



**AGENDA
TOWN OF CAMP VERDE
WORK SESSION
MAYOR AND COUNCIL
473 S MAIN STREET, SUITE 106
WEDNESDAY, JANUARY 12, 2022 AT 5:30 P.M.**

ZOOM MEETING LINK:

<https://us02web.zoom.us/j/83121006854?pwd=S2dKREwzeEpCb21HdHcrNURjaHZ2Zz09>

One Tap Mobile: 1-346-248-7799 or 1-669-900-9128

Meeting ID: 831 2100 6854

Passcode: 286679

Note: Council member(s) may attend Council Sessions either in person or by telephone, video, or internet conferencing.

1. Call to Order

2. Roll Call. Council Members Jackie Baker, Bill LeBeau, Cris McPhail Jessie Murdock, Robin Whatley, Vice Mayor Joe Butner, and Mayor Dee Jenkins

3. Pledge of Allegiance

4. Presentation and Discussion on current Public Safety Personnel Retirement System (PSPRS) funding status and potential funding options available.

5. Update and Discussion on personnel budgets including positions approved in the FY21/22 budget and completion of wage adjustments according to the adopted salary plan.

6. Adjournment

CERTIFICATION OF POSTING OF NOTICE

The undersigned hereby certifies that a copy of the foregoing notice was duly posted at the Town of Camp Verde and Bashas on 01-06-2022 at 3:00 p.m.

Cindy Pemberton

Cindy Pemberton, Town Clerk

Note: Pursuant to A.R.S. §38-431.03. (A)(1); (A)(2) and (A)(3), the Council may hold an Executive Session for purposes of consultation for legal advice with the Town Attorney on any matter listed on the agenda, or discussion of records exempt by law from public inspection associated with an agenda item.

Pursuant to A.R.S. §38-431.01 Meetings shall be open to the public - All meetings of any public body shall be public meetings and all persons so desiring shall be permitted to attend and listen to the deliberations and proceedings. All legal action of public bodies shall occur during a public meeting. The Town of Camp Verde Council Chambers is accessible to the handicapped. Those with special accessibility or accommodation needs, such as large typeface print, may request these at the Office of the Town Clerk at 928-554-0021

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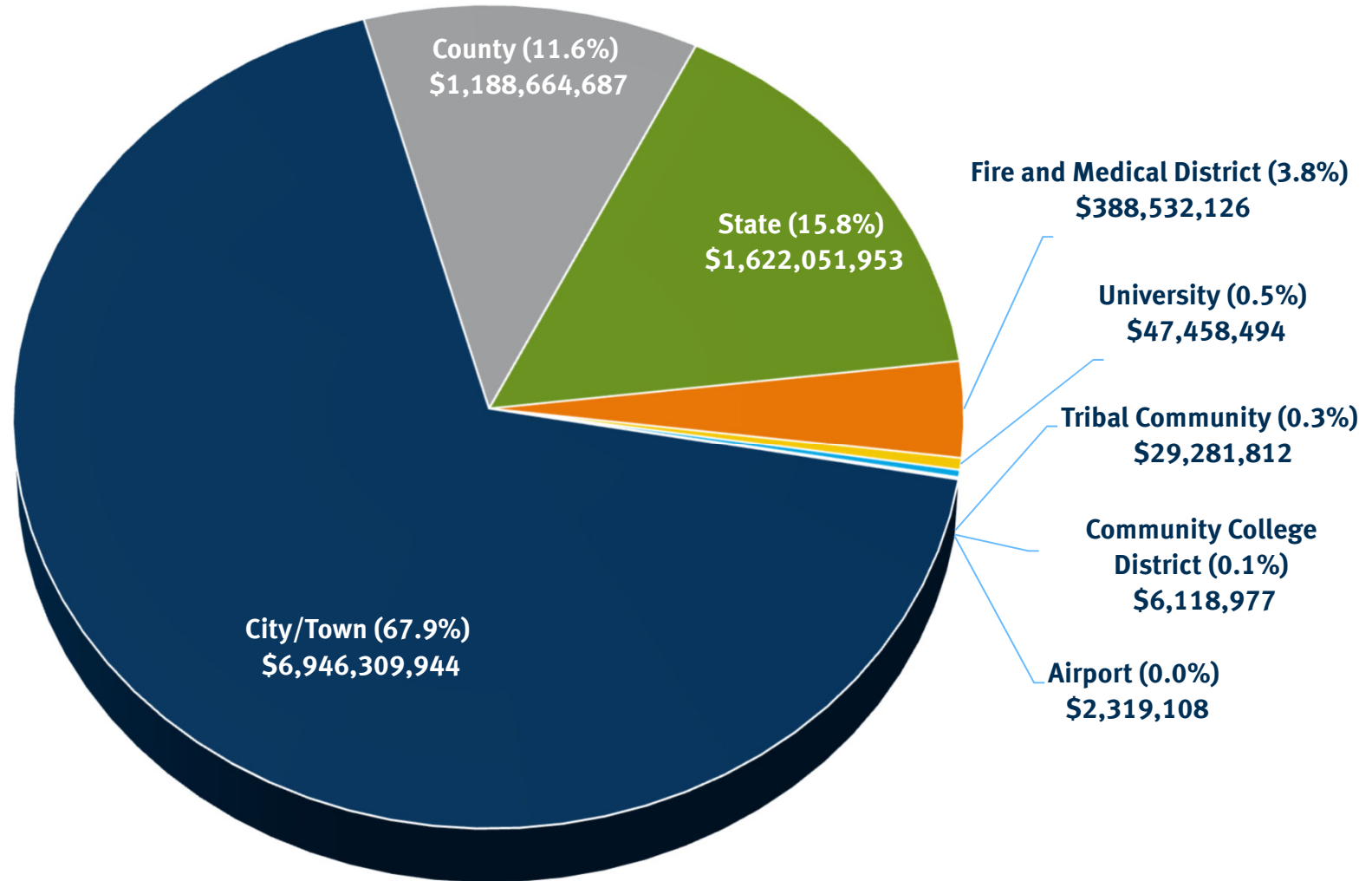


Camp Verde Marshal's Office, Arizona
Pension Plan Liability Management

January 2022

Total Tier 1 and Tier 2 PSPRS Employee Legacy Costs (Unfunded Liability)

Unfunded Pension Liability by Entity Type
PSPRS & CORP Tiers 1 & 2: \$10.2 billion (as of June 30, 2021)

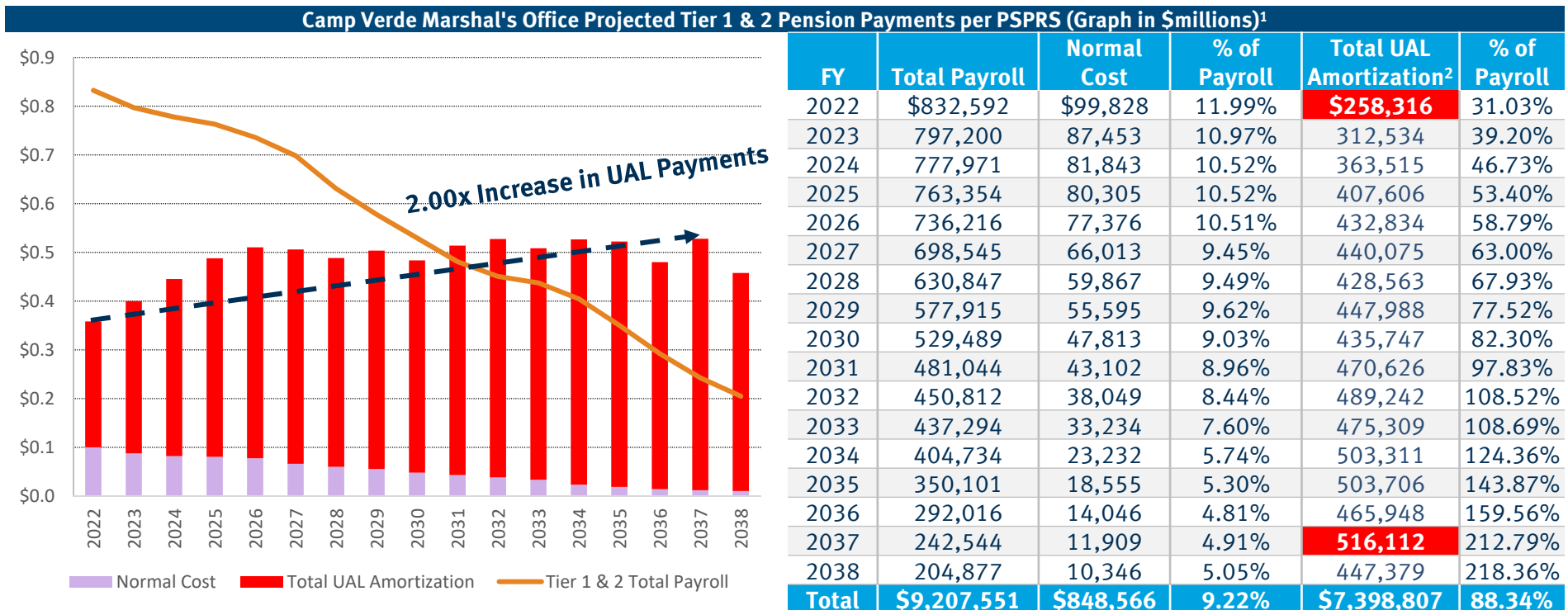


Arizona PSPRS Pension Revenue Bond and COP Transactions – July 2020 to Date

Arizona PSPRS UAAL Funding Financings					
Sale Date	Jurisdiction	Par Amount	Security	Maturity Range	All-in TIC
07/23/20	City of Flagstaff, Arizona	\$131,000,000	COP	2021 - 2040	2.696%
10/21/20	Pinal County, Arizona	\$89,055,000	REV	2021 - 2037	2.612%
10/22/20	Gila County, Arizona	\$16,855,000	REV	2021 - 2039	2.980%
12/09/20	Yuma County, Arizona	\$35,070,000	REV	2021 - 2035	2.383%
01/12/21	City of Yuma, Arizona	\$159,475,000	REV	2021 - 2038	2.381%
02/16/21	City of Tucson, Arizona	\$658,055,000	COP	2022 - 2047	2.700%
03/09/21	Apache County, Arizona	\$15,190,000	REV	2022 - 2038	2.890%
03/25/21	City of San Luis, Arizona	\$9,215,000	REV	2021 - 2037	2.994%
03/30/21	Coconino County, Arizona	\$18,160,000	REV	2022 - 2038	2.794%
04/21/21	Pima County, Arizona	\$300,000,000	REV	2022 - 2036	2.045%
05/06/21	Golder Ranch Fire District	\$27,980,000	COP	2022 - 2037	2.565%
05/11/21	Town of Wellton, Arizona	\$2,250,000	REV	2021 - 2036	3.800%
05/21/21	Town of Pinetop-Lakeside, Arizona**	\$9,645,000	REV	2022 - 2047	3.086%
05/26/21	Verde Valley Fire District	\$9,495,000	COP	2022 - 2037	2.929%
06/02/21	City of Kingman, Arizona	\$38,755,000	REV	2022 - 2037	2.458%
06/03/21	City of Cottonwood, Arizona	\$20,380,000	REV	2022 - 2038	2.549%
06/10/21	City of Douglas, Arizona	\$38,885,000	REV	2022 - 2039	2.541%
06/15/21	Town of Oro Valley, Arizona	\$17,975,000	REV	2022 - 2038	2.385%
06/23/21	City of Glendale, Arizona**	\$252,800,000	COP	2024 - 2037	2.508%
06/24/21	Highlands Fire District	\$8,510,000	COP	2022 - 2046	3.238%
07/07/21	City of Tempe, Arizona**	\$343,000,000	COP	2023 - 2037	2.148%
07/08/21	Superstition Fire and Medical District	\$29,360,000	COP	2023 - 2045	3.079%
07/20/21	Copper Canyon Fire and Medical District	\$6,840,000	COP	2022 - 2035	3.562%
07/21/21	Bullhead City Fire District	\$34,980,000	COP	2022 - 2038	2.790%
08/11/21	City of Casa Grande, Arizona	\$63,260,000	REV	2022 - 2036	2.170%
08/24/21	Arizona Fire and Medical Authority	\$38,145,000	COP	2022 - 2044	3.023%
08/26/21	Central Arizona Fire and Medical Authority	\$53,365,000	COP	2022 - 2038	2.919%
09/16/21	City of Willcox, Arizona	\$4,975,000	REV	2022 - 2036	2.778%
10/07/21	Navajo County	\$16,560,000	REV	2022 - 2038	2.779%
10/13/21	Sun City Fire District	\$44,665,000	COP	2022 - 2047	3.394%
10/19/21	Daisy Mountain Fire District	\$11,285,000	COP	2022 - 2046	3.569%
10/21/21	Fry Fire District	\$17,360,000	COP	2022 - 2048	3.746%
10/26/21	Summit Fire and Medical District	\$7,820,000	COP	2022 - 2038	3.552%
12/02/21	Hellsgate Fire District	\$2,205,000	COP	2022 - 2045	3.925%
12/15/21	Buckskin Fire District	\$6,005,000	COP	2022 - 2038	3.549%
12/16/21	Northern Arizona Fire District	\$3,995,000	COP	2022 - 2038	3.762%
Total	36 Transactions - 32 Managed by Stifel	\$2,542,570,000			

Camp Verde Marshal's Office PSPRS Pension Debt Profile: Tier 1 and Tier 2 Legacy Costs

Camp Verde Marshal's Office PSPRS Pension Debt Profile - Tier 1 and Tier 2 Legacy Costs				
Pension Plan	June 30, 2021 Recognized Liability ¹	Timing Adjustment to 3/1/2022	Unrecognized Unfunded Liability	PSPRS Amortization
PSPRS – Marshal's	\$2,667,262 (66.4% Funded) Accrual Rate: 7.3%	-\$114,484 Accrual Rate: 7.3%	-\$52,938 Accrual Rate: 7.3%	1. 16 years, 2038 2. Escalating annual amortization ranging from \$258,316 (2021/22) to \$516,112 (2036/37)
Total				\$2,471,339



1. Source: Annual Actuarial Reports and GASB 68 Reports made publicly available by PSPRS.
 2. Timing adjustment estimates the difference between the total unfunded liability as of the last actuarial report date (June 30, 2021) versus March 1, 2022. Calculation based on PSPRS's 7.3% assumed rate of return and annual payment projections provided by PSPRS for comparable employers to the County. The total liability is an estimate calculated by Stifel based on information from PSPRS and other publicly available information, and such estimate had not been independently verified. Preliminary and subject to change.

Camp Verde Marshal's Office PSPRS Pension Debt Profile: How do we compare to our peers?

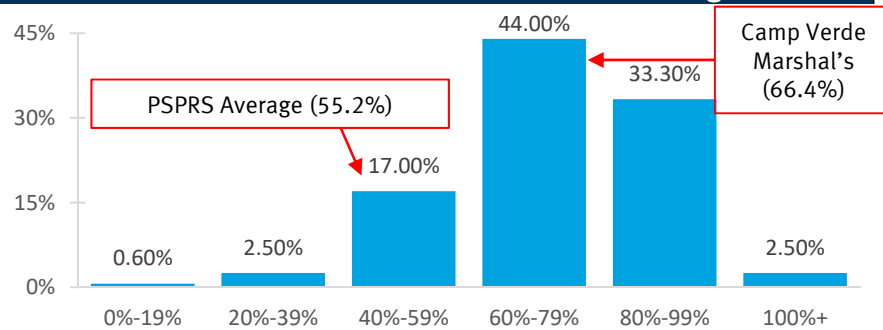
Accruing at 7.30%, the Marshal's pension payments are among the fastest escalating costs on the Town's budget

- The Town participates in Arizona PSPRS for its Marshal's employees and retirees
- The Town's plan is 66.4% funded as of 6/30/2021
- The plan's unfunded liability accrues at an assumed rate of 7.30%, well above what the Town might pay on its debt
 - The actuarial rate was revised from 7.40% to 7.30% in the 2019 valuation, causing the UAL to increase

Overview of Key Terms.

- ♦ **Actuarially Accrued Liability ("AAL").** The present value of all future benefit payments payable to current and future retirees
- ♦ **Actuarial Value of Assets ("AVA").** The current value of all assets held/invested by PSPRS to generate returns and make benefit payments to retirees
- ♦ **Funded Ratio.** The ratio of AVA to AAL; 100% funding implies Assets = Liabilities
- ♦ **Unfunded Actuarially Accrued Liability ("UAL").** The difference between the AAL and AVA

Public Pensions: National Distribution of Funding Levels²



Camp Verde Marshal's Office Plan Statistics (\$mil) (as of 6/30/2021) ¹	
	Marshal's
AAL	\$7,946,539
AVA	\$5,279,277
UAL	\$2,667,262
Actuarial Rate	7.30%
Funded Ratio	66.4%

Arizona PSPRS ¹ (\$mil)
\$19,594,926,599
\$10,815,324,245
\$8,779,602,354
7.30%
55.2%

Recommendation:

- ♦ **Refinance pension liability using other debt obligations to:**
 - Achieve 100% funding levels (top 2.5% percentile nationally); greater assets will also allow the pension funds to improve investment efficiency and liquidity for paying benefits
 - Lower borrowing rate on \$2.67 million unfunded liability from 7.30% to approximately 3.25% (depending on market conditions)
 - Generate budgetary stability and projected savings to address other needs and prevent crowding out of other priorities by escalating pension expenses

PSPRS Unfunded Liability and Related Options for Consideration

1

Do nothing

- Continue to pay accelerating payments to PSPRS resulting in possible tax increase in the future, need to cut expenses, or potentially a combination of both

2

Amend current PSPRS policy and budget more dollars towards the Unfunded Liability

- Separate tax policy or other revenue increase, and/or cuts to essential services

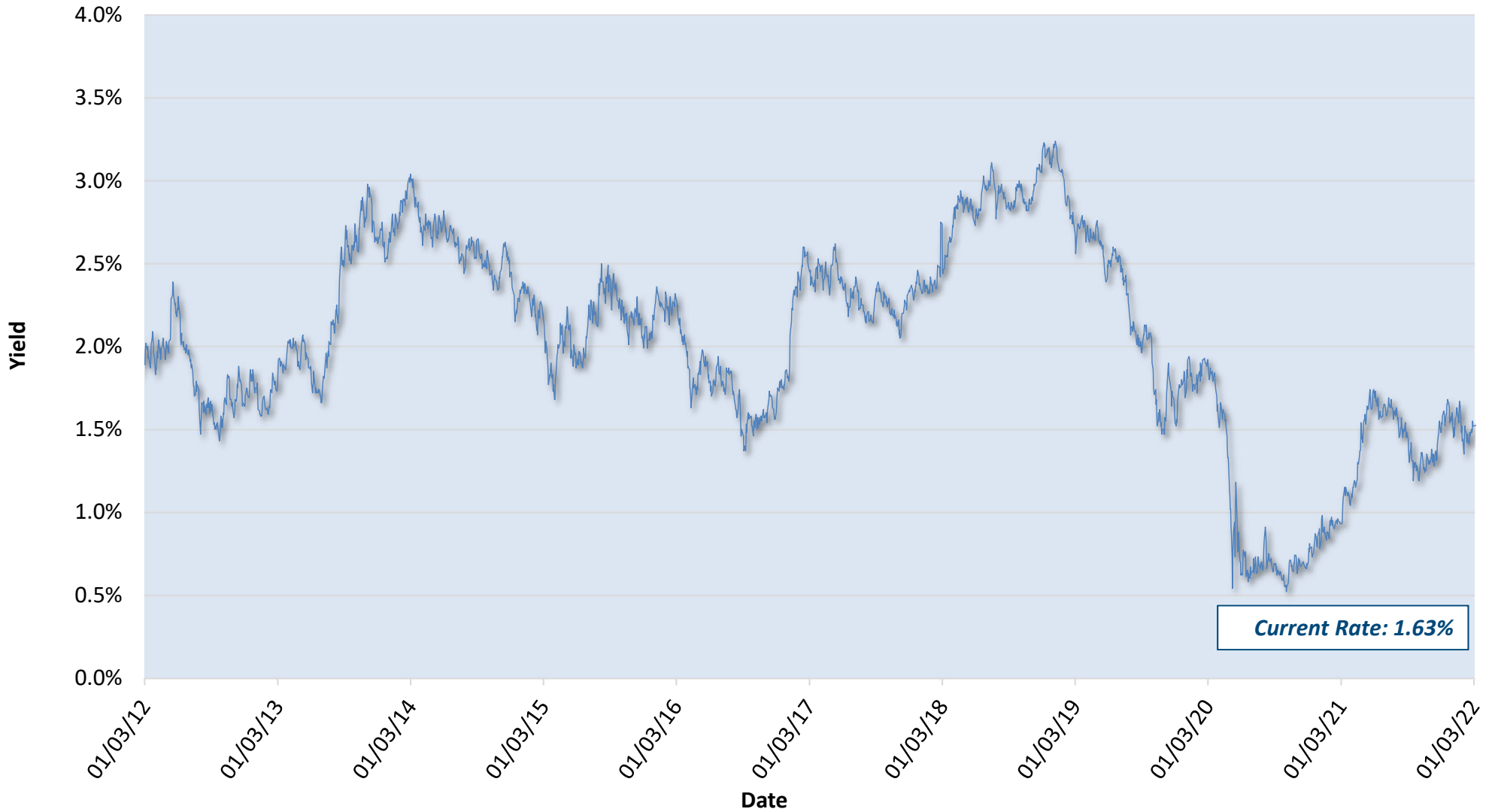
3

Refinance debt to PSPRS accruing at 7.30% with taxable Obligations yielding approximately 3.25%

- Address the legacy trajectory by “chopping down the future mountain” with fixed debt service payments and consider implementing a Contingency Reserve Fund to help manage future liability

Low Interest Rate Environment

10-Year US Treasury Note: Past 10 Years¹
(Data through 1/3/2022)

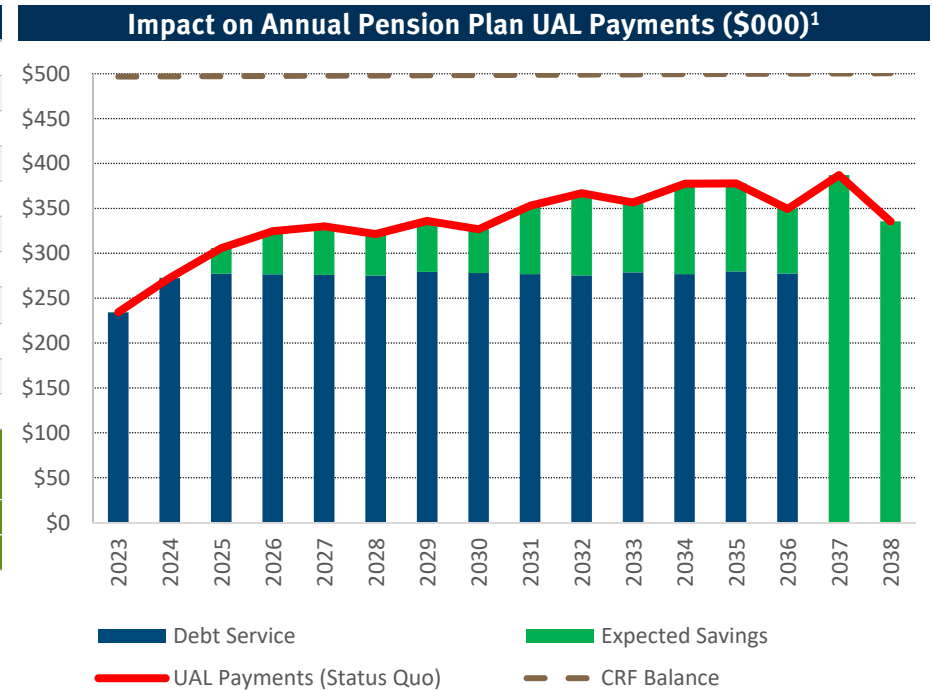


Refinancing to Smooth Pension Legacy Liability via Private Placement¹

Issuing obligations to fully fund the Town’s unfunded pension liabilities could allow the Town to generate significant expected net present value benefit totaling \$1.52 million (48.99% of Par Issued), including establishing a Contingency Reserve Fund (“CRF”) while leveling out year-over-year payments

- Replacing the Town’s upward curving pension UAL amortizations with level debt obligations could reduce the cost and life of the pension liability
- **This scenario could produce \$1,523,734 of total expected NPV savings**, including \$1,024,156 from reduced annual UAL payments, \$496,540 from the creation of a Contingency Reserve Fund, and \$3,037 from interest on the CRF assumed at 0.05%

Summary Statistics: Funding Pension Plan UAL ¹	
Dated Date	3/1/2022
Final Maturity Date	7/1/2036
All-In TIC	3.25%
Average Life	8.444 years
Bond Par Amount	\$3,110,000
Pension Fund Deposit	\$2,499,841
Contingency Reserve Fund Deposit	\$496,540
Total Interest on CRF @ 0.05% Return	\$3,987
NPV of CRF Interest @ 3.25%	\$3,037
Expected Cost Savings (UAL – Debt Service)	\$1,523,172
NPV of Expected Annual Savings @ 3.25%	\$1,024,156
Total NPV Benefit (CRF Deposits + NPV of CRF Interest + NPV of Expected Annual Savings)	\$1,523,734
Total Expected NPV Benefit (as % of Par Issued)	48.99%
Expected Funding Status after Pension Bonds²	100.00%



1. Market conditions as of January 3, 2022. Spreads based on comparable recent transactions. Stifel does not guarantee to underwrite at these levels. All NPV values are discounted to March 1, 2022 (assumed transaction closing date) at a discount rate of 3.25%, the all-in TIC. UAL and amortization computed by Stifel using assumptions from the 2020 and 2021 Actuarial Reports, annual UAL payment data provided by PSPRS as of 6/30/2021, and other Stifel calculations and assumptions. Expected savings are based on PSPRS achieving the assumed 7.3% rate of return. Please refer to Stifel’s risk disclaimer for additional information.

2. Calculated as AVA as of June 30, 2021 plus Pension Fund Deposit, divided by AAL as of June 30, 2021 plus Timing Adjustment plus Unrecognized Liability. Given the practice of amortizing unrecognized liabilities, the actuarial funded ratio immediately following this issuance will likely be different.

Refinancing to Smooth Pension Legacy Liability – Analysis Results^{1,2}

Fiscal Year Ending	Budgeted UAL Payments	Debt Service	Expected Benefit (Cash Basis)	Expected Benefit (PV @ 3.25%)
	[A]	[B]	[C] = [A]-[B]+[CRF]	[D]=PV[C]
Dated Date			\$496,540	\$496,540
7/1/2023	\$234,400	\$234,033	\$615	\$589
7/1/2024	\$272,636	\$272,225	\$659	\$612
7/1/2025	\$305,704	\$277,000	\$28,953	\$26,022
7/1/2026	\$324,625	\$276,500	\$48,374	\$42,108
7/1/2027	\$330,056	\$275,863	\$54,443	\$45,897
7/1/2028	\$321,422	\$275,088	\$46,583	\$38,034
7/1/2029	\$335,991	\$279,175	\$57,065	\$45,124
7/1/2030	\$326,810	\$277,988	\$49,072	\$37,580
7/1/2031	\$352,969	\$276,663	\$76,556	\$56,781
7/1/2032	\$366,931	\$275,200	\$91,981	\$66,072
7/1/2033	\$356,481	\$278,600	\$78,131	\$54,355
7/1/2034	\$377,483	\$276,725	\$101,008	\$68,056
7/1/2035	\$377,779	\$279,713	\$98,316	\$64,156
7/1/2036	\$349,461	\$277,425	\$72,286	\$45,683
7/1/2037	\$387,084	\$0	\$387,334	\$237,075
7/1/2038	\$335,534	\$0	\$335,784	\$199,048
Total	\$5,355,368	\$3,832,196	\$2,023,700	\$1,523,734

1. Market conditions as of January 3, 2022. Spreads based on comparable recent transactions. Stifel does not guarantee to underwrite at these levels. All NPV values are discounted to March 1, 2022 (assumed transaction closing date) at a discount rate of 3.25%, the all-in TIC. UAL and amortization computed by Stifel using assumptions from the 2020 and 2021 Actuarial Reports, annual UAL payment data provided by PSPRS as of 6/30/2021, and other Stifel calculations and assumptions. Expected savings are based on PSPRS achieving the assumed 7.3% rate of return. Please refer to Stifel's risk disclaimer for additional information.
2. If the Marshal's Office earns interest on its Contingency Reserve Fund deposit at 0.05%, it will earn \$3,987 of interest through the life of the bonds and the balance will grow to \$500,528 by 2038 if not drawn upon. Stifel is not providing investment advice.

What are the risks associated with issuing pension obligations v. the status quo?

Pension liability management carries four distinct types of risks: i) market risk, ii) actuarial risk, iii) sizing risk, and iv) other risks

Risk Description	Status Quo	Pension Obligations
<p>Market Risk. All pension plans are subject to changes in market conditions and year-over-year investment return performance. The assumed rate of return should ideally approximate a plan's long-term historical average returns</p>	<ul style="list-style-type: none"> Performance studies allow actuaries to examine whether current return assumptions remain in line with actual performance. For example, many plans nationally have revised their actuarial rate to 7.00% 	<ul style="list-style-type: none"> Primary risk is investment return performance over lifetime of obligations An issuer of pension obligations will remain better off for doing the bonding as long as investment returns remain above the bond rate
<p>Actuarial Risk. Any retirement system's independent actuaries calculate projections for plan assets and liabilities, and these projections are premised on a variety of assumptions such as investment returns, payroll increase, COLA, mortality, early retirement, and benefit payments. Annual employer contributions are calculated based on these assumptions</p>	<ul style="list-style-type: none"> Actuarial risk is inherent to all pension funds, and all projections of future contributions and payouts Any revision or variance from these assumptions will alter projections and required contributions, regardless of the issuance of pension obligations 	<ul style="list-style-type: none"> Pension obligations address the unfunded liability at a given point in time by swapping the assumed rate of return with a market-based borrowing rate that is locked in at the time of issuance. Any new liability created by new actuarial assumptions will have to be amortized separately
<p>Funding Target Risk. The PSPRS deposit amount is calculated to achieve a specified funding target defined by the issuer. This amount is calculated based on known components of the issuer's unfunded liability at the time of pricing, which is subject to achieving defined assumptions in an actuarial report; actual experience may vary</p>	<ul style="list-style-type: none"> The funded ratio is subject to actuarial risk 	<ul style="list-style-type: none"> If the actual unfunded liability upon closing of the obligations is higher or lower than the projected unfunded liability, the issuance of the obligations may result in a funding level that is above or below the target level defined
<p>Other Risks. Other risks may also exist</p>	<ul style="list-style-type: none"> Changes in statutory and/or constitutional provisions, bankruptcy filing by a municipality, etc. 	<ul style="list-style-type: none"> Changes a soft liability (pension) into hard liability (debt); could enhance the impact of statutory/constitutional/bankruptcy changes

Mitigating Risks: Contingency Reserve Fund

The Marshal's Office could apply a portion of Obligations proceeds and/or cash on hand to create a Contingency Reserve Fund that would help manage market and actuarial risks associated with pensions

- **What?** Helps mitigate risks associated with year-over-year volatility in investment earnings as well as changes in actuarial assumptions, such as assumed rate of return, COLA, mortality
- **How?** Use a portion of obligation proceeds to establish an initial balance in the CRF
 - Apply a defined portion of ongoing year-over-year budgetary savings from the pension obligation (difference between what UAL payments would have been versus debt service costs) to continue funding CRF
- **Why?** In years where investment returns do not meet defined/established benchmarks, and/or changes in actuarial assumptions cause a significant change in projected annual payments, the Marshal's Office can draw on the CRF to smooth the budgetary impact of funding additional contributions for the newly created UAL
- **Why not?** Negative carry of issuing additional debt to fund an upfront deposit

Rules for Investment of Proceeds. This is akin to permitted investment guidelines for reserve/escrow funds

- Proceeds should only be invested in liquid and/or short-term products to ensure prompt availability of funds
- Since proceeds come from a taxable bond transaction, no yield restrictions on potential investments

Rules for CRF Draws. While there may be greater flexibility to accord broader rules for draws on an CRF absent obligation proceeds, in practice, permitting draws for any/every possible increase in payments could deplete the balance too soon

- The Marshal's Office may consider establishing a minimum fund balance threshold before which draws on the balance of the CRF could occur
- Draws may also be restricted to draws of investment income only, while the balance is untouched
- Establish periodic funded ratio thresholds, where CRF balance above a pre-defined level is drawn to supplement ARC

Contingency Replenishment. Could use ongoing pension obligation savings or use *sell the float* on other Marshal's Office held funds for periodic inflows

- The Marshal's Office must also consider mechanisms to build up and/or maintain the CRF by securing a stream of cash flow beyond the first deposit
- This entails defining the revenue and investment sources for fiscal transparency, and redirecting investment returns in excess of an established benchmark to the Contingency Reserve Fund

Other Considerations: Proposition 207 Implications^{1,2,3}

Based on the State's revenue expectations once the recreational marijuana marketplace and tax is fully implemented, the Marshal's Office could expect to receive approximately \$49,650 of incremental, annual revenue

- In November 2020, Arizona Proposition 207 (legalization and taxation of recreational marijuana) passed after receiving approximately 60% approval
- The State will establish a 16% excise tax on the sale of marijuana products, and provide incremental revenue to police and fire departments (31.4% of excise tax revenue) over time
 - According to a State Fiscal Analysis of the proposition based on revenues from recreational marijuana sales in Colorado, Oregon, Washington, Nevada and California, the State expects approximately \$161 million of annual revenue from the 16% excise tax once “the program becomes more fully operational” in Calendar Year 2023
 - This implies that **\$50,659,800 will be allocable to police and fire districts** in 2023
 - The \$50.7 million of revenue will be distributed to public safety employers **based on the number of individuals from each department enrolled in PSPRS**
 - As of 6/30/2021, the Marshal's Office had 18 active PSPRS members, which represents 0.098% of PSPRS' 18,366 active members³
 - This implies **the Marshal's Office could expect to receive approximately \$49,650 annually from the 16% excise tax** (once the marketplace develops and assuming the State's Fiscal Analysis assumptions are met)
- Many jurisdictions that have recently legalized recreational marijuana have found **the runway to establishing retail sales infrastructure to be longer than, and tax revenues to be smaller than, originally projected**
- Nonetheless, this incremental revenue could be used to repay the Marshal's Office unfunded pension liabilities more quickly than required
- However, **with the unfunded pension liability accruing at a rate of 7.3%, a significant portion of payments would go towards interest on the unfunded liability as opposed to the liability itself**
- **On the other hand, pension obligation proceeds would be used to reduce (or potentially eliminate) the known unfunded liability, ending the accruing 7.3% interest on a portion of unfunded liability and replacing it with a lower bond interest rate**

Arizona Proposition 207¹ Marijuana Legalization Initiative

The law would allow limited marijuana possession, use, and cultivation by adults 21 or older; amend criminal penalties for marijuana possession; ban smoking marijuana in public; impose a 16% excise tax on marijuana sales to fund public programs; authorize state/local regulation of marijuana licensees; and allow expungement of marijuana offenses.

Pension Risk Disclaimer and Underwriter/Placement Agent Disclosure

Pension Obligation Bonds (“POBs”) are a source of financing for unfunded actuarial liabilities of pension funds and can serve a valuable function. However, the success of a POB financing is dependent on a number of assumptions proving to be accurate, and the failure of any of these assumptions is a risk that a government issuing POBs should consider.

Among the assumptions that are important to a POB financing, and the risks associated with those assumptions providing to be inaccurate, are the following:

- Assumption: The POB proceeds amount is calculated to achieve a specified funding target defined by the issuer. Risk: This amount is calculated based on known components of the issuer’s unfunded liability at the time of pricing. The projected unfunded liability at any given point in time is subject to achieving defined assumptions in an actuarial report, and actual experience may vary. If the actual unfunded liability upon closing of the bonds is higher or lower than the projected unfunded liability, the issuance of the POBs may result in a funding level that is above or below the target level defined.
- Assumption: The investment yield on the POB proceeds once deposited in the pension fund will equal or exceed the yield on the POBs. Risk: If the investment yield on the POB proceeds is less than the yield on the POBs, and the decline is not offset by positive changes in other assumptions, the issuance of the POBs may actually increase the unfunded actuarial liability.
- Assumption: Payroll increases during the term of the POBs will be as anticipated when the unfunded actuarial liability was estimated at POB issuance. Risk: If payroll increases during the term of the POBs exceed expectations, and the increases are not offset by positive changes in other assumptions, the POB proceeds will not suffice to cover the unfunded actuarial liability.
- Assumption: Cost of living adjustments (“COLAs”) will be as anticipated when the unfunded actuarial liability was estimated at POB issuance. Risk: If COLAs exceed expectations during the term of the POBs, and the increases are not offset by positive changes in other assumptions, the POB proceeds will not suffice to cover the unfunded actuarial liability.
- Assumption: Various assumptions used in calculating the unfunded actuarial liability -- such as mortality rates, early retirement incentives, types of payrolls covered by the pension fund -- will be as anticipated at the time of POB issuance. Risk: If there are reductions in mortality rates, increases in early retirement incentives, expansions of the payrolls covered by the pension plan during the term of the POBs, and these changes are not offset by positive changes to other assumptions, the POB proceeds will not suffice to cover the unfunded actuarial liability.

In addition to analyzing potential benefits that are based on achieving assumptions made in estimating the unfunded actuarial liability, we will also analyze potential budgetary benefits or losses based on various prospective levels of the pension systems’ earnings to assist you in gauging the likelihood of success of a POB transaction. It should be noted that potential budgetary benefits vary from year to year. Actual benefits or losses and the success of the POB financing cannot be known until the POBs have been paid in full.

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