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ABOUT BLX GROUP®

BLX Group provides solutions for clients in the municipal and nonprofit sectors based on focused processes and a broad perspective on the public finance market, backed by exceptional longevity of professional experience.

Founded in 1989, BLX is a subsidiary of Orrick, Herrington & Sutcliffe LLP, an international law firm recognized as a leader in the U.S. public finance sector.

BLX professionals offer a wide range of pre and post-issuance advisory services to issuers and obligated persons of municipal offerings from strategically located offices across the country. Our services include arbitrage rebate consulting and post-issuance tax compliance, continuing disclosure, strategies for investment of bond proceeds, tools for managing swaps and acquiring structured products, financial advisory services, and program administrative services.

Background

Tax-exempt public financing is a cornerstone of U.S. capital markets, supporting municipal infrastructure and nonprofit institutions that are central to everyday life.

The increasingly complex regulation of proceeds from municipal securities transactions places burdens on governmental and nonprofit finance officers responsible for oversight. The need for accuracy and timeliness – to meet tax laws, reporting requirements and disclosure obligations, as well as to maximize yield on investment of bond proceeds – is more crucial than ever.

These functions demand precision. BLX Group draws upon its expertise supporting municipal offerings. We have decades of experience, harnessed through advanced processes, methodologies and technology, all geared towards serving state and local governments and agencies, as well as not-for-profit organizations across the U. S.

**BLX Group® Pillars:
Building Upon a Solid Foundation**

Perspective

Those who manage tax-exempt bond issuance for a municipality or nonprofit entity must deal with a number of challenging tasks: continuing disclosure obligations; timely and complete filing of detailed reports mandated by the IRS, MSRB and other agencies; maximizing returns on bond proceeds; and more. Additional complications include frequent changes in laws, regulations, court decisions and administrative rulings as well as shifts in interest rates and market conditions.

Staying abreast of all this would be a burden for busy municipal finance or nonprofit executives, but navigating municipal finance is what we do.

Our expertise is derived from the in-depth knowledge and experience of our professionals, and the exceptional variety and scope of our engagements. Our broad perspective is further enhanced by our affiliation with Orrick, a nationally recognized law firm engaged in a wide range of public finance transactions. This level of access enables us to monitor the continual changes in the municipal finance environment, to understand their potential impact on our clients, and to develop strategies that help protect and advance each client’s interests.

Process

BLX draws upon the expertise of our professionals, supported by our proprietary technology, to deliver a broad range of services and solutions to tax-exempt bond issuers and obligated persons.



**CITY OF
SEATTLE**

BLX Group has been managing arbitrage rebate compliance for the Seattle City Light Department since 1999. BLX undertook a complex and lengthy reallocation analysis for bond issues structured under a parity reserve by the department. Working closely with city staff and the IRS, BLX obtained a \$1.2 million rebate overpayment recovery for them. This refund opportunity was overlooked by the former rebate compliance provider and highlights the team’s overarching goal of calculating the lowest legally permissible liability each and every time.



SAN FRANCISCO INTERNATIONAL AIRPORT (SFO)

Since 1992, BLX Group has been providing arbitrage rebate consulting services to SFO for a variety of debt ranging from commercial paper to variable rate bonds. The underlying rebate computations factor in complex multi-purpose allocations, multiple refinanced bonds, and a large parity reserve allocation. BLX's work gave way to three IRS payment refund claims totaling over \$3.2 million. BLX also provides ongoing investment and swap advisory services to SFO.

Tax-exempt financing requires diligent adherence to complex federal and state regulations, tax code, reporting requirements, disclosure obligations and governance practices, many of which require periodic monitoring.

BLX utilizes methodologies and online platforms to address the broad range of requirements our clients must meet. Our processes include multiple levels of rigorous internal and external checks and balances to ensure accuracy. For example, our arbitrage rebate and private use reports are evaluated by peer professionals and senior legal advisors at Orrick, one of the nation's leading public finance law firms. Our swap and investment bidding services are supported by state-of-the-art software for real-time and precise solutions.

The requirements that we help our clients meet are challenging, but our goal is simple: to help clients make effective use of tax-exempt finance, with transparency and the least amount of exposure to market or regulatory risk.

Experience and Longevity

BLX Group was founded over 30 years ago as the Financial Services Group of Orrick, a global law firm with expertise in municipal finance. Since our inception, BLX has expanded into a nationwide network of professionals providing compliance consulting, investment advisory and program management services to the public finance sector.

Our President and CEO, Craig Underwood, joined BLX at its formation, and rose through the ranks. Most of our senior professionals have been with the firm for many years and have decades of experience in municipal finance, during which they have handled a broad range of engagements for a wide variety of clients.

The importance of longevity to our clients cannot be overstated. Our team members are familiar with the legal and regulatory constraints within which our clients must operate. The needs and expectations of officials at the IRS and other regulatory agencies are at the forefront of our consulting services.

Finally, municipal finance projects have lifespans of years and decades. Our clients know that BLX professionals who advise them today will be part of their team for years to come. They will be familiar with the client's requirements, practices and resources, enabling them to provide continuity in the event of staff turnover.

Arbitrage Rebate

BLX Group offers personalized service and proven solutions for managing complex arbitrage compliance projects. We bring decades of experience, creativity, expertise as well as national resources to serve the nation's largest and most demanding issuers, as well as the smallest.

Given the timeframe of most tax-exempt bonds, compliance strategies need to be based upon expectations for market conditions over the life of the issue. Regardless of the interest rate environment, issuers should have the procedures, policies and documentation in place to comply with regulatory requirements now and in the future.

With procedures and insights developed over the course of preparing more than 80,000 arbitrage analyses, the standard scope of BLX arbitrage compliance services includes:

- Verifying whether the issue is subject to IRS arbitrage rebate requirements;
- Identifying and accounting for "Gross Proceeds" of the bond issue;
- Calculating bond yield and any excess investment earnings that may result in rebate or yield restriction liability or penalty;
- Determining if exceptions are applicable to the bond issue;
- Delivering documentation to support all calculations;
- Providing an executive summary that identifies the methodology, assumptions and calculations used;
- Delivering a legal opinion by a nationally recognized tax counsel, stating that the arbitrage rebate analysis was prepared in accordance with federal law;
- Providing all IRS documentation and instructions if a payment to the IRS is required; and,
- Complimentary access to the BLX Portal which offers real-time access to data from our arbitrage tracking database.

Post-Issuance Compliance

The IRS has made it clear that post-issuance tax compliance by issuers and borrowers of tax-exempt bonds is a high priority for them.

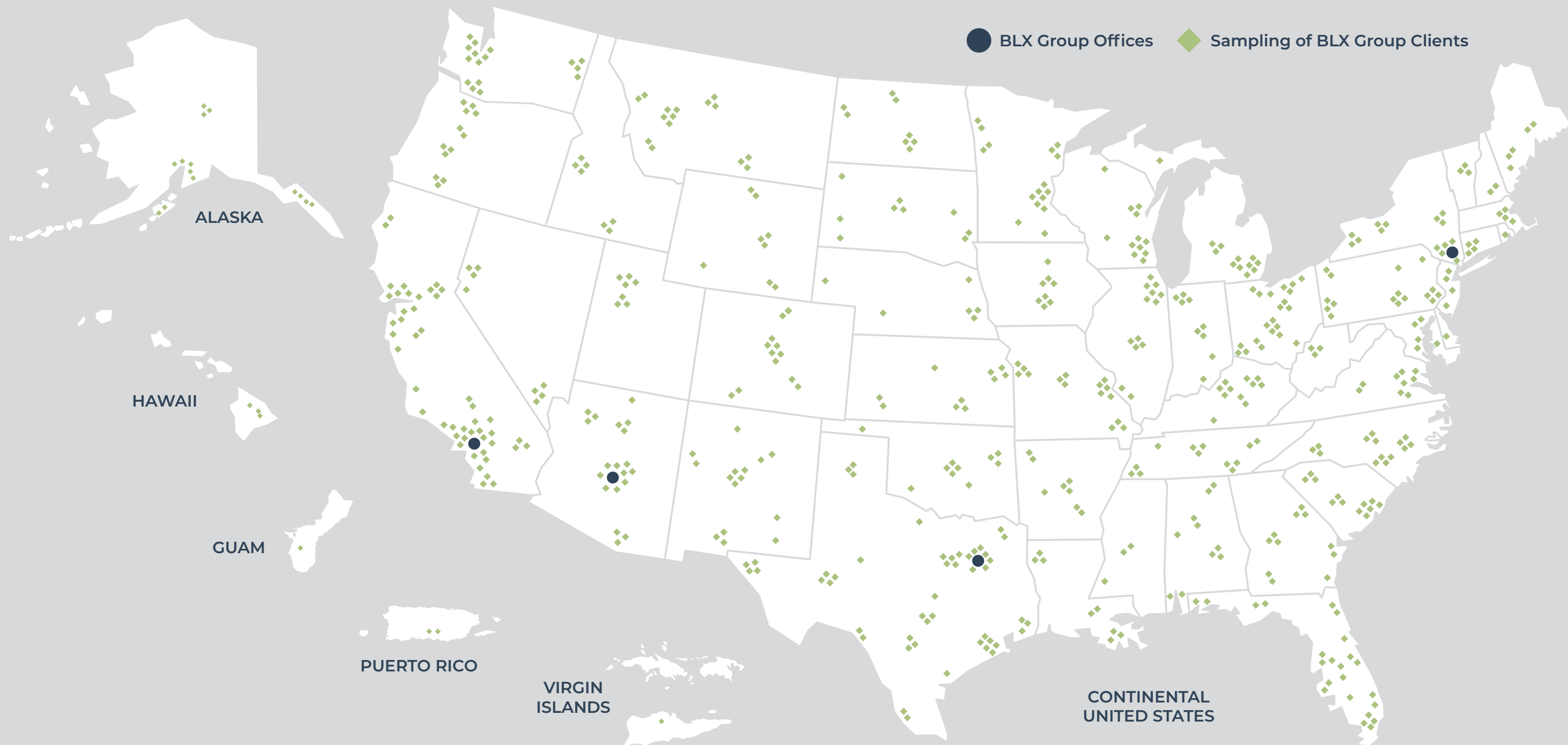
Issuers and borrowers must be able to demonstrate that their compliance measures are complete, accurate, and timely. They must also be prepared to respond to such regulatory measures as audits, physical examination of bond-financed facilities, and close review of private use of these facilities.

IDAHO HOUSING AND FINANCE ASSOCIATION



Idaho Housing has been a client since BLX Group was founded in 1989. BLX oversees the arbitrage compliance program for Idaho Housing's large portfolio of single family mortgage bonds.

BLX consultants have successfully navigated through multiple indentures established for hedged and unhedged variable rate debt, and have prepared dozens of loan yield analyses for variable rate bonds prior to their conversion to fixed rate. BLX has also provided swap advisory, restructuring, and monitoring services, and has worked closely with Idaho Housing to obtain a positive outcome on several IRS audits.



BLX professionals in strategically located offices in Los Angeles, New York, Dallas and Phoenix offer a wide range of advisory services to issuers and obligated persons of municipal offerings. The services we offer include arbitrage rebate consulting and post-issuance tax compliance, continuing disclosure, strategies for investment of bond proceeds, tools for managing swaps and acquiring structured products,

financial advisory services, and program administration services. From Alaska to Florida, the Virgin Islands and Puerto Rico to Guam, New Hampshire to Hawaii, BLX Group has provided services to municipalities across the United States. To learn more, please visit: blxgroup.com

CITY OF ORLANDO



Since 1998, BLX Group has been preparing comprehensive arbitrage rebate analyses for the City of Orlando. The reports account for transferred proceeds associated with multiple refunding bonds, as well as proceeds commingled in a large parity reserve fund. The assigned team of post-issuance compliance experts at BLX prepared turn-key allocation and optimization analyses to minimize the City's arbitrage rebate liabilities. BLX has also provided investment advisory services to the City.

Due to heightened scrutiny, issuers and borrowers of tax-exempt debt must pay close attention to post-issuance obligations. Many issuers and borrowers now recognize that understanding and meeting these obligations may be beyond the capabilities of their inhouse resources, and turn to BLX for assistance.

Comprehensive post-issuance tax compliance oversight by BLX can help ensure regulatory compliance, enable efficient and prompt response to an IRS audit, provide for a streamlined review process at refunding, and allow issuers and borrowers to make educated decisions about potential use of their facilities.

Post-issuance tax compliance services offered by BLX include:*

- Comprehensive review of expenditure and use of bond proceeds;
- Review of agreements with private parties related to the use of bond-financed facilities;
- Annual review and calculation of private business use;
- Recommendation for internal post-issuance compliance policies and procedures;
- Preparation of tailored checklists to support compliance with bond document requirements; and,
- Assistance in responding to IRS inquiries and post-issuance questionnaires.

Continuing Disclosure

BLX is a source of expertise to help issuers and obligated persons meet these compliance obligations.

BLX continuing disclosure services include reviewing continuing disclosure agreements, assembling the required disclosure information, preparing the content of annual reports and event notices, formatting these reports and notices, verifying that they contain the information agreed to be provided, and disseminating them by the required dates.

In addition, BLX has developed a service for underwriters to assist with their evaluation of an issuer's or obligated person's historical continuing disclosure compliance prior to a new bond financing.

* While BLX Group does not offer legal services, our parent firm Orrick can provide legal expertise.

BLX Group: Technology-supported Solutions for its Clients

Swap Advisory

For government and nonprofit entities, swaps (and other derivatives) can be powerful tools for managing risk and structuring debt, but can be complicated and sophisticated financial instruments. Without specialized expertise, it can be difficult to know if the transaction is suitable for the user's circumstances, if its terms are equitable and properly documented, if it is being executed "at market," and how to manage the swap during its lifetime.

BLX is an MSRB/SEC registered municipal advisor and has a dedicated derivatives team that provides derivative advisory and monitoring services designed for governmental and nonprofit clients. BLX does not take a principal position in any swap, nor do we act as a counterparty. Our services are designed solely for the end-user of swaps, and include:

- Acting as an Independent Registered Municipal Advisor (IRMA) and/or Qualified Independent Representative (QIR);
- Evaluating appropriateness of proposed structures and providing independent pricing and analyses;
- Reviewing and negotiating ISDA swap documentation;
- Assistance with Dodd-Frank requirements, including end-user exception, eligible contract participant, and adherence with ISDA Protocols;
- On-going accounting compliance services for GASB 53 & 72, FASB 133 & 157 (Topics 815 & 820); and,
- On-going swap monitoring through BLXSwap™.

BLXSwap™

BLXSwap™ provides end-users with a specialized tool for monitoring the value of their derivatives portfolio. By their nature, swaps change in value over time, and these changes to their values must be recorded in financial statements. BLXSwap enables our clients to monitor their swaps at any time, from any location, through a secure web portal that delivers daily swap values, counterparty ratings, trade details and other current information needed for portfolio and risk management.



The City of Cleveland has been a BLX Group client since 2006. BLX consults on an arbitrage compliance program for credits related to airport, water, and power projects.

BLX has prepared sophisticated rebate computations which account for transferred proceeds stemming from numerous refunding bonds, as well as an extensive parity reserve allocation analysis. BLX was also able to assist this client in obtaining two refund claims totaling over \$1.4 million.

A dramatic image of a space shuttle launching, with bright flames and smoke at the base, set against a dark, starry night sky. The shuttle is angled upwards, leaving a trail of white smoke.

CALIFORNIA SCIENCE CENTER FOUNDATION

In 2006, BLX Group served as a financial advisor for the foundation's bond issuance totaling \$82 million. The proceeds funded a new structure along with the design and construction of new exhibits. In 2016, BLX served the foundation as its municipal/financial advisor on the refinancing of its 2006 bonds, resulting in significant present value savings of future debt service payments. Over the years, BLX has also worked closely with the foundation on post-issuance matters, including arbitrage rebate compliance and Schedule K monitoring.

Structured Products and Defeasance Escrows*

Since 2008, BLX has placed over 400 structured investment products, including escrow portfolios, with an aggregate notional amount in excess of \$37 billion. We utilize a competitive bid process to acquire structured product investments and portfolios of escrow defeasance securities on behalf of our clients. Examples of structured products are collateralized and uncollateralized investment agreements, forward delivery agreements and repurchase agreements.

We specialize in investing tax-exempt bond proceeds for our governmental and nonprofit clients. Our expertise is in formulating and executing investment strategies that are tailored to the special requirements of tax-exempt bond proceeds and other restricted funds. Our objective is to optimize returns without compromising safety and liquidity while complying with federal laws and minimizing administrative burdens.

Our depth of resources, tax regulatory expertise and ability to custom-design and implement sophisticated structured product strategies are among the reasons some of the nation's largest issuers turn to BLX for these services.

BLXBID™

All of our competitive bids are conducted through our proprietary application, BLXBID™, a web-based secure platform for conducting online auctions of structured products and escrow defeasance portfolios.

BLXBID enables us to conduct time sensitive sealed-bid auctions online, with each submitted bid known only to the bidder until the auction has ended. Upon the close of the bid window, bids submitted during the auction are automatically tabulated in real time, and presented to the client for evaluation.

With BLXBID, clients can view the process of the auction in real time and are immediately presented with the results so they can quickly make the determination to award or not. Both clients and bid participants have permanent online access to their deal records, to help ensure efficient, convenient and accurate record-keeping and compliance.

* For Municipal Entities and Obligated Persons.

Financial Advisory Services

Debt issuance requires clear foresight, and astute analysis and advice. With BLX's commitment to independence and integrity, our experienced team is able to guide clients through this complex process. We take our fiduciary responsibility very seriously. Our advice is based solely on their needs.

Thoughtful analysis is central to the critically important initial planning stage. We identify the strengths and weaknesses of a client's overall debt structure to ensure BLX's recommendations comply with current debt policies and are tailored to fit our client's specific requirements, working to help minimize interest costs and improve flexibility.

Understanding the volatility of public markets, as well as economic cross-currents, BLX supports its clients by:

- Guiding the selection of working group members;
- Working to maximize the effectiveness of a financing;
- Sharing knowledge of the market and comparable transactions that will impact bond pricing;
- Minimizing administrative burdens; and,
- Working in concert with the working group to ensure decisions are made in the client's best interest.

Program Administration Services

BLX offers a variety of specialized technical and administrative post issuance services to our clients throughout the U.S. Such services include:

- Tobacco Settlement Revenue Allocation and Monitoring;
- Working Capital Analysis;
- Hedge Bond and Endowment Fund Monitoring; and,
- Miscellaneous Reporting Services.



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