500

MARINA COAST ISSUES. CSG has reviewed the District offering statements for 2006 and 2010, and the most recent CAFR and offers the following observations:

- *Advance Refunding of 2006 Bonds* – The 2006 Bonds refunded certain 1996 & 1997 Installment Sale Agreements. It is not clear if these were refunded on a current or advance basis. If they were refunded on an advance basis, Tax Counsel will need to confirm whether any corresponding portion of the 2006 may be precluded from advance refunding. The 2006 OS notes that the term of each of the agreements was not extended and the amounts are small, so it is possible Tax Counsel could attribute remaining debt service to the new money portion of the 2006 Bonds and all would be advance refundable.

- *Prior Reserve Fund* – almost all utility financings in the AA category (such as the 2006 Bonds) are not being financed with cash reserve funds in the recent market. Given the $3.084 million in reserve funds from the 2006 Bonds, the District can considerably increase annual savings, likely without the burden of marginal interest rate cost, by foregoing a reserve fund for the proposed refunding.

- *SLGS Window Closed* – Until the federal debt ceiling is raised by Congress, State and Local Government Securities (SLGS) are not available to fund the escrow (i.e., proceeds of the refunding bonds will go into an escrow fund on the closing date to pay debt service on the 2006 Bonds through the call date on 9/1/16). Because the SLGS window is closed, the escrow would need to be invested in Open Market Securities (OMS). OMS escrows sometimes have the problem of no bidders because the placement fees may exceed the yield on the escrow. The Marina Coast refunding may not have this problem (typically an issue for smaller, shorter-term issues).
- *Negative Arbitrage in the Escrow* – A real issue for the proposed refunding will be the relative cost efficiency of the escrow. In an advance refunding, an issuer is effectively paying for two bond issues at once – there is the interest carry on the new issue, as well as interest carry on the old bonds during the escrow period, which is offset somewhat by any interest earnings on such escrow. Because in the current market of almost nil interest earnings in the very short term, there is "negative carry" in the escrow, which effectively reduces the savings realized by the issuer from refunding. Marina Coast will want to work with its financial advisor and bond underwriter to sensitivity test this negative carry cost and decide if it is better to (1) wait and refund closer to the call date; or (2) perhaps accept the higher negative carry cost, but set a higher threshold at which to go ahead with refunding. Some issuers set a minimum NPV savings threshold of 3% for refundings, but might say that a 5-7% threshold is more appropriate for an advance refunding. This higher standard establishes an effective limit to an amount of acceptable negative arbitrage. Marina Coast staff will want to make their own assessment of these limits (as they are somewhat arbitrary even if referred to as "industry standard").

COMPENSATION AND FEES

Consulting Work Not Directly Applicable to a Bond Transaction. CSG will typically agree with District staff, most often in writing, whether particular work would be done hourly or at a negotiated fixed cost. This typically depends on whether on-going consultation of a particular matter will require significant time commitment, technical analysis, memorandum, or specialized work product. In such cases, we typically confirm negotiated cost arrangements with District staff in writing with a fee letter containing a scope of work or an agreement that is less formal if deemed appropriate by District staff. In some cases, when a particular financing is pending or expected, compensation for such additional work may be paid from bond proceeds, but this is usually determined on a case-by-case basis. It has not been CSG's practice to be paid on a fixed fee / monthly retainer basis.

Hourly fees for CSG personnel are as follows:

Title	**CSG Personnel**	**Hourly Rate**
Chairman	Gene Slater	$300
Principal	Scott Smith	$275
Senior Associate	As needed	$150
Administrative	As needed	$70

These rates are applicable to 2015. CSG's rates are adjusted upward 5% annually at the beginning of each year, and would be so adjusted beginning January 1, 2016.

Bond Transaction Work. CSG would work on a contingent fixed fee schedule for each series of bonds for the following types of bond financings once the District has decided on a particular plan of finance. CGS does not track hours for fixed fee assignments. CSG does not charge for follow-up administrative support post-bond issuance. The fee schedule below is exclusive of expenses.

Financing Type	***Bond Size***	***Fees****
Enterprise Revenue Bonds	Under $10 million $10 million to under $20 million $20 million to under $40million $40 million to under $50 million Above $50 million	$22,500 $25,500 $32,500 $39,500 To be negotiated
Assessment or Community Facility Districts:	Formation of new assessment or community facility district (payable at formation): Plus: by issue size (payable at bond closing): Under $10 million $10 million to under $25 million $25 million to under $35 million $35 million to under $50 million Above $50 million * Assumes formation is completed within one year of initiation of work. Beyond one year, will negotiate additional fees depending on anticipated work effort. This assumes all work to be paid from developer deposit.	$10-15,000* $19,500 $27,500 $34,500 $42,500 To be negotiated
Competitive Sale	Additional $7,500-12,000 if bonds are sold competitively depending on bond size and complexity.	

Expenses. CSG would be reimbursed for transportation, meals, lodging, messenger delivery, long-distance telephone, conference calls and fax, and document production and reproduction at cost.

ACCEPTANCE

Firm Name: CSG Advisors Incorporated

Address: 1 Post Street, Suite 575

San Francisco, CA 94104

Telephone: (415) 956-2454

Fax: (415) 956-2875

Subject: Request for Proposal for Financial Advisor Services

By my signature below, I, on behalf of the firm named above, acknowledge that I have read and understand the subject Request for Proposal (RFP) and all its attachments. I further acknowledge that, by submission of a proposal in response to the subject RFP, the firm named above accepts all the terms and conditions set forth in the subject RFP and its attachments, including, but not limited to, the Sample Contract, its insurance and indemnification clauses, and all other terms and conditions set forth therein.

ACCEPTED:

Firm

Signature

Scott Smith

Name (please print)

Principal

Title

May 8, 2015

Date

Please Return Signed Form with Proposal Response