Town of Oro Valley

$17,975,000

Excise Tax Revenue Obligations, Taxable Series 2021

In June 2021, Stifel served as Financial Advisor for the Town of Oro Valley's Excise Tax Revenue Obligations, Taxable Series 2021. The Town has long been focused on addressing its unfunded pension liability, contributing an additional $500,000 from its budget year-over-year to help pay down the legacy Tier 1 and 2 pension debt. With the prevailing historically low rate environment, the Town determined that an opportunistic issuance of taxable bonds to supplement its General Fund cash contributions could bolster the plan to 100% funded. Stifel was honored to be a partner to the Town for this initiative.

Public Policy Objectives

The Town's objectives were:

1. To replace the Town's unfunded liabilities, which were accruing at a 7.30% actuarial assumed rate, with:
   - $10 million from General Fund reserves, given the Town's exceptionally strong balances which exceed policy goals; and
   - $17.6 million from debt obligations at an **all-in borrowing cost of 2.39%**
2. To mitigate inherent pension risks, to the best of its ability, by:
   - Continuing to budget for pension-related contributions equal to 41.62% of Tier 1 & 2 payroll (2019 Contribution Rate)
   - Continuing to make voluntary additional contributions to PSPRS in an effort to maintain at least, or as near as possible, a 100% funded ratio assuming the fund earns average annual investment returns of 5.30% instead of its assumed 7.30%

Stifel's Strategy for the Town of Oro Valley

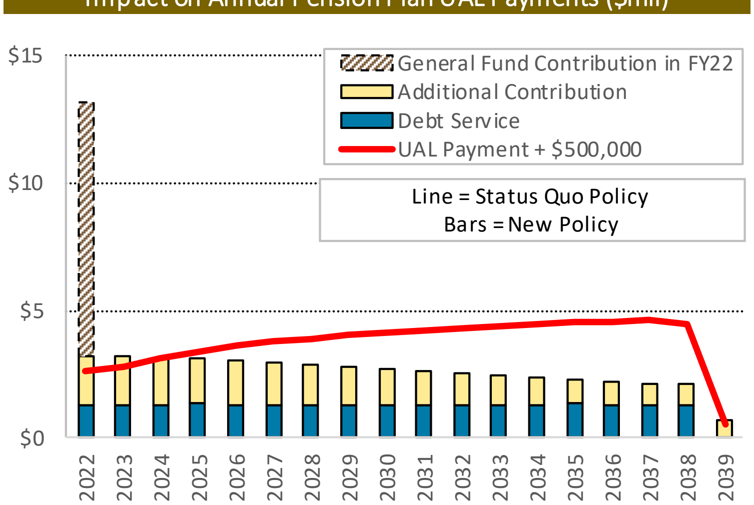
1. Highlighting the prudence of the Town's management approach to this transaction to rating agency. Stifel assisted the Town in putting together a ratings presentation that not only conveyed the Town's financial and economic strengths, but also the wisdom of Town management and strength of the structure, resulting in a AA+ S&P rating with a stable outlook.
2. Helping prune and develop a solid structure that would both appeal to a wide array of investors and meet the goals of the Town. Under our guidance, the Town's structure provided investors with 6.9x maximum annual debt service coverage. This resulted in a successful sale that was 2.2x oversubscribed.
3. Serving as a resource to both the issuer and the underwriter for thorough and consistent analysis throughout the transaction to ensure smooth execution.

Based on current PSPRS assumptions, the combination of a $10 mil cash contribution and a $17.6 mil debt financing will allow the Town to generate about $17 mil in present value savings over the Town's stated goal timeline of 2038 (61.48% relative to the PSPRS liability, and 96.39% relative to taxable debt).[1]

"Given the strength of current and historical maximum annual debt service coverage, the 2.0x additional bonds test, and the town's reliance on pledged revenue to fund operations, we expect coverage metrics will remain at a level we consider extraordinarily strong."
– S&P Global Ratings

"We consider the town's finances well managed, and we note as additional credit positives the town's high available fund balances and liquidity, and manageable overall debt burden."
– S&P Global Ratings

Impact on Annual Pension Plan UAL Payments ($mil)



Summary Statistics

Dated Date	7/06/2021
Final Maturity Date	7/01/2038
All-In TIC	**2.39%**
Average Life	9.404 years
Par Amount	$17,975,000
Pension Fund Deposit	**$17,612,366**
General Fund Contribution	**$10,000,000**
Total UAL Funded	*$27,612,366*
Expected Actuarial Funding Status after Obligations and General Fund Contribution	*~100.00%*

Use of Proceeds	Finance the evidence of payment executed and delivered by PSPRS as a result of the Town paying a portion of the UAL associated with the Town's Tier 1 and 2 participants
Security	First Lien on Excise Tax Revenues

1. *Savings calculated relative to the 7.30% actuarial rate and projected PSPRS UAAL payments as of June 30, 2020. The Town's conservative structure assumes supplemental contributions to manage ongoing risks at an assumed earnings rate of 5.30%.*

General and Factual/ Pension Risk Disclosure

General and Factual Disclosure

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Stifel is providing information and is declaring to the proposed municipal issuer and any obligated person that it has done so within the regulatory framework of MSRB Rule G-23 as an underwriter (by definition also including the role of placement agent) and not as a financial advisor, as defined therein, with respect to the referenced proposed issuance of municipal securities. The primary role of Stifel, as an underwriter, is to purchase securities for resale to investors in an arm's- length commercial transaction. Serving in the role of underwriter, Stifel has financial and other interests that differ from those of the issuer. The issuer should consult with its own financial and/or municipal, legal, accounting, tax and other advisors, as applicable, to the extent it deems appropriate.

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Pension Risk Disclosure

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

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

Assumption: The investment yield on the POB proceeds once deposited in the pension fund will equal or exceed the yield on the POBs. Risk: If the investment yield on the POB proceeds is less than the yield on the POBs, and the decline is not offset by positive changes in other assumptions, the issuance of the POBs may actually increase the unfunded actuarial liability.

Assumption: Payroll increases during the term of the POBs will be as anticipated when the unfunded actuarial liability was estimated at POB issuance. Risk: If payroll increases during the term of the POBs exceed expectations, and the increases are not offset by positive changes in other assumptions, the POB proceeds will not suffice to cover the unfunded actuarial liability.

Assumption: Cost of living adjustments ("COLAs") will be as anticipated when the unfunded actuarial liability was estimated at POB issuance. Risk: If COLAs exceed expectations during the term of the POBs, and the increases are not offset by positive changes in other assumptions, the POB proceeds will not suffice to cover the unfunded actuarial liability.

Assumption: Various assumptions used in calculating the unfunded actuarial liability -- such as mortality rates, early retirement incentives, types of payrolls covered by the pension fund -- will be as anticipated at the time of POB issuance. Risk: If there are reductions in mortality rates, increases in early retirement incentives, expansions of the payrolls covered by the pension plan during the term of the POBs, and these changes are not offset by positive changes to other assumptions, the POB proceeds will not suffice to cover the unfunded actuarial liability.

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