WEBINAR:
Pension Bonds and PSPRS Liability Management Update

May 12, 2021

9:00 – 9:50 a.m.

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Draft Agenda – For Discussion

TIME	AGENDA TOPIC	SPEAKER(S)	ORGANIZATION
	Introductions	GFOAz	
9:00 am – 9:20 am	1. Arizona PSPRS Taxable Refunding Transactions Completed in Arizona 2. Pension Topics of Interest 3. Bond Market Update (Taxable)	**Mark Reader**, *Managing Director* **Mark Reader / Rushda Mustafa** **Rushda Mustafa,** *Vice President*	Stifel Stifel Stifel
9:20 am – 9:35 am	Case Study: City of Yuma, Arizona $159,475,000, Pledged Revenue Refunding Obligations, Series 2021 1. City Process, Debt Structure, Liability Management Tool and Expected Net Present Value Benefit of Transaction	**Philip Rodriguez**, *City Manager*	City of Yuma
9:35 am – 9:50 am	Case Study: Coconino County, Arizona, $18,160,000 Pledged Revenue Refunding Obligations, Series 2021 1. City Process, Debt Structure, Liability Management Tool and Expected Net Present Value Benefit of Transaction	**Siri Mullaney,** *CPA, CFO*	Coconino County
	Questions	*GFOAz*	

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Stifel Arizona PSPRS Financings

Arizona PSPRS UAAL Funding Financings						
Sale Date	Jurisdiction	Par Amount	Security	Rating(s)	Maturity Range	All-in TIC
07/23/20	City of Flagstaff, Arizona	$ 131,000,000	Certificates of Participation	"AA-" (Fitch) / "AA-" (S&P)	2021 - 2040	2.696%
10/21/20	Pinal County, Arizona	$ 89,055,000	Pledged Revenue Obligations	"AA" (Fitch) / "AA-" (S&P)	2021 - 2037	2.612%
10/22/20	Gila County, Arizona	$ 16,855,000	Pledged Revenue Obligations	"AA" (S&P)	2021 - 2039	2.980%
12/09/20	Yuma County, Arizona	$ 35,070,000	Pledged Revenue Obligations	"AA" (Fitch) / "AA-" (S&P)	2021 - 2035	2.383%
01/12/21	City of Yuma, Arizona	$ 159,475,000	Pledged Revenue Obligations	"AA-" (Fitch) / "AA-" (S&P)	2021 - 2038	2.381%
02/16/21	City of Tucson, Arizona	$ 658,055,000	Certificates of Participation	"A1" (Moody's) / "A+" (Fitch) / "AA-" (S&P)	2022 - 2047	2.700%
03/09/21	Apache County, Arizona	$ 15,190,000	Pledged Revenue Obligations	"AA" (S&P Insured) / "A+" (S&P Underlying)	2022 - 2038	2.890%
03/25/21	City of San Luis, Arizona	$ 9,215,000	Pledged Revenue Obligations	"AA" (S&P Insured) / "A+" (S&P Underlying) / "AA" (Fitch Underlying)	2021 - 2037	2.994%
03/30/21	Coconino County, Arizona	$ 18,160,000	Pledged Revenue Obligations	"AA" (Fitch) / "AA" (S&P)	2022 - 2038	2.794%
04/21/21	Pima County, Arizona	$ 300,000,000	Pledged Revenue Obligations	"AA+" (S&P) / "AA+" (Fitch)	2022 - 2036	2.045%
04/22/21	Town of Wellton, Arizona	$ 2,250,000	Pledged Revenue Obligations	Non rated (Private Placement transaction)	2022 - 2032	3.800%
05/06/21	Golder Ranch Fire District	$ 27,980,000	Certificates of Participation	"AA" (Fitch) / "AA" (S&P)	2022-2037	2.560%
	Total	**$ 1,462,305,000**				

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PSPRS Pension Bonding Topics of Interest

1. **Budgeting Requirements:**
   PSPRS refinancings required as part of FY2021-2022 budget

2. **Revenue Bonds and COPS:**
   Debt service not counted towards the expenditure limitation (unlike payments to PSPRS)

3. **GASB 68:**
   In order to achieve 100% funding, refinancings should include both recognized and unrecognized UAAL

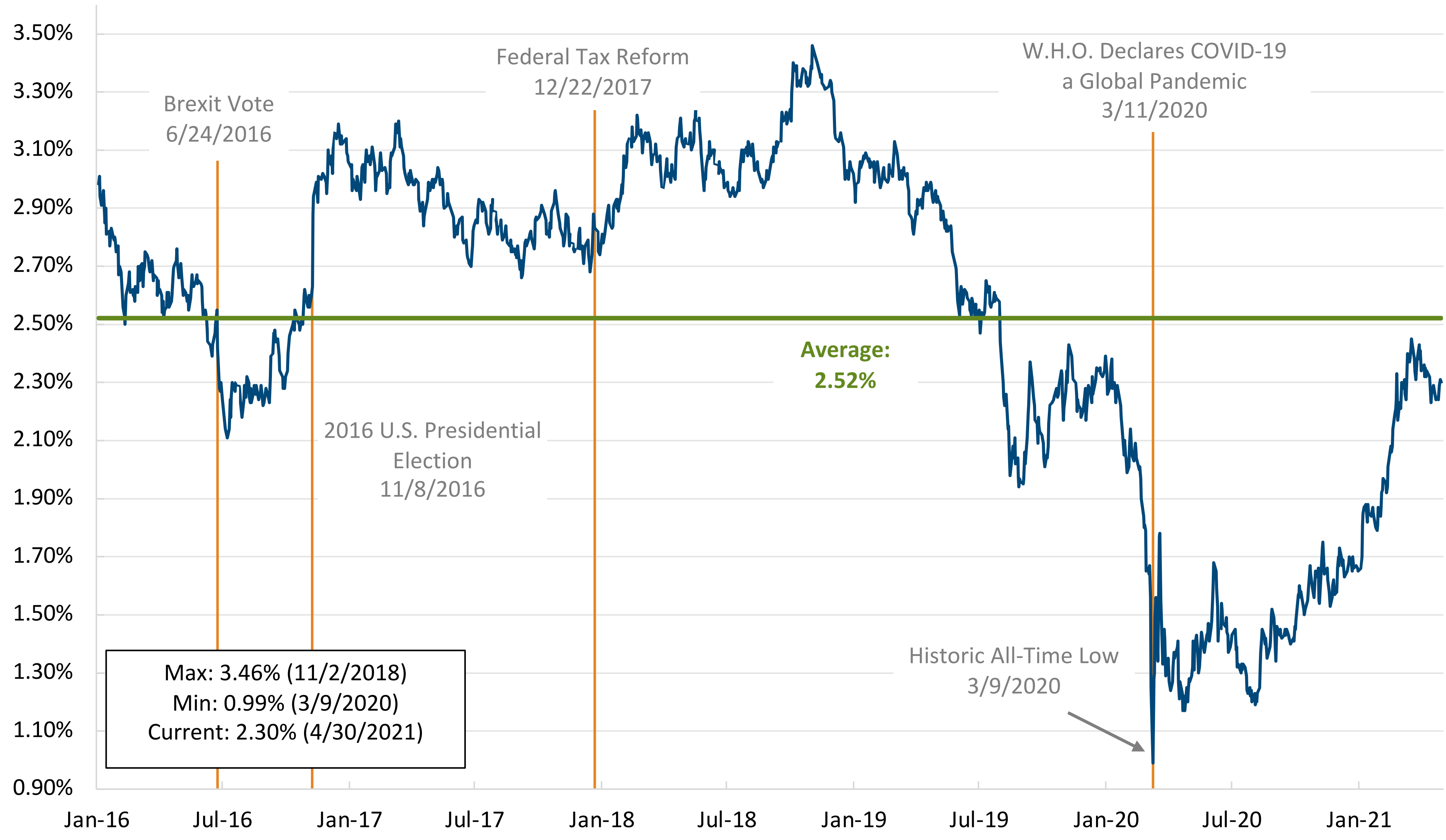
4. **PSPRS Returns FY Year-to-Date:**
   8-month return for FY2021 is 16.31%

5. **Contingency Reserve Fund ("CRF") Alternative:**
   Risk mitigation tool to provide protections against changes in investment returns or actuarial assumptions

6. **Annually Required PSPRS Policy Review and Update:**
   Stifel works with our clients to annually review the PSPRS funding policy and CRF Policy to ensure it continues meeting budgetary and policy needs

Market Volatility: A Defining Characteristic

30-Year UST Since January 1, 2016



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Source: Thomson Reuters. As of 4/30/2021.

Case Study: City of Yuma, Arizona
$159,475,000 Pledged Revenue Obligations, Taxable Series 2021

Executive Summary

Faced with substantially increasing annual contributions associated with legacy unfunded police and fire pension liabilities totaling $140 million, the City of Yuma issued its taxable Pledged Revenue Obligations (the "Obligations") secured by Excise Tax Revenues to refinance its unfunded pension liability with PSPRS. The bulk of Obligation proceeds will be deposited with PSPRS to bring the City's Unfunded Actuarial Accrued Liabilities (UAAL) to *fully funded* status by midyear 2021. With strong investor demand, the City locked in a borrowing rate of 2.381% (yields ranging from 0.297%–2.632%), providing expected savings of approximately $72.8 million on a net present value (NPV) basis.

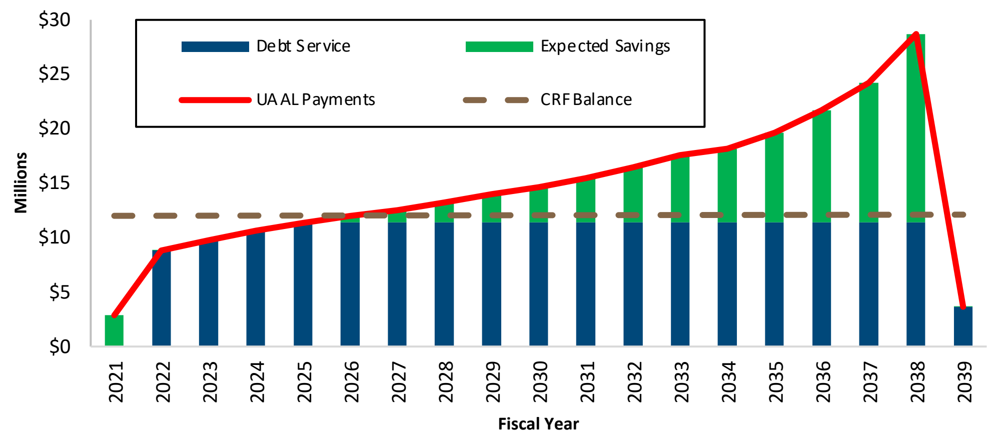
City Policy Objectives:

- ✓ Achieved $72.8 million in expected NPV savings
- ✓ "Chopped down the mountain" of escalating UAAL payments with fixed annual level debt service
- ✓ Achieved Excise Tax Secured credit ratings of "AA-" (S&P) and "AA-" (Fitch) – Stable outlooks
- ✓ Created a Pension Contingency Reserve Fund

Analysis Results

Targeting a nearly level annual debt service structure, the City refinanced its UAAL with low interest rate taxable debt Obligations.

Summary Statistics – Taxable Obligations, Series 2021	
Pricing Date	**1/12/2021**
All-In True Interest Cost	**2.381%**
Average Life	**9.27 years**
Par Amount	**$159,475,000**
NPV of Expected Savings @ 2.11% (Arb Yield)	***$72,793,473***
Total Expected NPV Benefit (%)	***49.78%***
Actuarial Funding Status after Pension Obligations	***100.00%***



Marketing & Distribution

- Stifel helped City staff create an Investor Roadshow to help access domestic and international investors
- 278 separate orders for the debt were received, 271 from 76 separate institutional investors
- Insurance companies, proprietary/trading accounts, Institutional investors and taxable bond funds drove the bulk of demand
- The exceptional investor interest helped tighten credit spreads dramatically resulting in lower borrowing costs despite increased Treasury yields in the weeks leading up to pricing
- Strong demand enabled Stifel underwriters to ***lower yields by 5-13 basis points per maturity***

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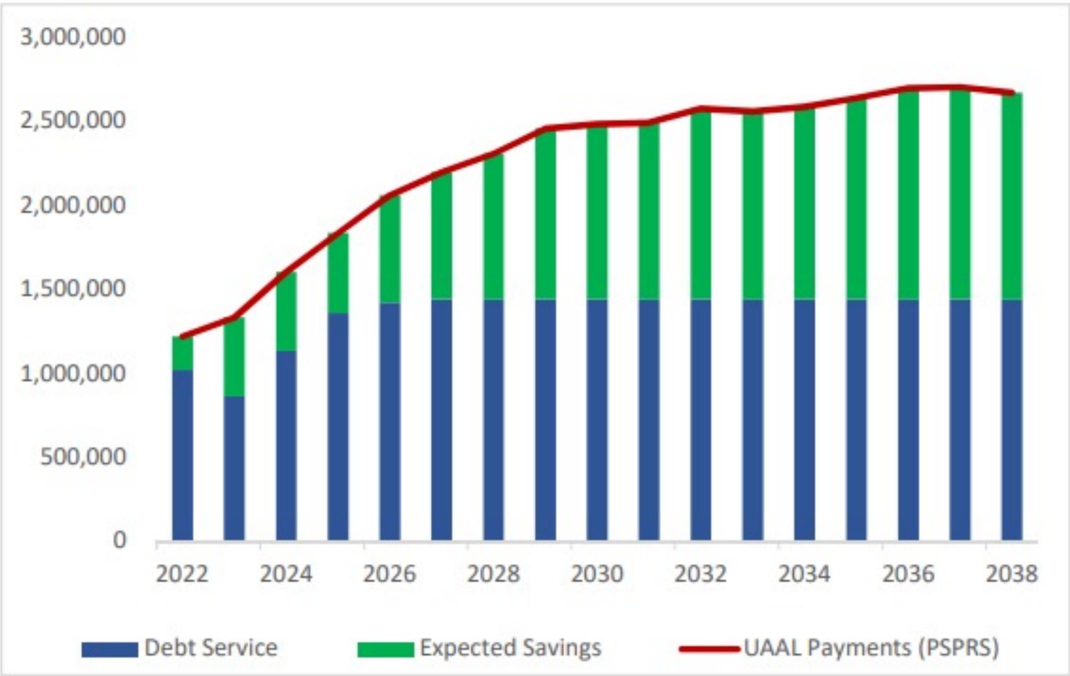
Coconino County Background

- Police PSPRS plan
- History of active plan management
  - $10 million deposits in FY16 and FY18
  - Annual additional contributions
- As of 6/30/2020 Coconino County was 72.9% funded and had a $14.5M unfunded actuarial accrued liability (UAAL)
  - Adjusted UAAL $17.8M
- Annual General Fund budget = $75 million
- No other outstanding debt

COCONINO
COUNTY ARIZONA

Coconino County Results



- AA/Stable Outlook Bond Rating
- $18.16M par amount issued April 2021
- Net Interest Cost 2.705%
- Estimated Savings $15.3M

COCONINO COUNTY ARIZONA

Case Study: Coconino County, Arizona
$18,160,000 Pledged Revenue Obligations, Taxable Series 2021

Executive Summary

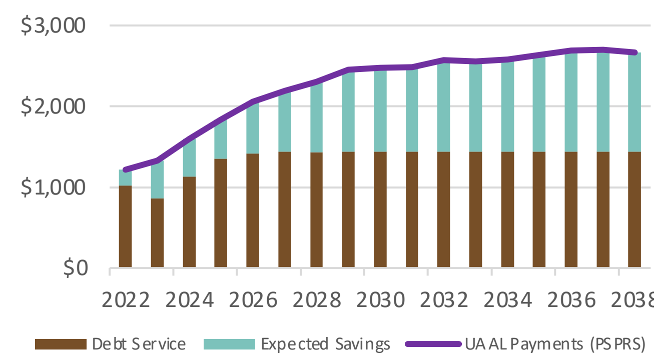
Faced with rising annual payments associated with a $17.8 million legacy unfunded liability for its PSPRS Tier 1 and 2 employees, the Coconino County Board of Supervisors and Management Staff issued taxable Pledged Revenue Obligations to achieve at or close to 100% funding on this liability. This this transaction the County was able to lock in a borrowing rate of 2.79%, which generates $11.43 million of expected present value savings (64.16%) (compared to the expected PSPRS payment structure for the unfunded liabilities). The County also decided to cash fund a $750,000 contingency reserve fund ("CRF") separately as a hedges against future unforeseen actuarial and pension assumption risks. The County anticipates building the CRF balance up to $1.1 million over the next five years.

County Policy Objectives:

- ✓ Achieved substantial and graduated budgetary savings
- ✓ Reduced payments toward UAAL with annual level debt service
- ✓ Cash fund a $750,000 Contingency Reserve Fund for budget stability with expectations for client to build to $1.1 million
- ✓ Obtain County credit ratings of "AA" (S&P) / "AA" (Fitch)

Analysis Results

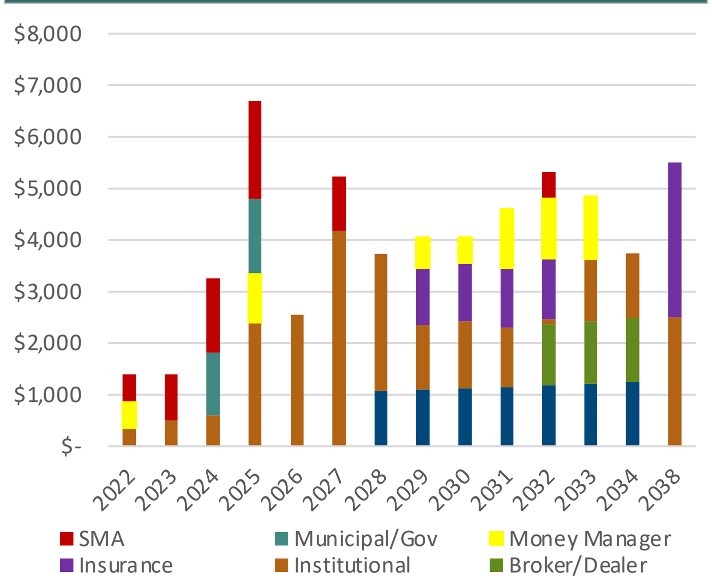
Achieving annual level debt service of less than $1.5 million and maintaining unfunded actuarial accrued liability ("UAAL") amortization period (2038), the County refinanced its UAAL by issuing "AA" Rated PROs.



Marketing & Distribution

- Stifel and County Management Team implemented a strong marketing strategy for the issue, including timely publication of the POS and a robust investor roadshow
- The County's healthy and diverse local economy and tax base, the stable historic performance of the pledged revenue stream, and the strong coverage and liquidity available to support the credit (30.1x MADS coverage and 2.0x ABT) appealed to investors
- Stifel generated ***62 orders from 25 institutional investors***, with strong demand across all maturities
- Institutional bond funds and insurance companies drove the bulk of demand on the long end of the curve, but municipal/government entities also participated
- 3x oversubscription across the curve allowed Stifel underwriters to ***lower spreads, resulting in a final all-in TIC of 2.79%***

Investor Participation by Type ($000s)



Summary Statistics	
Funded Ratio before PROs	72.9%
Funded Ratio after PROs	**Up to 100%**
All-In True Interest Cost	2.793%
Average Life	10.302 years
Debt Amortization	2022 - 2038
PROs Par Amount	$18,160,000
Pension Fund Deposit	**$17,817,697**
Expected Net PV Savings $/%	**$11,431,841/64.16%**

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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 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.