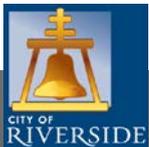


The Changing Roles and Responsibilities of Debt Issuers and Finance Team Members

***Municipal Debt Essentials
Debt 1: Debt Basics, Session Four
March 17, 2015***

Speaker Introductions

- Brent Mason, Finance Director, Riverside
- Scott Catlett, Asst. Finance Director, Riverside
- Raul Amezcua, Managing Director, Stifel
- Brian Forbath, Shareholder, Stradling
- Scott Smith, Vice President, CSG Advisors



Issues

- Today's presentation will be primarily focused on:
 - The decision to issue debt
 - Roles of each financing team member
 - Steps in the financing process
 - What happens following issuance



Riverside and Its Debt Portfolio



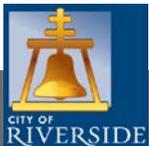
Riverside at a Glance

- The City
 - Located 50 miles east of Los Angeles
 - County seat of Riverside County
 - 12th largest city in California
 - Population of 314,000
 - Home to four colleges and universities
- The City Government
 - Council/Manager government
 - 18 departments
 - Electric, water, and sewer utilities
 - 2,471 employees
 - \$846 million annual budget



Riverside's Debt Portfolio

- \$1.8 billion outstanding
 - \$1.1 billion for the enterprise funds
 - \$376 million for the General Fund
 - \$240 million for the successor agency
 - \$35 million for transportation projects
 - \$38 million special districts
 - \$9 million other
- Variety of debt types
 - Primarily fixed rate bonds
 - Variable rate bonds
 - VRDOs
 - SIFMA notes
 - Pension obligation bonds
 - Four bank loans



Riverside's Debt Ratings

	S&P	Fitch	Moody's
• General Fund GO	AA-	AA	NR
• Electric Utility	AA-	AA-	NR
• Water Utility	AAA	AA+	Aa2
• Sewer Utility	A	NR	A1
• RDA Successor	Varies by Project Area		



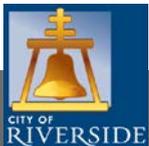
Role of the Financial Advisor



Role of the Financial Advisor

Prior to a Bond Transaction:

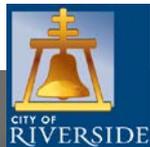
- Develop financing options or a plan of finance
- Monitor & evaluate market conditions for opportunities
- Evaluate proposals submitted by underwriters, developers, other interested parties
- Assist in the development of debt & finance policies
- Assist in staff training & development
- Recommend method of sale – competitive vs. negotiated public issue (or private placement)
- Assist in the selection of other finance team members



Role of the Financial Advisor

During a Bond Transaction:

- Manage the financing schedule & process
- Review all necessary documents, including legal covenants & disclosure
- Structure debt service / review underwriter numbers
- Help prepare & deliver rating & insurance presentations
- Evaluate (or assist) insurance & surety proposals
- Negotiate pricing in a negotiated sale of bonds
- Assist with closing



Role of the Financial Advisor

After a Bond Transaction:

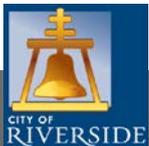
- Assist as needed with administrative questions
- Assist as needed on post-closing disclosure compliance (i.e., continue staff training & development)



Role of the Financial Advisor

Changing Role of the Financial Advisor – The “MA rule”:

<ul style="list-style-type: none"> • Now registered with SEC & MSRB 	<ul style="list-style-type: none"> • Formalized the FA role as a “Fiduciary” (contrasted with the underwriter who is responsible for “fair dealing”) – clients’ interest comes before FA’s financial or other interests • MSRB rules still evolving
<ul style="list-style-type: none"> • Facilitate communications between issuers and underwriters 	<ul style="list-style-type: none"> • The RFP exemption – issue or program specific • The IRMA exemption – issuer puts on retainer & acknowledges reliance on FA advice
<ul style="list-style-type: none"> • Practical changes 	<ul style="list-style-type: none"> • Many smaller or less frequent issuers who did not previously use financial advisors have begun to establish role for financial advisor in their financing programs • SEC did not intend to create MA rule to make the FA a gatekeeper, a good FA should help foster environment for good ideas to reach issuer

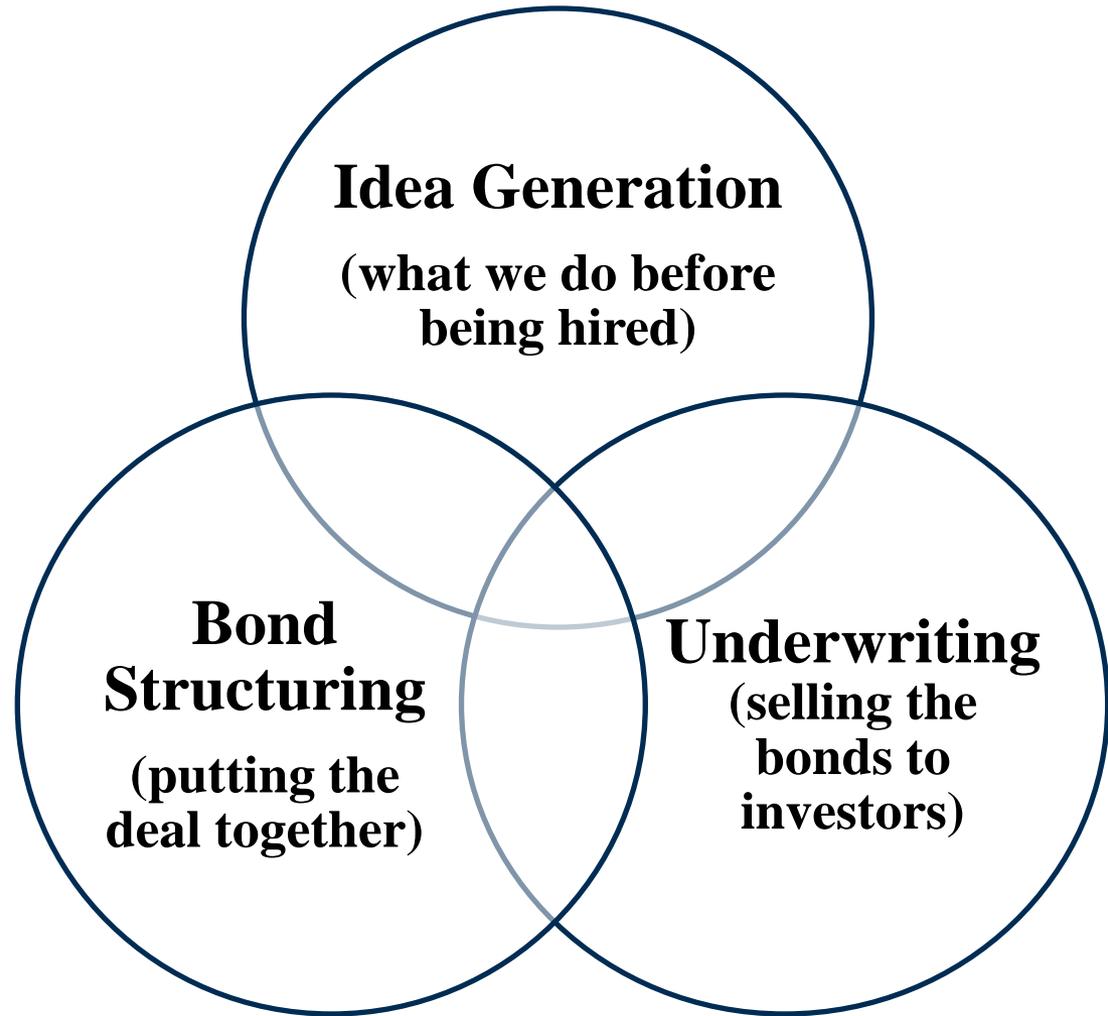


Role of the Underwriter



What is the Role of an Underwriter?

The role of the underwriter can be broken down into three broad categories



Idea Generation

Underwriters are a consistent source of ideas for municipal issuers

- **New Money Financings**
- **Refundings and Restructurings**
- **Other Products/Ideas**

- **2014 “MA Rule” requires that an Underwriter meet an exemption before presenting ideas:**
 - **RFP Exemption**
 - **Underwriter Exemption**
 - **Independent FA Exemption**
 - **General & Factual Information**



Bond Structuring

Underwriters participate in all of the activities that go into the putting the bond deal together

- **“Running The Numbers”**
- **Rating Agency Preparation and Credit Analysis**
- **Legal Review**



Underwriting

*Underwriters
connect investors
and issuers*

- **Market Knowledge**
- **Premarketing of the Bonds**
- **Pricing and Sale**
- **Secondary Market Trading**

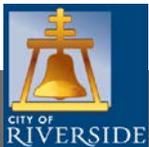


Role of Bond Counsel



Role and Services of Bond Counsel

- Need for an Approving Legal Opinion and Its Function
 - Bonds are not marketable without accompanying opinion of a nationally recognized bond counsel that addresses:
 1. Validity of Bonds
 2. Source of payment and security for the Bonds
 3. Whether and to what extent interest on the Bonds is exempt from federal and state income tax
 - Objective/unqualified Bond Counsel opinion required
 - Bond opinion does not constitute a guarantee



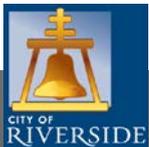
Role and Services of Bond Counsel

- Render approving opinion
- Preparation and review of documents necessary or appropriate to the authorization, issuance, sale and delivery of the Bonds, coordination of the authorization and execution of these documents
- Assisting the Issuer in seeking from other governmental authorities any approvals, permissions and exemptions necessary or appropriate in connection with the authorization, issuance, sale and delivery of the Bonds
- Reviewing legal issues relating to the structure of the bond issue
- Preparing election proceedings or pursuing validation proceedings



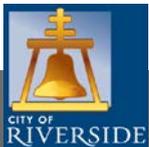
Role and Services of Bond Counsel

- Reviewing or preparing those sections of the official statement that relate to the bonds, financing documents, bond counsel opinion and tax exemption
- Assisting the Issuer in presenting information to bond rating organizations and credit enhancement providers relating to legal issues affecting the issuance of the Bonds
- Reviewing or preparing the Notice of Sale or Bond Purchase Contract for the Bonds and reviewing or drafting the continuing disclosure undertaking of the Issuer
- Post issuance advice
 - Representation in the event of IRS audits or SEC investigations
 - Bond covenant compliance



Role and Services of Disclosure Counsel

- Assist the Issuer in preparing the Official Statement and complying with Federal Securities Laws:
 - SEC Rule 10b(5)
 - SEC Rule 15c2-12
- Due Diligence Review
- Negative Assurance Letter delivered to the Underwriter



Role and Services of Bond and Disclosure Counsel

- Recent Increase in SEC activity in Municipal Market
 - Enforcement Actions
 - MCDC Initiative
- Increase in demand for legal services outside of the traditional bond financing

