

NEW ISSUE – BOOK-ENTRY-ONLY

RATING: See “RATING” herein.

INSURANCE: See “BOND INSURANCE AND RELATED RISK FACTORS” herein.

In the opinion of Greenberg Traurig, LLP, Special Counsel, assuming continuing compliance with certain tax covenants and the accuracy of certain representations of the City, under existing statutes, regulations, rulings and court decisions, the portion of each installment payment made by the City pursuant to the Purchase Agreement and denominated as and comprising interest pursuant to the Purchase Agreement and received by Owners of the Tax-Exempt Obligations (the “Tax-Exempt Interest Portion”) will be excludable from gross income for federal income tax purposes. The Tax-Exempt Interest Portion will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such Tax-Exempt Interest Portion will be taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax imposed on certain corporations. The Tax-Exempt Interest Portion will be exempt from income taxation under the laws of the State of Arizona so long as the Tax-Exempt Interest Portion is excludable from gross income for federal income tax purposes. See “TAX MATTERS – TAX-EXEMPT OBLIGATIONS - General” herein for a description of certain other federal tax consequences of ownership of the Tax-Exempt Obligations. See also “TAX MATTERS - TAX-EXEMPT OBLIGATIONS – Original Issue Discount and Premium” herein. Special Counsel expresses no opinion with respect to the excludability of the portion of each installment payment made by the City pursuant to the Purchase Agreement and denominated as and comprising interest pursuant to the Purchase Agreement and received by the Owners of the Taxable Obligations from gross income for federal or State of Arizona income tax purposes. See “CERTAIN UNITED STATES FEDERAL TAX CONSIDERATIONS IN RESPECT OF THE TAXABLE OBLIGATIONS” and “ERISA CONSIDERATIONS” herein.

The Mayor and Council of the City will designate the Obligations as “qualified tax-exempt obligations” for purposes of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended (the “Code). The Mayor and Council of the City will represent and warrant that they reasonably anticipate that the aggregate amount of qualified tax-exempt obligations (as defined in Section 265(b)(3)(B) of the Code) which will be issued by or on behalf of the City in calendar year 2017 will not exceed \$10,000,000. See “QUALIFIED TAX-EXEMPT OBLIGATIONS” herein.

DRAFT 2  
8-23-17

CITY OF SAN LUIS, ARIZONA

**\$6,985,000\***  
**PLEDGED EXCISE TAX REVENUE  
REFUNDING OBLIGATIONS,  
TAX-EXEMPT SERIES 2017A**

**\$6,920,000\***  
**PLEDGED EXCISE TAX REVENUE  
REFUNDING OBLIGATIONS,  
TAXABLE SERIES 2017B**

Dated: Date of Initial Delivery

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

The City of San Luis, Arizona (the “City”) Pledged Excise Tax Revenue Refunding Obligations, Tax-Exempt Series 2017A (the “Tax-Exempt Obligations”) and Pledged Excise Tax Revenue Refunding Obligations, Taxable Series 2017B (the “Taxable Obligations”) and, together with the Tax-Exempt Obligations, the “Obligations”) will be executed and delivered to (i) prepay all amounts due pursuant to the Loan Repayment Agreement, dated as of February 1, 2009, as amended by a First Amendment to Loan Repayment Agreement, dated as of November 1, 2014, between the Greater Arizona Development Authority of Arizona and the City and (ii) pay the costs and expenses relating to the execution and delivery of the Obligations. See “PLAN OF REFUNDING” herein.

Interest represented by the Obligations will be payable semiannually on each July 1 and January 1, commencing July 1, 2018\*, until maturity or prior prepayment. The Obligations will be dated the date of initial delivery, will be issuable as fully registered obligations without coupons and will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York, which will act as securities depository for the Obligations. Beneficial ownership interests in the Obligations will be available to purchasers in amounts of \$5,000 of principal due on a specific payment date and any integral multiple thereof only under the book-entry-only system maintained by DTC through brokers and dealers who are, or act through, DTC Participants (as defined herein). Purchasers will not receive physical certificates. So long as any purchaser is the beneficial owner of an Obligation, such purchaser must maintain an account with a broker or a dealer who is, or acts through, a DTC Participant to receive payment of principal and interest with respect to such Obligations. See APPENDIX G - “BOOK-ENTRY ONLY SYSTEM” herein.

**SEE PAYMENT SCHEDULES ON INSIDE FRONT COVER PAGE**

The Obligations will be subject to prepayment prior to their stated payment dates as described under the heading “THE OBLIGATIONS – Prepayment Provisions” herein\*.

The Obligations will be undivided, proportionate interests in the installment payments to be made by the City pursuant to a Second Excise Tax Purchase Agreement, to be dated as of \_\_\_\_\_ 1, 2017\* (the “Purchase Agreement”), between the City and \_\_\_\_\_, as trustee (the “Trustee”) in its separate capacity as “Seller”. The installment payments will be payable from and secured by a first lien on and pledge of revenues from the Excise Taxes and the State Shared Revenues (each as defined herein) on a parity with the First Purchase Agreement and any Parity Lien Obligations (as defined herein).. No obligations may be incurred that would have a prior pledge of revenues from the Excise Taxes or the State Shared Revenues to the Obligations. See “SECURITY FOR AND SOURCES OF PAYMENT OF THE OBLIGATIONS” herein.

**THE OBLIGATIONS WILL BE SPECIAL, LIMITED REVENUE OBLIGATIONS OF THE CITY AND WILL BE PAYABLE SOLELY FROM THE SOURCES DESCRIBED HEREIN. THE OBLIGATIONS WILL NOT BE GENERAL OBLIGATIONS OF THE CITY, THE STATE OF ARIZONA OR ANY POLITICAL SUBDIVISION THEREOF, AND THE FULL FAITH AND CREDIT OF THE CITY, THE STATE OF ARIZONA OR ANY POLITICAL SUBDIVISION THEREOF WILL NOT BE PLEDGED FOR THE PAYMENT OF THE OBLIGATIONS.**

The Obligations are offered when, as and if issued by the City and received by the underwriter identified below (the “Underwriter”), subject to the legal opinion of Greenberg Traurig, LLP, Special Counsel, as to validity and tax exemption. In addition, certain legal matters will be passed upon for the Underwriter by Squire Patton Boggs (US) LLP. It is expected that the Obligations will be available for delivery through the facilities of DTC on or about September \_\_, 2017\*.

This cover page contains certain information with respect to the Obligations for convenience of reference only. It is not a summary of all material information with respect to the Obligations. Investors must read this entire Official Statement to obtain information essential to the making of an informed investment decision with respect to the Obligations.

\* Subject to change.



This Preliminary Official Statement and the information contained herein are subject to completion, amendment or other change without any notice. 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.

## CITY OF SAN LUIS, ARIZONA

### PAYMENT SCHEDULES

**\$6,985,000\***

#### **Pledged Excise Tax Revenue Refunding Obligations, Tax-Exempt Series 2017A**

Maturity Date (July 1)	Principal Amount	Interest Rate	Yield	CUSIP® <sup>(1)</sup> No. 79854W
2026	\$ 345,000	%	%	
2027	910,000			
2028	960,000			
2029	1,005,000			
2030	1,045,000			
2031	1,085,000			
2032	1,135,000			
2033	500,000			

**\$6,920,000\***

#### **Pledged Excise Tax Revenue Refunding Obligations, Taxable Series 2017B**

Maturity Date (July 1)	Principal Amount	Interest Rate	Yield	CUSIP® <sup>(1)</sup> No. 79854W
2018	\$ 845,000	%	%	
2019	740,000			
2020	755,000			
2021	765,000			
2022	785,000			
2023	810,000			
2024	830,000			
2025	855,000			
2026	535,000			

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\* Subject to change.

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# **CITY OF SAN LUIS, ARIZONA**

## **CITY COUNCIL**

Gerardo Sanchez, *Mayor*  
Maria Cecilia Ramos, *Vice Mayor*  
Mario Buchanan, Jr., *Councilmember*  
Africa Luna-Carrasco, *Councilmember*  
Matias Rosales, *Councilmember*  
Gloria Torres, *Councilmember*  
Ruben Walshe, *Councilmember*

## **CITY ADMINISTRATION**

Tadeo De La Hoya, *City Manager*  
Katie St. Louis, CPA, *Finance Director\**  
Kay Marion Macuil, *City Attorney*

## **SPECIAL COUNSEL**

Greenberg Traurig, LLP  
*Phoenix, Arizona*

## **ESCROW TRUSTEE AND TRUSTEE**

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*Phoenix, Arizona*

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\* *Retiring 2017.*

## REGARDING THIS OFFICIAL STATEMENT

No dealer, broker, salesperson or other person has been authorized by the City of San Luis, Arizona (the "City"), or Stifel, Nicolaus & Company, Incorporated (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 shall there be any sale of the Obligations 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 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 or the Underwriter. A variety of other 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 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 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 Obligations 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 Obligations for sale.

The City, the Underwriter, counsel the Underwriter and Special Counsel are not actuaries and have not performed any actuarial or other analysis of the City's unfunded liabilities under the Arizona State Retirement System or the Public Safety Personnel Retirement System.

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 OBLIGATIONS 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.**

The information in APPENDIX G – “BOOK-ENTRY-ONLY SYSTEM” attached hereto has been furnished by The Depository Trust Company and no representation is made by the City or the Underwriter, or any of their counsel or agents, as to the accuracy or completeness of such information.

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**OFFICIAL STATEMENT**

**CITY OF SAN LUIS, ARIZONA**

**\$6,985,000\***  
**PLEGGED EXCISE TAX REVENUE**  
**REFUNDING OBLIGATIONS,**  
**TAX-EXEMPT SERIES 2017A**

**\$6,920,000\***  
**PLEGGED EXCISE TAX REVENUE**  
**REFUNDING OBLIGATIONS,**  
**TAXABLE SERIES 2017B**

**INTRODUCTORY STATEMENT**

This Official Statement, which includes the cover page, the inside front cover page and the appendices hereto (this “Official Statement”), provides certain information concerning the City of San Luis, Arizona (the “City”) Pledged Excise Tax Revenue Refunding Obligations, Tax-Exempt Series 2017A (the “Tax-Exempt Obligations”) the Pledged Excise Tax Revenue Refunding Obligations, Taxable Series 2017B (the “Taxable Obligations” and, together with the Tax-Exempt Obligations, the “Obligations”), to be executed and delivered in the principal amounts indicated above. The Obligations will be undivided, participating, proportionate interests in installment payments (the “Payments”) to be made by the City pursuant to a Second Excise Tax Purchase Agreement, to be dated as of \_\_\_\_\_ 1, 2017\* (the “Purchase Agreement”), between the City, as purchaser, and \_\_\_\_\_, as trustee (the “Trustee”), in its separate capacity as seller.

The Obligations are being executed and delivered to (i) prepay all amounts due pursuant to the Loan Repayment Agreement, dated as of February 1, 2009, as amended by a First Amendment to Loan Repayment Agreement, dated as of November 1, 2014 (as so amended, the “Prior Loan Agreement”), between the Greater Arizona Development Authority of Arizona and the City and (ii) pay the costs and expenses relating to the execution and delivery of the Obligations. See “PLAN OF REFUNDING” herein.

The Obligations will be executed and delivered pursuant to a Second Excise Tax Trust Agreement, to be dated as of \_\_\_\_\_ 1, 2017\* (the “Trust Agreement”), between the City and the Trustee. Certain of the Trustee’s interests under the Purchase Agreement, including, without limitation, the right to receive and collect the Payments and the right to force the City to make the Payments, will be held by the Trustee for the benefit of the registered owners of the Obligations. See APPENDIX D - “SUMMARY OF SELECT PROVISIONS OF PRINCIPAL DOCUMENTS” in addition to the information herein below for descriptions of the terms of the Purchase Agreement and the Trust Agreement and the definition of terms not elsewhere defined herein. See APPENDIX A - “CITY OF SAN LUIS, ARIZONA – DEMOGRAPHIC AND ECONOMIC INFORMATION,” APPENDIX B – “CITY OF SAN LUIS, ARIZONA – FINANCIAL DATA and APPENDIX C - “CITY OF SAN LUIS, ARIZONA – AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016” for information about the City.

The Payments will be payable from and secured by a first lien on and pledge of revenues from the Excise Taxes and the State Shared Revenues. “Excise Taxes” means the unrestricted transaction privilege (sales) taxes, business license and franchise fees, parks and recreation fees and permits and fines and forfeitures the City now imposes; provided that the Mayor and Council of the City may impose other transaction privilege taxes in the future, the uses of revenue from which will be restricted, at the discretion of such Council. “State Shared Revenues” means any amounts of excise taxes, transaction privilege (sales) taxes and income taxes imposed by the State of Arizona (the “State” or “Arizona”) or any agency thereof and returned, allocated or apportioned to the City, except the City’s share of any such taxes which by State law, rule or regulation must be expended for other purposes such as motor vehicle fuel taxes. Pursuant to the Purchase Agreement under certain conditions, Parity Lien Obligations may be incurred on a parity with the payments due under the First Purchase Agreement and the Purchase Agreement. See “SECURITY FOR AND SOURCES OF PAYMENT OF THE OBLIGATIONS – Parity Lien Obligations” herein.

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\* *Subject to change.*

Brief descriptions of the security for the Obligations and of matters related to the City are included in this Official Statement together with a summary of select provisions of the Purchase Agreement and the Trust Agreement. Such descriptions do not purport to be comprehensive or definitive. All references to the Purchase Agreement and the Trust Agreement are qualified in their entirety by reference to such documents, and references herein to the Obligations are qualified in their entirety by reference to the form thereof included in the Trust Agreement, copies of all of which are available for inspection at the designated corporate trust office of the Trustee.

Neither this Official Statement nor any statement that may have been made orally or in writing in connection herewith is to be considered as, or as part of, a contract with the original purchasers or subsequent owners or Beneficial Owners (as defined in APPENDIX G) of the Obligations.

References to provisions of federal or State law, whether codified or uncodified, are references to those current provisions. Those provisions may be amended, repealed or supplemented.

## THE OBLIGATIONS

### General Terms

The Obligations will be dated the date of their initial execution and delivery and will bear interest from such date, at the rates, and will be payable on the dates and in the amounts, all as set forth on the inside front cover page hereof. Interest represented by the Obligations will be payable on each January 1 and July 1 (each an "Interest Payment Date"), commencing July 1, 2018\*, until maturity or prior prepayment.

The Obligations will be registered only in the name of Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), under the book-entry only system described in APPENDIX G – "BOOK-ENTRY-ONLY SYSTEM." Beneficial ownership interests in the Obligations may be purchased through direct and indirect participants of DTC in amounts of \$5,000 of principal due on a specific payment date or integral multiples thereof. See APPENDIX G – "BOOK-ENTRY-ONLY SYSTEM."

### Prepayment Provisions\*

*Optional Prepayment.* The Obligations payable before or on July 1, 20\_\_, will not be subject to prepayment prior to their stated payment dates. The Obligations payable on July 1, 20\_\_, will be subject to prepayment by lot within such payment date by such methods as may be selected by the Trustee from prepayments made at the option of the City pursuant to the Purchase Agreement, in whole or in part on any date, on or after July 1, 20\_\_, at a prepayment price equal to the principal amount of the Obligations or portions thereof to be prepaid, together with accrued interest to the date fixed for prepayment, but without premium.

*Manner of Selection for Prepayment.* The Obligations will be prepaid only in payment amounts of \$5,000 each or integral multiples thereof. The City will, at least 45 days prior to the prepayment date, notify the Trustee of such prepayment date and of the stated payment dates of the Obligations and the payment amount of the Obligations of any such stated payment date to be prepaid on such date. For the purposes of any prepayment of less than all of the Obligations of a single stated payment date, the particular Obligations or portions of the Obligations to be prepaid shall be selected through the procedures of DTC.

*Notice of Prepayment.* Prepayment notices will be sent only to DTC by electronic media, not more than 60 nor less than 30 days prior to the date set for prepayment. See APPENDIX G – "BOOK-ENTRY ONLY SYSTEM." Such notice will state that if, on the specified prepayment date, moneys for prepayment of all the Obligations to be prepaid together with interest to the date of prepayment, is held by the Trustee, then, from and after said date of prepayment, interest with respect to the Obligations will cease to accrue and become payable and that if such moneys are not so held, the prepayment will not occur.

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\* *Subject to change.*

Notice of any prepayment will also be provided as set forth in APPENDIX F – “FORM OF CONTINUING DISCLOSURE UNDERTAKING,” but no defect in said further notice or record nor any failure to give all or a portion of such further notice shall in any manner defeat the effectiveness of a prepayment for redemption if notice thereof is given as prescribed above

## PLAN OF REFUNDING

The proceeds from the sale of the Obligations remaining after payment of the costs of issuance will be placed in an escrow trust (the “Escrow Trust”) with \_\_\_\_\_, as escrow trustee (the “Escrow Trustee”) pursuant to the terms of an Escrow Trust Agreement, to be dated as of \_\_\_\_\_ 1, 2017\*, between the City and the Escrow Trustee, and invested in obligations issued by the United States of America (“Government Obligations”), to be applied to the prepayment of the Prior Loan Agreement. Amounts held in the Escrow Trust will be applied to prepay amounts due pursuant to the Prior Loan Agreement on July 1, 2018, for the Greater Arizona Development Authority Infrastructure Revenue Bonds, Tax-Exempt Series 2009A and on July 1, 2019, for the Greater Arizona Development Authority Infrastructure Revenue Bonds, Taxable Series 2009A (collectively, the “GADA Bonds Being Refunded”). Amounts received by GADA with respect to the prepayment of the Prior Loan Agreement are expected to be used, [together with other funds held by GADA], to redeem \$12,845,000 aggregate principal amount of the GADA Bonds Being Refunded shown below on August 1, 2018, for the Greater Arizona Development Authority Infrastructure Revenue Bonds, Tax-Exempt Series 2009A and the Greater Arizona Development Authority Infrastructure Revenue Bonds, Taxable Series 2009A, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date. However, the City has no control over the actual application of amounts received by GADA with respect to the prepayment of the Prior Loan Agreement.

### Schedule of Bonds Being Refunded\*

Issue Series	Maturity Date (August 1)	Coupon	Principal Amount Outstanding	Amount Being Refunded	Redemption Date (August 1)	Redemption Premium (as a Percentage of Principal)
Tax-Exempt Series 2009A	2038	4.250%	\$3,025,000	\$3,025,000	2018	0.000%
Taxable Series 2009A	2019	4.100	550,000	550,000	N/A	0.000
	2029	4.125	4,310,000	4,310,000	2019	0.000
	2036	4.200	4,960,000	4,960,000	2019	0.000
			<u>\$12,845,000</u>	<u>\$12,845,000</u>		

\* *Subject to change.*

Upon execution and delivery of the Obligations and such deposit of the proceeds, the Prior Loan Agreement will be prepaid in full and will not be secured by revenues from the Excise Taxes and the State Shared Revenues.

## VERIFICATION OF MATHEMATICAL COMPUTATIONS

Grant Thornton LLP, a firm of independent certified public accountants, will deliver to the City, on or before the settlement date of the Obligations, its verification report indicating that it has verified, in accordance with the Statement on Standards for Consulting Services established by the American Institute of Certified Public Accountants (the "AICPA"), the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Government Obligations, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Prior Loan Agreement and (b) the mathematical computations of yield used by Special Counsel to support its opinion that interest on the Tax-Exempt Obligations will be excluded from gross income for federal income tax purposes.

Grant Thornton LLP relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the City. In addition, Grant Thornton LLP has relied on any information provided to it by the City's retained advisors, consultants or legal counsel. Grant Thornton LLP was not engaged to perform audit or attest services under AICPA auditing or attestation standards or to provide any form of attest report or opinion under such standards in conjunction with this engagement.

## SECURITY FOR AND SOURCES OF PAYMENT OF THE OBLIGATIONS

### General

The Obligations will be special, limited revenue obligations, taking the form of undivided, participating, proportionate interests in the Payments. The obligation of the City to make the Payments will be limited to payment from revenues from Excise Taxes and State Shared Revenues and will in no circumstances constitute a general obligation or a pledge of the full faith and credit of the City or the State or any political subdivisions thereof, or require the levy of, or be payable from the proceeds of, any *ad valorem* property taxes.

Revenues from Excise Taxes and State Shared Revenues in excess of amounts, if any, required to be deposited with or held by the Trustee for payments due under the Purchase Agreement will constitute surplus revenues and may be used by the City for any lawful purpose for the benefit of the City. The City may also make the Payments from its other funds as permitted by law and as the City determines from time to time, and the Trustee will thereafter have no claim to such other funds.

Under the terms of the Trust Agreement, an irrevocable trust will be administered by the Trustee for the equal and proportionate benefit of the Owners of the Obligations, which trust includes: (1) all right, title and interest of the Trustee, as seller, in the Purchase Agreement and the right to (a) make claim for, collect or receive all amounts payable or receivable thereunder, (b) to bring actions and proceedings thereunder or for the enforcement of such rights, and (c) to do any and all other things which the Trustee is entitled to do thereunder; (2) amounts on deposit from time to time in the funds created pursuant to the Trust Agreement; and (3) any and all other property of any kind conveyed after the date of the Trust Agreement as additional security for the Obligations. See APPENDIX D - "SUMMARY OF SELECT PROVISIONS OF PRINCIPAL DOCUMENTS - THE TRUST AGREEMENT."

### Pledge

The Payments will be secured by a paramount and first lien on and pledge of revenues from the Excise Taxes and the State Shared Revenues, on parity with the pledge and lien for the payment and security of the First Purchase Agreement and any Parity Lien Obligations. All of such payments will be coequal as to the pledge of and lien on revenues from the Excise Taxes and the State Shared Revenues and share ratably, without preference, priority or distinction, as to the source or method of payment from revenues from the Excise Taxes and the State Shared Revenues or security therefor. The pledge will be a paramount and first lien on and pledge of revenues from Excise Taxes and State Shared Revenues, as will be sufficient to make the Payments and payments on the First Purchase Agreement and any Parity Lien Obligation. If at any time the moneys in the funds held for payment of amounts due under the Purchase Agreement or the Trust Agreement are not sufficient to make the deposits and transfers required, any such deficiency will be made up from the first moneys thereafter received and available for such transfers under

the terms of the Purchase Agreement and, with respect to payment from revenues from Excise Taxes and State Shared Revenues, *pro rata*, as applicable, with amounts due with respect to obligations on a parity therewith. The Purchase Agreement will not terminate so long as any of the Payments are due and owing pursuant to the terms of the Obligations.

THE PAYMENTS WILL NOT CONSTITUTE AN INDEBTEDNESS OR GENERAL OBLIGATION OF THE CITY NOR WILL THE CITY BE LIABLE FOR THE PAYMENTS FROM *AD VALOREM* PROPERTY TAXES. PURSUANT TO THE TRUST AGREEMENT, THE OBLIGATIONS WILL BE SPECIAL, LIMITED REVENUE OBLIGATIONS, PAYABLE SOLELY FROM THE PAYMENTS MADE PURSUANT TO THE PURCHASE AGREEMENT. THE OBLIGATIONS WILL NOT BE GENERAL OBLIGATIONS OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF AND WILL NOT REPRESENT OR CONSTITUTE A DEBT OR A DIRECT OR INDIRECT PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY, THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF.

### **Coverage Requirements**

To the extent permitted by applicable law, revenues from Excise Taxes and State Shared Revenues will be retained and maintained so that the amounts received from revenues from Excise Taxes and State Shared Revenues within and for the most recently completed fiscal year of the City, will be equal to at least two (2) times the total of interest and principal requirements for the current fiscal year of the City for the First Purchase Agreement, the Purchase Agreement and any Parity Lien Obligations. If revenues from Excise Taxes and State Shared Revenues for any such fiscal year shall not have been equal to at least one and one-quarter (1.25) times the total of interest and principal requirements for the current fiscal year of the City for the First Purchase Agreement, the Purchase Agreement and any Parity Lien Obligations or if at any time it appears that revenues from Excise Taxes and State Shared Revenues will not be sufficient to meet such requirements, the City will, to the extent permitted by applicable law, impose new exactions of the type of Excise Taxes which will be part of Excise Taxes or increase the rates for the Excise Taxes currently imposed by the City fully sufficient at all times, after making allowances for contingencies and errors, in each fiscal year of the City in order that (i) revenues from Excise Taxes and State Shared Revenues will be sufficient to meet all such requirements and (ii) revenues from Excise Taxes and State Shared Revenues will be reasonably calculated to attain the level as required by the first sentence of this paragraph.

### **Parity Lien Obligations**

So long as any amounts due under the Purchase Agreement remain unpaid or unprovided for, the City shall not further encumber revenues from Excise Taxes and State Shared Revenues on a basis equal to the pledge under the Purchase Agreement unless revenues from Excise Taxes plus State Shared Revenues, when combined mathematically for such purpose only, in the most recently completed fiscal year of the City, shall have amounted to at least two (2) times the highest combined interest and principal requirements for any succeeding fiscal year of the City for the First Purchase Agreement, the Purchase Agreement and the other of the Parity Lien Obligations secured or so proposed to be secured by such pledge of revenues from Excise Taxes and State Shared Revenues on a parity of lien therewith.

## SOURCES AND USES OF FUNDS

	Tax-Exempt Obligations	Taxable Obligations	Total
Principal Amount	\$6,985,000.00*	\$ 6,920,000.00*	\$13,905,000.00*
Net Original Issue Premium (a)			
Total Sources of Funds	\$	\$	\$
Payment to Escrow Trustee	\$	\$	\$
Payment of Costs of Issuance (b)			
Total Uses of Funds	\$	\$	\$

\* *Subject to change.*

(a) *Net original issue premium consists of original issue premium on the Obligations less original issue discount on the Obligations.*

(b) *Includes compensation and costs of the Underwriter (as defined herein).*

## DEBT SERVICE REQUIREMENTS AND PROJECTED COVERAGE

The following table sets forth the amounts required to pay annual debt service on the First Purchase Agreement and the Purchase Agreement and the projected debt service coverage.

**TABLE 1**

### Schedule of Estimated Annual Debt Service Requirements and Projected Coverage (a)\* City of San Luis, Arizona

Fiscal Year	Revenues from Excise Taxes and State Shared Revenues (b)	Outstanding Obligations (c)		The Tax-Exempt Obligations		The Taxable Obligations		Total Annual Debt Service Requirements*	Debt Service Coverage (e)
		Principal	Interest	Principal*	Estimated (d)	Principal*	Estimated (d)		
2015/16	\$ 15,701,273								
2016/17	16,736,029								
2017/18		\$ 815,000	\$ 1,361,950		\$ 221,919(f)	\$ 845,000	\$ 132,388(f)	\$ 3,376,256	5.0x
2018/19		840,000	1,335,750		298,100	740,000	161,779	3,375,629	
2019/20		870,000	1,305,900		298,100	755,000	146,979	3,375,979	
2020/21		915,000	1,262,400		298,100	765,000	130,369	3,370,869	
2021/22		960,000	1,216,650		298,100	785,000	112,239	3,371,989	
2022/23		1,005,000	1,168,650		298,100	810,000	92,064	3,373,814	
2023/24		1,055,000	1,118,400		298,100	830,000	69,303	3,370,803	
2024/25		1,110,000	1,065,650		298,100	855,000	44,320	3,373,070	
2025/26		1,155,000	1,021,250	\$ 345,000	298,100	535,000	17,388	3,371,738	
2026/27		1,210,000	963,500	910,000	284,300			3,367,800	
2027/28		1,270,000	903,000	960,000	238,800			3,371,800	
2028/29		1,335,000	839,500	1,005,000	190,800			3,370,300	
2029/30		1,405,000	772,750	1,045,000	150,600			3,373,350	
2030/31		1,470,000	702,500	1,085,000	108,800			3,366,300	
2031/32		1,545,000	629,000	1,135,000	65,400			3,374,400	
2032/33		1,625,000	551,750	500,000	20,000			2,696,750	
2033/34		1,710,000	470,500					2,180,500	
2034/35		1,785,000	385,000					2,170,000	
2035/36		1,875,000	295,750					2,170,750	
2036/37		1,970,000	202,000					2,172,000	
2037/38		2,070,000	103,500					2,173,500	
		<u>\$ 27,995,000</u>		<u>\$ 6,985,000</u>		<u>\$ 6,920,000</u>			

\* Subject to change.

- (a) Prepared by Stifel, Nicolaus & Company, Incorporated (the "Underwriter").
- (b) The amount of Excise Tax Revenues and State Shared Revenues used to calculate the coverage requirements for existing and projected debt service is the estimated actual amount for fiscal year 2016/17. See "EXCISE TAX REVENUES AND STATE SHARED REVENUES – TABLE 5 – Historical and Projected Excise Tax Revenues and State Shared Revenues Collections."
- (c) Net of the amounts being prepaid with respect to the Prior Loan Agreement.
- (d) Interest is estimated.
- (e) Debt service coverage is based on revenues available for debt service (see footnote (b)) compared to the combined maximum annual debt service for the First Purchase Agreement and the Purchase Agreement.
- (f) The first interest payment on the Obligations will be due on July 1, 2018\*. Thereafter, interest payments will be made semiannually on January 1 and July 1 until the final payment or prepayment of the Obligations.

**EXCISE TAX REVENUES AND STATE SHARED REVENUES**

NO ASSURANCES CAN BE GIVEN THAT THE AMOUNT OF STATE SHARED SALES TAXES OR STATE SHARED INCOME TAXES DESCRIBED HEREINBELOW WILL NOT BE REDUCED OR ELIMINATED BY THE STATE LEGISLATURE IN THE FUTURE.

**Excise Tax Revenues**

*City Sales Taxes.* The City’s unrestricted transaction privilege (sales) tax is levied by the City upon persons and entities on account of their business activities within the City. The amount of tax due is calculated by applying the tax rate against the gross proceeds of sales or gross income derived from the business activities shown in the table below.

**TABLE 2**

**TRANSACTION PRIVILEGE (SALES) TAX RATES BY CATEGORY**

Category	Rate
Amusement	4.0%
Advertising	4.0
Contracting – Prime	4.0
Contracting – Speculative Builders	4.0
Contracting – Owner Builder	4.0
Job Printing	4.0
Manufactured Buildings	4.0
Timbering and Other Extraction	4.0
Severance – Metal Mining	0.1
Publication	4.0
Hotels	4.0
Residential Rental, Leasing & Licensing for Use	4.0
Commercial Rental, Leasing & Licensing for Use	4.0
Rental, Leasing & Licensing for Use of TPP	4.0
Restaurant and Bars	4.0
Retail Sales	4.0
Retail Sales (Single Item Portion over \$2,500)	1.5
Retail Sales Food for Home Consumption	4.0
MRRA Amount	4.0
Communications	4.0
Transporting	4.0
Utilities	4.0
Use Tax Purchases	4.0
Use Tax Purchases (Single Item Portion over \$2,500)	1.5
Use Tax From Inventory	4.0

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\* *Subject to change.*

*Source: The City.*

The following table shows the audited amounts of the City’s unrestricted transaction privilege (sales) tax collections by industry classification for fiscal years 2012/13 through and including 2015/16 and estimated, actual collections for fiscal year 2016/17.

The City’s retail sales are impacted by Mexican citizens residing in or near the City’s sister city, San Luis, Sonora, Mexico. The buying power of such shoppers is tied to the relative value of the Mexican peso vis-à-vis the U.S. dollar. In the past, devaluations of the peso have reduced these shoppers’ buying power and have impacted the City’s transaction privilege (sales) tax collections.

**TABLE 3**

**TRANSACTION PRIVILEGE (SALES) TAX COLLECTIONS  
BY INDUSTRY CLASSIFICATION (a)  
[add footnote for differences in reporting]**

Industry Classification	Audited				Est. Actual
	2012/13	2013/14	2014/15	2015/16	2016/17 (b)
Retail sales	\$ 3,288,946	\$3,498,869	\$3,719,366	\$3,731,819	4,701,332
Contracting	1,468,887	1,336,456	1,654,681	1,573,668	891,072
Rentals	297,456	324,795	356,150	407,570	333,635
Communication and utilities	959,929	1,053,760	1,044,285	1,174,550	955,265
Restaurant and bars	371,107	363,027	417,278	422,284	456,027
Use	84,108	109,195	121,091	129,156	348,393
All others	61,346	64,415	45,339	69,312	8,845
Total (c)	\$ 6,531,779	\$ 6,750,517	\$ 7,358,190	\$ 7,508,359	7,694,569

- (a) *Due to the City’s participation in the Arizona Department of Revenue (“ADOR”) sales tax collection program and ADOR’s reporting of collections on a cash basis, the totals represented here may differ from the amounts shown for City Sales Tax in TABLE 5.*
- (b) *Figures for fiscal year 2016/17 are unaudited amounts, subject to change upon finalization and audit that should be considered with an abundance of caution.*
- (c) *The sales tax totals in this table do not include nonrecurring sales tax audit revenues resulting from audits performed on behalf of the City.*

*Licenses and Permits; Fines and Forfeitures.* The City imposes and collects a business license tax on the right to engage in business within the City and the right to utilize certain City property, an occupational license tax on certain occupations and various permit fees for engaging in certain activities within the City, for the right to utilize certain City property and for parks and recreation. The City also imposes and collects fines and forfeitures for violation of State laws and City ordinances relating to, among other things, traffic and parking offenses.

**State-Shared Revenues**

From time to time, bills are introduced in, and legislation enacted by, the Arizona Legislature to change the formulas used to allocate the State-Shared Sales Taxes, State-Shared Income Taxes and State-shared vehicle license taxes, including proposed adjustments that would reduce the distribution to cities and towns. The possibility of changes in this respect are more likely to be adverse to the City when the State is experiencing financial difficulties. The City cannot determine whether any such measures will become law or how they might affect the revenues which comprise the State-Shared Revenues. In addition, initiative measures are circulated from time to time seeking to place on the ballot changes in Arizona law which would repeal or modify state sales taxes, state income taxes (a major source of funds for state revenue sharing) and vehicle license taxes. The City cannot predict if any such

initiative measures will ever actually be submitted to the electors, what form the measures might take or the outcome of any such election.

*State Shared Income Taxes.* Under current State law, Arizona cities and towns are preempted from imposing a local income tax. Cities and towns are, however, entitled by statutory formula to receive typically 15.00% of the net revenues of the State's personal and corporate income tax collections for the fiscal year which is two fiscal years prior to the current fiscal year. Distribution of such funds is made monthly based on the proportion of each city's or town's population to the total population of all incorporated cities and towns in the State as determined by the latest census. Reduced economic activity or reductions in the statutory formula share could adversely affect the City's revenues.

*State-Shared Sales Taxes.* Pursuant to statutory formula, cities and towns in Arizona receive a portion of the State-levied transaction privilege (sales) tax. The State transaction privilege (sales) tax is levied against the same categories of business activity as the City's transaction privilege (sales) tax with the exception of food sales, which the State exempts from tax. As TABLE 4 indicates, the rate of taxation by the State varies among the different types of business activities taxed, with the most common effective rate being subject to the hereinafter described distribution share being 5.00% of the amount or volume of business transacted.

Under current State law, the aggregate amount distributed to all Arizona cities and towns is equal to 25.00% of the "distribution share" of revenues attributable to each category of taxable activity. The allocation of each city and town of the revenues available to all cities and towns is based on their population relative to the aggregate population of all cities and towns as shown by the latest decennial or special census. State-levied transaction privilege (sales) taxes are collected by the State and are distributed monthly to cities and towns.

*Recent Legislation Regarding Withholding of State Shared Revenues.* The State Legislature has passed and the Governor of Arizona on March 17, 2016, signed Senate Bill 1487 ("SB1487") (Chapter 35, Laws of Arizona 2016). The measure took effect on August 6, 2016. SB1487 permits the State to withhold from a county, city or town ("Local Jurisdiction") State revenues that would otherwise be shared with Local Jurisdictions.

Under SB1487, at the request of one or more members of the State Legislature, the State Attorney General must investigate any ordinance, regulation, order or other official action ("Local Action") adopted or taken by the governing body of a Local Jurisdiction that the legislator alleges violates State law or the State Constitution. The Attorney General must make a written report within 30 days after receipt of the request. The Local Jurisdiction then has 30 days to resolve the violation. If the Attorney General determines that the violation has not been resolved within 30 days, the Attorney General must notify the State Treasurer and the State Treasurer must withhold payment to the Local Jurisdiction of State-shared excise taxes otherwise due to the Local Jurisdiction pursuant to §42-5029(L), Arizona Revised Statutes and all State-shared income taxes otherwise due to the Local Jurisdiction pursuant to §43-206(F), Arizona Revised Statutes, until such time as the Attorney General determines that the violation has been resolved. However the State Treasurer may not withhold any amount that the Local Jurisdiction certifies to the Attorney General and the State Treasurer as being necessary to make deposits or payments for debt service on bonds or other long-term obligations that were issued or incurred before the Local Action occurred.

The City is not aware of any Local Action by the City taken or currently under consideration that does or if taken would violate State law or the State Constitution. The Purchase Agreement is secured by and payable from, in part, State Shared Revenues. The withholding of State Shared Revenues could have a material negative impact on the payment of principal of and interest on the Obligations during any period of withholding.

**TABLE 4**  
**STATE SALES TAX**  
**TAXABLE ACTIVITIES, TAX RATES AND DISTRIBUTION SHARE**

Taxable Activities	State Transaction Privilege (Sales) Tax Rates			
	State Tax Rate	Distribution Base	0.60% Education Tax Rate (a)	Combined Tax Rate
Transporting	5.000 %	20.00 %	0.60 %	5.600 %
Utilities	5.000	20.00	0.60	5.600
Telecommunications	5.000	20.00	0.60	5.600
Pipeline	5.000	20.00	0.60	5.600
Private car line	5.000	20.00	0.60	5.600
Publication	5.000	20.00	0.60	5.600
Job printing	5.000	20.00	0.60	5.600
Prime contracting	5.000	20.00	0.60	5.600
Owner builder sales	5.000	20.00	0.60	5.600
Amusement	5.000	40.00	0.60	5.600
Restaurant	5.000	40.00	0.60	5.600
Personal property rental	5.000	40.00	0.60	5.600
Retail (excluding food sales)	5.000	40.00	0.60	5.600
Transient lodging	5.500	50.00	N/A	5.500
Mining - non-metal, oil/gas	3.125	32.00	N/A	3.125
Commercial lease	0.000	53.33	N/A	0.000
Severance - metalliferous mining	2.500	80.00	N/A	2.500
Use tax utilities	5.000	20.00	0.60	5.600
Jet fuel use tax	(b)	40.00	N/A	(b)

N/A = Not applicable.

(a) Represents the State transaction privilege (sales) tax rate approved by voters of the State in November 2000 (the "Education Tax") on certain of the categories of business activity at six-tenths of one percent (0.6%). **The Education Tax collections are dedicated exclusively to education and are not distributed to the City or pledged to the payment of debt service with respect to the Obligations.** The effective dates for the Education Tax are June 1, 2001 through June 30, 2021.

(b) Does not include \$0.0305 per gallon State tax on the retail sale of jet fuel, which tax is only levied on the first ten million gallons sold to each purchaser in each calendar year.

Source: Arizona Department of Revenue.

**Historical Excise Tax Revenues and State Shared Revenues**

The following table sets forth the City’s audited Excise Taxes and State Shared Revenues collections for fiscal years 2012/13 through and including 2015/16, estimated, actual collections for fiscal year 2016/17 and budgeted collections for fiscal year 2017/18.

**TABLE 5**  
**HISTORICAL EXCISE TAX REVENUES**  
**AND STATE SHARED REVENUES COLLECTIONS (a)**

Category	Audited				Est. Actual
	2012/13	2013/14	2014/15	2015/16	2016/17 (b)
City Sales Tax (c)	\$ 6,531,779	\$ 6,750,517	\$ 7,324,294	\$ 7,508,359	\$7,694,569
State-shared Sales Taxes	2,104,763	2,812,693	2,550,693	2,659,098	2,889,973
State-shared Income Taxes	2,605,281	3,559,275	3,378,557	3,360,240	3,856,245
Auto-in-lieu	1,015,403	959,549	1,007,212	1,104,206	1,259,413
Licenses and permits	389,295	431,909	483,218	528,034	741,088
Fines and forfeitures	792,994	687,319	611,178	541,336	294,741
	<u>\$13,439,515</u>	<u>\$15,201,262</u>	<u>\$15,355,152</u>	<u>\$15,701,273</u>	<u>\$16,736,029</u>

- (a) *Due to the City’s participation in the ADOR sales tax collection program and ADOR’s reporting of collections on a cash basis, the totals represented here may differ from the amounts shown for City Transaction Privilege (Sales) Tax Collections in TABLE 3.*
- (b) *Figures for fiscal year 2016/17 are unaudited amounts, subject to change upon finalization and audit that should be considered with an abundance of caution.*
- (c) *The City’s retail sales are impacted by Mexican citizens residing in or near the City’s sister city, San Luis, Sonora, Mexico. The buying power of such shoppers is tied to the relative value of the Mexican peso vis-à-vis the U.S. dollar. In the past, devaluations of the peso have reduced these shoppers’ buying power and have impacted the City’s transaction privilege (sales) tax collections.*

**LITIGATION**

No litigation or administrative action or proceeding is pending or threatened against the City which questions the City’s right to adopt or comply with the provisions of the documents under which the Obligations have been authorized 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, as applicable, would impair the City’s ability to comply with all of the requirements of the documents under which the Obligations have been authorized or have a material adverse effect upon the financial condition of the City. Representatives of the City will deliver certificates to that effect at the time of the initial delivery of the Obligations.

## **BOND INSURANCE AND RELATED RISK FACTORS**

The City intends to apply, or has applied, to bond insurance companies (each a “Bond Insurer”) for a municipal bond insurance policy (the “Policy”) for the Obligations to guarantee the scheduled payments of principal of and interest on the Obligations. A commitment to provide the Policy has not been issued, and representatives of the City have yet to determine whether, if such commitment is issued, the Policy will be purchased. If the Policy is purchased, the following are risk factors relating to bond insurance generally.

If the City ultimately determines to obtain the Policy for the Obligations, in the event of default of the payment of principal or interest with respect to any of the Obligations when all or some become due, any owner of the Obligations on which such principal or interest was not paid will have a claim under the Policy for such payments. In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Obligations will remain payable solely from the revenue sources as described under “SECURITY FOR AND SOURCES OF PAYMENT OF THE OBLIGATIONS.” In the event the Bond Insurer becomes obligated to make payments with respect to the Obligations, no assurance will be given that such event will not adversely affect the market price of the Obligations and the marketability (liquidity) of the Obligations.

The long-term ratings on the Obligations will be dependent in part on the financial strength of the Bond Insurer and its claims paying ability. The Bond Insurer’s financial strength and claims paying ability will be predicated upon a number of factors which could change over time. No assurance will be given that the long-term rating of the Bond Insurer and of the rating on the Obligations insured by the Bond Insurer will not be subject to downgrade, and such event could adversely affect the market price of the Obligations and the marketability (liquidity) of the Obligations.

The obligations of the Bond Insurer will be general obligations of the Bond Insurer, and in an event of default by the Bond Insurer, the remedies available may be limited by applicable bankruptcy law, state receivership or other similar laws related to insolvency of insurance companies.

None of the City, the Underwriter, or their respective attorneys, agents or consultants have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer will be given. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay principal of and interest on the Obligations and the claims paying ability of the Bond Insurer, particularly over the life of the investment.

## **LEGAL MATTERS**

Legal matters incident to the execution and delivery of the Obligations and with regard to the tax-exempt status of the interest portion allocable to the Tax-Exempt Obligations are subject to the legal opinion of Special Counsel, whose services have been retained by the City. The signed legal opinion of Greenberg Traurig, LLP, Special Counsel, dated and premised on the law in effect as of the date of the Obligations, will be delivered to the Underwriter at the time of original delivery of the Obligations. 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 Obligations subsequent to the original delivery of the Obligations.

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

The various legal opinions to be delivered concurrently with the delivery of the Obligations express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver 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 rendition of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

## **TAX MATTERS – TAX-EXEMPT OBLIGATIONS**

### **General**

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 Tax-Exempt Obligations in order that the portion of each of the Payments made by the City pursuant to the Purchase Agreement and denominated as and comprising interest pursuant to the Purchase Agreement and received by the Owners of the Tax-Exempt Obligations (the “Tax-Exempt Interest Portion”) be and remain excludable from gross income of the holders thereof for federal income tax purposes. The City’s failure to meet these requirements may cause the Tax-Exempt Interest Portion to be included in gross income for federal income tax purposes retroactively to the date of execution and delivery of the Tax-Exempt Obligations. The City has covenanted to take the actions required by the Code in order to maintain the excludability from gross income for federal income tax purposes of the Tax-Exempt Interest Portion and not to take any actions that would adversely affect that excludability.

In the opinion of Special Counsel, assuming continuing compliance by the City with the tax covenants referred to above and the accuracy of certain representations of the City, under existing statutes, regulations, rulings and court decisions, the Tax-Exempt Interest Portion will be excludable from gross income for federal income tax purposes. The Tax-Exempt Interest Portion will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, the Tax-Exempt Interest Portion will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

Special Counsel is further of the opinion that the Tax-Exempt Interest Portion will be exempt from income taxation under the laws of the State of Arizona so long as the Tax-Exempt Interest Portion is excludable from gross income for federal income tax purposes.

Except as described above, Special Counsel will express no opinion regarding the federal income tax consequences resulting from the receipt or accrual of the Tax-Exempt Interest Portion or the ownership or disposition of the Tax-Exempt Obligations. Prospective purchasers of Tax-Exempt Obligations should be aware that the ownership of Tax-Exempt Obligations 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 Tax-Exempt Obligations or, in the case of a financial institution, that portion of the owner’s interest expense allocable to the Interest Portion, (ii) the reduction of the loss reserve deduction for property and casualty insurance companies by fifteen percent (15%) of certain items, including the Tax-Exempt Interest Portion, (iii) the inclusion of the Tax-Exempt 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 Tax-Exempt 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) recipients of certain Social Security and Railroad Retirement benefits being required to take into account receipts and accrual of the Tax-Exempt Interest Portion in determining whether a portion of such benefits are included in gross income for federal income tax purposes.

From time to time, there are legislative proposals in Congress which, if enacted, could alter or amend one or more of the federal income tax matters referred to herein or adversely affect the market value of the Tax-Exempt Obligations. 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 Tax-Exempt Obligations), executed and delivered prior to enactment.

The discussion of tax matters in this Official Statement applies only in the case of purchasers of the Tax-Exempt Obligations at their original execution and delivery and at the respective prices indicated on the inside front cover page of this Official Statement. It does not address any other tax consequences, such as, among others, the

consequence of the existence of any market discount to subsequent purchasers of the Tax-Exempt Obligations. Purchasers of the Tax-Exempt Obligations should consult their own tax advisors regarding their particular tax status or other tax considerations resulting from ownership of the Tax-Exempt Obligations.

### **Information Reporting and Backup Withholding**

Interest paid on tax-exempt obligations such as the Tax-Exempt Obligations is subject to information reporting to the Internal Revenue Service (the “IRS”) in a manner similar to interest paid on taxable obligations. This reporting requirement does not affect the excludability of the Tax-Exempt 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 Tax-Exempt Obligations, under certain circumstances, to “backup withholding” at the rates set forth in the Code, with respect to payments on the Tax-Exempt Obligations and proceeds from the sale of Tax-Exempt Obligations. Any amount so withheld would be refunded or allowed as a credit against the federal income tax of such owner of Tax-Exempt Obligations. This withholding generally applies if the owner of Tax-Exempt Obligations (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

Tax-Exempt Obligations 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.

### **Original Issue Discount and Premium**

Certain of the Tax-Exempt Obligations, as indicated on the inside front cover page of this Official Statement (“Tax-Exempt Discount Obligations”), may be offered and will be sold to the public at an original issue discount (“Original Issue Discount”). Original Issue Discount is the excess of the stated prepayment price at payment (the principal amount) over the “issue price” of a Tax-Exempt Discount Obligation. The issue price of a Tax-Exempt Discount Obligation is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Tax-Exempt Discount Obligations of the same payment date will be sold pursuant to that offering. For federal income tax purposes, Original Issue Discount accrues to the owner of a Tax-Exempt Discount Obligation over the period to payment date based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of Original Issue Discount that accrues during the period of ownership of a Tax-Exempt Discount Obligation (i) will be 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 the Tax-Exempt Interest Portion, and (ii) will be added to the owner’s tax basis for purposes of determining gain or loss on the payment, prepayment, prior sale or other disposition of that Tax-Exempt Discount Obligation.

Certain of the Tax-Exempt Obligations, as indicated on the inside front cover page of this Official Statement (the “Tax-Exempt Premium Obligations”), may be offered and will be sold to the public at a price in excess of their stated prepayment price at their payment date. That excess constitutes obligation premium. For federal income tax purposes, obligation premium is amortized over the period to the payment date of a Tax-Exempt Premium Obligation, based on the yield to the payment date of that Tax-Exempt Premium Obligation (or, in the case of a Tax-Exempt Premium Obligation callable prior to its stated payment date, 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 Tax-Exempt Premium Obligation), compounded semiannually (or over a shorter permitted compounding interval selected by the owner). No portion of that obligation premium is deductible by the owner of a Tax-Exempt Premium Obligation. For purposes of determining the owner’s gain or loss on the sale, prepayment (including prepayment at its payment date) or other disposition of a Tax-Exempt Premium Obligation, the owner’s tax basis in the Tax-Exempt Premium Obligation is reduced by the amount of obligation 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 Tax-Exempt Premium Obligation for an amount equal to or less than the amount paid by the owner for that Tax-Exempt Premium Obligation.

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

## **CERTAIN UNITED STATES FEDERAL TAX CONSIDERATIONS IN RESPECT OF THE TAXABLE OBLIGATIONS**

### **General**

Special Counsel expresses no opinion regarding the excludability of the portion of each of the Payments made by the City pursuant to the Purchase Agreement and denominated as and comprising interest pursuant to the Purchase Agreement and received by the Owners of the Taxable Obligations (the “Taxable Interest Portion”) from gross income for federal or Arizona income tax purposes.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Taxable Obligations. The discussion below is based upon current provisions of the Code, current final, temporary and proposed Treasury regulations, judicial authority and current administrative rulings and pronouncements of the IRS. There can be no assurance that the IRS will not take a contrary view, and no ruling from the IRS has been, or is expected to be, sought on the issues discussed herein. Legislative, judicial, or administrative changes or interpretations may occur that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may or may not be retroactive and could affect the tax consequences discussed below.

The summary is not a complete analysis or description of all potential U.S. federal tax considerations that may be relevant to, or of the actual tax effect that any of the matters described herein will have on, particular holders of Taxable Obligations and does not address U.S. federal gift or (for U.S. Holders) estate tax consequences or alternative minimum, foreign, state, local or other tax consequences. This summary does not purport to address special classes of taxpayers (such as S corporations, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, real estate investment trusts, grantor trusts, former citizens of the United States, broker-dealers, traders in securities and tax-exempt organizations) that are subject to special treatment under the federal income tax laws, or persons that hold Taxable Obligations that are a hedge against, or that are hedged against, currency risk or that are part of a hedge, straddle, conversion or other integrated transaction, or persons whose functional currency is not the U.S. dollar. This summary also does not address the tax consequences to an owner of Taxable Obligations held through a partnership or other pass-through entity treated as a partnership for U.S. federal income tax purposes. In addition, this discussion is limited to persons purchasing the Taxable Obligations for cash in this offering at their “issue price” within the meaning of Section 1273 of the Code (i.e., the first price at which a substantial amount of Taxable Obligations are sold to the public for cash), and it does not address the tax consequences to holders that purchase the Taxable Obligations after their original execution and delivery. This discussion assumes that the Taxable Obligations will be held as capital assets within the meaning of Section 1221 of the Code.

As used herein, the term “U.S. Holder” means a beneficial owner of Taxable Obligations that is (i) an individual citizen or resident of the United States for U.S. federal income tax purposes, (ii) a corporation (or other entity classified as a corporation for U.S. federal tax purposes) created or organized in or under the laws of the United States or any state thereof or the District of Columbia, (iii) an estate, the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source, or (iv) a trust if (a) a U.S. court can exercise primary supervision over the administration of such trust and one or more United States persons (within the meaning of the Code) has the authority to control all of the substantial decisions of such trust or (b) the trust has made a valid election under applicable Treasury regulations to be treated as a United States person (within the meaning of the Code). As used herein, the term “Non-U.S. Holder” means a beneficial owner of Taxable Obligations that is not a U.S. Holder.

**BECAUSE INDIVIDUAL CIRCUMSTANCES MAY DIFFER, PROSPECTIVE HOLDERS OF THE TAXABLE OBLIGATIONS ARE STRONGLY URGED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT**

TO THEIR PARTICULAR TAX SITUATIONS AND AS TO ANY FEDERAL, FOREIGN, STATE, LOCAL OR OTHER TAX CONSIDERATIONS (INCLUDING ANY POSSIBLE CHANGES IN TAX LAW) AFFECTING THE PURCHASE, HOLDING AND DISPOSITION OF THE TAXABLE OBLIGATIONS.

### **Certain U.S. Federal Income Tax Consequences to U.S. Holders**

This section describes certain U.S. federal income tax consequences to U.S. Holders. Non-U.S. Holders should see the discussion under the heading “Certain Federal Income Tax Consequences to Non-U.S. Holders” below for a discussion of certain tax consequences applicable to them.

*Interest.* The Taxable Interest Portion will generally be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes.

*Disposition of the Taxable Obligations.* Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption (including pursuant to an offer by the City) or other disposition of a Taxable Obligation, will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of Taxable Obligations will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Taxable Obligations which will be taxed in the manner described above under “Interest”) and (ii) the U.S. Holder’s adjusted tax basis in the Taxable Obligations (which generally will equal the amount paid for the Taxable Obligation by such U.S. Holder ). Any such gain or loss generally will be long-term capital gain or loss, provided the Taxable Obligations have been held for more than one year at the time of the disposition. Net long-term capital gain recognized by an individual U.S. Holder generally will be subject to tax at a lower rate than net short-term capital gain or ordinary income. The deductibility of capital losses is subject to limitations.

*Deemed Sale or Exchange of Taxable Obligations.* A U.S. Holder may be deemed to have sold or exchanged a Taxable Obligation if certain changes are made to the rights or remedies of the Owners of the Taxable Obligations or the City, including if the liability of the City in respect of such Taxable Obligation ceases as a result of an election by the City to pay and discharge the indebtedness on such Taxable Obligation by depositing with the Trustee sufficient cash and/or United States government obligations to pay or redeem and discharge the indebtedness on such Taxable Obligation (a “legal defeasance”). In the event of a legal defeasance, a U.S. Holder generally will recognize gain or loss on the deemed exchange of the Taxable Obligations. Ownership of the Taxable Obligations after a deemed sale or exchange as a result of a legal defeasance may have tax consequences different than those described in this “CERTAIN UNITED STATES FEDERAL TAX CONSIDERATIONS IN RESPECT OF THE TAXABLE OBLIGATIONS” section and each U.S. Holder should consult its own tax advisor regarding the consequences to such U.S. Holder of a legal defeasance of the Taxable Obligations.

*Additional Tax on Net Investment Income.* For taxable years beginning after December 31, 2012, an additional 3.8% tax is imposed on the “net investment income” of certain U.S. citizens and residents, and on the undistributed “net investment income” of certain estates and trusts. Among other items, “net investment income” generally includes gross income from interest and certain net gain from the sale, exchange, redemption or other taxable disposition of a debt instrument that produces interest, less certain deductions. U.S. Holders should consult their own tax advisors with respect to this additional tax.

*Information Reporting and Backup Withholding.* The Trustee (the “payor”) must report annually to the IRS and to each U.S. Holder any interest that is payable to the U.S. Holder, subject to certain exceptions. Under Section 3406 of the Code and applicable Treasury Regulations, a non-corporate U.S. Holder of the Taxable Obligation may be subject to backup withholding at a rate of 28% with respect to “reportable payments,” which include interest paid on the Taxable Obligations and the gross proceeds of a sale, exchange, redemption or retirement of the Taxable Obligations. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a TIN to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a “notified payee underreporting” described in Section 3406(c) of the Code or (iv) there has been a failure of the payee to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules do not constitute

an additional tax and will be credited against the U.S. Holder's federal income tax liabilities (and possibly result in a refund), so long as the required information is timely provided to the IRS.

### **Certain U.S. Federal Income and Estate Tax Consequences to Non-U.S. Holders**

This section describes certain U.S. federal income and estate tax consequences to Non-U.S. Holders.

*Interest.* If, under the Code, the Taxable Interest Portion is "effectively connected with the conduct of a trade or business within the United States" by a Non-U.S. Holder, such interest will be subject to U.S. federal income tax in a similar manner as if the Taxable Obligations were held by a U.S. Holder, as described above, and in the case of Non-U.S. Holders that are corporations may be subject to U.S. branch profits tax at a rate of up to 30%, unless an applicable tax treaty provides otherwise. Such Non-U.S. Holder will not be subject to withholding taxes, however, if it provides a properly executed Form W-8ECI to the payor.

The Taxable Interest Portion paid with respect to Taxable Obligations held by other Non-U.S. Holders may be subject to withholding taxes of up to 30% of each payment made to the Non-U.S. Holders unless the "portfolio interest" exemption applies, or, as discussed below, such withholding taxes are eliminated by an applicable treaty. In general, the Taxable Interest Portion paid to a Non-U.S. Holder may qualify for the portfolio interest exemption, and thus will not be subject to U.S. federal withholding tax, if (1) such Non-U.S. Holder is not a "controlled foreign corporation" (within the meaning of Section 957 of the Code) related, directly or indirectly, to the City; (2) the Non-U.S. Holder is not a bank receiving interest on an extension of credit made in the ordinary course of its trade or business described in Section 881(c)(3)(A) of the Code; (3) the interest is not effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States under Section 871(b) or Section 882 of the Code; (4) the Non-U.S. Holder is not an individual who ceased being a U.S. citizen or long-term resident of the United States for tax avoidance purposes to which Section 877 of the Code applies; and (5) either (A) the payor receives from the Non-U.S. Holder who is the beneficial owner of the obligation a statement signed by such person under penalties of perjury, on IRS Form W-8BEN or W-8BEN-E (or successor form), certifying that such owner is not a U.S. Holder and providing such owner's name and address or (B) a securities clearing organization, bank or other financial institution that holds the Taxable Obligations on behalf of such Non-U.S. Holder in the ordinary course of its trade or business certifies to the payor, under penalties of perjury, that such an IRS Form W-8BEN or W-8BEN-E (or a successor form) has been received from the beneficial owner by it and furnishes the payor with a copy thereof. Alternative methods may be applicable for satisfying the certification requirement described above. Foreign trusts and their beneficiaries are subject to special rules, and such persons should consult their own tax advisors regarding the certification requirements.

If a Non-U.S. Holder does not claim, or does not qualify for, the benefit of the portfolio interest exemption, the Non-U.S. Holder may be subject to a 30% withholding tax on Taxable Interest Portion payments. However, the Non-U.S. Holder may be able to claim the benefit of an exemption from or reduced withholding tax rate under an applicable income tax treaty between the Non-U.S. Holder's country of residence and the U.S. Non-U.S. Holders are urged to consult their own tax advisors regarding their eligibility for treaty benefits. The required information for claiming treaty benefits is generally submitted on Form W-8BEN or W-8BEN-E. In addition, a Non-U.S. Holder may under certain circumstances be required to obtain a U.S. taxpayer identification number.

In addition to the rules relating to U.S. taxation of interest, Sections 1471 through 1474 of the Code ("FATCA") generally will impose withholding at a rate of 30% on any payments on the Taxable Obligations made to a foreign financial institution or non-financial foreign entity (including, in some cases, when such foreign financial institution or entity is acting as an intermediary), and on the gross proceeds of the sale or other disposition of the Taxable Obligations, unless (i) in the case of a foreign financial institution, such institution enters into an agreement with the U.S. government to withhold on certain payments, and to collect and provide to the U.S. tax authorities substantial information regarding U.S. account holders of such institution (which includes certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners); (ii) in the case of a non-financial foreign entity, such entity certifies that it does not have any substantial U.S. owners or provides the withholding agent with a certification identifying the direct and indirect substantial U.S. owners of the entity; (iii) the foreign financial institution or non-financial foreign entity complies with any requirements imposed pursuant to an intergovernmental agreement between the U.S. government and the government of a foreign country applicable to such foreign financial institution or non-financial foreign entity; or (iv) the foreign financial institution or non-

financial foreign entity otherwise qualifies for an exemption from these rules. Under certain circumstances, a Non-U.S. Holder might be eligible for refunds or credits of such taxes.

For the purpose of the preceding paragraphs, a “foreign financial institution” generally is a non-U.S. entity that (i) accepts deposits in the ordinary course of a banking or similar business, (ii) as a substantial portion of its business, holds financial assets for the account of others, (iii) is engaged (or holds itself out as being engaged) primarily in the business of investing, reinvesting, or trading in securities, partnership interests or commodities, or interests in securities, partnership interests, commodities or certain other financial instruments, or (iv) is an insurance company that meets certain requirements. However, if an entity is located in a country that has entered into an IGA, the types of entities that are subject to the obligations imposed on foreign financial institutions may differ somewhat from those described in this paragraph.

Under certain Treasury Regulations, debt securities that were outstanding on or before January 1, 2014 are grandfathered from the application of the above withholding rules. For those that are not grandfathered (which would include the Taxable Obligations), withholding will only apply to payments of the Taxable Interest Portion made on or after July 1, 2014 and to payments of gross proceeds from a sale or other disposition of the Taxable Obligations made on or after January 1, 2017. Holders of the Taxable Obligations are encouraged to consult with their own tax advisors regarding the possible implications of this legislation on an investment in the Taxable Obligations.

*Disposition of the Taxable Obligations.* Except to the extent provided by FATCA (discussed in the second preceding paragraph above), a Non-U.S. Holder generally will not be subject to U.S. federal income tax or withholding tax on gain recognized on a sale, exchange, redemption or other disposition of a Taxable Obligation. (Such gain does not include proceeds attributable to accrued but unpaid interest with respect to the Taxable Obligations, which will be treated as interest). A Non-U.S. Holder may, however, be subject to U.S. federal income tax on such gain if: (1) the Non-U.S. Holder is a nonresident alien individual who was present in the United States for 183 days or more in the taxable year of the disposition; or (2) the gain is effectively connected with the conduct of a U.S. trade or business, as provided by applicable U.S. tax rules (in which case the U.S. branch profits tax may also apply), unless an applicable tax treaty provides otherwise.

*Information Reporting and Backup Withholding.* The payor must report annually to the IRS and to each Non-U.S. Holder any interest that is subject to U.S. withholding taxes or that is exempt from U.S. withholding taxes pursuant to an income tax treaty or certain provisions of the Code. Copies of these information returns may also be made available under the provisions of a specific tax treaty or agreement with the tax authorities of the country in which the Non-U.S. Holder resides.

A Non-U.S. Holder generally will not be subject to backup withholding with respect to payments of interest on the Taxable Obligations as long as the Non-U.S. Holder (i) has furnished to the payor a valid IRS Form W-8BEN or W-8BEN-E certifying, under penalties of perjury, its status as a non-U.S. person, (ii) has furnished to the payor other documentation upon which it may rely to treat the payments as made to a non-U.S. person in accordance with Treasury regulations, or (iii) otherwise establishes an exemption. A Non-U.S. Holder may be subject to information reporting and/or backup withholding on a sale of the Taxable Obligations through the United States office of a broker and may be subject to information reporting (but generally not backup withholding) on a sale of the Taxable Obligations through a foreign office of a broker that has certain connections to the United States, unless the Non-U.S. Holder provides the certification described above or otherwise establishes an exemption. Non-U.S. Holders should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedure for obtaining such an exemption.

Amounts withheld under the backup withholding rules may be refunded or credited against the Non-U.S. Holder’s U.S. federal income tax liability, if any, provided that the required information is timely furnished to the IRS.

*U.S. Federal Estate Tax.* A Taxable Obligation held or beneficially owned by an individual who, for estate tax purposes, is not a citizen or resident of the United States at the time of death will not be includable in the decedent’s gross estate for U.S. estate tax purposes, unless (1) at the time of such individual’s death, payments in respect of the Taxable Obligations would have been effectively connected with the conduct by such individual of a U.S. trade or business, or (2) the Non-U.S. Holder was an individual who ceased being a U.S. citizen or long-term resident of the

United States for tax avoidance purposes to which Section 877 of the Code applies. In addition, the U.S. estate tax may not apply with respect to such Taxable Obligation under the terms of an applicable estate tax treaty.

THE FOREGOING SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION ONLY AND DOES NOT DISCUSS ALL ASPECTS OF U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER OF TAXABLE OBLIGATIONS IN LIGHT OF THE HOLDER'S PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO ANY TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAXABLE OBLIGATIONS, INCLUDING THE APPLICATION AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS.

## **ERISA CONSIDERATIONS**

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain fiduciary obligations and prohibited transaction restrictions on employee pension and welfare benefit plans subject to Title I of ERISA ("ERISA Plans"). Section 4975 of the Code imposes essentially the same prohibited transaction restrictions on tax-qualified retirement plans described in Section 401(a) and 403(a) of the Code, which are exempt from tax under Section 501(a) of the Code, other than governmental and church plans as defined herein, and on Individual Retirement Accounts described in Section 408(b) of the Code (collectively, "Tax-Favored Plans"). Certain employee benefit plans such as governmental plans (as defined in Section 3(32) of ERISA), and, if no election has been made under Section 410(d) of the Code, church plans (as defined in Section 3(33) of ERISA), are not subject to ERISA requirements. Additionally, such governmental and non-electing church plans are not subject to the requirements of Section 4975 of the Code. Accordingly, assets of such plans may be invested in the Taxable Obligations without regard to the ERISA and Code considerations described below, subject to the provisions of applicable federal and state law.

In addition to the imposition of general fiduciary obligations, including those of investment prudence and diversification and the requirement that a plan's investment be made in accordance with the documents governing the plan, Section 406 of ERISA and Section 4975 of the Code prohibit a broad range of transactions involving assets of ERISA Plans and Tax-Favored Plans and entities whose underlying assets include plan assets by reason of ERISA Plans or Tax-Favored Plans investing in such entities (collectively, "Benefit Plans") and persons who have certain specified relationships to the Benefit Plans ("Parties In Interest" or "Disqualified Persons"), unless a statutory or administrative exemption is available. The definitions of "Party in Interest" and "Disqualified Person" are expansive. While other entities may be encompassed by these definitions, they include, most notably: (1) fiduciary with respect to a plan; (2) a person providing services to a plan; and (3) an employer or employee organization any of whose employees or members are covered by the plan. Certain Parties in Interest (or Disqualified Persons) that participate in a prohibited transaction may be subject to a penalty (or an excise tax) imposed pursuant to Section 502(i) of ERISA (or Section 4975 of the Code) unless a statutory or administrative exemption is available.

Certain transactions involving the purchase, holding or transfer of the Taxable Obligations might be deemed to constitute prohibited transactions under ERISA and Section 4975 of the Code if assets of the Institution were deemed to be assets of a Benefit Plan. Under final regulations issued by the United States Department of Labor (the "Plan Assets Regulation"), the assets of the Institution would be treated as plan assets of a Benefit Plan for the purposes of ERISA and Section 4975 of the Code only if the Benefit Plan acquires an "equity interest" in the Institution and none of the exceptions contained in the Plan Assets Regulation is applicable. An equity interest is defined under the Plan Assets Regulation as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. Although there can be no assurances in this regard, it appears that the Taxable Obligations should be treated as debt without substantial equity features for purposes of the Plan Assets Regulation.

However without regard to whether the Taxable Obligations are treated as an equity interest for such purposes, though, the acquisition or holding of Taxable Obligations by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if the City or the Trustee, or any of their respective affiliates, is or becomes a Party in Interest or a Disqualified Person with respect to such Benefit Plan.

Most notably, ERISA and the Code generally prohibit the lending of money or other extension of credit between an ERISA Plan or Tax-Favored Plan and a Party in Interest or a Disqualified Person, and the acquisition of any of the Taxable Obligations by a Benefit Plan would involve the lending of money or extension of credit by the Benefit Plan. In such a case, however, certain exemptions from the prohibited transaction rules could be applicable depending on the type and circumstances of the plan fiduciary making the decision to acquire a Taxable Obligation. Included among these exemptions are: Prohibited Transaction Class Exemption (“PTCE”) 96-23, regarding transactions effected by certain “in-house asset managers”; PTCE 90-1, regarding investments by insurance company pooled separate accounts; PTCE 95-60, regarding transactions effected by “insurance company general accounts”; PTCE 91-38, regarding investments by bank collective investment funds; and PTCE 84-14, regarding transactions effected by “qualified professional asset managers.” Further, the statutory exemption in Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provides for an exemption for transactions involving “adequate consideration” with persons who are Parties in Interest or Disqualified Persons solely by reason of their (or their affiliate’s) status as a service provider to the Benefit Plan involved and none of when is a fiduciary with respect to the Benefit Plan assets involved (or an affiliate of such a fiduciary). There can be no assurance that any class or other exemption will be available with respect to any particular transaction involving the Taxable Obligations, or that, if available, the exemption would cover all possible prohibited transactions.

Any ERISA Plan fiduciary considering whether to purchase the Taxable Obligations on behalf of an ERISA Plan should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such in investment and the availability of any of the exemptions referred to above. Persons responsible for investing the assets of Tax-Favored Plans that are not ERISA Plans should seek similar counsel with respect to the prohibited transaction provisions of the Code and the applicability of any similar state or federal law.

## **RATING**

Standard & Poor's Financial Services LLC ("S&P") has assigned the rating of "\_\_\_" to the Obligations. An explanation of the significance of a rating assigned by S&P may be obtained at One California Street, 31<sup>st</sup> Floor, San Francisco, California 94111. Such rating, if assigned, may be revised downward or withdrawn entirely by S&P, if, in its judgment, circumstances so warrant. Any downward revision or withdrawal of such rating may have an adverse effect on the market price or marketability of the Obligations. The City has covenanted in its continuing disclosure undertaking that it will file notice of any formal change in any rating relating to the Obligations. See "CONTINUING DISCLOSURE" and APPENDIX F – "FORM OF CONTINUING DISCLOSURE UNDERTAKING" herein.

## **QUALIFIED TAX-EXEMPT OBLIGATIONS**

The Mayor and Council will designate the Obligations as "qualified tax-exempt obligations" for purposes of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended (the "Code"), and, in that regard, will represent and warrant that they do not anticipate that the aggregate amount of qualified tax-exempt obligations (as defined in Section 265(b)(3)(B) of the Code) which will be issued by or on behalf of the City in calendar year 2017 will exceed \$10,000,000.

## **UNDERWRITING**

The Obligations will be purchased by the Underwriter at an aggregate purchase price of \$\_\_\_\_\_, pursuant to an obligation purchase contract (the "Obligation Purchase Contract") entered into by and between the City and the Underwriter. If the Obligations are sold to produce the yields shown on the inside front cover page hereof, the Underwriter's compensation will be \$\_\_\_\_\_. The Obligation Purchase Contract provides that the Underwriter will purchase all of the Obligations so offered if any are purchased. The Underwriter may offer and sell the Obligations to certain dealers (including dealers depositing bonds into unit investment trusts) and others at prices higher or yields lower than the public offering prices or yields stated on the inside front cover page hereof. The initial offering yields set forth on the inside front cover page may be changed, from time to time, by the Underwriter.

## **POLITICAL CONTRIBUTIONS**

To the best of its knowledge, the Underwriter has not made political contributions, other than those, if any, permitted under applicable securities regulations, to any person who sought a seat on the City Council at its last election or, to the best of their knowledge, any prior election.

## **RELATIONSHIP AMONG PARTIES**

Special Counsel and counsel to the Underwriter have and continue 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 and counsel to the Underwriter have also previously acted as special counsel with respect to other obligations underwritten by the Underwriter and will continue to do so if requested in the future.

## CONTINUING DISCLOSURE

The City, as the obligated person with respect to the Obligations, has covenanted for the benefit of certain owners of the Obligations to provide certain financial information and operating data relating to the City by not later than February 1 in each year commencing February 1, 2018 (the “Annual Reports”), and to provide notices of the occurrence of certain enumerated events (the “Notices of Listed Events”). The Annual Reports, the Notices of Listed Events and any other required filing will be filed by the City with the Municipal Securities Rulemaking Board (the “MSRB”) through the MSRB’s Electronic Municipal Market Access system, each described in APPENDIX F – “FORM OF CONTINUING DISCLOSURE UNDERTAKING.” The form of the undertaking and the specific nature of the information to be contained in the Annual Reports and the Notices of Listed Events is set forth in APPENDIX F. These covenants will be made in order to assist the Underwriter in complying with the 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 Obligations in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Obligations and their market price. Absence of continuing disclosure could adversely affect the Obligations and specifically their market price and transferability.

The City previously entered into continuing disclosure certificates (the "Prior Disclosure Undertakings") with respect to the City's previously issued bonds, which requires 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”). The City failed to file the Prior Annual Reports with respect to fiscal years ended June 30, 2014 through and including June 30, 2016 to the associated nine-digit CUSIP numbers for the City’s Prior Disclosure Undertakings. Such data was completely filed by August \_\_, 2017. The City has implemented procedures to facilitate compliance with the Prior Disclosure Undertakings, the continuing disclosure undertaking related to the Obligations and future similar undertakings in all material respects.

## FINANCIAL STATEMENTS

The financial statements of the City for the period ended June 30, 2016, a copy of which are included in APPENDIX C – “CITY OF SAN LUIS, ARIZONA – AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016” of this Official Statement, includes the City’s financial statements for the fiscal year ended June 30, 2016 that were audited by Heinfeld, Meech & Co., P.C., a certified public accounting firm, to the extent indicated in its report thereon. **The City has not requested the consent of Heinfeld, Meech & Co., P.C. to include its report and Heinfeld, Meech & Co., P.C. has performed no procedures subsequent to rendering its report on the financial statements.** Representatives of the City are not aware of any facts that would make such audited financial statements misleading.

**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 summaries or descriptions of provisions in the Purchase Agreement and the Trust Agreement contained herein and all references to other materials not purporting to be quoted in full are only brief outlines of certain provisions thereof and do not constitute complete statements of such provisions and do not summarize all the pertinent provisions of such documents.

All projections, forecasts and other information in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holders of any of the Obligations.

The attached APPENDICES A through G are integral parts of this Official Statement and must be read together with all of the foregoing statements.

This Official Statement has been prepared at the direction of the City and has been approved by and executed for and on behalf of the City by its authorized representative indicated below.

CITY OF SAN LUIS, ARIZONA

By: \_\_\_\_\_  
Mayor

**CITY OF SAN LUIS, ARIZONA –  
DEMOGRAPHIC AND ECONOMIC INFORMATION**

**General**

The City of San Luis (the “City”) is located in the Southwest corner of Arizona, within Yuma County, Arizona (the “County”) in the United States. San Luis is the border city to San Luis, Sonora, Mexico. The City was established in 1930 as a U.S. Port of entry into Mexico and was incorporated in 1979. The City is approximately 20 miles south of the City of Yuma, Arizona (population of approximately 91,923), the county seat for the County. The following table illustrates population statistics for the City, the County and the State.

**POPULATION STATISTICS**

	<u>City of San Luis</u>	<u>Yuma County</u>	<u>State of Arizona</u>
2016 Estimate (a)	34,663	217,730	6,835,518
2010 Census	25,505	175,045	6,392,017
2000 Census	15,322	160,026	5,130,632
1990 Census	4,212	106,895(a)	3,665,339
1980 Census	1,964	76,205	2,716,546
1970 Census (b)	189	60,827	1,775,399

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(a) Estimate as of July 2016.

(b) La Paz County was included in Yuma County.

Source: Arizona Department of Commerce, Population Statistics Unit and the U.S. Census Bureau.

Policy-making and legislative authority are vested in a governing council (Council) consisting of the Mayor and six Council Members, all elected on a non-partisan basis. The Mayor is elected at-large for a four-year term. Council members are elected for four-year terms, with three members elected every two years. The City Council is responsible for passing ordinances, adopting the budget, appointing committee, commission and board members and appointing the positions of City Manager, City Attorney and Magistrate. The City Manager is responsible for carrying out the policies and ordinances of the City Council as well as overseeing the day-to-day operations of the City.

The City provides police and fire protection, solid waste services, and water and sewer services. City recreational activities are served by two community centers, one swimming pool and five parks.

**Economy**

Below is a list of the major employers in the City.

**MAJOR EMPLOYERS  
City of San Luis, Arizona**

<u>Employer</u>	<u>Description</u>	<u>Approximate Number of Employees</u>
Gadsden Unified School District	Education	870
Arizona State Prison	Government	855
ACT Call Center	Professional service	820
Factor Sales	Professional service	410
Wal-Mart	Retail	330
City of San Luis	Government	240
San Luis Detention Center	Government (operated by private entity)	124

Source: The City.

The unemployment rate averages are reflective of the seasonal employment in the agriculture industry. The following table illustrates unemployment for the City.

**UNEMPLOYMENT RATE AVERAGES  
City of San Luis, Arizona**

<u>Calendar Year</u>	<u>City of San Luis</u>
2017(a)	37.5%
2016	41.9
2015	48.3
2014	49.0
2013	51.9
2012	48.9

(a) *Data through June 2017.*

Source: Arizona Office of Unemployment and Population Statistics, 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.

**TRANSACTION PRIVILEGE (SALES) TAX COLLECTIONS**  
**City of San Luis, Arizona**  
**(\$000s omitted)**

Fiscal Year	Amount
2015/16	\$7,508
2014/15	7,358
2013/14	6,750
2012/13	6,531
2011/12	6,073

---

Source: Arizona Department of Revenue.

## Tourism

Visitor attractions within a 30 minute drive of San Luis include the old Territorial Prison, Fort Yuma and the 16th century Fort Thomas Mission. Laguna, Imperial and Morelos Dams and the California sand dunes are also nearby. Fishing, water skiing and swimming at lakes along the Colorado River attract residents of the area and tourists alike. Located across the border is San Luis, Sonora, Mexico, reputed to be Mexico's fastest-growing city with a population of approximately 200,000. This area has curio shops, night clubs and various other attractions for tourists.

## Transportation

The City is served by Yuma County Area Transit's Yuma-San Luis line, which is operated by the Yuma Metropolitan Planning Organization (YMPO). The bus, or Y CAT, has a total of eight stops in the City and then it continues to Yuma, going through Gadsden and Somerton along the way.

U.S. Route 95 connects the City to Yuma, as does Arizona State Route 195. The San Luis Port of Entry and the San Luis II Port of Entry for trucks and commercial vehicles connect the City to San Luis Río Colorado, Sonora, Mexico.

Several taxi companies operate within the City boundaries. Taxis are operated by individuals under company concession and under authority of the police department.

## Education

The City is served by Gadsden Elementary School District No. 32, Yuma Union High School District No. 70, Harvest Preparatory Academy, Arizona Western College and Arizona State University. The elementary schools are: Gadsden Elementary, Rio Colorado Elementary, Arizona Desert Elementary, Ed Pastor Elementary, Cesar Chavez Elementary, and Desert View Elementary, San Luis Middle School and Southwest Jr. High.

**APPENDIX B**

**CITY OF SAN LUIS, ARIZONA –  
FINANCIAL DATA**

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

**Current Year Statistics (For Fiscal Year 2016/17)  
City of San Luis, Arizona**

General Obligation Bonds Outstanding		None
Excise Tax Revenue Obligations Outstanding and to be Outstanding	\$	41,900,000*(a)
Water Revenue-Secured Obligations Outstanding		6,050,000

\* *Subject to change.*

(a) *Includes the Obligations and is net of the amounts prepaid with respect to the Prior Loan Agreement.*

**STATEMENTS OF BONDED INDEBTEDNESS**

**General Obligation Bonds Outstanding  
City of San Luis, Arizona**

Total General Obligation Bonds Outstanding	<u><u>None</u></u>
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**Excise Tax Revenue Obligations Outstanding and to be Outstanding  
City of San Luis, Arizona**

Issue Series	Original Amount	Final Maturity Date (July 1)	Balance Outstanding	Less: Bonds Being Refunded	Balance Outstanding and to be Outstanding
Taxable Series 2009A	\$10,725,000	2036	\$9,820,000	(\$9,820,000)	\$ -
Tax-Exempt Series 2009A	3,025,000	2038	3,025,000	(3,025,000)	-
2014A	28,795,000	2038	27,295,000		27,295,000
2014B	2,220,000	2019	700,000		<u>700,000</u>
Total Excise Tax Revenue and State Shared Revenue-Secured Obligations Outstanding					\$ 27,995,000
Plus: The Obligations					<u>13,905,000*</u>
Total Net Excise Tax Revenue and State Shared Revenue Obligations Outstanding and to be Outstanding					<u><u>\$ 41,900,000*</u></u>

\* *Subject to change.*

**Total Water Revenue-Secured Obligations Outstanding  
City of San Luis, Arizona**

<u>Issue Series</u>	<u>Original Amount</u>	<u>Final Maturity Date (May 1)</u>	<u>Balance Outstanding</u>
2013	\$6,580,000	2033	<u>\$ 6,050,000</u>
Total Water Revenue-Secured Obligations Outstanding			<u><u>\$6,050,000</u></u>

**RETIREMENT SYSTEM**  
*[PSPRS Settlement to be reviewed]*

**Retirement Benefits**

The City contributes to the retirement plans described below and as referenced in Note 15 in APPENDIX C – “CITY OF SAN LUIS, ARIZONA – AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016.” 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”)** 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. ASRS has reported increases in its unfunded liabilities. The most recent annual reports for the ASRS may be accessed at: <https://www.azasrs.gov/content/annualreports>. The increase in ASRS’ unfunded liabilities is expected to result in increased future annual contribution 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 and the plan’s funded status.

<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>
June 30, 2018	11.34%	0.16%	11.50%	unavailable
June 30, 2017	11.34	0.14	11.48	unavailable
June 30, 2016	11.35	0.12	11.47	77.6%
June 30, 2015	11.48	0.12	11.60	77.5
June 30, 2014	11.30	0.24	11.54	76.9

The City’s employer contributions to ASRS for the four most recent audited years were as follows:

<u>Fiscal year ended</u>	<u>Retirement Fund</u>	<u>Health Benefit Supplement Fund</u>	<u>Long-term Disability Fund</u>
June 30, 2016	\$650,874	\$29,994	\$7,199
June 30, 2015	622,364	33,719	7,097
June 30, 2014	590,728	32,754	13,250
June 30, 2013	543,219	33,254	12,502

**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/sys\\_psprs/AnnualReports/cato\\_annual\\_rpts\\_psprs.htm](http://www.psprs.com/sys_psprs/AnnualReports/cato_annual_rpts_psprs.htm). 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.

For the year ended June 30, 2015, active PSPRS members were required by statute to contribute 11.05% of the members’ annual covered payroll. Under PSPRS for the fiscal year ending June 30, 2016 and each subsequent fiscal year, the employee contribution rate is set by statute and calculated at the lesser of 11.65% or 33.3% of the sum of the member’s contribution rate from the preceding fiscal year, plus the aggregate computed employer contribution rate subject to a minimum employee contribution rate of 7.65%. The employer contribution rates are based upon an actuarial valuation.

It should be noted that the PSPRS Board of Trustees (which also has oversight over The Corrections Officers Retirement Plan as described below) has adopted a three year optional contribution rate phase-in associated with the

Arizona Supreme Court decision which determined that the reduction in the permanent benefit increase enacted by the State Legislature in 2011 (Senate Bill 1609) is unconstitutional. On November 10, 2016, the Arizona Supreme Court upheld another lower court ruling that provisions of Senate Bill 1609 which increased employee contribution rates and curtailed certain benefit increases were also unconstitutional. The decision means that many current employees will receive refunds, while some retirees will receive retroactive benefit increases. The refunds and increased benefits will require increased payments from the City, but the City is unable to predict any resulting contribution rate increases. Certain other aspects of Senate Bill 1609 may continue to be challenged in other pending lawsuits. If the ultimate outcome overturns additional portions of the legislation, there will be further adverse impacts on the funded ratio and the actuarially determined contribution rates.

On February 16, 2016, the Governor of Arizona signed into law pension overhaul legislation which makes several changes to the PSPRS. The changes, which only affect new hires that start after July 1, 2017 (“Tier 3” members), requires new public employees to serve until the age of 55 before being eligible for full pension benefits. The new legislation also caps pension benefits for new hires and splits the cost of pensions for new hires 50/50 between employers and new employees; offers new hires the option of a 100% defined contribution plan and ties cost-of-living adjustments for retirees to the regional Consumer Price Index with a cap of 2% (the “COLA Provision”). As approved by the voters at an election held on May 17, 2016 to amend the State Constitution, the COLA Provision will also apply to current retirees and members of the PSPRS. The contribution rate mechanism for members hired before July 1, 2017 (“Tier 1” and “Tier 2” members) does not change.

In 2016, the Arizona Supreme Court determined that 2011 legislative reforms that increased the Elected Officials' Retirement Plan ("EORP") employee contribution rates and created new conditions to pension benefit increases were unconstitutional. In response to the ruling, EORP employers must return excess contributions to impacted employees; who, under the contested law, had their employee retirement contribution rate increased above the rate that existed prior to the 2011 legislation. A similar suit was then pending questioning similar employee contribution increases to, and possibly decreased benefits from, the PSPRS. Based on the EORP decision, the PSPRS suit was terminated and the parties agreed to abide by the EORP decision. The City's employees are covered by PSPRS. This requires the City to re-pay the higher employee contributions required by the 2011 legislation. Likewise, those who retired after the effective date of the 2011 legislation may be owed retroactive benefit increases calculated under the previous permanent benefit increase (PBI) formula. The City has budgeted for payment of the \$30,212.86 owed to its current and former employees. The retirement system will credit the City's repayment contributions over the next few years to reimburse the City for such repayments and interest at 5% per annum on such amount prior to the EORP decision. The City is awaiting an expected ruling as to the interest rate on the unreimbursed amount that must be paid for the period after the EORP decision until full employee reimbursement.

The table below shows the actuarially determined annual employer contribution rates, funded status and total audited contribution amounts for the plan. It should be noted that the City has elected to contribute at the full actuarially determined rate. Additionally, although the contribution rate for employer and employee is the same for Tier 3 hires, the Tier 3 City contribution rate below also includes a portion of the unfunded liability associated with Tier 1 and Tier 2.

**Police**

<u>Fiscal Year</u> <u>Ended</u>	Tier 1 and 2	Tier 3 City	Tier 3	Pension	Health	Total
	City	City	Employee			
	Contribution	Contribution	Contribution	Funded Status	Funded Status	Contribution
	Rate*	Rate*	Rate*			Amount*
June 30, 2018	33.10%	24.83%	7.31%	unavailable	unavailable	unavailable
June 30, 2017	25.21	N/A	N/A	unavailable	unavailable	unavailable
June 30, 2016	25.18	N/A	N/A	66.9%	127.8%	\$358,159
June 30, 2015	20.66	N/A	N/A	73.3	127.7	301,851
June 30, 2014	19.16	N/A	N/A	70.2	111.6	444,080

\* Sum of the Pension and Health insurance premium benefit contribution rates or contribution amounts.

**Fire**

<u>Fiscal Year</u> <u>Ended</u>	Tier 1 and 2	Tier 3 City	Tier 3	Pension	Health	Total
	City	City	Employee	<u>Funded Status</u>	<u>Funded Status</u>	<u>Contribution</u>
	<u>Contribution</u> <u>Rate*</u>	<u>Contribution</u> <u>Rate*</u>	<u>Contribution</u> <u>Rate*</u>			<u>Amount*</u>
June 30, 2018	20.04%	12.03%	7.31%	unavailable	unavailable	unavailable
June 30, 2017	13.48	N/A	N/A	unavailable	unavailable	unavailable
June 30, 2016	13.20	N/A	N/A	82.3%	119.0%	\$210,645
June 30, 2015	13.18	N/A	N/A	95.1	109.0	204,441
June 30, 2014	13.19	N/A	N/A	96.9	98.2	323,117

\* Sum of the Pension and Health insurance premium benefit contribution rates or contribution amounts.

**Other Post-Employment Retirement Benefits**

Pursuant to Government Accounting Standards Board Statement Number 45, *Accounting by Employers for Post-Employment Benefits Other than Pensions* (“GASB 45”), 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 45 requires that such benefits be recognized as current costs over the working lifetime of employees and, to the extent such costs are not pre-funded, requires the reporting of such costs as a financial statement liability.

The City does not offer any OPEB. The City’s employees, their spouses and survivors may be eligible for certain retiree health care benefits under health care programs provided by the State. Employees on long-term disability and their spouses also may qualify for retiree health care benefits through the State. Such individuals may obtain the health care benefits offered by the State by paying 100% of the applicable health care insurance premium, net of any subsidy provided by the State. The benefits are available to all retired participants in the State’s health care program. The City does not make payments for OPEB costs for such retirees.

**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, 2016, the City reported a liability of \$9,932,851 for its proportionate share of the net pension liability under ASRS. The pension liability was measured as of June 30, 2015. See Note 15 in APPENDIX C – “CITY OF SAN LUIS – AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016” for further discussion of the City and its pension liability including the net pension liability associated with PSPRS and CORP.

*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 general fund revenues, expenditures and changes in fund balance for the audited fiscal years 2011/12 through and including 2015/16 and unaudited figures for fiscal year 2016/17. **THIS INFORMATION IS NOT INTENDED TO INDICATE FUTURE OR CONTINUING TRENDS OF THE FINANCIAL AFFAIRS OF THE CITY.**

### General Fund City of San Luis, Arizona

	Est. Actual	Audited				
	2016/17 (a)	2015/16	2014/15	2013/14	2012/13	2011/12
FUND BALANCE AT BEGINNING OF YEAR	\$ 9,442,248	\$ 10,155,437	\$ 9,224,512	\$ 7,345,372	\$ 5,917,080	\$ 6,520,388
REVENUES						
Taxes	\$ 8,009,828	\$ 7,884,709	\$ 7,885,491	\$ 7,108,962	\$ 6,965,446	\$ 6,566,515
Licenses and permits	733,765	528,034	483,218	431,909	389,295	349,777
Intergovernmental	8,005,601	7,123,544	6,936,337	7,331,517	5,725,447	4,997,430
Charges for services	89,663	76,215	64,625	61,503	54,073	44,513
Fines and forfeitures	294,741	350,648	381,256	430,045	495,188	331,964
Investment earnings	41,698	17,572	8,235	9,772	19,969	8,204
Rents (b)	217,690	336,619	758,835	809,166	671,519	656,722
Other	130,236	334,364	409,998	264,008	309,649	140,909
TOTAL REVENUES	<u>\$ 17,523,222</u>	<u>\$ 16,651,705</u>	<u>\$ 16,927,995</u>	<u>\$ 16,446,882</u>	<u>\$ 14,630,586</u>	<u>\$ 13,096,034</u>
ADJUSTMENTS						
Capital leases			\$ 300,939			
Other financing sources				\$ 37,693		
Transfers in						
Transfers out	(1,454,335)	(1,745,121)	(1,344,202)	(1,696,559)	(1,147,727)	(2,235,770)
TOTAL FUNDS AVAILABLE FOR						
EXPENDITURES	<u>\$ 25,511,135</u>	<u>\$ 25,062,021</u>	<u>\$ 25,109,244</u>	<u>\$ 22,133,388</u>	<u>\$ 19,399,939</u>	<u>\$ 17,380,652</u>
EXPENDITURES						
Current:						
General government	\$ 5,242,195	\$ 4,800,397	\$ 4,291,647	\$ 4,272,356	\$ 4,022,343	\$ 3,910,599
Public safety	6,560,610	6,891,825	6,181,192	5,523,250	5,322,260	5,086,692
Health and welfare	208,171	210,378	205,049	149,367	141,225	165,387
Community development	682,025	659,136	666,658	660,654	541,709	560,865
Culture and recreation	2,231,838	2,099,843	1,863,915	1,721,786	1,540,417	1,391,961
Debt service:						
Interest and fiscal charges	7,422	10,021	10,639	542	7,242	15,744
Principal	82,168	87,685	74,251	25,349	145,935	182,574
Capital outlay	209,297	860,488	1,660,456	555,572	333,436	149,750
TOTAL EXPENDITURES	<u>\$ 15,223,726</u>	<u>\$ 15,619,773</u>	<u>\$ 14,953,807</u>	<u>\$ 12,908,876</u>	<u>\$ 12,054,567</u>	<u>\$ 11,463,572</u>
FUND BALANCE AT END OF YEAR	<u><u>\$ 10,287,409</u></u>	<u><u>\$ 9,442,248</u></u>	<u><u>\$ 10,155,437</u></u>	<u><u>\$ 9,224,512</u></u>	<u><u>\$ 7,345,372</u></u>	<u><u>\$ 5,917,080</u></u>

(a) Figures for fiscal year 2016/17 are unaudited amounts, subject to change upon audit.

(b) The City receives a per capita occupancy fee of \$4.00 per person per night in the San Luis Regional Detention Center, which is shown as "rents" in the General Fund.

**CITY OF SAN LUIS, ARIZONA**

**AUDITED ANNUAL FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The following audited annual financial statements are for the fiscal year ended June 30, 2016. These are the most recent financial statements available for the City. These financial statements are not current and may not represent the current financial condition of the City.

**Such audited financial statements are the most recent available for the City, are not current and, therefore, must be considered with an abundance of caution. The City has not requested the consent of Heinfeld, Meech & Co., P.C., a certified public accounting firm to include its report herein, and Heinfeld, Meech & Co., P.C. has performed no procedures subsequent to rendering its report on the financial statements.**

**SUMMARY OF SELECT PROVISIONS OF PRINCIPAL DOCUMENTS**

**DEFINITIONS OF CERTAIN TERMS**

In addition to the terms defined elsewhere herein, the following terms shall, for all purposes of the Trust Agreement and the Purchase Agreement have the following meanings:

“Annual Debt Service Requirement” means for any Fiscal Year the amount to be paid in such year with respect to the Loan Repayment Agreement (2009), the Purchase Agreement and the Parity Lien Obligations for payment of principal and interest requirements.

“City Representative” means the City Manager, the City Finance Director or any other person authorized by the City Manager or the Mayor and Common Council to act on behalf of the City with respect to the Trust Agreement.

“Debt Service Coverage” means the amount of the revenues from the Excise Taxes and the State Shared Revenues for the most recently completed Fiscal Year divided by the Maximum Annual Debt Service.

“Defeasance Obligations” are those obligations described in the Trust Agreement by such term.

“Depository Trustee” means any bank or trust company, which may include the Trustee, designated by the City, with a combined capital and surplus of least Fifty Million Dollars (\$50,000,000) and subject to supervision or examination by federal or authority.

“Event of Default” means an event of default under the Purchase Agreement as described below under the subheading “THE PURCHASE AGREEMENT – Default; Remedies Upon Default.”

“Maximum Annual Debt Service” means, at the time of computation, the greatest Annual Debt Service Requirement for the then-current or any succeeding Fiscal Year.

“First Purchase Agreement” means the First Excise Tax Purchase Agreement, dated as of November 1, 2014, by and between the City and U.S. Bank National Association.

“Outstanding” refers to Obligations issued in accordance with the Trust Agreement, excluding: (i) Obligations which have been exchanged or replaced, or delivered to the Trustee for credit against a mandatory prepayment installment with respect to principal represented thereby; (ii) Obligations which have been paid; (iii) Obligations which have become due and for the payment of which moneys have been duly provided to the Trustee; and (iv) Obligations for which there have been irrevocably set aside with a Depository Trustee sufficient moneys or obligations permitted by the Trust Agreement and the Purchase Agreement bearing interest at such rates and with such maturities as will provide sufficient funds to pay the principal of and premium, if any, and interest represented by such Obligations, provided, however, that if principal represented by any such Obligations is to be prepaid, the City shall have taken all action necessary to prepay such Obligations and notice of such prepayment shall have been duly mailed in accordance with the proceedings under which such Obligations were issued or irrevocable instructions so to give such notices shall have been given to the Trustee.

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

“Parity Lien Obligation” means any additional obligations which may hereafter be issued or incurred by the City (or any financing conduit acting on behalf of the City) having a lien upon and payable from the revenues from the Excise Taxes and the State Shared Revenues on a parity with, and in compliance with the terms of, the First Purchase Agreement and the Purchase Agreement.

“Payment Fund” means the fund of that name established pursuant to the Trust Agreement.

## THE TRUST AGREEMENT

The following, in addition to the information under the headings “THE OBLIGATIONS” and “SECURITY FOR AND SOURCES OF PAYMENT OF THE OBLIGATIONS,” is a summary of certain provisions of the Trust Agreement to which document, in its entirety, reference is hereby made for a more complete description of its terms.

**Payment Fund.** The Trustee will establish the Payment Fund. The moneys in the Payment Fund will be applied by the Trustee solely to pay principal and interest represented by the Obligations.

**Investments Authorized; Allocation of Earnings.** Upon written order of the City Representative, moneys held by the Trustee will be invested and re-invested in certain investments permitted by the Trust Agreement having the highest yield reasonably obtainable. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments permitted by the Trust Agreement. The Trustee may act as purchaser or agent in the making or disposing of any investment.

Any income, profit or loss on such investments will be deposited in or charged to the respective funds from which such investments were made, and any interest on any deposit of funds will be deposited in the fund from which such deposit was made, except as otherwise provided in the Trust Agreement. At the direction of the City Representative, any such income, profit or interest will be applied if necessary to pay any rebate due with respect to the Obligation pursuant to the Code.

**Appointment of the Trustee.** The City will maintain as the Trustee a bank or trust company with a combined capital and surplus of at least \$50,000,000, and subject to supervision or examination by federal or State authority so long as any of the Obligations are Outstanding. If such bank or trust company publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining authority, then the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

**Liability of the Trustee; Standard of Care.** Except with respect to its authority and power generally and authorization to execute the Trust Agreement, the recitals of facts, covenants and agreements in the Trust Agreement, in the Purchase Agreement and in the Obligations will be taken as statements, covenants and agreements of the City, and the Trustee will assume no responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of the Trust Agreement, the Purchase Agreement or of the Obligations or will incur any responsibility in respect thereof, other than in connection with the duties or obligations in the Trust Agreement or in the Obligations assigned to or imposed upon it. Prior to the occurrence of an Event of Default, or after the timely cure of an Event of Default, the Trustee will perform only such duties as are specifically set forth in the Trust Agreement. After the occurrence of an Event of Default, the Trustee will exercise such of the rights and powers vested in it, and use the same degree of care and skill in such exercise, as a prudent indenture trustee would exercise under the circumstances in the conduct of its own affairs.

**Merger or Consolidation.** 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 shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such company is eligible as described in the Trust Agreement will be the successor to the Trustee without the execution or filing of any paper or further act, anything in the Trust Agreement to the contrary notwithstanding.

**Protection and Rights of the Trustee.** The Trustee will be protected and will incur no liability in acting or proceeding in good faith upon any document which it in good faith believes to be genuine and to have been passed or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions of

the Trust Agreement, and the Trustee will be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such document, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee will not be bound to recognize any person as an Owner of any Obligation or to take any action at the request thereof unless such Obligation will be deposited with the Trustee and satisfactory evidence of the ownership of such Obligation will be furnished to the Trustee. The Trustee may consult with counsel with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it in good faith.

Whenever in the administration of its duties under the Trust Agreement, the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action thereunder, such matter (unless other evidence in respect thereof be specifically prescribed) will be deemed to be conclusively proved and established by the certificate of the City Representative and such certificate will be full warranty to the Trustee for any action taken or suffered under the provisions of the Trust Agreement upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee may acquire and dispose of other bonds or evidence of indebtedness of the City with the same rights it would have if it were not the Trustee; and may act as a depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners of Obligations, whether or not such committee will represent the Owners of the majority in principal amount of the Obligations then Outstanding.

The Trustee will not be answerable for the exercise of any discretion or power under the Trust Agreement or for anything whatever in connection with the funds established thereunder, except only for its own willful misconduct or negligence.

No provision in the Trust Agreement will require the Trustee to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

The Trustee will not be required to take notice or be deemed to have notice of an Event of Default, except for nonpayment of amounts due under the Trust Agreement or the Purchase Agreement, unless the Trustee has actual notice thereof or is specifically notified in writing of such default by the City or the Owners of at least twenty-five percent (25%) in aggregate principal amount of the Obligations then Outstanding.

The City will from time to time, as agreed upon between the City and the Trustee, pay to the Trustee reasonable compensation for its services, including but not limited to advances to, and reasonable fees and expenses of, independent appraisers, accountants, consultants, counsel, agents and attorneys-at-law or other experts employed by it in the exercise and performance of its powers and duties.

**Removal and Resignation of the Trustee.** The Trustee may be removed by the City (if not in default) or by the Owners of a majority in aggregate principal amount of the Obligations Outstanding, at any time upon thirty (30) days' prior written notice.

The Trustee at any time may resign by giving written notice to the City. Such resignation will become effective upon the appointment of a successor Trustee by the City.

**Amendments Permitted.** The Trust Agreement and the rights and obligations of the Owners of the Obligations and the Purchase Agreement may be modified or amended at any time by a supplemental or amending agreement which will become effective upon the written consent of the Owners of a majority in aggregate principal amount of the Obligations then Outstanding, exclusive of certain disqualified Obligations. No such modification or amendment will (1) extend or have the effect of extending the final payment of principal represented by any Obligation or reducing the interest represented thereby or extending the time of payment of interest, or reducing the amount of principal thereof, without the express consent of the Owner of such Obligation, or (2) reduce or have the effect of reducing the percentage of Obligations required for the affirmative vote or written consent to an amendment or modification of the Trust Agreement or the Purchase Agreement, or (3) modify any of the rights or obligations of the Trustee without its written assent thereto.

The Trust Agreement and the rights and obligations of the Owners of the Obligations and the Purchase Agreement may be modified or amended at any time by a supplemental or amending agreement, without the consent of any such Owners, but only (1) 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 Trustee (for its own behalf) or the City, (2) to secure additional revenues or provide additional security or reserves for payment of the Obligations, (3) to comply with the requirements of any state or federal securities laws or the Trust Indenture Act of 1939, as from time to time amended, if required by law or regulation lawfully issued thereunder, (4) to provide for the appointment of a successor trustee pursuant to the terms of the Trust Agreement, (5) to preserve the exclusion of interest represented by the Tax-Exempt Obligations from gross income for purposes of federal or State income taxes and to preserve the power of the City to continue to issue bonds or other obligations the interest on which is likewise exempt from federal and State income taxes, (6) to cure, correct or supplement any ambiguous or defective provision in the Trust Agreement or the Purchase Agreement, (7) with respect to rating matters, or (8) in regard to questions arising under the Trust Agreement or under the Purchase Agreement, as the parties to the Trust Agreement or the Purchase Agreement may deem necessary or desirable and which will not adversely affect the interests of the Owners of the Obligations. Any such supplemental or amending agreement will become effective upon execution and delivery by the parties to the Trust Agreement or the Purchase Agreement.

**Procedure for Amendment With Written Consent of Obligation Owners.** A copy of the proposed supplemental or amending agreement, together with a consent request, must be mailed to each Owner of an Obligation, but failure to mail copies of such supplemental or amending agreement and request does not affect the validity of the supplemental or amending agreement when assented to by a majority in principal amount of the Obligations then Outstanding (exclusive of Obligations then disqualified). The supplemental or amending agreement will not become effective until the required Owners have consented and the Trustee has mailed notice to the Owners of the Obligations stating in substance that such supplemental or amending agreement has been consented to by the Owners of the required percentage of Obligations and will become effective (but failure to mail copies of said notice shall not affect the validity of such supplemental or amending agreement or consents thereto).

**Disqualified Obligations.** Obligations 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 Obligations held in any pension or retirement fund) will not be deemed Outstanding for the purpose of any vote, consent, waiver or other action or any calculation of Outstanding Obligations provided for in the Trust Agreement, and will not be entitled to vote upon, consent to, or take any other action provided therein.

**No Liability of the City for the Trustee Performance.** The City will have no obligation or liability to any of the other parties or to the Owners with respect to the performance by the Trustee of any duty imposed upon it under the Trust Agreement

**Remedies Upon Default; No Acceleration.** If an Event of Default shall happen, then and in each and every such case during the continuance of such Event of Default, the Trustee may, or upon request of the Owners of a majority in aggregate principal amount of the Obligations then Outstanding and receiving indemnity satisfactory to it must, exercise one or more of the remedies granted pursuant to the Purchase Agreement; provided, however, that notwithstanding anything in the Trust Agreement or in the Purchase Agreement to the contrary, there will be no right under any circumstances to accelerate the payment dates of the Obligations or otherwise to declare any of the Payments not then past due or in default to be immediately due and payable.

**Application of Funds.** All moneys received by the Trustee pursuant to any right given or action taken pursuant to the provisions of the Trust Agreement or the Purchase Agreement shall be applied by the Trustee in the order following:

**First,** to the payment of the fees, costs and expenses of the Trustee and then of the Obligation Owners in declaring such Event of Default, including reasonable compensation to the Trustee's or the Owners' agents, attorneys and counsel and

**Second,** to the payment of the whole amount then owing and unpaid with respect to the Obligations, and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid with respect to the

Obligations, 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.

**Institution of Legal Proceedings.** If one or more Events of Default shall happen and be continuing, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the Obligations then Outstanding, and upon being indemnified to its satisfaction therefor, must, proceed to protect or enforce its rights or the rights of the Owners of Obligations by a suit in equity or action at law for the specific performance of any covenant or agreement contained in the Trust Agreement.

**Power of the Trustee to Control Proceedings.** In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, it will have full power, in the exercise of its discretion for the best interests of the Owners of the Obligations, with respect to the continuance or disposal of such action; provided, however, that the Trustee will not discontinue or otherwise dispose of any litigation, without the consent of the Owners of a majority in aggregate principal amount of the Obligations Outstanding.

**Limitation on Obligation Owners' Right to Sue.** The Owners will not have the right to institute any action, for any remedy, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of at least a majority in aggregate principal amount of all the Obligations then Outstanding shall have made written request upon the Trustee to exercise the powers granted or to institute such action, in its own name; (c) said Owners shall have tendered to the Trustee reasonable indemnity; and (d) the Trustee shall have not complied with such request for a period of sixty (60) days.

No one or more Owners of Obligations will have any right in any manner whatever by their action to enforce any right under the Trust Agreement, except in the manner therein provided, and all proceedings with respect to an Event of Default will be pursued in the manner therein provided and for the equal benefit of all Owners of the Outstanding Obligations.

The right of any Owner of any Obligation to receive payment of said Owner's proportionate interest in the Payments as the same become due, or to institute suit for the enforcement of such payment, will not be impaired or affected without the consent of such Owner.

**Defeasance.** If and when any Outstanding Obligation shall be paid and discharged in any one or more of the following ways:

(a) by paying or causing to be paid the principal and interest represented by such Obligations Outstanding, as and when the same become due and payable;

(b) by depositing with a Depository Trustee, in trust for such purpose, at or before the payment date therefor, money which, together with the amounts then on deposit in the Payment Fund is fully sufficient to pay or cause to be paid all principal and interest represented by such Obligations Outstanding; or

(c) by depositing with a Depository Trustee, in trust for such purpose, Defeasance Obligations which are non-callable in such amount as shall be certified to the Trustee and the City by a national firm of certified public accountants acceptable to both the Trustee and the City, as being fully sufficient, together with the interest to accrue thereon and moneys then on deposit in the Payment Fund together with the interest to accrue thereon, to pay and discharge or cause to be paid and discharged all principal and interest represented by such Obligations at their respective payment or prepayment dates;

notwithstanding that any Obligations shall not have been surrendered for payment, all obligations of the Trustee and the City with respect to all Outstanding Obligations will cease and terminate, except only the obligation of the Trustee to pay or cause to be paid, from funds deposited pursuant to paragraphs (b) or (c) above and paid to the Trustee by the Depository Trustee, to the Owners of the Obligations not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to paragraphs (b) or (c), the Obligations will continue to represent direct and proportionate interests of the Owners thereof in such funds.

If any Obligation or portion thereof will not be payable within sixty (60) days of the deposit referred to in paragraphs (b) or (c) above, the Trustee shall give notice of such deposit by first class mail to the Owners.

## **THE PURCHASE AGREEMENT**

The following, in addition to the information under the headings “INTRODUCTORY STATEMENT” and “SECURITY FOR AND SOURCES OF PAYMENT OF THE OBLIGATIONS,” is a summary of certain provisions of the Purchase Agreement to which document, in its entirety, reference is hereby made for a more complete description of its terms.

**Purchase/Sale.** Pursuant to the Purchase Agreement, the City will sell and convey any interest it has in the Prior Project to the Trustee, and the Trustee, in turn, will sell and convey to the City, and the City will buy and accept from the Trustee, any interest the Trustee has in the Prior Project.

**Payments.** The obligation of the City to make the Payments will be limited to amounts from Excise Taxes and State Shared Revenues.

The obligations of the City to make the Payments from the sources described and to perform and observe the other agreements contained in the Purchase Agreement will be absolute and unconditional and will not be subject to any defense or any right of set-off, abatement, counterclaim, or recoupment arising out of any breach of the Trustee of any obligation to the City or otherwise, or out of indebtedness or liability at any time owing to the City by the Trustee. Until such time as all of the Payments shall have been fully paid or provided for, the City (i) will not suspend or discontinue the Payments, (ii) will perform and observe all other agreements contained in the Purchase Agreement, and (iii) will not terminate the Purchase Agreement for any cause.

**Providing for Payment.** The City may provide for the payment of any of the Payments in any one or more of the following ways:

- (a) by paying such Payment as and when the same becomes due and payable at its scheduled due date or on a date on which it can be prepaid;
- (b) by depositing with a Depository Trustee, in trust for such purposes, money which, together with the amounts then on deposit with the Trustee and available for such Payment is fully sufficient to make, or cause to be made, such Payment at its scheduled due date or on a date on which it can be prepaid; or
- (c) by depositing with a Depository Trustee, in trust for such purpose, any Defeasance Obligations which are non-callable, in such amount as shall be certified by a national firm of certified public accountants acceptable to the Trustee and the City as being fully sufficient, together with the interest to accrue thereon and moneys then on deposit with the Trustee and available for such Payment, to make, or cause to be made, such Payment at its scheduled due date or on a date on which it can be prepaid.

Upon any partial prepayment of a Payment, each installment of interest which shall thereafter be payable as a part of the subsequent Payments will be reduced, taking into account the interest rate or rates on the Obligations remaining outstanding after the partial prepayment, so that the interest remaining payable as a part of the subsequent Payments will be sufficient to pay the interest on such outstanding Obligations when due.

### **Default; Remedies Upon Default.**

(i) Upon (A) the nonpayment of the whole or any part of certain amounts due pursuant to the Purchase Agreement at the time when the same are to be paid as provided in the Purchase Agreement or the Trust Agreement, (B) the violation by the City of any other covenant or provision of the Purchase Agreement or the Trust Agreement, (C) the occurrence of an event of default with respect to the Loan Repayment Agreement (2009) or the

other of the Parity Lien Obligations, or (D) the insolvency or bankruptcy of the City as the same may be defined under any law of the United States of America or the State of Arizona, or any voluntary or involuntary action of the City or others to take advantage of, or to impose, as the case may be, any law for the relief of debtors or creditors, including a petition for reorganization, and

(ii) if such default has not been cured (A) in the case of nonpayment of such amounts as required under the Purchase Agreement or the Trust Agreement on the due date, or the nonpayment of principal and interest due with respect to the First Purchase Agreement or the other of the Parity Lien Obligations on their due dates; (B) in the case of the breach of any other covenant or provision of the Trust Agreement or the Purchase Agreement not cured within sixty (60) days after notice in writing from the Trustee specifying such default; and (C) in the case of any default under the First Purchase Agreement or the other of the Parity Lien Obligations after any notice and passage of time provided for under the proceedings under which such obligations were issued then,

(iii) subject to the limitations of the Trust Agreement and the Continuing Disclosure Undertaking, the Trustee may take whatever action at law or in equity, including the remedy of specific performance, may appear necessary or desirable to collect the Payments and any other amounts payable by the City under the Trust Agreement or the Purchase Agreement then due (but not the Payments and such other amounts accruing), or to enforce performance and observance of any pledge, obligation, agreement, or covenant of the City under the Trust Agreement or the Purchase Agreement and with respect to the revenues from the Excise Taxes and, the State-Shared Revenues, without notice and without giving any bond or surety to the City or anyone claiming under the City, have a receiver appointed of the amounts of the revenues from the Excise Taxes and, the State-Shared Revenues which are pledged to the payment of amounts due thereunder, with such powers as the court making such appointment shall confer (and the City will irrevocably consent to such appointment); provided, however, that under no circumstances may the Payments be accelerated.

The obligations of the City under the Purchase Agreement, including, without limitation, its obligation to pay the Payments, will survive any action brought, and the City will continue to pay the Payments and perform all other obligations provided in the Purchase Agreement; provided, however, that the City will be credited with any amount received by the Trustee pursuant to actions brought under the provisions of the Purchase Agreement summarized under this subheading.

FORM OF APPROVING LEGAL OPINION

DRAFT

[LETTERHEAD OF GREENBERG TRAUIG, LLP]

[Closing Date]

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Re: Pledged Excise Tax Revenue Refunding Obligations, Tax-Exempt Series 2017A and Taxable Series 2017B Representing Proportionate Interests of the Owners Thereof in Purchase Price Payments to be Made by City of San Luis, Arizona, to \_\_\_\_\_, as Trustee

We have examined the transcript of proceedings (the "Transcript") relating to the execution and delivery by \_\_\_\_\_ (the "Trustee") of the Pledged Excise Tax Revenue Refunding Obligations, Tax-Exempt Series 2017A (the "Tax-Exempt Obligations") and the Pledged Excise Tax Revenue Refunding Obligations, Taxable Series 2017B (the "Taxable Obligations") and, together with the Tax-Exempt Obligations, the "Obligations"), pursuant to a Second Excise Tax Trust Agreement, dated as of \_\_\_\_\_ 1, 2017\* (the "Trust Agreement"), between the Trustee and City of San Luis, Arizona (the "City"). Each of the Obligations is an undivided, participating, proportionate interest in certain payments to be made by the City pursuant to a Second Excise Tax Purchase Agreement, dated as of \_\_\_\_\_ 1, 2017\* (the "Purchase Agreement"), between the Trustee as seller and the City as buyer to refinance certain projects for the City. 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 Obligations, the Trust Agreement and the Purchase Agreement are legal, valid, binding and enforceable in accordance with their respective terms, except that the binding effect and enforceability thereof and the rights thereunder are subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting the rights of creditors generally; except to the extent that the enforceability thereof and the rights thereunder may be limited by the application of general principles of equity and,

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\* Subject to change.

as to the Trust Agreement, except to the extent that the enforceability of the indemnification provisions thereof may be affected by applicable securities laws.

2. The obligations of the City pursuant to the Purchase Agreement with respect to payment of principal and interest with respect to the Obligations constitute a valid and binding special obligation of the City payable solely from, and secured solely by, the revenues and other moneys pledged and assigned pursuant to the Trust Agreement to secure such payments. Those revenues and other moneys include payments required to be made by the City pursuant to the Purchase Agreement, and the obligation of the City to make those payments is secured by a limited pledge of revenues from the “Excise Taxes” and the “State Shared Revenues” as described in, and provided by, the Purchase Agreement. Such payments are not secured by an obligation or pledge of any moneys raised by taxation other than the specified taxes; the Obligations do not represent or constitute a debt or pledge of the general credit of the City and the Purchase Agreement, including the obligation of the City to make the payments required thereunder, does not represent or constitute a debt or pledge of the general credit of the City.

3. (a) Subject to the assumption stated in the last sentence of this paragraph, the portion of each payment made by the City pursuant to the Purchase Agreement, denominated and comprising interest with respect to the Tax-Exempt Obligations and received by the beneficial owners of the Tax-Exempt Obligations (the “Interest Portion”), is excludable from the gross income of the beneficial owners thereof for federal income tax purposes. Furthermore, the Interest Portion is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however the Interest Portion is taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax imposed on certain corporations. (We express no opinion regarding other federal tax consequences resulting from the receipt or accrual of the interest on, or ownership or disposition of, the Obligations.) 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 Tax-Exempt Obligations 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 issuance. The City has covenanted in the Purchase 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 rendering the opinion expressed in this paragraph, we have assumed continuing compliance with the tax covenants referred to hereinabove that must be met after the execution and delivery of the Tax-Exempt Obligations in order that the Interest Portion not be included in gross income for federal tax purposes.

(b) Assuming the Interest Portion is so excludable for federal income tax purposes, the Interest Portion is exempt from income taxation under the laws of the State of Arizona. (We express no opinion regarding other State tax consequences resulting from the receipt or accrual of the interest on, or ownership or disposition of, the Obligations.)

Our 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,

FORM OF CONTINUING DISCLOSURE UNDERTAKING

DRAFT

CITY OF SAN LUIS, ARIZONA

**\$6,985,000\***  
**PLEDGED EXCISE TAX REVENUE**  
**REFUNDING OBLIGATIONS,**  
**TAX-EXEMPT SERIES 2017A**

**\$6,920,000\***  
**PLEDGED EXCISE TAX REVENUE**  
**REFUNDING OBLIGATIONS,**  
**TAXABLE SERIES 2017B**

[Closing Date]  
 (CUSIP Base No.: 79854W)

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CONTINUING DISCLOSURE UNDERTAKING

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This Continuing Disclosure Undertaking (this “*Undertaking*”) is executed and delivered by the City of San Luis, Arizona (the “*City*”), in connection with the execution and delivery of \$13,905,000\* aggregate principal amount of Pledged Excise Tax Revenue Refunding Obligations, Tax-Exempt Series 2017A and Taxable Series 2017B, Representing Proportionate Interests of the Owners Thereof in Purchase Price Payments to be Made by the City to \_\_\_\_\_, as trustee (together, the “*Obligations*”). The Obligations are being executed and delivered pursuant to a Second Excise Tax Trust Agreement, dated as of \_\_\_\_\_ 1, 2017\* (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 *Exhibit I*.

*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>.

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

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\* *Subject to change.*

*Final Official Statement* means the Final Official Statement relating to the Obligations, dated \_\_\_\_\_, 2017.

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

*Listed Event* means the occurrence of 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.

*Purchase Agreement* means the Second Excise Tax Purchase Agreement, dated as of \_\_\_\_\_ 1, 2017, by and between the City and the Trustee, in its separate capacity as "Seller."

*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 Number/Final Official Statement.* The CUSIP Numbers of the Obligations are as follows:

CUSIP No.

Maturity Date

4. *Annual Financial Information Disclosure.* Subject to Section 8 of this Undertaking, 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, the City shall disseminate in a timely manner, but in not more than ten (10) business days, its Listed Events Disclosure through EMMA. 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 Purchase 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.

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.

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 Purchase 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.

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

Dated: [Closing Date]

CITY OF SAN LUIS, ARIZONA

By.....  
Mayor

ATTEST:

.....  
City Clerk

ACKNOWLEDGED FOR PURPOSES OF  
SECTION 11(c) OF THE PURCHASE  
AGREEMENT BY U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE

By .....

Title: .....

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

“Annual Financial Information” means (presented, either separately or in the audited financial statements) financial information and operating data of the type contained in the Final Official Statement in TABLE 3 - “TRANSACTION PRIVILEGE (SALES) TAX COLLECTIONS BY INDUSTRY CLASSIFICATION” and TABLE 5 - “HISTORICAL EXCISE TAX REVENUES AND STATE SHARED REVENUES COLLECTIONS” (actual results for most recently completed fiscal year only).

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 City shall clearly identify each such item of information included by reference.

Annual Financial Information exclusive of Audited Financial Statements will be provided through EMMA by February 1 of each year, commencing February 1, 2018. Audited Financial Statements as described below should be filed at the same time as the Annual Financial Information. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included, to be followed up by Audited Financial Statements when available.

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.

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 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 conditional trustee or the change of name of a trustee, if material.

## BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Obligations. The Obligations 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 Obligation certificate will be issued for each payment of each series of the Obligations, each in the aggregate principal amount of such payment, and will be deposited with DTC.

DTC, the world’s largest securities 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” and together with the Direct Participants, the “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](http://www.dtcc.com).

Purchases of the Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Obligations on DTC’s records. The ownership interest of each actual purchaser of each Obligation (“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 Obligations 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 Securities, except in the event that use of the book-entry system for the Obligations is discontinued.

To facilitate subsequent transfers, all Obligations 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 Obligations with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Obligations; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities 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 Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Obligations, such as redemptions, tenders, defaults, and proposed amendments

to the Obligation documents. For example, Beneficial Owners of Obligations may wish to ascertain that the nominee holding the Obligations 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.

Redemption notices shall be sent to DTC. If less than all of the Obligations within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Obligations unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City 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 Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Obligations will be made 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 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 redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or 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.

A Beneficial Owner shall give notice to elect to have its Obligations purchased or tendered, through its Participant, to a remarketing agent, and shall effect delivery of such Obligations by causing the Direct Participant to transfer the Participant's interest in the Obligations, on DTC's records, to a remarketing agent. The requirement for physical delivery of Obligations in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Obligations are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Obligations to a remarketing agent's DTC account.

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

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 none of the City, the Underwriter or their agents and counsel take responsibility for the accuracy thereof.