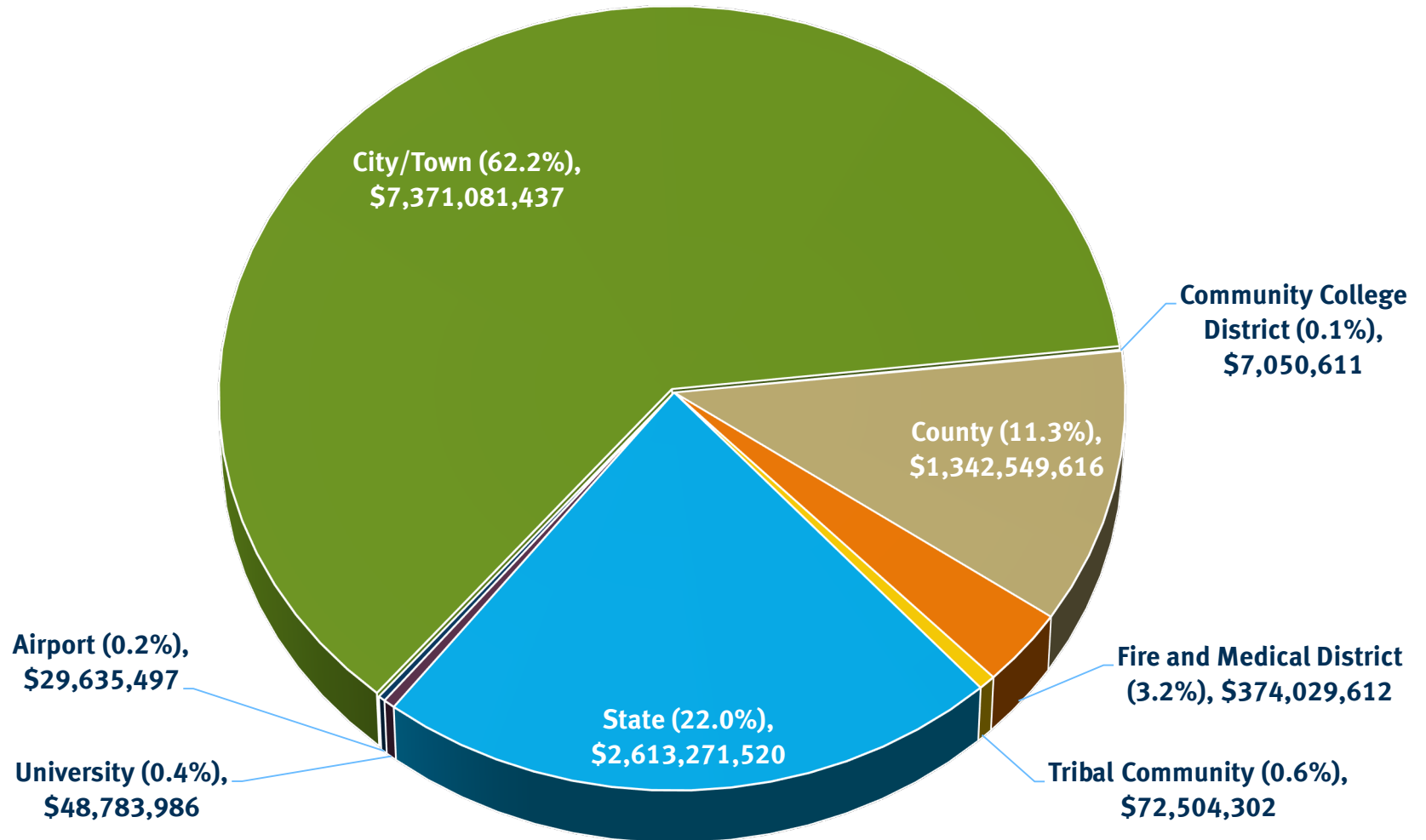




Cochise County, Arizona
Pension Plan Liability Management
July 2021

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

Unfunded Pension Liability by Entity Type
PSPRS & CORP Tiers 1 & 2



Arizona PSPRS Financings

Sale Date	Jurisdiction	Par Amount	Security	Fitch	S&P
07/23/20	City of Flagstaff, Arizona	\$131,000,000	Certificates of Participation	AA-	AA
10/21/20	Pinal County, Arizona	\$89,055,000	Pledged Revenue Obligations	AA	AA-
10/22/20	Gila County, Arizona	\$16,855,000	Pledged Revenue Obligations	–	AA
12/09/20	Yuma County, Arizona	\$35,070,000	Pledged Revenue Obligations	AA	AA-
01/12/21	City of Yuma, Arizona	\$159,475,000	Pledged Revenue Obligations	AA-	AA-
02/16/21	City of Tucson, Arizona	\$658,055,000	Certificates of Participation	A+	AA-
03/09/21	Apache County, Arizona	\$15,190,000	Pledged Revenue Obligations	–	AA
03/25/21	City of San Luis, Arizona	\$9,215,000	Pledged Revenue Obligations	AA	A+ (AA Insured)
03/30/21	Coconino County, Arizona	\$18,160,000	Pledged Revenue Obligations	AA	AA
04/21/21	Pima County, Arizona	\$300,000,000	Pledged Revenue Obligations	AA+	AA+
05/06/21	Golder Ranch Fire District	\$27,980,000	Certificates of Participation	AA	AA-
05/11/21	Town of Wellton, Arizona	\$2,250,000	Pledged Revenue Obligations	N/A*	N/A*
05/21/21	Town of Pinetop-Lakeside, Arizona**	\$9,645,000	Pledged Revenue Obligations	–	AA-
05/26/21	Verde Valley Fire District	\$9,495,000	Certificates of Participation	–	A
06/02/21	City of Kingman, Arizona	\$38,755,000	Excise Tax Revenue Obligations	AA	AA
06/03/21	City of Cottonwood, Arizona	\$20,380,000	Pledged Revenue Obligations	AA	AA
06/10/21	City of Douglas, Arizona	\$38,885,000	Pledged Revenue Obligations	AA-	AA
06/15/21	Town of Oro Valley, Arizona	\$17,975,000	Excise Tax Revenue Obligations	–	AA+
06/23/21	City of Glendale, Arizona**	\$252,800,000	Certificates of Participation	AA-	A+
06/24/21	Highlands Fire District	\$8,510,000	Certificates of Participation	–	A+
07/07/21	City of Tempe, Arizona**	\$343,000,000	Certificates of Participation	AA+	AA+
07/08/21	Superstition Fire and Medical District	\$29,360,000	Certificates of Participation	–	A
Total	22 Transactions	\$2,231,110,000			

Cochise County PSPRS Pension Debt Profile: Tier 1 and Tier 2 Legacy Costs

- **Recognized Liability:** UAL as recognized by PSPRS as of June 30, 2020
- **Timing Adjustment:** Adjustment made to account for the accrued increase in UAL between the PSPRS Report as of June 30, 2020 and the dated date, June 30, 2022
- **Unrecognized Unfunded Liability:** Unfunded liabilities expected to accrue over the next five years from the GASB 68 reports

Cochise County PSPRS Pension Debt Profile - Tier 1 and Tier 2 Legacy Costs				
Pension Plan	June 30, 2020 Recognized Liability ¹	Timing Adjustment to 6/30/2022	Unrecognized Unfunded Liability	PSPRS Amortization
PSPRS – Sheriff	\$36,750,774 (36.8% Funded) Accrual Rate: 7.3%	\$2,038,475 Accrual Rate: 7.3%	\$3,245,503 Accrual Rate: 7.3%	1. 27 years, 2048 2. Escalating annual amortization ranging from \$2,093,766 (2021/22) to \$5,176,935 (2046/47)
Corp - Detention	\$6,854,023 (50.9% Funded) Accrual Rate: 7.3%	\$73,640 Accrual Rate: 7.3%	\$789,989 Accrual Rate: 7.3%	1. 18 years, 2039 2. Escalating annual amortization ranging from \$549,653 (2021/22) to \$969,771 (2032/33)
Total	\$43,604,797	\$2,112,115	\$4,035,492	\$49,752,404

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, 2020) versus June 30, 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.

Cochise County PSPRS Pension Debt Profile: How do we compare to our peers?

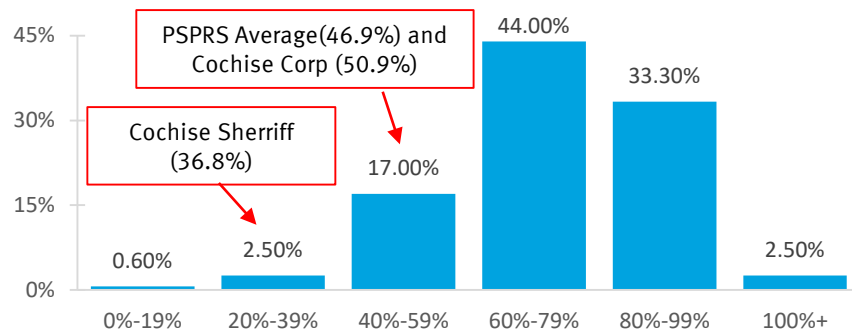
Accruing at 7.30%, the County's pension payments are among the fastest escalating costs on the County's budget

- The County participates in Arizona PSPRS for Sherriff and Corp employees and retirees
- The County's Sherriff and Corp plans are 36.8% and 50.9% funded as of 6/30/2020
- The plan's unfunded liability accrues at an assumed rate of 7.30%, well above what the County 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



Cochise County Plan Statistics (\$mil) (as of 6/30/2020)¹

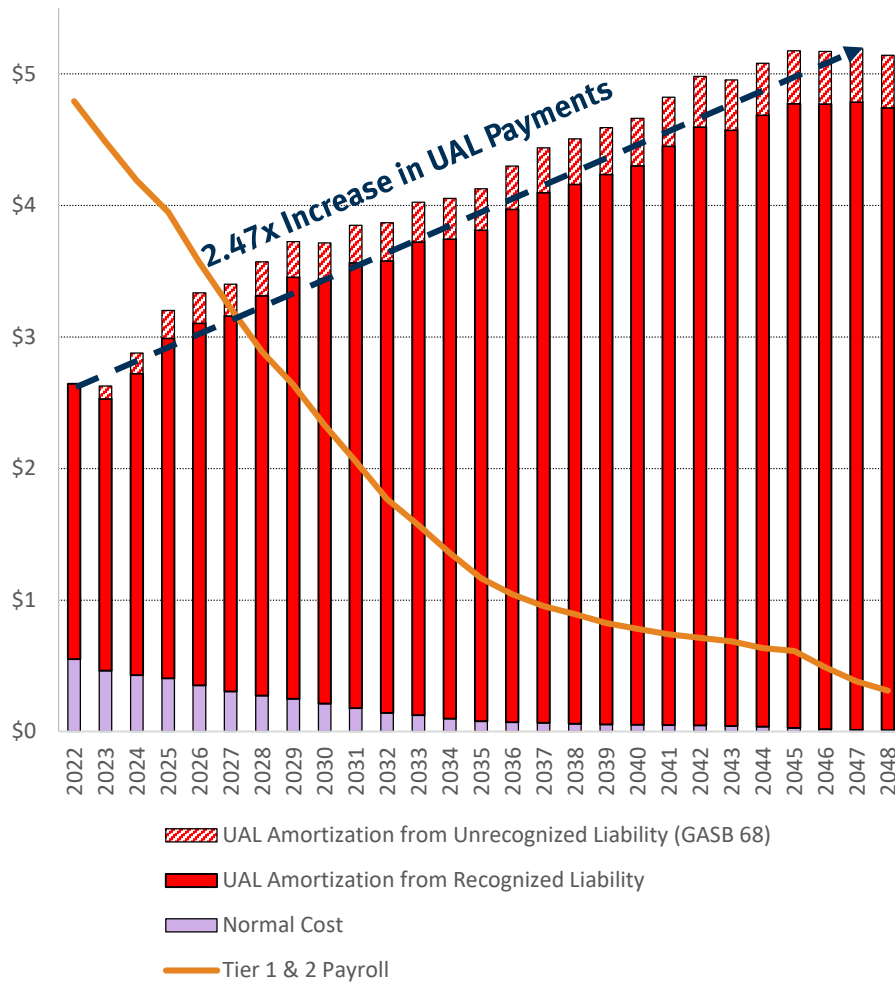
	Sherriff	Corp	Arizona PSPRS ¹ (\$mil)
AAL	\$58.12	\$13.96	\$18.51
AVA	\$21.37	\$7.11	\$8.67
UAL	\$36.75	\$6.85	\$9.85
Actuarial Rate	7.30%	7.3%	7.30%
Funded Ratio	36.8%	50.9%	46.9%

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 \$49.8 million unfunded liability from 7.30% to approximately 3.30% (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

Status Quo: What are we currently paying? (Cochise Sherriff)

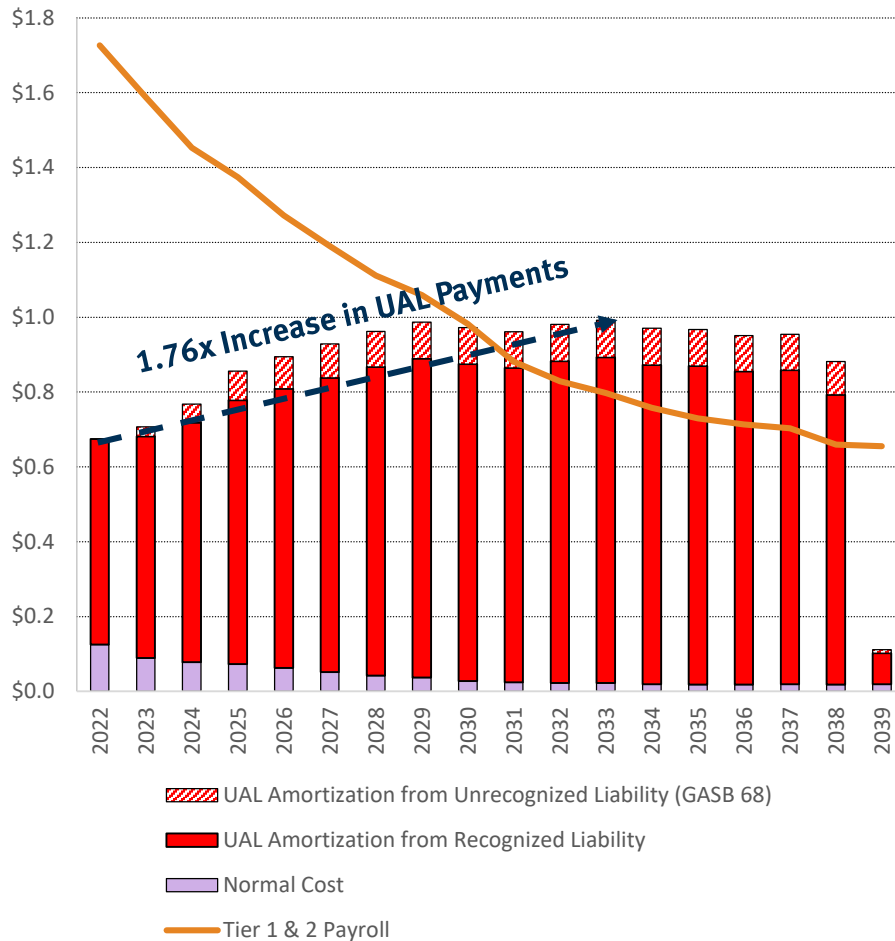
Cochise County Projected Tier 1 & 2 Pension Payments per PSPRS (Graph in \$mil)¹



FY	Total Payroll	Normal Cost	% of Payroll	Total UAL Amortization ²	% of Payroll
2022	\$4,792,742	\$550,207	11.48%	\$2,093,766	43.69%
2023	4,484,484	464,144	10.35%	2,164,561	48.27%
2024	4,188,417	430,569	10.28%	2,446,895	58.42%
2025	3,951,056	405,773	10.27%	2,797,234	70.80%
2026	3,568,910	351,181	9.84%	2,985,724	83.66%
2027	3,221,054	306,644	9.52%	3,094,496	96.07%
2028	2,890,556	273,158	9.45%	3,298,556	114.11%
2029	2,636,826	249,180	9.45%	3,477,565	131.88%
2030	2,329,420	212,676	9.13%	3,504,349	150.44%
2031	2,054,030	179,317	8.73%	3,670,503	178.70%
2032	1,767,706	141,947	8.03%	3,727,106	210.84%
2033	1,569,271	124,914	7.96%	3,900,775	248.57%
2034	1,359,056	98,532	7.25%	3,954,461	290.97%
2035	1,167,093	78,662	6.74%	4,049,717	346.99%
2036	1,043,827	72,755	6.97%	4,226,912	404.94%
2037	953,809	66,385	6.96%	4,371,321	458.30%
2038	893,104	60,374	6.76%	4,447,313	497.96%
2039	824,325	55,807	6.77%	4,535,194	550.17%
2040	782,434	51,719	6.61%	4,610,076	589.20%
2041	739,508	48,881	6.61%	4,773,358	645.48%
2042	712,341	46,872	6.58%	4,934,003	692.65%
2043	686,396	41,733	6.08%	4,913,914	715.90%
2044	634,651	38,396	6.05%	5,042,254	794.49%
2045	613,413	28,156	4.59%	5,147,966	839.23%
2046	488,759	17,400	3.56%	5,155,023	1054.72%
2047	381,668	14,160	3.71%	5,176,935	1356.40%
2048	312,111	9,800	3.14%	5,131,874	1644.25%
Total	\$49,046,967	\$4,419,342	9.01%	\$107,631,852	219.45%

Status Quo: What are we currently paying? (Cochise Corp)

Cochise County Projected Tier 1 & 2 Pension Payments per PSPRS (Graph in \$mil)¹

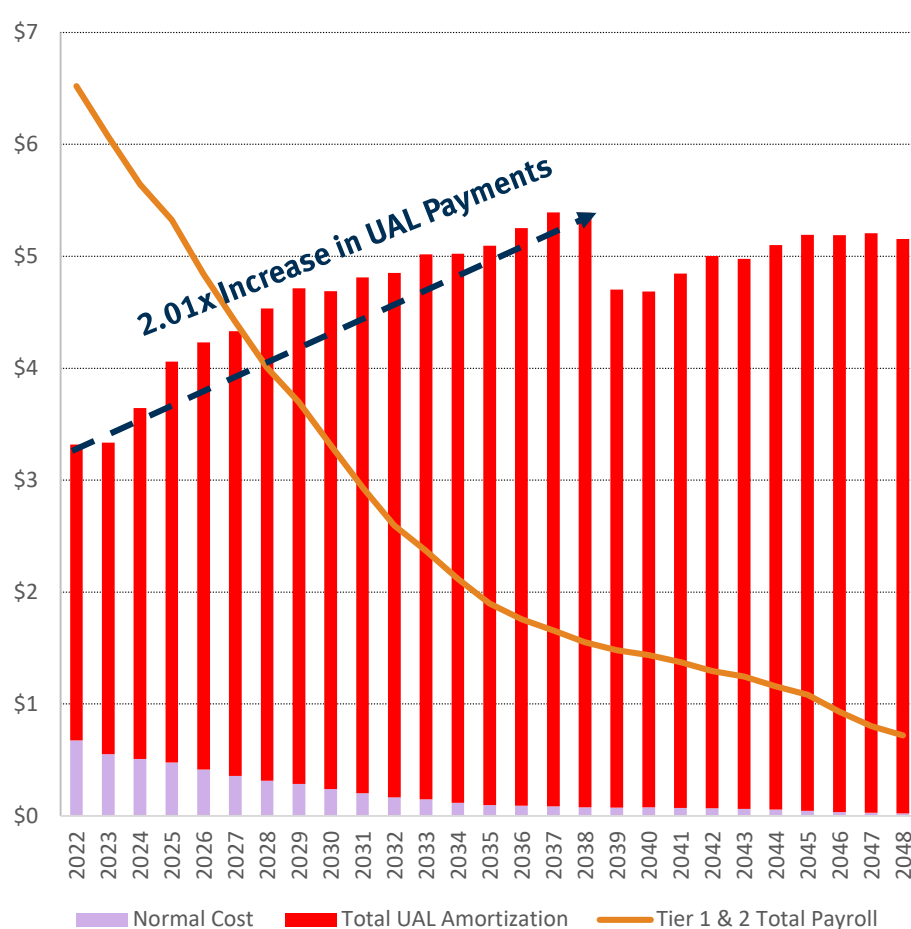


FY	Total Payroll	Normal Cost	% of Payroll	Total UAL Amortization ²	% of Payroll
2022	\$1,726,875	\$125,026	7.24%	\$549,653	31.83%
2023	1,587,667	89,068	5.61%	617,801	38.91%
2024	1,452,738	78,157	5.38%	689,295	47.45%
2025	1,373,788	72,811	5.30%	783,570	57.04%
2026	1,272,483	62,352	4.90%	832,248	65.40%
2027	1,190,409	51,664	4.34%	876,994	73.67%
2028	1,111,579	42,018	3.78%	919,835	82.75%
2029	1,059,105	37,386	3.53%	949,899	89.69%
2030	981,792	27,588	2.81%	944,669	96.22%
2031	881,347	23,973	2.72%	936,945	106.31%
2032	828,848	22,545	2.72%	958,660	115.66%
2033	797,383	22,406	2.81%	969,771	121.62%
2034	758,401	19,263	2.54%	951,156	125.42%
2035	729,636	18,387	2.52%	948,728	130.03%
2036	713,658	17,984	2.52%	933,205	130.76%
2037	703,613	19,068	2.71%	935,509	132.96%
2038	659,672	17,877	2.71%	863,651	130.92%
2039	655,682	18,884	2.88%	92,537	14.11%
Total	\$18,484,676	\$766,457	4.15%	\$14,754,128	79.82%

Status Quo: What are we currently paying? (Combined Sherriff and Corp)

The County is essentially borrowing from PSPRS to support its pension plans and this cost continues to grow

Cochise County Projected Tier 1 & 2 Pension Payments per PSPRS (Graph in \$mil)¹



FY	Total Payroll	Normal Cost	% of Payroll	Total UAL Amortization ²	% of Payroll
2022	\$6,519,617	\$675,233	10.36%	\$2,643,419	40.55%
2023	6,072,151	553,212	9.11%	2,782,362	45.82%
2024	5,641,155	508,726	9.02%	3,136,190	55.59%
2025	5,324,844	478,584	8.99%	3,580,804	67.25%
2026	4,841,393	413,533	8.54%	3,817,972	78.86%
2027	4,411,463	358,308	8.12%	3,971,490	90.03%
2028	4,002,135	315,176	7.88%	4,218,390	105.40%
2029	3,695,931	286,566	7.75%	4,427,465	119.79%
2030	3,311,212	240,264	7.26%	4,449,018	134.36%
2031	2,935,377	203,290	6.93%	4,607,448	156.96%
2032	2,596,554	164,492	6.34%	4,685,767	180.46%
2033	2,366,654	147,320	6.22%	4,870,546	205.80%
2034	2,117,457	117,795	5.56%	4,905,616	231.67%
2035	1,896,729	97,049	5.12%	4,998,445	263.53%
2036	1,757,485	90,739	5.16%	5,160,117	293.61%
2037	1,657,422	85,453	5.16%	5,306,831	320.19%
2038	1,552,776	78,251	5.04%	5,310,964	342.03%
2039	1,480,007	74,691	5.05%	4,627,731	312.68%
2040	1,437,478	76,414	5.32%	4,610,076	320.71%
2041	1,373,287	71,570	5.21%	4,773,358	347.59%
2042	1,295,140	67,794	5.23%	4,934,003	380.96%
2043	1,244,197	62,037	4.99%	4,913,914	394.95%
2044	1,157,386	57,267	4.95%	5,042,254	435.66%
2045	1,082,245	44,331	4.10%	5,147,966	475.67%
2046	930,350	32,856	3.53%	5,155,023	554.10%
2047	803,365	29,299	3.65%	5,176,935	644.41%
2048	718,450	23,737	3.30%	5,131,874	714.30%
Total	\$72,222,260	\$5,353,987	7.41%	\$122,385,980	169.46%

Recommendation:

- The County can utilize a bond issuance to refinance this liability, expectedly reduce ongoing annual payments, create a more level annual payment structure that provides greater budget stability, and increase its funded ratio to 100%

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

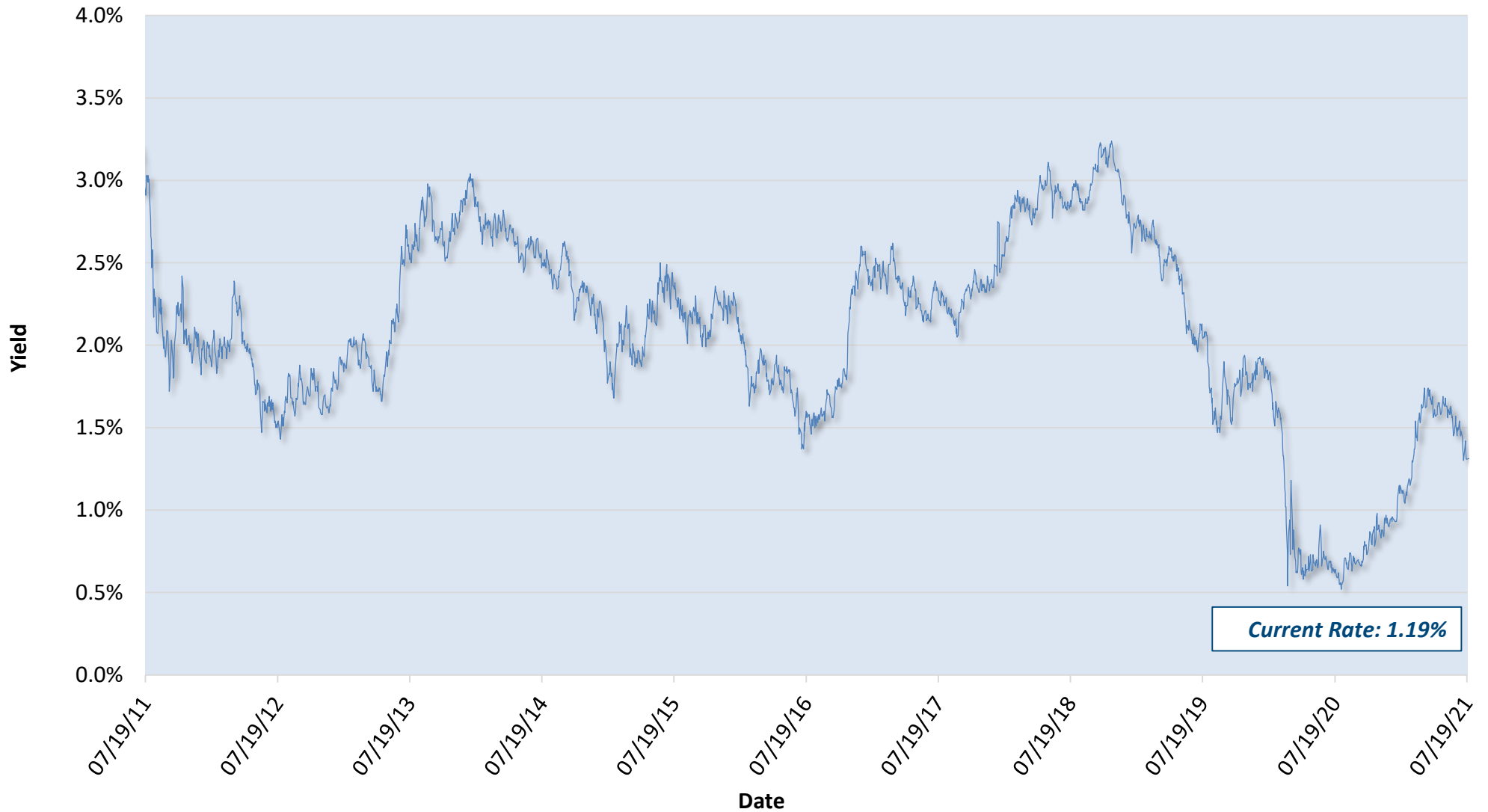
3

Refinance debt to PSPRS accruing at 7.3% with taxable Obligations yielding approximately 3.30%

- 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 7/19/2021)

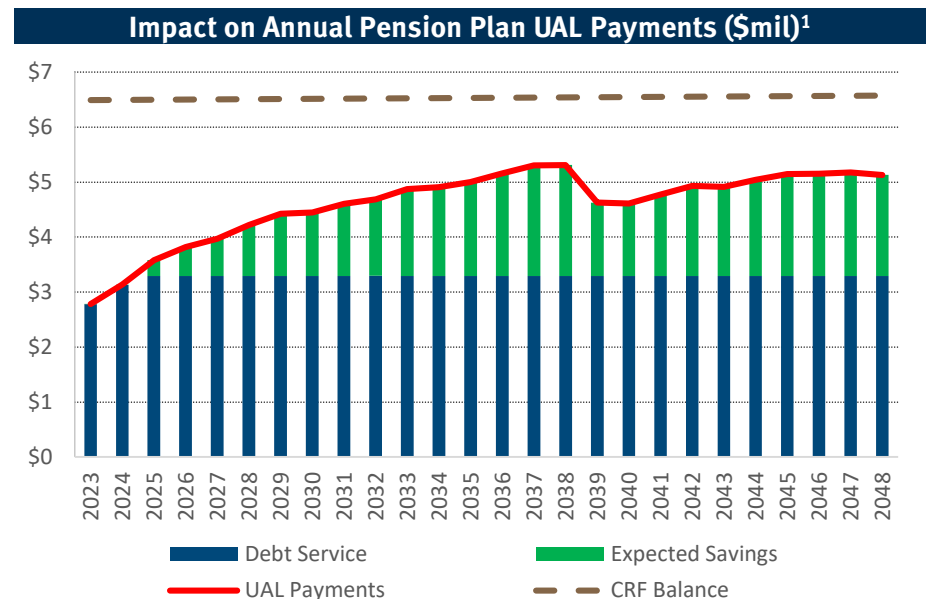


Scenario 1: Refinancing to Smooth Pension Legacy Liability with Annual Savings¹

Issuing pension bonds to fully fund the County’s unfunded pension liabilities could allow the County to generate significant expected net present value benefit totaling \$27.5 million (47.97% of Par Issued), including establishing Contingency Reserve Funds (“CRFs”) while leveling out year-over-year payments

- Replacing the County’s upward curving pension UAL amortizations with level debt bonds could reduce the cost and life of the County’s pension liability, and we expect the level debt amortization in particular would be well-received by rating agencies
- **This scenario could produce \$27,539,843 of total expected NPV savings**, including \$20,994,024 from reduced annual UAL payments, \$6,489,444 from the creation of a Contingency Reserve Fund, and \$56,375 from interest on the CRF assumed at 0.05%

Summary Statistics: Funding Pension Plan UAL ¹	
Dated Date	6/30/2022
Final Maturity Date	7/1/2048
All-In TIC	3.30%
Average Life	15.110 years
Bond Par Amount	\$57,405,000
Pension Fund Deposit	\$49,752,404
Contingency Reserve Fund Deposit	\$6,489,444
Total Interest on CRF @ 0.05% Return	\$84,892
NPV of CRF Interest @ 3.30%	\$56,375
Expected Cost Savings (UAL – Debt Service)	\$34,800,841
NPV of Expected Annual Savings @ 3.30%	\$20,994,024
Total NPV Benefit (CRF Deposits + NPV of CRF Interest + NPV of Expected Annual Savings)	\$27,539,843
Total Expected NPV Benefit (as % of Par Issued)	47.97%
Expected Funding Status after Pension Bonds²	100.00%



1. Market conditions as of July 12, 2021. Spreads based on comparable recent transactions. Stifel does not guarantee to underwrite at these levels. All NPV values are discounted to June 30, 2022 (assumed transaction closing date) at a discount rate of 3.30%, the all-in TIC. UAL and amortization computed by Stifel using assumptions from the 2019 and 2020 Actuarial Reports, annual UAL payment data provided by PSPRS as of 6/30/2020, 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 current AVA plus Pension Fund Deposit, divided by AAL plus Timing Adjustment plus Unrecognized Liability. Given the practice of amortizing unrecognized liabilities, the actuarial funded ratio immediately following this issuance will likely be greater.

Scenario 1: 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 @ 3.30%)
	[A]	[B]	[C] = [A] - [B] + [CRF]	[D] = PV[C]
Dated Date			\$6,489,444	\$6,489,444
6/30/2023	\$2,782,362	\$2,777,619	\$7,987	\$7,732
6/30/2024	\$3,136,190	\$3,132,129	\$7,307	\$6,848
6/30/2025	\$3,580,804	\$3,294,922	\$289,130	\$262,322
6/30/2026	\$3,817,972	\$3,290,956	\$530,266	\$465,746
6/30/2027	\$3,971,490	\$3,293,668	\$681,073	\$579,113
6/30/2028	\$4,218,390	\$3,291,256	\$930,387	\$765,855
6/30/2029	\$4,427,465	\$3,294,668	\$1,136,051	\$905,304
6/30/2030	\$4,449,018	\$3,294,708	\$1,157,566	\$893,010
6/30/2031	\$4,607,448	\$3,291,271	\$1,319,435	\$985,400
6/30/2032	\$4,685,767	\$3,295,397	\$1,393,629	\$1,007,594
6/30/2033	\$4,870,546	\$3,291,605	\$1,582,202	\$1,107,424
6/30/2034	\$4,905,616	\$3,294,922	\$1,613,957	\$1,093,598
6/30/2035	\$4,998,445	\$3,294,819	\$1,706,890	\$1,119,658
6/30/2036	\$5,160,118	\$3,294,930	\$1,868,453	\$1,186,522
6/30/2037	\$5,306,831	\$3,293,600	\$2,016,498	\$1,239,667
6/30/2038	\$5,310,964	\$3,290,829	\$2,023,404	\$1,204,214
6/30/2039	\$4,627,731	\$3,291,617	\$1,339,384	\$771,685
6/30/2040	\$4,610,076	\$3,291,508	\$1,321,841	\$737,272
6/30/2041	\$4,773,358	\$3,293,636	\$1,482,997	\$800,761
6/30/2042	\$4,934,003	\$3,292,829	\$1,644,450	\$859,601
6/30/2043	\$4,913,914	\$3,294,087	\$1,623,105	\$821,366
6/30/2044	\$5,042,254	\$3,292,237	\$1,753,297	\$858,933
6/30/2045	\$5,147,966	\$3,291,449	\$1,859,797	\$882,030
6/30/2046	\$5,155,023	\$3,291,997	\$1,866,309	\$856,870
6/30/2047	\$5,176,935	\$3,293,696	\$1,886,523	\$838,509
6/30/2048	\$5,131,874	\$3,291,364	\$1,843,796	\$793,363
Total	\$119,742,561	\$84,941,719	\$41,375,177	\$27,539,843

1. Market conditions as of July 12, 2021. Spreads based on comparable recent transactions. Stifel does not guarantee to underwrite at these levels. All NPV values are discounted to June 30, 2022 (assumed transaction closing date) at a discount rate of 3.30%, the all-in TIC. UAL and amortization computed by Stifel using assumptions from the 2019 and 2020 Actuarial Reports, annual UAL payment data provided by PSPRS as of 6/30/2020, 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.

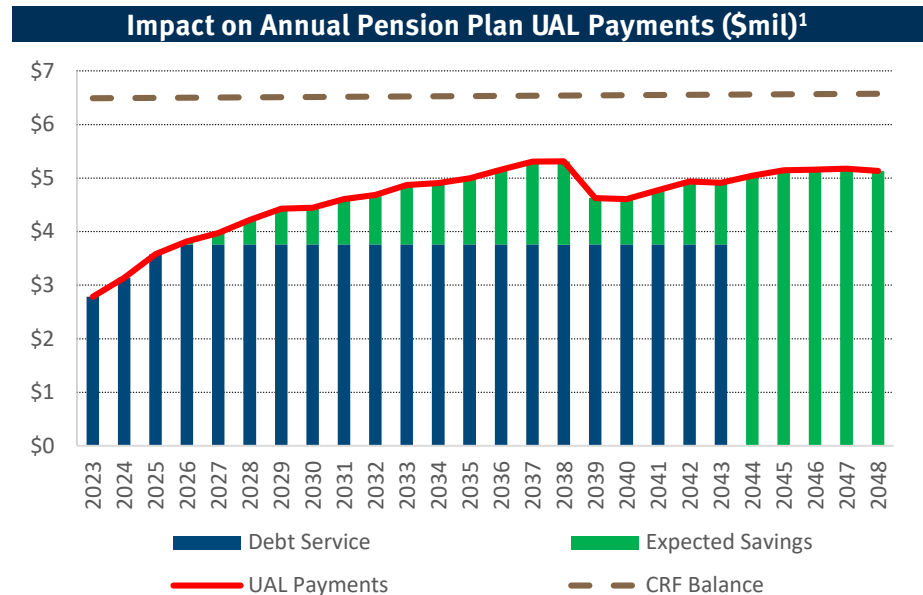
2. If the County earns interest on its Contingency Reserve Fund deposit at 0.05%, it will earn \$84,892 of interest through the life of the bonds and the balance will grow to \$6,574,336 by 2048 if not drawn upon. Stifel is not providing investment advice.

Scenario 2: Smooth Pension Legacy Liability and Shorten Amortization¹

Expanding on Scenario 1, the County could shorten the amortization of the obligations, and thereby its pension-related liability, resulting in faster debt payoff, greater potential savings, a lower borrowing cost, and likely favorable rating agency views

- While Scenario 1 produces exceptional expected savings, Scenario 2 expands these expected savings by shortening the final maturity by 5 years, resulting in higher annual debt service payments, but also **a lower borrowing cost, greater projected cash flow and expected NPV savings, and shortened pension-related liabilities**
- We expect rating agencies will favorably consider the highly conservative nature of this structure, which both levels the annual cost of the unfunded pension liability and shortens the final maturity
- **This structure could produce \$29,147,945 of total expected NPV savings**, including \$22,602,126 from reduced annual UAL payments, \$6,489,444 from the creation of a Contingency Reserve Fund, and \$56,375 from interest on the CRF assumed at 0.05%

Summary Statistics: Funding Pension Plan UAL ¹	
Dated Date	6/30/2022
Final Maturity Date	7/1/2043
All-In TIC	3.00%
Average Life	12.146 years
Bond Par Amount	\$57,405,000
Pension Fund Deposit	\$49,752,404
Contingency Reserve Fund Deposit	\$6,489,444
Total Interest on CRF @ 0.05% Return	\$84,892
NPV of CRF Interest @ 3.30%	\$56,375
Expected Cost Savings (UAL – Debt Service)	\$42,551,392
NPV of Expected Annual Savings @ 3.30%	\$22,602,126
Total NPV Benefit (CRF Deposits + NPV of CRF Interest + NPV of Expected Annual Savings)	\$29,147,945
Total Expected NPV Benefit (as % of Par Issued)	50.78%
Expected Funding Status after Pension Bonds²	100.00%



1. Market conditions as of July 12, 2021. Spreads based on comparable recent transactions. Stifel does not guarantee to underwrite at these levels. All NPV values are discounted to June 30, 2022 (assumed transaction closing date) at a discount rate of 3.30%, the all-in TIC. UAL and amortization computed by Stifel using assumptions from the 2019 and 2020 Actuarial Reports, annual UAL payment data provided by PSPRS as of 6/30/2020, 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 current AVA plus Pension Fund Deposit, divided by AAL plus Timing Adjustment plus Unrecognized Liability. Given the practice of amortizing unrecognized liabilities, the actuarial funded ratio immediately following this issuance will likely be greater.

Scenario 2: Smooth Pension Legacy Liability and Shorten Amortization – Analysis Results^{1,2}

Fiscal Year Ending	Budgeted UAL Payments	Debt Service	Expected Benefit (Cash Basis)	Expected Benefit (PV @ 3.30%)
	[A]	[B]	[C] = [A] - [B] + [CRF]	[D] = PV[C]
Dated Date			\$6,489,444	\$6,489,444
6/30/2023	\$2,782,362	\$2,781,968	\$3,639	\$3,523
6/30/2024	\$3,136,190	\$3,136,058	\$3,379	\$3,166
6/30/2025	\$3,580,804	\$3,577,486	\$6,567	\$5,958
6/30/2026	\$3,817,972	\$3,758,560	\$62,662	\$55,037
6/30/2027	\$3,971,490	\$3,763,080	\$211,661	\$179,974
6/30/2028	\$4,218,390	\$3,760,581	\$461,062	\$379,527
6/30/2029	\$4,427,465	\$3,762,356	\$668,363	\$532,610
6/30/2030	\$4,449,018	\$3,759,571	\$692,703	\$534,389
6/30/2031	\$4,607,448	\$3,762,091	\$848,615	\$633,775
6/30/2032	\$4,685,767	\$3,761,130	\$927,896	\$670,869
6/30/2033	\$4,870,546	\$3,761,322	\$1,112,485	\$778,657
6/30/2034	\$4,905,616	\$3,762,440	\$1,146,439	\$776,813
6/30/2035	\$4,998,445	\$3,758,963	\$1,242,747	\$815,196
6/30/2036	\$5,160,118	\$3,759,031	\$1,404,353	\$891,805
6/30/2037	\$5,306,831	\$3,762,134	\$1,547,964	\$951,630
6/30/2038	\$5,310,964	\$3,758,141	\$1,556,092	\$926,097
6/30/2039	\$4,627,731	\$3,762,183	\$868,819	\$500,569
6/30/2040	\$4,610,076	\$3,762,550	\$850,799	\$474,543
6/30/2041	\$4,773,358	\$3,759,119	\$1,017,513	\$549,418
6/30/2042	\$4,934,003	\$3,761,890	\$1,175,389	\$614,410
6/30/2043	\$4,913,914	\$3,760,517	\$1,156,675	\$585,331
6/30/2044	\$5,042,254	\$0	\$5,045,533	\$2,471,788
6/30/2045	\$5,147,966	\$0	\$5,151,246	\$2,443,038
6/30/2046	\$5,155,023	\$0	\$5,158,305	\$2,368,311
6/30/2047	\$5,176,935	\$0	\$5,180,219	\$2,302,468
6/30/2048	\$5,131,874	\$0	\$5,135,160	\$2,209,598
Total	\$119,742,561	\$77,191,168	\$49,125,728	\$29,147,945

1. Market conditions as of July 12, 2021. Spreads based on comparable recent transactions. Stifel does not guarantee to underwrite at these levels. All NPV values are discounted to June 30, 2022 (assumed transaction closing date) at a discount rate of 3.30%, the all-in TIC. UAL and amortization computed by Stifel using assumptions from the 2019 and 2020 Actuarial Reports, annual UAL payment data provided by PSPRS as of 6/30/2020, 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 County earns interest on its Contingency Reserve Fund deposit at 0.05%, it will earn \$84,892 of interest through the life of the bonds and the balance will grow to \$6,574,336 by 2048 if not drawn upon. Stifel is not providing investment advice.

County General Excise Tax Revenues, State Shared Revenues, Vehicle License Tax Revenues and PILT Revenues Collections

Source	Audited (a)					Budgeted (b)
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
County General Excise Tax Revenues	\$ 6,461,082	\$ 6,688,265	\$ 6,804,822	\$ 7,430,877	\$ 8,015,686	\$ 6,900,000
Gross State Shared Revenues(c)(d)	12,444,833	12,744,829	13,485,202	14,799,329	13,909,014	13,200,000
Vehicle License Tax Revenues (d)	\$ 3,685,515	\$ 3,807,321	\$ 3,977,611	\$ 3,987,852	\$ 3,572,574	\$ 3,900,000
PILT Revenues (e)	\$ 4,080,384	\$ 3,778,270	\$ 2,960,835	\$ 2,569,850	\$ 3,088,245	\$ 2,300,000
Total County Excise Tax Revenues, Net State Shared Revenues, Vehicle License Tax Revenues and PILT Revenues	<u>\$ 26,671,814</u>	<u>\$ 27,018,685</u>	<u>\$ 27,228,470</u>	<u>\$ 28,787,908</u>	<u>\$ 28,585,519</u>	<u>\$ 26,300,000</u>

(a) These amounts are from audited financial statements of the County for the years indicated. This table has not, however, been the subject of any separate audit procedures.

(b) These amounts are budgeted, constitute "forward looking" statements and should be considered with an abundance of caution.

(c) Pursuant to Section 11-292, Arizona Revised Statutes, the Treasurer of the State withholds an amount of the State Shared Revenues sufficient to meet the County's portion of the non-federal costs of providing the long-term care system in the State ("ALTCS") from moneys otherwise payable to the County in accordance with the State's distribution of the State Shared Revenues. The County's contribution is based on a fixed State formula. In the event that the State Shared Revenues withheld from the County by the Treasurer of the State are insufficient to meet the funding requirement of ALTCS, the Treasurer of the State may withhold any other moneys payable to the County from any available State funding source. Pursuant to Section 11-292, Arizona Revised Statutes, the Treasurer of the State withholds an amount of the State Shared Revenues determined by statutory formula for the administrative costs of implementing certain provisions of the Arizona Health Care Cost Containment System ("AHCCCS"). If the County does not make its contribution to the AHCCCS fund, which is used to offset certain indigent and related health care costs, the Treasurer of the State may withhold any amounts owed, plus interest retroactive to the first date the funding was due, from the County's State Shared Revenues. **The Gross State Shared Revenues figures do not exclude the withheld amounts herein described.**

(d) The distribution of State Shared Revenues and Vehicle License Tax Revenues is subject to change by the State Legislature and, accordingly, the County is unable to covenant to maintain the State Shared Revenues or Vehicle License Tax Revenues at any particular level of coverage to debt service.

(e) Amounts herein are derived from the audited and budgeted amounts of grants and contributions not restricted to specific programs.

Debt Service Coverage Analysis: Smooth Pension Legacy Liability

Fiscal Year	County General Excise Taxes, Gross State Shared, VLT and PILT Revenues (a)	The Obligations			Maximum Annual Debt Service Coverage (c)
		Principal	Interest (b)	Debt Service	
2019/20	\$28,585,519				
2020/21					
2021/22					
2022/23		\$1,200,000	\$1,577,619 (d)	\$2,777,619	
2023/24		1,565,000	1,567,129	3,132,129	
2024/25		1,740,000	1,554,922	3,294,922	
2025/26		1,755,000	1,535,956	3,290,956	
2026/27		1,780,000	1,513,668	3,293,668	
2027/28		1,805,000	1,486,256	3,291,256	
2028/29		1,840,000	1,454,668	3,294,668	
2029/30		1,875,000	1,419,708	3,294,708	
2030/31		1,910,000	1,381,271	3,291,271	
2031/32		1,955,000	1,340,397	3,295,397	8.67x
2032/33		1,995,000	1,296,605	3,291,605	
2033/34		2,045,000	1,249,922	3,294,922	
2034/35		2,095,000	1,199,819	3,294,819	
2035/36		2,150,000	1,144,930	3,294,930	
2036/37		2,205,000	1,088,600	3,293,600	
2037/38		2,260,000	1,030,829	3,290,829	
2038/39		2,320,000	971,617	3,291,617	
2039/40		2,400,000	891,508	3,291,508	
2040/41		2,485,000	808,636	3,293,636	
2041/42		2,570,000	722,829	3,292,829	
2043/44		2,660,000	634,087	3,294,087	
2044/45		2,750,000	542,237	3,292,237	
2045/46		2,850,000	441,449	3,291,449	
2046/47		2,955,000	336,997	3,291,997	
2047/48		3,065,000	228,696	3,293,696	
2048/49		3,175,000	116,364	3,291,364	
		<u>\$57,405,000</u>	<u>\$27,536,719</u>	<u>\$84,941,719</u>	

(a) Gross State Shared Revenues includes ALTCS and AHCCCS contributions which are withheld from payments made to the County. Such figures are restricted from being pledged and would need to be excluded from the total revenue figure in order to calculate actual coverage. The County General Excise Taxes, Gross State Shared Revenues, Vehicle License Tax Revenues and PILT Revenues total is shown for illustration purposes only.

(b) Interest is estimated.

(c) Debt service coverage is based on audited collections of County General Excise Tax Revenues, Gross State Shared Revenues, Vehicle License Tax Revenues and PILT Revenues for fiscal year 2019/20 compared to the highest combined interest and principal requirements in any fiscal year.

(d) The first interest payment would be due on July 1, 2023*. Thereafter, interest on the Obligations would be payable semiannually on July 1 and January 1 until maturity or prepayment.

Debt Service Coverage Analysis: Smooth Pension Legacy Liability with Hypothetical Jail Financing

	County General				Proposed PSPRS-Funding Obligations		Total Aggregate Debt Service	Maximum Annual Debt Service Coverage (c)	
	Fiscal Year	Excise Taxes, Gross State Shared, VLT and PILT Revenues (a)	Hypothetical \$100M Jail Financing Debt Service	Proposed PSPRS-Funding Obligations					
				Principal	Interest (b)	Debt Service			
	2019/20	\$28,585,519							
	2020/21								
	2021/22								
	2022/23			\$1,200,000	\$1,577,619 (d)	\$2,777,619	\$2,777,619		
	2023/24		\$5,750,000	1,565,000	1,567,129	3,132,129	\$8,882,129		
	2024/25		5,753,500	1,740,000	1,554,922	3,294,922	\$9,048,422	3.16x	
	2025/26		5,748,500	1,755,000	1,535,956	3,290,956	\$9,039,456		
	2026/27		5,750,250	1,780,000	1,513,668	3,293,668	\$9,043,918		
	2027/28		5,748,250	1,805,000	1,486,256	3,291,256	\$9,039,506		
	2028/29		5,752,500	1,840,000	1,454,668	3,294,668	\$9,047,168		
	2029/30		5,752,500	1,875,000	1,419,708	3,294,708	\$9,047,208		
	2030/31		5,748,250	1,910,000	1,381,271	3,291,271	\$9,039,521		
	2031/32		5,749,750	1,955,000	1,340,397	3,295,397	\$9,045,147		
	2032/33		5,751,500	1,995,000	1,296,605	3,291,605	\$9,043,105		
	2033/34		5,753,250	2,045,000	1,249,922	3,294,922	\$9,048,172		
	2034/35		5,749,750	2,095,000	1,199,819	3,294,819	\$9,044,569		
	2035/36		5,751,000	2,150,000	1,144,930	3,294,930	\$9,045,930		
	2036/37		5,751,500	2,205,000	1,088,600	3,293,600	\$9,045,100		
	2037/38		5,751,000	2,260,000	1,030,829	3,290,829	\$9,041,829		
	2038/39		5,749,250	2,320,000	971,617	3,291,617	\$9,040,867		
	2039/40		5,751,000	2,400,000	891,508	3,291,508	\$9,042,508		
	2040/41		5,750,750	2,485,000	808,636	3,293,636	\$9,044,386		
	2041/42		5,753,250	2,570,000	722,829	3,292,829	\$9,046,079		
	2043/44		5,753,000	2,660,000	634,087	3,294,087	\$9,047,087		
	2044/45		5,749,750	2,750,000	542,237	3,292,237	\$9,041,987		
	2045/46		5,748,250	2,850,000	441,449	3,291,449	\$9,039,699		
	2046/47		5,748,000	2,955,000	336,997	3,291,997	\$9,039,997		
	2047/48		5,748,500	3,065,000	228,696	3,293,696	\$9,042,196		
	2048/49		5,749,250	3,175,000	116,364	3,291,364	\$9,040,614		
	2049/50		5,749,750				\$5,749,750		
	2050/51		5,749,500				\$5,749,500		
	2051/52		5,753,000				\$5,753,000		
	2052/53		5,749,500				\$5,749,500		
	2053/54		5,748,750				\$5,748,750		
				\$172,513,000	\$57,405,000	\$27,536,719	\$84,941,719	\$257,454,719	

(a) Gross State Shared Revenues includes ALTCS and AHCCCS contributions which are withheld from payments made to the County. Such figures are restricted from being pledged and would need to be excluded from the total revenue figure in order to calculate actual coverage. The County General Excise Taxes, Gross State Shared Revenues, Vehicle License Tax Revenues and PILT Revenues total is shown for illustration purposes only.

(b) Interest is estimated.

(c) Debt service coverage is based on audited collections of County General Excise Tax Revenues, Gross State Shared Revenues, Vehicle License Tax Revenues and PILT Revenues for fiscal year 2019/20 compared to the highest combined interest and principal requirements in any fiscal year.

(d) The first interest payment would be due on July 1, 2023*. Thereafter, interest on the Obligations would be payable semiannually on July 1 and January 1 until maturity or prepayment.

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 COPs 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 County 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 CRFs for the Sherriff and Corp Plans
 - 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 County 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

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 County 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

Rules for Contingency Replenishment. Could use ongoing pension obligation savings or use *sell the float* on other County held funds for periodic inflows

- The County must also consider mechanisms to build up and/or maintain the CRF balance by securing a stream of steady cash flow beyond the initial 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 County could expect to receive approximately \$245,668 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 6/30/2020, the District had 179 total PSPRS members (active, inactive, retirees, Drop retirees, beneficiaries, disability retirees, and inactive/vested members), which represents 0.485% of PSPRS' 36,912 total members³
 - This implies ***the County could expect to receive approximately \$245,668 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 County's 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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