

**Date:** January 8, 2019

**To:** Ray Espinosa, Stewart Patri, and Dulce Alonso, San Benito County  
Joe Paul Gonzalez, San Benito County

**From:** David Leifer, Bobby Cheung, Nedko Nedev, and Danielle Arruda, KNN Public Finance LLC

**Re:** Fee Proposal for San Benito County 2019 Certificates of Participation

KNN Public Finance LLC ("KNN") is pleased to serve as the County's Municipal Advisor for the upcoming San Benito County 2019 Certificates of Participation ("2019 COPs"). This memorandum sets forth KNN's proposed fee and scope of services, as well as several of the considerations supporting the proposal. As the County's Municipal Advisor, KNN's role is to guide the County through the process of issuing the 2019 COPs, while providing independent and conflict free financial advice.

KNN proposes a fixed transaction fee of \$85,000 for the 2019 COPs assuming a financing of just the jail facility, and a fixed transaction fee of \$90,000 assuming a combined financing of the jail and behavioral health facilities. Please note that the combined financing fee reflects the additional work required for the more complex asset pledge and debt service numbers required for multiple projects. The transaction fee is contingent upon the successful pricing and closing of the transaction, and payable from proceeds generated from the transaction. The fee proposal assumes the closing of the 2019 COPs occurs by April 1, 2019.

The proposed fee reflects the accelerated pace of the transaction, the analysis of multiple plans of finance, and the fact that this transaction is the County's first public transaction in recent history. KNN has taken the lead in coordinating the accelerated financing schedule and serves as the "task master" to achieve transaction milestones. We have worked closely with County staff to refine the plan of finance, including analyzing multiple financing terms (20, 25, 30 years), assessing different asset pledge strategies for the transaction (single or multiple existing County assets), and analyzing different projects to be financed (jail and behavioral health facilities). KNN will take the lead in preparing the rating agency credit presentation, which will be comprehensive since this is the County's first public credit rating in recent history. KNN will highlight key aspects of the County's General Fund credit, including the County's current and historical budgetary performance, debt and contingency liability position, its overall financial management and performance, and the County's local economy. KNN will coordinate the competitive sale of the 2019 COPs, including analyzing market timing and tax-exempt market supply. We will take the lead in the marketing of the transactions to potential underwriting firms. Finally, KNN will help coordinate the closing logistics of the transaction and provide a detailed closing memorandum summarizing key decisions and structure features of the transaction.

In addition to our proposed transaction fee, KNN would bill for expenses actually incurred by KNN with a not-to-exceed cap of \$3,000, excluding any out of state travel. KNN will be committing the resources of four advisors, David Leifer, Senior Managing Director, Bobby Cheung, Director, Nedko Nedev, Vice President, and Danielle Arruda, Associate, to the County's financing. This commitment of firm resources will be necessary for this financing and enable us to provide effective coverage. We look forward to continuing our working relationship with County staff to successfully complete this transaction.

### Proposed Transaction Scope of Services

- Assist County in selection of financing team members (i.e., bond and disclosure counsel, underwriter (for negotiated sale), trustee, financial printer, etc.), as necessary.
- Prepare a financing schedule and distribution list and coordinate activities of financing team members and representatives of the County.
- Analyze bond structures that will be most attractive to bond market participants and will result in the best bond pricing for the County.
- Prepare debt service analysis under alternative market, term and structure scenarios.
- Provide County staff with training and or regular updates on key issues relating to the proposed bond structure.
- Assist in review of all financing and legal documents.
- Develop good faith estimates for County Board of Supervisors Resolution.
- Develop rating agency strategy and approach. Prepare rating agency presentation and accompany County staff to rating agency meetings.
- Assist County in presenting the financing to the Board of Supervisors, as requested.
- Monitor tax-exempt (and taxable, if required) municipal bond market conditions; make recommendations regarding timing of pricing.
- Evaluate potential cost effectiveness of credit enhancement (bond insurance).
- For a competitive sale, review Official Notice Inviting Bids, Official Notice of Sale, conduct pre-pricing market update call, take lead in marketing of transaction to bidding underwriting firms, coordinate timing and logistics of competitive bid, including confirmation of bids on day of sale.
- For a negotiated sale, review fees proposed by underwriter(s) to ensure consistency with market comparables and make recommendations about composition of underwriting syndicate as well as syndicate policies (i.e., liabilities, retentions, etc.) to ensure the proper incentives are structured to result in the lowest cost of funds for the County.
- For a negotiated sale, provide pricing oversight to ensure a transparent process and the best result for the County, including the following activities:
  - analysis of relevant/recent pricing comparables;
  - outreach to non-manager underwriter desks to ensure proposed pricing is consistent with market environment;
  - evaluation of secondary market trades, if helpful;
  - negotiation with the senior underwriter to ensure that final pricing yields are consistent with demand for bonds.
- Review and provide updates to the County's debt policy to ensure compliance with SB 1029 prior to issuance and County official duties.
- Prepare a post-sale closing memorandum.
- Provide advice about post issuance compliance requirements (i.e., arbitrage rebate, continuing disclosure, reporting to State Treasurer's Office, etc.).