

**OUTLINE OF INVESTMENT BANKING SCOPE OF SERVICES
CITY OF REDLANDS
REDLANDS FINANCING AUTHORITY
PROPOSED WATER AND WASTEWATER REVENUE BONDS, SERIES 2012A**

Mayor Pete Aguilar and City Council
City of Redlands
35 Cajon Street
Redlands, CA 92373-1505

Chairperson and Board Members
City of Redlands
35 Cajon Street
Redlands, CA 92373-1505

Ladies and Gentlemen:

This letter will serve as an agreement between the City of Redlands (the "City") and the Redlands Financing Authority (the "Authority"), and Citigroup Global Markets Inc ("CGMI" or "Citi") to serve as the underwriter to the City and the Authority until the parties enter into a Bond Purchase Agreement (the "Bond Purchase Agreement") to be authorized and sold by the City in conjunction with the Authority. As used herein, "Citi" or "CGMI" shall mean Citigroup Global Markets Inc. and/or any affiliate thereof, as we determine appropriate to perform the services described herein. We understand that the Authority intends to issue the bonds (the "Bonds" or "Offering") to refinance the outstanding \$5,745,000 Series 1999 Water Revenue Bonds and the outstanding \$6,465,000 Series 1999 Wastewater Revenue Bonds, each secured by net revenues of their respective enterprise fund (the "Water and Wastewater Enterprise").

The scope of services and conditions outlined in this letter are designed to be compliant with MSRB Rule G-17; the disclosure and requirements of G-17 supersede any provisions set forth herein.

For this purpose, the City and the Authority desire the services of the Underwriter to assist in the structuring, financing, marketing and eventual sale of the Bonds to investors. As the Underwriter for the proposed bonds, Citi will use its best efforts to bring the bonds to market at the most favorable interest rates practicable give the structure and credit quality of the Bonds and given the market conditions existing at the time of their sale. The City, the Authority, and the Underwriter shall mutually agree upon the date of sale, which shall be scheduled so that proceeds may be delivered to the city and the Authority for the purpose of timely meeting their objectives. Nothing in this agreement shall obligate the City, the Authority or the Underwriter to enter into the Purchase Agreement.

As Underwriter, we agree to assist in the efforts of structuring and marketing the Bonds.

I. Citi Will Assist in the Structuring of the Proposed Bonds

- A. Citi will work with the City and the Authority, their Bond Counsel, Disclosure Counsel and the financial advisor to the City and the Authority ("Financial Advisor") as well as other members of the City's and Authority's financing team in evaluating specific terms and conditions affecting the Bonds with the purposes of meeting the City's and Authority's financing objectives and assuring appropriate credit quality.
- B. Citi will work with the City and the Authority and their Financial Advisor to design a feasible structure for the bonds that may help to enhance the Bonds' marketability.
- C. If requested, the Underwriter will assist the City, the Authority and Financial Advisor in identifying a suitable investment vehicle for Bond proceeds that are deposited to the refunding escrow. While Citi will not provide any recommendations on which securities to invest, CGMI does have the ability to furnish reports that illustrate escrow funding options, utilizing State and Local Government Securities ("SLGS").
- D. Citi will assist the City, the Authority and Financial Advisor in preparing material for review by credit rating agencies and any bond insurer (as applicable). While Citi will not be held accountable for the information contained in said material, Citi will participate in any credit rating presentations to such rating agencies and insurers.

II. Citi Will Assist in Marketing the Bonds

- A. At least one day prior to the submission of any formal offer to the City and the Authority for the purchase of the Bonds, Citi will indicate to the City, the Authority, and the Financial Advisor the anticipated interest rate or rates on the Bonds, the purchase price from the City and the Authority and the public offering price of the Bonds that the Underwriter then estimates will be included in such offer. This indication does not represent a firm bid or bona fide offer but is to be interpreted as solely preliminary and subject to change based on market conditions. Citi will coordinate with the Financial Advisor to develop a set of transaction comparables that demonstrate similar credit, structure and security qualities as the proposed Bonds; these comparables will be presented to the City and the Authority for review.
- B. At the designated time for sale of the Bonds, Citi will submit an offer to the City and the Authority to purchase the Bonds by way of the Bond Purchase Agreement. At the time of sale, all provisions and conditions provided in the Purchase Agreement shall supersede those provided herein. The purchase offer will be executed subject to pertinent resolutions of the City and the Authority, the Official Statement, and all other necessary documents, approvals and proceedings governing such Bonds having been determined by Bond Counsel, City Attorney, the City, the Authority and Citi to be satisfactory in all respects for financing purposes. It is intended that once purchased, the Bonds will be re-offered to the public on the basis of a bona fide public offering.
- C. The fee for the Underwriter's services will be taken in the form of a discount purchase of the Bonds and, unless specifically agreed to otherwise, is fully contingent upon the sale of the Bonds. Our final fee will be reasonably agreed to by the City and the Authority taking into consideration the underlying rating of the Bonds and prevailing market conditions, subject to review of the City's and Authority's Financial Advisor. The not-to-exceed fee amount is currently estimated to be \$59,325 in total for the Water and Wastewater Revenue Bonds.

III. General Provisions

- A. The City and the Authority agree to make available to the Underwriter and its counsel without cost, sufficient copies of any applicable reports, agreements, contracts, resolutions, and other relevant documents regarding the City and the Authority, the Water and Wastewater Enterprise, and the Bonds as reasonably may be required from time to time for the prompt and efficient performance by Citi of its obligations.
- B. The City and the Authority, in conjunction with the Financial Advisor and Disclosure Counsel, will prepare the Official Statements (preliminary and final versions) for sale of the Bonds in accordance with the standards of Rule 15c2-12 of the Securities and Exchange Commission and other applicable securities laws. The Official Statement will include a description of the Bonds, the City and Authority, and pertinent financial and economic data relating to the City, the Authority and the Water and Wastewater Enterprise. All material disclosures, including but not limited to liabilities, litigation and risk factors will be clearly stated in the Preliminary and Final Official Statements. The approval, execution and delivery of the Official Statement will be authorized by the City and the Authority for use by Citi in marketing the Bonds.
- C. Citi will pay its own out-of-pocket and other expenses, including the cost of any legal counsel which may be retained by Citi, Blue Sky and any advertising expenses in connection with the public offering of the Bonds.
- D. The City and the Authority will pay from proceeds of the Bonds, or otherwise, all customary costs and expenses including the cost of preparing, printing and distributing the Official Statement and any other documents, the fees and expenses of its counsel, Bond Counsel and Disclosure Counsel, fees to rating agencies, fees and expenses of its Financial Advisor, Trustee fees and expenses, expenses incurred on behalf of the City and the Authority's employees which are incidental to implementing this agreement, including, but not limited to, meals, transportation, lodging, and entertainment of those employees and costs of any other experts or consultants retained by the City and the Authority in connection with the financing.
- E. The City and the Authority will make their own independent decisions to enter into this transaction and as to whether the transaction is appropriate or proper for them based upon their own judgment and upon advice from such advisors as they have deemed necessary, including their Financial Advisor. They are not relying on any communication (written or oral) of Citi as investment advice or as a recommendation to enter into the transaction.

- F. It is understood and agreed that Citi (including Citi's employees) is an independent contractor and that no fiduciary relationship exist between the parties. It is further understood and agreed, that as independent contractors and not employees or agents of the City or the Authority, neither Citi nor assigned personnel shall have any entitlement as any City or Authority employee, right to act on behalf of the City or the Authority in any capacity whatsoever as agent nor to bind the City or the Authority to any obligation whatsoever.
- G. Upon 60 days written notice to Citi, the City or the Authority may terminate this agreement with cause and, in the event the termination for cause is the result of Citi failing to perform adequately the services outlined in Sections A or B, the City or the Authority may continue to pursue the sale of the Bonds without any further obligation or compensation for Citi.
- H. This agreement is not a commitment, express or implied, on the part of Citi to underwrite or purchase the Securities or to commit any capital, nor does it obligate us to enter into an underwriting agreement, Bond Purchase Agreement or similar commitment to finance. Citi's participation in any Offering will be subject to, among other things, (i) satisfactory completion of all documentation for the Offering (including a disclosure document and an underwriting agreement); (ii) satisfactory completion of a customary due diligence review; (iii) in our determination, the absence of any material adverse change in the financial markets or in the financial condition, operations or prospects of the Company; (iv) receipt of all required governmental and other approvals and appropriate legal opinions, including a 10b-5 disclosure opinion from counsel acceptable to Citigroup; and (v) approval of our internal commitment committee.
- I. In connection with our engagement hereunder, the City and the Authority hereby indemnifies Citi, its affiliates, the respective directors, officers, agents and employees of Citi and its affiliates and each other person, if any, controlling Citi or its affiliates, to the full extent lawful, against such losses, claims, damages or liabilities (including legal expenses) arising out of or relating to such engagement (and agrees that neither Citi nor such persons shall have any liability to the City or the Authority in connection with such engagement) other than with respect to losses, claims, damages or liabilities finally judicially determined to have resulted primarily from the gross negligence or willful misconduct of Citi or such persons.
- J. The City and the Authority hereby agrees that, prior to the consummation of the Offering or the termination of this agreement (whichever is earlier), it will not otherwise issue debt on a senior or parity lien with the proposed offering without our prior written consent.
- K. This agreement may be terminated by Citi at any time or by the City and the Authority at any time after 180 days from the date hereof upon written notice. The provisions set forth regarding Indemnification shall survive any termination of this agreement.
- L. The City and the Authority acknowledges that it is not relying on the advice of Citi for tax, legal or accounting matters, it is seeking and will rely on the advice of its own professionals and advisors for such matters and it will make an independent analysis and decision regarding any Offering based upon such advice.
- M. This agreement may not be amended except in writing signed by all parties hereto. The City and the Authority may not assign or delegate any of its rights or obligations hereunder without our prior written consent.

Upon your acceptance set forth below, this letter will constitute an agreement between the City and the Authority and the undersigned.

Very truly yours,

CITIGROUP GLOBAL MARKETS INC

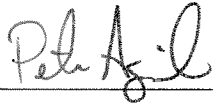


David G Houston, Managing Director

Dated: September 18, 2012

This Agreement is executed on this 18 day of September 2012 at Redlands, California and effective as of this 18 day of September 2012.

REDLANDS FINANCING AUTHORITY



Chair Person, Pete Aguilar

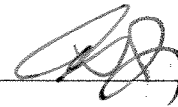
CITY OF REDLANDS



Mayor, Pete Aguilar



Attest
City Clerk, Sam Irwin



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