

PRIVILEGED AND CONFIDENTIAL

April 29, 2022

Via Email

Mr. Jason Caudle, City Manager
Mr. George Harris, Director of Finance and Information System
City of Lancaster
44933 Fern Avenue
Lancaster, CA 93534

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gharris@cityoflanasterca.gov

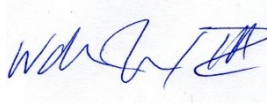
cc: Kwok-Yin Cheng, KYC Consulting, Inc.
E-mail: kyc9680@gmail.com

Re: Formation of a De Novo Public Bank ("Bank") Matter 043400

Dear Mr. Caudle and Mr. Harris,

It was a pleasure meeting you on Monday. We have updated our proposal per our discussion. The Statement of Work and Project Plan for this project is shown as Attachment A below. We have also included a contract for your signature.

Sincerely,

A handwritten signature in blue ink, appearing to read "Walter J. Mix III", written over a light blue rectangular background.

Walter J. Mix III
Managing Director
Financial Services Practice Group Leader

Attachment A
Statement of Work & Project Plan

The following summarizes our discussion regarding the project plan to form the Bank. Phase I will include developing a high-level business plan and preparing for regulatory meetings. Phase II will include implementation steps to form the Bank.

Phase I – Business Plan and Preliminary Meetings (Estimate of 6-8 weeks)

- Assist the Client with preparation of financial projections and the business plan to satisfy the FDIC and DFPI's five-year requirements.
 - (a) Business Plan: Per our conversation to date, in addition to the City of Lancaster ("City"), initial targets will include but not limited to the nine cities that are the incumbent members of your energy portfolio service. It is anticipated that the key banking services will include cash management (ACH, lockbox, on-line banking etc.), equipment loans/leases, infra-structure loans (solar project, convention center, low income housing development etc.), investment service, bond issuance and related services, trust service among others. Legal counsel opinion may be needed prior to deciding on the final products offerings. We shall also explore other public-private partnership opportunities beyond the agency services for the targeted cities in the plan.
 - (b) Banking Partner: BRG will assist the city management to identify prospective banking partners and select the appropriate candidate if deemed necessary. Preferably, the banking partner ("Partner") will be a California bank. The Partner's operation platforms will provide a "one stop shop" for the City, though it may in turn, outsource some of the services to a third party. Bond issuance and related services are good examples in this regard since not all California banks are licensed to conduct such businesses. However, the partner bank may have affiliates or correspondent arrangements with other financial institutions that will enable them to provide you with a one stop service. At a minimum, the Partner will provide a full range of cash management services, investment services, commercial loans and infra-structure financing. It will stand ready to participate in all CRA activities and possibly tax credit deals.
 - (c) Financial Projections: BRG will assist you to determine the optimal paid in capital amount and to develop a five year plan per FDIC guidelines. In order to achieve these goals, we shall request you to provide a detailed listing of your financing needs, including cash and investment activities reports (frequency and average dollar amount of each transaction and aggregate) on a monthly basis, equipment financing (types of equipment, terms and conditions etc.), timeline and dollar amount of each infrastructure project and other financing needs. This data will also help us to derive the estimated paid in capital requirement. It is understood that the City of Lancaster will be the sole owner of the public bank while the partner bank may enjoy a stream of banking service fees, interest income from loans and CRA credit.
 - (d) PowerPoint: BRG will summarize the above items and the overall plan.

- Prepare the Client for preliminary meetings with bank regulators and the FDIC regarding formation of a bank.
- Schedule, attend and assist with any follow up regarding these regulatory meetings.
- Develop other audit, internal control and risk management elements that will be expected by the FDIC to be in place prior to opening the Bank;
- Assist in identifying IT and other systems infrastructure needs that will optimally support the Bank's growth and development;
- Assist in developing and implementing risk measurement models and analytical tools;

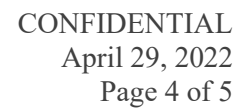
Phase II – Implementation (Estimate of 12-16 weeks – Prepare and file applications and assist Client with implementation.)

- Prepare the uniform de novo and FDIC deposit insurance applications required to form the Bank. This includes policies and procedures that must be submitted with the application.
- Maintain contact with regulators as needed during the approval process to secure timely approvals.

BRG will assist the Client to create and execute implementation plans (See sample below). These plans will include premises, locating board members and executive staff, technology systems, risk management policies and procedures.

Some of the important implementation action steps that BRG will assist the Client include:

- Assist management with the implementation of the risk management process that will set the foundation for the control structure at the Bank. In our focus on risk management, we will identify all risk categories that the institution is exposed to, and we will build a risk management infrastructure for each that will meet regulatory expectations;
- Assist in structuring management and Board-level committees that will oversee and direct risk and other management functions, including committee charters;
- Develop risk and other management reports that will be provided to the Board and senior management to assist them in monitoring the Bank's risk and performance;
- Prepare the Institution for the initial regulatory examination; and
- Provide training to the Board and management as necessary.

Matter #043400 Formation of a De Novo Bank

NOTE: The above is a sample status report. Actual implementation plan and status report will be developed at the outset of the project.

Estimated Cost(s)

Our fee estimates are based on average hourly rates for our Experts, Senior Staff, and Junior Staff. The actual fees incurred could vary significantly from the below estimates. It is our practice to perform the necessary work as efficiently as possible using a cost-effective team that leverages team members with lower hourly rates whenever possible. The range of billing rates for our team members are as follows:

Title	Rate
Director & Managing Director	\$375 and above per hour
Associate Director	\$375 and above per hour
Senior Managing Consultant/Economist	\$350 and above per hour
Managing Consultant/Economist	\$300 to \$550 per hour
Consultant	\$275 to \$535 per hour
Senior Associate	\$205 to \$475 per hour
Associate	\$190 to \$375 per hour
Case Assistant	\$100 to \$230 per hour

The fee for Phase I will be based on our hourly rates and expenses and will not exceed \$125,000.00. This means that we will bill at our normal hourly rates and expenses until we reach the fee cap. Our best estimate is that BRG's professional fees for this entire engagement will be between \$300,000 to \$400,000, based on our hourly rates and expenses. It has been our experience that the professional fees are difficult to estimate for a variety of reasons. We will update the budget once we are onsite and provide weekly updates. We will also provide a timeframe and responsibilities document delineating roles for the Bank and BRG.

Please note that the fees for legal services, accounting, executive search and others are not included in BRG's fee estimate. These issues include but are not limited to:

- Legal analysis to ascertain that the bank formation is in compliance of the State constitution.
- Bank compliance with Section 53636 of the state government code regarding governance.

Timing

We are prepared to begin this upon receipt of a signed contract.