HELLSGATE FIRE DISTRICT

BOARD OF DIRECTORS

NOTICE OF STUDY SESSION MEETING
November 2nd, 2021

Pursuant to ARS §38-431.02, notice is hereby given to members of the HFD Governing Board and to the public that the Governing Board will meet in Public Session on Tuesday, November 2nd, 2021 at 4:45 PM in the Training Room of Station 21, 80 S. Walters Lane, Star Valley, AZ 85541. Members of the Fire Board and legal counsel may attend either in person or by telephone conference call.

***NOTICE: Due to Coronavirus/COVID-19, Arizona Executive Order #2021-06, and CDC recommendations on social distancing, public will be limited to social distancing requirements. Members of the public may participate through zoom. Meeting ID* 864 986 5085.**
Link: https://zoom.us/j/8649865085
If you have questions for the board you may also submit them to info@hellsgatefire.org.

~STUDY SESSION~

1. **CALL TO ORDER**
2. **ROLL CALL OF BOARD MEMBERS**
3. **PLEDGE OF ALLEGIANCE**
4. **ARIZONA PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM – Clark Partridge**
   a) **Management from PSPRS will address the board**
5. **PRESENTATION UNFUNDED LIABILITY FINANCING/BOND – Stifel**
   a) **Presentation provided by Stifel to discuss changes to A.R.S. § 48-805 b. 3. allowing the district to participate in bonding for unfunded liability amounts owed to PSPRS.**
6. **ADJOURNMENT**

Angie Lecher, On behalf and with Permission of Board Clerk, Nick Fitch
Nick Fitch, Clerk of the Board
HFD Training Room is accessible to the handicapped. In compliance with Americans with Disabilities Act, those with special needs, such as large print or other reasonable accommodations, may request them by calling 928-474-3835.
Posted by: Angie Lecher Date: 11/1/2021 Time: 3:00 PM

PSPRS

HELLSGATE FIRE DISTRICT
NOVEMBER 2021

SERVING THOSE WHO SERVE OTHERS

ARIZONA PENSION PLANS

- Arizona State Retirement System (ASRS)
  - Multiple-employer cost-sharing, pooled plan
  - State & Local employees not in another plan
- **Public Safety Personnel Retirement System (PSPRS)**
  - Multiple employer agent plan for Tiers 1&2
  - Tier 3 risk pool
  - Law Enforcement Officers, Firefighter
- **Correction Officers Retirement Plan (CORP)**
  - Multiple employer agent plan for Tiers 1&2
  - Tier 3 AOC pooled plan, Detention DC plan
  - Corrections, Detention and Probation Officers, Dispatchers
- **Elected Officials Retirement Plan (EORP)**
  - Multiple-employer cost-sharing, pooled plan
  - Tier 3 DC plan or ASRS option
  - State and Local Elected Officials, Judges
- Phoenix & Tucson
  - Single employer (each city) plan
  - Participate in PSPRS for Police and Fire

UNDERSTANDING PENSIONS

Past, Present & Future

UNINTENDED CONSEQUENCES

Past - How did we get here?

- PBI (Permanent Benefit Increase)
- 50% of Investment Returns above 9%
  - Actuarial losses below assumed rate 100% in trust
  - Half of excess returns moved to different fund
  - PBI fund resulted in increased liabilities
- Same $ increase to all members
  - Disproportionate impact
- 28 years of increases
  - Actuarial assumptions did not reflect
- Investment impacts – reduced volatility resulted in reduced returns

What happened & What changed

Past

- PBI
- Actuarial Assumptions
- Investment Allocations

Present (recent changes)

- Prop 124 & 125
  - Eliminate PBI
  - Did not resolve unfunded liability
- New COLA
  - 2% cap
- New Actuaries
  - Assumption changes
- Investment changes
  - Staff
  - Asset allocation

PRESENT

- Implemented new General Ledger System July 1st
  - Cash and Contribution Processing reviews
- Hired new auditors (CliftonLarsonAllen)
- Hired new leadership positions
  - Deputy Administrator
  - CFO, Controller, Internal Auditor
- Actuarial Modelers for each system
- IT Security upgrades
- Investment Opportunities and Asset Allocation Review
- PSPRS Board adopted actuarial changes to eliminate negative amortization
- Advisory Committee – ongoing stakeholder engagement

Defined Benefit

What the numbers are ***<u>AND</u>*** how the numbers are calculated. Basic example:

- <u>Actual</u> benefit, at retirement it will be paid
  - Years of service x % multiplier
    - Tier 1, 25 years of service = 62.5%
  - 62.5% x average compensation
    - 62.5% x $80,000 = $50,000 annual pension

- <u>Estimated</u> liability
  - Estimated present value of the future benefit payments.
  - Based on actuarial assumptions

Unfunded Liability

Assets

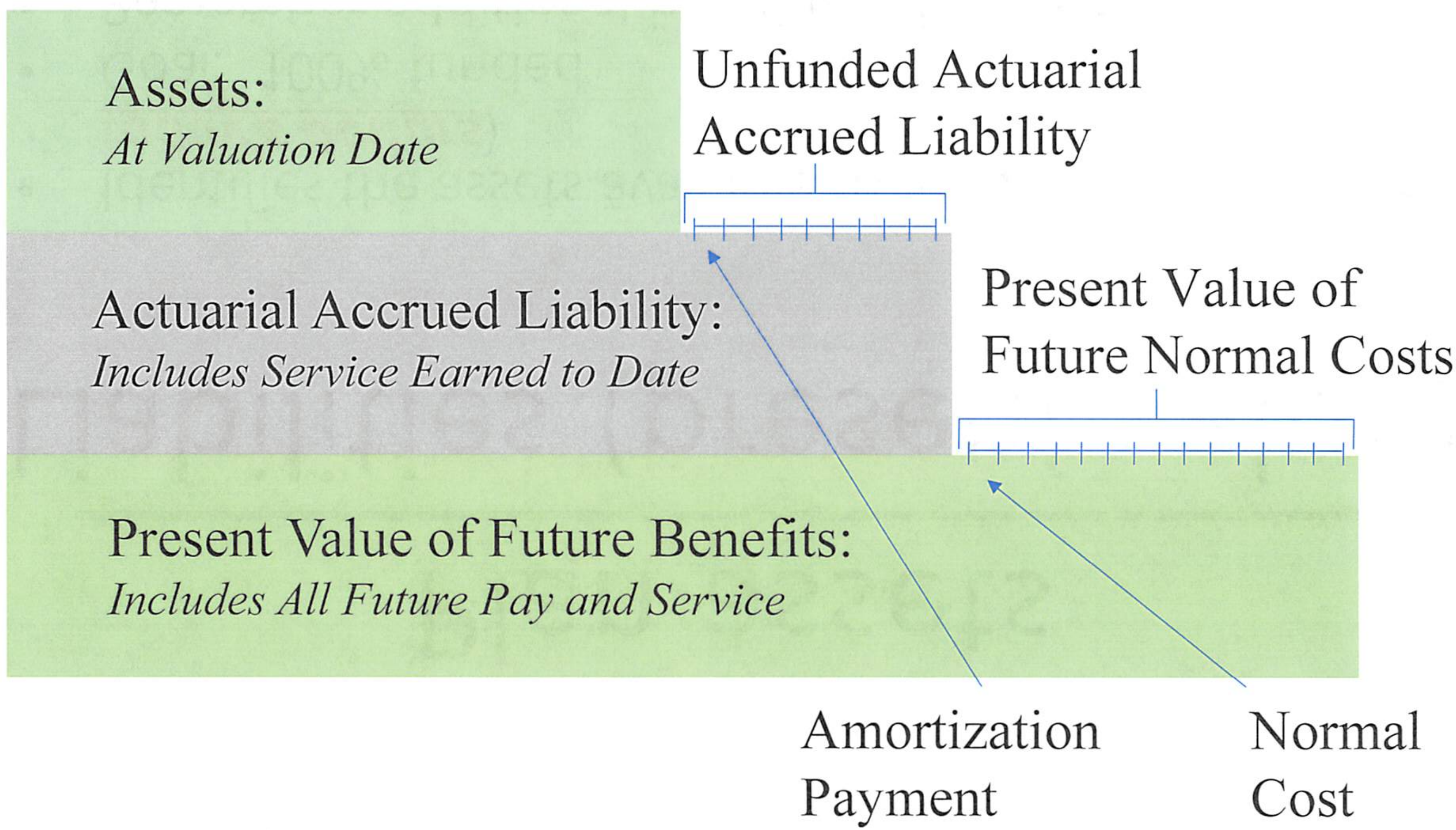
- Market value of assets are the assets as of TODAY!

Liabilities

- All future pension benefits earned as of today
- Considers all future pension payments to be paid
- Discounted to present value
  - Discounted at the assumed rate of return on assets

- The difference is the over funded or unfunded liability.

LIABILITY METHODS



Funded %

$$\frac{\text{Plan assets}}{\text{Liabilities (present value)}}$$

- Identifies the assets available to fund the liabilities (***<u>in today's dollars</u>***)
- Goal: 100% funded
- Remember additional benefits will continue to accrue. (investment and actuarial risk)

Pension funding equation

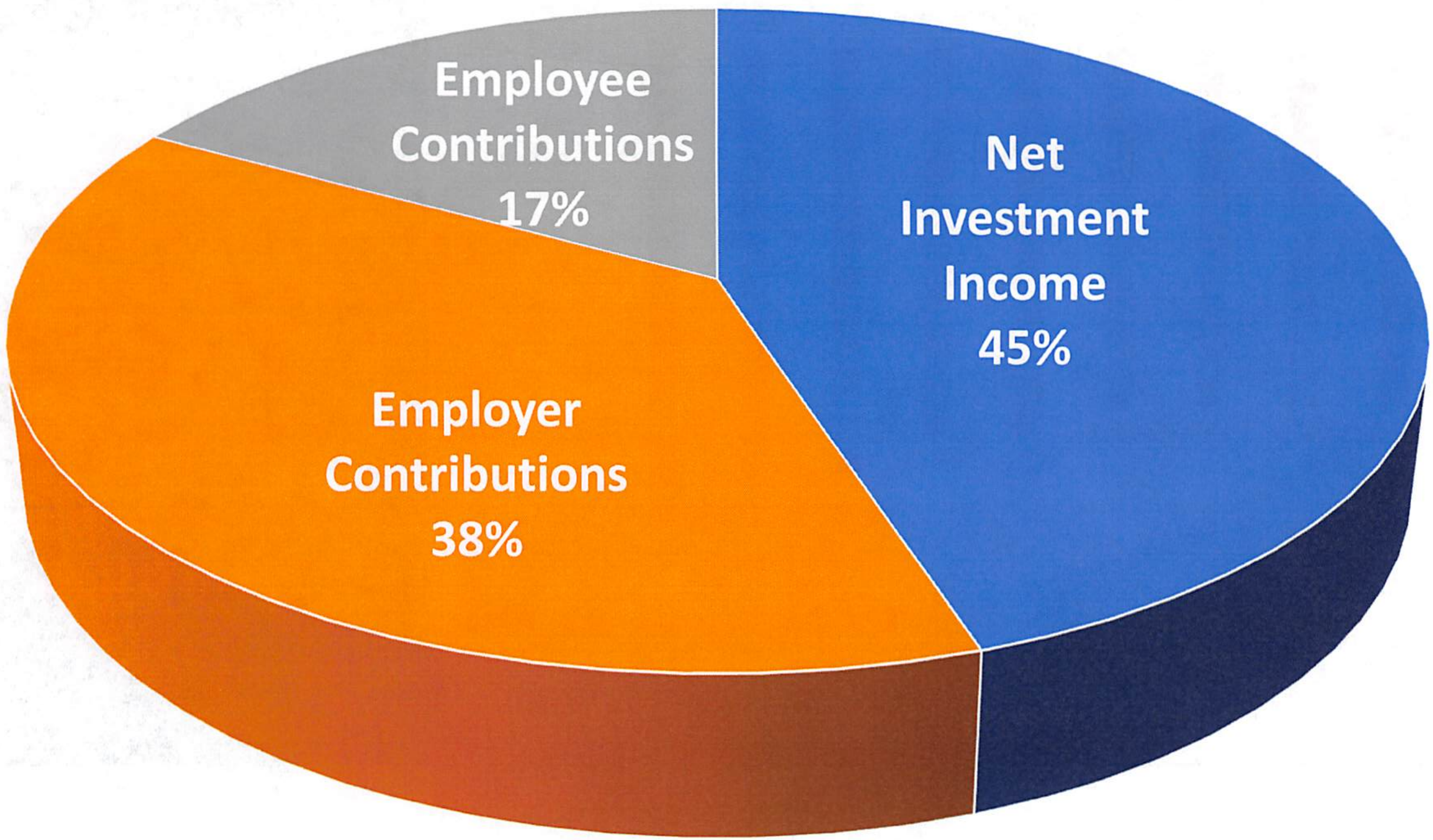
$$C + I = B + E$$

Contributions	Investment Income	Benefits	Expenses

Unfunded liability - Debt

- PSPRS liabilities are not pooled (264 plans)
  - Unfunded liabilities have been ***earned*** and are subject to the ***pension clause*** and ***legal precedent***.
- Reforms created Tier 3, DID NOT reduce closed Tier 1 and 2 unfunded pension liability (legacy costs)
- Unfunded liabilities are *debt, liabilities are owed!*
- The amount and timing of your contribution directly impacts the funded status of your plan
  - Every additional dollar contributed today, can earn investment returns
  - Every additional dollar not paid is a lost opportunity to earn investment returns

Where does the money come from?
PSPRS system wide

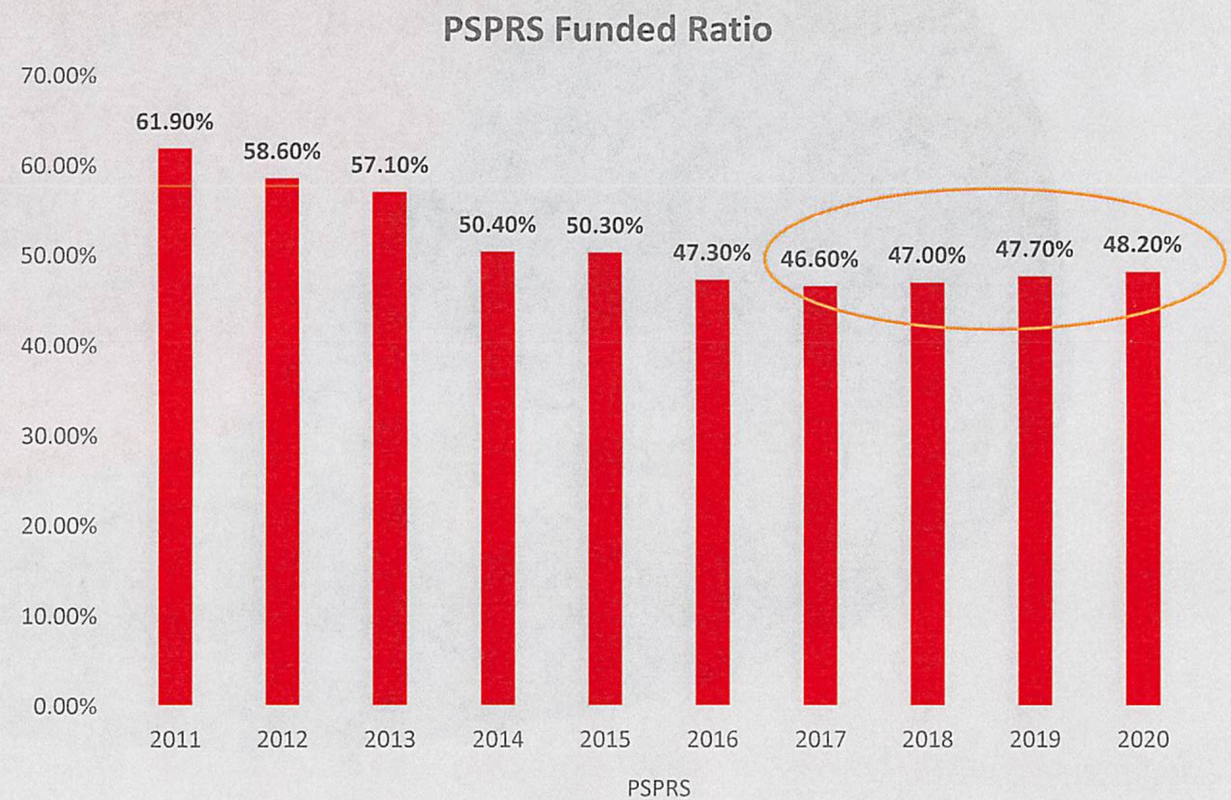


Public Safety Funded Status (Aggregate)

48.2% funded as of June 30, 2020 (minus health insurance subsidy)

Three consecutive years of improvement

Status varies per employer

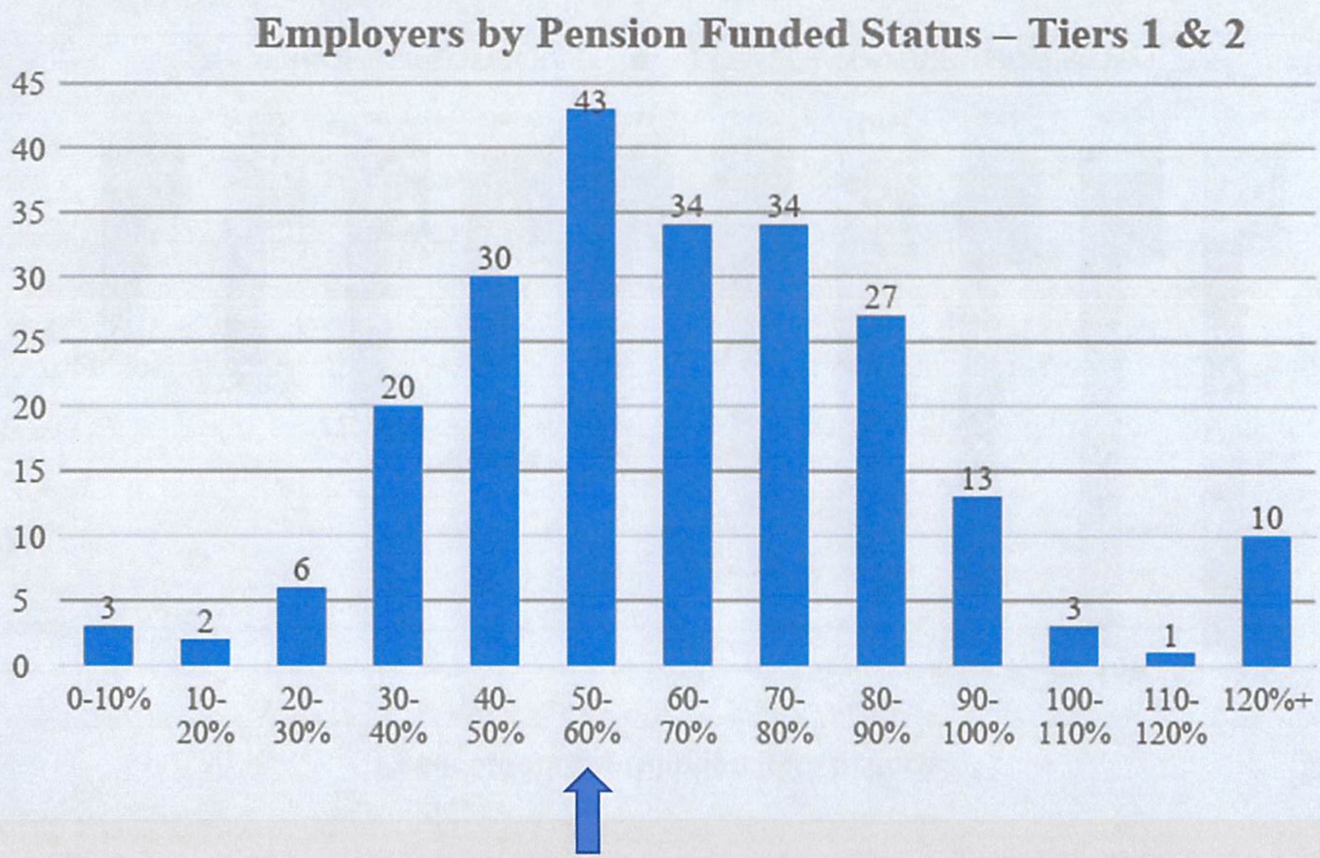


Public Safety Funded Status Employer Ranges

165 employers (73%) have funded status of at least 50%

61 employers fall below 50% funded (27%)

Compares to 163 / 63 from 2018 valuation (72% / 28%)



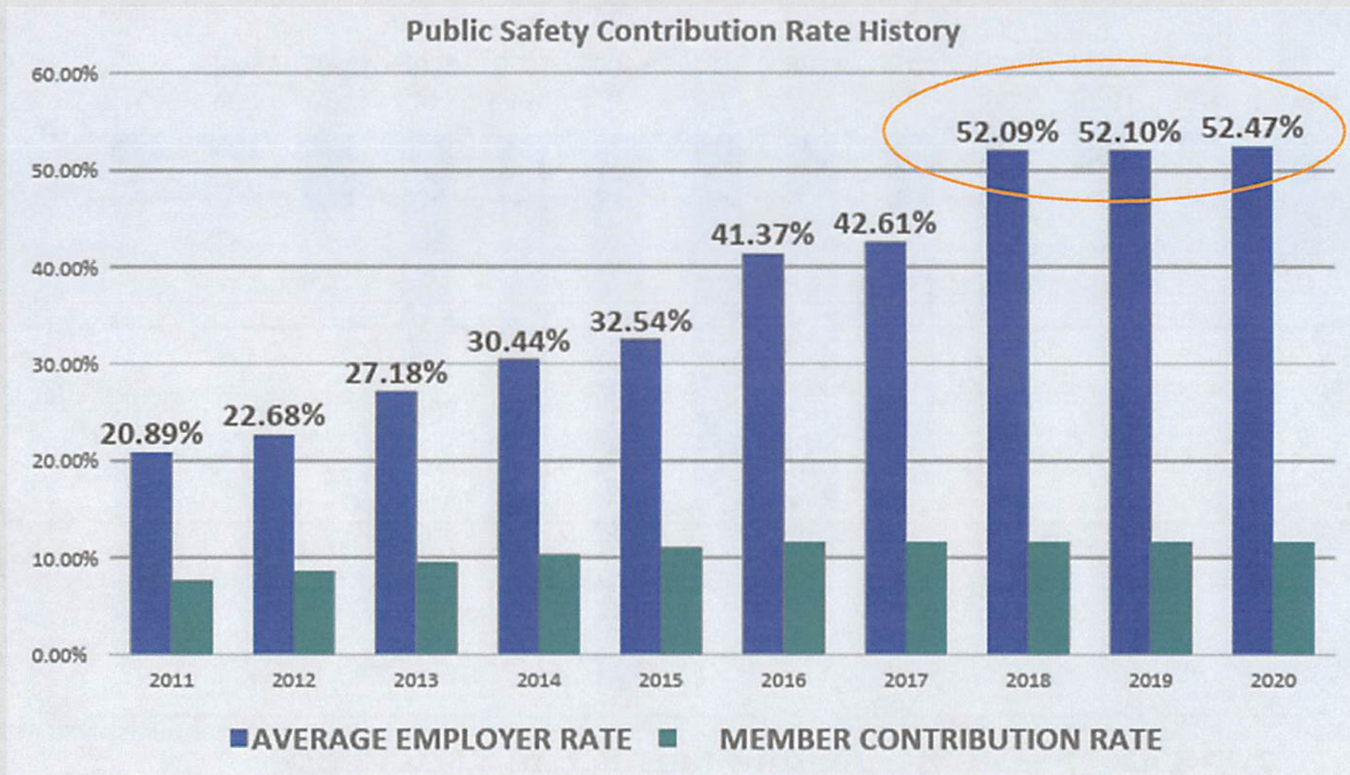
Hellsgate FD 59.8%

Public Safety Contribution Rate History

52.47% aggregate employer contribution rate

Stabilized but with slight increases for three years

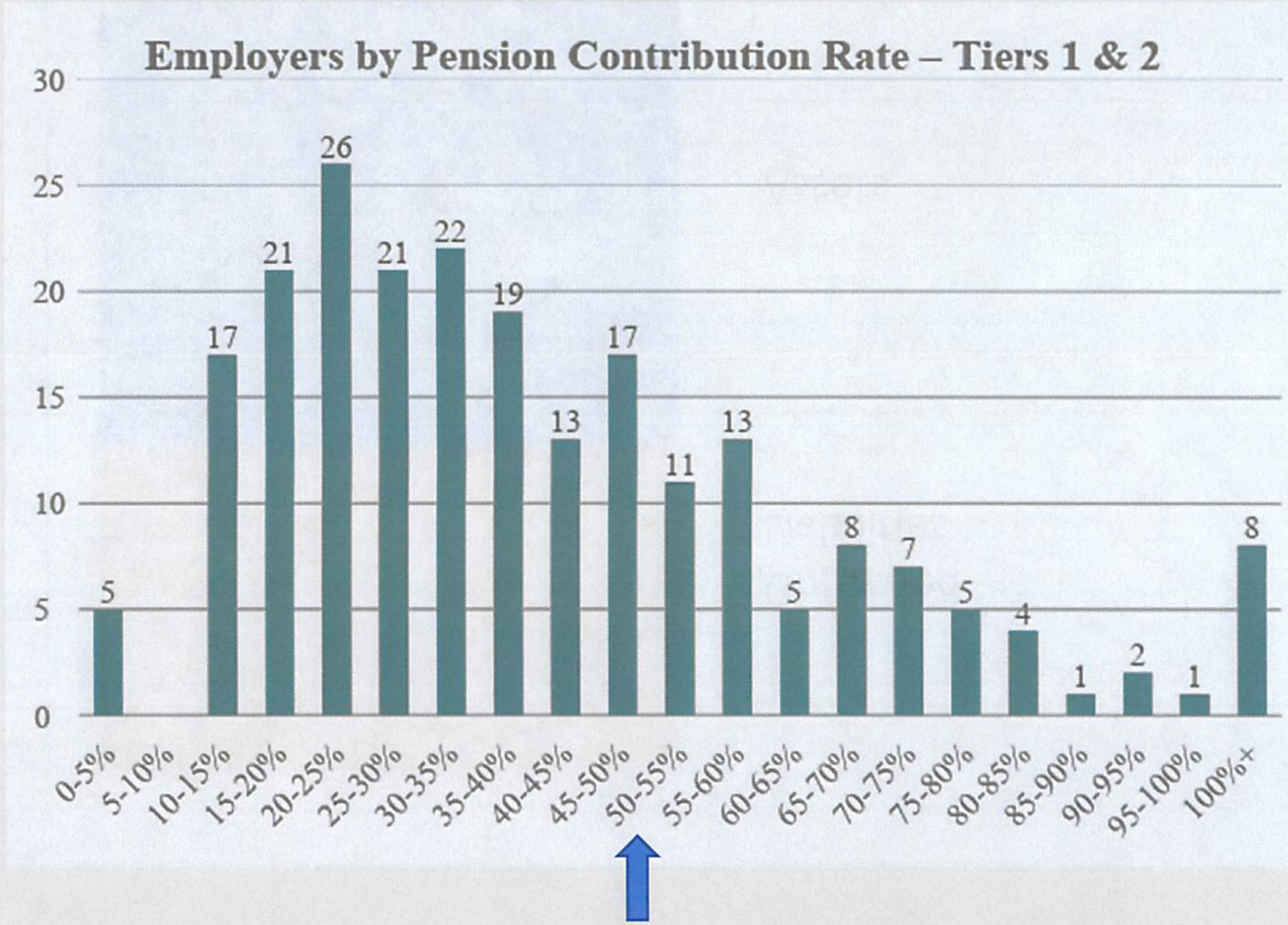
Status varies per employer



Public Safety Contribution Rate Ranges

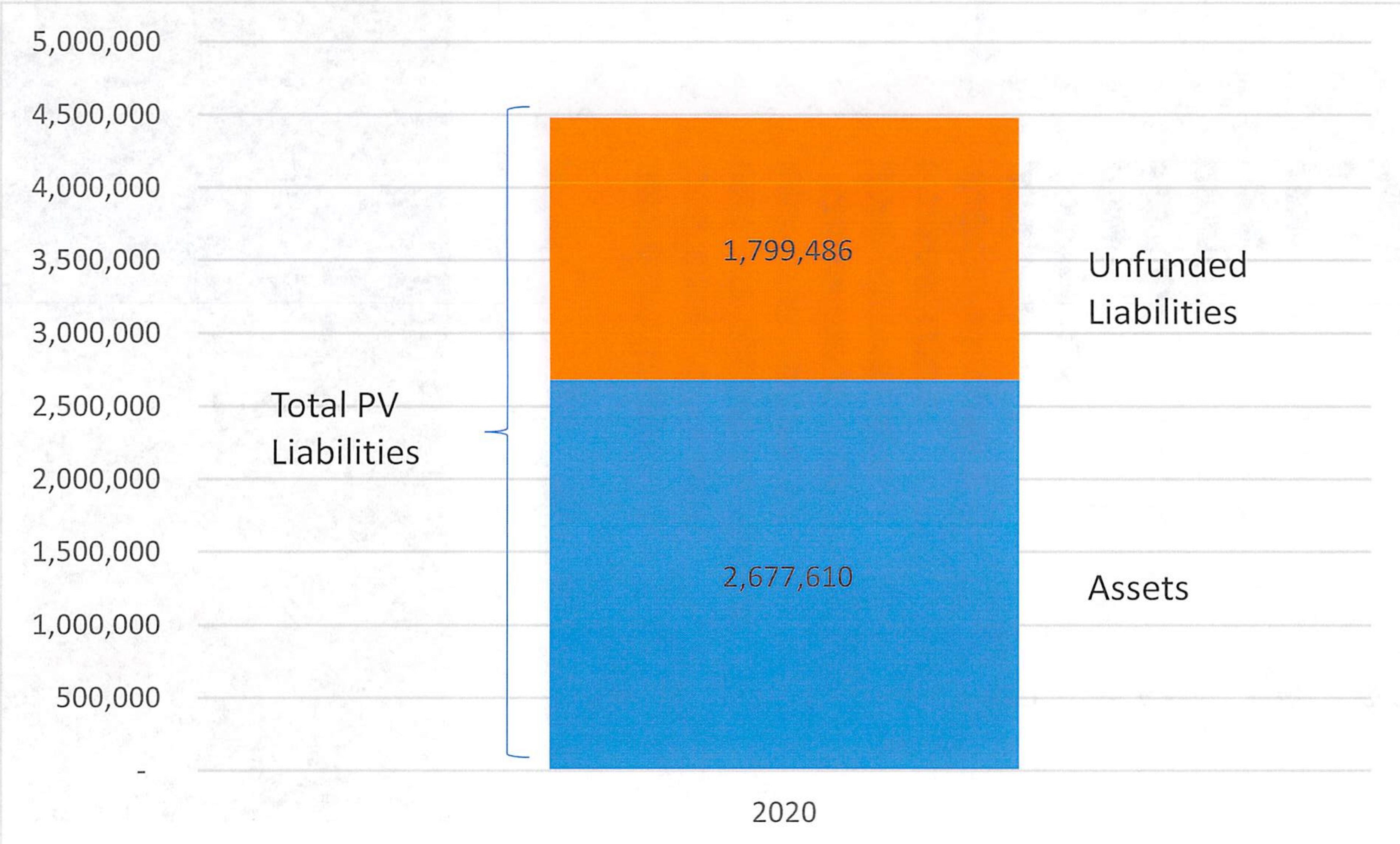
Contribution rate changes reflect Tiers 1, 2 only

Tier 3 maintains 50/50 member-employer split



Hellsgate FD 50.63% (Projected 39% in FY23)

Hellsgate FD



Hellsgate FD

- Investment returns (expected at 7.3%) are earned on the $2.7 million in assets
- If this plan were 100% funded, investment returns would be earned on $4.5 million in assets
  - Current payment on unfunded liabilities makes up for this lost opportunity.
  - This payment will grow at 3.0% next year.
  - New actuarial assumptions will impact the unfunded portion of the contributions.
- Regardless of the funded status, the total $4.5 million liabilities will be discounted one less year in the FY 2021 valuation

Hellsgate FD

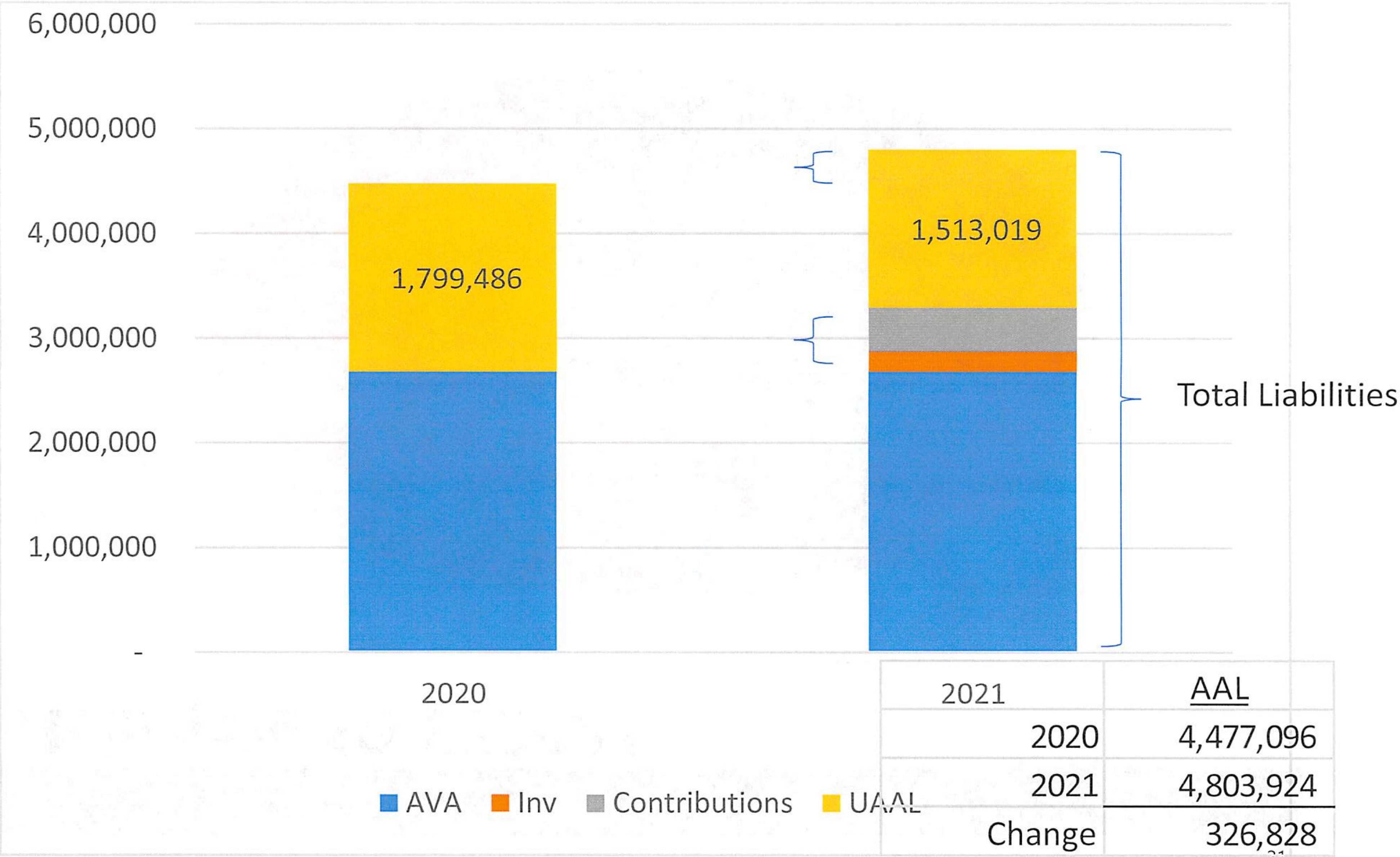
- Increased assets
- Investments + contributions (ARC) = $613,295

- Increased liabilities
- Present value of liabilities discounted one less year

	Assets
Begin FY21	2,677,610
Investments	195,466
Contributions	417,829
Ending FY21	3,290,905

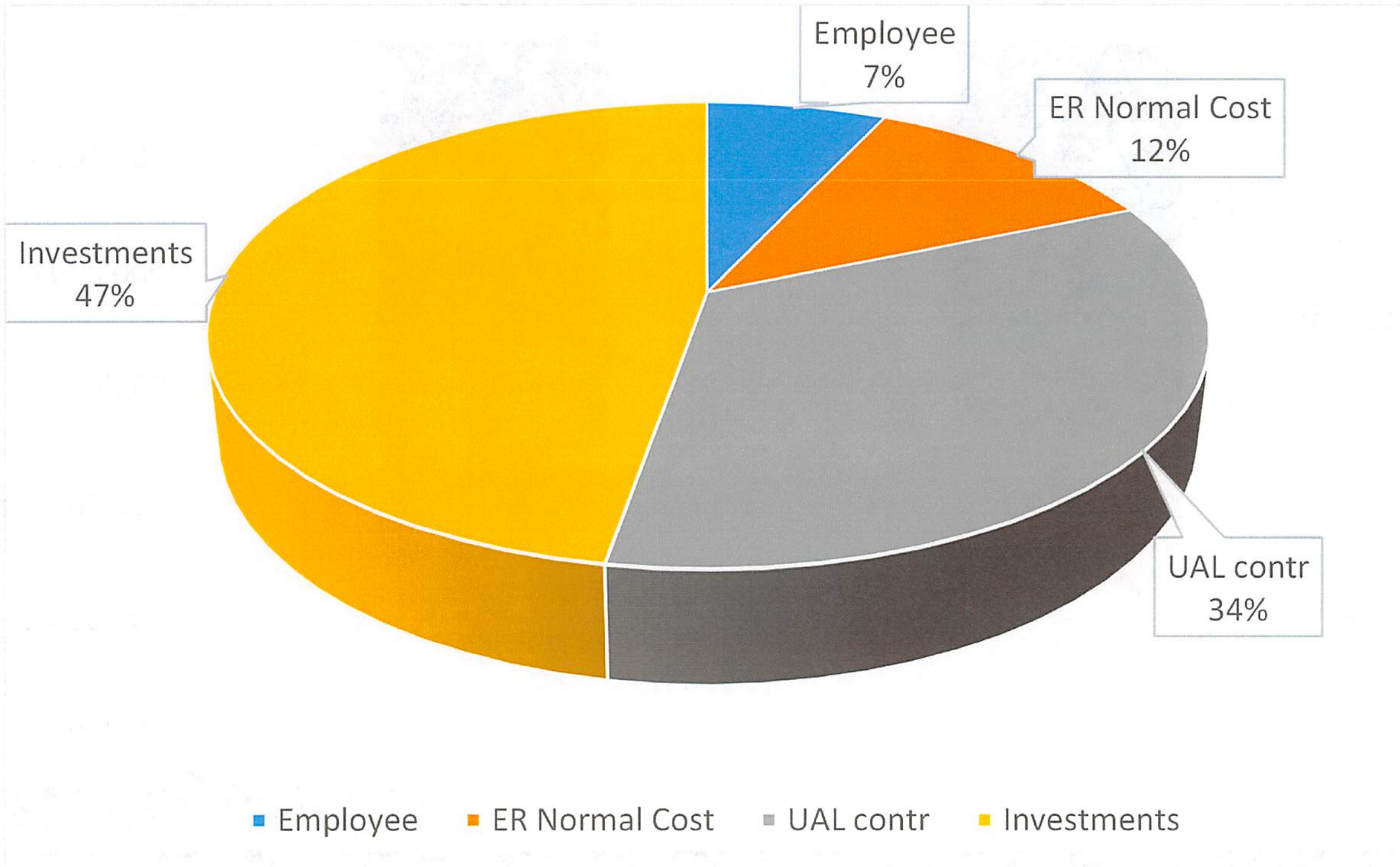
	AAL
2020	4,477,096
2021	4,803,924
Change	326,828

Hellsgate FD

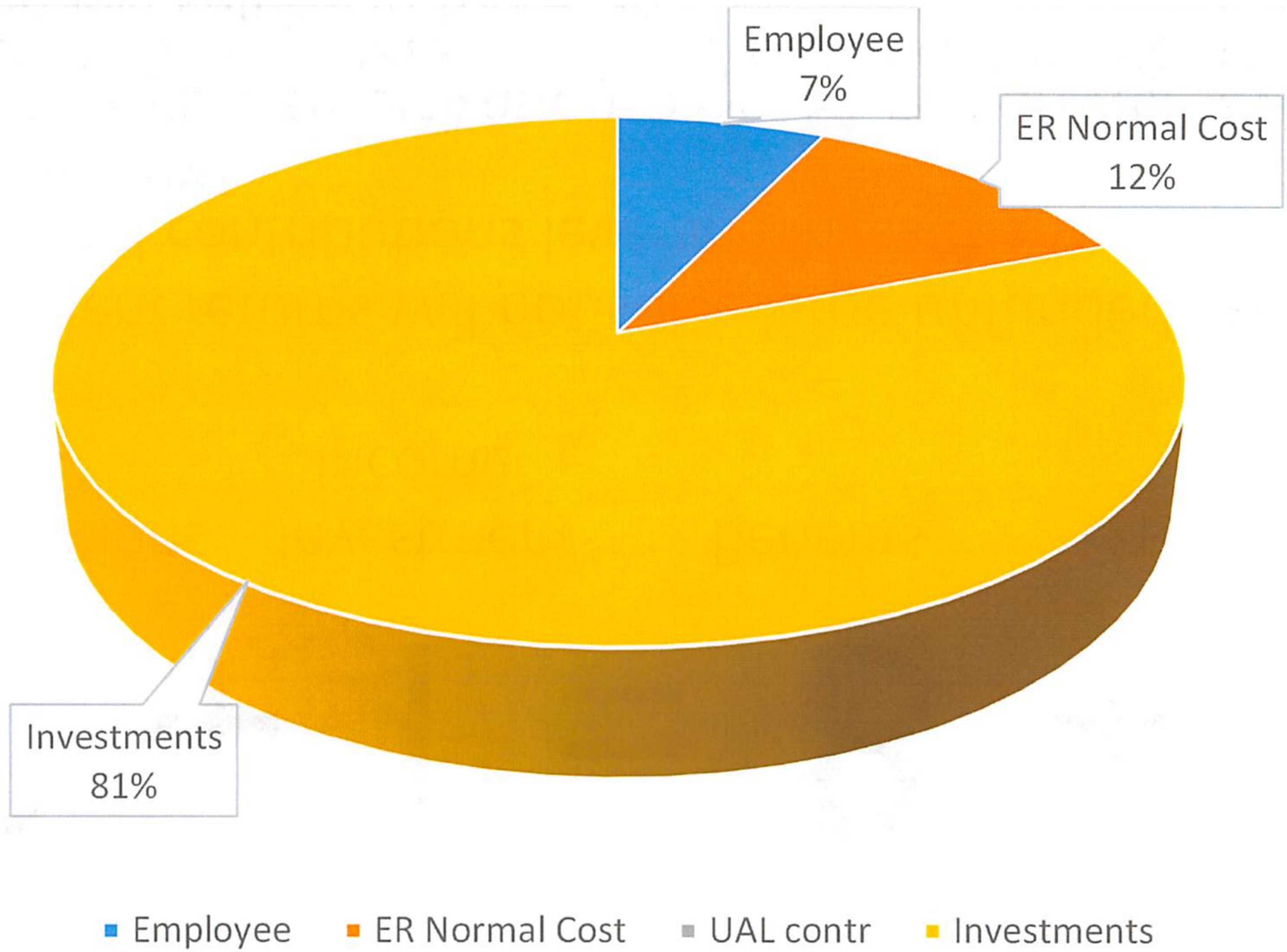


	AAL
2020	4,477,096
2021	4,803,924
Change	326,828

Hellsgate FD FY2021



Hellsgate FD if 100% funded



C + I = B + E

Contributions Investment Income Benefits Expenses

- Investment returns will not solve large unfunded liabilities.
- Additional contributions leverage investment opportunities.
- Over a 17 year amortization cycle, $1 million will save taxpayers an estimated $1.8 million, and the original $1 million will still be in the fund.
- Continued Diligence (Investment & Actuarial Risk)

PSPRS FY21 Investment Returns (Net of Fees) (as of 6/30/21)

FY21 27.8%

10-Year 7.8%

Net of fee return for period ending 6/30/2021

	Month	3 Months	Fiscal YTD	Annualized 3 Years	Annualized 5 Years	Annualized 7 Years	Annualized 10 Years
PSPRS Trust	2.9	5.8	27.8	10.8	10.3	7.9	7.8

QUESTIONS, COMMENTS, AND DISCUSSION

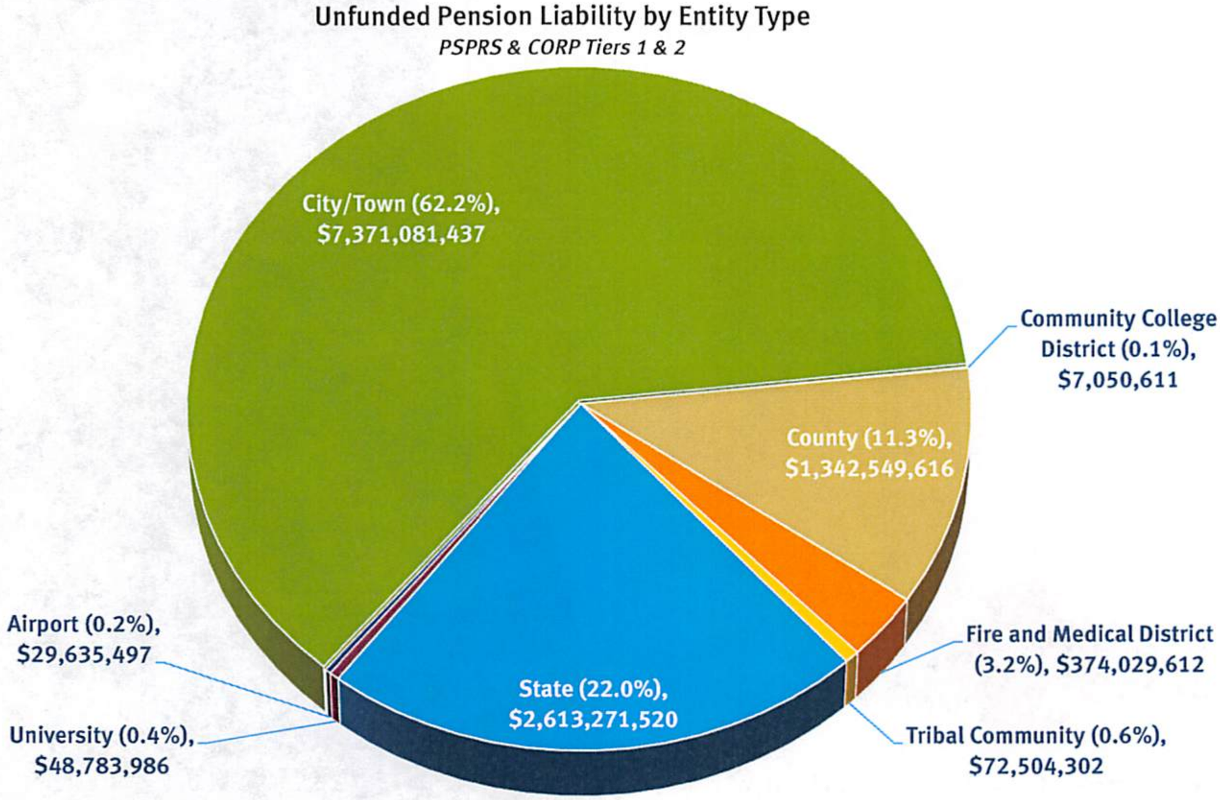
Hellsgate Fire District, Arizona

Pension Plan Liability Management

November 2021

STIFEL | Public Finance

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



Source: Arizona Public Safety Personnel Retirement System Actuarial Valuation as of June 30, 2020 and Arizona Corrections Officer Retirement Plan Actuarial Valuation as of June 30, 2020, Foster & Foster Actuaries and Consultants.

Arizona PSPRS Financings

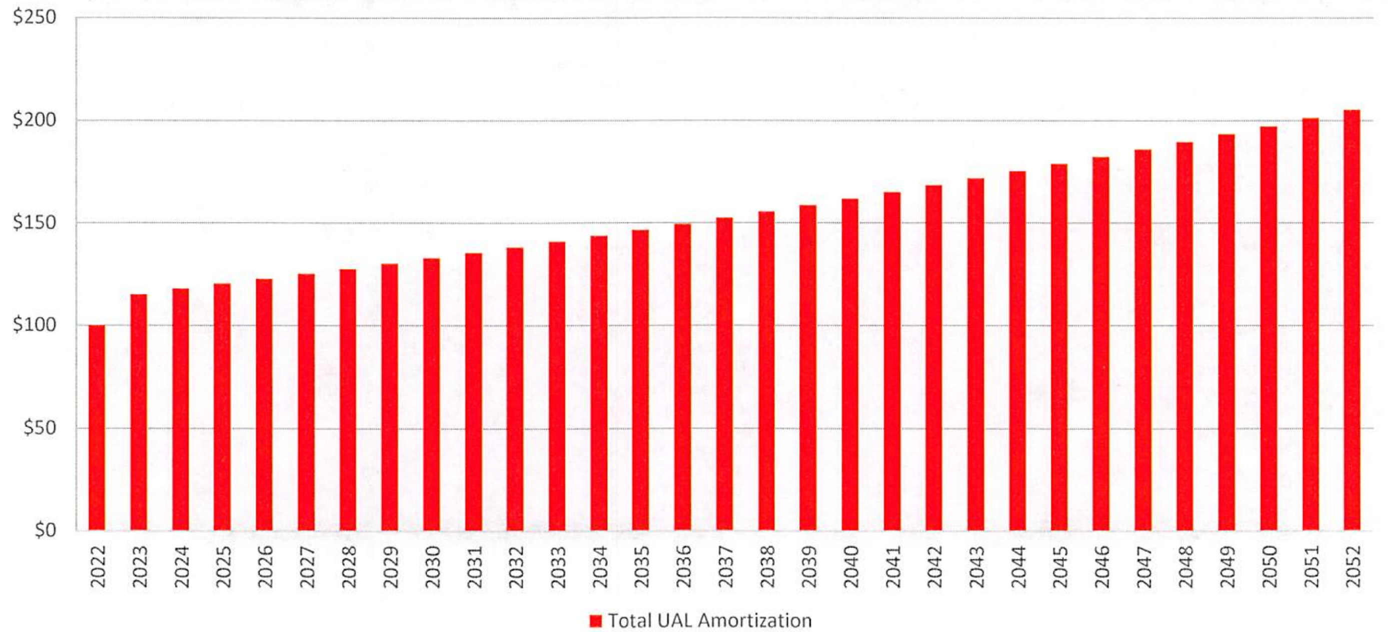
Arizona PSPRS UAAL Funding Financings						
Sale Date	Jurisdiction	Par Amount	Security	Rating(s)	Maturity Range	All-in TIC
07/23/20	City of Flagstaff, Arizona	$131,000,000	Certificates of Participation	"AA-" (Fitch) / "AA-" (S&P)	2021 - 2040	2.696%
10/21/20	Pinal County, Arizona	$89,055,000	Pledged Revenue Obligations	"AA" (Fitch) / "AA-" (S&P)	2021 - 2037	2.612%
10/22/20	Gila County, Arizona	$16,855,000	Pledged Revenue Obligations	"AA" (S&P)	2021 - 2039	2.980%
12/09/20	Yuma County, Arizona	$35,070,000	Pledged Revenue Obligations	"AA" (Fitch) / "AA-" (S&P)	2021 - 2035	2.383%
01/12/21	City of Yuma, Arizona	$159,475,000	Pledged Revenue Obligations	"AA-" (Fitch) / "AA-" (S&P)	2021 - 2038	2.381%
02/16/21	City of Tucson, Arizona	$658,055,000	Certificates of Participation	"A1" (Moody's) / "A+" (Fitch) / "AA-" (S&P)	2022 - 2047	2.700%
03/09/21	Apache County, Arizona	$15,190,000	Pledged Revenue Obligations	"AA" (S&P)	2022 - 2038	2.890%
03/25/21	City of San Luis, Arizona	$9,215,000	Pledged Revenue Obligations	"AA" (Fitch) / "A+" (S&P) "AA" (INS)	2021 - 2037	2.994%
03/30/21	Coconino County, Arizona	$18,160,000	Pledged Revenue Obligations	"AA" (Fitch) / "AA" (S&P)	2022 - 2038	2.794%
04/21/21	Pima County, Arizona	$300,000,000	Pledged Revenue Obligations	"AA+" (Fitch) / "AA+" (S&P)	2022 - 2036	2.045%
05/06/21	Golder Ranch Fire District	$27,980,000	Certificates of Participation	"AA" (Fitch) / "AA-" (S&P)	2022 - 2037	2.565%
05/11/21	Town of Wellton, Arizona	$2,250,000	Pledged Revenue Obligations	NR	2021 - 2036	3.800%
05/21/21	Town of Pinetop-Lakeside, Arizona**	$9,645,000	Pledged Revenue Obligations	"AA-" (S&P)	2022 - 2047	3.086%
05/26/21	Verde Valley Fire District	$9,495,000	Certificates of Participation	"A" (S&P)	2022 - 2037	2.929%
06/02/21	City of Kingman, Arizona	$38,755,000	Excise Tax Revenue Obligations	"AA" (Fitch) / "AA" (S&P)	2022 - 2037	2.458%
06/03/21	City of Cottonwood, Arizona	$20,380,000	Pledged Revenue Obligations	"AA" (Fitch) / "AA" (S&P)	2022 - 2038	2.549%
06/10/21	City of Douglas, Arizona	$38,885,000	Pledged Revenue Obligations	"AA-" (Fitch) / "AA-" (S&P)	2022 - 2039	2.541%
06/15/21	Town of Oro Valley, Arizona	$17,975,000	Excise Tax Revenue Obligations	"AA+" (S&P)	2022 - 2038	2.385%
06/23/21	City of Glendale, Arizona**	$252,800,000	Certificates of Participation	"A+" (S&P) / "AA-" (Fitch)	2024 - 2037	2.508%
06/24/21	Highlands Fire District	$8,510,000	Certificates of Participation	"A+" (S&P)	2022 - 2046	3.238%
07/07/21	City of Tempe, Arizona**	$343,000,000	Certificates of Participation	"AA+" (S&P) / "AA+" (Fitch)	2023 - 2037	2.148%
07/08/21	Superstition Fire and Medical District	$29,360,000	Certificates of Participation	"A" (S&P)	2023 - 2045	3.079%
07/20/21	Copper Canyon Fire and Medical District	$6,840,000	Certificates of Participation	"BBB" (S&P)	2022 - 2035	3.562%
07/21/21	Bullhead City Fire District	$34,980,000	Certificates of Participation	"A+" (Fitch) / "A" (S&P)	2022 - 2038	2.790%
08/11/21	City of Casa Grande, Arizona	$63,260,000	Pledged Revenue Obligations	"AA" (Fitch) / "AA" (S&P)	2022 - 2036	2.170%
08/24/21	Arizona Fire and Medical Authority	$38,145,000	Certificates of Participation	"AA-" (Fitch) / "A+" (S&P)	2022 - 2044	3.023%
08/26/21	Central Arizona Fire and Medical Authority	$53,365,000	Certificates of Participation	"AA-" (Fitch) / "A" (S&P)	2022 - 2038	2.919%
09/16/21	City of Willcox, Arizona	$4,975,000	Excise Tax Revenue Obligations	NR	2022 - 2036	2.778%
10/07/21	Navajo County	$16,560,000	Pledged Revenue Obligations	"AA-" (S&P)	2022 - 2038	2.779%
10/13/21	Sun City Fire District	$44,665,000	Certificates of Participation	"A+" (S&P)	2022 - 2047	3.394%
10/19/21	Daisy Mountain Fire District	$11,285,000	Certificates of Participation	"A+" (S&P)	2022 - 2046	3.569%
10/21/21	Fry Fire District	$17,360,000	Certificates of Participation	"AA-" (Fitch) / "A" (S&P)	2022 - 2048	3.746%
10/26/21	Summit Fire and Medical District	$7,820,000	Certificates of Participation	"A" (S&P)	2022 - 2038	3.552%
Total	33 Transactions	$2,530,365,000				

*** Not served by Stifel, Nicolaus & Company, Incorporated as underwriter, financial advisor or any other role*

Hellsgate Fire District PSPRS Pension Debt Profile: Tier 1 and Tier 2 Legacy Costs

- PSPRS provided preliminary, confidential draft actuarial figures to allow the District to more accurate estimate the current UAL liability
- As of June 30, 2021, the District's liability is $1,704,461
- Based on the revised unfunded liability and the new 30 year amortization schedule approved by the PSPRS board, below is the estimated UAL repayment requirement

Hellsgate Fire District Projected Tier 1 & 2 Pension Payments per PSPRS (Graph in $000)[1]



1. *Source: Annual Actuarial Reports and GASB 68 Reports made available by PSPRS.*

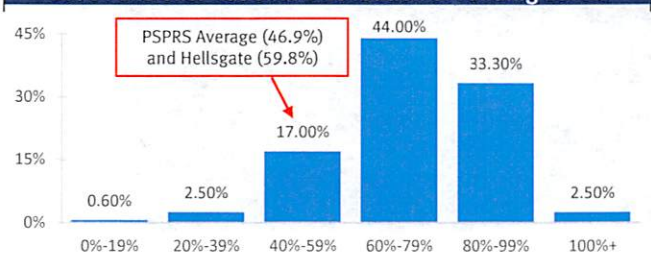
Hellsgate Fire District PSPRS Pension Debt Profile: How do we compare to our peers?

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

- The District participates in Arizona PSPRS for its employees and retirees
- The District's plan is 59.8% funded as of 6/30/2020
- The plan's unfunded liability accrues at an assumed rate of 7.30%, well above what the District might pay on its debt
  - The actuarial rate was revised from 7.40% to 7.30% in the 2019 valuation, causing the UAL to increase

Overview of Key Terms.
- **Actuarially Accrued Liability ("AAL").** The present value of all future benefit payments payable to current and future retirees
- **Actuarial Value of Assets ("AVA").** The current value of all assets held/invested by PSPRS to generate returns and make benefit payments to retirees
- **Funded Ratio.** The ratio of AVA to AAL; 100% funding implies Assets = Liabilities
- **Unfunded Actuarially Accrued Liability ("UAL").** The difference between the AAL and AVA

Public Pensions: National Distribution of Funding Levels[2]



Hellsgate Fire District Plan Statistics (\$mil) (as of 6/30/2020)[1]	Fire	Arizona PSPRS[1] (\$mil)
AAL	\$4,477,096	\$17,393,828,992
AVA	\$2,677,610	\$8,079,039,739
UAL	\$1,799,486	\$9,325,730,005
Actuarial Rate	7.30%	7.30%
Funded Ratio	59.8%	46.4%

Recommendation:
- **Refinance pension liability using other debt obligations to:**
  - **Achieve 100% funding levels (top 2.5% percentile nationally); greater assets will also allow the pension funds to improve investment efficiency and liquidity for paying benefits**
  - **Lower borrowing rate on \$2.1 million unfunded liability from 7.30% to approximately 4.06% (depending on market conditions)**
  - **Generate budgetary stability and projected savings to address other needs and prevent crowding out of other priorities by escalating pension expenses**

1. *Source: Arizona Public Safety Personnel Retirement System Actuarial Valuation as of June 30, 2020.*
2. *Center for Retirement Research at Boston College, "The Funding of State and Local Pensions: 2015-2020." Alicia H. Munnell and Jean-Pierre Aubry.*

PSPRS Unfunded Liability and Related Options for Consideration

1

Do nothing

- Continue to pay accelerating payments to PSPRS resulting in possible tax increase in the future, need to cut expenses, or potentially a combination of both

2

Amend current PSPRS policy and budget more dollars towards the Unfunded Liability

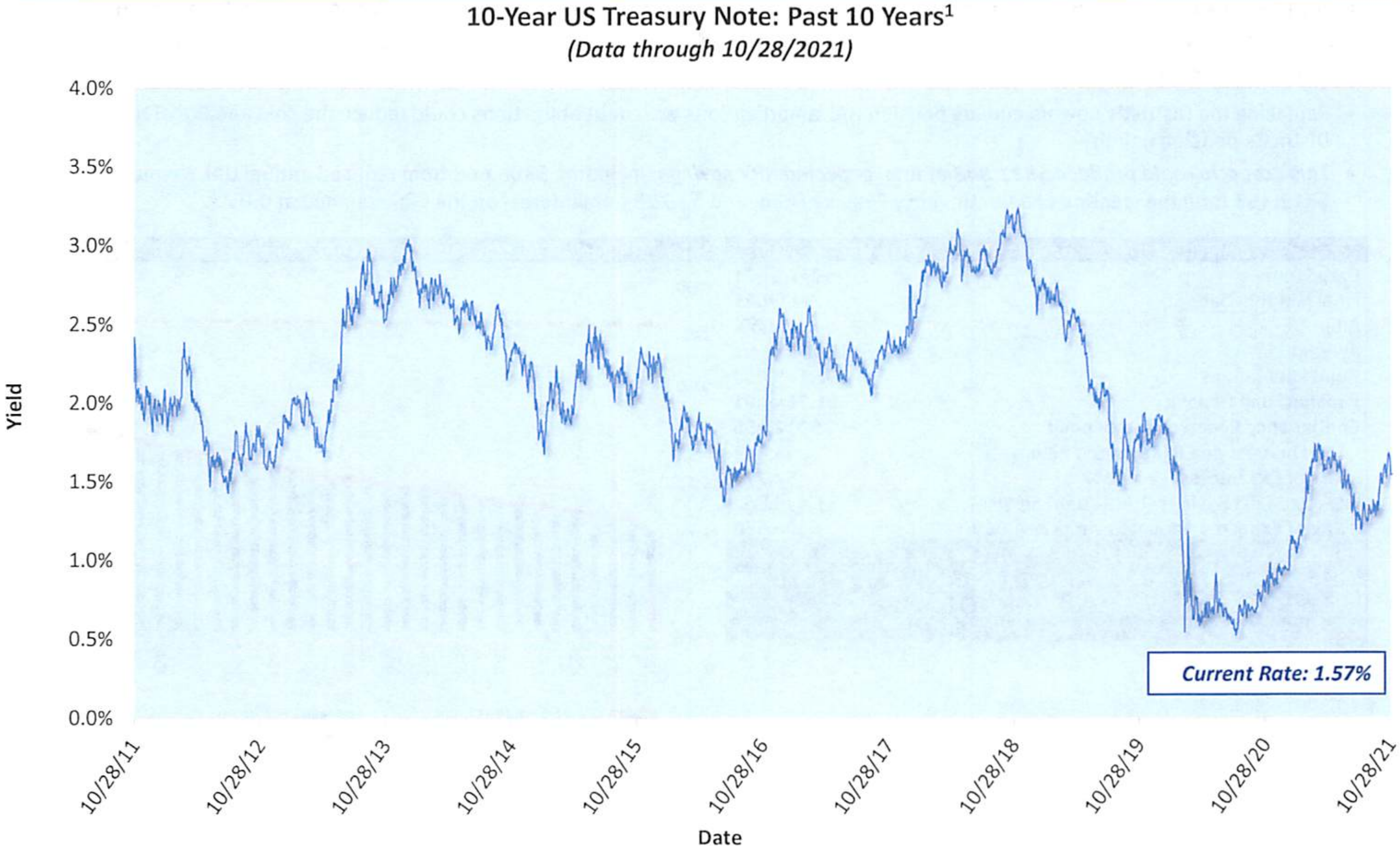
- Separate tax policy or other revenue increase, and/or cuts to essential services

3

Refinance debt to PSPRS accruing at 7.30% with taxable Obligations yielding approximately 4.06%

- Address the legacy trajectory by “chopping down the future mountain” with fixed debt service payments and consider implementing a Contingency Reserve Fund to help manage future liability

Low Interest Rate Environment



1. *Source: U.S. Department of the Treasury.*

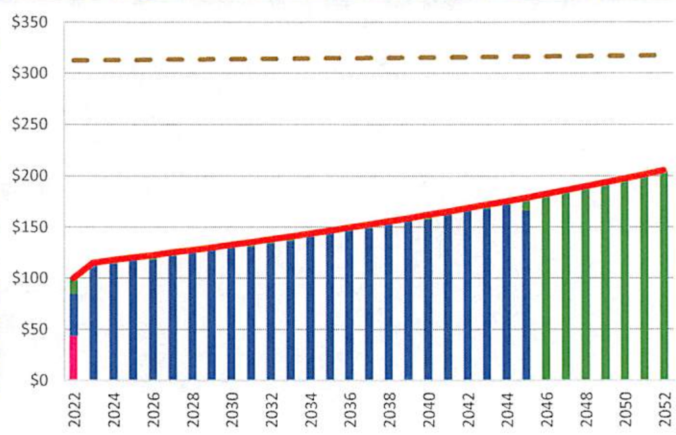
Scenario 1:
Refinancing to Smooth Pension Legacy Liability by FY2045[1]

Issuing obligations to fully fund the District's unfunded pension liabilities could allow the District to generate significant expected net present value benefit totaling $821,848 (37.96% of Par Issued), including establishing a Contingency Reserve Fund ("CRF")

- Replacing the District's upward curving pension UAL amortizations with debt obligations could reduce the cost and life of the District's pension liability
- ***This scenario could produce $821,848 of total expected NPV savings***, including $506,668 from reduced annual UAL payments, $312,455 from the creation of a Contingency Reserve Fund, and $2,725 from interest on the CRF assumed at 0.05%

Summary Statistics: Funding Pension Plan UAL[1]	
Dated Date	12/1/2021
Final Maturity Date	7/1/2045
All-In TIC	4.06%
Average Life	15.193 years
Bond Par Amount	$2,165,000
Pension Fund Deposit	**$1,704,461**
Contingency Reserve Fund Deposit	**$312,455**
Total Interest on CRF @ 0.05% Return	$4,813
NPV of CRF Interest @ 4.06%	**$2,725**
Expected Cost Savings (UAL – Debt Service)	$1,438,867
NPV of Expected Annual Savings @ 4.06%	**$506,668**
Total NPV Benefit (CRF Deposits + NPV of CRF Interest + NPV of Expected Annual Savings)	***$821,848***
Total Expected NPV Benefit (as % of Par Issued)	***37.96%***
Expected Funding Status after Pension Bonds[2]	***100.00%***

Impact on Annual Pension Plan UAL Payments ($000)[1]



1. *Market conditions as of October 29, 2021. Spreads based on comparable recent transactions. Stifel does not guarantee to underwrite at these levels. All NPV values are discounted to December 1, 2021 (assumed transaction closing date) at a discount rate of 4.06%, the all-in TIC. UAL and amortization computed by Stifel using assumptions from the 2019 and 2020 Actuarial Reports, annual UAL payment data provided by PSPRS as of 6/30/2020, and other Stifel calculations and assumptions. Expected savings are based on PSPRS achieving the assumed 7.3% rate of return. Please refer to Stifel's risk disclaimer for additional information.*
2. *Calculated as current AVA plus Pension Fund Deposit, divided by AAL plus Timing Adjustment plus Unrecognized Liability. Given the practice of amortizing unrecognized liabilities, the actuarial funded ratio immediately following this issuance will likely be greater.*

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Scenario 1:
Refinancing to Smooth Pension Legacy Liability by FY2045 – Analysis Results[1,2]

Fiscal Year Ending	Budgeted UAL Payments	Debt Service	Expected Benefit (Cash Basis)	Expected Benefit (PV @ 4.06%)
	[A]	[B]	[C] = [A]-[B]+[CRF]	[D]=PV[C]
Dated Date			$312,455	$312,455
7/1/2022	$51,978	$40,715	$11,354	$11,093
7/1/2023	$115,107	$114,798	$466	$437
7/1/2024	$117,985	$114,446	$3,696	$3,335
7/1/2025	$120,344	$118,875	$1,625	$1,409
7/1/2026	$122,751	$118,019	$4,888	$4,073
7/1/2027	$125,206	$122,038	$3,325	$2,662
7/1/2028	$127,710	$125,823	$2,044	$1,572
7/1/2029	$130,265	$129,378	$1,044	$772
7/1/2030	$132,870	$132,702	$325	$231
7/1/2031	$135,527	$130,792	$4,891	$3,340
7/1/2032	$138,238	$133,813	$4,582	$3,007
7/1/2033	$141,003	$136,317	$4,843	$3,054
7/1/2034	$143,823	$143,654	$326	$197
7/1/2035	$146,699	$145,659	$1,197	$697
7/1/2036	$149,633	$147,498	$2,293	$1,283
7/1/2037	$152,626	$149,170	$3,614	$1,943
7/1/2038	$155,678	$155,469	$366	$189
7/1/2039	$158,792	$156,417	$2,533	$1,258
7/1/2040	$161,968	$157,188	$4,938	$2,356
7/1/2041	$165,207	$162,783	$2,582	$1,184
7/1/2042	$168,511	$168,026	$643	$283
7/1/2043	$171,881	$167,597	$4,442	$1,881
7/1/2044	$175,319	$171,981	$3,496	$1,423
7/1/2045	$178,825	$165,990	$12,993	$5,082
7/1/2046	$182,402	$0	$182,560	$68,616
7/1/2047	$186,050	$0	$186,208	$67,256
7/1/2048	$189,771	$0	$189,929	$65,923
7/1/2049	$193,566	$0	$193,724	$64,617
7/1/2050	$197,438	$0	$197,596	$63,336
7/1/2051	$201,386	$0	$201,544	$62,081
7/1/2052	$205,414	$0	$205,573	$60,851
Total	$4,743,973	$3,309,147	$1,752,095	$817,900

1. *Market conditions as of October 29, 2021. Spreads based on comparable recent transactions. Stifel does not guarantee to underwrite at these levels. All NPV values are discounted to December 1, 2021 (assumed transaction closing date) at a discount rate of 4.06%, the all-in TIC. UAL and amortization computed by Stifel using assumptions from the 2019 and 2020 Actuarial Reports, annual UAL payment data provided by PSPRS as of 6/30/2020, and other Stifel calculations and assumptions. Expected savings are based on PSPRS achieving the assumed 7.3% rate of return. Please refer to Stifel's risk disclaimer for additional information.*
2. *If the District earns interest on its Contingency Reserve Fund deposit at 0.05%, it will earn $4,813 of interest through the life of the bonds and the balance will grow to $346,390 by 2038 if not drawn upon. Stifel is not providing investment advice.*

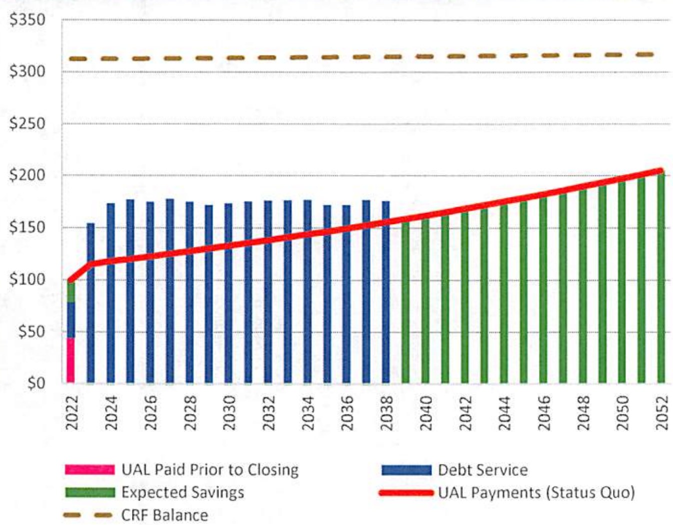
Scenario 2:
Refinancing to Smooth Pension Legacy Liability by FY2038[1]

If the District were to match the prior PSPRS amortization schedule and end debt service in FY2038, the District would pay significantly higher annual payments , resulting in dissaving compared to the new 30 year amortization schedule

- The higher debt service payments would place significant strain on the District's financials and budget capacity
- ***This scenario could produce $887,700 of total expected NPV savings,*** and all of the savings would be achieved after the issuance of the bonds and create significant dissavings during the life of the bond

Summary Statistics: Funding Pension Plan UAL[1]	
Dated Date	12/1/2021
Final Maturity Date	7/1/2038
All-In TIC	3.92%
Average Life	9.720 years
Bond Par Amount	$2,165,000
Pension Fund Deposit	**$1,704,461**
Contingency Reserve Fund Deposit	**$312,455**
Total Interest on CRF @ 0.05% Return	$4,813
NPV of CRF Interest @ 4.06%	**$2,725**
Expected Cost Savings (UAL – Debt Service)	$1,976,178
NPV of Expected Annual Savings @ 4.06%	**$572,519**
Total NPV Benefit (CRF Deposits + NPV of CRF Interest + NPV of Expected Annual Savings)	***$887,700***
Total Expected NPV Benefit (as % of Par Issued)	***41.00%***
Expected Funding Status after Pension Bonds[2]	***100.00%***

Impact on Annual Pension Plan UAL Payments ($000)[1]



1. *Market conditions as of October 29, 2021. Spreads based on comparable recent transactions. Stifel does not guarantee to underwrite at these levels. All NPV values are discounted to December 1, 2021 (assumed transaction closing date) at a discount rate of 4.06%, the all-in TIC. UAL and amortization computed by Stifel using assumptions from the 2019 and 2020 Actuarial Reports, annual UAL payment data provided by PSPRS as of 6/30/2020, and other Stifel calculations and assumptions. Expected savings are based on PSPRS achieving the assumed 7.3% rate of return. Please refer to Stifel's risk disclaimer for additional information.*
2. *Calculated as current AVA plus Pension Fund Deposit, divided by AAL plus Timing Adjustment plus Unrecognized Liability. Given the practice of amortizing unrecognized liabilities, the actuarial funded ratio immediately following this issuance will likely be greater.*

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Scenario 2:
Refinancing to Smooth Pension Legacy Liability by FY2038 – Analysis Results[1,2]

Fiscal Year Ending	Budgeted UAL Payments	Debt Service	Expected Benefit (Cash Basis)	Expected Benefit (PV @ 4.06%)
	[A]	[B]	[C] = [A]-[B]+[CRF]	[D]=PV[C]
Dated Date			$312,455	$312,455
7/1/2022	$51,978	$34,651	$17,418	$17,018
7/1/2023	$115,107	$154,402	-$39,138	-$36,748
7/1/2024	$117,985	$173,659	-$55,517	-$50,093
7/1/2025	$120,344	$177,201	-$56,700	-$49,164
7/1/2026	$122,751	$175,146	-$52,239	-$43,529
7/1/2027	$125,206	$177,792	-$52,429	-$41,983
7/1/2028	$127,710	$175,031	-$47,164	-$36,293
7/1/2029	$130,265	$172,019	-$41,598	-$30,761
7/1/2030	$132,870	$173,797	-$40,770	-$28,973
7/1/2031	$135,527	$175,250	-$39,567	-$27,020
7/1/2032	$138,238	$176,433	-$38,038	-$24,963
7/1/2033	$141,003	$176,773	-$35,613	-$22,460
7/1/2034	$143,823	$176,948	-$32,968	-$19,980
7/1/2035	$146,699	$171,956	-$25,100	-$14,618
7/1/2036	$149,633	$171,964	-$22,174	-$12,410
7/1/2037	$152,626	$176,805	-$24,022	-$12,920
7/1/2038	$155,678	$175,991	-$20,155	-$10,418
7/1/2039	$158,792	$0	$158,950	$78,950
7/1/2040	$161,968	$0	$162,126	$77,386
7/1/2041	$165,207	$0	$165,365	$75,852
7/1/2042	$168,511	$0	$168,669	$74,349
7/1/2043	$171,881	$0	$172,039	$72,876
7/1/2044	$175,319	$0	$175,477	$71,432
7/1/2045	$178,825	$0	$178,983	$70,017
7/1/2046	$182,402	$0	$182,560	$68,630
7/1/2047	$186,050	$0	$186,208	$67,270
7/1/2048	$189,771	$0	$189,929	$65,937
7/1/2049	$193,566	$0	$193,724	$64,631
7/1/2050	$197,438	$0	$197,596	$63,350
7/1/2051	$201,386	$0	$201,544	$62,095
7/1/2052	$205,414	$0	$205,573	$60,865
Total	$4,743,973	$2,815,817	$2,245,425	$840,780

1. *Market conditions as of October 29, 2021. Spreads based on comparable recent transactions. Stifel does not guarantee to underwrite at these levels. All NPV values are discounted to December 1, 2021 (assumed transaction closing date) at a discount rate of 4.06%, the all-in TIC. UAL and amortization computed by Stifel using assumptions from the 2019 and 2020 Actuarial Reports, annual UAL payment data provided by PSPRS as of 6/30/2020, and other Stifel calculations and assumptions. Expected savings are based on PSPRS achieving the assumed 7.3% rate of return. Please refer to Stifel's risk disclaimer for additional information.*
2. *If the District earns interest on its Contingency Reserve Fund deposit at 0.05%, it will earn $4,813 of interest through the life of the bonds and the balance will grow to $346,390 by 2038 if not drawn upon. Stifel is not providing investment advice.*

Tax-Exempt Refunding Results[1,2]

- The District intends to refund the outstanding lease on Fire Station #22 for significantly (10.23%) NPV savings
- The Refunding Obligations will be structured to achieve level annual cash flow savings expected to total $36,027, or ***$39,285 of NPV savings (8.23% of refunded par)[2]***

Fire Station #22 Lease Summary Statistics[1]	
Dated Date	12/1/2021
All-In TIC	2.85%
Arbitrage ("Arb") Yield	2.88%
Average Life	6.415 years
Refunding Par Amount	$475,000
Refunded Par Amount	$474,373
Gross Savings[2]	*$39,691*
NPV Savings ($)[2]	*$39,285*
NPV Savings (% of refunded par)[2]	*8.23%*

Fiscal Year Ending	Prior Debt Service	Expected Refunding Debt Service	Expected Savings	NPV of Expected Savings to 12/1/2021 @ 2.88%
	[A]	*[B]*	*[C]=[A]-[B]*	*[D]=PV[C]*
Dated Date			$3,664	$3,664
6/30/2022	$27,384	$23,313	$4,071	$4,103
6/30/2023	$54,768	$53,800	$968	$1,400
6/30/2024	$54,768	$52,600	$2,168	$2,483
6/30/2025	$54,768	$51,400	$3,368	$3,504
6/30/2026	$54,768	$50,200	$4,568	$4,465
6/30/2027	$54,758	$49,000	$5,758	$5,361
6/30/2028	$54,768	$52,800	$1,968	$2,078
6/30/2029	$54,768	$51,450	$3,318	$3,114
6/30/2030	$54,768	$50,100	$4,668	$4,090
6/30/2031	$54,768	$53,750	$1,018	$1,207
6/30/2032	$54,768	$52,250	$2,518	$2,289
6/30/2033	$27,384	$25,750	$1,634	$1,526
Total	**$602,440**	**$566,413**	**$39,691**	**$39,285**

1. *Market conditions as of October 29, 2021. Spreads based on comparable recent transactions. Stifel does not guarantee to underwrite at these levels.*
2. *Includes $3,664 of additional proceeds that would be created at closing by the refunding.*

What are the risks associated with issuing pension obligations v. the status quo?

Pension liability management carries four distinct types of risks: i) market risk, ii) actuarial risk, iii) sizing risk, and iv) other risks

Risk Description	Status Quo	Pension Obligations
Market Risk. *All pension plans are subject to changes in market conditions and year-over-year investment return performance. The assumed rate of return should ideally approximate a plan's long-term historical average returns*	• Performance studies allow actuaries to examine whether current return assumptions remain in line with actual performance. For example, many plans nationally have revised their actuarial rate to 7.00%	• Primary risk is investment return performance over lifetime of obligations • An issuer of pension obligations will remain better off for doing the bonding as long as investment returns remain above the bond rate
Actuarial Risk. *Any retirement system's independent actuaries calculate projections for plan assets and liabilities, and these projections are premised on a variety of assumptions such as investment returns, payroll increase, COLA, mortality, early retirement, and benefit payments. Annual employer contributions are calculated based on these assumptions*	• Actuarial risk is inherent to all pension funds, and all projections of future contributions and payouts • Any revision or variance from these assumptions will alter projections and required contributions, regardless of the issuance of pension obligations	• Pension obligations address the unfunded liability at a given point in time by swapping the assumed rate of return with a market-based borrowing rate that is locked in at the time of issuance. Any new liability created by new actuarial assumptions will have to be amortized separately
Funding Target Risk. *The PSPRS deposit amount is calculated to achieve a specified funding target defined by the issuer. This amount is calculated based on known components of the issuer's unfunded liability at the time of pricing, which is subject to achieving defined assumptions in an actuarial report; actual experience may vary*	• The funded ratio is subject to actuarial risk	• If the actual unfunded liability upon closing of the obligations is higher or lower than the projected unfunded liability, the issuance of the obligations may result in a funding level that is above or below the target level defined
Other Risks. *Other risks may also exist*	• Changes in statutory and/or constitutional provisions, bankruptcy filing by a municipality, etc.	• Changes a soft liability (pension) into hard liability (debt); could enhance the impact of statutory/constitutional/ bankruptcy changes

Mitigating Risks: Contingency Reserve Fund

The District could apply a portion of Obligations proceeds and/or cash on hand to create a Contingency Reserve Fund that would help manage market and actuarial risks associated with pensions

- **What?** Helps mitigate risks associated with year-over-year volatility in investment earnings as well as changes in actuarial assumptions, such as assumed rate of return, COLA, mortality
- **How?** Use a portion of obligation proceeds to establish an initial balance in CRF for the Fire and Medical Plan
  - Apply a defined portion of ongoing year-over-year budgetary savings from the pension obligation (difference between what UAAL payments would have been versus debt service costs) to continue funding CRF
- **Why?** In years where investment returns do not meet defined/established benchmarks, and/or changes in actuarial assumptions cause a significant change in projected annual payments, the District can draw on the CRF to smooth the budgetary impact of funding additional contributions for the newly created UAAL
- **Why not?** Negative carry of issuing additional debt to fund an upfront deposit

Rules for Investment of Proceeds. This is akin to permitted investment guidelines for reserve/escrow funds

- Proceeds should only be invested in liquid and/or short-term products to ensure prompt availability of funds

Rules for CRF Draws. While there may be greater flexibility to accord broader rules for draws on an CRF absent obligation proceeds, in practice, permitting draws for any/every possible increase in payments could deplete the balance too soon

- The District may consider establishing a minimum fund balance threshold before which draws on the balance of the CRF could occur
- Draws may also be restricted to draws of investment income only, while the balance is untouched
- Establish periodic funded ratio thresholds, where CRF balance above a pre-defined level is drawn to supplement ARC

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

- The District must also consider mechanisms to build up and/or maintain the CRF balance by securing a stream of steady cash flow beyond the initial deposit
- This entails defining the revenue and investment sources for fiscal transparency, and redirecting investment returns in excess of an established benchmark to the Contingency Reserve Fund

Other Considerations: Proposition 207 Implications[1,2,3]

Based on the State's revenue expectations once the recreational marijuana marketplace and tax is fully implemented, the District could expect to receive approximately $15,097 of incremental, annual revenue

> **Arizona Proposition 207[1]**
> *Marijuana Legalization Initiative*
>
> The law would allow limited marijuana possession, use, and cultivation by adults 21 or older; amend criminal penalties for marijuana possession; ban smoking marijuana in public; impose a 16% excise tax on marijuana sales to fund public programs; authorize state/local regulation of marijuana licensees; and allow expungement of marijuana offenses.

- In November 2020, Arizona Proposition 207 (legalization and taxation of recreational marijuana) passed after receiving approximately 60% approval
- The State will establish a 16% excise tax on the sale of marijuana products, and provide incremental revenue to police and fire departments (31.4% of excise tax revenue) over time
  - According to a State Fiscal Analysis of the proposition based on revenues from recreational marijuana sales in Colorado, Oregon, Washington, Nevada and California, the State expect approximately $161 million of annual revenue from the 16% excise tax once "the program becomes more fully operational" in Calendar Year 2023
  - This implies that ***$50,659,800 will be allocable to police and fire districts*** in 2023
  - The $50.7 million of revenue will be distributed to public safety employers ***based on the number of individuals from each department enrolled in PSPRS***
  - As of 6/30/2020, the District had 11 total PSPRS members (active, inactive, retirees, Drop retirees, beneficiaries, disability retirees, and inactive/vested members), which represents 0.03% of PSPRS' 36,912 total members[3]
  - This implies ***the District could Exp.ect to receive approximately $15,097 annually from the 16% excise tax*** (once the marketplace develops and assuming the State's Fiscal Analysis assumptions are met)
- Many jurisdictions that have recently legalized recreational marijuana have found ***the runway to establishing retail sales infrastructure to be longer than, and tax revenues to be smaller than, originally projected***
- Nonetheless, this incremental revenue could be used to repay the District's unfunded pension liabilities more quickly than required
- However, ***with the unfunded pension liability accruing at a rate of 7.3%, a significant portion of payments would go towards interest on the unfunded liability as opposed to the liability itself***
- ***On the other hand, pension obligation proceeds would be used to reduce (or potentially eliminate) the known unfunded liability, ending the accruing 7.3% interest on a portion of unfunded liability and replacing it with a lower bond interest rate***

1. *State of Arizona Secretary of State, 2020 General Election, Initiative, Referendum and Recall Applications. https://apps.arizona.vote/info/IRR/2020-general-election/18/0*
2. *Ballot Proposition 207: Smart and Safe Arizona Act Fiscal Analysis. https://www.azleg.gov/jlbc/20novl-23-2020fn730.pdf*
3. *Consolidated PSPRS and Hellsgate Fire District Actuarial Reports dated June 30, 2020.*

Pension Risk Disclaimer and Underwriter/Placement Agent Disclosure

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

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

- Assumption: The POB proceeds amount is calculated to achieve a specified funding target defined by the issuer. Risk: This amount is calculated based on known components of the issuer's unfunded liability at the time of pricing. The projected unfunded liability at any given point in time is subject to achieving defined assumptions in an actuarial report, and actual experience may vary. If the actual unfunded liability upon closing of the bonds is higher or lower than the projected unfunded liability, the issuance of the POBs may result in a funding level that is above or below the target level defined.
- Assumption: The investment yield on the POB proceeds once deposited in the pension fund will equal or exceed the yield on the POBs. Risk: If the investment yield on the POB proceeds is less than the yield on the POBs, and the decline is not offset by positive changes in other assumptions, the issuance of the POBs may actually increase the unfunded actuarial liability.
- Assumption: Payroll increases during the term of the POBs will be as anticipated when the unfunded actuarial liability was estimated at POB issuance. Risk: If payroll increases during the term of the POBs exceed Exp.ectations, 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 Exp.ectations 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, Exp.ansions of the payrolls covered by the pension plan during the term of the POBs, and these changes are not offset by positive changes to other assumptions, the POB proceeds will not suffice to cover the unfunded actuarial liability.

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

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