

NEW ISSUE — BOOK-ENTRY-ONLY

RATING: See “RATING” herein.

In the opinion of Special Counsel, assuming continuing compliance with certain tax covenants, under existing statutes, regulations, rulings and court decisions, the portion of each lease payment made by the City pursuant to the Lease Agreement and denominated as and comprising interest pursuant to the Lease Agreement and received by the Owners of the 2019 Certificates (the ‘Interest Portion’) is excludable from gross income for federal income tax purposes. Further, the Interest Portion is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and is exempt from income taxation under the laws of the State of Arizona so long as the Interest Portion is excludable from gross income for federal income tax purposes. See “TAX EXEMPTION” herein for a description of the certain other federal tax consequences of ownership of the 2019 Certificates.

\$3,575,000*

**CERTIFICATES OF PARTICIPATION, SERIES 2019
Evidencing Undivided Proportionate Interests of the Owners Thereof in
Lease Payments to be Made by
CITY OF FLAGSTAFF, ARIZONA,
as Lessee of Certain Property Pursuant
to a Lease-Purchase Agreement, Dated as of December 1, 2019***

Dated: Date of Initial Execution and Delivery

Due: July 1, as shown on the inside front cover page

The captioned Certificates of Participation (the “2019 Certificates”) are being executed and delivered pursuant to a Trust Agreement, to be dated as of December 1, 2019* (the “Trust Agreement”), between the City of Flagstaff, Arizona (the “City”) and _____, as trustee (the “Trustee”). Interest with respect to the 2019 Certificates will be payable semiannually on January 1 and July 1 of each year, commencing July 1, 2020*. The 2019 Certificates will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), for purposes of the book-entry-only system described herein and will be available to ultimate purchasers in the amounts of \$5,000 of principal represented by the 2019 Certificates due on a specific principal payment date, or any integral multiple thereof, pursuant to the book-entry-only system maintained by DTC. Payments of principal, premium, if any, and interest with respect to the 2019 Certificates will be paid by the Trustee to DTC for subsequent disbursements to DTC participants who will remit such payments to the beneficial owners of the 2019 Certificates. See APPENDIX G - “BOOK-ENTRY-ONLY SYSTEM.”

The 2019 Certificates are being executed and delivered for the purpose of (i) financing the herein-described Projects, constituting a portion of the costs of construction of a court facility in the City and (ii) paying costs incurred in connection with the execution and delivery of the 2019 Certificates. See “THE PROJECTS” and “SOURCES AND USES OF FUNDS” herein.

The 2019 Certificates will be subject to prepayment prior to their scheduled payment dates, including to the extent of condemnation, casualty insurance and certain other proceeds, as described herein.* See “THE 2019 CERTIFICATES — Prepayment Provisions.”

MATURITY SCHEDULE ON INSIDE FRONT COVER PAGE

Certain real property of the City will be leased by the Trustee to the City (the “Leased Property”) pursuant to a Lease-Purchase Agreement, to be dated as of December 1, 2019* (the “Lease Agreement”). The 2019 Certificates will be payable on a parity basis from lease payments to be made by the City pursuant to the Lease Agreement (the “Lease Payments”) and other funds held pursuant to the Trust Agreement and certain investment earnings thereon.

The Lease Agreement and the obligation of the City to make the Lease Payments will be terminated if on the last day of the then current Fiscal Period (defined herein) the Mayor and Council of the City have failed to adopt a budget containing an annual budgetary appropriation sufficient to make the Lease Payments coming due during the next Fiscal Period. In the event of such termination, the City will be relieved of any subsequent obligation pursuant to the Lease Agreement other than to surrender the Leased Property to the Trustee, and the 2019 Certificates will be payable only from such moneys, if any, as may be held pursuant to the Trust Agreement and any moneys realized from the Trustee’s exercise of remedies with respect to the Leased Property. **IN THE EVENT OF SUCH TERMINATION, THERE WILL BE NO ASSURANCE OF PAYMENT OF THE PRINCIPAL OR INTEREST EVIDENCED BY THE 2019 CERTIFICATES FROM FUNDS AVAILABLE PURSUANT TO THE TRUST AGREEMENT OR THAT ANY SUCH PAYMENTS EVIDENCING INTEREST, IF MADE, WILL REMAIN EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. SEE “RISK FACTORS” AND “TAX EXEMPTION” HEREIN. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OF ARIZONA OR ANY POLITICAL SUBDIVISION THEREOF WILL BE PLEDGED TO THE 2019 CERTIFICATES. NEITHER THE 2019 CERTIFICATES NOR THE LEASE AGREEMENT WILL CONSTITUTE A DEBT OF THE CITY, THE STATE OF ARIZONA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. SEE “RISK FACTORS” HEREIN.**

The 2019 Certificates are offered when, as and if received by the underwriter identified below (the “Underwriter”), and subject to the approving opinion of Greenberg Traurig, LLP, Special Counsel, as to validity of the 2019 Certificates and tax-exemption. Certain legal matters will be passed upon for the Underwriter by its counsel, Squire Patton Boggs (US) LLP. It is expected that the 2019 Certificates will be available for delivery through the facilities of DTC on or about December 19, 2019*.

This cover page contains only a brief description of the 2019 Certificates and the security therefor. It is not a summary of material information with respect to the 2019 Certificates. Investors should read this Official Statement in its entirety to obtain information necessary to make an informed investment decision.

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

\$3,575,000*
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MATURITY SCHEDULE*

Principal Payment Date (July 1)	Principal Amount	Interest Rate	Yield	CUSIP® ⁽¹⁾ No. 338430
2020	\$45,000	%	%	
2021	85,000			
2022	90,000			
2023	90,000			
2024	95,000			
2025	100,000			
2026	105,000			
2027	110,000			
2028	115,000			
2029	125,000			
2030	130,000			
2031	135,000			
2032	140,000			
2033	145,000			
2034	155,000			
2035	160,000			
2036	165,000			
2037	170,000			
2038	180,000			
2039	185,000			
2040	195,000			
2041	200,000			
2042	210,000			
2043	220,000			
2044	225,000			

\$ _____ Term Certificates @ _____ % Due July 1, _____, at a yield of _____ % - CUSIP (1) No. 338430

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* Preliminary, subject to change.

CITY OF FLAGSTAFF, ARIZONA

CITY COUNCIL

Coral Evans, *Mayor*

Adam Shimoni, *Vice Mayor*

Charlie Odegaard, *Member*

Jamie Whelan, *Member*

Regina Salas, *Member*

Jim McCarthy, *Member*

Austin Aslan, *Member*

ADMINISTRATIVE OFFICIALS

Greg Clifton, *City Manager*

Shane Dille, *Deputy City Manager*

Shannon Anderson, *Deputy City Manager*

Rick Tadder, *Management Services Director, City Treasurer*

Sterling Solomon, *City Attorney*

Stacy Saltzburg, *City Clerk*

FINANCIAL ADVISOR

Stifel, Nicolaus & Company, Incorporated
Phoenix, Arizona

BOND COUNSEL

Greenberg Traurig, LLP
Phoenix, Arizona

TRUSTEE, REGISTRAR AND PAYING AGENT

REGARDING THIS OFFICIAL STATEMENT

No dealer, broker, salesperson or other person has been authorized by the City of Flagstaff, Arizona (the “City”), Stifel, Nicolaus & Company, Incorporated (the “Financial Advisor”) or Piper Jaffray & Co. (the “Underwriter”) to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor will there be any sale of the City’s Certificates of Participation, Series 2019 (the “2019 Certificates”) by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth in this Official Statement, which includes the cover page, inside front cover page and appendices hereto, has been obtained from the City, the Arizona Department of Revenue, and other sources that are considered to be accurate and reliable and customarily relied upon in the preparation of similar official statements, but such information has not been independently confirmed or verified by the City, the Financial Advisor or the Underwriter, is not guaranteed as to accuracy or completeness, and is not to be construed as the promise or guarantee of the City, Financial Advisor or the Underwriter.

None of the City, the Financial Advisor, the Underwriter, Special Counsel (as defined herein) or counsel to the Underwriter are actuaries. None of them have performed any actuarial or other analysis of the City’s share of the unfunded liabilities of the Arizona State Retirement System, the Public Safety Personnel Retirement System or the Elected Officials Retirement Plan.

The presentation of information, including tables of receipts from taxes and other sources, shows recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. All information, estimates and assumptions contained herein are based on past experience and on the latest information available and are believed to be reliable, but no representations are made that such information, estimates and assumptions are correct, will continue, will be realized or will be repeated in the future. To the extent that any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated to be such, they are made as such and not as representations of fact or certainty, and no representation is made that any of these statements have been or will be realized. All forecasts, projections, opinions, assumptions or estimates are “forward looking statements” that must be read with an abundance of caution and that may not be realized or may not occur in the future. Information other than that obtained from official records of the City has been identified by source and has not been independently confirmed or verified by the City, the Financial Advisor or the Underwriter and its accuracy cannot be guaranteed. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made pursuant hereto will, under any circumstances, create any implication that there has been no change in the affairs of the City or any of the other parties or matters described herein since the date hereof.

The 2019 Certificates will not be registered under the Securities Act of 1933, as amended, or any state securities law, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency will have passed upon the accuracy or adequacy of this Official Statement or approved the 2019 Certificates for sale.

The City will undertake to provide continuing disclosure as described in this Official Statement under the heading “CONTINUING DISCLOSURE” and in APPENDIX F – “FORM OF CONTINUING DISCLOSURE UNDERTAKING,” all pursuant to Rule 15c2-12 of the Securities and Exchange Commission.

A wide variety of information, including financial information, concerning the City is available from publications and websites of the City and others. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of, or incorporated into, this Official Statement, except as expressly noted herein.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY ALLOW CONCESSIONS OR DISCOUNTS FROM THE INITIAL PUBLIC OFFERING PRICES TO DEALERS AND OTHERS, AND THE UNDERWRITER MAY OVERALLOT OR ENGAGE IN TRANSACTIONS INTENDED TO STABILIZE THE PRICES OF THE 2019 CERTIFICATES AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET IN ORDER TO FACILITATE THEIR DISTRIBUTION. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

\$3,575,000*

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Evidencing Undivided Proportionate Interests of the Owners Thereof in
Lease Payments to be Made by
CITY OF FLAGSTAFF, ARIZONA,
as Lessee of Certain Property Pursuant
to a Lease-Purchase Agreement, Dated as of December 1, 2019*

INTRODUCTION

This Official Statement, which includes the cover page, the inside front cover page and the Appendices hereto (this “Official Statement”), is provided to furnish certain information with respect to the sale, execution and delivery of \$3,575,000* principal amount of the above-captioned Certificates of Participation, Series 2019 (the “2019 Certificates”), evidencing undivided proportionate interests of the Owners thereof in lease payments (the “Lease Payments”) to be made by the City of Flagstaff, Arizona, as lessee (the “City”), of certain real property and improvements thereon pursuant to a Lease-Purchase Agreement, to be dated as of December 1, 2019* (the “Lease Agreement”), between the City, as lessee, and _____ (the “Trustee”), as lessor. The 2019 Certificates will be executed and delivered pursuant to a Trust Agreement, to be dated as of December 1, 2019* (the “Trust Agreement”), between the City and the Trustee.

Certain capitalized terms used in this Official Statement and not otherwise defined herein shall have the meanings given to such terms in APPENDIX D — “SUMMARIES OF LEGAL DOCUMENTS - CERTAIN DEFINITIONS.”

The 2019 Certificates are being sold to (i) finance the costs of the hereinafter defined Projects and (ii) pay costs related to the initial execution and delivery of the 2019 Certificates. See “THE PROJECTS.” Certain real property, together with any improvements thereon (the “Leased Property”), will be leased to the Trustee through July 2, 2044*, pursuant to a Ground Lease, to be dated as of December 1, 2019* (the “Ground Lease”), between the City, as lessor, and the Trustee, as lessee, executed and delivered in connection with the 2019 Certificates. Simultaneously, the Trustee will lease the Leased Property back to the City pursuant to the Lease Agreement, which requires the City to pay the principal and interest evidenced by the 2019 Certificates on the scheduled payment dates, subject to annual appropriation of amounts sufficient for that purpose by the Mayor and Council of the City (the “City Council”). The Leased Property will be comprised of a municipal court building of the City. See “THE LEASED PROPERTY.” The 2019 Certificates will be payable on a parity basis from the Lease Payments to be made by the City pursuant to the Lease Agreement and other funds held pursuant to the Trust Agreement, and certain investment earnings thereon.

Unless and until use of the book-entry-only system is discontinued, the 2019 Certificates will be held in book-entry-only form by The Depository Trust Company, a registered securities depository (“DTC”), and beneficial interests therein may only be purchased and sold, and payments of principal, premium, if any, and interest evidenced by the 2019 Certificates will be made only to Beneficial Owners (as defined in APPENDIX G — “BOOK-ENTRY-ONLY SYSTEM”), through participants in the DTC system. Beneficial interests in the 2019 Certificates will be in amounts described on the inside front cover page hereof. See APPENDIX G — “BOOK-ENTRY-ONLY SYSTEM.”

The Trustee will make payments of principal and interest evidenced by the 2019 Certificates solely from moneys available pursuant to the Trust Agreement, including the Lease Payments required to be made by the City pursuant to the Lease Agreement. See “SOURCES OF PAYMENT OF THE 2019 CERTIFICATES” herein.

In general, the City will be required, in accordance with the Lease Agreement, to pay the Lease Payments equal to the principal and interest evidenced by the 2019 Certificates, unless the Lease Agreement is terminated as provided therein. See “SECURITY FOR THE 2019 CERTIFICATES” herein. The City will also be required to pay any taxes

* Preliminary, subject to change.

and assessments and the cost of maintenance and repair of the Leased Property. See “LEASE AGREEMENT — Maintenance, Utilities, Taxes and Modifications” in APPENDIX D hereto.

The Lease Agreement and the obligation of the City to make the Lease Payments will be terminated if on the last day of the then current Fiscal Period the City Council has failed to adopt a budget containing an annual budgetary appropriation sufficient to make the Lease Payments coming due during the next Fiscal Period. In the event of such termination, the City will be relieved of any subsequent obligation pursuant to the Lease Agreement other than to surrender the Leased Property to the Trustee, and the 2019 Certificates will be payable only from such moneys, if any, as may be held pursuant to the Trust Agreement and any moneys realized from the Trustee’s exercise of remedies with respect to the Leased Property. IN THE EVENT OF SUCH TERMINATION, THERE WILL BE NO ASSURANCE OF PAYMENT OF THE PRINCIPAL OR INTEREST EVIDENCED BY THE 2019 CERTIFICATES FROM FUNDS AVAILABLE PURSUANT TO THE TRUST AGREEMENT OR THAT ANY SUCH PAYMENTS EVIDENCING INTEREST, IF MADE, WILL REMAIN EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. SEE “RISK FACTORS” AND “TAX EXEMPTION” HEREIN. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OF ARIZONA (THE “STATE” OR “ARIZONA”) OR ANY POLITICAL SUBDIVISION THEREOF WILL BE PLEDGED TO THE 2019 CERTIFICATES. NEITHER THE 2019 CERTIFICATES NOR THE LEASE AGREEMENT WILL CONSTITUTE A DEBT OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. SEE “RISK FACTORS” HEREIN.

For a discussion about the City, its sources of revenues and financial condition, see APPENDIX B herein. The audited financial statements of the City for the fiscal year ended June 30, 2018 are included in APPENDIX C — “CITY OF FLAGSTAFF, ARIZONA — AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018.”

The descriptions and summaries of various documents contained herein do not purport to be comprehensive or definitive and reference is made to each document for the complete details of all its terms and conditions. All statements herein are qualified by reference to each such document in its entirety and are further qualified in their entirety by reference to laws and principles of equity relating to or affecting the enforceability of creditors’ rights.

Copies of the form of the Lease Agreement, the Ground Lease and the Trust Agreement (collectively, the “Financing Documents”) referred to herein may be obtained, until the delivery of the 2019 Certificates, from the Financial Advisor (defined below) upon request to: Stifel, Nicolaus & Company, Incorporated, 2325 E. Camelback Road, Suite 750, Phoenix, AZ 85016, Attention: Municipal Finance. After delivery of the 2019 Certificates, copies of such documents may be obtained by Beneficial Owners from the Trustee upon request at: _____, Attention: Corporate Trust Services.

THE PROJECT AND THE LEASED PROPERTY

The Project

The proceeds from the 2019 Certificates, net of amounts used to pay costs of issuance of the 2019 Certificates, will be used by the Trustee to acquire from the City a ground leasehold interest in a site (the “Leased Land”) and to fund a portion of the costs of constructing improvements thereon (the “Improvements” and, together with the Leased Land, the “Project”) for use as a new municipal court building for the City. The Trustee will lease the Project to the City pursuant to the Lease Agreement and the Project will constitute the leased property (the “Leased Property”) under the Lease Agreement as described below. The \$19.5 million estimated total cost of the Project is expected to be funded with approximately \$4 million of proceeds from the 2019 Certificates, approximately \$12 million of proceeds from the sale of the City’s General Obligation Bonds, Series 2019 (the “2019 GO Bonds”) that are being offered concurrently with the 2019 Certificates pursuant to a separate official statement and that will close simultaneously with the delivery of the 2019 Certificates, with remaining costs paid from cash paid by the City from its General Fund.

The Leased Property

The Leased Property will consist of a new “Municipal Court Building” for the City located at 101 West Cherry Avenue within downtown Flagstaff, Arizona, on the Leased Land which is a 0.51-acre site that the City has owned for over 15 years. When completed, the Municipal Court Building will consist of approximately 40,000 square feet, including courtrooms, hearing rooms, judicial chambers, jury assembly and deliberation space, spaces for security screening, customer service transaction area, conference rooms, training rooms, space for the court enforcement unit and prisoner holding, staging areas and support services, and office space for the prosecution division of the City Attorney’s office. The City estimates that the Municipal Court Building will house approximately 35 City employees. The new Municipal Court Building will replace the City’s current municipal court building, which will be torn down and used for City parking.

Construction of the Municipal Court Building started in May 2019 and is anticipated to be completed in July 2020. Following design and a public procurement process, the City has entered into a Design-Build Services Agreement (as supplemented and amended, the “Construction Contract”) with Kinney Construction Services, Flagstaff, Arizona (the “Contractor”), dated July 17, 2018. The Construction Contract represents a design-build construction contract, under which the Contractor will agree to construct the Municipal Court Building for a “guaranteed maximum price,” meant to represent the maximum cost to the City for completion of the construction. The guaranteed maximum price specified in the Construction Contract is \$18,668,897. The City has already paid \$3,001,884 of this amount, leaving a balance of \$15,667,013. The Contractor has provided payment and performance surety bonds in the usual form required for municipal construction projects. Despite the guaranteed maximum price feature and surety bonds, there are always risks associated with new construction. For example, even though the Construction Contract contains a guaranteed maximum price, there can be no guaranty that actual construction costs will not exceed such amount and allotted contingencies and amounts available to pay construction costs, whether due to change orders, unexpected developments during construction or otherwise. Further, contract retention amounts may be insufficient to cover additional costs arising due to factors such as unforeseen site conditions or contract omissions. In addition, they cannot protect against timing delays when projects run into difficulty (due to performance of contractors or any other reason).

The Contractor is required to maintain course of construction insurance on the Leased Property during the construction period. Following completion, the Leased Property will be insured as part of the City’s risk management program in with an assumed replacement value in excess of the principal amount of the 2019 Certificates. No title insurance is being obtained insuring the Trustee’s ground leasehold interest in the Leased Land due to the more than 15-year period that the City has owned the Leased Land without material claims questioning its state of title.

THE 2019 CERTIFICATES

General Provisions

The 2019 Certificates will be dated the date of initial execution and delivery thereof and will be issued in the form of fully registered certificates in amounts of \$5,000 of principal due on a principal payment date or any integral multiple

thereof. As described herein in APPENDIX G – “BOOK-ENTRY-ONLY SYSTEM,” the 2019 Certificates will be registered in the name of Cede & Co., as nominee of DTC. So long as DTC, or its nominee, is the registered owner of all of the 2019 Certificates, all payments on the 2019 Certificates will be made directly to DTC for payment to the Beneficial Owners as described herein in APPENDIX G – “BOOK-ENTRY-ONLY SYSTEM.”

The 2019 Certificates will bear interest from their dated date, payable semiannually on January 1 and July 1 of each year (each an “Interest Payment Date”), commencing July 1, 2020*. The 2019 Certificates will bear interest at the rates and will be payable on the principal payment dates and in the amounts set forth on the inside front cover page of this Official Statement. Interest will be computed on the basis of a year comprised of three hundred sixty (360) days consisting of twelve (12) months of thirty (30) days each. Interest on the 2019 Certificates will be paid by the Trustee to the owners thereof (initially Cede & Co., as nominee of DTC) as shown on the registration books maintained by the Trustee, at the close of business on the fifteenth day of the month preceding each Interest Payment Date (the “Record Date”). So long as the 2019 Certificates are in DTC’s book-entry-only system, and thereafter at the written request and expense of the owners of \$1,000,000 or more in aggregate principal amount of 2019 Certificates delivered to the Trustee prior to a Record Date, interest and principal will be paid by wire transfer to a bank account in the continental United States.

Prepayment Provisions*

Optional Prepayment. The 2019 Certificates payable as to principal before or on _____ 1, 20__ will not be subject to optional prepayment. The 2019 Certificates payable as to principal on or after _____ 1, 20__ will be subject to optional prepayment, at the direction of the City, on any date on or after _____ 1, 20__, in whole or in part, at a prepayment price equal to the principal amount evidenced thereby plus interest with respect thereto to the prepayment date, without premium.

Mandatory Prepayment. The 2019 Certificates payable as to principal on July 1, 20__ (the “Term Certificates”), are subject to mandatory prepayment and shall be paid on July 1 in the respective years set forth below, in the amounts set forth below, by payment of a prepayment price equal to the principal amount of such Term Certificates called for prepayment plus the interest accrued to the date fixed for prepayment, but without premium.

Term Certificates Maturing July 1, 20__

Year

Sinking Fund Requirement

*Maturity

Whenever 2019 Certificates subject to mandatory prepayment are purchased, paid (other than pursuant to mandatory prepayment) or delivered by the City to the Trustee for cancellation, the principal amount of the 2019 Certificates so retired shall satisfy and be credited against the mandatory prepayment requirements for such 2019 Certificates for such years as the City may direct.

Extraordinary Prepayment. The 2019 Certificates will be subject to prepayment on any Interest Payment Date, in whole or in part, to the extent of any Net Proceeds that are deposited in the Lease Payment Fund for such purpose as provided in the Lease Agreement, at a prepayment price equal to the principal amount evidenced thereby, plus interest to the prepayment date, without premium.

As further described in APPENDIX D under the subheading “TRUST AGREEMENT — Funds -- Insurance and Condemnation Fund,” if all of the Leased Property is taken permanently pursuant to the power of eminent domain,

* Preliminary, subject to change.

the term of the Lease Agreement will cease as of the day possession is so taken and the Net Proceeds will be deposited with the Trustee in the Lease Payment Fund and applied as hereinabove described. If less than all of the Leased Property is taken permanently, or if all of the Leased Property or any part thereof is taken temporarily, under the power of eminent domain, the Lease Agreement will not be terminated by virtue of such taking, but there will be a partial reduction of Lease Payments as a result of the application of the Net Proceeds of any eminent domain award to the prepayment of the Lease Payments deposited in the Lease Payment Fund as described in the Lease Agreement.

The Net Proceeds of any insurance award resulting from any damage to or destruction of any Leased Property by fire or other casualty will be deposited with the Trustee and, if the City determines within 45 days following such deposit that the replacement, repair, restoration, modification or improvement of such Leased Property is not economically feasible or is not in the best interest of the City, then, such Net Proceeds will be transferred to the Lease Payment Fund and applied as described in the Lease Agreement, provided, however, in the event of damage or destruction of the Leased Property in full, such Net Proceeds may be transferred to the Lease Payment Fund to be applied only if sufficient, together with other moneys available therefor, to cause the prepayment of all Outstanding 2019 Certificates; provided further, however, if the Net Proceeds are not sufficient to cause the prepayment of all Outstanding 2019 Certificates, the City will have the option to purchase the Leased Property for a price representing the difference between the amount of Net Proceeds received and available for transfer to the Lease Payment Fund and the amount required to redeem all Outstanding 2019 Certificates.

Any Net Proceeds resulting from a re-lease or re-rent of the Leased Property upon the occurrence and continuation of a default pursuant to the Lease Agreement will be deposited in the Lease Payment Fund and applied as described in the Lease Agreement.

Selection and Notice. Whenever less than all Outstanding 2019 Certificates are called for prepayment, the maturities of the 2019 Certificates to be selected for prepayment may be specified by the City. The Trustee will give notice of the prepayment of such 2019 Certificates to DTC not less than 30 days nor more than 60 days before the prepayment date as described in APPENDIX G.

Defeasance

If the City (i) pays the principal and interest evidenced by all Outstanding 2019 Certificates, or (ii) at or before the scheduled principal payment dates of all Outstanding 2019 Certificates, deposits money or Defeasance Obligations with the Trustee that, together with other available funds, are sufficient to pay the principal and interest evidenced by all or a portion of the Outstanding 2019 Certificates when the same become due and payable, then the lien of the Trust Agreement and all covenants, agreements and obligations of the City and the Trustee with respect to the 2019 Certificates so provided for will terminate, except for the obligation of the Trustee to make payments with respect to such 2019 Certificates from such funds. See APPENDIX D — “SUMMARIES OF LEGAL DOCUMENTS — TRUST AGREEMENT — Defeasance.”

SOURCES OF PAYMENT OF THE 2019 CERTIFICATES

In accordance with the terms of the Trust Agreement, the 2019 Certificates will be payable by the Trustee solely from: (1) the Lease Payments received by the Trustee from the City pursuant to the Lease Agreement, subject to termination of the Lease Agreement, as provided in the Lease Agreement, (2) amounts from time to time deposited in the funds created pursuant to the Trust Agreement and investment earnings on such funds (except for any investment earnings that are required to be rebated to the United States of America in order to continue the exclusion of the interest evidenced by the 2019 Certificates from gross income for federal income tax purposes), and (3) any Net Proceeds from insurance coverage or condemnation awards received by the Trustee from the damage, destruction or taking of the Leased Property or portion thereof pursuant to the Lease Agreement and the Trust Agreement or from exercise by the Trustee of any remedies or rights pursuant to the Lease Agreement or Trust Agreement upon default or failure to budget thereunder.

The City’s obligation to pay Lease Payments during the term of the Lease Agreement will be absolute and unconditional during the then-current Fiscal Period, but subject to (1) the City’s right to terminate the Lease Agreement and its obligation to pay the Lease Payments for any succeeding Fiscal Period upon its failure to make a

budgetary appropriation for the full amount necessary to make the Lease Payments coming due during the next occurring Fiscal Period and (2) termination of the Lease Agreement upon taking of all of the Leased Property by eminent domain as described above under the subheading “THE 2019 CERTIFICATES —Prepayment Provisions — Extraordinary Prepayment.”

No funds or revenues of the City will be pledged to make Lease Payments. Lease Payments will be made by the City from annually appropriated moneys. The City’s intention is to make the Lease Payments from available revenues within the City’s General Fund. See APPENDIX B -- “THE CITY OF FLAGSTAFF, ARIZONA — FINANCIAL INFORMATION.”

IN THE EVENT OF TERMINATION OF THE LEASE AGREEMENT, THERE WILL BE NO ASSURANCE THAT THE TRUSTEE WILL HAVE ADEQUATE FUNDS PURSUANT TO THE TRUST AGREEMENT TO PAY PRINCIPAL AND INTEREST EVIDENCED BY THE 2019 CERTIFICATES. SEE “RISK FACTORS — TERMINATION OF LEASE AGREEMENT” HEREIN.

SECURITY FOR THE 2019 CERTIFICATES

General

Each 2019 Certificate will evidence and represent an undivided proportionate interest in the Lease Payments and the Prepayments required to be paid by the City pursuant to the Lease Agreement.

The City will have the right to terminate the Lease Agreement and its obligation to pay Lease Payments as described below under the subheading “Lease Agreement; Termination of Lease Agreement Upon Failure to Annually Appropriate Funds.”

THE CITY’S OBLIGATION TO MAKE LEASE PAYMENTS WILL NOT CONSTITUTE A DEBT OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF WILL BE PLEDGED TO MAKE PAYMENTS OF THE 2019 CERTIFICATES. PAYMENT OF THE PRINCIPAL AND INTEREST EVIDENCED BY THE 2019 CERTIFICATES WILL BE MADE BY THE TRUSTEE SOLELY FROM AMOUNTS DERIVED UNDER THE TERMS OF THE LEASE AGREEMENT, INCLUDING LEASE PAYMENTS, AND AMOUNTS FROM TIME TO TIME ON DEPOSIT WITH THE TRUSTEE PURSUANT TO THE TERMS OF THE TRUST AGREEMENT.

Lease Agreement; Termination of Lease Agreement Upon Failure to Annually Appropriate Funds

The term of the Lease Agreement will begin as of the date thereof and continue until the end of the City’s then-current Fiscal Period, and thereafter for such additional Fiscal Periods as are necessary to complete the anticipated total lease term through and including July 1, 2044*, unless terminated prior thereto.

If, on or before the third Business Day prior to the last date on which the City is required or permitted to adopt its budget for a Fiscal Period, the City Council fails to adopt a budget containing an annual budgetary appropriation sufficient to make all Lease Payments coming due during the Fiscal Period for which such budgeting and appropriation are made, the City will immediately notify the Trustee in writing of that fact. If, on the last date on which the City is required or permitted to adopt its budget for a Fiscal Period, no such proper budgeting and final appropriation by the City Council shall have been made, then all of the City’s right, title and interest in and future obligations pursuant to the Lease Agreement and to all of the Leased Property will terminate (subject to reinstatement as provided below), effective as of the last day of the last Fiscal Period for which such budgeting and appropriation was made. Upon such termination, the City will be relieved of any subsequent obligation pursuant to the Lease Agreement other than to

* Preliminary, subject to change.

return to the Trustee possession of the Leased Property as provided in the Lease Agreement and to pay any accrued and unpaid obligations.

If the Lease Agreement is terminated as described above and if, within 45 days after such date of termination, amounts sufficient to make all Lease Payments coming due during the then current Fiscal Period are determined to be available such that the Lease Agreement would have continued in effect with respect to the Leased Property if such amounts had been determined to be available before the termination date, then the Lease Agreement will be reinstated with respect thereto and deemed renewed as of the day following the date of such termination.

Events of Default or Termination Pursuant to Lease Agreement

Upon an Event of Default pursuant to the Trust Agreement or a termination described above under the subheading “Lease Agreement; Termination of Lease Agreement Upon Failure to Annually Appropriate Funds,” the Trustee may exercise one or more of the remedies provided in the Trust Agreement, subject to receipt of indemnity satisfactory to it, including an option to re-lease or sell its leasehold interest in the Leased Property, and apply the proceeds of such disposition, if any, along with the moneys in the Lease Payment Fund, to the payment of the 2019 Certificates. However, there is no assurance that revenues from the Trustee’s re-lease or sale of its leasehold interest in the Leased Property would be sufficient to pay in full all Outstanding Certificates. Should such a shortfall occur, the principal and interest represented by the 2019 Certificates would be paid by the Trustee to the extent of moneys, if any, held by the Trustee in accordance with the Trust Agreement. In accordance with the terms of the Trust Agreement, the Trustee is not under any obligation to take any other action if the Trustee determines that to do so exposes the Trustee to a risk of financial liability or other liability (including environmental liability) for which it reasonably believes it will not be adequately indemnified. See “RISK FACTORS — Termination of Lease Agreement” herein.

Additional Certificates

So long as no Event of Default or termination of the Lease Agreement as described above under the subheading “Lease Agreement; Termination of Lease Agreement Upon Failure to Annually Appropriate Funds” has occurred and will continue after execution and delivery of any Additional Certificates, the Trustee may execute and deliver, at the direction of the City, Additional Certificates from time to time to provide funds to expand or improve the Projects or to pay the costs of refunding Outstanding Certificates. Before the Trustee delivers any Additional Certificates executed pursuant to a supplement authorized by the Indenture, the Trustee shall have received the items identified in APPENDIX D – “SUMMARIES OF LEGAL DOCUMENTS – TRUST AGREEMENT – Additional Certificates.” When such documents have been received by the Trustee, the Trustee will execute and deliver the Additional Certificates to or on the order of the original purchaser thereof, but only upon payment of the agreed-upon purchase price for the Additional Certificates.

RISK FACTORS

THE PURCHASE OF THE 2019 CERTIFICATES INVOLVES CERTAIN INVESTMENT RISKS THAT ARE DISCUSSED THROUGHOUT THIS OFFICIAL STATEMENT. ACCORDINGLY, EACH PROSPECTIVE 2019 CERTIFICATE PURCHASER SHOULD MAKE AN INDEPENDENT EVALUATION OF ALL THE INFORMATION PRESENTED HEREIN. CERTAIN OF THESE INVESTMENT RISKS ARE DESCRIBED BELOW. THE LIST OF RISKS DESCRIBED BELOW IS NOT INTENDED TO BE DEFINITIVE OR EXHAUSTIVE AND THE ORDER IN WHICH THE FOLLOWING FACTORS ARE PRESENTED IS NOT NECESSARILY REFLECTIVE OF THE RELATIVE IMPORTANCE OF THESE RISKS.

Limited Obligation

The obligation of the City to pay the Lease Payments will not be secured by the levy or pledge of any tax or any other funds or revenues derived from the Leased Property or the Projects or any other property and does not constitute a debt or indebtedness of the City, the State or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction. See “SECURITY FOR THE 2019 CERTIFICATES” herein. The Lease Payments will be payable by the City only from moneys lawfully budgeted and appropriated for such purpose.

The City Council must appropriate on an annual basis and have available funds for such purposes. A number of factors beyond the control of the City, including decreased tax or other State revenues, spending reductions or increased expenditures for other purposes mandated by legislation or voter referendum or initiative measures or governmental rules, policies or judicial decisions, could adversely affect the amount available to the City in any year for such budgeting and appropriation. See “SECURITY FOR THE 2019 CERTIFICATES — Lease Agreement; Termination of Lease Agreement Upon Failure to Annually Appropriate Funds.”

The Lease Agreement will obligate the City to lease the Leased Property. State courts have held that governing bodies such as the City Council cannot bind future governing bodies to perform governmental functions or activities. Thus, notwithstanding the commitment of the City to annually appropriate Lease Payments, to the extent permitted by law, such commitment may not be binding on future councils. Moreover, changes in the membership and political philosophies of the councils of the City and in administrative staff and management strategies may occur, and it cannot be determined at this time if future members of the councils of the City might refuse to budget sufficient amounts to make the Lease Payments in future Fiscal Periods.

No funds or revenues of the City will be pledged, obligated or restricted for the payment of the Lease Payments. In addition, the City Council has the right to refuse to annually appropriate for any reason. If the City Council refused to appropriate funds to pay the Lease Payments for any fiscal year, the Lease Agreement would terminate and there is no assurance that funds held pursuant to the Trust Agreement would be sufficient to pay principal and interest evidenced by the 2019 Certificates. See “SECURITY FOR THE 2019 CERTIFICATES — Lease Agreement; Termination of Lease Agreement Upon Failure to Annually Appropriate Funds.”

Other Obligations of City

In June 2018, the City issued its Certificates of Participation, Series 2018 (the “2018” Certificates) which funded the construction of a new “Core Maintenance Facility” for the City located on West Route 66. No title insurance policy was obtained in connection with the execution and delivery of the 2018 Certificates. See APPENDIX B -- “THE CITY OF FLAGSTAFF, ARIZONA — FINANCIAL INFORMATION – TABLE 4”

The City Council has the ability to enter into other obligations that will be payable from the same revenues from which it must budget monies to make the Lease Payments. See APPENDIX B — “THE CITY OF FLAGSTAFF, ARIZONA —FINANCIAL INFORMATION.” To the extent that such additional obligations are incurred by the City, the funds available for, and the City’s ability and willingness to make, Lease Payments may be decreased. The Lease Agreement imposes no restrictions upon the ability of the City to incur additional obligations.

Termination of Lease Agreement

In addition to termination of the Lease Agreement as described under the subheading “SECURITY FOR THE 2019 CERTIFICATES — Lease Agreement; Termination of Lease Agreement Upon Failure to Annually Appropriate Funds” herein, several other events may lead to a termination of the Lease Agreement:

- (1) an Event of Default on the part of the City and an election by the Trustee to terminate the Lease Agreement as described in “LEASE AGREEMENT— Events of Default” in APPENDIX D.
- (2) the taking of all of the Leased Property pursuant to the power of eminent domain as described under the subheading “THE 2019 CERTIFICATES — Prepayment Provisions — Extraordinary Prepayment,” and
- (3) violation of certain State statutes pertaining to conflicts of interest, described herein below.

As required by the provisions of Arizona Revised Statutes Section 38-511, the City may, within three years after its execution, cancel any contract (including the Financing Documents) without penalty or further obligation, made by the City if any person significantly involved in initiating, negotiating, securing, drafting or creating such contract on behalf of the City is, at any time while such contract or any extension thereof is in effect, an employee of any other party to such contract in any capacity or a consultant to any other party to such contract with respect to the subject

matter thereof. The cancellation will be effective when written notice from the Mayor or the City Council is received by all other parties to such contract unless the notice specifies a later time. Upon cancellation of the Financing Documents, the Leased Property will revert to the City and the City will have no further obligation under the Financing Documents.

Pursuant to the Ground Lease, the Trustee has the power to re-lease or sell its leasehold estate in the Leased Property under such circumstances. The Net Proceeds from the re-leasing of the Leased Property or sale of the Trustee's interest therein, together with other moneys then held by the Trustee in accordance with the Trust Agreement, will be required to be used pursuant to the Trust Agreement to pay principal and interest evidenced by the 2019 Certificates as it becomes due, to the extent of such moneys. No assurance can be given that the amount of funds obtained from such re-leasing or sale of the leasehold estate and from funds held pursuant to the Trust Agreement will be sufficient to pay all 2019 Certificates when due.

[The Leased Property is a municipal court building. While the insurance value of the a municipal court building is estimated at approximately \$_____ million], it could be difficult to find a lessee or purchaser for the leasehold estate in the Leased Property and, upon any event of termination of the Lease Agreement or default by the City pursuant to the Lease Agreement, the Trustee may not realize sufficient moneys from the releasing or sale of its leasehold estate in the Leased Property to provide for the payment of the 2019 Certificates in full with interest to the scheduled dates of payment. In other words, due to the special purpose nature of the Leased Property and the uncertainties of the needs of others for facilities and of the special and limited demand for facilities, no assurance can be given that the proceeds from any re-lease, sale of the leasehold estate or other disposition of the Leased Property will be sufficient to pay the principal and interest evidenced by the 2019 Certificates.

Possible Restrictions on Transfer of, and Change of Status of Interest Represented by, the 2019 Certificates Upon Termination of Lease Agreement

Neither Special Counsel nor counsel to the Underwriter is rendering an opinion as to the applicability or inapplicability of the registration requirements of the Securities Act of 1933, as amended, to the transfer of any 2019 Certificates in the event Lease Payments are being made from sources other than funds made available by the City as a result of termination of the Lease Agreement for any reason. If the Lease Agreement is terminated while 2019 Certificates are Outstanding, the 2019 Certificates may be transferred by a 2018 Certificate Owner without compliance with the registration provisions of the Securities Act of 1933, as amended. Moreover the interest evidenced by the 2019 Certificates may no longer be treated as described under the heading "TAX EXEMPTION" herein.

Limitations on Remedies

No assurance can be given that the proceeds from any re-leasing or sale of the leasehold estate in the Leased Property will be sufficient to pay in full all Outstanding 2019 Certificates. The enforcement of any remedies provided in the Lease Agreement and the Trust Agreement could prove both expensive and time consuming. In addition, the enforceability of the Lease Agreement and the Trust Agreement will be subject to applicable bankruptcy laws, equitable principles affecting the enforcement of creditors' rights generally and liens securing such rights, and the police powers of the State and its political subdivisions. Because of delays inherent in obtaining judicial remedies, it should not be assumed that these remedies could be accomplished rapidly. Any delays in the ability of the Trustee to obtain possession of the Leased Property upon termination of the Lease Agreement or exercise of remedies upon default by the City will, of necessity, result in delays in the receipt of the funds needed to make payments on the 2019 Certificates.

Although the Lease Agreement and the Trust Agreement provide that the Trustee may take possession of the Leased Property and (upon receipt of indemnification satisfactory to the Trustee) re-lease it or sell its leasehold interest therein if there is a default by the City thereunder or if the Lease Agreement is terminated or cancelled, and the Lease Agreement provides that the Trustee may have such rights of access to the Leased Property as may be necessary to exercise any remedies, no assurance can be given that revenues from the Trustee's re-letting or sale of its interest in the Leased Property would be sufficient to pay in full all Outstanding 2019 Certificates.

Upon the termination of the Lease Agreement or if the City defaults in its obligation to make Lease Payments pursuant thereto, the Trustee will be required by the Trust Agreement to take action to force the City to surrender possession

of the Leased Property. However, in accordance with the terms of the Trust Agreement, the Trustee is not under any obligation to take any other action if the Trustee determines that to do so exposes the Trustee to a risk of financial liability or other liability (including environmental liability) for which it reasonably believes it will not be adequately indemnified. See “SOURCES OF PAYMENT OF THE 2019 CERTIFICATES — Lease Agreement; Termination of Lease Agreement Upon Failure to Annually Appropriate Funds” and “—Events of Default or Termination Pursuant to Lease Agreement” herein. Prior to taking other actions pursuant to the Trust Agreement, the Trustee may demand assurances from the Owners, such as indemnity satisfactory to the Trustee, that it will not incur liability by reason of any other action taken by the Trustee pursuant to the Trust Agreement.

SOURCES AND USES OF FUNDS

Sources of Funds

Principal Amount of the 2019 Certificates	\$3,575,000.00*
[Net] Original Issue Premium (a)	_____
Total Sources of Funds	_____

Uses of Funds

Deposit to the Project Fund	
Payment of Costs of Issuance (b)	_____
Total Uses of Funds	_____

(a) *Includes original issue premium on the 2019 Certificates, less original issue discount.*

(b) *Includes Underwriter's compensation.*

* Preliminary, subject to change.

ESTIMATED LEASE PAYMENT REQUIREMENTS

The following table illustrates the estimated Lease Payments with respect to the 2019 Certificates.

TABLE 1
Estimated Annual Lease Payment Requirements (a)(b)
City of Flagstaff, Arizona

Fiscal Year	2019 Certificates*		Total Estimated Annual Lease Payment Requirements*
	Principal	Interest (c)	
2019/20	\$45,000	\$ 81,867(d)	\$ 126,867
2020/21	\$85,000	152,150	237,150
2021/22	90,000	148,750	238,750
2022/23	90,000	144,250	234,250
2023/24	95,000	139,750	234,750
2024/25	100,000	135,000	235,000
2025/26	105,000	130,000	235,000
2026/27	110,000	124,750	234,750
2027/28	115,000	119,250	234,250
2028/29	125,000	113,500	238,500
2029/30	130,000	107,250	237,250
2030/31	135,000	100,750	235,750
2031/32	140,000	94,000	234,000
2032/33	145,000	88,400	233,400
2033/34	155,000	82,600	237,600
2034/35	160,000	76,400	236,400
2035/36	165,000	70,000	235,000
2036/37	170,000	63,400	233,400
2037/38	180,000	56,600	236,600
2038/39	185,000	49,400	234,401
2039/40	195,000	42,000	237,000
2040/41	200,000	34,200	234,200
2041/42	210,000	26,200	236,200
2042/43	220,000	17,800	237,800
2043/44	225,000	9,000	234,000
	\$3,575,000		

(a) Prepared by the Financial Advisor.

(b) See APPENDIX B – “CITY OF FLAGSTAFF, ARIZONA – FINANCIAL INFORMATION – TABLE 4” and “-GENERAL FUND” for information regarding the City’s outstanding certificates of participation and the City’s general fund revenues for the budgeted fiscal year 2019/20, estimated actuals for fiscal year 2018/19, and audited fiscal years 2013/14 through and including 2017/18.

(c) Interest is estimated.

(d) The first interest payment due with respect to the 2019 Certificates will be on July 1, 2020*. Thereafter, interest payments will be made semiannually on each January 1 and July 1, until the earlier of the final maturity or prepayment prior to maturity.

LITIGATION

No litigation or administrative action or proceeding is pending or threatened against the City which questions its right to adopt or comply with the provisions of the Financing Documents or the validity or enforceability thereof or to consummate the transactions described therein or herein; nor is there any litigation or administrative action or proceeding threatened against the City which, if decided adversely to the City, would impair the City's ability to comply with all of the requirements set forth in the Financing Documents or have a material adverse effect upon the financial condition of the City. Representatives of the City will deliver a certificate to that effect at the time of the initial delivery of the 2019 Certificates.

LEGAL MATTERS

Legal matters incident to the execution and delivery of the 2019 Certificates and with regard to the tax-exempt status of the Interest Portion (defined below) of the 2019 Certificates are subject to the legal opinion of Greenberg Traurig, LLP, Special Counsel, whose services have been retained by the City. The signed legal opinion of Special Counsel, dated and premised on the law in effect as of the date of the 2019 Certificates, will be delivered to the Underwriter at the time of original delivery of the 2019 Certificates.

The proposed text of the legal opinion is set forth as APPENDIX E – “FORM OF APPROVING LEGAL OPINION.” The legal opinion to be delivered may vary from the text of APPENDIX E if necessary to reflect the facts and law existing on the date of delivery. The opinion will speak only as of its date, and subsequent distribution, by recirculation of this Official Statement or otherwise, should not be construed as a representation that Special Counsel has reviewed or expressed any opinion concerning any matters relating to the 2019 Certificates subsequent to the original delivery of the 2019 Certificates.

Certain legal matters will be passed upon for the Underwriter by Squire Patton Boggs (US) LLP, as counsel to the Underwriter.

From time to time, there are legislative proposals (and interpretations of such proposals by courts of law and other entities and individuals) which, if enacted, could alter or amend numerous matters, both financial and nonfinancial, affecting the operations of municipalities which could have a material effect on the City and could adversely affect the secondary market value or marketability of the 2019 Certificates. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to obligations (such as the 2019 Certificates) issued prior to enactment.

The legal opinions to be delivered concurrently with the delivery of the 2019 Certificates will express the professional judgment of the attorneys rendering the opinion as to the legal issues explicitly addressed therein dated and speaking only as of the date of delivery of the 2019 Certificates. By rendering a legal opinion, the provider of the legal opinion does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

TAX EXEMPTION

The Internal Revenue Code of 1986, as amended (the “Code”), includes requirements which the City must continue to meet after the execution and delivery of the 2019 Certificates in order that the portion of each of the Lease Payments made by the City pursuant to the Lease Agreement and denominated as and comprising interest pursuant to the Lease Agreement and received by the Owners of the 2019 Certificates (the “Interest Portion”) will be and remain excludable from gross income for federal income tax purposes. The City's failure to meet these requirements may cause the Interest Portion to be included in gross income for federal income tax purposes retroactively to the date of execution and delivery of the 2019 Certificates. The City has covenanted in the Lease Agreement to take the actions required by the Code in order to maintain the exclusion from gross income for federal income tax purposes of the Interest Portion.

In the opinion of Special Counsel, assuming the accuracy of certain representations and certifications of the City and continuing compliance by the City with the tax covenants referred to above, under existing statutes, regulations, rulings

and court decisions, the Interest Portion is excludable from gross income of the holders thereof for federal income tax purposes and is exempt from Arizona income taxation so long as the Interest Portion is excludable from gross income for federal income tax purposes. The Interest Portion is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. Special Counsel will express no opinion as to any other tax consequences regarding the Interest Portion or the 2019 Certificates. Prospective purchasers of the 2019 Certificates should consult their own tax advisors as to the status of the Interest Portion under the tax laws of any state other than Arizona.

Except as described above, Special Counsel will express no opinion regarding the federal income tax consequences resulting from the receipt or accrual of the Interest Portion, or the ownership or disposition of the 2019 Certificates. Prospective purchasers of 2019 Certificates should be aware that the ownership of 2019 Certificates may result in other collateral federal tax consequences, including (i) the denial of a deduction for interest on indebtedness incurred or continued to purchase or carry the 2019 Certificates, (ii) the reduction of the loss reserve deduction for property and casualty insurance companies by the applicable statutory percentage of certain items, including the Interest Portion, (iii) the inclusion of the Interest Portion in the earnings of certain foreign corporations doing business in the United States for purposes of a branch profits tax, (iv) the inclusion of the Interest Portion in the passive income subject to federal income taxation of certain Subchapter S corporations with Subchapter C earnings and profits at the close of the taxable year and (v) the inclusion of the Interest Portion in the determination of the taxability of certain Social Security and Railroad Retirement benefits to certain recipients of such benefits. The nature and extent of the other tax consequences described above will depend on the particular tax status and situation of each owner of the 2019 Certificates. Prospective purchasers of the 2019 Certificates should consult their own tax advisors as to the impact of these other tax consequences.

Special Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to Special Counsel as of the date thereof. Special Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Special Counsel's attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, Special Counsel's opinions are not a guarantee of a particular result, and are not binding on the Internal Revenue Service or the courts; rather, such opinions represent Special Counsel's professional judgment based on its review of existing law, and in reliance on the representations and covenants that it deems relevant to such opinion.

Original Issue Discount and Original Issue Premium

Certain of the 2019 Certificates ("Discount Certificates") may be offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of a Discount Certificate determined under Code Section 1273 or 1274 (i.e., for obligations issued for money in a public offering, the initial offering price to the public (other than to bond houses and brokers) at which a substantial amount of the obligation of the same maturity is sold pursuant to that offering). For federal income tax purposes, OID accrues to the owner of a Discount Certificate over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Certificate (i) is interest excludable from the owner's gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as other interest on the 2019 Certificates, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Certificate.

Certain of the 2019 Certificates ("Premium Certificates") may be offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity (or earlier for certain Premium Certificates callable prior to maturity). That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Certificate, based on the yield to maturity of that Premium Certificate (or, in the case of a Premium Certificate callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Certificate), compounded semiannually (or over a shorter permitted compounding interval selected by the owner). No portion of that bond premium is deductible by the owner of a Premium Certificate. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Certificate, the owner's tax basis in the Premium Certificate is reduced by the amount of bond premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for federal income tax

purposes from the sale or other disposition of a Premium Certificate for an amount equal to or less than the amount paid by the owner for that Premium Certificate.

Owners of Discount and Premium Certificates should consult their own tax advisors as to the determination for federal income tax purposes of the amount of OID or bond premium properly accruable or amortizable in any period with respect to the Discount or Premium Certificates and as to other federal tax consequences, and the treatment of OID and bond premium for purposes of state and local taxes on, or based on, income.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals suggested, debated, introduced or pending in congress or in the State legislature that, if enacted into law, could alter or amend one or more of the federal tax matters, or state tax matters, respectively, described above including, without limitation, the excludability from gross income of the Interest Portion, adversely affect the market price or marketability of the 2019 Certificates, or otherwise prevent the holders from realizing the full current benefit of the status of the Interest Portion. It cannot be predicted whether or in what form any such proposal may be enacted, or whether, if enacted, any such proposal would affect the 2019 Certificates. Prospective purchasers of the 2019 Certificates should consult their tax advisors as to the impact of any proposed or pending legislation.

Information Reporting and Backup Withholding

Interest paid on tax-exempt obligations such as the 2019 Certificates is subject to information reporting to the Internal Revenue Service in a manner similar to interest paid on taxable obligations. This reporting requirement does not affect the excludability of the Interest Portion from gross income for federal income tax purposes. However, in conjunction with that information reporting requirement, the Code subjects certain non-corporate owners of the 2019 Certificates, under certain circumstances, to “backup withholding” at the rates set forth in the Code, with respect to payments on the 2019 Certificates and proceeds from the sale of the 2019 Certificates. Any amount so withheld would be refunded or allowed as a credit against the federal income tax of such owner of the 2019 Certificates. This withholding generally applies if the owner of the 2019 Certificates (i) fails to furnish the payor such owner’s social security number or other taxpayer identification number (“TIN”), (ii) furnished the payor an incorrect TIN, (iii) fails to properly report interest, dividends, or other “reportable payments” as defined in the Code, or (iv) under certain circumstances, fails to provide the payor or such owner’s securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such owner is not subject to backup withholding. Prospective purchasers of the 2019 Certificates may also wish to consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

RATING

S&P Global Ratings, a division of Standard & Poor’s Financial Services LLC (“S&P”), has assigned a rating of “___” to the 2019 Certificates. Such rating reflects only the view of S&P, and any desired explanation of the significance of this rating should be obtained from the rating agency at the following address: S&P at One California Street, 31st Floor, San Francisco, California 94111. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The rating may subsequently be revised downward or withdrawn entirely by S&P if in its judgment, circumstances so warrant. Any subsequent downward revision or withdrawal of such rating may have an adverse effect on the market price and marketability of the 2019 Certificates. The City has covenanted in its continuing disclosure undertaking that it will file notice of any formal change in any ratings relating to the 2019 Certificates. See “CONTINUING DISCLOSURE” and APPENDIX F – “FORM OF CONTINUING DISCLOSURE UNDERTAKING” herein.

UNDERWRITING

The 2019 Certificates are being purchased by Piper Jaffray & Co. (the “Underwriter”). The Underwriter has agreed to purchase from the City the 2019 Certificates at an aggregate purchase price of \$ _____ pursuant to a certificate purchase agreement between the City and the Underwriter. The aggregate purchase price reflects compensation to the Underwriter of \$ _____. The 2019 Certificates may be offered and sold to certain dealers (including the

Underwriter and other dealers depositing 2019 Certificates into investment trusts) at prices lower than the public offering prices stated on the inside front cover page hereof, and such public offering prices may be changed, from time to time, by the Underwriter. The Underwriter's obligations are subject to certain conditions precedent, and the Underwriter will be obligated to purchase all of the 2019 Certificates if any 2019 Certificates are purchased.

The Underwriter has entered into a distribution agreement ("Distribution Agreement") with Charles Schwab & Co., Inc. ("CS&Co") for the retail distribution of certain securities offerings, including the 2019 Certificates at the original issue prices. Pursuant to the Distribution Agreement, CS&Co will purchase the 2019 Certificates from the Underwriter at the original issue price less a negotiated portion of the selling concession applicable to any 2019 Certificates that CS&Co sells.

RELATIONSHIP AMONG PARTIES

Special Counsel has and continues to represent the Underwriter with respect to financings other than for the City and will continue to do so if requested in the future. Special Counsel has also previously acted as bond counsel or special counsel with respect to other obligations underwritten by the Underwriter and will continue to do so if requested in the future. Underwriter's Counsel has also previously acted as bond counsel or underwriter's counsel with respect to other obligations underwritten by the Underwriter and will continue to do so if requested in the future.

CONTINUING DISCLOSURE

As the "obligated person" with respect to the 2019 Certificates, the City will covenant for the benefit of certain owners of the 2019 Certificates to provide certain financial information and operating data relating to the City by no later than February 1 in each year commencing February 1, 2020 (the "Annual Reports"), and to provide notices of the occurrence of certain enumerated events (the "Notices of Listed Events"). The Annual Reports and the Notices of Listed Events will be filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Markets Access System ("EMMA"). The specific nature of the information to be contained in the Annual Reports and the Notices of Listed Events and the method of dissemination through EMMA are set forth in APPENDIX F — "CONTINUING DISCLOSURE UNDERTAKING," attached hereto. These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). A failure by the City to comply with these covenants must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the 2019 Certificates in the secondary market. Also, pursuant to Arizona law the ability of the City to provide information pursuant to such covenants will be subject to annual appropriation of funds to cover the costs of, among other things, preparing and transmitting the Annual Reports and the Notices of Listed Events. Should the City not comply with such covenants due to a failure to appropriate, the City has covenanted to provide notice of such fact through EMMA. Absence of continuing disclosure due to a failure to comply with any such covenants or such non-appropriation could adversely affect the 2019 Certificates and specifically their market price and liquidity.

The City previously entered into continuing disclosure undertakings (the "Prior Undertakings") in connection with the issuance of certain bonds, which require the filing on or before February 1 of each year of audited financial statements and annual updates with respect to certain financial information and operating data related to the City (collectively, the "Prior Annual Report"). Until March 22, 2016, the Prior Annual Report with respect to the fiscal year ended June 30, 2015 was not associated with the nine-digit CUSIP numbers for the City's Refunding Certificates of Participation, Series 12 relating to the Arizona Municipal Financing Program. For fiscal years ending June 30, 2014 and June 30, 2015, certain information required by the Prior Undertakings was filed but not presented in the same format as within the official statements. The City did not file notices of the failure to provide the Prior Annual Report. The City did not provide a separate notice of defeasance in connection with the advance refunding in part of its General Obligation Bonds, Projects of 2004, Series A (2006). The correctly formatted data was filed on EMMA on March 22, 2016 and May 26, 2016. The City has implemented procedures to facilitate compliance with the Prior Undertakings, the continuing disclosure undertaking related to the Bonds and future similar undertakings in all material respects.

FINANCIAL ADVISOR

The Financial Advisor's fee for services rendered with respect to the sale of the 2019 Certificates is contingent upon the execution and delivery of the 2019 Certificates. The Financial Advisor has not verified, and does not assume any responsibility for, the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the 2019 Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement: "The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information."

FINANCIAL STATEMENTS

The financial statements of the City as of June 30, 2018 and for its fiscal year then ended, which are included as APPENDIX C of this Official Statement, have been audited by CliftonLarsonAllen LLP, as stated in their opinion which appears in APPENDIX C – "THE CITY – AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018." The City neither requested nor obtained the consent of CliftonLarsonAllen LLP to include their report and CliftonLarsonAllen LLP has performed no procedures subsequent to rendering their opinion on the financial statements.

THE FINANCIAL STATEMENTS INCLUDED IN APPENDIX C OF THIS OFFICIAL STATEMENT ARE CURRENT AS OF THEIR DATE ONLY AND MAY NOT REPRESENT THE CURRENT FINANCIAL CONDITION OF THE CITY.

CONCLUDING STATEMENT

The descriptions of certain provisions of the 2019 Certificates and the Financing Documents contained herein, and all references to other materials, are only brief descriptions of certain provisions thereof and do not constitute complete statements of such documents or provisions. Reference is hereby made to the complete documents for further information, copies of which are available as set forth under "INTRODUCTION" herein. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

The attached Appendices are integral parts of this Official Statement and must be read together with all of the foregoing.

The execution and delivery of this Official Statement have been duly authorized and approved by the City.

CITY OF FLAGSTAFF, ARIZONA

By: _____
Management Services Director

APPENDIX A

**CITY OF FLAGSTAFF, ARIZONA
DEMOGRAPHIC AND ECONOMIC INFORMATION**

THE 2019 CERTIFICATES WILL BE PAYABLE ONLY FROM AND SECURED BY THE AMOUNTS DESCRIBED UNDER THE HEADINGS “SOURCES OF PAYMENT OF THE 2019 CERTIFICATES” AND “SECURITY FOR THE 2019 CERTIFICATES.” THE 2019 CERTIFICATES WILL NOT BE A GENERAL OBLIGATION OF THE CITY.

General

The City is northern Arizona’s principal population, commerce and education center. The City is situated in a mountainous region at an elevation of 7,000 feet. At the base of the San Francisco Peaks, including Mount Humphreys (the highest point in the State with an elevation of 12,670 feet), the City is known for its proximity to such Arizona attractions as the Grand Canyon, Wupatki National Monument, Sunset Crater, Walnut Canyon, Oak Creek Canyon and Meteor Crater.

The City was originally founded in the late 1800’s as a work camp for construction crews working on the transcontinental railroad. It was incorporated as a town in 1894 and as a city in 1928. It has served as the county seat for Coconino County, Arizona (the “County”), since 1891.

Listed below are U.S. Census population figures for the City, the County and the State.

POPULATION STATISTICS

	<u>City of Flagstaff</u>	<u>Coconino County</u>	<u>State of Arizona</u>
2018 Estimated (a)	74,736	145,564	7,076,199
2010 Census	65,870	134,421	6,392,017
2000 Census	52,894	116,320	5,130,632
1990 Census	45,857	96,591	3,665,228
1980 Census	34,743	75,008	2,716,633
1970 Census	26,117	48,326	1,775,399

(a) *Estimates as of July 1, 2018 (data released December 2018).*

Source: Arizona Office of Economic Opportunity, in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics.

Municipal Government

The City operates under a Council-Manager form of government as provided by its Charter, which was originally adopted on October 3, 1958. The City Council is comprised of a Mayor and six Council members. The Council members are elected on a non-partisan ballot for four-year staggered terms while the Mayor is elected at large for a two-year term. The Mayor and Council members have equal voting power. The Council is responsible for policy-making, as well as making appointments to advisory boards, commissions and committees. It also appoints Municipal Court Judges and the City Attorney. Additionally, the City Council hires the City Manager who has full responsibility for carrying out Council policies and administering City operations. The City Manager in turn appoints City employees and department heads under civil service procedures as specified in the Charter.

Economy

The economy of the City is based primarily on government, small and medium-sized manufacturing, the service industry, trade and tourism. As the home of Northern Arizona University (“NAU”), the City is a center of educational, governmental and scientific employment and is becoming a center for research and development as well as the distribution and manufacturing of high technology products. The location of the City at the junction of Interstates 40 and 17, plus the close proximity of seven national parks and monuments, makes tourism a major source of employment and a strong contributor to the revenue base of the City. In addition, the City serves as the major trade and service center for a wide area of northern Arizona.

The table below sets forth the major employers in the City.

**MAJOR EMPLOYERS
City of Flagstaff, Arizona**

Employer	Product/Service	Approximate Employment
Northern Arizona University	Education	2,570
Flagstaff Medical Center	Healthcare	2,200
W.L. Gore & Associates	Medical Equipment Manufacturing	1,950
Flagstaff Unified School District	Education	1,375
Coconino County	Government	1,200
City of Flagstaff	Government	950
Wal-Mart	Retail	630
Grand Canyon Railways	Lodging and Travel	500
North Country Healthcare	Healthcare	345
Nestle Purina	Distribution Center	240

Source: City of Flagstaff, 2018 Comprehensive Annual Financial Report.

The table below sets forth the unemployment rate averages for the City, the County, the State and the United States for the years indicated.

UNEMPLOYMENT RATE AVERAGES

Year	United States	State of Arizona	Coconino County	City of Flagstaff
2019 (a)	4.5%	4.9%	5.9%	4.5%
2018	3.9	4.8	5.5	3.9
2017	3.9	4.9	5.5	3.9
2016	4.2	5.3	6.0	4.2
2015	5.3	6.0	6.5	4.5
2014	6.2	6.4	7.1	5.1

(a) Data through July 2019.

Source: Arizona Office of Economic Opportunity, in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics.

The table below shows a comparison of the changes in annual average employment levels in the various non-agriculture sectors of the County for calendar years 2014 into 2019.

**LABOR FORCE AND NONFARM EMPLOYMENT
Coconino County, Arizona**

	2019 (a)	2018	2017	2016	2015	2014
Mining and construction	2,600	2,500	2,400	2,300	2,200	2,100
Manufacturing	4,500	4,400	4,300	4,400	4,300	4,300
Trade, transportation, and utilities	9,200	9,600	9,500	9,800	10,000	10,000
Information	400	400	500	400	400	400
Financial activities	1,400	1,400	1,400	1,400	1,300	1,200
Professional and business services	3,500	3,400	3,100	3,100	3,200	3,000
Educational and health services	9,300	9,300	9,500	9,600	9,400	9,200
Leisure and hospitality	15,600	15,400	1,500	14,000	13,200	13,100
Other Services	1,600	1,700	1,700	1,800	1,800	1,600
Government	19,500	20,100	19,800	19,600	19,700	19,700
	<u>67,600</u>	<u>68,200</u>	<u>53,700</u>	<u>66,400</u>	<u>65,500</u>	<u>64,600</u>

(a) Data through July 2019.

Source: Arizona Office of Economic Opportunity, in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics.

Commerce

The following table illustrates the past five years of sales tax collections.

**SALES TAX COLLECTIONS
City of Flagstaff, Arizona
(\$000s omitted)**

Fiscal Year	Amount
2018/19(a)	\$20,508
2017/18	21,128
2016/17	21,174
2015/16	19,090
2014/15	17,845

(a) Preliminary estimates, unaudited.

Source: The Comprehensive Annual Financial Reports for the City and the City.

Tourism

Flagstaff is located near such tourist attractions as the Grand Canyon, the Glen Canyon Dam and Lake Powell, Sunset Crater, Walnut Canyon, and the scenic recreational attraction of Oak Creek Canyon. Located near Flagstaff are various United States Forest Service park areas for camping, stream and lake fishing, swimming, water skiing and hunting. Snow-skiing is available in the winter at the Arizona Snowbowl, a few miles north of Flagstaff. Annual summer festivities in Flagstaff include an art, music, and theater festival. The J. Lawrence Walkup Skydome at NAU, with a seating capacity of 16,000, can be adapted to a variety of events including football, basketball, ice hockey, badminton, volleyball, track, intramurals, and cultural and entertainment events.

The following table sets forth the number of visitors to selected national parks and monuments which are located near Flagstaff.

TOURISM STATISTICS BY NUMBER OF VISITORS

Calendar Year	Grand Canyon National Park	Montezuma Castle National Monument	Sunset Crater National Monument	Walnut Canyon National Monument	Wupatki National Monument
2019 (a)	2,714,018	201,090	54,415	74,854	78,411
2018	6,380,495	390,151	104,583	167,736	205,122
2017	6,254,238	398,174	119,454	165,134	236,454
2016	5,969,811	392,170	106,809	152,444	223,172
2015	5,520,736	416,635	182,203	153,322	212,828
2014	4,756,771	407,017	176,723	135,230	195,962

(a) Data through June 2019.

Source: Arizona Office of Tourism.

APPENDIX B

CITY OF FLAGSTAFF, ARIZONA - FINANCIAL INFORMATION

THE 2019 CERTIFICATES WILL BE PAYABLE ONLY FROM AND SECURED BY THE AMOUNTS DESCRIBED UNDER THE HEADINGS “SOURCES OF PAYMENT OF THE 2019 CERTIFICATES” AND “SECURITY FOR THE 2019 CERTIFICATES.” THE 2019 CERTIFICATES WILL NOT BE A GENERAL OBLIGATION OF THE CITY.

Introduction

The City’s fiscal year is from July 1 through June 30. City budgeting for a fiscal year formally begins with the preparation of a proposed budget for submission to the City Council for tentative adoption in early June of each year. After publication of the budget and a public hearing, a final budget is adopted for the upcoming fiscal year. The budget must contain detailed information concerning the sums required to be expended for each purpose and the City’s tax levy is then set based on the adopted figures.

Expenditure Limitation

Beginning in fiscal year 1982/83, the City became subject to the annual expenditure limitation which is set by the Arizona Economic Estimates Commission. This limitation is based on the City’s annual expenditures for fiscal year 1979/80, with this base adjusted to reflect interim population, cost of living and boundary changes. Certain expenditures are specifically exempt from the limit, including expenditures made from federal funds and bond sale proceeds, as well as debt service payments. The limitations can be exceeded for certain emergency expenditures or if approved by the voters. The constitutional provisions that relate to the expenditure limitation provide four processes to exceed the spending limit: a local home rule option, a permanent base adjustment, a one-time override, and a capital project accumulation.

Since the inception of expenditure limitations, the City has not exceeded its limitation in any fiscal year.

Budget Process

The annual budget serves as the foundation for the City’s financial planning and control. The City Council formally adopts the budget and legally allocates, or appropriates, available monies for all funds and entities related to the City. All of these funds and entities are included in the basic financial statements. The City Manager submits to the Council each spring a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Two public hearings are held prior to the budget’s final adoption in order to obtain taxpayer comments. The budget is legally enacted through the passage of a resolution. The resolution sets the limit for expenditures during the fiscal year. The legal level of control for the budget is the division level. Additional expenditures may be authorized for unanticipated and/or inadequately budgeted events threatening the public health or safety as prescribed in the State Constitution, Article 9, Section 20.

The City’s financial plan requires many elements working in concert with one another. Some of these financial plan elements are financial resource planning, multi-year budget planning, strategic capital improvement project planning, and financial policy impacts, all of which are further identified below.

Financial Resource Planning – Strategic financial planning begins with determining the City’s fiscal capacity based upon long-term financial forecasts of recurring available revenues. Financial forecasts coupled with financial trend analysis help preserve the fiscal well-being of the City. Strategic financial capacity planning is a critical element to reach long-term financial stability goals and to determine special financial needs for critical objectives of the City Council.

Multi-Year Budget Planning – Multi-year budget planning encompasses long-range operating expenditure plans (including the operating impacts of capital projects), which are linked to the community expectations and broad goals

of the City Council. The multi-year approach provides a better opportunity for staff to change its financial paradigm from what do we need this year to how do we accomplish our service objectives over-time, given our financial capacity.

While the City is required to adopt an annual budget to meet State statutory requirements, the City builds a financial plan for five years to help anticipate future impacts and ensure achievement of City objectives within limited or decreasing resources.

Strategic Capital Improvement Project Planning – The City’s Capital Improvement Projects are planned for five or more years and analyzed using City specific prioritization criteria. The operating cost impacts of projects are also planned and considered in developing future operating budget plans. Projects with significant operating impacts are carefully timed to avoid contingent liabilities, which future operating resources cannot meet. Pay-as-you-go funding sources are also conservatively estimated to avoid over-committing to capital construction using revenues that are not certain. To the extent debt financing is used and/or required, capital project plans are sized to conform to existing debt management policies.

Financial Policy Planning – The City’s financial policies dictate minimum fund balance levels for the General, Special Revenue, and Enterprise Funds. The General Fund is required to maintain a fund balance of 15% of ongoing revenues and special revenue and enterprise funds are to maintain a 10% fund balance, as calculated against ongoing revenues. The City had a 15% fund balance in FY 2013 and made a commitment to increase the fund balance to 20% over the next few years. Since FY 2015, the City has adopted a General Fund budget with an excess of 20% fund balance in the five-year plan.

Financial Reports and Examination of Accounts

State law requires that the City’s financial books and records be audited by independent auditors, on an annual basis. Annually, independent certified public accountants audit the financial records as required by State law and the City’s Charter. See APPENDIX C – “THE CITY – AUDITED ANNUAL FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2018” for the financial statements from the City’s June 30, 2018, Comprehensive Annual Financial Report. The City received a Certificate of Achievement for Excellence in Financial Reporting from GFOA for its 2018 Comprehensive Annual Financial Report as well as in each of the 25 preceding years.

TABLE 2

**Current Year Statistics (For Fiscal Year 2019/20)
City of Flagstaff, Arizona**

Total General Obligation Bonds Outstanding	\$45,619,491*(a)
Certificates of Participation Outstanding and to be Outstanding	7,370,000*(b)
Water and Wastewater Revenue Obligations Outstanding	33,864,696
Excise Tax and/or State Shared Revenue Supported Debt Outstanding	21,180,000
Net Limited Assessed Property Value	868,806,647
Net Full Cash Assessed Value	1,010,133,933
Estimated Net Full Cash Value	8,397,908,073(c)

-
- (a) *Represents all general obligation bonded debt outstanding and to be outstanding after issuance of the General Obligation Bonds, Series 2019, which are expected to be issued by the City concurrently with the 2019 Certificates pursuant to a separate official statement.*
- (b) *Represents all certificates of participation outstanding and to be outstanding after issuance of the 2019 Certificates.*
- (c) *Estimated net full cash value is the total market value of the property less unsecured personal property and less estimated exempt property within the City, as projected by the Arizona Department of Revenue, Division of Property and Special Taxes.*

Source: *State and County Abstract of the Assessment Roll, Arizona Department of Revenue, Property Tax Rates and Assessed Values, Arizona Tax Research Association, the City and Assessor of the County.*

TABLE 3

**Direct General Obligation Bonded Debt Outstanding and to be Outstanding
City of Flagstaff, Arizona**

Issue Series	Original Amount	Purpose	Final Maturity Date (July 1)	Balance Outstanding
2011	\$ 12,845,000	Various Purposes	2020	\$ 1,465,000
2011	1,633,828	Water System	2031	1,091,795(a)
2011	3,952,287	Public Safety Communications	2021	882,696
2013	11,460,000	Various Purposes	2028	7,460,000
2014A	6,600,000	Various Purposes	2034	5,345,000
2014B	8,270,000	Refunding	2021	4,305,000
2016	16,105,000	Various Purposes	2036	14,345,000
Total General Obligation Bonded Debt Outstanding				\$34,894,491
Plus: The General Obligation Bonds, Series 2019				<u>10,725,000* (b)</u>
Total General Obligation Bonded Debt Outstanding and to be Outstanding (c)				<u>\$45,619,491* (d)</u>

- (a) *The City has paid and may continue to pay the debt service requirements on these general obligation bonds from water and sewer system revenues which remain after payment of operation and maintenance expenses of the system and revenue bond debt service. In the event that these net revenues should prove insufficient, or should the City decide not to pay such general obligation bonds from such net revenues, such general obligation bonds would then be paid from ad valorem taxes.*
- (b) *The City expects to offer its General Obligation Bonds, Series 2019 concurrently with the 2019 Certificates pursuant to a separate official statement.*
- (c) *Does not include the approximate amount of \$6,000,000 of a loan agreement with WIFA that the City expects to enter into in the first quarter of 2020.*
- (d) *Does not include premium on the City's General Obligation Bonds, Series 2016 or the Series 2019 Bonds, which has been deposited for project cost use, and such amount reduces in equal amount the borrowing capacity of the City under State statutes and the Arizona Constitution and the principal amount of general obligation bonds authorized. Such capacity (but not authorization) will be recaptured as premium is amortized.*

TABLE 4**Certificates of Participation Outstanding and to be Outstanding**

Issue Series	Original Amount	Purpose	Final Maturity Date (July 1)	Balance Outstanding and to be Outstanding
2018	\$3,880,000	Core Maintenance Facility	2043	\$ 3,795,000
Total Certificates of Participation Bonded Debt Outstanding				\$ 3,795,000
Plus: The 2019 Certificates				3,575,000*
Total Certificates of Participation Bonded Debt Outstanding and to be Outstanding				<u>\$ 7,370,000*</u>

TABLE 5**Water and Wastewater Revenue Obligations Outstanding**

The following chart lists the water and wastewater revenue obligations of the City that are currently outstanding. The City's financial obligations are through loan agreements with the Water Infrastructure Finance Authority of Arizona, a State revolving fund. Also see footnote (a) to TABLE 3.

Issue Series	Original Amount	Purpose	Final Maturity Date (July 1)	Balance Outstanding
2007	\$23,100,000	Sewer Treatment Plant Improvements	2027	\$ 2,230,604
2008	8,500,000	Water Production Improvements & Acquisition	2028	4,608,778
2009	2,100,000	Water Feasibility Study	2029	1,209,666
2009	232,500	Well Improvements	2029	132,782
2009	1,100,000	Local Aquifer Study	2029	630,785
2010	594,950	Well Improvements Infrastructure	2029	302,081
2017	17,129,000	Utility System Refunding	2027	15,165,000
2019	9,585,000	Water and sewer improvements	2034	9,585,000
Total Water and Wastewater Revenue Obligations Outstanding				<u>\$33,864,696</u>

* Preliminary, subject to change.

TABLE 6

The City of Flagstaff Municipal Facilities Corporation (“MFC”) is an Arizona nonprofit corporation formed in January 1979. Debt secured by excise taxes and/or state shared revenues for which the City has primary repayment responsibility is shown below.

Excise Tax and/or State Shared Revenue Supported Debt and to be Outstanding

Issue Series	Original Amount	Purpose	Final Maturity Date (July 1)	Balance Outstanding and to be Outstanding
2010A	\$ 3,370,000	Construction of Business Incubator	2030	\$ 2,140,000(a)
2012	12,530,000	MFC Refunding	2020	2,165,000(b)
2016	3,370,000	Road Repair/Street Improvement Projects	2032	7,535,000
2018	9,700,000	Road Repair/Street Improvement Projects	2034	9,340,000
Total Excise Tax and/or State Shared Revenue Supported Debt Outstanding				<u>\$21,180,000</u>

- (a) *Under a loan agreement with the Greater Arizona Development Authority (“GADA”), the City has agreed to make semi-annual payments equal to the principal and interest on the GADA loan. The City has pledged state shared revenues to the payment of the GADA loan.*
- (b) *Under an agreement with the MFC, the City has agreed to make semi-annual rent payments equal to the principal and interest on the MFC’s bonds. The City has pledged certain transportation excise taxes to the payment of the MFC’s bonds.*

TABLE 7

**Other Obligations
City of Flagstaff, Arizona**

The City has entered into lease agreements that generally require annual payments and the lease terms vary from 5 to 21 years. The lease agreement amounts outstanding are listed as follows: capital lease agreement for renewable energy solar equipment related to governmental activities of \$699,679, heart monitors of \$42,752, copy machine of \$81,271 and parking meter assets of \$770,332. Capital lease agreements related to business-type activities consist of airport hangars of \$1,084,510, renewable energy solar equipment of \$1,335,446 and a compactor of \$560,956.

The lease agreements qualify as capital leases for accounting purposes and, therefore have been recorded at the present value of their future minimum lease payments as of the date of inception.

<u>Year Ending June 30</u>	<u>Government Activities</u>	<u>Business-type Activities</u>
2020	\$276,628	\$557,873
2021	232,592	559,093
2022	230,773	560,363
2023	204,122	557,555
2024	204,839	403,164
2025-2029	642,483	793,280
Total future minimum lease payments	<u>\$1,791,437</u>	<u>\$3,431,328</u>
Less: interest costs	<u>(197,403)</u>	<u>(450,416)</u>
Present value of future minimum lease payments	<u><u>\$1,594,034</u></u>	<u><u>\$2,980,912</u></u>

CITY EMPLOYEE RETIREMENT SYSTEM

Pension and Retirement Plans / Other Post-Employment Benefits

The City contributes to the retirement plans described below and as referenced starting on page 76 in APPENDIX C – “CITY OF FLAGSTAFF, ARIZONA – AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018.” Benefits are established by State statute and generally provide retirement, death, long-term disability, survivor and health insurance premium benefits. The City and its members contribute to the following retirement systems: the Arizona State Retirement System (“ASRS”), the Public Safety Personnel Retirement System (“PSPRS”) and the Elected Officials Retirement Plan (“EORP”).

The Arizona State Retirement System

ASRS is a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit plan, and a cost-sharing multiple-employer defined benefit long-term disability plan for approximately 600,000 Arizona public employees including qualified employees of the State, municipal governments, counties and K-12 education agencies. ASRS has reported increases in its unfunded liabilities. The most recent annual reports for the ASRS may be accessed at: <https://www.azasrs.gov>. The increase in ASRS’ unfunded liabilities is expected to result in increased future annual contributions to ASRS by the City and its employees.

The table below shows recent actuarially determined contribution rates that the active ASRS members and the City are/were required to contribute, the plan’s funded status and the pension contributions under the plan.

<u>Fiscal year ended</u>	<u>Retirement and Health Insurance Premiums</u>	<u>Long-term Disability</u>	<u>Total Contribution Rate</u>	<u>Funded Status</u>	<u>Pension Contribution</u>
June 30, 2020	11.94%	0.17%	12.11%	unavailable	unavailable
June 30, 2019	11.64	0.16	11.80	unavailable	unavailable
June 30, 2018	11.34	0.16	11.50	71.2%	\$3,478,329
June 30, 2017	11.34	0.14	11.48	70.5	3,357,591
June 30, 2016	11.35	0.12	11.47	77.6	3,168,876

Statutory Changes and Court Decisions Regarding the PSPRS and EORP

PSPRS and EORP are all operated under the umbrella of the Public Safety Personnel Retirement System and the Public Safety Personnel Retirement System Board of Trustees. Since 2011 there have been various modifications designed to mitigate increasing unfunded liabilities in the programs. Some of these modifications were enacted by the Arizona Legislature; some changes resulted from successful court challenges to those statutory changes; and other changes were implemented by voter approved amendments to the State Constitution. Substantively, the modifications have included changes to contribution rates, retirement criteria, funding horizons, retirement benefits and post-retirement benefit increase calculations.

The Public Safety Personnel Retirement System

PSPRS is an agent multiple-employer defined benefit pension plan and an agent multiple employer defined benefit health insurance premium benefit plan that covers public safety personnel who are regularly assigned to hazardous duties for which the Arizona State Legislature establishes active plan members’ contribution rates. PSPRS has reported increases in its unfunded liabilities. The most recent annual reports for the PSPRS may be accessed at <http://www.psprs.com>. The increase in the PSPRS’s unfunded liabilities is expected to result in increased future annual contributions to PSPRS by the City and its public safety employees, however the specific impact on the City, or on the City’s and its employees’ future annual contributions to the PSPRS, cannot be determined at this time.

As presented in the table below, PSPRS active membership is comprised of three separate “tiers” based on date of hire which are shown in the following table.

Tier 1 Members
Hired into PSPRS position before
January 1, 2012

Tier 2 Members
Hired into PSPRS position on or
after January 1, 2012 and
before July 1, 2017

Tier 3 Members
Hired into PSPRS position on or
after July 1, 2017

Among other differences, the tiers vary in terms of employee contribution rate, retirement eligibility, and post retirement cost of living adjustment eligibility. Additionally, in lieu of the defined benefit program, there is a defined contribution option available to Tier 3 members and a hybrid defined benefit/defined contribution program for certain Tier 2 and Tier 3 members.

The employee retirement contribution rate for Tier 1 members is 7.65% of member compensation; with the exception of Tier 1 members hired from July 20, 2011 through December 31, 2011 who are subject to the same employee contribution rate as Tier 2 members. The Tier 2 employee rate is the lower of 11.65% of member compensation or 33.3% of the sum of the prior year employee contribution rate and the computed employer contribution rate. This employee contribution rate has a floor of 7.65%. For Tier 3 members, the annual contribution rate is determined actuarially and split evenly between employer and employee. This actuarial contribution rate is determined individually for the largest employers and as a consolidated pool for the remaining employers as a group.

The following table shows the actuarially determined annual employer contribution rates, funded status and total audited contribution amounts for the plan.

Police

	Fiscal Year Ended				
	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016
<u>Contribution Rates</u>					
Tier 1/2 Defined Benefit Employer (a)	48.09%	59.28%	54.73%	44.83%	43.29%
Tier 1 Defined Benefit Employee	7.65%	7.65%	7.65%	7.65%	7.65%
Tier 2 Defined Benefit Employee (a)(b)	11.65%	11.65%	11.65%	N/A	N/A
Tier 3 Defined Benefit Employer (a)(c)	46.10%	57.07%	49.74%	N/A	N/A
Tier 3 Defined Benefit Employee (a)	9.94%	9.94%	9.94%	N/A	N/A
Tier 3 Defined Contribution Employer (c)	46.67%	57.64%	50.35%	N/A	N/A
Tier 3 Defined Contribution Employee	10.51%	10.51%	10.55%	N/A	N/A
Pension Funded Status	N/A	N/A	38.4%	38.1%	37.4%
Health Funded Status	N/A	N/A	110.2%	113.7%	111.9%
Total City (Employer) Pension and Contribution	N/A	N/A	\$3,675,844	\$3,648,822	\$3,483,157

- (a) Not applicable for Tier 2 for fiscal years prior to Fiscal Year 2018. Does not include additional contribution percentage of 3% associated with Tier 2 defined benefit (“DB”) members additionally participating in the defined contribution (“DC”) plan. Employer rate is 4% for Tier 2 members for a period of time depending on the individual’s membership date.
- (b) Tier 2 employees contribute a maximum of 11.65%, but statutory requirements dictate only 7.65% is applied toward employer costs.
- (c) The amortization of unfunded liabilities for Tier 1 and Tier 2 is applied to the payroll for employees in all tiers, including Tier 3, on a level percent basis.

Fire

	Fiscal Year Ended				
	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016
<u>Contribution Rates</u>					
Tier 1/2 Defined Benefit Employer (a)	83.03%	84.17%	75.11%	70.05%	67.71%
Tier 1 Defined Benefit Employee	7.65%	7.65%	7.65%	7.65%	7.65%
Tier 2 Defined Benefit Employee (a)(b)	11.65%	11.65%	11.65%	N/A	N/A
Tier 3 Defined Benefit Employer (a)(c)	78.99%	80.08%	68.34%	N/A	N/A
Tier 3 Defined Benefit Employee (a)	9.94%	9.94%	9.94%	N/A	N/A
Tier 3 Defined Contribution Employer (c)	79.56%	80.65%	68.95%	N/A	N/A
Tier 3 Defined Contribution Employee	10.51%	10.51%	10.55%	N/A	N/A
Pension Funded Status	N/A	N/A	35.2%	35.5%	37.1%
Health Funded Status	N/A	N/A	174.1%	171.4%	168.1%
Total City (Employer) Pension and Contribution	N/A	N/A	\$3,755,920	\$4,107,600	\$3,769,503

- (a) Not applicable for Tier 2 for fiscal years prior to Fiscal Year 2018. Does not include additional contribution percentage of 3% associated with Tier 2 defined benefit (“DB”) members additionally participating in the defined contribution (“DC”) plan. Employer rate is 4% for Tier 2 members for a period of time depending on the individual’s membership date.
- (b) Tier 2 employees contribute a maximum of 11.65%, but statutory requirements dictate only 7.65% is applied toward employer costs.
- (c) The amortization of unfunded liabilities for Tier 1 and Tier 2 is applied to the payroll for employees in all tiers, including Tier 3, on a level percent basis.

The Elected Officials Retirement Plan (“EORP”) is a cost-sharing multiple-employer defined benefit pension plan and a cost-sharing, multiple-employer defined benefit health insurance premium plan that covers elected officials and judges of certain state and local governments. The EORP is governed by the same Board of Trustees that manages the PSPRS plan. As of January 1, 2014 EORP is closed to new members. Pursuant to Arizona statute, the annual contribution for active members of EORP is 13% of the members’ annual covered payroll. Additionally, the amount of the members’ contribution that exceeds 7% is not used to reduce the actuarially determined employer contribution.

As of July 1, 2018, pursuant to S.B. 1478 (2018 regular session), participating EORP employers are required to annually contribute at an actuarially determined employer contribution rate. The basis for the employer rate is the covered payroll for all eligible elected officials and eligible judges employed by the employer. The actuarially determined rate for 2019/20 is 61.43%. This amount is distributed to EORP, the Elected Officials Defined Contribution Retirement System (EODCRS) and the Arizona State Retirement (defined benefit) System (ASRS), depending on the retirement program in which each eligible employee participates. As a percent of covered payroll, the employer contribution, by statute, for EODCRS participating members is 6.00%; the employer contribution for ASRS participating members is 12.11% for fiscal year 2019/20; and all remaining employer contributions, up to the actuarially determined contribution rate of the covered payroll of all elected officials and eligible judges, are remitted to EORP. EORP is additionally funded each year with designated state and City court fees and a \$5,000,000 appropriation from the State general fund.

As referenced on page 90 in APPENDIX C of this Official Statement, the projection of cash flows of the plan assuming that plan member contributions will be made at the current contribution rate, employer contributions will be made at the statutorily set rates, and State contributions will be made as currently required by statute, the pension plan’s fiduciary net position was projected to be insufficient to make all projected future benefit payments of current plan members.

Potential Future State Legislation Affecting ASRS, PSPRS and EORP

There are bills frequently introduced at sessions of the State Legislature that, if enacted, could impact the administration of the ASRS, PSPRS and EORP and the eligibility, timing and payment of benefits from such plans. The City is unable to determine whether any such bills will be enacted into legislation or in what form such legislation may be enacted and what the impact of any such legislation may be.

Other Post-Employment Retirement Benefits

During the year ended June 30, 2018, the City implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (“GASB 75”). The City is required to report the actuarially accrued cost of post-employment benefits, other than pension benefits (“OPEB”), such as health and life insurance for current and future retirees. GASB 75 addresses reporting by governments that provide OPEB by measuring and recognizing net assets or liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to OPEB provided through defined benefit OPEB plan. Please refer to APPENDIX C of the Official Statement which includes the City’s audited financial statements and specifically “Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.”

The City of Flagstaff provides post-retirement healthcare insurance benefits for its retirees as a single employer defined benefit OPEB plan which is administered through Northern Arizona Public Employee Benefit Trust (NAPEBT). Eligible retirees and their beneficiaries up to the age of 65 are allowed to participate in the same healthcare plan as active employees and pay the same premium for this benefit which results in an implicit rate subsidy. Even though the City makes no direct payments on behalf of the retirees the City is required to report this implicit cost for active employees who will be able to continue to purchase health insurance once they retire. Substantially, all the City’s employees may become eligible for those benefits when they qualify for retirement. To be eligible a retiree must qualify to receive retirement benefits from the Arizona State Retirement System and elect coverage at date of retirement. At June 30, 2018, the City reported a net OPEB liability of \$9,931,825. The net OPEB liability was measured as of June 30, 2017 and the total OPEB liability were determined from the actuarial valuations as of July 1, 2017. The City has chosen not to fund this plan; therefore, the total OPEB liability is the net OPEB liability.

Governmental Accounting Standards (“GASB”):

The Governmental Accounting Standards Board adopted Governmental Accounting Standards Board Statement Number 68, *Accounting and Financial Reporting for Pensions* (“GASB 68”), which, beginning with fiscal years starting after June 15, 2014, requires cost-sharing employers to report their “proportionate share” of the plan’s net pension liability in their government-wide financial statements. GASB 68 also requires that the cost-sharing employer’s pension expense component include its proportionate share of the system’s pension expense, the net effect of annual changes in the employer’s proportionate share and the annual differences between the employer’s actual contributions and its proportionate share. Both the City and each covered employee contribute to the ASRS. As of June 30, 2018, the City reported a liability of \$48,706,334 for its proportionate share of the net pension liability under ASRS. The pension liability was measured as of June 30, 2017. Both the City and each covered employee contribute to the EORP. As of June 30, 2018, the City reported a liability of \$2,653,363 for its proportionate share of the net pension liability under EORP. The pension liability was measured as of June 30, 2017. See page 81 in APPENDIX C – “CITY OF FLAGSTAFF – AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018” for further discussion of the City and its pension liability including the net pension liability associated with PSPRS.

New Reporting Requirements - Governmental Accounting Standards Board (“GASB”) Statement No. 67, *Financial Reporting for Pension Plans*, An Amendment of GASB Statement No. 25, is designed to improve financial reporting by state and local governmental pension plans. This statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans* and *Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria.

GENERAL FUND

Below are the City's general fund revenues, expenditures and changes in fund balance for the budgeted fiscal year 2019/20, estimated actuals for fiscal year 2018/19, and audited fiscal years 2013/14 through and including 2017/18. **THIS INFORMATION IS NOT INTENDED TO INDICATE FUTURE OR CONTINUING TRENDS OF THE FINANCIAL AFFAIRS OF THE CITY.**

	Budget (a)	Estimated Actuals (b)	Audited				
	2019/20	2018/19	2017/18	2016/17	2015/16	2014/15	2013/14
FUND BALANCE AT BEGINNING OF YEAR	\$ 32,441,167	\$ 34,320,827(c)	\$ 40,464,781	\$ 38,919,713	\$ 33,621,090	\$ 31,762,789	\$ 28,748,008
REVENUES							
Taxes	32,273,857	30,794,252	29,837,919	29,377,513	27,306,792	\$ 25,908,705	\$ 25,100,084
Intergovernmental	21,129,105	20,118,373	20,074,740	19,294,534	18,214,988	17,574,331	16,516,056
Grants and entitlements	5,204,979	3,010,320	1,535,930	1,209,967	1,217,424	1,294,384	1,726,644
Charges for services	3,267,437	3,314,641	3,445,482	3,454,567	2,916,164	2,986,151	2,734,095
Licenses and permits	2,706,716	3,234,688	3,473,740	2,839,407	3,153,135	1,866,792	1,952,731
Fines and forfeitures	1,420,489	1,427,226	1,350,689	1,430,686	1,524,856	1,389,663	1,428,401
Rents	1,400,042	919,405	1,163,215	1,602,727	1,615,190	1,603,322	1,606,932
Investment earnings	371,837	370,630	(1,255,945)	(1,081,720)	1,210,140	374,174	418,374
Contributions	10,303	10,201	496,159	421,444	566,242	262,095	440,360
Miscellaneous	410,152	671,221	534,494	719,684	390,086	305,932	393,760
TOTAL REVENUES	\$68,194,917	\$63,870,957	\$60,656,423	\$59,268,809	\$58,115,017	\$53,565,549	\$52,317,437
OTHER FINANCING SOURCES (USES)							
Issuance of capital debt			\$ -	\$ 133,531	\$ 204,956	\$ -	\$ -
Sale of capital assets			35,450	-	5,325	72,051	533,980
Insurance recoveries			-	-	-	-	3,033,042
Reserve and contingency			-	-	-	-	(3,287,452)
Transfers in	4,480,855	4,233,033	3,463,231	2,753,444	3,110,079	2,848,218	-
Transfers out	(4,658,738)	(4,163,652)	(8,457,705)	(5,546,718)	(2,063,183)	(4,132,795)	-
TOTAL OTHER FINANCING SOURCES (USES)	\$ 100,458,201	\$ 98,261,165	\$ 96,162,180	\$ 95,528,779	\$ 92,993,284	\$ 84,115,812	\$ 81,345,015
EXPENDITURES							
Current							
Current governmental	\$ 14,687,838	\$ 11,423,452	\$ 11,774,767	\$ 9,899,937	\$ 9,007,957	\$ 9,809,718	\$ 8,914,237
Public safety	41,610,134	36,943,710	32,290,732	30,849,989	30,074,183	27,583,880	26,564,902
Public works	3,340,163	1,918,352	1,254,865	1,472,485	1,207,776	1,081,157	999,999
Economic and physical development	5,927,930	5,724,457	5,555,083	4,807,862	4,787,402	4,682,707	4,441,463
Culture and recreation	7,358,045	7,150,667	6,981,549	6,329,040	5,949,635	5,750,634	6,084,457
Highways and streets	-	-	36,570	35,663	500	-	-
Contingency	1,662,750	-	-	-	-	-	-
Debt service							
Principal retirement	177,792	170,460	161,727	138,775	998,203	721,549	882,114
Interest and other charges	250,303	34,187	37,420	38,381	55,632	93,304	128,976
Capital outlay	5,222,222	2,454,713	1,020,983	1,491,866	1,992,283	771,773	1,566,078
TOTAL EXPENDITURES	\$ 80,237,177	\$ 65,819,998	\$ 59,113,696	\$ 55,063,998	\$ 54,073,571	\$ 50,494,722	\$ 49,582,226
FUND BALANCE AT END OF YEAR	<u>\$ 20,221,024</u>	<u>\$ 32,441,167</u>	<u>\$ 37,048,484(c)</u>	<u>\$ 40,464,781</u>	<u>\$ 38,919,713</u>	<u>\$ 33,621,090</u>	<u>\$ 31,762,789</u>

- (a) Reflects the City's budgeted figures for fiscal year 2019/20 which are unaudited and subject to change upon audit. These amounts are "forward looking" statements and should be considered with an abundance of caution.
- (b) Figures for fiscal year 2018/19 are based on unaudited actual figures and as such should be considered with an abundance of caution.
- (c) Beginning fund balance varies due to budget basis adjustments related to 60 day sales tax accrual, unrealized loss on investments and inventory.

APPENDIX C

**CITY OF FLAGSTAFF, ARIZONA
AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

APPENDIX D

SUMMARIES OF LEGAL DOCUMENTS

The following are brief summaries of the provisions of the Financing Documents together with certain definitions in the Financing Documents not defined elsewhere in this Official Statement. These summaries are not intended to be definitive and should be read in conjunction with the additional information about the contents of the indicated documents included under the heading “THE 2019 CERTIFICATES” and “SECURITY FOR THE 2019 CERTIFICATES - Lease Agreement; Termination of Lease Agreement Upon Failure to Annually Appropriate Funds” and “- Events of Default or Termination Pursuant to the Lease Agreement.” Reference is made to the complete documents for the complete terms thereof. Copies of the documents are available as set forth in this Official Statement under the heading “INTRODUCTION.”

CERTAIN DEFINITIONS

“Additional Certificates” means any certificates executed and delivered pursuant to the Trust Agreement.

“Additional Rent” means any payments requested to be made as described hereinbelow under the subheading “LEASE AGREEMENT - Additional Rent.”

“Aggregate Value” means, with respect to any Certificates, the Outstanding principal amount thereof.

“Business Day” means a day of the year other than (i) a Saturday or Sunday or (ii) a day on which banking institutions located in the city designated by the Trustee for the presentation and payment of Certificates are required or authorized to remain closed.

“Certificates” means the 2019 Certificates and any Additional Certificates executed and delivered pursuant to the Trust Agreement.

“Defeasance Obligations” has the meaning provided in the Trust Agreement.

“Delivery Costs Fund” means the fund by that name established and held by the Trustee pursuant to of the Trust Agreement.

“Event of Default” means an event of default described in the Lease Agreement.

“Fiscal Period” means a period of 12 consecutive months commencing on the first day of July and ending on the last day of June, or any other consecutive 12-month period that may be established hereafter as the fiscal year of the City for budgeting and appropriation purposes.

“Insurance and Condemnation Fund” means the fund by that name established and held by the Trustee pursuant to of the Trust Agreement.

“Net Proceeds” means any insurance proceeds (other than proceeds of any insurance policy resulting from liability to a third person for damages for bodily and personal injury, death or property damage connected with the construction or operation of the Leased Property) or condemnation award in excess of \$25,000, paid with respect to the Leased Property, or any proceeds resulting from the re-renting, re-leasing or sale of all or any portion of the Leased Property following an Event of Default, remaining after payment therefrom of all expenses incurred in the collection thereof.

“Outstanding” when used with reference to the Certificates, means, as of any date of determination, all Certificates theretofore executed and delivered except:

- (a) Certificates theretofore canceled by the Trustee or delivered to the Trustee for cancellation;

(b) Certificates that are deemed paid and no longer Outstanding as provided in the Trust Agreement;

(c) Certificates in lieu of which other Certificates of the same series shall have been executed and delivered pursuant to the provisions of the Trust Agreement relating to Certificates destroyed, stolen or lost, unless evidence satisfactory to the Trustee has been received that any such Certificate is held by a bona fide purchaser; and

(d) For the purpose of any vote, consent, waiver or other action or any calculation of Outstanding Certificates provided for in the Trust Agreement, the Certificates owned or held by or for the account of the City or by any person directly or indirectly controlled by, or under direct or indirect common control with the City (except any Certificates held in any pension or retirement fund).

“Owner” or any similar term, when used with respect to any Certificate means the person in whose name such Certificate is registered.

“Permitted Encumbrances” means, as of any particular time (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may, pursuant to the Lease Agreement, permit to remain unpaid, (b) the Lease Agreement, (c) the Trust Agreement, (d) the Ground Lease, (e) easements, leases encumbrances, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions that exist as of the date of execution and delivery of the applicable Certificates and that the City certifies in writing does not materially impair the use of the Leased Property, and (f) easements, leases, encumbrances, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions to which the Trustee and the City consent in writing.

“Permitted Investments” means and includes (to the extent permitted by law):

(i) Defeasance Obligations.

(ii) Obligations of any of the following federal agencies, which obligations represent the full faith and credit of the United States of America including, but not limited to, the following: (A) the Export-Import Bank of the United States, (B) the Rural Economic Community Development Administration, (C) the U.S. Maritime Administration, (D) the Small Business Administration, (E) the U.S. Department of Housing and Urban Development (PHA’s), (F) the Federal Housing Administration, and (G) the Federal Financing Bank.

(iii) Direct obligations of any of the following federal agencies, which obligations are not fully guaranteed by the full faith and credit of the United States of America: (A) senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC), (B) obligations of the Resolution Funding Corporation (REFCORP) and (C) senior debt obligations of the Federal Home Loan Bank System.

(iv) U.S. dollar denominated deposit accounts, federal funds and bankers’ acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of “P-1” by Moody’s and “A-1” or “A-1+” by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank.)

(v) Commercial paper which is rated at the time of purchase in the single highest classification, “P-1” by Moody’s and “A-1+” by S&P and which matures not more than 270 calendar days after the date of purchase.

(vi) Investments in a money market fund rated “AAAm” or “AAAm-G” or better by S&P.

(vii) Pre-refunded Municipal Obligations, defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any

such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice, and

(A) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of Moody’s or S&P or any successors thereto; or

(B) (1) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in clause (ii) of the definition of Defeasance Obligations, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (2) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

(viii) Municipal Obligations rated “Aaa/AAA” or general obligations of states with a rating of “A2/A” or higher by both Moody’s and S&P.

“Prepayment” means any payment of the principal portion of any Lease Payments, in whole or in part, pursuant to the Lease Agreement prior to the scheduled payment dates.

“Project Fund” means the fund by that name established and held by the Trustee pursuant to Article III of the Trust Agreement.

“Qualified Self-Insurance” means any program of self-insurance regarding which the Trustee has received a written evaluation of an independent insurance consultant or actuarial consultant having a favorable reputation for skill and experience and an opinion of such consultant that adequate reserves for such program are either maintained with an independent corporate trustee or otherwise held with appropriate safeguards to insure their availability.

GROUND LEASE

Pursuant to the Ground Lease, the City leases the Leased Property to the Trustee and the Trustee leases the Leased Property from the City for the period commencing as of the date of the Ground Lease and terminating on July 2, 2044*; *provided*, that in no event shall the Ground Lease of the Leased Property terminate before the termination of the Lease Agreement.

Fee title to the Leased Property shall at all times remain with the City.

The Trustee will prepay its rental payments pursuant to the Ground Lease upon execution and delivery of the Ground Lease concurrently with the initial execution and delivery of the 2019 Certificates.

The City has the right to terminate the Ground Lease upon written notice to the Trustee upon (a) defeasance of the Lease Agreement and the Trust Agreement with respect to all Certificates as permitted thereunder, or (b) the exercise of the City of its option to purchase the Leased Property pursuant to the Lease Agreement and defeasance of the Trust Agreement as permitted thereunder.

LEASE AGREEMENT

Additional Rent

In addition to Lease Payments, the City has agreed to pay when due as Additional Rent (a) all costs and expenses of the Trustee to comply with the provisions of the Trust Agreement, (b) certain payments required to

* * Preliminary, subject to change.

maintain the status of the Certificates as obligations the interest income with respect to which is excludable from gross income for federal income tax purposes, (c) compensation and expenses of the Trustee, (d) certain indemnification amounts, (e) all costs and expenses of auditors, engineers and legal counsel other than costs and fees incurred in connection with the execution and delivery of the Certificates and (f) all rent for any holdover period during which the City stays in possession of the Leased Property after termination of the Lease Agreement.

Maintenance, Utilities, Taxes and Modifications

The City, at its own expense, has agreed to maintain or cause to be maintained the Leased Property in good repair; the Trustee has no responsibility for such repair. The City has the power to make additions, modifications and improvements to the Leased Property that do not damage or reduce its value to a value substantially less than that which existed before such modification or improvement. The City must pay or cause to be paid all taxes, other governmental charges and utility charges with respect to the Leased Property, as well as any taxes and assessments, if any, that it is legally obligated to pay.

Insurance

The Lease Agreement requires the City to maintain or cause to be maintained the following insurance against risk or physical damage to the Leased Property and other risks for the protection of the Trustee:

(a) General Liability. The City shall maintain or cause to be maintained, throughout the term of the Lease Agreement, either a standard commercial general liability insurance policy or policies, with a responsible insurance company or companies authorized under the laws of the State to assume such risks, of such types and in such amounts as are then customary for similar institutions carrying on similar activities.

(b) Fire and Extended Coverage, Vandalism and Malicious Mischief. The City shall maintain or cause to be maintained, throughout the term of the Lease Agreement, insurance against loss or damage to any structure or equipment constituting any part of the Leased Property by fire and lightning with extended coverage and malicious mischief insurance. Coverage shall be in an amount equal to 100 percent of the replacement cost of the Leased Property. Such insurance may be subject to deductible clauses of not to exceed \$25,000 for any one loss.

The insurance described in paragraphs (a) and (b) may be maintained as part of or in conjunction with any other liability or fire and extended coverage for insurance, respectively, carried or required to be carried by the City and may be maintained in the form of acceptable self-insurance, meeting certain standards provided in the Lease Agreement.

All policies of insurance or any Qualified Self-Insurance must provide that the Net Proceeds thereof shall be payable to the Trustee. The Net Proceeds of fire and extended coverage insurance shall be deposited in the Insurance and Condemnation Fund and applied to restore, replace, repair, modify or improve the Leased Property or to the prepayment of Lease Payments and the corresponding prepayment of Certificates. See "TRUST AGREEMENT - Funds - Insurance and Condemnation Fund." The Net Proceeds of general liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the Net Proceeds of such insurance shall have been paid. The City has agreed to pay or cause to be paid when due the premiums on all insurance policies and to furnish evidence of any such payments promptly to the Trustee.

In the event the City maintains Qualified Self-Insurance for general liability insurance and fire and extended coverage insurance required pursuant to the Lease Agreement, the City shall cause to be delivered to the Trustee annually the documentation required for the determination that such self-insurance constitutes Qualified Self-Insurance, if any. Additionally, to the extent the Trustee cannot be named as an insured for the purposes of any Qualified Self-Insurance, the City assigns to the Trustee its rights to receive any or all proceeds received from such Qualified Self-Insurance as their respective rights under the Lease Agreement appear on the date of payment.

Option to Purchase Leased Property

The City may on any date secure the payment of Lease Payments with respect to the Leased Property by deposit with the Trustee of Defeasance Obligations and cash, if required, in such amount as shall, in the opinion of an independent certified public accountant, together with interest to accrue thereon and, if required, all or a portion of the moneys or Defeasance Obligations then on deposit in the Lease Payment Fund and the Insurance and Condemnation Fund related to such Leased Property, be fully sufficient to pay all unpaid Lease Payments with respect to such Leased Property on the respective Lease Payment Dates as the City instructs at the time of said deposit.

Assignment; Subleases

The City may not assign any of its rights in the Lease Agreement, and may not sublease the Leased Property without the written consent of the Trustee and satisfaction of the conditions contained in the Lease Agreement, including the condition that any such sublease not adversely affect the exclusion of the interest components of the Lease Payments from federal gross income when paid to the Owners of the 2019 Certificates.

Release or Exchange of Property

If, during the term of the Lease Agreement, the City desires to acquire legal title to any of the Leased Property, unencumbered by the terms and conditions of the Lease Agreement, the Trustee will sell to the City any of such property so desired by the City, provided the following conditions are met, to wit:

- (a) Contemporaneously with any such sale by the Trustee (i) the City delivers to the Trustee the net sale proceeds or (ii) the City sells to the Trustee substitute property ("substitute property") for the property the City wishes to acquire;
- (b) The sale or exchange of property will not cause any decrease in the total Lease Payments required under the Lease Agreement or any change in the interest component or principal component thereof;
- (c) The City furnishes to the Trustee an opinion of counsel acceptable to the Trustee that the exchange of property will not adversely affect the exclusion of the interest payable on the 2019 Certificates (sold on the basis of the interest thereon being excluded from gross income for federal income tax purposes) from the federal gross income of the owners thereof;
- (d) Any substitute property shall be subject to all the terms and conditions of the Lease Agreement and shall be subjected to the lien of the Trust Agreement; and
- (e) All costs and expenses incurred in connection with the exchange of property must be borne by the City.

Any proceeds delivered to the Trustee pursuant to subsection (a)(i) above shall be applied to acquire, construct or improve additional Leased Property, or be applied to Lease Payments as directed by the Lessee, subject to any restrictions contained in the opinion of Special Counsel delivered pursuant to subsection (c) above.

Events of Default

Each of the following constitutes an "Event of Default" described in the Lease Agreement:

- (a) Except when not paid due to the City not having lawfully available funds budgeted therefor, failure by the City to make any Lease Payment or other payment required under the Lease Agreement when due and continuation of such failure for five days;
- (b) Failure by the City to comply with any covenant, agreement or condition contained in the Lease Agreement or the Trust Agreement, other than default described in (a) above, and the continuance of such failure or default for a period of 30 days after written notice thereof has been given to the City by the

Trustee or the Owners of not less than five percent in aggregate principal amount evidenced by Certificates then Outstanding; provided, if the failure stated in the notice can be corrected, but not within such 30 day period, the Trustee or such Owners shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the City within such 30 day period and diligently pursued until the default is corrected; or

- (c) Certain events relating to bankruptcy of the City or the inability of the City to pay its debts.

Notwithstanding the foregoing, if, by reason of force majeure (as defined in the Lease Agreement), the City is unable to perform or observe any agreement, term or condition of the Lease Agreement, other than any obligation to make Lease Payments or Additional Rent and to comply with certain covenants relating to the tax-exempt status of the interest evidenced by the Certificates, the City shall not be deemed to be in default during the continuance of such inability. However, the City shall promptly give notice to the Trustee of the existence of any event of force majeure and shall use its best efforts to remove the effects thereof; *provided* that the settlement of strike or labor disturbances shall be entirely within the City's discretion.

Upon the occurrence and continuance of any Event of Default or a termination because of a failure to budget and appropriate Lease Payments by the City as described under the subheading "SECURITY FOR THE 2019 CERTIFICATES - Lease Agreement; Termination of Lease Agreement Upon Failure to Annually Appropriate Funds," the Trustee may elect to terminate the Lease Agreement or, with or without such termination, to re-enter and take possession of the Leased Property and relet or sell its leasehold interest in the Leased Property; *provided, however*, that notwithstanding anything in the Lease Agreement or the Trust Agreement to the contrary there shall be no right to accelerate the Lease Payments. Any amounts collected by the Trustee from the reletting of the Leased Property shall be credited towards the City's unpaid Lease Payments. Any Net Proceeds of sale, re-lease or other disposition of the Leased Property are required to be deposited in the Lease Payment Fund and applied to Lease Payments in order of payment date.

TRUST AGREEMENT

Pledge and Security

Pursuant to the Trust Agreement, the Trustee is authorized and directed to acquire, to receive and to hold as security for the Owners the following:

- (a) All right, title and interest of the Trustee in and to the Ground Lease and the Lease Agreement and the present and continuing right to (i) make claim for, collect or cause to be collected, receive or cause to be received all revenues, receipts and other sums of money payable or receivable pursuant thereto, (ii) bring actions and proceedings thereunder or for the enforcement thereof, and (iii) do any and all things that the Trustee is or may become entitled to do thereunder.

- (b) All right, title and interest of the Trustee in and to amounts on deposit from time to time in certain funds created pursuant to the Trust Agreement.

The Trust Agreement also represents an agreement by the Trustee that it holds the above rights and interests in trust for the benefit of the Owners.

Trustee

The Trustee is appointed pursuant to the Trust Agreement and is authorized to execute and deliver the Certificates and to act as a depository of amounts held pursuant thereto. The Trustee is required to make deposits into and withdrawals from funds, and invest amounts held under the Trust Agreement in accordance with the provisions thereof.

Funds

The Trust Agreement creates the Project Fund, the Delivery Costs Fund, the Lease Payment Fund and the Insurance and Condemnation Fund to be held in trust by the Trustee.

Project Fund. There shall be deposited into the Project Fund amounts necessary to acquire, construct and improve the Project. Moneys deposited in the Project Fund will be disbursed by the Trustee, upon the written order of the City representative, to pay the costs of acquisition, construction and improvement of the Project.

Delivery Costs Fund. There shall be deposited in the Delivery Costs Fund the amount necessary to pay costs relating to the execution, sale and delivery of 2019 Certificates, which amounts shall be disbursed by the Trustee upon the written order of the City.

Lease Payment Fund. There shall be deposited into the Lease Payment Fund, when received by the Trustee, all Lease Payments and Prepayments. Moneys on deposit in the Lease Payment Fund shall be used to pay principal, prepayment premiums, if any, and interest evidenced by Certificates.

Insurance and Condemnation Fund. Any Net Proceeds of insurance or condemnation awards shall be deposited in the Insurance and Condemnation Fund. See “THE 2019 CERTIFICATES - Prepayment Provisions - Extraordinary Prepayment” for a description of how such amounts are to be applied.

Net Proceeds of a condemnation award shall be used as follows: (a) if the Trustee determines, based upon a report of an independent engineer or other independent professional consultant, that such eminent domain proceedings have not materially affected the operation of the Leased Property or the City’s ability to meet its obligations pursuant to the Lease Agreement, and if the Trustee determines, based upon a report of an independent engineer or other independent professional consultant, that such proceeds are not needed for repair or rehabilitation of the Leased Property, the Trustee shall transfer such proceeds to the Lease Payment Fund as a credit against Lease Payments, (b) if the Trustee determines, based upon a report of an independent engineer or other independent professional consultant, that such proceedings have not materially affected the operations of any of the Leased Property or the City’s ability to meet its obligations pursuant to the Lease Agreement and such proceeds are needed for repair, rehabilitation or replacement of the Leased Property, the Trustee shall pay to the order of the City such portion of the proceeds required for such repair, rehabilitation or replacement, (c) to prepay Lease Payments and redeem Certificates if less than all of the Leased Property is taken and the Trustee determines that such proceedings have materially affected the operation of the Leased Property, or (d) if all of the Leased Property is taken, to prepay Lease Payments and thereby redeem Certificates.

Additional Certificates

So long as no Event of Default or termination of the Lease Agreement as described under the heading “SECURITY FOR THE 2019 CERTIFICATES - Lease Agreement; Termination of Lease Agreement Upon Failure to Annually Appropriate Funds” has occurred and will continue after execution and delivery of any Additional Certificates, the Trustee may execute and deliver, at the direction of the City, Additional Certificates from time to time to provide funds to expand or improve the Projects or to pay the costs of refunding Outstanding Certificates.

Before the Trustee shall deliver any Additional Certificates executed pursuant to a supplement authorized by the Indenture, the following items shall have been received by the Trustee:

(i) Original executed counterparts of any amendments or supplements to the Lease Agreement and the Trust Agreement entered into in connection with the execution and delivery of the Additional Certificates that are necessary or advisable, in the opinion of Special Counsel, to provide that the Additional Certificates will be executed and delivered in compliance with the provisions of the Trust Agreement.

(ii) A written opinion of Special Counsel, reasonably satisfactory to the Trustee, to the effect that (A) the documents submitted to the Trustee in connection with the request then being made comply with the

requirements of this Trust Agreement, (B) any filings required to be made pursuant to the Trust Agreement have been made, and (C) all conditions precedent to the delivery of the Additional Certificates have been fulfilled.

(iii) A written opinion of Special Counsel (who also may be the counsel to whom or which reference is made in paragraph (ii) above), to the effect that (A) when executed and delivered by the Trustee, the Additional Certificates will be valid and binding in accordance with their terms and will be secured hereunder equally and on a parity with all other Certificates at the time Outstanding under the Trust Agreement as to the assignment to the Trustee of the amounts pledged under the Trust Agreement, and (B) the execution and delivery of the Additional Certificates will not result in the portion of the Lease Payments designated as interest evidenced by the Certificates Outstanding immediately before that execution and delivery of such Additional Certificates becoming includable in gross income for purposes of federal income taxation.

(iv) A written opinion of Special Counsel (who also may be the counsel to whom or which reference is made in paragraph (ii) above), reasonably satisfactory to the Trustee, to the effect that any amendments or supplements to the Lease Agreement entered into in connection with the execution and delivery of the Additional Certificates have been duly authorized, executed and delivered by the City, and that the Lease Agreement, as amended or supplemented, constitutes a legal, valid and binding obligation of the City, enforceable in accordance with its terms, subject to exceptions reasonably satisfactory to the Trustee for bankruptcy laws and other laws affecting creditors' rights and the exercise of judicial discretion.

(v) Evidence that the City has obtained the additional amount of insurance or self-insurance, if any, required to be maintained pursuant to the Lease Agreement as a result of the execution and delivery of the Additional Certificates.

(vi) Evidence satisfactory to the Trustee of confirmation that the ratings on any Outstanding Certificates will remain the same, immediately after execution and delivery of the Additional Certificates.

When the documents listed above have been received by the Trustee, the Trustee will execute and deliver the Additional Certificates to or on the order of the original purchaser thereof, but only upon payment of the agreed-upon purchase price for the Additional Certificates

Investment of Funds

The Trustee is required to invest and reinvest all moneys held pursuant to the Trust Agreement upon order of a representative of the City in Permitted Investments. Except as otherwise provided, any earnings on investment of moneys in the funds created pursuant to the Trust Agreement shall be held in the fund from which invested. Any surplus remaining in the Lease Payment Fund after the payment of all Certificates, or provision for their payment has been made, shall be repaid to the City.

Rights, Duties and Responsibilities of Trustee

Except during the continuance of an Event of Default, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Trust Agreement, the Lease Agreement and the Ground Lease; and in case an Event of Default has occurred and is continuing, the Trustee will exercise such of the rights and powers vested in it by the Trust Agreement and such other agreements and use the same degree of care and skill in their exercise, as a prudent corporate indenture trustee would exercise or use under the circumstances. Except for the obligation (A) to make payment of principal, interest, or premium, if any, evidenced by the Certificates to the Owners thereof pursuant to the Trust Agreement or (B) to notify the Owners of any Event of Default pursuant to the Trust Agreement, no provision of the Trust Agreement or the other Financing Documents will require the Trustee to expend or risk its own funds or otherwise incur any financial liability (including, without limitation, any and all environmental liability) in the performance of any of its duties thereunder, or in the exercise of any of its rights or powers, if it will have reasonable grounds for believing that repayment of such funds or adequate indemnity or other assurance against such risk or liability is not reasonably assured to it.

The Trustee may intervene on behalf of the Owners, and shall intervene if requested in writing to do so by an instrument or instruments in writing signed by the Owners of not less than a majority in Aggregate Value of the Certificates, in any judicial proceeding to which the Lessee is a party and that in the opinion of the Trustee and its counsel has a substantial bearing on the interest of Owners of the Certificates. The rights and obligations of the Trustee for such purpose are subject to the approval of that intervention by a court of competent jurisdiction. The Trustee may require that a satisfactory indemnity bond be provided to it before it takes action under the Trust Agreement.

The Trustee will be under no obligation to exercise any of the rights or powers vested in it by the Trust Agreement at the request or direction of any of the Owners pursuant to the Trust Agreement, unless such Certificate Owners shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities that may be incurred by it in compliance with such request or direction.

The Trustee will not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit.

The Trustee will not be bound to ascertain or inquire as to the validity or genuineness of any collateral given or held by it. The Trustee will not be responsible for the recording or filing of any document or of any supplemental instruments or documents of further assurance as may be required by law in order to perfect liens or security interests. The permissive right of the Trustee to do things instrumental in the Trust Agreement will not be construed as a duty, and the Trustee will not be answerable for other than its own negligence or willful misconduct.

It will not be the duty of the Trustee, except as provided in the Trust Agreement, to ascertain or inquire whether any duties and obligations in the Trust Agreement or in the other Financing Documents imposed upon the City are performed or whether the terms and conditions thereof are observed.

Removal and Resignation of the Trustee

The Trustee may resign at any time, or may be removed at any time by an instrument or instruments in writing signed by the City or the Owners of not less than a majority in Aggregate Value of the Certificates. Written notice of such resignation or removal will be given by the Trustee to the City and such resignation or removal will take effect only upon the appointment and qualification of a successor Trustee. In the event a successor Trustee has not been appointed and qualified within 60 days of the date notice of resignation is given, the Trustee or the City may apply to any court of competent jurisdiction for the appointment of a successor Trustee to act until such time as a successor is appointed.

In the event of the resignation or removal of the Trustee or in the event the Trustee is dissolved or otherwise becomes incapable to act as the Trustee, the City will be entitled to appoint a successor trustee, unless an Event of Default has occurred and is continuing.

Unless otherwise ordered by a court or regulatory body having competent jurisdiction, or unless required by law, any successor trustee will (i) be a trust company or bank in good standing in the State, (ii) be duly authorized to exercise trust powers in the State and subject to examination by a federal or state authority, and (iii) maintain a reported capital and surplus of not less than \$75,000,000.

Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it will be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible as a successor Trustee pursuant to the Trust Agreement in the case of the Trustee, will be the successor to such Trustee, without the execution or filing of any paper or any further act, anything in the Trust Agreement to the contrary notwithstanding.

Event of Default; No Acceleration

The Trustee has the right to exercise such rights and remedies pursuant to the Lease Agreement as may be necessary or convenient (i) to enforce payment of the Lease Payments, Additional Rent, Prepayments and any other amounts required to be deposited in the Lease Payment Fund or the Insurance and Condemnation Fund, and (ii) otherwise take any action to protect the interests of the Trustee or the Owners in an Event of Default.

Upon the occurrence of an Event of Default or a termination because of a failure to budget by the City as described under the subheading "SECURITY FOR THE 2019 CERTIFICATES - Lease Agreement; Termination of Lease Agreement Upon Failure to Annually Appropriate Funds," the Trustee (i) will take action to exclude the City from the Leased Property, and (ii)(A) may, and (B) upon the request of the Owners of at least a majority in Aggregate Value of the Certificates, will exercise any and all remedies available at law or pursuant to the Lease Agreement including the option to re-rent, re-lease or sell all or any portion of the Leased Property pursuant to the Trust Agreement. Notwithstanding anything in the Lease Agreement or in the Trust Agreement to the contrary, there will be no right under any circumstances to accelerate the Lease Payments or Additional Rent or otherwise declare any Lease Payments or Additional Rent not then in default to be immediately due and payable. Upon the occurrence of an Event of Default, all moneys received by the Trustee pursuant to any right given or action taken will be applied by the Trustee in the order following upon presentation of the Certificates, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid:

First, to the payment of the ordinary and extraordinary fees and the costs and expenses of the Trustee in declaring and pursuing remedies in connection with such Event of Default, including reasonable compensation to its or their agents, attorneys and counsel and the creation of a reasonable reserve for anticipated fees, costs and expenses and

Second, to the payment of the whole amount then owing and unpaid with respect to the Certificates, for principal and interest with interest on the overdue principal, and, to the extent lawful, installments of interest at the rate of ten percent per annum (but such interest on overdue installments of interest shall be paid only to the extent funds are available therefor following payment of principal and interest, and interest on overdue principal, as aforesaid), and in case such moneys shall insufficient to pay in full the whole amount so owing and unpaid with respect to the Certificates, then to the payment of such principal and interest without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

If one or more Events of Default shall happen and be continuing, the Trustee in its discretion may and with the prior written consent of the Owners of a majority in Aggregate Value of the Certificates, will, proceed to protect or enforce its rights or the rights of the Owners of Certificates by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Trust Agreement, the foreclosure of any lien granted in the Trust Agreement, or in aid of the execution of any power in the Trust Agreement granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties under the Trust Agreement.

In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Trust Agreement, whether upon its own discretion or upon the request of the Owners of a majority in Aggregate Value of the Certificates, it will have full power, in the exercise of its discretion for the best interests of the Owners of the Certificates, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; *provided, however*, that the Trustee shall not discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, without the consent of the Owners of a majority in Aggregate Value of the Certificates.

The Owner of any Certificate may institute any suit, action, or other proceedings in equity or at law for the protection or enforcement of any right under the Lease Agreement or Trust Agreement if and only if (a) such Owner has given written notice to the Trustee of such Event of Default, (b) a majority of owners of Outstanding principal amount evidenced by the Owners have first notified the Trustee in writing of the Event of Default and made written request on the Trustee to exercise such powers, (c) the Trustee shall have been offered reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request, and (d) the Trustee shall have refused

or omitted to comply with such request for 60 days following receipt of such written request and such tender of indemnity.

Limited Liability

Except for the payment of Lease Payments and Prepayments when due in accordance with the Lease Agreement, the payment of Additional Rent and the performance of the other covenants and agreements of the City contained in the Lease Agreement, including the payment of fees and expenses and indemnities of the Trustee, the City will have no pecuniary obligation or liability to any of the other parties or to the Owners of the Certificates with respect to the Trust Agreement or the terms, execution, delivery or transfer of the Certificates, or the distribution of Lease Payments to the Owners by the Trustee.

Amendment

The Trust Agreement, the Lease Agreement and the Ground Lease may be amended by agreement among the parties thereto without the consent of the Owners but only (a) to add to the covenants and agreements of any party, other covenants to be observed, or to surrender any right or power reserved in the Trust Agreement to the Trustee or the City, (b) to cure, correct or supplement any ambiguous or defective provision, or (c) in a manner, which does not, in the judgment of the Trustee, materially adversely affect the interests of the Owners. Any other amendment shall require the approval of the Owners of a majority in principal amount evidenced by the Certificates then Outstanding; *provided* that no such amendment shall (a) extend the maturity or time of interest payment of, or reduce the interest rate, amount of principal, or premium payable with respect to, any Certificate without such Owner's consent, (b) reduce the percentage of Owners required to consent to any amendment or modification, or (c) modify any of the Trustee's rights or obligations without its consent.

Defeasance

If and when any Outstanding Certificates shall be paid and discharged in any one or more of the following ways:

(a) By well and truly paying or causing to be paid the principal and interest and prepayment premiums (if any) evidenced by such Certificates Outstanding, as and when the same become due and payable and all Additional Rent;

(b) By making an irrevocable deposit with the Trustee, in trust, at or before a scheduled payment date, of money that, together with the amounts then on deposit in the Lease Payment Fund is fully sufficient to pay such Certificates Outstanding, including all principal and interest and premium, if any, evidenced thereby and all Additional Rent;

(c) By making an irrevocable deposit with the Trustee, in trust, of Defeasance Obligations, together with money, if required, in such amount as will, in the opinion of an independent certified public accountant acceptable to the Trustee, together with the interest to accrue thereon, but without reinvestment thereof, and amounts then on deposit in the Lease Payment Fund together with the interest to accrue thereon, be fully sufficient to pay and discharge such Certificates (including all principal and interest) at their respective specified principal payment dates and pay all unpaid Additional Rent; or

(d) By making an irrevocable deposit with the Trustee, pursuant to an escrow deposit and trust agreement, of security for the payment of Lease Payments and Additional Rent as more particularly described in the Lease Agreement, said security to be held by the Trustee as agent for the Lessee to be applied by the Trustee to pay the Lease Payments and Additional Rent as the same become due and payable, pursuant to the Lease Agreement; notwithstanding that any Certificate shall not have been surrendered for payment; all obligations of the Trustee and the City with respect to such Outstanding Certificates shall cease and terminate, except only the obligation of the Trustee to pay or cause to be paid, from Lease Payments paid by or on behalf of the City from funds deposited pursuant to paragraphs (b) through (d), to the Owners of the Certificates not so surrendered and paid all sums due with respect thereto, and in the event of deposits

pursuant to paragraphs (b) through (d), the Certificates will continue to represent direct and proportionate interests of the Owners thereof in Lease Payments pursuant to the Lease Agreement.

Any Certificate or portion thereof in authorized denominations may be paid as provided in the preceding paragraph; *provided, however*, that if any such Certificate or portion thereof is to be prepaid, notice of such prepayment shall have been given in accordance with the provisions of the Trust Agreement or the City will have submitted to the Trustee instructions expressed to be irrevocable as to the date upon which such Certificate or portion thereof is to be prepaid and as to the giving of notice of such prepayment; and *provided further*, that if any such Certificate or portion thereof is not scheduled to be paid or prepaid within 60 days of the deposit of the moneys or Defeasance Obligations, the Trustee shall give notice of such deposit by first class mail.

APPENDIX E

FORM OF APPROVING LEGAL OPINION

[LETTERHEAD OF GREENBERG TRAURIG, LLP]

[Closing Date]

_____, as trustee

Re: \$ _____ Certificates of Participation, Series 2019 Evidencing Undivided Proportionate Interests of the Owners Thereof in Lease Payments to be Made by City of Flagstaff, Arizona, as Lessee of Certain Property Pursuant to a Lease-Purchase Agreement, Dated as of December 1, 2019*

We have examined the transcript of proceedings (the "Transcript") relating to the initial execution and delivery by _____, as trustee (the "Trustee"), of the captioned certificates of participation (the "Certificates"), pursuant to a Trust Agreement, dated as of December 1, 2019* (the "Trust Agreement"), by and between the Trustee and the City of Flagstaff, Arizona (the "City"). Each of the Certificates represents a fractionalized interest in obligations of the City pursuant to a Lease-Purchase Agreement, dated as of December 1, 2019* (the "Lease"), by and between the Trustee, in its separate capacity as lessor, and the City pursuant to which the City has agreed to lease certain property from the Trustee, in its separate capacity as lessor (the "Leased Property"). The real property comprising the Leased Property has been leased by the City to the Trustee, in its separate capacity as lessee, pursuant to a Ground Lease, dated as of December 1, 2019* (the "Ground Lease"). In addition, we have examined such other proceedings, proofs, instruments, certificates and other documents as well as such other materials and such matters of law as we have deemed necessary or appropriate for the purposes of the opinions rendered herein below.

In such an examination, we have examined originals (or copies certified or otherwise identified to our satisfaction) of the foregoing and have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to the original documents of all documents submitted to us as copies and the accuracy of the statements contained in such documents. As to any facts material to our opinion, we have, when relevant facts were not independently established, relied upon the aforesaid documents contained in the Transcript. We have also relied upon the opinions of the City Attorney delivered even date herewith as to the matters provided therein.

Based upon such examination, we are of the opinion that, under the law existing on the date of this opinion:

(1) The Certificates, the Trust Agreement, the Lease and the Ground Lease are legal, valid, binding and enforceable in accordance with their respective terms, except that the binding effect and enforceability thereof are subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting the rights of creditors generally and to the extent that the enforceability thereof may be limited by the application of general principles of equity and subject to the qualification that the enforcement of indemnification provisions against the City may be limited by federal or State securities laws.

(2) The term of the Lease is originally to June 30, 2020*, and thereafter, at the option of the Mayor and Council of the City for such additional fiscal periods (July 1 through June 30) as are necessary to complete the anticipated term thereof through and including June 30, 2044*.

(3) (a) Based on the representations and covenants of the City and subject to the assumption stated in the next unnumbered paragraph, under existing statutes, regulations, rulings and court decisions, the portion of each

* * Preliminary, subject to change.

* Preliminary, subject to change.

Lease Payment made by the City pursuant to the Lease and denominated as and comprising interest pursuant to the Lease and received by the owners of the Certificates (the "Interest Portion") is excludable from the gross incomes of the owners thereof for federal income tax purposes and is not treated as an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals.

(b) Assuming the Interest Portion is so excludable for federal income tax purposes, the Interest Portion is exempt from present State of Arizona income taxation.

The Internal Revenue Code of 1986, as amended (the "Code"), includes requirements which the City must continue to meet after the execution and delivery of the Certificates in order that the Interest Portion not be included in gross income for federal income tax purposes. The failure of the City to meet these requirements may cause the Interest Portion to be included in gross income for federal income tax purposes retroactive to their date of execution and delivery. The City has covenanted in the Lease to take the actions required by the Code in order to maintain the exclusion from gross income for federal income tax purposes of the Interest Portion. (Subject to the same limitations in the first numbered paragraph hereof as they would relate to such covenants, the City has full legal power and authority to comply with such covenants.) In rendering the opinions expressed in paragraph 3 above, we have assumed continuing compliance with the tax covenants referred to hereinabove that must be met after the execution and delivery of the Certificates in order that the Interest Portion not be included in gross income for federal tax purposes. Except as stated in paragraph 3, we express no opinion as to any federal or State of Arizona tax consequences of the ownership of, receipt of interest on, or disposition of the Certificates. Moreover, we express no opinion as to the exemption from federal or State of Arizona income taxation of any other amounts paid to the owners of the Certificates in the event of termination of the Lease due to non-appropriation.

This opinion represents our legal judgment based upon our review of the law and the facts we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof, and we assume no obligation to review or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

APPENDIX F

FORM OF CONTINUING DISCLOSURE UNDERTAKING

\$3,575,000*
CERTIFICATES OF PARTICIPATION, SERIES 2019
Evidencing Undivided Proportionate Interests of the Owners Thereof in
Lease Payments to be Made by
CITY OF FLAGSTAFF, ARIZONA,
as Lessee of Certain Property Pursuant
to a Lease-Purchase Agreement, dated as of December 1, 2019*

(CUSIP BASE NUMBER 338430)

CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (this “*Undertaking*”) is executed and delivered by the City of Flagstaff, Arizona (the “*City*”), in connection with the execution and delivery of \$3,575,000* aggregate principal amount of Certificates of Participation, Series 2019 (the “*Obligations*”) Evidencing Undivided Proportionate Interests of the Owners Thereof in Lease Payments to be Made by City of Flagstaff, Arizona, as Lessee of Certain Property Pursuant to a Lease-Purchase Agreement, dated as of December 1, 2019*. The Obligations are being executed and delivered pursuant to a Trust Agreement, dated as of December 1, 2019* (the “*Trust Agreement*”), by and between the City and _____, as trustee (the “*Trustee*”). The City covenants and agrees as follows:

1. *Definitions.* In addition to those defined hereinabove, the terms set forth below shall have the following meanings in this Undertaking, unless the context clearly otherwise requires:

Annual Financial Information means the financial information and operating data set forth in the Audited Financial Statements.

Annual Financial Information Disclosure means the dissemination of disclosure concerning Annual Financial Information and the dissemination of the Audited Financial Statements as set forth in Section 4.

Audited Financial Statements means the audited financial statements of the City prepared pursuant to the standards and as described in Exhibit I.

Commission means the Securities and Exchange Commission.

Dissemination Agent means any agent designated as such in writing by the City and which has filed with the City a written acceptance of such designation, and such agent’s successors and assigns.

EMMA means the Electronic Municipal Market Access system of the MSRB. Information regarding submissions to EMMA is available at <http://emma.msrb.org>.

* Preliminary, subject to change.

Exchange Act means the Securities Exchange Act of 1934, as amended.

Final Official Statement means the Final Official Statement relating to the Obligations, dated _____, 2019.

Financial Obligation means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term Financial Obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule

GAAP means generally accepted accounting principles, as applied to governmental units as modified by the laws of the State.

Lease Agreement means the Lease-Purchase Agreement, dated as of December 1, 2019*, by and between the City and the Trustee, in its separate capacity as “Lessor.”

Listed Event means the occurrence of any of the events set forth in Exhibit II.

Listed Events Disclosure means dissemination of disclosure concerning a Listed Event as set forth in Section 5.

MSRB means the Municipal Securities Rulemaking Board.

Participating Underwriter means each broker, dealer or municipal securities dealer acting as an underwriter in the primary offering of the Obligations.

Rule means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Exchange Act.

State means the State of Arizona.

2. *Purpose of this Undertaking.* This Undertaking is executed and delivered by the City as of the date set forth below, for the benefit of the beneficial owners of the Obligations and in order to assist the Participating Underwriter in complying with the requirements of the Rule. The City represents that it will be the only obligated person with respect to the Obligations at the time the Obligations are delivered to the Participating Underwriter and that no other person is expected to become so committed at any time after such delivery of the Obligations.

3. *CUSIP Numbers.* The CUSIP Numbers of the Obligations are as follows:

CUSIP No. (Base 338430)	Maturity Date (July 1)
_____	_____

* Preliminary, subject to change.

CUSIP No.
(Base 338430)

Maturity Date
(July 1)

4. *Annual Financial Information Disclosure.* Subject to Section 8 of this Undertaking and annual appropriation of amounts necessary to pay costs of preparation and dissemination thereof, the City shall disseminate its Annual Financial Information and its Audited Financial Statements, if any (in the form and by the dates set forth in *Exhibit I*), through EMMA.

If any part of the Annual Financial Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the City will disseminate a statement to such effect as part of its Annual Financial Information for the year in which such event first occurs.

If any amendment is made to this Undertaking, the Annual Financial Information for the year in which such amendment is made shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

5. *Listed Events Disclosure.* Subject to Section 8 of this Undertaking and annual appropriation of amounts necessary to pay costs of preparation and dissemination thereof, the City shall disseminate in a timely manner, but not more than ten (10) business days after occurrence of the event, Listed Events Disclosure through EMMA. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any of the Obligations or defeasance of any Obligations need not be given under this Undertaking any earlier than the notice (if any) of such redemption or defeasance is given to the owners of the Obligations pursuant to the terms of the Obligations. Whether events subject to the standard “material” would be material shall be determined under applicable federal securities laws.

6. *Consequences of Failure of the City to Provide Information.* The City shall give notice in a timely manner through EMMA of any failure to provide Annual Financial Information Disclosure when the same is due hereunder.

In the event of a failure of the City to comply with any provision of this Undertaking, the beneficial owner of any Obligation may seek mandamus or specific performance by court order, to cause the City to comply with its obligations under this Undertaking. A default under this Undertaking shall not be deemed an event of default under the Lease Agreement or the Trust Agreement, and the sole remedy available to such owners of the Obligations under this Undertaking in the event of any failure of the City to comply with this Undertaking shall be an action to compel performance; provided, however, that such performance would be subject to annual appropriation of amounts necessary to pay costs of preparation and dissemination of the information required hereby.

7. *Amendments; Waiver.* Notwithstanding any other provision of this Undertaking, the City by certified resolution or ordinance authorizing such amendment or waiver, may amend this Undertaking, and any provision of this Undertaking may be waived only if:

(a) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the City, or type of business conducted;

(b) This Undertaking, as amended or affected by such waiver, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not materially impair the interests of the beneficial owners of the Obligations, as determined by parties unaffiliated with the City (such as the Trustee) or by approving vote of the owners of the Obligations pursuant to the Trust Agreement at the time of the amendment.

The Annual Financial Information containing amended operating data or financial information resulting from such amendment or waiver, if any, shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of operating data or financial information being provided. If an amendment or waiver is made specifying GAAP to be followed in preparing financial statements and such changes are material, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles. Such comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles in the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, such comparison also shall be quantitative. If the accounting principles of the City change or the fiscal year of the City changes, the City shall file a notice of such change in the same manner as for a notice of Listed Event.

8. *Termination of Undertaking.* This Undertaking shall be terminated hereunder if the City shall no longer have liability for any obligation on or relating to repayment of the Obligations under the Trust Agreement. The City shall give notice in a timely manner if it no longer has such liability through EMMA.

9. *Dissemination Agent.* The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Undertaking, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

10. *Additional Information.* Nothing in this Undertaking shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Financial Information Disclosure or notice of occurrence of a Listed Event, in addition to that which is required by this Undertaking. If the City chooses to include any information from any document or notice of occurrence of a Listed Event in addition to that which is specifically required by this Undertaking, the City shall have no obligation under this Undertaking to update such information or include it in any future Annual Financial Information Disclosure or Listed Events Disclosure.

11. *Beneficiaries.* This Undertaking has been executed in order to assist the Participating Underwriter in complying with the Rule; however, this Undertaking shall inure solely to the benefit of the City, the Dissemination Agent, if any, and the beneficial owners of the Obligations, and shall create no rights in any other person or entity.

12. *Recordkeeping.* The City shall maintain records of all Annual Financial Information Disclosure and Listed Events Disclosure including the content of such disclosure, the names of the entities with whom such disclosure was filed and the date of filing such disclosure.

13. *Assignment.* The City shall not transfer obligations under the Lease Agreement unless the transferee agrees to assume all obligations of the City under this Undertaking or to execute an undertaking meeting the requirements of the Rule.

[Signature page follows.]

14. *Governing Law.* This Undertaking shall be governed by the laws of the State.

Dated: [Closing Date]

CITY OF FLAGSTAFF, ARIZONA

By.....
Mayor

ATTEST:

.....
City Clerk

ATTACHMENTS:

- Exhibit I - Annual Financial Information and Timing and Audited Financial Statements
- Exhibit II - Events for Which Listed Events Disclosure Is Required

EXHIBIT I

ANNUAL FINANCIAL INFORMATION AND TIMING AND AUDITED
FINANCIAL STATEMENTS

All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by reference to other documents which have been submitted through EMMA, or filed with the Commission. If the information included by reference is contained in a final official statement, the final official statement must be available from the MSRB; the final official statement need not be available from the Commission. The City shall clearly identify each such item of information included by reference.

Audited Financial Statements will be prepared according to GAAP. Audited Financial Statements will be provided through EMMA within 30 days after availability to the City, but in no case later than the first business day in February of each year, commencing February 1, 2020. If Audited Financial Statements are not available by the first business day in February of each year, unaudited financial statements shall be included, to be followed up by Audited Financial Statements when available.

If any change is made to the Annual Financial Information as permitted by Section 4 of the Agreement, the City will disseminate a notice of such change as required by Section 4, including changes in fiscal year or GAAP.

EXHIBIT II

EVENTS FOR WHICH LISTED EVENTS DISCLOSURE IS REQUIRED

1. Principal and interest payment delinquencies
2. Non-payment related defaults, if material
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of credit or liquidity providers, or their failure to perform
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations, in each case, with respect to the tax status of the security, or other Listed Events affecting the tax status of the security
7. Modifications to the rights of security holders, if material
8. Bond calls, if material, or tender offers
9. Defeasances
10. Release, substitution or sale of property securing repayment of the securities, if material
11. Rating changes
12. Bankruptcy, insolvency, receivership or similar events of the City, being if any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under State or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City
13. The consummation of a merger, consolidation or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material
15. Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties

APPENDIX G

BOOK-ENTRY-ONLY SYSTEM

THE INFORMATION PROVIDED IN THIS APPENDIX HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE CITY, SPECIAL COUNSEL, THE FINANCIAL ADVISOR OR THE UNDERWRITER AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

DTC will act as securities depository for the 2019 Certificates. The 2019 Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the 2019 Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2019 Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2019 Certificates on DTC's records. The ownership interest of each actual purchaser of each 2019 Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2019 Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2019 Certificates, except in the event that use of the book-entry system for the 2019 Certificates is discontinued.

To facilitate subsequent transfers, all 2019 Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2019 Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2019 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2019 Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2019 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2019 Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Trust Agreement. For example, Beneficial Owners of 2019 Certificates may wish to ascertain that the nominee holding the 2019 Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2019 Certificates unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2019 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest and redemption payments on the 2019 Certificates will be made by the Trustee to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2019 Certificates at any time by giving reasonable notice to the Trustee or the City. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

NEITHER THE CITY NOR THE TRUSTEE WILL HAVE RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (2) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE 2019 CERTIFICATES UNDER THE TRUST AGREEMENT; (3) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2019 CERTIFICATES; (4) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE 2019 CERTIFICATES; (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF 2019 CERTIFICATES; OR (6) ANY OTHER MATTERS.

So long as Cede & Co. is the registered owner of the 2019 Certificates, as nominee of DTC, references herein to "Owner" or registered owners of the 2019 Certificates (other than under the caption "TAX EXEMPTION") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of such 2019 Certificates.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the City or the Trustee to DTC only.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.