

# CASE STUDY

**FINANCING FOR PENSIONS** | AUGUST 5, 2020

**\$131,000,000 | CERTIFICATES OF PARTICIPATION | SERIES 2020A (TAXABLE)**

Flagstaff, Arizona

## PENSION BONDS

### Client Profile

Flagstaff is the principal city in the State's largest county by area (Coconino County), with a population of over 76,000.

Faced with ongoing and substantially increasing annual contributions associated with legacy unfunded Police and Fire pension liabilities totaling \$116 million, the Flagstaff City Council made the unanimous decision to issue taxable Certificates of Participation – the net proceeds of which were deposited with the Arizona Public Safety Personnel Retirement System (PSPRS) to bring the Unfunded Actuarial Liabilities from less than 40% funded in each program to fully funded on the day of closing. This issue was the first pension funding bond in Arizona.

### The Project & Structure

In August 2020, Stifel served as sole manager on the City of Flagstaff's Certificates of Participation (COP), Series 2020A (Taxable). Targeting annual level debt service of less than \$9 million and a shortened PSPRS unfunded actuarial accrued liability (UAAL) amortization period (from 2048 to 2040), the City refinanced its UAAL by issuing 'AA-' rated COPs. This achieved substantial budgetary savings while also funding a \$14.3 million Contingency Reserve Fund for future budget stability. The transaction also maintained the City's General Fund credit ratings and improved the rating outlook.

### Pricing Results

Stifel and City senior management aggressively marketed the issue, including early publication of the POS, an investor

roadshow, sales force teach-ins, and one-on-one Q&A sessions with key investors.

The City's conservative fiscal policies, healthy and resilient local economy and tax base, and conservative structural transaction elements appealed to investors. Stifel generated 114 orders from 41 institutional investors, plus several retail orders, with particularly strong demand in the early maturities from banks and municipalities. Insurance companies and bond funds drove the bulk of demand on the long end of the yield curve.

Heavy investor demand across the curve allowed Stifel underwriters to lower yields by 2 to 10 bps, resulting in a final all-in TIC of 2.69%.

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