

CASE STUDY

FINANCING FOR PENSIONS | MARCH 3, 2021

\$658,055,000 | CERTIFICATES OF PARTICIPATION | TAXABLE SERIES 2021A

City of Tucson, Arizona

PENSION BONDS

Client Profile

Tucson is the second-most populous city in Arizona, with 1.04 million residents.

The City has been paying over \$60 million, annually, to the Public Safety Personnel Retirement System (PSPRS), and this amount was expected to grow rapidly through 2046 when it was projected to exceed \$240 million. Issuing the Certificates increased the City's PSPRS funded ratio to approximately 75%, reducing its unfunded pension liability and creating immediate and long-term savings for the City.

The Project & Structure

By refinancing a major portion of its unfunded actuarial liability to PSPRS, accruing at the target investment rate of 7.30%, through the issuance of taxable debt at an all-in rate of 2.70%, the expected cash flow savings from the transaction are approximately \$770 million. The properties securing the lease are essential in nature and include 67

different parcels ranging from \$357,000 to \$46.32 million of insured value. 28 of the collateralized properties serve public safety functions, including 21 Fire Department properties and 6 Police Department properties. The assets have a total insured value of \$513 million (~78% of the Certificates par amount).

Assured Guaranty Municipal Corp. (AGM) insured the Certificates with its ratings of "AA" (S&P) and "A2" (Moody's) and provided a Debt Service Reserve Fund Surety Policy.

The City deposited the proceeds into a Section 115 Trust, which is managed by the City with the assistance of a third-party trust administrator, and the funds are restricted to only reduce the City's pension liability. The City makes regular transfers from the Trust to PSPRS to meet its required obligations. The remaining Trust proceeds serve as a contingency reserve in the event of an actuarial or market event that increases the City's unfunded pension liability.

Pricing Results

Stifel, the joint-senior manager, and City staff created an Investor Roadshow and rating presentations to showcase the strength of the City's credit to investors and rating agencies.

The City's Certificates received significant investor demand, enabling the underwriters to reduce spreads. 105 initial investors, comprised of insurance companies, fund managers, bank trusts, SMAs, money managers, municipalities (including the State of Arizona), universities and taxable bond funds, participated in the transaction. For the \$327,885,000 index eligible term certificate, the major investor types included bond funds and insurance companies. Expected budgetary savings to the City from the sale increased the appeal of the transaction to investors.

With strong investor demand, the City locked in a borrowing rate of 2.70% (yields ranging from 0.239% – 2.856%), providing a substantial cash flow benefit.

CONTACT

Grant Hamill, Managing Director

(602) 794-4006 | ghamill@stifel.com

2801 East Camelback Road, Suite 300

Phoenix, Arizona 85016

Omar Daghestani, Managing Director

(312) 454-3845 | daghestanio@stifel.com

1 North Wacker Drive, Suite 3400

Chicago, Illinois 60606

STIFEL | Public Finance

Stifel, Nicolaus & Company, Incorporated | Member SIPC & NYSE | www.stifel.com

MSRB DISCLOSURES



Stifel, Nicolaus & Company, Incorporated (“Stifel”) has prepared the attached materials. Such material consists of factual or general information (as defined in the SEC’s Municipal Advisor Rule). Stifel is not hereby providing a municipal entity or obligated person with any advice or making any recommendation as to action concerning the structure, timing, or terms of any issuance of municipal securities or municipal financial products. To the extent that Stifel provides any alternatives, options, calculations, or examples in the attached information, such information is not intended to express any view that the municipal entity or obligated person could achieve particular results in any municipal securities transaction, and those alternatives, options, calculations, or examples do not constitute a recommendation that any municipal issuer or obligated person should effect any municipal securities transaction. Stifel is acting in its own interests, is not acting as your municipal advisor, and does not owe a fiduciary duty pursuant to Section 15B of the Securities Exchange Act of 1934, as amended, to the municipal entity or obligated party with respect to the information and materials contained in this communication.

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.

These materials have been prepared by Stifel for the client or potential client to whom such materials are directly addressed and delivered for discussion purposes only. All terms and conditions are subject to further discussion and negotiation. Stifel does not express any view as to whether financing options presented in these materials are achievable or will be available at the time of any contemplated transaction. These materials do not constitute an offer or solicitation to sell or purchase any securities and are not a commitment by Stifel to provide or arrange any financing for any transaction or to purchase any security in connection therewith and may not be relied upon as an indication that such an offer will be provided in the future. Where indicated, this presentation may contain information derived from sources other than Stifel. While we believe such information to be accurate and complete, Stifel does not guarantee the accuracy of this information. This material is based on information currently available to Stifel or its sources and is subject to change without notice. Stifel does not provide accounting, tax, or legal advice; however, you should be aware that any proposed indicative transaction could have accounting, tax, legal, or other implications that should be discussed with your advisors and/or counsel as you deem appropriate.